

# 5. Investing wisely and effectively in skills and workforce development

## Key points in this section

- Investment in skills and purchasing of training should be informed by comprehensive evidence, industry need and a clear framework and strategy for effective use of public and private funds. The development of such a framework should be a priority for governments
- Vocational education and training is a sector in which three parties—the Australia government, the States and industry will continue to co-invest and a collaborative approach is needed to maximise the effectiveness of this investment
- Reform and expansion of the training market should occur but needs to reinforce, not compromise, the development and use of deeper and broader skills, quality outcomes and equity of access particularly in regional and remote Australia
- Greater individual and enterprise choice of course or provider should be aligned to medium and longer term labour market needs, future job security, deepening of skills and their utilisation
- A managed market approach, in which States and Territories purchase skill outcomes based on economic and workforce development needs, is important for the immediate future to address Australia's skill priorities
- Extension of contestability in the National Training System must be accompanied by appropriate regulatory reform to ensure the effective functioning of a national market, and most importantly, to underpin the training market's capacity to deliver on the strategic and qualitative outcomes.

## Responses in consultations

- Consultations confirmed investment in education and training is a partnership between governments and industry and a comprehensive analysis of the nature and scale of investment, particularly by private employers, is overdue. Data on industry and individual investment in training by non-government funded providers has been limited and is rarely current
- Investment effectiveness is seen as an issue to be addressed by more consistent and comprehensive data to improve the ability to focus both public and private resourcing on agreed workforce development priorities
- The principles proposed for future investment in VET through implementation of a managed market model and purchasing approach were welcomed by most and seen as supportive of State/Territories policy alignments of skills and economic development. However there were strong reservations expressed by some to the principle of progressive expansion of contestability



### Responses in consultations continued

- Jurisdictions reinforced their prerogative to arrange investment consistent with their strategies for economic and workforce development based on the advice of industry—arguing there is no singular path to expansion of competition and varied approaches can be accommodated within a managed market. It was agreed any expansion of contestability must ensure high quality provision, protect access and equity and safeguard vulnerable markets, especially in regional/rural areas or commercially difficult markets
- Industry stakeholders do not see student demand driven/ individual voucher-type approaches as delivering an optimal return on public investment. A planned and evidence based allocation of resources to meet specified objectives and in particular to drive a skills and workforce development is a preferred path for industry
- It was argued student demand driven funding models are more suitable to the higher education sector where the individual is a major co-investor with government.

## 5.1 Investment roles and governance

A critical objective for National Training System governance is ensuring appropriate investment of funds underpin governments' aspirations for the increase in the skill base of the Australian population.

New National Training System resource arrangements reached in the National Skills and Workforce Development Agreement in December 2008, are a commitment to collaboration and increased Australian, State and Territory governments' investment in higher skills levels for all Australians. The National Agreement is a schedule to the reformed Intergovernmental Agreement on Federal Financial Relations, aimed at underpinning new policy commitments through simpler funding arrangements and clearer accountability for outcomes.

The principles<sup>39</sup> of the National Agreement for Skills and Workforce Development also acknowledge:

- *Investment in skills is a joint responsibility between governments, individuals, businesses and industry and*
- *Total investment in skills is sufficient to meet labour market need.*

With this new Agreement comes the need to secure the advice of industry partners on the strategic direction of resourcing policy, to ensure sufficient levels of investment and that it is used effectively. Skills Australia sees a priority task to be the development of an effective public and private investment framework for the National Training System and its utilisation to deliver longer term outcomes from skills investment.

Industry engagement in investment decisions is important in ensuring training responds to industry and individual need and delivers more complex outcomes, most particularly the use of skills at work and more productive enterprise practices.

*Skills Australia recognises that States and Territories maintain the prerogative in the type of leverage they wish to exercise with their investment and how they expand their particular markets.*

<sup>39</sup> National Agreement for Skills and Workforce Development, page 8  
[http://www.coag.gov.au/intergov\\_agreements/federal\\_financial\\_relations/docs/IGA\\_FFR\\_ScheduleF\\_National\\_Skills\\_and\\_Workforce\\_Development\\_National\\_Agreement.pdf](http://www.coag.gov.au/intergov_agreements/federal_financial_relations/docs/IGA_FFR_ScheduleF_National_Skills_and_Workforce_Development_National_Agreement.pdf)



They take a managed approach to their VET markets, regulating the flow of public funds to strategic purchasing priorities using local regional planning and market intelligence to meet labour market and consumer demands. This is appropriate and will continue to be the case for the major part of VET delivery into the future, however the needs of industry will need to be more directly applied to States' purchasing decisions and reflected in their investment, governance arrangements and methodology.

A distinguishing feature of States' and Territories' investment function is their funding of the public TAFE system. TAFE institutions provide extensive local and regional capacity for community based responses to skill development, particularly as an avenue for access and participation. Skills Australia acknowledges States' requirements for ongoing investment in their public TAFE networks together with a diverse, high quality private provider market. The TAFE system will remain a distinct and valuable agency for addressing industry, workforce and regional development priorities and state community service obligations, enabling widespread and co-ordinated engagement with employers and communities.

## 5.2 System architecture implications

Skills Australia's model for effective governance and architecture for skills investment is guided by several underpinning proposals which are further developed in this section:

- investment in skills and purchasing of training should be informed by industry need and a clear framework and strategy for effective use of public and private funds
- vocational education and training is a sector in which three principal parties—the Australia government, the States and industry will continue to co-invest and a collaborative approach is needed to maximise the effectiveness of this investment
- reform and expansion of the training market should occur but needs to reinforce, not compromise, the development and use of deeper and broader skills, quality outcomes and equity of access particularly in regional and remote Australia
- a planned provision, based on a managed market approach, which allows VET to be aligned with economic development and workforce development needs, is important for the immediate future to address Australia's skill priorities, especially to build a stronger skills base for the economic recovery.

### 5.2.1 A more coherent national investment framework

*Skills Australia believes that a comprehensive evidence base for a national skills investment framework is currently underdeveloped. The starting point for this is a clearer definition of the roles and better understanding of the respective contributions of the principal investors' in training—that is, governments and employers and individuals.*

An important role for industry will be to work with the Australian and State/Territory governments to advise on future investment strategies to maximise the effective use of government and private expenditure by employers and individuals on skills. Individual investment, which in the VET sector tends to be in terms of income forgone, or time spent, but increasingly fees, also needs to be factored into this picture.

Australia's public and private expenditure on educational institutions makes up 6 per cent of the GDP<sup>40</sup>. A gradually increasing proportion of the expenditure on education and training in Australia comes from private sources including from international students, from fees in private schools and fees in higher education where it is supported by a partly subsidised government student loan program. Over half of the total investment in education and training is on schools, about a quarter on higher education and about a tenth on VET.

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40 Australian Bureau of Statistics Year Book Australia 2008 p 396



This investment as measured by the ABS does not include most of the substantial expenditure made on training by employers' in-house or external training. When last surveyed, for the year 2001–02, employer expenditure on structured training was nearly as large as public expenditure on the VET system<sup>41</sup>. Reliable data on employer expenditure is difficult to collate because of insufficient or inconsistent record keeping by employers even for their expenditure on structured training<sup>42</sup>. Such difficulties were among the reasons that a survey of employer training expenditure has not been carried out in recent years. Despite these difficulties Smith et al (2008) argue that, given the importance of greater understanding of the dimensions of training investment, there is a strong case for reintroducing surveys to provide approximate quantitative measures of employer training expenditure<sup>43</sup>.

Industry submissions<sup>44</sup> emphasised '*lack of consistent and comprehensive data on investment in education and training has been a key issue in the past for policy makers and those with responsibility for purchasing. Each State Training Authority has a unique model for establishing demand and investment in education and training. Data on industry investment in training by non-government providers has been limited and is rarely current*'.

It is difficult to articulate the definitive functions for industry and government partners in VET sector investment at the national level, and indeed at the local level, when the characteristics, complexity and quantity of private investment—as well as the returns on that investment—are not well understood. Individual investment is also a substantial factor in the total picture, particularly in the higher education sector, and in higher level vocational education sector qualifications where these are offered commercially. This investment needs to be factored into any future investment scenarios.

Informed investment decisions depend on more consistent and comprehensive quantitative and qualitative data on employer behaviours and motivations in relation to training in different sized businesses and across industries and occupations. The issue of incentives, levies, taxation approaches all have wide-ranging implications for the wider economy. They also have many layers of complexity which need to be grounded in understanding of what happens at the enterprise level. Research by Noonan and others<sup>45</sup> emphasise the importance of largely unacknowledged employer contributions to firm specific skills and informal workplace learning.

Furthermore, an investment framework and strategies which more clearly specify the principles and future trajectory for both public and private investment beyond the life of the latest intergovernmental agreement need to be forged. The development of the training market and market design features also need to be more widely considered in this context.

It is also important to understand the ongoing role and rationale of government expenditure through employer incentives or other leveraging activities from the enterprise perspective. Within a contemporary workforce development approach to enterprise based learning, worksites and business objectives will be highly individualised, and a wide-ranging suite of skilling and investment approaches may need to be adopted.

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41 The last national survey of employer training expenditure for 2001-02 found that employers in Australia spent \$4,000 million on structured training, with government subsidies or other offsets covering less than \$400 million, leaving a net expenditure of nearly \$3,700 million excluding wages and salaries of employees while they are undertaking their training. Burke, G & Noonan, P (2008) *Financing Vocational Education and Training in Australia: Present and Future* Paper European Centre for the Development of Vocational Training CEDEFOP Agora Conference amended November 2008 CEET, Faculty of Education, Monash University <http://www.education.monash.edu.au/centres/ceet/docs/conferencepapers/2008burkenoonannov08.pdf>

42 A Smith et al (2008) *Approaches to measuring and understanding employer training expenditure*, NCVET

43 For example a survey on the lines of that undertaken annually in England: Learning and Skills Council (2008), *National Employers Skills Survey 2007* <http://readingroom.lsc.gov.uk/lsc/National/nat-nessurvey2007mainreport-may08.pdf>

44 See joint submission from the Minerals Council, Chamber of Minerals and Energy WA and Queensland Resources Council; also Forestworks; and Ai Group

45 P Noonan (2007) *Skilling the Existing Workforce An Australian Industry Group Project* [http://pdf.aigroup.asn.au/education\\_and\\_training/skilling\\_workforce\\_report.pdf](http://pdf.aigroup.asn.au/education_and_training/skilling_workforce_report.pdf); G Mawer & S Jackson (2005) *Training of Existing Workers Issues Incentives and Models* NCVET <http://www.ncver.edu.au/research/proj/nr3017.pdf>; S Richardson (2004) *Employers' contribution to training*, NCVET <http://www.ncver.edu.au/research/proj/nr1005.pdf>



In her second reading speech establishing Skills Australia, the Deputy Prime Minister outlined Skills Australia's core role as driving *'ongoing reforms to the education and training sector, including on priorities for the investment of public funds' to ensure 'investment is targeted to where it is really needed and that the results of this investment are in line with what industry is demanding'*<sup>46</sup>. A priority for Skills Australia is development and analysis of the information base on which to outline a more holistic investment framework for skills and workforce development.

Aligned to stakeholder feedback on the proposal for an evidence based framework for future NTS investment, was feedback on the need to analyse the cost of VET services, particularly the full cost of services required to deliver quality individual outcomes. Costing analysis should also address the highly customised requirements of workforce development across diverse enterprises.

### 5.2.2 Recommendation

It is recommended that:

- iv. Australian governments develop an investment framework for the tertiary sector based on more comprehensive and consistent data on the scale and nature of employers' expenditure on training. This evidence will enable more informed decisions for effective use of public and private expenditure on skills, which plans for and ensures this investment meets national priorities.

The Australian Industry Group submission welcomed the call for the development of an investment framework to optimise expenditure of skills and for industry to provide advice on this. They see the framework has the potential to provide useful guidance to industry. But they caution that ultimately decisions about allocations of private expenditure are the prerogative of the organisation/industry responsible for payment. The Minerals Council made the similar point about industry not being *'regarded as a surrogate for government in funding training effort'*.

*Skills Australia recognises the independence of industry investment decisions, and believes both the collective and individual expenditure of governments and industry can be better focused and work to mutually agreed ends, through more informed decision making. We believe the leveraging of resourcing for increased engagement in workforce development is seen as a shared national priority.*

### 5.2.3 Reframing the focus on market design

Following the November Ministerial Council, the proposed National Partnership Agreement on Market Reform for VET was paused to enable stakeholder input on a way forward. Skills Australia was requested by the Minister to facilitate this broader consultation on the development of the approach to market design. We have considered this policy issue as part of our deliberations on governance functions, recognising that training market policy is integrally aligned to matters of quality, consumer protection and information. It should also include planning for the outcomes the system aims to achieve and accountability for these outcomes.

Skills Australia acknowledges the importance of competition in creating diversity in services, creativity and culture change in delivery. It has been part of the sector's significant developments in placing the client at the centre of service design and improving choice. The submission from TAFE NSW Managers Association emphasised competition *'has sharpened business responsiveness, generated greater knowledge of clients' needs, increased the relevance of content, opened up constructive dialogue and networks within the marketplace and presented new marketing opportunities. It has driven analysis of cost structures and shown opportunities for productivity improvements, with TAFE NSW achieving*

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46 The Hon Julia Gillard MP, Second Reading Speech, *Skills Australia Bill 2008*, 14 February 2008



*significant delivery and management efficiencies, reflected in the significant reduction in unit costs over recent years*'.

However several submissions expressed strong reservations about the proposed expansion of contestability of public funding as a feature of future investment in the tertiary sector<sup>47</sup>. Objections related to the increased risks of poor quality provision, the non-alignment of individual choice with labour market and industry needs, and potential undermining of the role of the public provider<sup>48</sup>.

*We see market reforms must reinforce, not work against, the national objectives for the utilisation of deeper and broader skills in the Australian workforce and more productive performance by Australian enterprises and training providers. Workforce development partnerships and the more productive use of skills can, and must be encouraged through redesign of training market relationships, where there is genuine engagement between employers and RTOs. The Board concludes this strategic purpose must be strongly reflected in reframing the principles of training market design.*

International comparison suggests there is no 'best model' to adopt in terms of how other countries use the market to plan and steer skills development. A country's skill development system is historically derived and influenced by social and political contexts, and hence lessons are not easily generalised to Australia.

However, virtually all countries have some form of government intervention in their skills development systems, frequently in conjunction with industry partners<sup>49</sup>. Keating describes these mechanisms as—state regulated, such as those used in Singapore, Malaysia or China; social partnerships as largely adopted in Europe where central and regional agreements between industry, unions and government influence the programs provided by training providers; and market led, where direct interventions are minimal, and which are more generally evident in the United Kingdom and the USA. Recent developments in England have moved towards 'intelligent procurement' or 'commissioning' through principles that allow for consultation with providers as well as users when looking at the need, design and purchasing of the service. The Learning and Skills Council's Commissioning Strategy for 2009/10 blends open and competitive purchasing of services with the principle of encouraging a quality, high performing and stable provider base through longer terms contracts<sup>50</sup>.

Demand led, contestable approaches to funding of training have been part of the Australian and international experience for some time. Lessons have been learned in that period, especially from the early experiences in several States of the introduction of user choice for traineeships and apprenticeships, which led to perverse outcomes and questionable quality in the late 1990s<sup>51</sup>. Countries such as New Zealand have pulled back from more intensively market driven funding for training<sup>52</sup> following some undesirable outcomes in the late 1990s.

Importantly, analysis of the United Kingdom experience suggests that undifferentiated '*accumulation of stockpiles of human capital is unlikely on its own to be sufficient to generate major improvement in economic performance*'<sup>53</sup>. Amassing of skills is seen to be important, but has to be accompanied by strategies that integrate with broader economic development, innovation, job design and workplace change. Comparison is made of the productivity

47 See submissions from the ACTU, AMWU, TAFE TA, AEU

48 These reactions concurred with the consultations undertaken by the COAG Working Group on Skills and Workforce Development, March 2009

49 Jack Keating (2008) *Matching supply of and demand for skills: International perspectives* NCVER  
[http://www.ncver.edu.au/research/proj/nr04022\\_pubs/nr04022\\_7.pdf](http://www.ncver.edu.au/research/proj/nr04022_pubs/nr04022_7.pdf)

50 See UK Cabinet Office: National Programme for Third Sector Commissioning  
[http://www.cabinetoffice.gov.uk/third\\_sector/public\\_services/commissioning.aspx](http://www.cabinetoffice.gov.uk/third_sector/public_services/commissioning.aspx). See the Learning and Skills Council Commissioning Strategy <http://www.lsc.gov.uk/providers/commissioning>

51 K Schofield (2000) *The good, the bad and the ugly. Perspectives from three states on the quality of Australia's apprenticeship and traineeship system*, pp12-13, AVETRA Conference, Coffs Harbour 2000 <http://www.voced.edu.au/docs/confs/ncver/vetconf9/tr9schof.rtf>

52 R Strathdee (2003) *The 'third way' and vocational education and training in New Zealand*, Journal of Educational Enquiry, Vol. 4, No. 1, 2003

53 Keep, Ewart (2007) *Skills and the labour market's role in delivering economic performance and social justice: competing visions for 2020*, page 11, School of Social Sciences, University of Cardiff



performance of Scotland and England in relation to other European and OECD countries, the former having invested heavily in a more highly qualified population, but without a noticeably different economic performance<sup>54</sup>.

The Australian policy dialogue on training market reform has been maturing and developing in recent times. Commentators have moved beyond the juxtaposition of 'state versus market' approaches to resourcing of training<sup>55</sup>. A number of Australian States and Territories are moving down the track of market reform with identified strategies and targets for the expansion of competitive purchasing, with between 30 to 50 percent of public funds for training being available through contestable means in some States by 2012. Victoria has introduced its Training Guarantee, a student entitlement to a government subsidised place available through the provider of their choice<sup>56</sup>. These strategies link to jurisdictions' specified economic, social and regional development goals.

Skills Australia suggests market reforms, used creatively and tactically, can encourage and strengthen a new culture and behaviour by companies, and by individuals, in how priority skills are accessed, used and lead to an increase in productivity and overall sustainability of employment. The Productivity Commission argues that competition-related changes can be particularly effective when well implemented in appropriate circumstances and have a role to play in human services<sup>57</sup>.

*Competition and greater choice aligned to broader labour market and socio economic objectives can add value to the services and outcomes being sought from providers. It can be employed purposefully to achieve outcomes in relation to innovation, increased participation, flexibility, quality of training and diversity in service design.*

*An important distinction that Skills Australia makes is the alignment of individual and enterprise choice of course or provider to medium and longer term labour market needs, future job security, deepening of skills development and their utilisation.*

Enterprises and providers—public and private—are best positioned as allies in this strategic agenda. A sophisticated approach is needed that builds on the best of public and private relationships, employer participation and contributions and learner-centred-ness. Such an approach also acknowledges the strategic role of the public TAFE system as an agent of economic and social policy and the importance of its intellectual and physical infrastructure in local communities.

Country comparisons suggest to Skills Australia, that a mixed model of market reform for vocational education and training is suitable to current Australian circumstances. Skills Australia sees a purchasing model with progressive expansion of competition, as an appropriate approach at present. This allows governments to focus on both industry priorities, informed by industry advice, and individual demand. Government purchasing can also be used more directly to target the more complex skill outcomes related to workforce development and to drive a more proactive approach by providers to engaging with industry. Student demand driven responses may not align well with emerging labour market trends and are less likely to drive an increasing engagement between providers and individual firms and industries.

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54 Keep, Mayhew & Payne (2006) *From skills revolution to productivity miracle* Oxford Review of Economic Policy Vol 22, 4, page 545 <http://skillecosystem.net/data/files/general/KeepMayhew.pdf>

55 See Per Capita Policy Exchange- 2008: Market Design—Driving Investment in National Capacity [http://www.percapita.org.au/01\\_cms/details.asp?ID=124](http://www.percapita.org.au/01_cms/details.asp?ID=124) Also, NCVET Competition Policy Roundtable, Melbourne 12 February 2009-unpublished papers

56 Victoria's Training Guarantee policy. See Skills Victoria, *Securing your jobs for the future*, 2008. South Australia, Western Australia and Tasmania have also identified strategies and targets for increased contestability

57 Productivity Commission (2005) *Review of National Competition Policy Reforms* <http://www.pc.gov.au/projects/inquiry/ncp/docs/finalreport>



In adopting this position, Skills Australia is mindful of the need to avoid distorted forms of provider led training, that suit institutional self interests or commercial imperatives, rather than addressing genuine labour market and community need. The submission from Australian Industry Group also argues against complicated and varied market models that may result in significant inconsistency across States and Territories or perhaps present obstacles for national companies operating across borders.

#### 5.2.4 Complementary reform areas for market design

The relationship of market design to other National Training System governance reforms—most importantly a strengthened national regulatory model, more rigorous sanctioning through nationally consistent purchasing frameworks, consumer information and accountability—is essential to ensure a comprehensive and robust policy framework for its further implementation. Consultations emphasised, and Skills Australia agrees, market contestability should not be the central driver of future reform or of a new governance model for the tertiary sector.

Investment effectiveness was raised by stakeholders in this round of consultations. Industry supports an investment approach that aligns with its needs and also sees risks in fully student demand driven / individual voucher-type approaches delivering an optimal return on public investment. An evidence based allocation of resources to meet specified objectives and in particular to drive skills and workforce development is a preferred path for industry.

Stakeholders noted that differentiated investment approaches are needed—*‘school leavers, existing workers with qualifications, existing workers with no post school qualifications, career changers, indigenous Australians, people with a disability: there is no single market, the challenge is to recognise and respond appropriately’*<sup>58</sup>. There was considerable agreement in consultations that funding formulas should allow for different unit costs and/or locations, to accommodate identified individual needs, variations across markets, and State/Territory prioritisation.

Submissions from industry stakeholders emphasised the importance of a planned approach to public investment:

*‘The managed market must ensure that safety nets are included to meet the skill depth and demands where industry based thin markets occur’.* (ForestWorks)

*‘We support the notion of a managed-market approach to VET funding as best being able to meet regional and local industry needs, especially in smaller, thin market industries such as ours. We have observed many instances where consumer (student) led demand and supply has overshadowed industry demand for alternate offerings and outcomes. Hence, a strictly market-led model will not serve this industry effectively. Coordinated advice from industry must be allowed to influence and help shape government-funded supply’.* (ITAB submission)

*‘The minerals industry has consistently advocated a demand driven purchasing model with strong industry involvement rather than the provider supply driven approach that has been the key element of past purchasing models. However, and above all, it is critical that an holistic demand driven purchasing model is implemented, but not at either the expense of the quality and consistency of education and training outcomes; or improved flexibility and responsiveness of education and training providers’.* (Minerals Council joint submission)

*‘Equity and increased participation are key concerns of the VET sector, and neither can be achieved without acknowledging the need for planned allocation and differential resources to meet the particular student or worker needs’.* (AEU submission)

58 Submission from the ACTU



Previous sections of this paper have highlighted a central governance role for industry in driving and achieving change in the way skills are used. Skills Australia has identified industry's importance in guiding education and training investment to ensure it is directed to effective outcomes, that is, knowledge that can be translated to economic benefit through jobs, innovation and productivity.

For this reason Skills Australia advocates a purchasing model that seeks to progressively move to greater competition while at the same time ensuring:

- protections for quality provision
- access and equity and the safeguarding of vulnerable markets, especially in regional/rural areas or commercially difficult markets
- delivery of services where there is demonstrable need, and importantly
- alignment of services and investment with economic and labour market priorities.

### 5.2.5 Principles for market design

Skills Australia proposes the following principles to progress training market reform:

- Governments manage investment in a high performing public system and private provider network to ensure responsiveness to Australia's skills and productivity needs, social inclusion through increased employment participation, and innovation
- Industry leadership informs and influences priorities for investment in and purchasing of training at national and state levels
- Governments undertake a staged and progressive expansion of market led purchasing to achieve workforce development policy outcomes, guided by international best practice
- Government purchasing increasingly allows for learner and employer choice in strategic areas according to jurisdictions' local requirements
- Governments ensure service accessibility where there is risk of market failure and give consideration or loading on the basis of disadvantage or full service
- Governments expand and improve information and facilitation for individuals and enterprises to comprehensively inform their choice of training provider, product and service, including through provider performance information
- Governments implement a national approach to regulation, including establishment of a national regulatory body of independent experts, and use more rigorous purchasing standards to reinforce provider performance and outcomes.

A feature of the proposed approach is the progressive expansion over time of competition among providers and choice available to individuals and enterprises, firstly and importantly to allow for sufficient regulatory and quality safeguards to be put into place. It will also allow providers to adjust to changing market conditions—particularly those in the public sector.

Skills Australia expects the way States/Territories manage their markets would operate within these principles and be devolved to them. States would propose how they plan to increase and implement expanded contestable public funding over time, while balancing this with measures to ensure core funding for public providers to meet community services obligations, particularly in thin markets. States would achieve nominated targets over the relevant time period of an intergovernmental agreement and they would be funded on performance. A feature of a State's governance reform commitments may entail increased purchasing in the hands of employers and learners, and the establishment of jurisdictional governance arrangements to reflect an enhanced role for industry in prioritising skill and workforce development investment. We anticipate States' and Territories' market reforms to work within an overall agenda of deepening skills as well as their utilisation in sustainable careers and more productive workplaces.



## 5.2.6 Varied investment reforms deployed by jurisdictions

We envisage multiple models would be applied by jurisdictions, and recognise a number of States are well advanced down the path of reform using a selection of methodologies. Current policy options for market reforms are being played out through investment variants including:

- guaranteed access, or entitlements to government subsidised places
- fully demand driven models of funding—providing unfettered (although capped) choice as in the case of higher education, or expanded individual choice (in the case of the Victorian Training Guarantee, with eligibility requirements that encourage enrolment in higher level skills), and
- managed markets.

The recently announced COAG Youth Compact provides an entitlement to an education or training place for a government subsidised qualification for people up to aged 24.

Skills Australia notes from submissions that utilisation of the term ‘entitlement’ has wrongly been conflated with the concept of an unfettered voucher-style model where funding follows students. Skills Australia does not support a voucher model for vocational education and training. We recognise entitlement models being pursued in Victoria and through the Youth Compact operate within policy objectives linked to economic and social objectives and can be accommodated within a managed market purchasing model which is informed by industry advice on the priority of skills needed.

Skills Australia acknowledges individual entitlement, or access to places, such as the Youth Compact, has a place in the VET sector—particularly in a period of economic downturn.

However a fully student demand led model may be more appropriate where restricted to the higher education sector where individuals are major co-investors with government in funding their education. There has also been traditionally less direct industry engagement and influence in the outcomes of that sector. Individual higher education institutions generally do not articulate a predominant role for industry in their governance. We see a planned approach, where governments purchase specified outcomes as having particular merit for the VET sector because of our expressed workforce development objectives.

This view has been reinforced by industry stakeholders. As one submission comments:

*Foundations for the Future flags the much needed shift from a system squarely focused on training and inputs, to one which operates in the broader context of workforce development. Industry have long held this expectation—that the tertiary system offers training as one part of a continuum which includes careful upfront diagnosis of individual and enterprise needs, and that post training, effort is expended on the issue of skills utilisation.*

*Moving towards this broader model requires a fundamental re-think of where along the continuum, public investment delivers the greatest return. As the paper correctly points out, more training and more qualifications do not guarantee greater productivity. By comparison, investing in upfront diagnosis of needs and optimising skills acquired to ensure maximum return and minimum wastage is very much where the system needs to go<sup>59</sup>.*

In a purchasing governance model there is strong perspective of workforce planning and labour market intelligence, led by industry and employers at the local and regional levels informing government priorities and directions as well as consumer information. Transparent use of labour market and demographic information informs government purchasing and is applied to ascertain vulnerable markets or risks to community service obligations. As noted above in section 4, Skills Australia plays an advisory role here through



the proposed National Workforce Development Strategy. States equally use their local industry advisory arrangements to ascertain appropriate investment strategies to suit particular occupational, regional or other markets.

Government purchasing from providers allows for contractual sanctions to enforce quality control and monitoring of institutional performance outcomes. This can be a much more effective form of quality control than just relying on regulation. Skills Australia's proposals on strengthened purchasing arrangements are outlined in Section 6.6.4.

This reformed system of market design would be capable of accommodating a learner 'entitlement' approach over time—however this is not assumed to be a mandatory feature. This would be akin to an expansion of the current model of user choice (but beyond the apprenticeship program) where individual students or employers select their preferred provider. Governments would continue to exercise control over individual choice by limiting funding for certain programs, putting in place restrictions such as caps or eligibility criteria or allocating funding for specific training places or institutions to encourage take up.

### 5.3 Recommendations

It is recommended that:

- v. Australian governments agree that their investment should reflect priority skills and workforce development needs, based on industry advice, to better position Australia in a global economy, noting Skills Australia's preference for a purchasing approach as an appropriate model for market reform in VET
- vi Australian governments agree to achieve greater choice and contestability linked to the priority skill needs of industry as the basis for intergovernmental agreement together with:
  - implementation of a new national regulatory framework through an independent statutory body
  - continuing to ensure the ongoing role of public providers and their agency in regional economic development, particularly in thin markets
  - greater industry engagement in States/Territories' skills investment decisions with governance arrangements to reflect this, and
  - improved consumer information to assist choice.

