

# Investing wisely

The National Skills Policy Collaboration is a group of leading union and employer groups, including the AEU, which aims to work with the Rudd Government to achieve the increased quality of skilled workers Australia needs. This is an edited version of a statement the group released in April this year.



## 1. THE RIGHT DIRECTION

If Australia is to prosper economically and socially it will be partly because we have understood just how much of our progress is dependent on skills. But new approaches will be needed if skills and qualifications are to play the part they need to.

First, Australia's skills development strategies need to keep pace with the demands of the new economy. These include an increase in knowledge-based jobs, higher levels of entrepreneurial dynamism, increased product and service diversity, technological innovation, and the replacement of hierarchical organisational structures with networked learning organisations. We must also reframe our approaches to economic growth for a carbon constrained future. This will require dynamic work processes and a workforce skilled and attuned to the new economic possibilities.

Second, we need to make sure that industry's voice, including unions, workers, employers and their peak bodies, is central to the policy and practice of skilling in Australia. Enduring concerns include the capacity, flexibility and responsiveness of the training system to both employers and learners and the continuing under-investment in skills.

Finally, debate, policy and investment in

skills and qualifications need to be driven by a focus on quality, not just quantity. There needs to be a willingness to rethink some current directions, make the right kinds of investment in skills and qualifications, and develop a national understanding of the key role Vocational Education and Training (VET) can play in building a sustainable economy.

## 2. OUR ASPIRATIONS

While Australia has pioneered many noteworthy innovations there are still areas for considerable improvement. Underpinning improvement is an acknowledgment of the importance of Australia's VET system, which trains around 2.5 million people per year, spans all trades and professions and acts as a prompt and support to innovation. We aspire to a situation in which a highly qualified workforce is innovating, working sustainably, and building prosperity for the whole economy and society. This will require:

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

Commonwealth and state governments have established several mechanisms to capture information about future skill needs, including environmental scans conducted by each

Industry Skills Council. These scans inform the ISCs' own activities, as well as state governments and Skills Australia. We call for better use of this information to inform decision-making throughout the VET system.

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

Industry and employers have a vital role in determining how skills are cultivated and formed and how they impact on the economy. We need to ensure that government, industry, employers and individuals invest sufficiently in the skills and qualifications that create a sustainable workforce. Equally, efforts made to assist workers and enterprises likely to suffer from an economic downturn to restructure and re-skill will produce dividends.

There is room for more effective use of public funds to generate increased employer and industry investment in skills and qualifications. Employers need assistance to determine their skill needs and to integrate these into overall business planning activity, but experience has shown that incentives are not effective unless they are well targeted to ensure that the type of training matches industry, sectoral or national economic needs.

Subsidies can also substitute for private investment, with the taxpayer paying for training that an employer may otherwise invest in.

New strategies are needed to:

- encourage employers and industries to share the responsibility for investment in training and skill development;
- ensure that this investment covers all segments of their workforce;
- integrate skill development into a package of reforms that encourages strong economic development.

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

The starting point for skills development must be about how successfully individuals acquire the necessary skills and opportunities to participate fully in society and the economy. We would like to see:

- **Improvement in school completion rates.** Australia ranks 20th among OECD countries in terms of school completion. Evidence indicates that countries which offer more extensive VET programs do better in rates of school completion.
- **Young people engaged in full-time work or training.** Up to half a million young people are not engaged in full-time work or training. Stronger pathways are needed between school and work. The VET system has a major role to play in the creation of such pathways.
- **Better completion rates for traineeships.** Completion rates for traineeships are very low. Research suggests that achieving better rates of completion requires attention to pay, supervision, bullying and other factors.
- **Higher numbers of people with qualifications.** Broad-based, industry-defined, nationally consistent, portable qualifications provide opportunities for individuals to enter the employment market, as well as providing a strong foundation upon which to build higher level skills.
- **Higher proportions of the population possessing 'essential skills'.** Data suggests that improvement is needed in the proportion of Australian adults possessing essential skills, such as literacy and employability skills, to allow them to effectively deal with the increasing and complex demands of modern life and work and increase their capacity to learn new skills.
- **More opportunities for learning in the workplace.** Pressure on staffing levels may be reducing the time for traditional informal, on-the-job training. This means responsibility for skilling is shifting from employers to individuals. Strategies are needed to change this, especially for those in precarious employment.

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

Funding relationships within the VET system are complex due to the shared responsibility for funding between the Commonwealth and state governments, the extensive range of programs, and the mix of public and private providers.

There is room for improvement in the ways in which public funds are allocated. Funding should be driven by the needs of industry. The allocation of public funding should be triggered by nationally agreed priorities for sectors and occupations. There needs to be a strong focus on qualifications and skill outcomes, and on equity and social justice.

## 3. OUR PROPOSALS

The shortcomings in skill development we are currently seeing in Australia are not new. We argue that they are unlikely to be fixed by merely allocating more money or more places,

**‘We aspire to a situation in which a highly qualified workforce is innovating, working sustainably, and building prosperity for the whole economy and society.’**

without a major rethinking of the strategies required to obtain the best benefit from public and private investment.

### 3.1 ‘Skills in context’: maximising the value of investments in skills

We propose an approach to the development and utilisation of skills that provides a strong foundation for high performance work practices in industries, a stronger industry voice in training policy, and an increased capacity of individuals to participate effectively in the workforce throughout their working life. This involves linking skill development with wider workforce strategies and arrangements that encourage the development and use of higher order skills, facilitate meaningful opportunities for on-the-job training and encourage the development of skills and qualifications that are of long-term value to the economy and society.

This also means recognising the interdependencies of multiple forces, including work organisation, job design, forms of employment, industrial relations, business strategy, inter-firm and inter-organisational linkages and training

interventions. VET policy should connect with a broader framework of policies that aim to improve the equitable operation of the labour market and boost business performance.

Employers have a role to play in recognising that longer term profitability requires all employers to contribute to a skilled workforce on which they can all draw.

We suggest the following two complementary approaches:

### Recommendation 1: Work closely with industries and employers

Significant investment should be made to encourage industries to pursue strategies that will result in higher skill levels. This is a major departure from the current approach, and will require a deeper government engagement with industry needs. It would involve the following steps:

- identifying key industries in which to commence this process;
- directing funding to selected industries to enable them to diagnose industry-wide opportunities, and ensure that funding promotes workforce development by restricting public funding to nationally recognised training;
- use the strategies developed as triggers for the allocation of funds for the purchase of training and development solutions.

This will create a sophisticated mechanism by which employers can engage with training providers. Now is the time to implement it.

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

Bringing about change is likely to be more successful if all levels of the workforce are engaged. We recommend developing and supporting key personnel within industries to engage individuals across all sectors in learning, and to encourage workers to seek out opportunities for training and offer support. Managers need a sophisticated understanding of how skills contribute to business success and the capacity to engage with workers so as to maximise the use of their skills.

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

### 3.2 A more strategic use of public funds

We propose an increase in the level of public funding for the system, and for major changes to the ways in which public funds are directed. We want funds to be used to improve the equitable operation of the labour market, boosting business productivity, employment outcomes and social inclusion.

There is a danger that the increasing use of contestable funding may exacerbate skill shortage issues, as well as leading to reductions in the quality of training. Current funding approaches may also undermine the role played by public provision in fulfilling the social obligations of the VET system. Sufficient public investment is of particular importance in the realm of essential skills. Research demonstrates that enhanced employability skills translate into higher value and better paid work, better health and safety at the workplace, reduced staff turnover, and higher productivity.

We suggest that public funding needs to be better targeted to encourage a closer alignment between supply and demand, and that funding mechanisms need to be consistent with the broader aims and objectives of the training system. We also suggest that government evaluate the use of contestable approaches as a means of allocating funds. A proper public debate and analysis are necessary before the implementation of fully contestable funding.

We recommend the following actions:

### **Recommendation 3: Make public funding mechanisms more flexible and responsive to demand**

The following principles need to underpin public VET funding:

- VET policy should connect with a broad framework of policies that aim to improve the equitable operation of the labour market and boost business performance.
- Sufficient investment needs to be made in the public VET system.
- Industry needs should drive the allocation of training places.
- Funding should reflect the diversity of training needs and support the level of effort required for different types of training.
- Employer incentives should be better targeted and flexibly applied.
- Investment needs to be made in the development of essential skills.

Specifically we suggest that the following areas need urgent attention:

Current allocation systems are often driven by training providers seeking to maximise their access to public funding, creating a strong incentive to deliver the maximum number of places regardless of issues of quality or social objectives. There is also an incentive to deliver courses which require fewer resources.

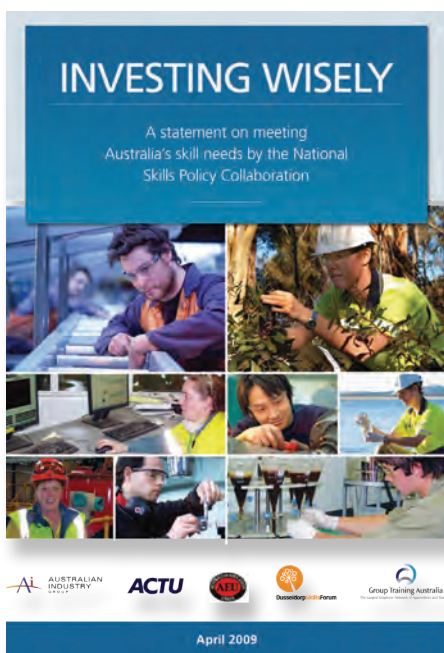
Contestable funding is based on the premise that market design and individual choice are better at driving improvements than industry requirements. Research suggests that it can lead to underinvestment in skill development. It is clear that overreliance on this single allocation mechanism will not achieve optimum outcomes.

Generalised individual entitlements risk

being captured by providers who seek to maximise returns. To be effective, funding should be based on a price that delivers quality outcomes. Lowering the price paid for training can force providers to sacrifice quality.

We suggest that funding allocation needs to be driven to meet broader industry and social objectives, and that industry leadership through Skills Australia and the Industry Skills Councils must be maximised in determining resource allocation and initiatives to stimulate demand. This must be accompanied by a strengthened quality assurance framework.

Funding formulae need to be flexible. Funding of full qualifications and face-to-face delivery is needed to meet the needs of those seeking to enter the workforce or change occupations, and additional funding mechanisms are needed for the up-skilling of existing workers. A range of funding mechanisms is required. Employer incentives need to be better targeted,



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

### **Recommendation 4: Ensure sufficient investment is made in the public VET system**

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

government policy, resources and infrastructure to support industries, strong pathways for post-school training, ongoing resources to support communities and a safeguard against market failure. They provide vital learning, innovation and research for the continued technological advancement of trades. This is a vital role, as it is unlikely to happen if left to isolated companies, or to the market.

The public provider system in Australia has faced increasing reductions in government funding. This is having significant impacts on the ability of public providers to meet the needs of the market and the broader community. Public providers need to be supported to develop superior skills in a range of areas. This will require considerable capital investment and investment in a workforce that can deliver future skill and knowledge requirements.

Strong, sustainable, vibrant networks of public providers can ensure the public interests are served.

### **Recommendation 5: Ensure sufficient investment is made in the development of essential skills**

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

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

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

The full version of the National Skills Policy Collaboration statement is available on the AEU website.  
<http://www.aeufederal.org.au/Publications/2009/invwis.pdf>