

Chapter 1

Introduction to the Inquiry

Conduct of the inquiry

1.1 The Senate referred this inquiry to the Employment, Workplace Relations and Education References Committee on 23 October 2002, with an initial report date in subsequently 6 November 2003.

1.2 The terms of reference for the inquiry are:

- a) areas of skills shortage and labour demand in different areas and locations, with particular emphasis on projecting future skills requirements;
- b) the effectiveness of current Commonwealth, state and territory education, training and employment policies, and programs and mechanisms for meeting current and future skills needs, and any recommended improvements;
- c) the effectiveness of industry strategies to meet current and emerging skill needs;
- d) the performance and capacity of Job Network to match skills availability with labour-market needs on a regional basis and the need for improvements;
- e) strategies to anticipate the vocational education and training needs flowing from industry restructuring and redundancies, and any recommended improvements; and
- f) consultation arrangements with industry, unions and the community on labour-market trends and skills demand in particular, and any recommended appropriate changes.

1.3 The inquiry was advertised nationally and the committee wrote to Commonwealth agencies such as the Australian National Training Authority (ANTA), the Department of Education, Science and Technology (DEST), and the Department of Employment and Workplace Relations (DEWR), and contacted state and territory authorities as well as other relevant organisations and individual experts. The committee received 103 submissions, and heard from a wide range of stakeholders at public hearings and roundtable discussions in Brisbane, Gladstone, Cairns, Mareeba, Perth, Kwinana, Port Augusta, Launceston, Dandenong, Melbourne, Newcastle, Sydney, Darwin, Adelaide and Canberra. Visits were also made to a number of

schools, TAFEs and skill centres and members of the committee met with industry and community groups in Wollongong, Port Kembla, Maitland, Cessnock, Brisbane and the Gold Coast. The committee thanks all those who made submissions, gave evidence or hosted a visit.

Object of the inquiry

1.4 The inquiry was prompted by industry concerns about persistent, widespread skill shortages over the past decade and concerns about future shortages resulting from a combination of demographic, technological and business process change and, in some industries, a serious erosion of the skills base. Related to these were concerns that the current policies, programs and mechanisms for identifying and responding to current and future skill needs may not provide an adequate framework for responding to these challenges. As well there was a sense of frustration with the persistence of unacceptably high levels of unemployment and under-employment in some locations, alongside skill shortages, suggesting the need for better mechanisms for identifying and using the skills available within the community.

1.5 The inquiry's terms of reference were very broad and ranged across complex and frequently changing policies and programs in the areas of vocational education, training and employment. The complexity of the policy and program environment and the pace of change was a particular challenge for the inquiry. As an illustration, the list below details some of the Commonwealth or national policies, programs or arrangements which were subject to significant change, review or new initiatives, immediately before or during the course of the inquiry. These cover almost all of the terms of reference:

- the new national strategy for vocational education and training;
- arrangements for industry advisory bodies at the national and state level;
- ANTA's arrangements for identifying current and future skill needs;
- the classification system used as the basis for statistical reporting on occupational trends in the labour market (ASCO);
- labour market and other employment assistance programs associated with Job Network;
- Commonwealth incentives for New Apprenticeships;
- User Choice policy and principles;
- the role and funding of group training organisations;
- the principles and framework for development of training packages; and
- policies and programs relating to VET in Schools, youth transition, career counselling.

1.6 A number of states and territories also undertook major reviews of skills related issues, during the life of the inquiry.

1.7 The committee has therefore been unable to deal with the full range of issues raised during the inquiry in the time available and has not had the opportunity to consider the full range of extensive research which may have been helpful to its report. Instead it has chosen to focus on issues that were most prominent during the inquiry, at the expense of some equally important issues and areas of the terms of reference.

1.8 The result is that there is a clear emphasis on skill shortages and needs in the traditional trades, and on the current arrangements for vocational education and training, and minimal coverage of skill shortages and needs in the professions or other occupations where higher education is the main avenue for skill formation. This does not discount the importance of skill needs and skill shortages in those areas. Indeed, it is clear from evidence to the inquiry and in the public domain, that the persistent and widespread shortages of some professionals, including nursing and teaching professionals, are among the serious skill issues currently facing Australia.

1.9 Other issues arose in relation to how current arrangements might be better targeted to address regional needs. At hearings in regional locations, for example, the committee learned about the problems of seasonal industries, from tourism through fisheries and agriculture. In isolated areas retaining skilled people was a significant challenge, as was the generation and attraction of a skills base to support present and planned project developments. The report deals with these matters in the context of discussion about the effectiveness of the overarching framework to provide for skills needs. Important areas such as the role of migration in meeting current and future skill needs, the training needs of people with disabilities and issues related to restructuring and redundancies, and the long-term unemployed have in the main not been canvassed in the report, and may merit separate reviews at another time.

1.10 However, an area that struck the committee as being in need of more immediate investigation were outcomes under Indigenous education and training. Evidence taken in Darwin and Cairns identified problems with remote area training, the appropriateness of training offered and its delivery, and reported the mixed benefits accorded by the Commonwealth Development Employment Program (CDEP). On a more positive note, the committee also heard that partnerships between industry and Indigenous land councils in the Northern Territory are beginning to make the necessary link between training and employment outcomes, although continuing opportunities for Indigenous people may only be realised by careful planning and commitment. The committee concluded that this mix of problem and potential requires a more complete investigation. While Indigenous matters are not dealt with in any detail in report, the committee intends to take up this issue by attempting to program an inquiry into Indigenous skills and employment issues before the end of this, the 40th Parliament.

Overview of issues

1.11 The overarching message during the inquiry was the need to recognise that Australia is facing a major skills formation challenge, both in the immediate future

and accelerating over the next two decades, due to the combined effect of a shrinking cohort of young workforce entrants, a depleted stock of skills in some key industries and occupations and the accelerating need for new skills, flowing from technological and business process change. There are implications for funding of vocational education and training and higher education, as well as for a host of policies and practices, covering the areas of retirement, superannuation, and flexible working conditions, as well as vocational education and training, pathways between education and training, youth transition, the labour market and industry policy and assistance for unemployed people, especially the long-term unemployed. This report focuses on those matters that were raised during the inquiry.

1.12 At the same time, a striking feature of this inquiry was the scale and diversity of stakeholder interests and perspectives on current and future skill needs, and the divergent and sometimes contradictory views on issues such as the need for greater flexibility in training delivery and content and on priorities for targeting of incentives and financial support. Submissions from the Commonwealth highlighted the contribution of current policies and programs in meeting national skill needs, including the role of the cooperative federal system for vocational education and training (VET), programs and policies in areas such as youth transition, VET in schools, the National Industry Skills Initiative, labour market and related information, workplace relations and employment programs. They identified flexibility and responsiveness, and a de-regulated, market-driven approach, as the cornerstone of Commonwealth policy in relation to the labour market, education and training, and employment assistance.

1.13 Commonwealth submissions also pointed to some of the main achievements in relation to skills formation, including increasing rates of participation in post-secondary school education, and vocational education and training in particular, with around 1.76 million or 13 per cent of Australians undertaking a VET course in 2001.¹ The Department of Education, Science and Training (DEST) highlighted the growth in New Apprenticeships and in VET in schools programs: with 374,800 people in New Apprenticeships training in December 2002, more than double the number five years ago² and around 170,000 school students undertaking VET in schools in 2001.³

1.14 Submissions from state governments were understandably more concerned with how well national and Commonwealth skills formation policies, structures and funding arrangements support their individual economic and social development strategies. States also had a greater focus on the outcomes of training and employment policy, including whether the mix and distribution of skills meet local industry and community development objectives. Many were concerned about the inadequate funding of vocational education and training and aspects of the broader policy

1 Submission 57, Department of Education, Science and Training, pp. 6,7

2 *ibid.* p.18

3 *ibid.* p.7

framework including reporting measures, user choice policies and Commonwealth incentives for New Apprenticeships, which are seen to be channelling an increasing proportion of Commonwealth and state government training expenditure into lower skill areas, restricting the scope for investment in areas of greater strategic economic or social importance.

1.15 Employer representatives generally supported the thrust of current Commonwealth and national policy, and specifically the emphasis on a market-driven system responsive to employer demand but argued for even more flexibility and responsiveness in workplace relations and training delivery and greater progress in consistency in state and territory arrangements for training, in line with the goals of a national system.

1.16 Current and projected shortages of occupation-specific and generic skills, the training needs of the existing workforce and improved arrangements for identifying and responding to changing skill needs, were also major issues for employers. The Australian Industry Group (AiG), with a membership concentrated in the construction and manufacturing industry, was particularly concerned about the effect of major resource and construction projects scheduled over the next five to ten years, given that the skills pool in the engineering, manufacturing and parts of the construction trades are almost empty. While relevant state and territory governments have developed their own skills formation strategies for these projects, the AiG argued for a national approach to identifying the nature and scale of the associated skill needs and for accelerated training strategies, to overcome the long lead times normally associated with training in these areas. Employers generally are looking for a more integrated national approach to identifying skill needs and more tangible progress towards a national framework for skills formation.

1.17 The demographic squeeze, from the declining pool of new workforce entrants over the next decade, alongside poor education and employment outcomes for a significant minority of young people, was identified by the Business Council of Australia and the Dusseldorp Skills Forum, as one of the most critical skills formation, and indeed economic and social policy issues, facing Australia. The Dusseldorp Skills Forum submitted a proposal to modernise Australia's system of transition support for young people leaving school by bringing the disparate patchwork of existing arrangements and initiatives into a cohesive framework.

1.18 Unions shared some common concerns with employers, including the need for an increased emphasis on training of the existing workforce and greater consistency and integrity in the national training system. For the ACTU, there is a need for Commonwealth and states to adopt a consistent approach to New Apprenticeships incentives and for better targeting of incentives towards higher and intermediate skill levels and skills formation in areas of national priority. More generally unions see the reliance on the market and employer demand, with some targeted innovation initiatives, as an inadequate basis for skills formation policy. They cite persistent skill shortages, a rundown in skills in key industries, inequitable access to training and

disproportionate public investment in low skill occupations as the unfortunate, but perhaps inevitable, outcomes of the current policy settings.

1.19 A number of expert witnesses also raised concerns about the contribution of current policy to the growing polarisation of the workforce between high skill, high wage and low skill, low wage employment. Another concern was the urgent need to address the depletion of skill stocks and the rundown in skills formation, partly driven by economic and policy settings of the 1980s and 1990s. This phenomenon, likened to farmers eating their seeds, is particularly marked in manufacturing industry, many engineering occupations and some areas of education, including the TAFE sector.

1.20 Academic and other experts pointed out, however, that the current competitive business environment and policy settings create a disincentive for many employers to make the necessary investment in skill formation. They, along with unions, argue for policies which will make training a more attractive investment for more employers, particularly those operating in industries of strategic economic or social importance, including the manufacturing, health and education sectors. Unions argue that the national skills councils provide the ideal forum for developing these strategies, and the role of these and their resourcing need to be strengthened accordingly.

1.21 Some themes were present in a broad cross-section of submissions. The need for ‘seamless and multiple pathways’ between school, vocational and higher education and a culture and policy that supports lifelong learning was an issue for almost all stakeholders. While these have been part of the policy agenda and rhetoric for some time, the committee gained the sense that there is a stronger momentum building for more tangible progress in this area. A coordinated policy framework for considering cross-sectoral issues may be a precondition to more substantial progress in this area. Another widely held aspiration was for more tangible progress in realising the potential of the national system, particularly in terms of automatic national recognition of qualifications and registered training organisations, greater consistency in qualification and occupational licencing requirements and approval of training pathways.

1.22 The current policy and processes relating to the training packages, which set out the competencies required for effective performance in the workplace, and the pathways to qualifications, were also a source of many criticisms and suggestions. The committee found it encouraging to see that the Australian National Training Authority (ANTA), as the ‘guardian’ of the national system, now appears more open to taking these criticisms on board during its current examination of the training packages.

1.23 There was also consensus about the importance of engaging more of the growing number of small and medium enterprises (SMEs) in providing structured training leading to national qualifications for new workforce entrants, and a recognition of the challenge this presents. Given, the policy emphasis on enterprise-based training, the engagement of SMEs appeared as the stumbling block to training policy, with the capacity of the system to uphold skills development, especially for the more expensive trades apprenticeships, thrown into doubt.

Structure of the report

1.24 These themes inform the body of the report which comprises the following chapters.

- **Chapter 2: Skills Shortfalls and Future Skill Needs**

This chapter assesses the evidence in relation to the prevalence, causes and consequences of skill shortages and also examines the current arrangements for identifying current and future skill needs. It found that there are widespread and persistent skill shortages, as commonly defined, in many of the traditional trades and some professions and that there are also a wide range of occupational shortages and skill gaps not recorded in official statistics. It canvasses the arguments for a reliable and comprehensive information base, an issue raised by employer representatives, professional associations, unions and some other stakeholders. It concludes that there is a compelling case for the development of a more integrated and coordinated approach to collection and dissemination of information on current and future skill needs and makes several recommendations to this end.

- **Chapter 3: Skills Formation and the Labour Market**

1.25 There are two main issues discussed in this chapter. The first is whether the current policy is effectively promoting the development of both high level skills and intermediate skills. The second is the nexus between labour market and skill formation, with particular focus on New Apprenticeships program and the Job Network. The chapter looks briefly at the policy framework set out for vocational education and training and tests its effectiveness to meet skills needs under the competitive conditions of the labour market today.

1.26 The committee found that, despite the policy focus on achieving high level skill development, the present approach to skill formation appears to be not well suited to labour market conditions. The prevailing view was that there is a mismatch between what the system is offering and what the majority of employers need to address their skill requirements. The enterprise focussed training approach was faulted by the increased competition in the marketplace now comprising large numbers of SMEs, against a reduction in training by large companies and privatised public utilities. The result is that training at intermediate skill levels and for para-professional qualifications has remained static, or has actually dropped in real terms, while there has been an overwhelming increase in low level training under the impetus of the New Apprenticeships.

1.27 The committee concludes that adjustments are needed to New Apprenticeships to tip the balance in favour intermediate and higher skills development. A companion theme was to ensure that there are quality assurance standards of training and employment attached to New Apprenticeships. The chapter explores a range of support mechanisms including: development of performance indicators to better differentiate training outcomes; adjustments to legislation governing New Apprenticeships; a redistribution and adjustment of incentive

payments; provision of targeted incentives to encourage industry/education and inter-institutional training developments; and for Recognition of Prior Learning. Finally the chapter focuses on Job Network, with a particular interest in its capacity to redress transition difficulties of young people, to retrain people for employment in skill shortage areas and to meet regional needs.

- **Chapter 4: The Vocational Education and Training Framework**

1.28 The focus of this chapter is on the adequacy of the current vocational education and training policy settings, funding arrangements and institutional framework for meeting Australia's current and future skill needs. The committee found evidence that the current funding levels and arrangements provide an inadequate basis for responding to unmet demand, both latent and officially recorded, and for providing a more diverse range of training responses for industry and individuals. One level of the adequacy of funding is the ability to meet current demand: the Australian Bureau of Statistics in December 2002 estimated unmet demand for TAFE as 40,000 persons nationally, with almost 15,000 of these being under 25 years of age.⁴

1.29 A particular concern is that the current funding models and accountability and reporting measures for the VET system, are not compatible with the objectives of the new national strategy, the development of a high skill workforce, promotion of innovation and strengthening communities and regions, or with development of a quality, responsive system that can provide diverse responses to skill needs. Other important findings related to the adequacy of training packages to meet industry needs; the requirement for employability skills and the capacity of skill centres to provide intensive training assistance and meet other training needs.

- **Chapter 5: Education and Training Pathways**

1.30 Multiple training pathways are important to cater for the diversity of individual's preferences and circumstances and to enable individuals to maintain lifelong employability, in an environment where jobs, occupations and workplaces and the associated skill requirements, are continually being transformed. This chapter briefly examines the adequacy of some of the current arrangements for providing individuals and industries with 'seamless pathways' for skill formation.

1.31 An important issue was the need to consolidate careers management and advice for young people. The committee concludes that all students are entitled to access to professionally trained and well informed careers advisers. To consolidate policy approaches to youth transitions, the committee also supports the implementation of a more systematic and integrated approach to increase the number of young people completing 12 years of school or equivalent vocational education and training (or 'decent work') within the next five years. The committee also believes that an entitlement to 12 years of schooling or equivalent vocational education and

4 Australian Bureau of Statistics, *Education and Work*, 6227.0, May 2002, pp. 28–29; 53

training should extend to people who have left school, including unemployed young people under the age of 21. A number of suggestions are made for improving articulation between VET and higher education. Consideration of the training needs of existing workers also suggests that there should be a separate program for this purpose.

1.32 The committee also found that many schools are placing undue emphasis on school retention rates as the sole measure of success in achieving improved education and training outcomes for young people, ignoring the need for students leaving before year 12 and gaining an 'equivalent VET qualification' being counted as successful outcomes.

- **Chapter 6: The Role of Industry and Other Stakeholders**

1.33 The main focus of this chapter is the role of industry in identifying and responding to the skill needs of its workforce. There is a strong focus on the recent changes to industry advisory arrangements, with a number of stakeholders concerned that they signal a further shift in Commonwealth policy away from the tripartite (employer-union-government) principles on which the current training system was established. Union and some employer groups share concerns that the current proposals for the number of advisory bodies and funding levels are being driven by financial considerations rather than an objective assessment of the requirements for an effective system.

1.34 The second main theme of this chapter is the need for a policy framework that promotes greater industry responsibility for training its workforce including a discussion on the role of levies and other strategies for sharing costs and benefits across an industry. Finally, the chapter touches briefly on the need for consultative and other arrangements within the national training system to include the full range of stakeholders, where appropriate. Due to time constraints, this matter is not examined in the detail that it deserves.

