



Skills
Australia

Workforce Futures:

Towards an Australian Workforce Development Strategy

Skills Australia would like to hear your views on *Workforce Futures* and welcomes your written submission by **6 November 2009**.

To assist with the analysis of submissions received, we request that feedback is provided using this template. Your co-operation is appreciated.

Submissions received may be published by Skills Australia or quoted. Please indicate in the space provided below if you would like your submission to remain confidential.

Please email submissions to secretariat@skillsaustralia.gov.au

Submission information

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Workforce Futures:

Background Paper One

What does the future hold?

Meeting Australia's skill needs

The *Workforce Futures Overview* paper raised a number of questions relating to Skills Australia's proposed approach to developing an Australian Workforce Development Strategy. In this section, we seek your feedback on questions relevant to meeting Australia's skill needs. *Background Paper One* at www.skillsaustralia.gov.au/Publications_and_Resources highlights a number of issues for discussion which are relevant to your response.

Please provide feedback to these questions in the boxes below. A space has been provided at the end of the section to provide feedback on other issues you wish to raise.

Future skill needs and projections

Q1. Are Skills Australia's interpretations of our future skill needs reasonable? Is there other evidence or analyses that should be considered?

While the use of scenario planning is generally supported, the usefulness of this approach is very much dependent on the appropriateness of the underlying assumptions used. While the three scenarios outlined are indeed all plausible futures, the underlying assumptions are inconsistent with economic theory and result in misleading interpretations of future skill needs.

In particular, in the modelling strategy used, projected student demand is demographically driven while projections of industry demand for skills/qualifications are driven by projections of employment by industry. That is, supply and demand are independently determined which implicitly assumes that consumer behaviour does not respond to changing circumstances/incentives, with the resultant 'permanent' skill shortages (until 2025 at least) under the 'Open doors' scenario and surplus skills under the 'Flag' scenario reported in table 6, of Background Paper One.

In reality, in the labour market, as in any market, supply and demand are jointly determined. While imperfect information, adjustment lags, etc., can lead to temporary mismatches - either a surplus or shortage of certain skills - it is not possible that permanent or long lasting shortages/surpluses will result unless impediments to the adjustment process are in place (e.g. artificial restrictions or caps on entry to a course of study or occupation). This implies that for the future scenarios presented, skill supply under 'Open doors' will be significantly higher than that projected as workers/students respond to the incentives to attain skills and firms compete for such workers by offering more attractive remuneration and employment conditions. The converse would be true under 'Flag' with fewer skills supplied since there is little incentive to acquire skills with both firms and individuals reluctant to maintain current levels of investment in human capital.

If these scenarios represent plausible futures we need to determine which is desirable and concentrate effort on developing collaborative strategies to make this a reality. To do this we need to identify impediments to labour market adjustment taking place rather than focussing attention on ill-perceived gaps in supply and demand.

A risk-based approach

Q2. What is your response to our proposal that governments should adopt a risk-based approach to skills planning? What do you see as the respective roles of industry, governments, education and training organisations and individuals in planning?

The Queensland Government is broadly in agreement with the proposal of Skills Australia to focus planning on sectors of the economy for which there is a close mapping of a qualification to a particular occupation. This is relevant for the health sector, engineering, and some trades for which licensing requires the attainment of a certain qualification. For most occupations, however, at the detailed level mapping of qualifications to occupations is very tenuous. A further limitation of the planning approach is the reliance on projecting past trends forward which effectively omits consideration of new or emerging occupations or skill sets and the skilling and labour market impacts of new technology and business processes.

Analysis undertaken at DET suggests that detailed planning is limited by available data. Modelling has shown that disaggregated employment by occupation projections, whether from an complex inter-industry model, or from the extrapolation of past trends, are a less accurate predictor of future employment (over a 1, 2,3, or 4 year time frame) than is the current employment level. This result highlights the caution needed when basing resource allocation decisions on such projections.

The centralised planning approaches which have traditionally dominated resource allocation in the VET sector have consistently resulted in both unmet demand and unused supply. Hence, Queensland is examining ways to implement a more demand led system to improve both the allocative and productive efficiency of the system. Employers know the skills that they need, while potential students seek the skills they require to pursue their preferred careers. Industry peak bodies have a key advisory role to play in determining the competencies and skills required by their members and liaising with training providers to ensure that training packages and accredited courses offered are relevant and up to date.

Investment to support workforce demands

Q3. How can we best use current investments to support our emerging workforce demands? What types of interventions may this require from governments, education and training organisations, industry and others?

A move towards a competitive, demand led system would provide considerable incentives for the improvement in resource allocation. Increased user (employers and students) choice in determining their preferred course and provider through a contestable market will ensure a more efficient allocation of resources - Increased contestability will encourage the entry of additional suppliers into the market for the delivery of vocational education and training while competition between the suppliers will act to ensure that there is a better match between skill supply and skill

demand to address workforce demands.

A key determinant in the success of such reforms is to leverage contributions towards the cost of training from employers and/or students which reflect their private expected returns, while the government contribution should cover the social returns to education. This will address the issue of market failure due to underinvestment in training while leveraging greater return on the considerable current government investment in training.

Other interventions which need to be considered include the extension of FEE Help or similar income contingent loans for VET students to address the distortion between the VET and Higher Education sectors whereby VET students are currently required to pay tuition fees from current incomes whereas university students have access to deferred payment via their lifetime incomes.

Consideration could also be given to providing incentives via the tax system to individuals and employers to engage in accredited training where underinvestment is apparent.

Proposed actions

Q4. Do you have any comments about any of the specific actions suggested in Section 4.3 of Background Paper One?

Queensland supports the view that continued planning is required for high risk occupations, where long training times, strict entry requirements etc, mean that considerable risks occur if skill mismatches occur.

Impact and ways to improve Skills Australia's proposed approach

Q5. How might our suggestions impact on your organisation/industry? Can you see advantages or disadvantages to our proposals? What could we do about it? What else should we be considering to make our future planning even better?

Queensland, in moving to a more demand led system, sees a greater role for industry engagement, particularly in regard to priority skill requirements and the currency of existing training packages and courses, and a lesser role for detailed planning at the occupational level.

More emphasis should be placed on gaining an understanding of the various factors which lead to market failures for specific occupations and impediments to labour market adjustment in preference to detailed planning. These market failures are likely to vary by occupation, and perhaps by region, suggesting a role for detailed case studies and tailor made interventions to ensure optimal levels of training are provided. Such an approach has the advantage of giving the players to the training transaction, individuals and industry, more ownership over the process.

Other comments

Q6. Do you have any other comments in relation to meeting Australia's skill needs or issues raised in *Background Paper One*?

No further comments



Workforce Futures:

Background Paper Two

Powering the workplace Realising Australia's skill potential

The *Workforce Futures Overview* paper raised a number of questions relating to Skills Australia's proposed approach to developing an Australian Workforce Development Strategy. In this section, we seek your feedback on questions relevant to realising Australia's skill potential by powering the workplace. *Background Paper Two* at www.skillsaustralia.gov.au/Publications_and_Resources highlights a number of issues for discussion which are relevant to your response.

Please provide feedback to these questions in the boxes below. A space has been provided at the end of the section to provide feedback on other issues you wish to raise.

Time for the next step in progressing Australian workforce development?

Q7. Is it timely to adopt an innovative approach to skills that includes a focus on how skills are used and is linked to the way work is organised? How relevant do you find the definition of workforce development offered by Skills Australia (see Paper Two, Section 1.1)? How could it be improved?

Is it timely, yes. Given that the future labour market is likely to be characterised by predominately tight conditions - in part driven by ageing of the population and lower aggregate participation rates, firms will need to compete more in their factor markets, in particular for skilled labour, than in past decades of high unemployment where training (of mostly unemployed workers) was largely seen as the responsibility of government alone. Under tighter labour market conditions going forward more firms will need to develop workforce development strategies to attract, retain and up-skill workers, develop succession plans, etc., and will not be able to rely on there being a surplus pool of unemployed labour to draw on if workers leave due to relatively poor wages and conditions.

Queensland, through a number of policy responses is already actively engaging with industry to address workforce development issues. Under the Queensland Skills Plan several Skill Formation Strategies have been implemented in key industry sectors and regional communities.

Another recent initiative is the Workplace Partnership and Productivity (WPP) pilot project - a collaboration between DEEDI, DET and the Department of Justice and Attorney General (JAG) and the Department of Education and Training (DET) - involves a tripartite approach to improving industry productivity. It builds on the notion that cooperative partnerships at the workplace between unions and employers can build businesses that are fair, safe and productive. It is

similar to models already existing in New Zealand, Ireland and some of the Scandinavian countries.

The WPP project aims to assist companies in reducing costs while maintaining their skills and labour base, improving productivity, and positioning themselves for the next growth phase through supporting manufacturers to:

- foster a cooperative workplace culture;*
- improve workforce participation of parents and carers;*
- challenge and change safety cultures;*
- improve worker health;*
- build innovative business cultures; and*
- improve the bargaining process through the use of such processes as interest-based bargaining.*

Encouraging workforce participation and improving productivity

Q8. How can we link education and community-based strategies to build the level of workforce participation in Australia? How can we ensure our workplaces make effective use of people's skills and knowledge? What do you think are the pluses and minuses of localised, regional or industry-based approaches?

While tighter labour market conditions in the future will provide incentives for employers to address skill utilisation of existing workers, the Queensland Government remains committed to maximising workforce participation opportunities for those disengaged or under-utilised in the labour market. Maximising workforce participation strengthens Queensland's communities, as people who are not currently participating in the work force, or those who would like to participate more in the labour market are assisted to increase their participation resulting in improved social and economic wellbeing. Increasing workforce participation will reduce wage pressures, and also support economic growth and individual economic participation.

To this end the Queensland Government has embarked on various strategies under the updated Queensland Skills Plan 2008, including

- Age proofing our workplaces through the Experience Pays Awareness Strategy*
- Maximising our workforce through the Skilling Queenslanders for Work initiative.*

Recognising that workforce engagement requires localised tailored approaches that activate individuals, education providers and community support services, the Queensland Government has also initiated the Participate in Prosperity (PiP) program. This program is a four-year strategy that targets the multiple barriers that prevent people in areas of high disadvantage from participating in work by:

- 1) improving the coordination and integration of government and non-government human services in targeted locations to help people overcome barriers in their lives, for example, financial, health and housing issues as well as employment challenges, and*
- 2) supporting the expansion of social enterprises to provide transitional and real employment for individuals.*

PiP also funds collaborative assistance programs with other state agencies such as the Department of Communities' (Housing) Off Communities Initiative whereby Indigenous families

relocating to Social Housing within Cairns and Townsville will receive case management support and be linked to local services. PiP will also be a key program for the Queensland Government's "Towards Q2" target to reduce by half the proportion of children living in jobless households by the year 2020.

The range of activities outlined above utilise the extensive network of regional officers to plan, develop and undertake projects that meet local needs, support local priorities and utilise local organisations. This localised approach has two benefits. Firstly, it maximises employment outcomes for individuals through the provision of skilling and work readiness to meet local labour demands. Secondly, it builds local capacity and supports local networks to work towards the key local priorities.

A national approach

- Q9. Do we need a shared national workforce development framework to link and coordinate the range of activities being undertaken across Australia? What elements should it contain? What might be a good outcome from having a shared framework?

While workforce development has a strong regional and community dimension there are areas where comprehensive strategies need collaborative efforts between national state and community groups. National Partnership Agreements, negotiated and endorsed through the Council of Australian Governments provide a preferred framework for delivering necessary reforms.

The National Indigenous Reform Agreement in which all levels of government agreed to work with Indigenous communities to achieve the closing the gap target in Indigenous disadvantage is a case in point. One of the targets in the National Agreement is to halve the gap in employment outcomes between Indigenous and non-Indigenous Australians within a decade. There are positive indications that we can achieve this in Queensland.

In late December 2008, the Premier signed the National Partnership Agreement on Indigenous Economic Participation which contains strategies to provide opportunities and support to Indigenous Queenslanders to improve participation in the labour market. To oversee the governance of the Indigenous Economic Participation Agreement and the implementation of the above strategies, Queensland established the Indigenous Employment Taskforce in January 2009. The Taskforce comprises representatives from key state and Commonwealth Government agencies, and will expand to include industry representation and Indigenous leadership in the near future. It will provide unified leadership to better integrate and apply the resources of Commonwealth and State government employment and training programs and services at the local level.

Complementing the strategies outlined in the Agreement are the existing labour market and business development programs directed at assisting Indigenous Queenslanders. The Queensland Government has a state-wide dedicated Indigenous workforce which assists in the development of employment, training and business opportunities for the local Indigenous population.

Impact of workforce development

Q10. What impact would a workforce development approach have for your organisation and/or industry? How might government support or facilitate change, thinking about both the productivity and the workforce participation aspects?

Refer answers to questions 7 and 8

Strategic priorities and leadership

Q11. What is your response to our proposed strategic priorities? What are the implications for your organisation/industry? Who might take leadership responsibility for these different elements?

Addressing Priorities 1 and 2 has largely been discussed in relation to Background Paper One. Reforms to introduce a demand-led system in the training market which address the issues of under-investment in training, and correct capital market failures, including the distortions between the VET sector and demand for higher education will significantly improve the efficiency of resource allocation resulting in a better match between supply and demand for skills. Industry groups and training providers have a key role to play in prioritising and reviewing system delivery and quality. DET is leading this reform agenda.

This activity is complemented DEEDI's objective to drive job creation; bringing together the key drivers of economic development that will support strong economic performance in Queensland by promoting and safeguarding Queensland jobs; promoting innovation, economic development and trade; attracting investment in key industries and regions; and ensuring sound labour and consumer conditions. Thus, DEEDI is advancing the Queensland governments agenda in areas that overlap with key priority areas in particular Priority 3, Focusing on workforce participation and Priority 4, Promoting demand for and the full use of high skills in workplaces.

Linking framework and funding

Q12. How can we strengthen the linkages between government agencies and organisations responsible for education and skills on the one hand, and business development and innovation on the other? Can you envisage different program arrangements or funding flows?

Education, training and skills development are the foundations of an innovation system. The creation and application of knowledge for commercial, environmental and social gain underpins the nation's quality of life and comparative advantage. The education system has a key role in innovation, providing a source of research and development and knowledge as well as in equipping Australia with the entrepreneurial and leadership skills to capitalise on knowledge and apply it. The education and training system can also have a role in realising other important social objectives such as enriching regional communities.

Innovation within the education and training system itself is critical to ensure that it delivers the outputs needed for an innovative society. A long-term approach is required (from pre prep to

higher education and life long learning) to ensure Australia's systems equip students to meet future global challenges.

Migration can also play an important role in supplying the skills necessary for an innovative society. Our efforts to preserve and enhance the natural and built environments can all have a beneficial impact to attract and retain an innovative workforce.

The Australian Government should work cooperatively with the States and Territories through the Ministerial Council for Education, Employment, Training and Youth Affairs and the COAG to ensure that reforms to the education and training system serve the innovation system. It should provide support for embedding the full range of innovation skills development in our secondary, tertiary and education/training systems, and for innovation in curriculum and delivery.

Education

Wise educational investment and planning has the potential to create life long learners who have the ability to think laterally and strategically with strong problem solving skills; qualities that are needed for the nation to prosper. It is important to recognise the intrinsic link between innovation and education in creating a culture of innovation, which requires engagement between students, teachers and curriculum in and across all educational sectors and levels. The Queensland Government has launched a range of innovative policies relating to education including:

- Towards a 10-year plan for science, technology, engineering and mathematics (STEM) education and skills in Queensland – The discussion paper aims to guide discussion and policy debate by examining issues Queensland must address to stay ahead of the game in an increasingly competitive and volatile global marketplace. This in turn will lay the foundations for a long term plan for STEM education and skills development for the future.
- Queensland the Smart State – Education and Training Reforms for the Future – These sweeping reforms are reshaping Queensland's education and training systems across the key areas of preparatory, middle and senior phases of learning and information and communication technologies for learning.

The Queensland Government has recently called for accelerated development of a national curriculum to enhance the effectiveness of the Australian education system. In the development of that curriculum, the needs of the innovation system should be a key consideration.

Training

Innovation, especially process and technological innovation, is reliant on a skilled workforce. This workforce must have the necessary skills relevant to industry as it transforms and adapts. Strong, industry responsive, vocational training and accreditation systems are therefore an important part of a national innovation system. The Queensland Government has developed The Queensland Skills Plan which outlines 24 key State Government commitments to recruit and retain a highly skilled, robust workforce that will meet current and future demands of industry and the economy.

The innovation review should encourage a continued refocusing of training systems towards existing workers as many of the individuals who will need higher skills are already present in the workforce. The current training system continues to have a heavy emphasis on entry-level training rather than re-skilling and up-skilling.

Higher Education

Universities are key drivers of innovation that arises from research in addition to skills development. Yet, the provision of adequate funding for research activity and infrastructure remains a major issue. The Australian Government has the primary responsibility for funding universities, and any major innovation review should consider how this funding can be enhanced.

The Australian Government should investigate means of attracting a greater level of philanthropic investment to universities both within Australia and from overseas. Under current arrangements, universities receive only partial funding for research activities from either the main competitive grants programs, such as those funded by the Australian Research Council (ARC), or research block funding. As a result, they must subsidise much research activity from other sources, most notably international student fees. While this may encourage links with industry, a balance is required as it may be less than optimum for fostering fundamental research leading to innovation.

A further major impediment to innovation within higher education in Australia is infrastructure costs and, in particular, the ageing nature of the capital stock in many traditional universities and their associated research centres. Notwithstanding the instigation of the Higher Education Endowment Fund (HEEF), the necessary replenishment of our universities and revitalising of their ageing capital stock will take many years and will be fundamental in the sustainability and further development of the national innovation system.

The Australian Government is considering how research in universities will be arranged and funded into the future, with the most discussed model being the 'hub and spokes' approach. On the face of it, this model has the potential to foster the kinds of collaboration necessary for innovation across a range of activities and disciplines. There is significant scope for regional universities to be powerful drivers of local regional economies through specialisation in their areas of research excellence thus ensuring that they are maximising their contact with and utility to industry. While prioritisation has its place, any potential hub and spoke model should not hinder the capacity of regional or less mature institutions to develop new expertise in areas of national, state and/or regional priority.

The Australian Government has announced a major review of higher education in 2008, and the terms of reference for the review touch on a number of issues that have flow on effects for innovation. These include operational funding arrangements and social inclusion. It will be important for outcomes from this review and the broader higher education review to complement each other in strengthening the innovation system.

Recognising the shared interest and role in any innovation system, it will be particularly important for state governments to have input to the development and implementation of both the research and general or operational funding mechanisms and parameters for universities.

Other comments

Q13. Do you have any other comments in relation to realising Australia's skill potential or issues raised in *Background Paper Two*?

No further comments.