

# Ai GROUP SUBMISSION

Productivity Commission  
Review of the National Agreement for  
Skills and Workforce Development

DECEMBER 2019



## About Ai Group

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We are a **truly national** organisation which has been supporting businesses across Australia for more than 140 years.

Ai Group is **genuinely representative** of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

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

## Introduction

The Australian Industry Group welcomes the opportunity to contribute to the Productivity Commission's review of the National Agreement for Skills and Workforce Development.

Within a setting of flagging economic and productivity growth, escalating skills gaps and disappointing apprenticeship numbers, it is essential the Australian Government's broad ranging program of VET reform results in a markedly improved system. The extent of reform, resulting in the current dynamic environment, is welcomed. However, each piece of reform must be carefully shaped and be considered within the context of other reform across the VET ecosystem.

At this time, the long-held key desirable features of a national training system must be renewed and strengthened: industry led and driven, nationally consistent, outcomes focussed, timely and quality assured.

Recommendations from the Expert Review of Australia's Vocational Education and Training System (Joyce Review) have been a catalyst for the extensive reform, with the Australian Government's Skills Package acting on a number of the proposals in the short term to set up longer term reforms. Prioritised were a National Skills Commission, Skills Organisation pilots, a National Careers Institute, VET student loans, and a 'rapid' review of the Australian Skills Quality Authority, addressing governance, policies and culture.

Framing the work, the COAG Skills Council's evolving VET Reform Roadmap provides unified direction and fast tracks key reviews on VET student loans, micro-credentials, Standards for Registered Training Organisations and training packages.

Additionally, the significant Australian Qualifications Framework report has been delivered recommending a more flexible AQF architecture to reflect the changing nature of work, recognition of micro-credentials, and greater fluidity between VET, higher education and schools.

Adding to the dynamic VET environment, the Joyce Report recommendations and subsequent national reform agenda have prompted parallel state reviews covering aspects of VET, such as Skills for Victoria's Growing Economy (Macklin Review) looking at Victoria's post-secondary education and training system and work by the NSW Productivity Commission positioning human capital as a key element for state development.

At the same time, the Productivity Commission's review of the National Agreement for Skills and Workforce Development focuses on priority areas of concern that Ai Group has identified: nationally consistent government funding and pricing arrangements; coordination and streamlining of support for VET by governments; consistency between VET and higher education funding and loan arrangements; increased participation in training by all Australians; funding for targeted reforms such as LLND programs; and improved performance indicators.

## A more coherent and connected tertiary education system

Ai Group believes that VET sector issues and solutions, in many instances, intersect with the higher education system. Ai Group's February 2019 paper, [Realising Potential: Solving Australia's tertiary education challenge](#), advances that issues affecting the tertiary sector as a whole should be considered with design having regard for the nexus between the sectors and the need for greater coherence between the sectors around key features.

*Realising Potential* presented the following key findings:

- Tertiary education in Australia is a mass education and training system reflecting the reality that most young people now participate in this level of education before entering the workforce.
- Tertiary education is characterised by a highly unbalanced binary model with no coherent policy and funding framework.
- There is a need to establish a long-term policy view for tertiary education rather than short-term attempts to address components of the overall system.
- While recognising the distinctive features of higher education and VET, there is a need for a more coherent and connected tertiary education system to be established.
- Given the increasing diversity of learner needs it is desirable to have a greater variety of provider types within the tertiary education system.
- Given the low volume of student transfer between higher education and VET there is a need for a model that includes more systematic methods to facilitate movement between the sectors.
- A key function of an independent coordinating body would be to establish equitable funding arrangements across the sectors and between levels of government.
- Given the more effective responsiveness to the labour market, demand-driven funding mechanisms need to be retained and improved in tertiary education.
- Establish a universal tertiary education student loan scheme, initially for diploma and above courses, to create a more equitable and cost-effective system.
- Maintain both TEQSA and ASQA as respective regulators for their systems while establishing joint functionality in appropriate and agreed areas.
- There is a need for greater and more equitable policy and funding coherence for mid-professional learning where the higher education and VET sectors overlap.
- Promote workplace learning as a recognised key delivery component in all tertiary education.
- The qualifications structure in Australia needs to be reviewed to consider the emergence of micro-credentials and any other developments impacting on the key outcomes of tertiary education.

Ai Group's paper also recommended the formation of a central and independent coordinating agency to provide common approaches across the tertiary sectors. For policy coherence, an independent co-ordinating agency is required to engage in consistent, continuous and longer-term strategy development to ensure the articulation of views needed for the effective development and monitoring of a national tertiary education strategy. An independent co-ordinating agency and any resulting national strategy requires the inclusion of both higher and vocational education.

## Key aspects of reform

Australia is experiencing a significant movement towards universal participation in tertiary education; however, over the last decade there has been a significant growth in higher education participation comparative to VET participation, leading to the development of a binary tertiary system.

This binary tertiary system has created funding imbalances and has led to a lack of overall policy direction and governance of the tertiary system. It is essential to address the decline in participation and funding in the VET sector and to restore a better balance between higher education and VET.

Funding of the VET system continues to be inadequate in terms of both the level and composition of its funding, and insufficient in addressing the skills needs of the workforce. The Commonwealth's Expert Review of Australia's Vocational Education and Training System has recognised that the total public funding of VET has declined in absolute and relative terms to the higher education and schools sectors over the last decade.

A key reform for VET must involve the shared funding arrangements between the Commonwealth, states and territories. Different mixes of federal, state and territory funding and different ways of funding each VET system by jurisdictions are causing confused messages for employers engaging with the system, particularly those operating nationally. In some instances, within individual state systems the needs of industry, businesses and students have not been met.

The Joyce Review acknowledges these inconsistent and complex pricing and subsidy models and the 'variable and varying funding' among jurisdictions, describing these as confusing, duplicative, and problematic. Ai Group welcomes the recommendation of the review to 'develop a simpler, nationally consistent funding policy'.

With regard to the establishment of a National Skills Commission, the national body should be jointly governed by the Australian Government and states and territories, reporting to the COAG Skills Council. States and Territories should have co-ownership, and its board should be drawn from industry.

Any governance arrangements need to take account of the current differing responsibilities of federal, state and territory governments. In addition to potential policy roles, this involves consideration of funding, standard setting and regulation issues. By addressing and clarifying the excessively complex and duplicative federal, state and territory roles and responsibilities in the training system, a genuinely national training system can be established.

The national body must have oversight of VET investment across Australia according to a jointly agreed policy directive. A priority should be to address the decline in the funding for the VET sector, and increasingly uneven investment across jurisdictions. This can be enabled through a body which identifies industry needs and investment required. Ai Group believes that the body should be responsible for establishing nationally consistent benchmark pricing principles and methodology. It should provide advice to government on future resourcing needs.

Ongoing skills alignment between education and training provision and industry requires more reliable and regular skills forecasting and better data collection. As a skills-based approach to skills assessment, this should include identifying sets of competencies in demand rather than qualifications. This would assist workers to build on existing skills by adding those in demand.

***Actions needed as part of the reforms:***

- **Address the declining investment in VET and establish equitable funding arrangements across the tertiary sector**
- **A National Skills Commission that has a strong industry and policy leadership role, as well as labour market and skills shortage research analysis.**
- **A National Skills Commission that is a ministerial company jointly governed by the Australian Government and states and territories, reporting to the COAG Skills Council, and with a board drawn from industry.**
- **A National Skills Commission with oversight for VET investment across Australia according to a jointly agreed policy directive, including the role of establishing nationally consistent benchmark pricing.**
- **The Commonwealth, in collaboration with the states and territories, referring all apprenticeship and traineeship legislation to the National Skills Commission, with the view of consolidating and progressing genuinely consistent, nationally applicable arrangements.**
- **A national and regional skills forecasting system that is independent and evidence-based, through the National Skills Commission, with regular reporting and assessment against sets of skills that can be mobilised to perform tasks related to a job, occupation and industry.**
- **A national workforce strategy implemented through the National Skills Commission.**

## Universal student loans scheme

Ai Group also advises in favour of a universal tertiary education student loan scheme, initially for diploma and above courses, to create a more equitable and cost-effective system. Currently, undergraduate students at Australian public universities have access to a variety of Commonwealth subsidies and loans. In the VET sector, students undertaking advanced diplomas may or may not have access to an often variable state government subsidy or VET student loan. Similarly, VET students in Certificate courses face upfront fees and cannot access the VET Student Loans program. The different levels of public subsidy and access to student loans programs have made accessing higher education loans more attractive.

The transforming economy will continue to rely heavily on higher education to develop higher critical enquiry. It must provide the high-level skills, research base and culture of innovation that the new economy needs. It is one of the key enablers in the development of our human capital and is crucial to the business sector.

Debate exists over the blurred boundaries between higher education and the VET sector. Student retention and the quality of outcomes have been under scrutiny, including for equity groups. Flexible study options are being demanded by student populations, and changes to credentialing and qualification structures are needed to meet the needs of student participation patterns and industry skill needs. Creative collaboration with industry to enable engagement by students and teaching staff must reach a new level to ensure learning relevance.

### ***Actions needed as part of the reforms:***

- **A universal tertiary education student loan scheme, initially for diploma and above courses, to create a more equitable and cost-effective system.**

## Apprenticeships

The raft of issues within Australia's apprenticeship system represent a sub-set of concerns to be addressed through the current VET reform agenda. Ai Group contends that a national focus is needed to manage the implementation of new apprenticeship measures including overseeing national consistency and ensuring apprenticeship programs and arrangements meet current and future workforce needs. This can be a specific function within the National Skills Commission, including determining which apprenticeships become eligible for financial incentives. A national apprentice function within the National Skills Commission would enable improved, coordinated strategic decision making.

The level of apprenticeship commencements is an ongoing concern for the nation's industry sector. The most recent data from the NCVER indicates that there were 272,920 apprentices and trainees in-training as at 30 June 2019. This represents a fall of 1.4 per cent compared to the June 2018 level. Overall commencements fell by 2.5 per cent during the period. Trade commencements decreased by 4.8 per cent and non-trade commencements fell by 0.5 per cent.

The review of the National Skills Needs List is timely, but the outcomes of this review may impact on the slight improvement in commencements for trade occupations. If the revised list is targeted more at occupations in skills shortage, apprenticeships in those occupations not currently in shortage may see declines in numbers if incentives are reduced.

The NCVER data also shows that commencements in higher level qualifications have declined markedly since 2015. Diploma and Advanced Diploma apprenticeship and traineeship commencements have declined by 38.9 per cent between 2015 and 2019, and Certificate IV commencements have declined by 50.8 per cent for the same period. The extension of apprenticeship incentives to Diploma and Advanced Diploma qualifications from 1 July 2020 is welcome and it is hoped it will contribute to an increase in numbers.

Higher apprenticeships are gaining interest from both industry and potential apprentices. Higher apprenticeships respond to the need by industry for higher-level skills, but they also have the potential to attract a new cohort of potential apprentices by providing clear pathways to higher-level qualifications and careers.

In Australia, there have been two pilots to trial higher apprenticeships, both funded through the Australian Government's Apprenticeships Training – alternative delivery pilots initiative. This Ai Group pilot focused on high-level technical skills in engineering and digital technology. The other was developed by PricewaterhouseCoopers, who piloted an 18-month Diploma of Business in apprenticeship mode for professional, business, information technology and financial services.

There are challenges in making higher apprenticeships more broadly available. State Training Authorities currently recognise only VET-level qualifications as apprenticeships or traineeships and industrial awards generally do not make provision for them. This underscores the importance of national tertiary policy and funding coordination across the jurisdictions in overcoming these challenges in rolling out higher apprenticeships.

Completion rates for apprenticeships continue to worsen. NCVER's latest completion data shows national contract completion rates have declined to 49.4 per cent for all occupations and 43.1 per cent for trades. Individual completion rates are 54.5 per cent for trade occupations and 57.7 per cent for non-trade occupations.

Most employers that take on apprentices have small companies. Sixty-three per cent of employers have only one apprentice; these employers need to be supported to help their apprentices complete. They need help to improve their recruitment practices, and help to improve how they manage their apprentice after they commence, including understanding their obligations. Professional development workshops for apprentice supervisors have been trialled at different times with positive results; however, they have not always reached those employers who need help the most. Encouragement for employers to attend a workshop when they employ apprentices could help with retention.

A recent NCVER report examined apprenticeship completion rates for apprentices and trainees employed through group training, compared to those directly employed by a business. The report found that for non-trade occupations, group training has a better completion rate than



for those employed directly by both SME and large employers. For trade occupations, large employers have the highest rate of apprentice completions, but completions for group training are substantially higher than for those directly employed by SMEs.

## Group Training

The Commonwealth previously supported GTOs in their activities through the Joint Group Training Program, which was jointly funded with state governments. National funding was discontinued in 2015-16, however some states continue to provide funding. Targeted funding of GTOs to support their activities to help disadvantaged groups, and to help SMEs participate in the apprenticeship system may help improve commencement and completion numbers.

### *Actions needed as part of the reforms:*

- **Support for all apprenticeship pathways through the National Skills Needs List.**
- **The uptake of higher apprenticeship initiatives through addressing systemic challenges to their implementation.**
- **Availability of apprentice supervisor workshops for employers of apprentices eligible for Commonwealth incentives.**
- **Targeted funding to GTOs to support their activities to help disadvantaged groups, and to help SMEs participate in the apprenticeship system, similar to the previous Joint Group Training Program.**
- **A raising of the profile of the VET sector in the development of STEM skills through higher apprenticeships and traineeships relevant to STEM, which could be funded as part of an expanded National Science and Innovation Agenda.**

## VET in Schools

Vocational education and training provides valuable pathways for senior secondary students. VET programs delivered in schools have many examples of work-based learning opportunities that deepen a student's knowledge of the workplace and exposes them to real-world situations that require the practical use of acquired skills.

However, data from NCVER shows that in recent years there has been declining participation in VET programs delivered in schools and school-based apprenticeships and traineeships. There is concern that careers teachers do not adequately understand or promote the opportunities in the VET sector. The over-emphasis on academic success in traditional subjects has led to a lack of exposure to vocational options even when students may be better suited to, and have better work outcomes, within these pathways.

The New South Wales Government's Curriculum Review interim report has recognised that teaching and learning in the senior secondary years are overly focused on university entrance and insufficiently focused on equipping students with the knowledge, skills and attributes required for further learning, life and work.

The South Australian Review of VET for School Students consultation outcomes report has identified numerous barriers to pursuing a pathway through vocational education and training. While Year 13 has reported that 56 per cent of students still do not consider an apprenticeship when leaving school.

Encouraging federal government initiatives have emerged in the careers education space, including a National Career Education Strategy and the creation of a National Careers Institute. The Government's Review of Senior Secondary Pathways into Work, Further Education and Training is also an opportunity to raise the profile VET programs delivered in schools and reforms in this area of learning.

To improve partnerships between schools and industry, a commitment by government to provide greater assistance to industry, especially small and medium enterprise, that bolster student work-based learning opportunities, mentoring, compliance, induction, work health and safety standards, and cooperation on aligning educational outcomes to curriculum and employment outcomes to industry skills needs would be welcome.

***Actions needed as part of the reforms:***

- **The COAG Education and Skills councils to explore funding arrangements through a National Partnership Agreement that bolsters VET participation in school delivered programs, and supports industry, especially SMEs, to offer work-based learning opportunities.**

## Foundational Learning

Poor literacy and numeracy have a negative impact on productivity, labour mobility and the capacity of the economy to achieve the higher levels of skills needed for the increasingly knowledge-based economy. There remains an urgent need to address the language, literacy and numeracy and digital (LLND) skills needs of the Australian workforce.

Ai Group research reveals that the low levels of workplace literacy and numeracy are a major concern to employers. Ai Group's recent workforce development skills needs survey indicates that 99 per cent of employers reported that low levels of literacy and numeracy have an impact on their business. An individual with poorly developed literacy and numeracy skills is at greater risk of disengaging from learning and fully participating in the workforce.

While it is encouraging that the recently released Foundation Skills Training Package recognises that foundational literacy and numeracy now includes digital literacy skills, the COAG *National Foundation Skills Strategy for Adults* must be updated to recognise the impact that automation, internet of things, big data and more generally digital transformation are having on the

workforce, especially on low skilled workers performing tasks in jobs, occupations and industries impacted by digital disruption.

A refreshed national LLND strategy needs support, especially for workplaces. A key component of this is the development and implementation of a new co-contribution program specifically for workplaces. Such a program would be based on tight outcomes for both individual participants and employers.

Ai Group conducted a return on investment to employers participating in a literacy and numeracy support program with very positive results. In addition to the benefits for participating employees, there is also now a firm business case for employer investment in workforce literacy and numeracy. There need to be programs within which they can invest.

Ai Group also urges Australia's ongoing participation in the OECD's Programme for the International Assessment of Adult Competencies (PIAAC) Survey of Adult Skills. It is important to maintain and improve insights into those skills that impact the ability of Australia's workforce to perform work tasks at a minimum threshold level.

***Actions needed as part of the reforms:***

- **A revised national foundation skills strategy with a sufficient budget to support workforce language, literacy, numeracy and digital literacy programs.**
- **Discussions between government, industry and other appropriate stakeholders about the development of a new workplace LLND program.**

## VET servicing all Australians: existing workers

With technological change affecting nearly all industries, different skills and new practices need to be adopted by existing workers throughout their working lives. Linking lifelong learning to workforce productivity is now essential. Without efforts by government, education and training sectors and industry to normalise cultures of continuous learning in the workplace the Australian economy will not prosper to the extent that is necessary for our future.

The acquisition of new skills by existing workers and the refreshing of existing skills needs to be available in a range of environments (virtual, physical) and through access to shorter form training. The introduction of micro-credentials by education institutions to meet on-demand learning must increase. The growing emphasis by education and training sectors now on developing capabilities in enquiry, agility, adaptability, creativity and problem-solving will assist future workers in gaining a robust base to build skills through their working lives.

In terms of re-skilling, Ai Group's research shows that employers are currently prioritising managers for digital technology training and changes anticipated or caused by its rollout. However, re-skilling extends beyond digital skills development in order to equip workers with the broader capabilities required in more autonomous workplaces.

Businesses will need to assess their own capabilities and train when necessary using education and training partners, supervisors, managers and leaders. These companies will develop employees more capable of taking control of their roles, needing less supervision and better able to contribute to innovation in the workplace. However, support is needed for industry to develop digital strategies and workforce plans, assess existing workers' capabilities and train where necessary.

In moving forward, all improvement actions need to be underpinned by closer partnerships between industry and all education and training sectors. Rapidly changing work environments and skills are best served by learning that is connected to and closely reflects workplace skill needs, such as work-based and work integrated learning models.

***Actions needed as part of the reforms:***

- **Incentives for industry, focussing on small and medium enterprises, to assist with workforce planning to continue re-skilling its transitioning workforce.**
- **Curricula frameworks and teaching and learning practices of all education and training sectors that build capability for continuous learning in individuals.**
- **Pilots that implement a range of innovative work integrated learning models connecting industry and higher education providers, with the view to establishing new models of learning suited to industry.**

## VET data: the Unique Student Identifier

Better longitudinal tracking of student attainment and outcomes, in addition to subject and course selection, commencement and completion data can assist government and industry in its workforce planning, especially in dealing with skills gaps.

Ai Group is represented on the USI External Reference Group and is providing feedback through that forum.