



AUSTRALIAN INDUSTRY  
GROUP

## **Skills Australia Discussion Paper**

*Creating a future direction for Australian  
vocational education and training*

### **Response**

**November 2010**

### **About the Australian Industry Group**

The Australian Industry Group (Ai Group) is a leading industry association in Australia. Ai Group member businesses employ around 750,000 staff in an expanding range of industry sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other related service industries.

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 Preface

Australia's economic performance is widely admired for its resilience in the face of the global financial crisis. But our economy faces significant 'headwinds'. Due to a mix of global factors and the mining boom, our currency is very strong. Should this strength be sustained structural pressures on large sectors of the economy including manufacturing, education, tourism and agriculture will result.

Skills shortages, which had been dampened by the GFC, are back on the business agenda and set to intensify, and our productivity growth remains poor.

The Australian Industry Group's monthly surveys of manufacturing, services and construction all depict a patchy economy characterised by pockets of strength particularly related to mining.

Australia faces a key challenge in response to our current and prospective situation: That challenge is to ensure we have a balanced and diversified economy when the boom inevitably ends.

To meet this challenge we need to grow capacity and productivity. Overhauling our education and training structures is part of the answer. There remains much to be done:

- While skill requirements for new jobs are rising, too many Australians do not have even the literacy and numeracy skills of a level sufficient to meet the demands of the modern economy.
- Only just over half of the working age population holds a post-school qualification.
- A recent AiGroup survey found that more than 80% of businesses believe that skills shortages will adversely affect them in 2010 and they expect this situation to worsen over the next five years.

Reform in this area has largely stalled and the role of industry has been diminished in recent years. Key to the future direction of Australian vocational education and training must be the centrality of industry in a national system.

Hard choices will need to be made and we are concerned that there will be budgetary pressure to reduce spending in this area at a time when spending needs to be increased after years without sufficient growth.

One area which holds great potential for the education and training sector is the National Broadband Network. Australia has historically been an 'early adopter' of technology, though we are not yet well prepared for very fast broadband and the possibilities it offers. We are interested to put this issue on the map and to ensure we make the most of the transformative potential of the NBN which may have the capacity to address some of the most entrenched VET issues such as thin geographic and occupational markets which may significantly better support work-based skilling efforts.

Skilling is a central issue for industry and Ai Group is pleased to provide the following comments on Skills Australia's *Creating a future direction for Australian vocational education and training Discussion Paper*.

## Workforce Development – a new mandate for the sector

The Discussion Paper places appropriate emphasis on workforce development. The need for this approach has long been identified by Ai Group and was the organising principle for the research that resulted in the *Skilling the Existing Workforce Project*.<sup>1</sup>

In this report the concept was cast as ‘workforce skills development’ in keeping with the focus of the report. This is consistent with the view of the Ai Group about the lack of responsiveness to industry skilling needs by Registered Training Organisations. Training providers need to be much more flexible in their dealings with industry to increase this responsiveness. This includes collaboratively developing customized solutions to enterprise skilling problems rather than “off the shelf” solutions, the inclusion of such working relationships as Key Performance Indicators within training organisations and a review of funding approaches to support these goals.

How this workforce development role can be funded is problematic. The Ai Group has called for the establishment of a Workforce Skills Development Fund to support the work of advisory services for enterprises<sup>2</sup> in recognition of the importance of this area. There have been some initiatives in the States. Victoria, for example, has provided funds for similar work (for SMEs only) through the Skills for Growth program, and measures the investment (and makes payments in part) by the amount of formal training that occurs as a result of the process. Skills and training needs analysis can be viewed in two ways: as a means to enable an enterprise to take stock and plan for future skills needs, or as a means for an RTO to promote its training products. In the second instance there is no need for any additional funding. RTOs can treat the process as marketing and fund it themselves. If the first, then there needs to be a level of independence from the RTO’s training activities. Government could fund a report of an enterprise’s skill needs in much the same way as Enterprise Connect works. Under the Enterprise Connect program, for firms to receive grants, advisers completing business review reports and recommending action must be independent from any follow-up providers of services.

Within this context the references to the expansion of the Enterprise Connect initiative are pertinent. The Program is proving to be a successful and powerful model for engaging with SMEs to improve their businesses. As well as an overview skills analysis and training programs check being carried out during business reviews, specific skills development initiatives are being introduced progressively to the Program. These include the Enterprise Learning and Mentoring service which offers both group learning sessions and one-on-one mentoring in relation to the development needs identified for firms, and another new initiative, ‘Making Better Managers’, which is focussing on improving managers’ core capabilities around both the strategic and operational needs of the firm.

A further issue is the capability of VET professionals to adopt such support of industry as a core function.

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<sup>1</sup> Skilling the Existing Workforce Final Report, Australian Industry Group, December 2008.

<sup>2</sup> Skilling the Existing Workforce Final Report, Australian Industry Group, December 2008, pages 54 – 55.

## **Improving the VET experience – providing a better deal for learners**

### **Diversity and Scope of VET**

The Discussion Paper has established the case for the broad scope and diversity of VET learners and hence for an expansion of flexibility in response. 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, recent Ai Group research has established that 75% of employers report that their businesses are affected by low levels of literacy and numeracy.<sup>3</sup> It is important to address the low levels of literacy and numeracy in the workforce through the development and implementation of a multi-pronged national strategy with strong industry leadership.

### **Expanding Workplace Delivery**

The Discussion Paper notes that there has been a shift away from campus-based delivery between 2002 and 2009. However, it remains by far the largest form of delivery and only 14% of delivery occurs in workplaces (excluding apprentices and trainees). This is a major concern for industry given their often stated preference for work-based training. It is also a clear signal that the VET sector is not adequately responding to industry needs.

The lack of training sector responsiveness is reflected in employer views. Measures of employer satisfaction with the training delivered by the vocational education and training system vary. Research indicates that between 10 and 15% of employers are not satisfied with the training delivered<sup>4</sup> though this has improved slightly over time. Students report similar levels of satisfaction<sup>5</sup>. 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.

Public RTOs have been very slow to embrace work-based delivery compared to private RTOs. The issues include how they are funded by their state training authorities, how they internally fund their departments, and how they manage an increasingly ageing workforce. There needs to be a concerted effort to provide support to public RTOs to encourage work-based delivery through professional development and through the introduction of greater internal flexibility. Our feedback from companies is that it is often the case that the senior staff of RTOs embrace work-based delivery as an increasingly important part of their offering, but training staff have a less than complete picture of how this can be provided, are often working to outdated notions of how it is funded and the policy drivers which support it and so actively work against its implementation. This is an important issue for companies when it comes to upskilling their existing workers, particularly their low skilled workers many of whom have limited personal flexibility around time and financial resources and skilling at

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<sup>3</sup> Report on Employers' Views on Workplace Literacy and Numeracy Skills, Australian Industry Group, May 2010, pages 4- 5.

<sup>4</sup> Employers' Use and Views of the VET System, NCVET 2009

<sup>5</sup> Australian Vocational Education and Training Statistics, Student Outcomes 2009, NCVET 2009

the work site is the only realistic option for upskilling they can pursue. Cultural change in RTOs through reinvigorated professional development will form part of the solution.

## **VET Qualifications**

Currently VET qualifications are primarily organised within the training package framework, utilising units of competency as the building blocks and designed around attainment of occupational outcomes. Training packages assume an applied pedagogy. Since their inception there has been a continuous and unresolved debate around the specification of knowledge and its role within training packages. Enthusiastic arguments periodically flare. These arguments range from deploring the ‘absence of knowledge’ in the training package construct to the equally impassioned defence of the role of knowledge in the context of applied skills. The emerging environment suggests that it is time to revisit this debate and find an effective settlement.

Knowledge has an important and profound role to play in all forms and all sectors of education. However, that role will be variable and must be fit for purpose. In the VET sector, knowledge must be a valued and explicit part of VET delivery, as is often already the case. In no way does this suggest that VET qualifications become a ‘lesser’ version of higher education qualifications. Such a singular diminution of VET qualifications would lead to an erosion of opportunity for many individuals.

One of the unique and most valuable aspects of current VET qualifications is their link or integration with work and the ensuing applied pedagogy.

The design of VET qualifications needs to achieve three things. Firstly, they need to equip the individual to perform in a job. It is important that this is not narrowly task-based, but enables the individual to develop important work-based skills. This is the occupational component of a VET qualification and it is the organising principle in the design of such qualifications.

Secondly, qualifications must ensure that the individual graduates with well developed foundation skills that encompass language, literacy and numeracy, as well as employability skills. These foundation skills are highly valued by employers and are the essential underpinning for the individual to be in a position to pursue future work and skilling opportunities.

The third and final component of VET qualification design must be the capacity to equip the individual ‘beyond the occupation’. This component will set-up the individual for progression in the labour market and/or further study, both essential to coping with an uncertain future.

These three design components of a qualification are not equal and the relative balance between them needs to be determined according to each particular circumstance.

The National Quality Council’s *VET Products for the 21st Century*<sup>6</sup> establishes a new policy framework for VET qualifications and lays the foundation for achieving the outcomes central to industry, organisational and individual needs. Notably, the definition of competency has been revised and broadened. Knowledge based units of competency can be included in

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<sup>6</sup> VET Products for the 21<sup>st</sup> century, National Quality Council.

qualifications. Qualifications can now have an occupational outcome, contribute to an occupational outcome or focus upon foundation skills. Importantly, greater specifications for knowledge with the units are encouraged and special purpose 'Knowledge and Guidance' companion volumes will be developed. These companion volumes will promote and encourage the utilisation of knowledge in the context of an applied and ideally dynamic pedagogy.

### **Skill Sets**

The preference of all governments for individuals to complete full qualifications rather than skill sets is understandable and supported, however it is important not to lose sight of the fact that a skill set can be the starting point to achieving a qualification. Many individuals, especially those with low levels of education, can be daunted by the prospect of formal training. A smaller undertaking, more easily achieved, can encourage individuals to go on to complete a full qualification at a later date.

Employers favour shorter periods of training to address immediate needs. This was demonstrated in relation to findings in Ai Group research about 'blended learning'<sup>7</sup> and also by the emergence of co-funding arrangements often associated with skill sets initiatives. The NSW Department of Education and Training funds training for skill sets under its Strategic Skills Program. This program aims to support increased productivity by up-skilling workers with skills relevant to their workplace and addressing critical skill shortages within industry. The NSW Skills Development Priorities' list is used to set the qualifications from which the training can be purchased; priority industries include those identified in the NSW Innovation Statement, the NSW VET Strategic Plan, and emerging sectors.

In Queensland for example the government's "Skilling Queenslanders for Work" initiative enables employers to choose any stream of competencies up to a maximum of 250 hours. This amount of training seems to align with the commitment and study skills level of production workers and their workplace tasks. Success at this entry level has given many participants the confidence they need to be able to further training. In a skills shortages environment where employee churn is high and new staff need short sharp programs to get them productive, this model delivers outstanding results for business.

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<sup>7</sup> Skilling the Existing Workforce Final Report, Australian Industry Group, December 2008.

## **Re-engineering apprenticeships**

### **Introduction**

It is important to remember in any discussion about apprenticeships that they are still the most recognised, accepted and utilised method of developing technical skills. Apprenticeships are all about developing skills needed for the workplace and the firm link to the workplace provided by a formal apprenticeship is invaluable and cannot be lost. The link to work afforded by apprenticeships is the crucial ingredient and the one that makes it superior to institution-based pathways. It is also important to be mindful that any reform of apprenticeships is likely to have industrial relations and wages implications. It is also important to distinguish between apprenticeships and traineeships which have historically different purposes and are viewed quite differently by industry.

Many of the problems with apprenticeships are derived from complicated regulations and administrative procedures imposed on industry by a range of training stakeholders. It would clearly be beneficial if reform could address this and reduce unnecessary complexity.

### **Attractiveness**

The Discussion Paper clearly demonstrates that there are not enough apprentices to meet future needs. This pathway needs to be made more attractive to both employers and individuals to be more effective. Competency based progression is one way of making apprenticeships more attractive to potential applicants and needs to be fully implemented nationally. There has been a tendency by RTOs to view competency based progression and completion as a shortening of the apprenticeship term to reflect traditional training delivery timeframes. This is not the intention and needs to be addressed urgently. Under competency based pay progression apprenticeships are structured into distinct stages such as the four stages associated with the manufacturing sector arrangements. These stages are not necessarily reflected in the way training providers schedule and deliver apprenticeship training. While this option has been available for some years its implementation is highly variable and there remain many systemic roadblocks to be overcome before it can be considered a mainstream option for companies or individuals.

### **Pre-apprenticeships**

Pre-apprenticeships are an important way of introducing trade skills to young people while they are still at school or yet to decide on a career. Employers favour pre-apprenticeships as young people undertaking these demonstrate a level of commitment to industry. A young person who has completed a pre-apprenticeship acquire some understanding of the nature of the work and as a direct result has an increased likelihood of being retained in an apprenticeship. It is these features that employers support rather than the institutional provision of the program. The value of the program is significantly increased if it is associated with some work placement. It is important for pre-apprenticeships to be nationally consistent, structured in such a way that they are attractive to young people and that they sit logically with relevant apprenticeships while not formally being part of the apprenticeship arrangement.



## School-based Apprenticeships

Despite the relatively low levels of implementation<sup>8</sup> it is important to maintain and support the school-based option in this pathway. This arrangement enables young people to commence an apprenticeship while still receiving the necessary pastoral support from schooling. The contribution that school-based apprenticeships make to the completion of Year 12 is another important consideration that contributes to the attractiveness of this option. It is important that these arrangements are linked to full time apprenticeships and that school-based apprentices receive credit for what they achieve during these part-time arrangements.

The main area of reform in these programs is ensuring that school-based apprenticeships contribute to the needs of industry. It remains a concern that almost half of the participating students are engaged in training packages developed by Service Skills Australia and especially in retail services.<sup>9</sup> Measures need to be adopted to encourage participation in a broader range of industry areas. The highly skewed pattern of delivery across the different jurisdictions is also another concern with Queensland and Victoria providing the overwhelming volume of school-based apprentices.<sup>10</sup>

## Non-Completions

There are many reasons for non-completion of apprenticeships. Ai Group research has identified a number of these including a mismatch of expectations, a lack of understanding of the role, financial and travel arrangements, family commitments, poor relationships with other employees and staff, concerns about the quality of training and a lack of personal motivation.<sup>11</sup> There were also issues related to the supervisors of apprentices that contributed to non-completions. These included a lack of preparation and participation in the selection process, the need for close monitoring of the apprentice both on-the-job and at training, a lack of initial assessments of necessary foundation skills, a lack of communication skills and the need for monitoring overall job performance to prevent Occupational Health and Safety risks.<sup>12</sup>

The Ai Group has tackled the issue of apprentice-supervisor relationships through the development of a short program for apprentice supervisors to help them develop their communication and supervision skills with the aim of improving completion rates. Approximately 1,000 supervisors have already benefited from this initiative. Some form of professional development for supervisors of apprentices should be freely available in every industry. It is clear that increased support is necessary for apprentices, especially in the first six months of the arrangement.

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<sup>8</sup> VET in Schools 2008, National Centre for Vocational Education Research.

<sup>9</sup> Creating a future direction for Australian vocation education and training, Skills Australia, October 2010, page 45.

<sup>10</sup> Ibid.

<sup>11</sup> A Guide to Managing the First 100 Days of an Apprenticeship, Australian Industry Group, August 2007, pages 15 – 16.

<sup>12</sup> Ibid.

## **Literacy and Numeracy**

Ai Group research in relation to workplace literacy and numeracy has revealed concerns about apprentices. 25% of employers reported that apprentices were affected by low levels of literacy and numeracy.<sup>13</sup> Within this context the decision to make Workplace English Language and Literacy (WELL) funds available for apprentices is strongly supported. It is noted that the implementation of this has been slow to date and RTOs need to be encouraged to make its availability more widely known and pay more attention to apprentices' literacy and numeracy levels.

For example, in Queensland Skills Tech use a LLN software package with all apprentices at the beginning of their training. While this initiative is not linked to WELL it is an example of good RTO practice in this area. Corrective measures can be put in place.

## **Targeting Incentives**

The Commonwealth Government has contributed to the uptake of apprenticeships and traineeships through the provision of employer incentives. Notwithstanding this valuable assistance Ai Group believes that it is appropriate to review these incentive arrangements to ensure that they are closely aligned to the economic and social requirements of the skills base to maintain the competitive nature of the Australian economy. This review should include extending incentives in targeted industry areas and reducing them for lower AQF qualifications. This should not be done in a way that discourages those that require the assistance of labour market programs to improve their employment prospects. The recent report from the Foundation for Young Australians highlights that 16% of teenagers are not fully engaged in study or work and that the unemployment rate for teenagers is nearly 18%.<sup>14</sup> New and different incentive arrangements are required for existing workers and adult apprentices. It would be appropriate to consider utilising this funding in conjunction with the Enterprise-Based Productivity Places Program to support widespread training needs analysis and training at an appropriate level. It is also desirable to undertake a skill benefit analysis of the incentives on an industry basis.<sup>15</sup>

## **Diversified qualification pathways for apprenticeships**

The Discussion Paper advances a revised structure for the apprenticeship qualifications model. Required reform in this area does not necessarily translate into the need for a new apprenticeship model. Career progression for apprentices has not emerged as a major issue within the VET sector. There are a number of concerns associated with the proposed structure in Figure 9. Crucially, the proposed model does not address important industrial relations implications. There is a confusing use of nomenclature in relation to credentials and qualifications and it does not focus on skilling. It is an education rather than a work-focused model. The diagram also does not align with the revised Australian Qualifications Framework. The proposal has the potential to make existing arrangements more complicated for employers and promotes 'credentialism'. As stated earlier in this response, the issues associated with apprenticeship arrangements do not warrant a new structure.

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<sup>13</sup> Report on Employers Views on Workplace Literacy and Numeracy Skills, Australian Industry Group, page 7.

<sup>14</sup> How Young People are faring '10, At A Glance, The National Report on the Learning and Work Situation of Young Australians,, The Foundation for Young Australians, 2010.

<sup>15</sup> Contemporary Apprenticeships for the Twenty First Century, Australian Industry Group, July 2005.

## **Shifting the quality focus – promoting public confidence, excellence and value**

The Discussion Paper effectively highlights the major issues affecting in the VET sector and urgent reform is required. These have been highlighted but are not restricted to developments in international education. Addressing the current quality issues of the regulatory framework is a crucial initial step and the movement to the establishment of a national VET regulator is strongly supported. It is clear that the large size of the VET market is not necessarily a sign of the health of the system. The national VET regulator needs to be properly resourced to be able to execute its functions including systematic and comprehensive auditing.

The overall quality of skilling delivered by the vocational education and training sector needs to be sufficiently high to provide skills needed for Australian companies to be globally competitive.

### **Building confidence in assessment**

The variation in assessment practices is a concern of industry. The recent work by the National Quality Council is welcome in this regard.<sup>16</sup> The development and implementation of an external moderation and validation system would strengthen assessment practices. There is an opportunity to introduce a range of approaches in response to this issue which will ensure that assessment confidence is built without the imposition of a burdensome layer of bureaucracy. As the Discussion Paper highlights it is important for industry to have a role in such a system but this does have resource implications.<sup>17</sup> It is appropriate for Industry Skills Councils to have a role in this arena. This proposal, with any necessary consequent amendment to the AQTF, is worthy of further investigation.

### **Linking funding to completions**

The movement from input focused to outcomes focus measures in consideration of the public value of VET is long overdue. Measuring completions is an important ingredient in this movement. Linking funding to completions, however, is a blunt instrument and is not sufficient by itself. The use of a wide variety of outcome measures is preferable. Measures designed to remove skill sets from the non-completion count are similarly overdue. Until this is done it is difficult to determine the extent of non-completions that are a concern.

### **From compliance to excellence**

The significant public investment in skills development can be better leveraged to drive quality by requiring that demonstrated training excellence is a pre-condition of eligibility for tranches of public funding.

In order to build skilling excellence Australia needs an industry-endorsed performance rating system for Registered Training Organisations that provides transparent, credible ratings that differentiate the relative performance of training providers. Only those RTOs in receipt of the highest rating will be eligible to access Commonwealth and/or State and Territory

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<sup>16</sup> VET Products for the 21<sup>st</sup> Century, National Quality Council.

<sup>17</sup> Creating a future direction for Australian vocational education and training, Skills Australia, October 2010, page 53.

training funds allocated to existing worker training. The announcement about the Quality Skills Incentive in the last budget is a step in the right direction to achieve this.

### **Performance evaluation and transparency**

An important feature of the previous Key Performance Measures within the Annual Report related to employer engagement and satisfaction with VET. This measure has effectively been removed from the new measures endorsed through COAG's National Agreement for Skills and Workforce Development process. This needs to be reconsidered as industry perceptions of the performance of the VET sector remain important.

It is noted that this measure remains a feature of individual RTO reporting through the AQTF although this is not made public. Measures to improve transparency in this regard, including the MySkills website, need to be supported.

Overall, it is important that the voice of industry does not get lost in the process of performance evaluation of the VET sector.

### **VET practitioners – skills to meet new challenges**

The quality of VET practitioners is of paramount importance to the overall quality of the system.

There are particular concerns about the training in language, literacy and numeracy. The low levels of literacy and numeracy in the workforce as evidenced by the Australian Adult Literacy and Lifeskills Survey results<sup>18</sup> and Ai Group research<sup>19</sup> indicate a significant increase in the need for trained language literacy and numeracy teachers. There is also a greater need for VET practitioners to more effectively engage with industry and employers. Changing the status of the elective unit to compulsory unit within the VET practitioner Certificate IV requirement is one measure that could be considered. This requires that the Certificate IV itself is sufficiently rigorous and it will be necessary to wait until current research undertaken through the National Quality Council determines this. The maintenance of industry currency is also an issue of concern to industry. In addition, the belated consideration of a movement to the adoption of professional standards is welcomed.

The Productivity Commission's current review of the VET workforce should be of assistance in consideration of issues pertaining to VET practitioners. Consideration of a career structure, the issue of part-time and casual teaching and the need for strong connections to industry are all important components of this review<sup>20</sup>.

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<sup>18</sup> Australian Bureau of Statistics, 4228. 0, Adult Literacy and Life Skills Survey, Summary results, Australia, 2006.

<sup>19</sup> Report on Employers Views on Workplace Literacy and Numeracy Skills, Australian Industry Group, May 2010.

<sup>20</sup> Ai Group's submission to the Productivity Commission review can be accessed through [www.aigroup.com.au](http://www.aigroup.com.au)

## **Better connections and pathways across sectors**

### **Connections with higher education**

The Discussion Paper outlines the unsatisfactory nature of articulation and credit transfer between VET and higher education. These are long standing issues that frustrate the implementation of a truly national system. Additional issues have contributed to the blurring of the boundaries such as measures for increasing the enrolments of low socioeconomic students in higher education, student entitlements for university places and the introduction of student loans for VET diplomas and above.

The Discussion Paper also advances some collaborative models: dual-sector universities, formal networks of institutes and universities and the introduction of polytechnics. From an industry viewpoint there is no particular preference for any of these models as long as the collaboration occurs and on a national basis.

A further observation is that it is important for the VET sector to not 'lose its way' and concentrate on higher level qualifications, especially those provided by higher education. The VET sector overwhelmingly provides foundation skills and trade, intermediate, supervisory and para-professional training for industry and this should remain the main focus.

The importance of this discussion in the context of the Bradley Review is that the VET sector and its institutions run the unintended risk of becoming a feeder-only to higher education institutions and qualifications. Whilst these pathways have importance, vocational excellence in qualifications and delivery is essential if we are to continue the development of Australia's vocational education sector. This matters because the VET sector develops such a high proportion of the skills needed by industry. VET must become an aspirational destination. High quality, well designed applied qualifications are an essential ingredient to delivering upon this aspiration.

### **Vocational programs in schools**

The Discussion Paper revisits familiar territory concerning VET in Schools programs. From the viewpoint of industry it is important that these programs are maintained and that there be an improvement in quality. This is essentially achieved through the provision of workplace learning as a key component of the program. This needs to be implemented on a national basis.

A further area of reform relates to program funding. VET in Schools needs to be funded within jurisdictions according to the costs of the program. Where these exceed the average costs of the provision of secondary schooling additional funding should be provided. Unless such measures are taken VET in Schools will remain a marginal rather than mainstream offering in many schools and regions. Providers passing the costs onto schools which in turn charge parents militate against the participation of students from low socioeconomic backgrounds.

Finally, VET in Schools programs need to be provided on the basis of industry needs. Schools need to consider the data concerning industry needs in their area and take this into account when designing program offerings.

## Balancing responsibilities for investment in a skilled future

### Funding sources for growth

The Discussion Paper indicates that currently Australian governments, students and industry invest approximately \$6 billion annually in Australia's publicly funded VET system. 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.<sup>21</sup> This equates to an additional \$660 million per annum until 2020. The government has addressed this in part by making skills a centerpiece of the budget referred to as Skills for Sustainable Growth. An additional \$661.2 million has been allocated over the next four years.

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 \$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. VET remains 'the poor cousin' in these sector comparisons.

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 11% to 16%. As a consequence of the small increases in government funding for VET the funding levels per student contact hour fell between 2004 and 2008.<sup>22</sup> It is clear that revenue needs to increase considerably to meet COAG targets and meet the needs of the economy.

### Sharing the cost

Cost sharing between governments, individuals and industry will be required to achieve the levels of revenue necessary.

Individuals are able to contribute through tuition fees. Some form of sliding scale may be the most equitable with foundation skills courses attracting little or no fees and higher level qualifications attracting higher level fees. However, this issue is more complex than simply linking fees to qualification levels on the premise that higher qualifications result in higher returns to individuals. In many industries this is not the case and students completing Certificates III, for example, are not able to translate these qualifications into higher paying positions, often for these students the completion of these qualifications is the requirement to keep the low paid position they currently hold. The Discussion Paper rightly indicates the need for caution given the low socioeconomic status of many VET clients. Some determination of the linkage between the greatest returns to individuals and the fee structure is required. Any recasting of tuition fees for individuals needs to be supported with income contingent loan schemes.

The Discussion Paper does not indicate the current level of support provided by industry to vocational education and training. While this is difficult to determine it needs to be remembered that industry does already provide significant support. The *Skilling the Existing*

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<sup>21</sup> . Australian Workforce Futures, A national Workforce Development Strategy, Skills Australia. 2010.

<sup>22</sup> Creating a future direction for Australian vocational education and training, Skills Australia Discussion Paper, October 2010, Figure 11, pages 74 - 75.

*Workforce* report identified a wide range of learning and skilling in the workplace that is not captured in formal statistical collections and is based on informal and non-formal learning.<sup>23</sup> It is interesting to note in the Discussion Paper that fee-for-service activity is the only component of VET revenue to significantly increase in recent years.<sup>24</sup> In this sense industry is already making a major contribution. This also indicates some dissatisfaction by industry with training provided through general profile delivery.

The Enterprise-Based Productivity Places Program provides an alternative to increased fee-for-service activity. Early experience suggests that this approach should be continued as an enterprise-responsive stream. The suggestion within the Discussion Paper of redirecting funding from existing-worker traineeships to support such an approach is worthy of more detailed consideration.

Industry levies are not supported across the breadth of industry and are essentially a blunt instrument.

### **Priorities for public funding**

The major area of revenue growth needs to be from government. There is a need for COAG support for a minimum of additional \$660 million per annum rather than over four years for VET sector to achieve COAG qualification attainment targets. This can be achieved through an expansion of contestable funding beyond current delivery levels. The introduction of 39,000 training places on a competitive basis through the Critical Skills Investment Fund represents a start in the direction of increasing the level of contestable funding. This needs to be significantly expanded and linked to quality measures such as completions. There is a need to introduce strategic changes to the way in which public funds are directed emphasizing demand rather than supply to boost business productivity, employment outcomes and social inclusion. Ai Group contributed to outlining the need for a more strategic use of public funds in collaboration with other key groups in the Investing Wisely publication.<sup>25</sup>

The Quality Skills Incentive needs to consider the linking of public funding to quality measures in concert with industry. This budget initiative should take account of the work undertaken by the former Institute for Trade Skills Excellence on the Star Rating Scheme. A great deal of work was achieved with the involvement of industry to develop quality measures. As indicated earlier, consideration should also be given to including the issues of completions as a quality measure.

The usefulness of the delivery of skill sets to existing workers who have already achieved an initial qualification is now beyond doubt. Agreed skill sets need to be included within the ambit of training places to be delivered via the Critical Skills Investment Fund. This would also have a beneficial impact on completions as it would reduce the volume of incomplete full qualifications where the intention was to only undertake a number of units of competency.

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<sup>23</sup> Skilling the Existing Workforce, Final Project report, Australian Industry Group, December 2008, pages 16 – 17. See also Sue Richardson, Employers Contribution to Training, NCVER, 2004.

<sup>24</sup> Creating a future direction for Australian vocational education and training, Skills Australia Discussion Paper, October 2010, Figure 11, page 75.

<sup>25</sup> Investing Wisely, a statement on meeting Australia's skill needs by the National Skills Policy Collaboration, Ai Group, ACTU, AEU, Dusseldorp Skills Forum, Group Training Australia, April 2009.

Overall there is a need to establish a VET public funding model that is more effectively focussed on the needs of the increasingly complex economy and that maintains a sufficient foundation of broad-based qualifications and essential skills, as well as providing for higher level skills.

## **Governance for the future**

A major concern in need of reform is the position of industry within the national training system. A key feature of the Australia VET system was industry leadership – a feature internationally recognised. This has been eroded in recent years and needs to be addressed. There is a need for industry to have determinative powers in relation to key governance arrangements within the sector and not just an advisory role.

### **Intergovernmental agreement**

Within the context of shared government responsibility for vocational education and training the Discussion Paper raises pertinent issues for consideration in the next National Agreement for Skills and Workforce Development. The lack of commitment to the growth of the VET system is a major issue. This is a key issue for industry in a climate of continuing skills shortages and the need for a highly skilled workforce to enable companies to be competitive. Industry has made skilling a major issue on the landscape – government needs to do so also.

It is important to act now on issues of quality and public confidence in the VET system. The era of 'light touch' regulation is over. The introduction of a national regulator and the strengthening of the provisions of the AQTF demand support to address system quality and confidence. Regular and comprehensive audits need to be implemented and properly resourced. Transparency needs to be improved through expanded public reporting of outcomes.

Measures need to be introduced to promote workforce development policies and programs across governments. Funding levers to support this approach need to be developed and implemented in consultation with industry.

In the face of the considerable challenges ahead of the VET sector it is essential that governments develop and maintain effective consultations with industry. A key ingredient of the national training system is industry leadership and opportunities need to be created to enable the voice of industry to be heard.



### **Entitlement based funding**

The movement towards contestable funding approaches was discussed earlier. It is important to carefully monitor systems progressively expanding the amount of funding available through these means. This needs to be closely monitored in terms of the issues raised in the Discussion Paper about 'individual-responsive' funding approaches. There are naturally concerns that individuals have sufficient access to information to make training decisions that align with industry needs.<sup>26</sup> The suggestion of balancing 'individual-responsive' streams with 'enterprise-responsive' streams is worthy of further consideration.

It is also important to protect against market failure where markets are thin such as in remote and regional communities and niche occupations. Equity considerations are important as well. Entitlement based funding needs to be evaluated before any expansion over time. Any movements toward entitlement based funding approaches also need to be underpinned by a guaranteed base funding component. The Discussion Paper correctly raises the issue of TAFE's broader social and community obligations. It is important not to lose sight of these when considering issues associated with contestable funding and entitlement models. Industry wants TAFE to continue to play important roles in community service, social inclusion and the provision of foundation skills.

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<sup>26</sup> Investing Wisely, a statement on meeting Australia's skill needs by the National Skills Policy Collaboration, Ai Group, ACTU, AEU, Dusseldorp Skills Forum, Group Training Australia, April 2009, pages 15 – 16.