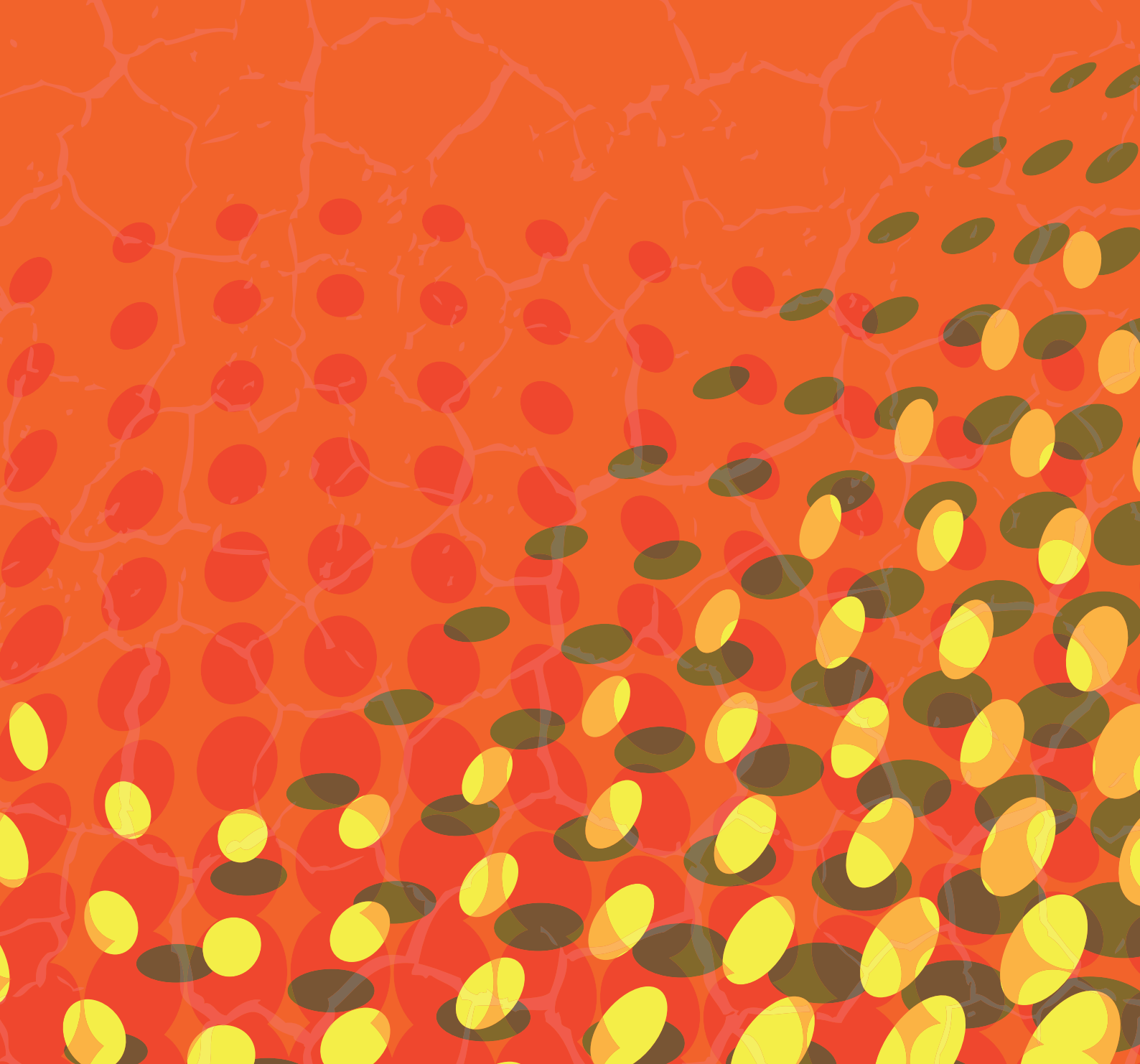




Securing our future economic prosperity

Discussion Paper on Skills Reform

April 2008

Contents

1.	Ministerial foreword	5
2.	Executive Summary	6
3.	Key Achievements	7
4.	The case for change	8
	4.1 Challenges to Victoria's economic prosperity	8
	4.2 Skills shortages	8
	4.3 Challenges for the current training system	9
	4.4 Barriers to training	11
5.	The way forward	12
	5.1 Increasing Victoria's skills – transforming the training system	12
	5.2 Summary of proposed reform	13
	5.3 Investment reform	14
	5.4 Lifting the capacity of the public training system and improving choice and contestability	16
	5.5 Improving information to help individuals and businesses navigate the training system	17
6.0	Consultation Process	18
	6.1 How to engage	18

1. Ministerial foreword

One of Victoria's greatest assets is the resourcefulness and diversity of our people. We are a community of five million people, yet we compete in a global marketplace against nations that measure their populations in the hundreds of millions.

We cannot match large nations like China and India in raw production output, but one of our competitive advantages lies in our skilled workforce.

That's why the Brumby Government is proposing reforms that will transform our training system. We want to encourage and support thousands of Victorians to take up training for the first time and attract thousands more to upgrade their qualifications.

Skills are a critical driver of economic growth – associated with higher productivity and higher participation. Skills are also an important driver of social participation – associated with productive and rewarding employment opportunities.

Since coming to office, the Bracks and Brumby Governments have turned around the state of the Victorian vocational education and training (VET) system. We have boosted investment to the sector by \$1.1 billion – including \$241 million in the 2006 *Skills Statement*. Most recently, we created Victoria's first dedicated skills portfolio in recognition of the importance of the sector and the challenges it faces.

Our investment in VET has produced real results and Victoria's VET system is recognised as a national leader. We want to continue leading the way – that's why we are proposing an ambitious set of reforms to our VET system to ensure we have a more dynamic and responsive training system to meet the needs of the 21st century.

Currently, there are more than 1.4 million adult Victorians who do not hold any post-school qualification and – if training continues at its current rate – we will face a shortfall of 123,000 people at the advanced diploma and diploma level by 2015.

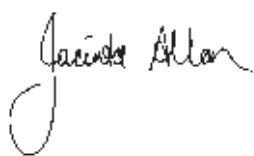
We know that the Victorian workforce and the Victorian economy are facing a number of challenges after a decade of sustained growth. Skills shortages are intensifying here and around the country. Businesses continue to report difficulties in finding the people they need, yet our future prosperity will be reliant on having the right number and the right mix of skilled workers.

Our population is ageing and baby boomers – the largest generation of Australians – have begun retiring. At the same time, our population is also growing strongly. These demographic shifts will create challenges and skills gaps we must fill in order to sustain our economic prosperity.

The jobs of the future will require a higher level of skills than jobs have in the past, so Victoria must build a smarter, more innovative training system.

Investment in skills delivers significant benefits to individuals, businesses and community prosperity. We are proposing an ambitious partnership plan to tackle our skills challenges.

The Victorian Government is interested in hearing your views, and I encourage you to have your say in this process.



Jacinta Allan, MP
MINISTER

2. Executive Summary

The Victorian vocational education and training (VET) system has undergone significant reform over the past two decades – through the introduction of a nationally unified training system and substantial reforms driven at the state level.

As a result, the Victorian public training system is the most devolved in the country and Victorian TAFE institutions lead against most national benchmarks.

But we cannot afford to stand still. Victoria faces a number of challenges to our future economic prosperity: increased global competition; slowing productivity growth; an ageing population; and intensifying skills shortages.

We also have to overcome challenges within the current training system to ensure we have the right mix of skilled workers to continue growing our economy.

The Victorian Government is proposing ambitious reforms in response to these challenges.

Our proposed reforms of the VET system are based on the following four objectives:

- Boosting numbers of individuals and businesses accessing training, which will increase the skills of Victoria's workforce;
- Developing a VET system that engages more effectively with individuals and businesses and is easier to navigate;
- Ensuring the system is more responsive and flexible to the changing skills needs of businesses and individuals; and
- Creating a stronger culture of lifelong learning.

To achieve these objectives a new approach to current funding, access and delivery of VET policies will be required.

Given the shared interest, responsibility and benefits of increasing Victoria's skills levels, the Victorian Government is proposing a partnership approach to reform across different levels of government, industry and individuals.

The proposed reforms consider a number of key changes in the VET sector:

- Increasing access for eligible Victorians to a government supported training place and increasing investment from those who benefit most from training: government; businesses; and individuals;
- Strengthening the capacity of our TAFE and Adult, Community and Further Education (ACFE) sectors;
- Improving choice and contestability by enabling individuals and businesses to access government supported training at a broader range of public, private and community providers; and
- Improving information to make it easier for individuals and businesses to understand and use the training system.

3. Key Achievements

Since 1999 the Victorian Government has invested an additional \$1.1 billion in vocational education and training, including:

- Record investment in our TAFE system – including **\$359 million** in capital;
All 99 TAFE campuses across the State have received capital and equipment upgrades.
- More than **\$241 million** in the 2006 *Skills Statement*;
Providing for the establishment of 13 Skills Stores and four Technical Education Centres (TECs) across the State. Twelve Skills Stores and three TECs are already up and running.
- More than **\$42 million** additional support for regional TAFEs;
Under the regional differential payment the Victorian Government introduced in 2000.

This investment is paying off.

- About half a million people are now participating in the Victorian VET system;
- Since 1999, the number of young people entering VET has increased by 28 per cent;
- In 2007, more than 73,000 Victorians commenced apprenticeships and traineeships and more than 42,000 Victorians completed apprenticeships and traineeships – representing 26 per cent of all commencements and 29 per cent of all completions in Australia;
- 85 per cent of Victorian employers with jobs requiring VET qualifications were satisfied with formal training as a way of meeting their skill needs;
- Financial viability of TAFEs has improved with all TAFE institutes consistently delivering trading surpluses. In 2006, the Victorian TAFE sector accounted for 46 per cent of the national fee for service activity; and
- Victoria has maintained industry training advisory arrangements which provide a comprehensive coverage of industry in this state.

These are great results. But there is more to do.

Maintaining the status quo will not be sufficient to address our future skills challenges.

4. The case for change

4.1 Challenges to Victoria's economic prosperity

Victoria has enjoyed strong economic growth over the last decade, underpinned by continuing population growth, productivity and rising workforce participation. Victoria's population growth is projected to reach 6.2 million by 2020.

However, an ageing population, slowing productivity growth, changing global fortunes, and intensifying skills shortages present significant challenges in securing our future economic prosperity.

These challenges underscore the need to maximise the State's potential sources of growth – productivity and workforce participation – by increasing people's skill levels and capacity to work.

The Victorian economy now operates within a rapidly changing global market. Our competitive advantage in several traditional industries has been eroded, placing pressure on our economy to lift productivity, tap into new industries and focus on innovation.

Australia's productivity improved significantly through the 1990s, but we must continue to improve our productivity performance in Victoria.

These international and domestic trends will increase demand for higher skill levels and qualifications. Individuals will also need a post-school qualification to cement their own competitiveness in the labour market.

Economic growth, through increased productivity and workforce participation, relies on skills.

4.2 Skills shortages

Skills shortages are already presenting a constraint on the capacity of our economy – slowing growth and contributing to higher inflation and interest rates. The impact of skills shortages is therefore felt right across the Victorian economy with flow-on effects for Victorian families.

Skills shortages also limit industries' capacity to keep pace with the demands of operating in a global economy. Businesses continue to report that the lack of access to skilled workers is a significant barrier to their success.¹

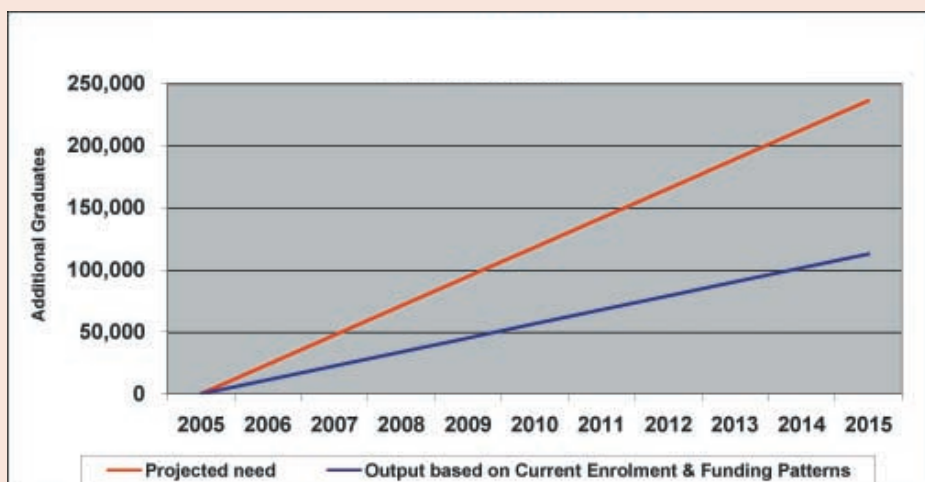
Current estimates by the Department of Education, Employment and Workplace Relations indicate that the most severe skills shortages are being felt by the building and construction industries; the electrotechnology and information communications technology industries; and metals and engineering.

While skills shortages are not new, it is clear that without a significant response, their impact will continue to intensify. We must act now to address current and future skills shortages.

Furthermore, Monash University has projected the qualifications profile that Victorian industry will need in 2015 – forecasting a shortfall of 123,000 Diploma and Advanced Diploma qualified workers.

1. Allen Consulting Group (2006) World Class Skills for World Class Industries, Report to the Australian Industry Group, Sydney.

Projected shortfall in Diploma and Advanced Diploma qualified workers



Source: Derived from Monash University, Centre for the Economics of Education and Training (2006), The Labour Market and Qualifications in Victoria

Addressing skills shortages requires a significant increase in vocational education and training, especially higher level skills.

4.3 Challenges for the current training system

A number of research reports in recent years have called for reform to the training system, including the Allen Consulting Group's 2006 report for the Australian Industry Group *World Class Skills for World Class Industries*, and TAFE Directors Australia's 2007 Report *Investing in Productivity*.

The Victorian Government has undertaken significant research on the skills profile of Victoria's working age population and examined the barriers that can prevent individuals and businesses from participating in accredited training.

Given our skills shortages and the international and domestic pressures we face, the incentives and structure within our current training system must change. Simply, we need a training system that encourages more people to develop more skills.

We must address the barriers within the current training system that are preventing more individuals and businesses from undertaking training. These are:

- Lack of alignment between the allocation of government subsidies and individual need for training or re-training;

Access to government supported training is granted on the basis of where and/or when a person applies for training rather than on their educational needs.

For example, a 30-year-old university qualified professional may receive a government supported place if there is one available when they enrol; while a 30-year-old in a low skilled job with no qualification above year 10 may not receive a place if the training provider has filled its allocation of places.

Furthermore, an individual who does not receive a government supported place in training would then incur full fees. For example, a Certificate IV in Nursing currently costs a maximum of \$877 per annum for a government supported place, but about \$5,000 per annum for a full fee place.

- Lack of alignment between costs and benefits of training;

The amount an individual is expected to contribute towards their training costs is not linked to the benefit they receive from undertaking that training.

- Lack of incentives to support up-skilling;

The current allocation method does not provide an incentive for people to continue to undertake training at higher levels. For example, more than 40 per cent of students currently enrolled in Certificate II courses already hold a Certificate II or higher qualification².

- Focus is on the supply of training rather than meeting demand;

Approximately 27,000 students missed out on a TAFE place across Australia last year, suggesting that access to government supported training needs to be expanded and better targeted.³

- Training system is growing increasingly complex;

The system has its own unique language and processes that practitioners can work with, but it can be difficult for individuals and businesses to understand and get access to training.

- Good providers in the system are not rewarded;

Government support for training places is allocated on the basis of history rather than performance.

- The current system cannot always meet the expectations and changing needs of industry and business.

Some aspects of product development and approval can be slow.

The Victorian Government is the primary investor in, and regulator of, the VET sector and therefore has the most scope and capacity to address these barriers within our training system.

We need a system that encourages and values lifelong learning while also encouraging people to train to a higher level of qualification. It should also go well beyond the current pool of students and provide incentives to train a much larger pool of Victorians – capturing those who may have never considered training before.

Providing greater incentives and access to more individuals and business will help address skills shortages.

2. Office of Training and Tertiary Education, Department of Innovation, Industry and Regional Development, internal data.

3. Australian Bureau of Statistics, Education and Work, 2007.

4.4 Barriers to training

In addition to removing barriers within the existing system, we need to address the barriers that individuals and businesses are experiencing in gaining access to training more broadly – many of these are attitudinal.

We need to convince people of the benefits that training can have on their careers – whether it be in terms of increased wages or promotion, job satisfaction or simply reaching their full potential.

Analysis by the Victorian Government identifies a range of barriers that can prevent individuals and businesses from participating in recognised training. The box below shows the most significant barriers individuals and businesses experience.

Individual Barriers	Business Barriers
Access issues	Difficulty in releasing employees for training
Attitudinal barriers	Perception of value
Employer attitudes	Direct cost of training
Finance	Short term productivity costs of training
Lack of desire for skilled work	Lack of relevant training products
Learning ability	Flexibility in delivery of training products
Learning style	The short term and historical ability to get by with no training
Locating entry points to the system	Access difficulties
Negative past experiences	Employer attitudes, including negative past experiences

These barriers reduce engagement with the training system. Removing these barriers can make the system more accessible and create a much stronger “training culture”. This will lead to individuals and businesses more actively, and more frequently, engaging with the skills system.

Addressing barriers to training will improve Victoria’s skills profile.

5. The way forward

5.1 Increasing Victoria's skills – transforming the training system

The Victorian Government's investment in VET has produced real results and Victoria's VET system is recognised as the national leader. We want to continue leading the way, which is why we are proposing an ambitious set of reforms to our VET system to ensure we have a more dynamic and responsive training system to meet the needs of the 21st century.

The scope of the reforms is intended to be considerable – in recognition of the significance of the challenges faced. The Victorian Government will work in partnership with industry, businesses, individuals, training providers and the Federal Government to develop these reforms.

An analysis of the Victorian workforce has identified possible educational pathways to enhance employment opportunities for individuals, and in turn improve participation and productivity to achieve broader economic benefits.

For Victoria to develop a skilled workforce with high participation rates, we need to have individuals who are:

- Engaged in the workforce or in education and training; and
- Engaged in the workforce in an occupation skill level appropriate to their age and ability; or
- Equipped, through skills development, to move up to an occupation skill level appropriate to their age and ability.

To drive productivity growth, Victoria also needs individuals to acquire higher level qualifications in order to move to higher skilled employment.

Understanding who requires greater skills development will improve participation and productivity.

Four objectives have been identified to guide reform of the VET system. These are:

- Boosting the numbers of individuals and businesses accessing training, which will increase the skills of Victoria's workforce;
- Developing a VET system that engages more effectively with individuals and businesses and is easier to navigate;
- Ensuring the system that is more responsive and flexible to the changing skills needs of businesses and individuals; and
- Creating a stronger culture of lifelong learning.

5.2 Summary of proposed reform

To achieve these objectives, the proposed reforms focus on:

- Increasing access for eligible Victorians to a government supported training place and increasing investment from those who benefit most from training: government; businesses; and individuals;
- Strengthening our TAFE and Adult, Community and Further Education (ACFE) sectors;
- Improving choice and contestability by enabling individuals and businesses to access government supported training at a broader range of public, private and community providers; and
- Improving information to make it easier for individuals and businesses to understand and use the training system.

The need for reform is occurring in the broader context of national change. The proposed direction of reform is broadly consistent with the policy directions identified in the Federal Government's recently released *Skilling Australia for the Future* discussion paper.

5.3 Investment reform

Victoria needs a training investment model which targets funds to those who need them most to build the skills profile of Victoria's future workforce. It also needs to provide incentives for training providers to extend their reach to students and leverage increased investment from those who benefit from training: government; businesses; and individuals.

Increasing access to government supported training

Under the current investment model, government invests a set amount of funding in training each year. If demand for training outstrips the budget, individuals can miss out.

Given the skills shortages faced by Victoria, reform is needed to increase the number of students in training and encourage lifelong learning at higher qualification levels.

The Victorian Government is considering giving all eligible Victorians access to an initial post-school qualification and the opportunity to continue to gain qualifications above those they already hold. Eligibility for government supported training could be based on previous educational attainment and/or employment status.

The Victorian Government's strong support for workplace based training, such as apprenticeships and traineeships, will continue.

Any shift to a new investment model would only apply to new students. Existing students would complete their study under current arrangements.

Question 1: If government supported training for all eligible Victorians were introduced, what should the eligibility criteria look like?

Question 2: How could this proposal be marketed to encourage higher take up, particularly among Victorians who have never considered VET studies?

Investing in training to reflect public and private benefits.

Under current funding arrangements, the percentage that an individual contributes to their studies is the same regardless of the level of the qualification. Recent research shows that individuals benefit from investing in their own future by completing a higher level VET qualification.

Benefits of higher level VET qualifications

Individuals benefit for the rest of their working lives from higher level VET studies. Evidence shows that the training they undertake improves their chances of getting a job, and means that they can earn higher incomes than they would otherwise. Their up-front investment in study therefore continues to pay off year after year. Estimates suggest that this payoff is high, at around 7 per cent or more of the total they pay in fees and the income they give up while they study.

Source: Chapman, B., Rodrigues, M. and Ryan, C. (2007), HECS for TAFE: the case for extending income contingent loans to the vocational education and training sector, Commonwealth Treasury Working Paper, 2007-2, April.

Currently VET students make a relatively small up-front contribution to the direct cost of their vocational education and training, and tuition fees in Victoria are low compared to other States.

Interstate fee comparison, 2008

	Victoria	New South Wales ¹	South Australia	Western Australia	Queensland	Tasmania
Maximum tuition fee per year	\$877	\$1,420	\$1,980	\$1,100	\$1,003	\$990

1: NSW sets fees by qualification. This maximum tuition fee is based on the tuition fee for an Advanced Diploma. Fees for other qualifications are lower. Source: Various jurisdictions' websites

The current mix of investment sees high rates of public investment, low fees (approximately 12 per cent of course costs) and positive income returns for most individuals. However, current fee levels for students are unrelated to the level of training or the future financial benefit of undertaking the training.

The Government is considering a new investment model that would encourage more Victorians into training and to obtain higher levels of qualifications to increase their employment opportunities and productivity. It would involve some students making a greater contribution towards the cost of their training, but would need to maintain access to some form of concession and maintain a maximum annual charge.

Changing the fee structure would allow government's investment to reach more Victorians, and also encourage students to make informed decisions about the training they undertake and the likely employment opportunities.

Question 3: What proportion of course costs do you think is reasonable for an individual or business to contribute?

Question 4: Is it reasonable to introduce higher fees for students for training courses that deliver higher individual benefits with improved employment opportunities?

Ensuring equity and affordability.

Currently VET students are required to pay their fees up-front. Unlike university students, VET students can't defer their fees and there is currently no Government loan scheme. To ensure that current and future fees do not act as a disincentive to training, Victoria is examining the benefits of an Income Contingent Loan (ICL) scheme for VET students.

Such a scheme would provide students with access to finance for student fees. To ensure a level of equity and affordability, repayment of any debt incurred would depend on the student's future capacity to pay.

The introduction of an ICL to the training sector would ideally be supported by the mechanisms that currently exist within the higher education sector and therefore may require support from the Commonwealth Government.

Question 5: Should the Government consider an income contingent loan scheme as currently applies to university education?

The role of industry in a new investment model.

Industry plays a critical role in skill formation and the VET system in Victoria. The important role played by industry, particularly the Victorian Skills Commission and industry training advisory bodies (ITABs), has been central to our success. Currently, industry and industry bodies influence expenditure of government resources through advocacy regarding the number of additional places government should purchase in their particular industry.

The proposed demand driven approach to funding will increase the pool of potential employees for business and industry. The key to this approach is to improve information available to businesses and to individuals so they can make more informed decisions around training and employment options. Victoria's ITAB network is well placed to take on this role.

Under the proposed demand driven model, industry will have access to as many government supported places as they can generate demand for. This means that if industry is able to generate demand for certain courses through businesses and their employees, the Government would support this training through the provision of government supported places.

To ensure that the level of training and employment prospects are broadly in balance, a cap on the number of places in some courses could apply.

As a part of this proposed reform government would need to increase direct support to small-to-medium size enterprises to identify their skills needs and gain access to more responsive training.

Question 6: How can the system be structured to produce a better match between the future needs of the Victorian economy and the training choices made by individuals and businesses?

5.4 Lifting the capacity of the public training system and improving choice and contestability

The Government's reforms are aimed at both strengthening TAFE providers – which are fundamental to the State's training system – and supporting a broader range of providers to encourage greater competition in the VET market.

Providing access to government supported training places at a broader range of providers would encourage greater competition in the VET market, with providers encouraged to differentiate their offerings to attract more students.

At the same time, TAFE providers are central to lifting the skill levels of Victorians and the Government is committed to ensuring TAFE providers continue to be well resourced and able to offer a full range of training services.

Continuing investment to maintain and redevelop our TAFE infrastructure would be required. Given the anticipated growth in training to meet the state's skills needs and the importance of high quality teaching facilities, there is a need to investigate a range of investment strategies.

Victoria's Adult, Community and Further Education (ACFE) providers play a critical role, particularly in delivering foundation skills and assisting people experiencing high levels of educational disadvantage. As a part of the proposed reform, the Government would assist the sector to operate effectively within a contestable environment, and to help the sector reach out to people with low skills who have not previously participated in education and employment.

Increased investment in training across the sector is needed to increase the skills of Victorian workers. In order to ensure individuals and businesses have access to a diverse range of training providers capable of meeting their needs, the system should encourage greater choice for participants. It also should give training providers flexibility and incentives to get more businesses and individuals into the training system.

This would suggest providing individuals and businesses greater choice and access to enrolling in a government supported place in a course of their choice, with the provider of their choice. Funding would therefore be demand-driven, following individual and business needs.

The Government is also considering whether to allow training providers to compete on price – by allowing them to determine their own level of student fees, up to a government determined maximum. This could potentially result in fee levels below the maximum charge.

Question 7: How can Government best support TAFE and ACFE providers to thrive in a more competitive environment?

Question 8: How can government make its support for students undertaking training available in a way that encourages training providers to be more innovative, flexible and responsive to the needs of individuals and businesses?

5.5 Improving information to help individuals and businesses navigate the training system

Well-informed individuals and businesses are best placed to make the right choices about their skill needs, and require access to quality information to assist them to navigate the training system.

The Government is proposing reforms to make it easier for individuals and businesses to navigate the training system by providing improved information and guidance, specifically through:

- A comprehensive source of training information so that they can search for training available across providers;
- A mechanism that allows individuals to calculate how their previous learning can contribute to future study; and
- Support to assist small-to-medium enterprises to identify the skills needs of their businesses and their employees. Employees would then be eligible for government-supported training, subject to eligibility.

These changes would mean that individuals and businesses would be able to make more informed decisions about the type of training they invest in, supported by information and advice from industry.

Question 9: In what ways can Government help individuals and businesses better understand and access the benefits of vocational education and training?

6. Consultation Process

6.1 How to engage

This *Securing our future economic prosperity* discussion paper is designed to facilitate public debate on how we can best move forward with greater investment in our future.

The Victorian Government wants to hear your views, and work with individuals, industry and providers to tackle the skills challenge.

Electronic versions of this discussion paper can be downloaded from **www.otte.vic.gov.au/skillsreform.asp**

Additional information on the consultation process, including how to make a submission, can also be accessed from this site.

All submissions will be treated as public documents.

Written submissions close Tuesday 10 June 2008.

