

## CHAPTER 7

### GROWTH, FUNDING AND COMPETITION IN VET

7.1 Funding for vocational education and training, including funding for growth in apprenticeships and traineeships, and the development of the vocational education and training market are addressed in this Chapter.

7.2 Growth and efficiency are two fundamental features of the Coalition government's policy on VET. Since 1996 the Government has introduced a number of policy initiatives to stimulate the growth of a training market and to induce the states and VET providers to strive for greater efficiency in the delivery of publicly funded VET.

7.3 These policies include the capping of recurrent funding at 1997 levels, the withdrawal of annual growth funding combined with the requirement for states and territories to fund growth through efficiency gains, and the introduction of User Choice as a mechanism for funding New Apprenticeships.

#### **The 'growth through efficiencies' policy**

7.4 The 'growth through efficiencies' policy is addressed primarily in state government submissions and submissions from TAFE institutes or TAFE-related associations.

7.5 Issues associated with the 'growth through efficiencies' policy also arise in relation to policies and strategies designed to develop the training market, particularly User Choice and competitive funding arrangements, as these are employed to achieve greater efficiency and stimulate growth in the VET sector. User Choice and competitive funding are dealt with later in this Chapter.

7.6 The 'growth through efficiencies' policy is a Commonwealth strategy intended to pressure state and territory governments into achieving greater efficiency (ie lower unit cost) in the VET system.

7.7 In the period from 1991 to 1996 Commonwealth funding for VET had increased considerably. By 1996, the Commonwealth was contributing 28 percent of recurrent VET funding compared to 17 per cent in 1991. The increase was primarily due to \$100 million additional TAFE recurrent funding the Commonwealth provided in its November 1991 *One Nation* Economic Statement. In that statement, the Commonwealth also agreed to provide growth funds of \$70m annually in each year of the 1993-95 triennium. This commitment was incorporated in the original 1992 ANTA Agreement which provided for both set-level base funding and per capita funding for growth, for each of the years of the Agreement. Growth funding was continued in 1996 and 1997.

7.8 When the 1998-2000 ANTA Agreement was negotiated, the Commonwealth declined to continue providing the \$70 million annually in growth funding. Instead, the states and territories were required to achieve 'growth through efficiencies' in return for Commonwealth funding being maintained in real terms for five years, with 1997 set as the base year for funding for the duration of the Agreement. The states and territories initially resisted the 'growth through efficiencies' arrangement and the setting of base funding at 1997 levels, but eventually agreed in order to guarantee funding stability for the following five years.

7.9 An *Agreed Framework for Growth Derived from Efficiencies* was endorsed by ministers in November 1997. The *Agreed Framework* identifies growth as the principle objective, with actual Annual Hours Curriculum (AHC) and valid student enrolments being the basis for assessing planned growth. Changes in planned unit costs are the basis for measuring planned improvements in efficiency. An increase in efficiency is either an increase in outputs for the same level of inputs, or a reduction in the inputs required to produce a given level of outputs. The agreed base for assessing planned growth and efficiency improvements is the revised planned 1997 level of activity and unit costs for each state and territory.<sup>1</sup>

7.10 Each state and territory develops plans, along with their annual VET plans, for achieving growth derived from efficiency, with these plans being presented to ministers for consideration each November.

7.11 Evidence from the states and territories annual 'growth through efficiencies' plans suggests that to date the policy has achieved what appear to be substantial efficiency gains. The total 1998 actual AHC growth over 1997, for example, exceeded revised planned growth by 90 per cent or 7.372 million adjusted AHC. However, not all states and territories achieved their planned efficiency targets and unmet demand in VET increased by approximately 0.5 per cent.

7.12 The states and territories are reported to have planned to improve efficiency by about 6.9 per cent in 2000 over the 1997 level, on average, but performance is uneven across the states and territories. In 2000, states and territories are collectively planning to deliver cumulative growth of 20.9 million adjusted annual hours curriculum (equating to approximately 160,000 additional student places) above the revised planned 1997 level.<sup>2</sup>

7.13 The ANTA Board considers that the national aggregate growth and efficiency improvement, both in actual and planned terms, over the three year period of the ANTA Agreement represents a substantial achievement. The ANTA submission advises:

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1 Australian National Training Authority, *Directions and Resource Allocations for 2000, Report to the Ministerial Council*, ANTA, Brisbane, November 1999

2 Submission 68, Department of Employment, Training and Youth Affairs, vol.3, p.761

The Board notes that the bulk of the planned growth was delivered in the first year of the Agreement (1998), but that the projected national growth and related efficiency for 2000 is also significant. In this context, the Board is also aware that the 2000 projections are likely to be a minimum if the trend in past years of superior actual performance against that forecast is repeated.<sup>3</sup>

7.14 ANTA also makes the point that under the previous ANTA Agreement (1994-1997) where Commonwealth growth funds of \$70 million per annum were coupled with Maintenance of Effort arrangements, the national vocational education and training system grew by 10.9 million hours per annum.<sup>4</sup>

7.15 The New South Wales Government, on the other hand, argues that the Commonwealth principle of 'growth through efficiencies' has had a negative impact on the national VET system, and that it has distorted the notion of a national agreement through a simplistic league table approach to state and territory efficiency outcomes. Growth through efficiencies, according to New South Wales, is a flawed policy under which the Commonwealth has endeavoured to drive state level efficiencies without any real effort to understand the specific needs and priorities of states and territories.<sup>5</sup>

7.16 NSW also maintains there has been a major reduction in the funding it receives from the Commonwealth:

Under the original ANTA Agreement growth funding averaged some \$23 million per annum over the years 1993 to 1997. Without this annual increment over the three years of the current Agreement, the loss to the state is around \$138 million. ANTA capital funding to New South Wales has decreased from \$78.7 million to \$59.2 million in 2000.<sup>6</sup>

7.17 The Victorian Government reports that in negotiating the second ANTA Agreement in 1997, states were placed under sustained pressure from the Commonwealth to adopt the concept of growth through efficiencies and that cutting off Commonwealth growth funds has placed significant strain on state training systems.<sup>7</sup>

7.18 The states and territories, however, did not escape criticism themselves. The New South Wales Teachers Federation argued that 'whilst state training authorities, such as the Department of Education and Training in NSW, may believe that the growth through efficiencies policy of the Federal Government is detrimental to

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3 Submission 107, Australian National Training Authority, vol.5, p.1477

4 Australian National Training Authority, *Directions and Resource Allocations for 2000, Report to the Ministerial Council, November 1999*, ANTA 1999, p.36

5 Submission 139, New South Wales Department of Education and Training, vol.9, p.2416,2438

6 Submission 139, New South Wales Department of Education and Training, vol.9, p.2440

7 Submission 119, Victorian Government, vol.7, p.1893

vocational education and training in their state, by their acquiescence they are also further undermining the ability of TAFE Institutes to continue to offer quality vocational education and training.’<sup>8</sup>

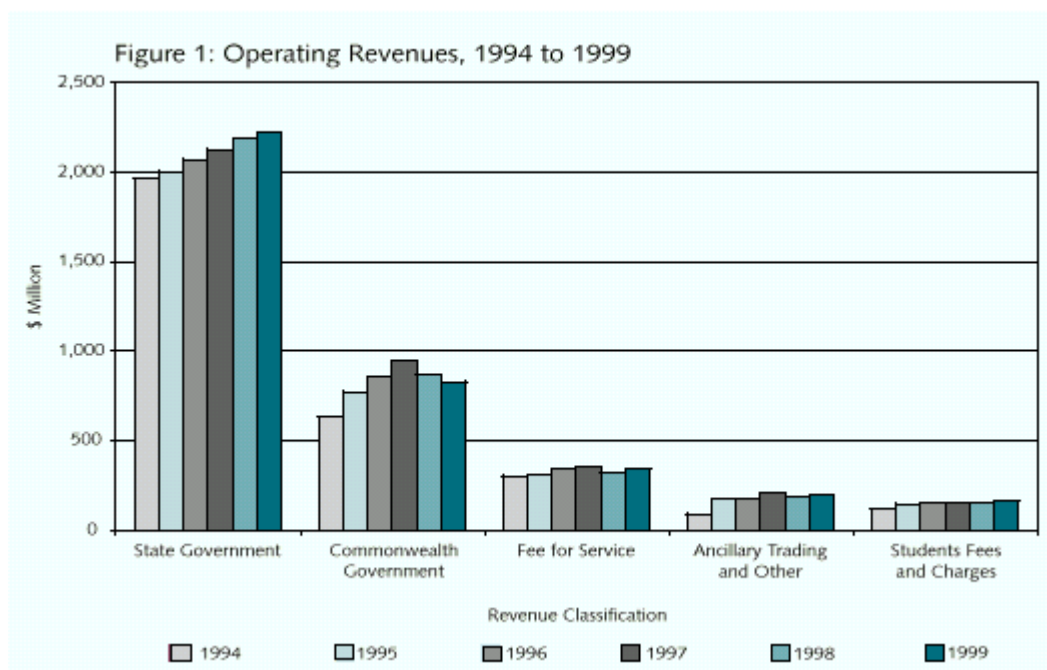
7.19 Also, the Australian Education Union provided ABS figures that appear to show that in real terms the states and territories have reduced their own contribution to VET since 1992. Several states were challenged about this apparent decline in state contributions to VET. Two states that responded, NSW and Queensland, were able to demonstrate to the Committee’s satisfaction that they had maintained their contribution in real terms and thus had not contributed to any fall in the real level of state and territory expenditure.

7.20 According to figures contained in NCVER’s Australian VET Statistics - Financial Data 1999, total VET operating revenues have risen by \$639.0 million (20.5 per cent) in the six years from 1994 to 1999.

7.21 Revenues from government have contributed \$457.6 million (71.6 per cent) towards this increase, shared between increased state Government funding of \$261.1 million (40.9 per cent) and increased Commonwealth Government input of \$196.5 million (30.7 per cent). There has also been a significant increase of \$38.1 million (6.0 per cent) in revenue from fee for service operations, reflecting increased training market participation by public providers. Fee-for-service operations represented 9.1 per cent of total revenue in 1999 compared to 9.8 per cent in 1994.

7.22 Figure 7.1 showing VET operating revenues from 1994 to 1999 indicates that state government funding has risen steadily from 1994 to 1999 while Commonwealth funding, after rising from 1994 to peak in 1997, has declined in both 1998 and 1999. Total revenues in 1999 increased marginally (up 0.6 per cent). While state government revenue increased by \$33.6 million over 1998 to \$2,225.5 million, revenues from all Commonwealth sources declined in 1999 by 4.3 per cent to \$828.2 million. The largest component of Commonwealth revenue, recurrent funding appropriated through the VET Funding Act, remained essentially stable at \$725.4 million. Commonwealth funding associated with ‘ANTA funded Commonwealth specific purpose programs’ also remained essentially stable from the 1998 levels at \$53.8 million, while ‘Other Commonwealth specific purpose programs’ declined by \$31.9 million in 1999 to \$49.0 million.

**Figure 7.1: Public VET operating revenues, 1994-1999**



Source: National Centre for Vocational Education Research: *Statistics 199: Financial Data: Australian Vocational Education and Training*, NCVER, Adelaide, 2000, p.3

### *Impact on quality*

7.23 While the national aggregate growth and efficiency improvement figures may show positive outcomes in terms of efficiency, they do not shed any light on the impact that 'growth through efficiencies' may be having on the quality of VET provision. The NSW Government NSW argues:

The key indicator of success under the policy is the reduction in unit costs. Other measures, such as quality, ease and cost of access, or participation by disadvantaged groups are not considered by the Commonwealth to be relevant. The policy fails to take into account a number of other significant areas of performance.<sup>9</sup>

7.24 The Australian Industry Group expresses concern at the evidence emerging through state training agencies that growth through efficiencies is being achieved through delivery of lower cost training, resulting in the decline of more resource intensive training, but many of the more resource intensive programs are the ones delivering higher level skills. The Australia Industry Group argues that this becomes a

strategic investment decision and Australia must decide if it wants to have a high skill workforce. If it does, then intervention will be required to achieve this outcome.<sup>10</sup>

7.25 The Australian Education Union (AEU) argues that the ‘growth through efficiency’ policy has resulted, amongst other things, in states cutting permanent staff and thus ‘casualising’ the TAFE workforce, increasing class sizes, and refusing to offer courses unless they reach a particular class number.<sup>11</sup> Such measures generally are not referred to specifically in states and territories ‘growth through efficiency’ plans but at least one includes ‘the continued attention to cost drivers in TAFE programs with the aim of increasing productivity through an examination of class sizes, staff productivity and overheads.’<sup>12</sup>

7.26 The TAFE NSW Managers Association suggests that it is highly likely that quantitative gains are being purchased through quality losses and state that if a quality TAFE system is to be maintained, it is essential that the principle of ‘growth through efficiency’ is dropped from the next ANTA Agreement.<sup>13</sup>

7.27 By contrast, ANTA believes that no correlation has been shown between the growth through efficiencies policy and declining quality in training:

There is no lowest state benchmark in relation to growth through efficiency. If you actually draw some sort of relationship between the growth in particular jurisdictions and, for example, the satisfaction expressed by employers, there is quite a neat relationship between systems such as in WA, South Australia and Queensland and their growth and increasing employer satisfaction.<sup>14</sup>

7.28 State governments, in response, insist that while they have achieved efficiencies over the last few years, this has reached its limits.

7.29 The South Australian Government states that the rate of efficiency gain in South Australia has slowed down, adding that ‘you can always make what seem to be efficiency gains by deferring expenditure’. The SA Government also admits that cutting quality could also be presented as an efficiency gain but denies this had happened in South Australia.<sup>15</sup>

7.30 The Western Australia Government said ‘there is a limit to the efficiencies that can be made without affecting the quality of training. There is some evidence that

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10 Submission 64, Australian Industry Group, vol.3, p.723

11 Submission 110, Australian Education Union, vol.6, p.1557

12 Australian National Training Authority, *Directions and Resource Allocations for 2000, Report to the Ministerial Council, November 1999*, ANTA 1999, p.82

13 Submission 90, TAFE NSW Managers Association, vol.5, p.1221

14 Mr C Eccles (Australian National Training Authority), *Hansard*, 17 March 2000, p.109

15 Dr G Wood (Department of Education, Training and Employment [South Australia]), *Hansard*, 16 May 2000, p.581

this limit is approaching'. There was particular concern about maintaining quality in regional areas.<sup>16</sup> The WA Government representative pointed out that the ANTA Board in its 1999 report to ANTA MINCO had made it clear that 'there were seven states which in fact had achieved efficiencies and there was nothing more there; you could not push any more....' The representative was also emphatic in saying that his state could achieve no further efficiencies without affecting quality.<sup>17</sup>

7.31 The Victorian Government cites as evidence of declining quality caused by funding pressures the results of the 1999 national Survey of Employer Views on Vocational Education and Training which found that 77 per cent of Victorian employers were satisfied or very satisfied with the VET system, compared with 83 per cent nationally. In a similar survey in 1997, the Victorian rate was 88 per cent, compared to 78 per cent nationally. Victoria also comments:

In the last few years Victoria has been able to achieve very significant growth in apprenticeships and traineeships, but it has been at the expense of some of these [quality] issues that Schofield has talked about.... it is our view that we cannot have quality and growth in a national system without additional resources. From our point of view we have no interest in nationally consistent mediocrity.<sup>18</sup>

#### *Funding growth in New Apprenticeships*

7.32 New Apprenticeships have contributed substantially to the growth in overall VET. The states and territories, and others such as the AEU, maintain that the Commonwealth has exacerbated the effect of the withdrawal of growth funding by heavy marketing of New Apprenticeships, and in August 1998, without consulting the states and territories, extending employer incentives to existing workers signed up as New Apprentices.<sup>19</sup> These actions, particularly the latter, are claimed to have contributed to the significant increase in New Apprenticeships,<sup>20</sup> placing severe financial pressure on states and territories because of their commitment to accord priority to New Apprenticeships, and the demand-driven nature of New Apprenticeship arrangements.

7.33 Tasmania, for example, argues that pressures on state budgets were largely caused by Commonwealth policies promoting New Apprenticeships:

Traineeship demand has been stimulated by Commonwealth policy directions, and further stimulated by national marketing of New Apprenticeships. Demand cannot be met within existing resources.

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16 Submission 114, Ministry of the Premier and Cabinet [Western Australia], vol.6, p.1825

17 Mr I Hill (WA Department of Training and Employment), *Hansard*, 17 May 2000, p.636-7

18 Ms M Sussex (Office of Post Compulsory Education, Training and Employment [Vic]), *Hansard*, Canberra, 4 July 2000, p.744

19 Stricter eligibility criteria were reintroduced by the Commonwealth in May 1999.

20 Access by existing workers to publicly funded apprenticeships and traineeships is discussed in Chapter 9

Therefore, there is seen to be a need for further growth funding from the Commonwealth for vocational education and training, to meet the demand for employment based training for trainees and apprentices under New Apprenticeships.<sup>21</sup>

7.34 ANTA reports that so far all states and territories have been able to fund the significant growth in New Apprenticeships through various means including efficiency gains, drawing on funds set aside for other purposes or through managing cash flows. According to ANTA rationing has not yet been necessary. However, states and territories that were funding places for 'existing workers' have either ceased to do so or have tightened eligibility criteria.<sup>22</sup>

7.35 ANTA also acknowledges that all states and territories consider that if growth in New Apprenticeships continues at current rates, existing funding arrangements will be unsustainable and they will have difficulties resourcing future demand for New Apprenticeships.

7.36 Victoria illustrates the difficulties faced by some states. In Victoria, the cost of delivery has been substantially below that of any other state or territory, and in 1998, was 23.1 per cent below the national average. The Victorian Government considers that while a degree of comparative efficiency is desirable, differences of this magnitude suggest that funding levels have been unrealistic. Funding pressures have come from both the Commonwealth and the previous state government. These have put Victorian TAFE Institutes in a difficult financial position. Of the 19 major public TAFE providers in Victoria, four are in serious financial difficulties, and five other Institutes have been assessed as medium risks. The Victorian Government has allocated approximately \$50 million over four years to the TAFE system in Victoria to restore its financial position and argues that the Commonwealth must take some responsibility for funding the anticipated further increase in VET participation.<sup>23</sup>

#### *Funding Future Demand for VET*

7.37 A National Resourcing Working Group under the auspices of ANTA examined likely trends in future demand for VET, including the potential up-skilling and re-skilling of existing workers, and the impact of these trends on overall levels of public funding.<sup>24</sup> The Committee was provided with a copy of the Working Group's Draft Final Report and noted ANTA's advice that the Working Group is to reconsider some aspects of the report the light of questions raised about assumptions made against the demand factors quantified in the report.

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21 Submission 83, Government of Tasmania, vol.4, p.1076

22 Submission 107, Australian National Training Authority, vol.5, p.1458

23 Ms M Sussex (Office of Postcompulsory Education, Training and Employment [Vic.]), *Hansard*, Canberra, 4 July 2000, p.744

24 National Resourcing Working Group, *Future Demand for Vocational Education and Training - draft final report*, report for ANTA CEOs, April 2000.



7.38 The Working Group predicted an annual growth in demand for VET of up to 5.7 per cent. This figure has been challenged by the Commonwealth Department of Education, Training and Youth Affairs (DETYA). The Committee notes that the Working Party's Draft Final Report includes an alternative perspective prepared by DETYA on demand for VET. Using an individual population-demographic methodology, DETYA estimates the annual growth in demand for VET in the range of 2.5-2.8 per cent. This may be compared with growth of 4.9 per cent from 1996 to 1997 and 5.3 per cent from 1997 to 1998.<sup>25</sup>

7.39 Even the lower figure implies a very significant increase in public VET costs. For example, using DETYA's estimate of 2.8 per cent per year growth, and the figure of \$26.64 million for each per cent of increase (as calculated by the National Resourcing Working Group), suggests a cost about \$500 million greater in the fifth year than in the base year. This is a 14 per cent increase on the planned public VET expenditure of \$3.6 billion in 2000.

7.40 DETYA, however, argued that an estimate of future demand does not necessarily lead to a clear conclusion about future funding needs:

In relation to that figure of \$26-odd million [an estimate of the cost of a 1 per cent increase in participation in publicly funded VET], I think it is important to say that it is no more than a fairly crude division of the total amount of money spent on VET by 100. It does not really go to, for example, what particular areas you would expect to see growth in in the future and whether they are comparatively more expensive or less expensive than the average. I would not put a huge amount of store on it. It is simply presented as a very basic and fairly crude estimate of what a one per cent growth in the system might cost.<sup>26</sup>

7.41 The size of likely growth in demand remains a matter of dispute between DETYA and the National Resourcing Working Group, as does the likely cost of such demand. Nevertheless, there is little doubt that there will be a continuing increase in demand, and even if the most conservative estimates are used, that demand will require significant additional funding. The Committee's primary concern is that the Commonwealth does not appear to have accepted that substantial additional funding is required, or accepts that it has any responsibility for meeting its share of that funding.

7.42 In the context of the current negotiations for the next ANTA Agreement, the Committee heard that the Commonwealth proposes to continue to cap Commonwealth general VET funding at 1997 levels in real terms. Although the requirement for the states and territories to agree to fund growth through efficiencies, and the need for them to submit annual 'Growth through Efficiency' plans have been discontinued, there is no offer from the Commonwealth of additional funding to accommodate

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25 Submission 74, National Centre for Vocational Education Research, vol.4, p.885

26 Mr R Manns (DETYA), Consideration of Budget Estimates, Senate EWRSBE Legislation Committee, *Hansard*, 31 May 2000, p.214

growth. This represents a de facto continuation of the ‘growth through efficiencies’ policy.

7.43 Additionally, the Vocational Education and Training Funding Amendment Bill 2000, introduced on 21 June 2000, effectively extends the Commonwealth’s policy of no real increase in Commonwealth funding to 2001 (funding is increased from \$918 million to \$931 million reflecting real price movement in Treasury indices). According to the Commonwealth, this reflects the Commonwealth’s proposal to the states and territories to maintain funding in real terms for a further three years, subject to finalising a satisfactory amended ANTA agreement.<sup>27</sup>

7.44 The Victorian Government told the Committee that the states had put forward an alternative to the Commonwealth offer, but this was ‘rejected out of hand’:

The states put forward a proposition as an alternative to the Commonwealth offer which had been made on budget night. That new proposition encompassed a commitment to a national system of high quality, a new agreement which related to a forward view—not based on agreement to agreement negotiations but a truly national system—but underpinned by additional resourcing, the dimension of which was subject to negotiation. That proposed agreement was rejected out of hand by the Commonwealth.<sup>28</sup>

7.45 The Commonwealth has a different view:

The point that the minister made at the open part of the session [ANTA meeting 30 June 2000] ....was that the Commonwealth was offering an assurance of real-terms funding for the three years ahead. The states now know that they have got that, and that gives a remarkable degree of planning assurance. I think the minister posed the question: how many state treasuries would offer a similar assurance in terms of three years ahead?<sup>29</sup>

7.46 At the time of preparation of the Committee’s report, the new ANTA Agreement is still under negotiation between the Commonwealth and the states in preparation for the November 2000 ANTA meeting.

7.47 The Committee’s view is that demand for VET will and should continue to grow substantially during the period of the new ANTA Agreement. The Committee also considers that additional funding must be provided to accommodate this growth, that there are limited opportunities to achieve further efficiency gains in the VET system, and that attempting to continue to fund growth from efficiency gains will have serious and irreversible consequences for the quality of VET in Australia.

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27 The Hon. D Kemp, second reading speech for *Vocational Education and Training Funding Amendment Bill 2000*, House of Representatives *Hansard*, 21 June 2000, p.16525

28 Ms M Sussex (Victorian Office of Post Compulsory Education, Training and Employment), *Hansard*, Canberra, 4 July 2000, p.752

29 Mr C Walters (DETYA), *Hansard*, Canberra, 5 July 2000, p.844

7.48 The Committee is alarmed at indications that the Commonwealth has not recognised the critical state of current VET funding and that, as evidenced by the Vocational Education and Training Funding Bill 2000, it appears determined to enforce a continuance of the policy, albeit de facto, of growth through efficiency.

7.49 The growth in demand has placed pressure on state VET budgets as a whole as most states have felt honour bound to accord New Apprentices priority for public funding and to fund apprentices and trainees 'on demand'. In these circumstances, if growth funding is not available, any increase in the number of publicly funded apprentices and trainees will impact adversely on other forms of VET, through reduced training opportunities, restricted choice or other cuts in quality.

7.50 The Committee has already considered this matter once, in its 1997 inquiry into the *Vocational Education and Training Funding Amendment Bill 1997* (which put into effect the 'growth through efficiencies' policy in the present ANTA Agreement). At that time Labor and Australian Democrats senators expressed concern about the way the Commonwealth was imposing this policy without any real knowledge of what a likely or desirable rate of growth in VET was, and without any knowledge about the ability of the states to find efficiencies.<sup>30</sup>

7.51 The Committee is gravely concerned that three years later, with those concerns having been largely substantiated, and in face of insistence by states and territories that further efficiency measures will seriously impact on quality in VET, the Commonwealth is continuing its pursuit of system efficiencies by refusing to meet its share of growth funding.

7.52 The Commonwealth must recognise that it has an obligation to ensure that VET in Australia is adequately funded and that it must restore base level funding to adequate levels and resume its share of contributions to growth funding. The Committee is not denying the Commonwealth's right, and public obligation, to obtain the best value for money from the expenditure of public funds, and it is not unaware of the states and territories' negotiating tactics aimed at extracting as much funding from the Commonwealth as possible. On this occasion, however, the Committee believes states claims are credible and the Commonwealth must re-examine its approach.

**The Committee recommends that:**

**(a) the new ANTA Agreement include an agreement by the Commonwealth to meet, in each year of the new Agreement, its share of funding for growth in vocational education and training. In the absence of agreement on the likely rate of growth and the cost associated with that growth, growth funding should be**

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30 Senate Employment, Workplace Relations, Small Business and Education Legislation Committee, *Consideration of Legislation Referred to the Committee - Vocational Education and Training Funding Amendment Bill 1997*, pp.26-27

tioned to actual growth in successfully completed modules in the previous twelve month period. Commonwealth funds to ANTA (capital and recurrent) can be adjusted each year by the percentage change in *Assessable enrolment-successfully completed Annual Hours Curriculum* recorded for the previous year. This was 171,983,920 in 1998 and 183,838,731 in 1999 - an increase of 7 per cent. Applying 7 per cent to Commonwealth funds for the year 2000 (\$920m) is \$65m. This approach overcomes the need to base growth funding on estimates of growth and automatically rewards states and territories both for growth and for improving success rates.

(b) the payment of Commonwealth growth funding to states and territories be subject to each state and territory agreeing to rigorously implement enhanced standards for registration, performance monitoring and auditing of providers. This commitment should include each state and territory preparing and submitting to ANTA MINCO, along with Annual VET Plans, an annual Quality Assurance Plan that sets out a program and targets for registration, performance monitoring and auditing of providers, and reports on progress against the previous year's Plan.

(c) ANTA report and make recommendations to MINCO on the states' and territories' Quality Assurance Plans, including whether progress against the previous year's Plan is satisfactory. Growth funds should be paid by ANTA to a state or territory only if the state or territory's Quality Assurance Plan has been considered and accepted by the Ministerial Council. Responsibility for this function should pass to the National Qualifications and Quality Assurance Authority when it is established.

### **Establishing the vocational education and training market**

7.53 Establishing the vocational education and training market has been pursued through policies and strategies directed at both the supply-side and demand-side of the training market. Increasing the diversity and responsiveness of the supply side of the training market has been an on-going objective of successive governments over many years and has included strategies to:

- promote continuing structural reform in the public VET sector;
- removing barriers to market entry for private providers;
- increasing the scope for funding contestability;
- establish competitive neutrality among public and private providers;
- reform structures to facilitate competition;
- facilitate third party access to essential facilities; and
- develop consistent costing and pricing policies.

7.54 The NCVER in 1997 observed that research suggested that training market reforms had placed too much emphasis on supply-side competition. NCVER commented that empowering clients in training decisions was also a key to strengthening client focus and provider responsiveness.<sup>31</sup> An ANTA consultation paper, which had been released the previous year, identified four competitive practices operating in the Australian training market at that time that had the potential to empower clients to varying degrees:

- fee-for-service activities;
- competitive tendering;
- preferred supplier arrangements; and
- User Choice.<sup>32</sup>

#### *Support for User Choice*

7.55 A National Evaluation of User Choice commissioned by ANTA and undertaken by KPMG was completed in September 1999. The evaluation looked at the changes that are taking place at the interface between training providers and their clients, the benefits being derived by clients and any wider policy impact from User Choice. The evaluation found that the User Choice policy framework is progressing well. It is enabling positive change and attitudes on the part of employers and providers. Employers are very positive about the possibilities of choice and record high satisfaction associated with choice, and providers surveyed are also positive about the impact of choice on their own operations and are making changes that enable them to respond positively to choice.

7.56 The DETYA submission reported that:

The evaluation found that increasing client choice is acting as a spur to provider responsiveness. Many training providers considered that the quality of training provision has improved as a result of more involvement by employers in decision-making about training. Some providers reported having upgraded the quality of their programmes as a result of User Choice. Providers thought that there were better services for New Apprentices as a result of User Choice and increased training opportunities....<sup>33</sup>

7.57 A number of submissions from employers, employer associations and private providers claim that User Choice has delivered real benefits in terms of the relevance, responsiveness and quality of provision.

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31 Anderson, Damon, *Developing the training market of the future, A review of research literature*, paper prepared for the National Centre for Vocational Education Research as a submission to ANTA's consultation on 'Developing the training market of the future', Adelaide, 1997, p.3

32 Australian National Training Authority, *Developing the training market of the future*

33 Submission 68, Department of Education, Training and Youth Affairs, vol.3, p.783-4

7.58 ACCI maintains that its members strongly support User Choice and that:

Full introduction of User Choice is critical to ensure the quality of RTOs. This will ensure that employers have the capacity to choose the provider of their choice which best delivers training which meets their needs, and is of a standard which assists them in recruiting skilled staff or upgrading existing worker skills. Employers demand and expect quality training and their perception of the quality of training will determine their participation in the national training system. The study undertaken by KPMG into User Choice establishes that User Choice is often a central reason for participating in the system, although not necessarily referred to specifically as 'User Choice', and has led to significant improvements in the system.<sup>34</sup>

7.59 Construction Training Australia stated that many industry stakeholders welcome User Choice as it allows employers and trainees to exercise choice in selecting a provider who can meet the training needs of an enterprise and of individual apprentices and trainees. It also allows negotiation on specific aspects of training such as location, timing and mode.<sup>35</sup>

7.60 The Australian Industry Group study *Training to Compete* did not include User Choice as a particular item in the surveys it conducted but found that firms were strongly in favour of the opening up of training provision to competition between public and private providers through competitive tendering and User Choice funding. These changes were considered to have increased in the flexibility and responsiveness of the public providers to industry needs and to have widened the scope for all providers to become more competitive.<sup>36</sup>

7.61 Support, however, was not unconditional. The Australian Industry Group, for example, also draws attention to the complexity of implementation to date and the absence of a uniform approach throughout the nation. It argues that priority should be given to simplifying and encouraging implementation, in order to gain greater support from public and private providers as well as enterprises, and that User Choice has not been effectively presented as an opportunity to providers.<sup>37</sup>

#### *Impact on TAFE and Quality*

7.62 User Choice is a policy chiefly directed at facilitating the New Apprenticeships training market but evidence was put before the Committee regarding its impact on TAFE, particularly the threat it poses to the viability of TAFE and the

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34 Submission 137, Australian Chamber of Commerce and Industry, vol.8, p.2276

35 Submission 60, Construction Training Australia, vol.3, p.669

36 Submission 64, Australian Industry Group, vol.3, p.713ff. The Allen Consulting Group, *Training to Compete. The Training Needs of Industry*, The Australian Industry Group, Sydney, 1999, p.xvi

37 The Allen Consulting Group, *Training to Compete - the training needs of industry - report to Australian Industry Group*, n.d., p.xvi

quality of structured training and teaching: two aspects specifically referred to in the Committee's Terms of Reference.

7.63 ANTA argues that the impact of the User Choice policy on TAFE providers is dependent upon the ways in which individual state training authorities implement the policy. ANTA maintains that:

It (the policy) is essentially a series of principles which outline the broad concept of User Choice and some guidelines which describe in very broad terms how User Choice will operate. The interpretation and implementation of these principles and guidelines at the state/territory, regional and training institution level is the responsibility of state/territory Training Authorities.<sup>38</sup>

7.64 ANTA also reports that the User Choice evaluation does not reveal any conclusive findings about the impact of User Choice on the viability of TAFE, particularly in regional Australia.<sup>39</sup>

7.65 The Australian Education Union argues that User Choice:

...is used by some Governments to redirect TAFE funds to non-TAFE providers on a 'cost without quality' basis... the KPMG evaluation of User Choice was a complete waste of taxpayers money because it did not measure the quality of training...<sup>40</sup>

7.66 Submissions from both TAFE Directors Australia and the AEU argue that 'growth through efficiencies' and User Choice have resulted in reduced funding for TAFE leading to arrangements that threaten the quality of VET delivery and outcomes and the viability of some providers, notably TAFE institutes. These include increases in class sizes, reduction in student contact hours, reduction in the flexibility and choices available to students, reduction in the level of student support services and greater reliance on fee for service activity, with increased fees and charges.<sup>41</sup>

7.67 These submissions also argue that TAFE is at a disadvantage in a competitive market. TAFE's competitive ability is said to be hampered by its community service obligations, its commitment to providing effective student support services, the industrial relations context in which it operates, and its public accountability obligations. Private Registered Training Organisations' are said to be able to compete more effectively as they are not subject to these considerations and therefore their cost structures are lower.

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38 Submission 107, Australian National Training Authority, vol.5, p.1480

39 Submission 107, Australian National Training Authority, vol.5, p.1479

40 Submission 110, Australian Education Union, vol.6, p.1556

41 Submission 136, TAFE Directors Australia, vol.8, p.2248. Submission 110, Australian Education Union, vol.6, p.1555

7.68 The Australian Council for Private Education and Training (ACPET), on the other hand, argues that contracts and compliance and reporting requirements are heavily weighted in favour of TAFE, that is, the obligations imposed on industry in order to access funding expect businesses to adapt to public sector processes which are totally inappropriate for competitive markets. ACPET maintains that the legal and management systems imposed by the states have resulted in contracts that are legally complex, fundamentally one-sided, on occasions in breach of national competition policy and administrative law, and require legal analysis before signing (adding to the cost to business and Registered Training Organisations).<sup>42</sup>

7.69 Three state governments expressed concerns to the Committee about the way in which User Choice is influencing the training market, and particularly its impact on TAFE. They have been sufficiently concerned about User Choice to place a moratorium on the further expansion of User Choice in their states.

7.70 The Queensland Department of Employment, Training and Industrial Relations submission reports that the full application of User Choice in Queensland in 1998 has led to an unacceptably high level of service failure.<sup>43</sup> As a consequence, the Queensland Government has decided that User Choice and competitive initiatives will be maintained at January 1998 levels for a three-year period, to allow TAFE time to adjust to the effect of competitive influences.

7.71 The Queensland Government's decision was prompted by an evaluation of User Choice in Queensland in 1999. The evaluation found general support for User Choice as a concept, that User Choice is having an influence on the choice of provider and that as a result of competitive pressure created by User Choice, TAFE Queensland has significantly improved its service. However, the evaluation also found that both the training, and the outcomes of training, under the User Choice system are of highly variable and dubious quality, particularly where fully on-the-job arrangements are in place. There is also a degree of scepticism about the purpose of User Choice:

There is an overwhelming belief among users of the User Choice system that the overriding objective ... is to maximise the number of trainees and the number of providers - to the detriment of the quality of training and training outcomes.<sup>44</sup>

7.72 The Schofield review of the apprenticeship and traineeship system in Queensland, which examined a range of evidence drawn from both internal and external sources, found that one of the most fundamental deficiencies in the current traineeship system relates to the means by which training is purchased, that is, User

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42 Submission 59, Australian Council for Private Education and Training, vol.3, p.615

43 Submission 131, Queensland Department of Employment, Training and Industrial Relations, vol.7, p.2129

44 L Smith, *The Impact of User Choice on the Queensland Training Market*, Queensland Department of Employment, Training and Industrial Relations, March 1999, p.viii.



Choice. Schofield found two fundamental flaws associated with User Choice in Queensland:

- proxy purchasing, whereby the employer is treated as a proxy purchaser of government funded training services – theoretically making an informed decision that directs public funds in the most efficient and effective manner. In practice, the payment system is initiated by the financial beneficiary of the system (the Registered Training Organisation) without any validation by the proxy purchaser (the employer), and paid by the actual purchaser (the state training authority); and
- the assumption of market viability, that is, the assumption that the conditions required for the operation of a traineeship training market existed, and particularly, that User Choice required a minimalist and purely reactive role for Government in the purchasing process.<sup>45</sup>

7.73 Despite these findings the Queensland Government maintains that ‘These deficiencies are not an argument to move away from the concept of User Choice but rather to ensure that the system works more effectively.’<sup>46</sup>

7.74 A Tasmanian evaluation of User Choice in 1998 found that, generally, User Choice is perceived by many stakeholders as bringing beneficial changes to do with the flexibility of providers, particularly the right to negotiate about the trainer, assessments and the Registered Training Organisation. The evaluation also found that the viability of TAFE Tasmania had not been threatened by the introduction of User Choice in Tasmania, with the amount of funding directly allocated to TAFE under the TAFE Resource Agreement (including guaranteed User Choice funds) remaining constant over the period 1997-99, and the proportion of all available funds declining only very slightly over the same period.

7.75 The Tasmanian Government nevertheless reports that it is committed to hold User Choice and competitive funding at January 1998 levels for a period of three years to allow a pause in growth to enable the market to mature and to identify, through consultation, the most appropriate competition policy for Tasmania.<sup>47</sup>

7.76 The Victorian Government, in response to concerns about the viability of TAFE Institutes, has frozen contestable funding at 1999 levels for a minimum of twelve months, pending a review of the desirability of increased competition. The Victorian Government submission reports that:

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45 K Schofield, *Independent Investigation into the Quality of Training in Queensland’s Traineeship System*, VETEC, Brisbane, 1999, pp.54 -61

46 Submission 131, Queensland Department of Employment, Training and Industrial Relations, vol.7, p.2130

47 Submission 83, Government of Tasmania, vol.4, p.1092

The Government's policy is to freeze user choice and competitive funding at 1999 contestability levels for a minimum of 12 months to allow time to assess the desirability of further competition in the training market. User Choice has resulted in a large amount of funding being withdrawn from TAFE Institutes. Private providers have concentrated on low cost areas, leaving TAFE Institutes to deliver high cost training at inadequate funding levels. Currently in Victoria, 88 per cent of apprentices are at TAFE Institutes, while 77 per cent of traineeships, which are generally cheaper to deliver, are at private providers. These short-term traineeships are the area where audits have revealed most concerns about the quality of training delivered.<sup>48</sup>

7.77 Schofield's review of the Victorian apprenticeship and traineeship system found that User Choice has had both positive and negative impacts, and that there are some significant problems associated with the User Choice system which are reducing training quality. The benefits included promoting more flexibility, responsiveness and innovation in training delivery, and it has encouraged providers, particularly TAFE Institutes, to get closer to their clients. Schofield also noted that levels of client satisfaction are high.

7.78 In Schofield's view, many of the submissions to her Victorian review that were critical of User Choice attributed to User Choice effects which are more appropriately attributed to other factors. These include the rise of workplace learning, increased client demand for customisation, wider issues of contestability of the VET budget in Victoria, the cumulative impact of years of cost-cutting within the sector, and funding systems which rightly sought greater efficiency and accountability but not always with due regard to effectiveness, fitness for purpose and ethical practice.

7.79 The Schofield Victorian Review concluded that from the perspective of its primary clients — employers, apprentices and trainees — User Choice is working well, and while still less than perfect, the User Choice system in Victoria has had the beneficial effect of introducing a major demand-driven element to the training system.<sup>49</sup>

7.80 The AEU, on the other hand, pointed out that the KPMG evaluation admitted that positive changes observed in the VET system may not be able to be precisely separated from other reforms.<sup>50</sup>

7.81 The Committee's view is that User Choice as a mechanism for developing the training market and encouraging greater flexibility and responsiveness by providers is unproven. The Committee finds that there are significant problems associated with the current training market which are affecting the quality of outcomes, not just for

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48 Submission 119, Government of Victoria, vol.7 p.1900

49 K Schofield, *Report of the Independent Review of the Quality of Training in Victoria's Apprenticeship and Traineeship System*, May 2000, p.85

50 Submission 110, Australian Education Union, vol.6, p.1556

apprenticeships and traineeships but for the whole of VET. The problems are partly due to the varying success of strategies to increase the diversity and responsiveness of the supply side of the training market, but much of it is attributable to weaknesses in demand side policies and strategies, particularly User Choice.

#### *Inconsistencies in implementation*

7.82 The Committee also heard evidence that the effectiveness of User Choice as a free market mechanism is impeded by the lack of consistency with which User Choice has been implemented across states and territories. The recent ANTA CEOs Report on National Consistency supports claims made in numerous submissions that there are inconsistencies in the implementation of User Choice and that these inconsistencies are impacting on the effective operation of the training market and on client choice.<sup>51</sup>

7.83 States and territories, for example, require providers seeking to access User Choice funding to go through an approval process, even though the providers may already have Registered Training Organisation status. This approval process is usually additional to Australian Recognition Framework requirements. According to the CEOs Report, problems have arisen because the approval process is misunderstood: the state training authorities see the process as administrative, whereas the Registered Training Organisations see the process as ‘approval to deliver’, which they rightly believe they already have by virtue of their RTO status and the mutual recognition provisions of the Australian Recognition Framework (ARF). The CEOs Report states that the implications of this for the ARF need to be resolved.

7.84 The ANTA CEOs Report also draws attention to inconsistent purchasing policies and procedures between states and territories. These include differing policies in relation to thin markets and the intervention in the market by some states to control the flow of funds to interstate providers. Different administrative protocols between jurisdictions can also require RTOs wishing to operate across state boundaries to find out about, and understand, different sets of administrative arrangements in each state. Further differences occur in the definition and eligibility criteria relating to existing employees who take up apprenticeships or traineeships, in price structure and the availability of information on prices. These inconsistencies act as impediments to the operation of the market, making it difficult for, or discouraging RTOs from, offering VET across state and territory borders.

7.85 The Committee considers that inconsistencies between states and territories in the implementation of User Choice, together with other inconsistencies and legal impediments associated with the implementation of the Australian Recognition Framework, are seriously impeding the provision of quality vocational education and training. The Committee believes that a moratorium should be placed on any extension of User Choice until the inconsistencies and legal impediments are resolved

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51 ANTA CEOs, *Report on National Consistency*, report to ANTA Ministerial Council, June 2000, p.14ff

and until it can be demonstrated that User Choice has actually delivered net benefits to stakeholders.

**The Committee recommends that:**

**a moratorium be placed on User Choice pending an independent national investigation of the impact of competition policies and User Choice on the viability of TAFE. The investigation should consider inconsistencies and legal impediments in its implementation and, based on experience to date, determine whether it has been demonstrated that User Choice has delivered net benefits to stakeholders.**

*Making informed choices*

7.86 The NCVET observed that one of the key strategies for empowering clients in the VET market is to give clients sufficient information to make informed choices. It was suggested to the Committee in several submissions and other evidence that the effectiveness of User Choice as a free market mechanism is impeded because many clients do not have sufficient information to make informed choices, do not have full direct control over training decisions, and do not have access to assistance to negotiate with training providers.<sup>52</sup>

7.87 The WA Hospitality and Tourism Industry Training Council comments that:

The consumer is very confused by the marketplace, and has difficulty discerning what is value for money. It is difficult for the employer to objectively evaluate a provider, make a judgement regarding value for money, and distinguish quality programs because of lack of knowledge regarding the training market. The concept of “user choice” implies a free market situation in operation, but in practice traditional preferences, links, or other conditions often determine choice. Some employers are unaware that they have a right to choose their training provider.<sup>53</sup>

7.88 The Agricultural and Horticultural Training Council of South Australia has a similar view:

It is the intention that ‘User Choice’ arrangements should allow the market to sort itself out. The reality is that it is not working as well as it should because of the lack of understanding by potential clients. The market is not

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52 National Centre for Vocational Education Research, 1997, *Developing the training market of the future. A review of research literature*, 1997 (Prepared by Damon Anderson, Centre for the Economics of Education and Training, Monash University-ACER) Submission from NCVET to ANTA’s consultation on ‘Developing the training market of the future’ p.4

53 Submission 86, WA Hospitality and Tourism Industry Training Council, vol.5, p.1152

well informed and has difficulty in distinguishing between truth and marketing hype.<sup>54</sup>

7.89 The Schofield Report on Queensland concludes that:

Employers and employee choice of training provider and delivery method is in most cases non-existent. Employers, and to a greater extent trainees, are not sufficiently aware of their choices and are therefore likely to choose a standard product from a single provider.<sup>55</sup>

*Balancing individual needs and industry needs*

7.90 A corollary of ‘empowering clients’ is the question ‘which clients?’ with many submissions and other evidence suggesting that in reality apprentices and trainees have little choice. Fooks and others raised this issue when User Choice was first introduced:

Fitzgerald [defined] ‘user choice’ disingenuously as a decision, *taken jointly* by the trainee and the employer, on who would be the training provider... Few employers are equipped to take such decisions advisedly, let alone youngsters straight from school.<sup>56</sup>

7.91 Ms Erica Smith in her submission to the Committee observes:

The choice is imperfect. Choices are made by employers, not trainees. ... Research indicates that young apprentices and trainees (as anticipated in several reports) hardly ever get any say in the choice of provider.<sup>57</sup>

7.92 The Australian Education Union also sees weaknesses in the notion of apprentices and trainees participating in the choice of training provider:

The reality is that because the New Apprenticeships system depends on employment to attract a training contract and employer subsidy, the employer has more power to decide which RTO is to be chosen to undertake the training. In some cases this can be the employers own RTO.<sup>58</sup>

7.93 It is clear to the Committee that apprentices and trainees are not able to exercise their market power to the fullest extent. They do not always have access to sufficient information to make informed choices, nor are they necessarily equipped, or

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54 Submission 46, Agricultural and Horticultural Training Council of South Australia, vol.2, p.428

55 K Schofield, *Independent Investigation into the Quality of Training in Queensland’s Traineeship System*, VETEC, Brisbane, 1999, p.43

56 D Fooks, R Ryan & K Schofield, *Making TAFE Competitive*, Australian College of Education, 1997, p.16

57 Submission 23, Ms E Smith, vol.1, p.180

58 Submission 110, Australian Education Union, vol.6, p.1556

have access to assistance to negotiate with training providers. Employers' choice rather than apprentices' or trainees' choice more often prevails.

7.94 This latter outcome is of particular concern. With the 'choice' in User Choice resting almost entirely with employers, and with the added flexibility and choice that National Training Packages provide the danger is that the particular options within a Training Package chosen by an employer as best suiting his/her business, may be quite narrow and may not take into account the longer term needs of the apprentice or trainee. This can be exacerbated in some instances where there is too much flexibility provided by particular Training Packages, in terms of how units can be packaged together to provide a qualification, resulting in qualifications that do not have enough commonality of outcome to be truly portable.

7.95 The Committee notes the former National Training Framework Committee's Guidelines for the Customisation of Accredited Courses and also that National Training Packages include advice on customisation options for the users. However, the evidence before the Committee suggests that these guidelines and advice are not always followed or enforced. In the presence of the current policy emphasis on meeting industry's needs, there is a pervading sense that whatever employers want is acceptable. Some RTOs appear to be susceptible to this notion and fail in their obligation to ensure Training Package requirements are adhered to, and certified outcomes are actually achieved.

7.96 The Committee believes that guidelines and advice on customisation or tailoring of training to meet enterprise-specific needs should be underpinned by a clear policy statement that enterprise-specific training is the responsibility of the enterprise and that training that is largely enterprise-specific is not eligible for User Choice or other public funding. This does not mean that training cannot be tailored to meet enterprise-specific needs, merely that there must be a balance between industry-wide and enterprise-specific training and the portability of skills must be paramount. Apprenticeship and traineeship Training Plans should become the key means of monitoring the nature of training to be provided under the Training Agreement, and assessing progress for User Choice and Commonwealth employer incentive payments.

**The Committee recommends that:**

**(a) Training for individual apprentices and trainees must include a sound foundation of portable, industry-wide competencies and qualifications.**

**(b) ANTA and Training Package guidelines and advice on customisation or tailoring of training to meet enterprise-specific needs be underpinned by a clear policy statement that enterprise-specific training is the responsibility of the enterprise. Training may be tailored to meet enterprise-specific needs, but there must be a balance between industry-wide and enterprise-specific training, and the portability of skills and maximising the use and integrity of the system of portable national qualifications must be paramount.**

### *Pricing of training*

7.97 State governments determine the price to be paid to Registered Training Organisations under User Choice arrangements. The price is usually expressed in dollars per student contact hour with the maximum payment being determined by the nominal hours of training set for each program. The hourly rate varies from state to state and may vary within states. Some states, such as New South Wales, structure their prices according to the method of delivery. In Queensland the price paid for training differs between regions in recognition of differing costs of delivery in some regions.

7.98 A high level of dissatisfaction was expressed to the Committee about the level of pricing and other arrangements relating to payment for apprentice and trainee training. The most common concern was that the prices set do not adequately reflect the costs of training delivery. TAFE Directors Australia (TDA) outlines some of the additional costs associated with the introduction of New Apprenticeships. These include the time and resources required to liaise and consult with employers, group training companies, New Apprenticeships Centres (NACs) and other stakeholders, to implement National Training Packages, to find work experience placements, and to provide assessment services. In regard to assessment costs, for example, TDA argues that the setting up of simulated work environments purely for the purposes of assessment is very expensive when the physical and human resources are taken into account.<sup>59</sup>

7.99 TDA's concerns are shared by others. Smith reported that providers in his study believe that a significant amount of work is required in order to ensure that the pricing of training is fair and truly reflective of the costs of providing quality training to apprentices and trainees. A particular concern was that pricing levels fail to provide sufficient funds to meet the learning support needs of trainees and apprentices.<sup>60</sup>

7.100 In submissions to the Committee, some providers, mainly TAFE, report difficulties in providing workplace delivery at the prices currently offered by state training authorities. One TAFE Institute argues that:

Without a change to the current funding arrangements, training in the workplace has the potential to degenerate to an assessment service that recognises current competency, with very limited training provided by the RTO to apprentices/trainees.<sup>61</sup>

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59 Submission 136, TAFE Directors Australia, vol.8, p.2250

60 Dr L Smith, *The Impact of User Choice on the Queensland Training Market*, Qld Department of Employment, Training and Industrial Relations, March 1999, p.ix

61 A TAFE institute, quoted in K Schofield, *Report of the Independent Review of the Quality of Training in Victoria's Apprenticeship and Traineeship System*, May 2000, p.24

7.101 Unions and industry bodies also argue that the costs involved in the shift to on the job training and assessment are not recognised in apprenticeship and traineeship pricing models.<sup>62</sup> The Australian Chamber of Commerce and Industry warns against underestimating the resources needed for fully on the job training:

One of the issues which needs further consideration is the extent of resources applied to fully on-the-job training and the relative costs to undertake this activity as opposed to fully off-the-job or combined training arrangements. An underlying assumption by states and territories in allocating resources for on the job training has been that costs would be reduced even though employers need additional support and training activity needs adequate verification in order to ensure that qualifications can be issued to meet industry standards.<sup>63</sup>

7.102 The Australian Industry Group reports that many Registered Training Organisations complain of the additional workload that comes with monitoring the delivery of on the job training within current funding arrangements, while the Australian Retailers Association claims that funding for on the job delivery is too inadequate to enable RTOs to provide significant support to individual workplaces.<sup>64</sup>

7.103 The Schofield report on the Queensland traineeship system concludes that ‘the pricing list steers providers to pursue particular traineeships and to pursue ‘fully on-the-job delivery modes.... prices in Queensland have worked successfully to ensure quantity and efficiency gains (Queensland can deliver more traineeships at a lower delivery cost), rather than quality and effectiveness.<sup>65</sup>

7.104 TAFE Directors Australia claims that inadequate resources are forcing TDA members to reduce the hours of off-the-job training. In many instances, traineeships, typically 400 hours off the job, are being reduced to 300 hours. Some institutes have been forced to withdraw from delivering New Apprenticeship programs because of ‘thin markets’ and costs of additional travel time. Some TAFE institutes continue with New Apprenticeships by cross-subsidising programs.<sup>66</sup>

7.105 Schofield’s findings are consistent with TDA’s claims. Schofield found that where prices are low and costs high, savings are being achieved by:

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62 K Schofield, *Report of the Independent Review of the Quality of Training in Victoria’s Apprenticeship and Traineeship System*, May 2000, p.24

63 Submission 137, Australian Chamber of Commerce and Industry, vol.8, p.2272

64 Submission 64, Australian Industry Group, vol.3, p.721. Submission 72, NSW Primary Industry Training Advisory Body Ltd, vol.3, p.850. Submission 65, Recreation Industry Training Company Ltd, vol.3, p.732. Submission 124, Australian Retailers Association, vol.7, p.1996

65 K Schofield, *Independent Investigation into the Quality of Training in Queensland’s Traineeship System*, July 1999, p.59

66 Submission 136, TAFE Directors Australia, vol.8, p.2250



- reducing the quantum of facilitated learning in the workplace and increasing the quantum of self-managed learning;
- minimising investment in the development of learning materials, teaching technologies, equipment and materials supplied and other teaching resources;
- increasing the use of sessional staff;
- minimising the monitoring and management of workplace delivery by the RTO and relying to a high degree on the individual trainer's professionalism; and
- cutting professional development to the bone.

7.106 Schofield found that the cumulative impact on quality appears in some fields and some locations to be quite significant and the longer-term prospects for quality teaching and training are not always positive.<sup>67</sup>

#### *Reduced funds to actual delivery*

7.107 Schofield also found some undesirable practices emerging in the apprenticeship and traineeship market as multiple players try to gain some financial advantage by offering various brokerage deals and undertaking vigorous marketing activities. These are resulting in reduced funds being available for actual training delivery.<sup>68</sup>

7.108 Some of the practices include brokers charging employers for services that New Apprenticeship Centres (NACs) provide free of charge, the payment of commissions for directing business to particular NACs, and the soliciting of payments from RTOs in return for business.

7.109 Schofield, observing that it seems that Training Agreements have become tradeable commodities within some parts of the training market, quite rightly comments that this is a dangerous development undermining their value.<sup>69</sup>

7.110 The Committee strongly agrees with Schofield that these practices are diverting more and more of the training dollar away from actual training delivery and that this inevitably reduces the quality of training.

#### *Resource allocation between VET and New Apprenticeships*

7.111 It is clear from submissions that there is a perception among some VET stakeholders that the priority given to New Apprenticeships in national policy, national priorities and funding is diverting resources from other equally important

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67 Schofield, K, *Delivering Quality, report of the Independent Review of the Quality of Training in Victoria's Apprenticeship and Traineeship System*, Office of Post-compulsory Education, Training and Employment, Melbourne, 2000, p.25

68 *ibid* p25

69 *ibid* p25

forms of VET. User Choice is seen to be the primary instrument through which funds are being diverted.

7.112 The Committee notes that neither the Commonwealth nor ANTA determine how funds are apportioned between New Apprenticeships and other forms of VET. This is a state responsibility, as are the methods used by states and territories to allocate funds across the VET sector and between priorities within their own state or territory. However, the ANTA MINCO decisions on User Choice and the priority to be accorded New Apprenticeships has undoubtedly placed pressure on the states and territories regarding the proportion of VET funding allocated to New Apprenticeships.

7.113 Current data collection arrangements do not separate operating expenditures on VET provision generally from expenditures on apprentices and trainees. However,:

...it is possible to make an informed lower-bound estimate of the public-sector operating expenditures on apprentices and trainees. For 1998 this estimate is \$600 million out of the total operating expenditures of \$4.01 billion, based on the assumption that 15 per cent of all students undertaking VET with providers in receipt of public funds are apprentices and trainees. This estimate is a conservative one because the proportion of VET students who are apprentices and trainees may be more than 15 per cent and the courses in which apprentices and trainees enrol are known to involve above-average delivery costs.<sup>70</sup>

7.114 ANTA states that due to the high priority that states and territories have accorded New Apprenticeships, between 20-25 per cent of total public VET delivery budgets of states and territories is being directed to New Apprenticeships.<sup>71</sup> Victoria, for example, anticipates that 30 per cent of its public delivery budget will be needed for this purpose by the end of 1999.<sup>72</sup> Apprentices and trainees are variously said to make up between 14 and 20 per cent of total VET clients.<sup>73</sup>

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70 Submission 74, National Centre for Vocational Education Research, vol.4, p.889

71 NCVER financial data do not separate expenditure attributable to New Apprentices from total public VET expenditure. The estimate of 20-25 per cent, provided by DETYA, is obtained by multiplying the number of New Apprentices by 320 (an estimate of the average annual hours of training received by New Apprentices) by \$13.40 (the average cost of a person-hour of publicly funded training in 1998), and taking this as a proportion of total public VET expenditure. Submission 68, Dept of Education, Training and Youth Affairs, vol.3, p.771. Dept of Education, Training and Youth Affairs, further information 18 August 2000, p.332. Australian National Training Authority, *Annual National Report 1998, 1999*. vol.3, p.78

72 Submission 107, Australian National Training Authority, vol.5, p.1458

73 DETYA suggested that New Apprentices are 14.3 per cent of publicly funded VET participants. ANTA suggested 15 per cent; the NCVER, 20 per cent. DETYA explained: 'The estimate of 14.3% in our submission is based on a simple calculation of the number of New Apprentices at a given point in time (30 December 1998) as a proportion of the total VET clients (1.5 million). This produces a conservative estimate at the lower bound. The NCVER have essentially done the same calculation... but they have added in an estimate of the exits (completions, cancellations, withdrawals) during the period. This produces an estimate nearer the upper bound.' Submission 68, Dept of Education, Training and Youth Affairs, vol.3, p.771. Submission 107, Australian National Training Authority, vol.5, p.1459. Submission

7.115 As stated above, ANTA reports that so far all states and territories have been able to fund the significant growth in New Apprenticeships through various means including efficiency gains, by drawing on funds set aside for other purposes or through managing cash flows.<sup>74</sup>

7.116 The Australian Industry Group expresses concern over the emergence of information from the various state training agencies that the current focus on New Apprenticeships is diverting resources from vocational training places outside of New Apprenticeship arrangements. The Australian Industry Group argues that:

Given that industry is reporting higher level skill requirements at all occupational levels, a balance should be found between the competing objectives of employment based initiatives applying to the entry level workforce (representing 4 per cent of the labour force in any one year) and the need to develop a training culture and skill acquisition across the remaining and future workforce.<sup>75</sup>

7.117 Torrens Valley Institute of TAFE suggests that

...it would appear that funding for the increased number of New Apprenticeships taken up by employers has been largely at the expense (actual or through opportunity costs) of other VET and labour market programs.<sup>76</sup>

7.118 WINETAC also comments that:

...the increasing VET resource allocation to the new apprenticeship scheme is reducing the resourcing available for training through other programs more appropriate to the status of the wine industry workforce. This is limiting the uptake of training in the industry.<sup>77</sup>

### **Industry investment in VET**

7.119 The reforms to VET in recent years have provided industry with a much greater capacity than previously to influence both the supply side and the demand side of training. Industry influences the demand side of the training market through direct expenditure on training, its choice of training provider (particularly through User Choice), and its choice of the content of training (through the use of National Training Packages). Industry influences the supply side of the training market through its role in the development of National Training Packages and its greater role in advising on industry needs and in decision making in the VET system.

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74, NCVER, vol.4, p.886. Dept of Education, Training and Youth Affairs, further information 18 August 2000, p.332

74 Submission 107, Australian National Training Authority, vol.5, p.1458

75 Submission 64, Australian Industry Group, vol.3, p.716

76 Submission 88, Torrens Valley Institute Council, vol.5, p.1191

77 Submission 73, Wine Industry National Education and Training Advisory Council Inc. vol.3, p.870

7.120 Industry's enhanced role in VET carries with it obligations, particularly in relation to investment in VET. Investment in VET is an integral feature of a strong training culture. It reflects employers' commitment to training, and is an indicator of the extent to which employers are meeting their training obligations.

#### *Creating a training culture*

7.121 ANTA observes that governments have been interested in encouraging industry to train for about as long as governments have been involved in funding VET: a long time.<sup>78</sup>

7.122 Dawkins in 1991 described a training culture as:

...one that puts a high value on training, not just in people's early years, but as a continuing process of lifelong personal and career development. A training culture sees training as an investment and demands quality training. In a training culture there is a partnership between employers and their industries, learners and training providers.<sup>79</sup>

7.123 The Employment and Skills Formation Council observed that prior to and up to the late 1980s the institutional and industrial environment in Australia contained major disincentives to training for both employers and employees. The impediments included rigid award structures, poaching, absence of career paths, high labour turnover, limited access to training and poor management attitudes to training. Training activity by employers was uneven, with as many as one third of all Australian enterprises providing no formal training to their employees. Successive Commonwealth governments have sought to remove the disincentives and actively encourage employers to train. Measures included financial incentives, micro-economic reform, restructuring of industrial awards and vocational education and training restructuring and reform.

7.124 From 1990 onwards, industry participation and influence in training became more visible. Industry representatives such as the Australian Chamber of Commerce and Industry and the Business Council of Australia were appointed to various key government advisory bodies, along with representatives of unions, which, at that time, were considered to be part of industry. Key industry figures such as Ivan Deveson, Brian Finn, Eric Mayer and Laurie Carmichael were appointed to head major inquiries focussing on critical areas of training reform.<sup>80</sup>

7.125 In 1990-91, the Commonwealth decided that more forceful measures were required to increase industry investment in training and introduced the Training

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78 Australian National Training Authority, further information 9 August 2000, p.286

79 Dawkins, J.S., *Improving Australia's Productivity*, paper presented to 'Towards a Skilled Australia' conference, Sydney, March 1991

80 Employment and Skills Formation Council, *The Good, the Bad and Everything in Between*, National Board of Employment, education and Training, AGPS, Canberra, 1996, p.9

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Guarantee legislation. This legislation required employers with a turnover above a set limit to spend a minimum amount on training.

7.126 Another major initiative aimed at generating greater ownership of training among employers and their industries was the establishment of ANTA in 1992 with a five member Board drawn from industry. Creating a leadership role for industry has been an objective of both ANTA Agreements to date.

7.127 The creation of a 'training culture' as a separate identifiable objective within the VET system has only been agreed nationally since the May 1998 meeting of ANTA MINCO. A major new initiative to instil in the community and employers the desire to acquire skills that are valued, and to engage in lifelong learning is the National Marketing Strategy for Skills and Learning agreed to by ANTA MINCO at its June 2000 meeting.

7.128 It appears that despite years of encouragement, some sectors of industry still do not train. The Australian Industry Group's study *Training to Compete* suggests that even when there are good intentions and strong motivation to train, many employers do not do so:

While a significant majority (of employers surveyed) identified training as an essential competitive tool for the future (82 per cent); expected to invest in training at all levels in the future (between 50 and 60 per cent depending upon the level); and asserted strong motivations to train relating to establishing competitive edge (74 per cent), innovation (70 per cent) and support for research and development (44 per cent); further investigation suggests that many firms are not able to carry through on these intentions and motivations. This further analysis based on modelling of the survey results, shows that the vast majority of firms asserted strong reasons to train but were only doing so at a low level.

The survey of Australian Industry Group companies helps to explain some of the barriers faced to investment in learning. The blunt reality is that a majority of companies often see training as a cost and a disruption.<sup>81</sup>

7.129 Construction Training Australia observes that although historically there had been training for a few established trades, there is no real training culture in Australia.<sup>82</sup>

7.130 Countering these views are comments such as:

The training culture of the industry is still evolving with more people progressively recognising the benefits of training, particularly as many government services are reduced or removed.<sup>83</sup>

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81 The Allen Consulting Group, *Training to Compete - the training needs of industry - report to Australian Industry Group*, n.d., p.77

82 Submission 60, Construction Training Australia, vol.3, p.670

The introduction of a Retail Training Package has, for the first time, encouraged and sponsored the development of a training culture in the retail industry.<sup>84</sup>

Many companies are starting to develop a 'training culture'.<sup>85</sup>

7.131 ANTA's National Project report on alternative pathways to AQF III in traditional trade occupations observes that workforce restructuring and changes in the way personnel are deployed, particularly through the downsizing of organisations, and outsourcing of functions, has created an employment environment which does not support an employer's commitment to training. In addition, the related development of the widespread emergence of labour hire companies, which typically do not train apprentices, has acted to erode the level of trade training nationally. There has also been an increase in temporary and casual employment where less investment in training occurs.<sup>86</sup>

7.132 ABS surveys show a strong decline in employer investment in training following the abolition of the training guarantee.

7.133 The Committee believes that there are signs of a strong training culture in some industry sectors. This is evidenced by the research conducted as a basis for the development of the National Marketing Strategy for Skills and Learning in which 44 per cent of respondents were classed as high valuers of training. A further 37 per cent valued training although their focus appeared to be on immediate training needs. The Committee was inclined to suspect that the latter group may also have placed more interest in enterprise-specific training than training with industry wide applicability, but there was no evidence to support this.

7.134 The Committee is concerned that very little progress seems to have been made in generating a training culture among small business employers, which, as the Department of Industry, Science and Resources observes, is where most of the enterprises and employees are. The continuing non participation of these enterprises and employees in training limits the opportunities for VET to contribute to the strengthening of Australia's skills base.

#### *Level of industry investment in training*

7.135 There are no definitive measures of the extent or strength of a training culture in Australia but some observations can be made from an examination of a number of relevant indicators. One of the few sources of hard national level data on industry

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83 Submission 46, Agricultural and Horticultural Training Council of South Australia, vol.2, p.427

84 Submission 35, NSW WRAPS Industry Training Council, vol.2, p.314

85 Submission 40, ASCET Flexible Training, vol.2, p.347

86 Australian National Training Authority, *Alternative pathways to the AQF Qualifications* (National Project report), ANTA, Brisbane, 2000, p.5

investment in VET is now more than four years old, the ABS having discontinued the Employer Training Practices survey undertaken in 1993 and 1996.

7.136 ANTA advises that the ABS is unable to repeat the survey in its previous form and that ANTA has been exploring other options to collect information on employer training activity. One of the options involves using *the hours of employer-sponsored training received by the workforce* collected through the ABS household Survey of Education and Training Experience.

7.137 According to ANTA, preliminary analysis indicates that, between 1993 and 1997, there was an increase in the level of employer sponsored training. ANTA cautions that this increase is not consistent with expenditure figures for 1996 but suggests that the change from 1993 to 1996 in the ABS surveys may reflect the effect of the suspension in 1994 and subsequent abolition in 1996 of the Training Guarantee.<sup>87</sup>

7.138 ANTA advises that it is estimated, using the 1996 figures, that private enterprises contribute in total an estimated 45 per cent (nearly \$4 billion) of the national expenditure on training.<sup>88</sup>

7.139 The Department of Industry, Science & Resources (DISR) advised the Committee that a comparison of 1994 and 1996 data showed that industry expenditure per employee for the total of all industries actually fell in the period by about 3 per cent. For manufacturing as a whole, the fall was over 5 per cent but within manufacturing there were extremely high variations. Similarly, within the services sector there were enormous variations. The Department was concerned about this trend:

The decline in expenditure on industry training presumably reflects assessments by employers of the benefits they receive from the training. ... It suggests that much of Australian industry is not yet convinced of the implications for training of the trends towards the knowledge-based economy and the potential benefits to individual firms arising from investment in training.<sup>89</sup>

7.140 DISR also commented that while approximately 60 per cent of Australia's enterprises provide some level of structured or unstructured training for employees each year, the majority of this training can be attributed to large and medium

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87 Australian National Training Authority, further information 9 August 2000, p.286. The first year of operation of the Training Guarantee legislation was 1990-91.

88 Australian National Training Authority, *Annual National Report 1998*, Vol. 3, ANTA, Brisbane, 1999, p.119

89 Submission 109, Department of Industry, Science and Resources, vol.5, p.1517

enterprises. This commitment to training is less evident in the small business sector where most enterprises and employees are found.<sup>90</sup>

7.141 The Australian Chamber of Commerce and Industry (ACCI) challenged the use of the ABS data because it is more than four years old. ACCI comments that it is difficult to quantify the precise extent of industry expenditure on training particularly given the substantial amount of training in the workplace which is informal. The figures also do not incorporate the salary component of those undertaking training which, if included, would substantially increase the proportion of costs borne by employers. ACCI expressed concern that there has been some ill-informed debate around public-private sector cost shifts in training which do not reflect the significant outlay by business on training which is relevant to their needs.<sup>91</sup>

7.142 DETYA also challenged the use of the ABS data on the basis of the effect of the abolition of the Training Guarantee.<sup>92</sup>

7.143 In its Annual National Report for 1998, ANTA provided the following table of estimated enterprise expenditure on structured training during 1998. The table was compiled using the ABS 1996 Employer Training Expenditure Survey, plus the NCVER report on Vocational Education and Training Financial Data for 1998 plus updated information prepared initially by the Allen Consulting Group.

**Table 7.2: Estimate of enterprise expenditure on structured training, 1998**

	\$ billion	per cent
ancillary trading	0.088	2
in-house training	1.846	48
external training	0.672	17
equipment suppliers and manufacturers	1.045	27
other fee for service revenue	0.235	6
<b>total enterprise expenditure*</b>	<b>3.886</b>	<b>100</b>

\* monies paid to employees during the training are excluded

Australian National Training Authority, *Annual National Report 1998*, vol.3, p.119

7.144 The Committee finds it frustrating that there is no quantitative data available that provides both an indication of total industry investment in training and a breakdown by areas of expenditure. Nor is there quantitative data available that allows historical comparisons on the level of industry investment in training. Thus, although research referred to below suggests that a large majority of employers value and intend to provide training, there is no evidence of the level of that commitment in financial terms. The Committee is mindful of the Australian Industry Group's study

90 Submission 109, Department of Industry, Science and Resources, vol.5, p.1513

91 Submission 137, Australian Chamber of Commerce and Industry, vol.8, p.2271

92 Mr R Manns (DETYA), *Hansard*, Canberra, 21 February 2000, p52



that concludes that even where there are good intentions and strong motivation to train, many employers do not proceed with training plans.

7.145 The Committee urges ANTA and DETYA to continue to pursue as a matter of urgency options for collecting data on industry training activity.

**The Committee recommends that:**

**ANTA and DETYA continue to pursue options for collecting data on employer training activity and expenditure and for establishing a benchmark that can be used to assess changes in employer investment over time.**

*Impediments to the development of a training culture*

7.146 The Employment and Skills Formation Council identified a broad range of factors that create negative employer attitudes toward training.<sup>93</sup> These include:

- lack of awareness, understanding or acceptance of changes in the training system, or confusion created by the pace of change;
- lack of awareness, understanding or acceptance of arguments promoting training or suspicion of motives behind training promotion;
- cost;
- both real and perceived lack of relevance of available training to the individual enterprise;
- unsatisfactory experience with the Commonwealth Employment Service or previous trainee, or alienation caused by training provider marketing strategies; and
- too much paper work and bureaucratic complexity.

7.147 The National Marketing Strategy referred to earlier is based on research that categorises employers according to their attitudes towards training: the *High Valuers* are those strongly committed to all forms of training; the *Here and Now* are employers more concerned with immediate training needs; the *Not Interested* are employers who do not engage in any formal structured training.

The *Not Interested* segment of employers contains an over-representation of small employers, male respondents, firms operating fewer than 10 years and turnover less than \$5m. This segment does not value training as much as other employers, sees problems associated with training (casual, part-time staff and costs of implementing the learning), feels that too many training

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93 Employment and Skills Formation Council, *The Good, the Bad and Everything in Between*. National Board of Employment, Education and Training. AGPS, Canberra, 1996

dollars are spent on meeting government requirements, has concerns about the quality of private provider training, and at an individual enterprise level is least likely to offer training to their employees in the next 12 months. The *Not Interested* employers represented 19 per cent of respondents to a survey of employers undertaken as part of the research based for the National Marketing Strategy.

The *Here and Now* segment of employers contains an over-representation of large employers, female respondents, rural/regional firms, firms operating 5-10 years and turnover of \$10 million or more. This segment values training, sees few problems associated with training, prefers on the job training, is less likely than other segments to value employees' learning on their own time (86% vs 98% of the other segments), does not feel that too many training dollars are spent on meeting government requirements, has no concerns about training provided by private firms and is likely to offer training in the next 12 months. The *Here and Now* employers represented 37 per cent of respondents to the National Marketing Strategy employer survey.

The *High Valuers* segment of employers contains an over-representation of medium size employers, metropolitan firms, firms operating 10 or more years and turnover of \$5m or more. This segment is likely to value training, see few problems associated with training but does not have a bias toward on the job training value non-work employee learning, feel that too many training dollars are spent on meeting government requirements, have concerns about private provider training and offer training in the next 12 months. The *High Valuers* represented 44 per cent of the respondents to the National Marketing Strategy employer survey.<sup>94</sup>

#### *What should be industry's share of training investment?*

7.148 There seems to be no consensus on the respective obligations of industry and government in the VET system. For example, the Australian Industry Group commented:

Ai Group believes that there is a responsibility for both industry and government as well as individuals in the development of skill enhancement and career opportunities. The respective funding obligations of each party have never been clearly identified.<sup>95</sup>

7.149 The Victorian TAFE Association argued that since the labour market is moving in favour of higher skills, industry ought to take greater responsibility for developing those skills. However -

- Australia's training culture is not yet sufficiently developed to warrant an expectation that industry will accept this responsibility on its own. In the face of continued economic caution being exercised by the private sector, it

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94 Australian National Training Authority, *National Marketing Strategy for Skills and Learning*

95 Submission 64, Australian Industry Group, vol.3, p.717

remains for the Government to invest a greater proportion of public spending in education.<sup>96</sup>

7.150 The Australian Council of Trade Unions also believes that:

‘the primary responsibility for the funding of structured training leading to a recognised qualification lies with government...’

... The public policy objective of improving the nation’s skills base to achieve greater competitiveness is the advantage of Australia as a whole and should be met essentially through equitable contributions via the tax system.<sup>97</sup>

### *Increasing industry investment in training*

7.151 A range of suggestions was made in submissions on possible approaches to increasing industry investment in training.

7.152 The New South Wales Government was concerned that the relative decline of traditional apprenticeships and the growth of VET in schools, represent a shift of responsibility to the public sector.<sup>98</sup> It argued that declining employer expenditure on training places higher demands on government and individuals, and a future approach to resourcing must explore the potential to encourage industry to develop a ‘whole business’ focus on training investment which extends beyond a reliance on government subsidies.<sup>99</sup>

7.153 The Tasmanian Government suggested that industry should fund the training of existing employees while government gives priority to new entrants.<sup>100</sup> The Australian Council for Adult Literacy suggested some form of ‘training obligation’ on larger enterprises.<sup>101</sup> The Construction Industry Training Board was favourably disposed to sectoral industry levies (there are several in the building industry).<sup>102</sup> The Housing Industry Association opposed this, arguing that if training delivered by a provider is any good, that training will be supported by people willing to pay for it.<sup>103</sup> The Australian Chamber of Commerce and Industry (ACCI) said that the history of the former Training Guarantee legislation makes it clear that prescribing involvement

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96 Submission 128, Victorian TAFE Association Inc., vol.7, p.2083

97 Submission 140, Australian Council of Trade Unions, vol.9, p.2497

98 Dr J McMorro (NSW Department of Education and Training), *Hansard*, Canberra, 5 July 2000, p.810

99 Submission 140, New South Wales Department of Education and Training, vol.9, p.2440

100 Submission 83, Government of Tasmania, vol.4, p.1078

101 Submission 134, Australian Council for Adult Literacy, vol.8, p.1725

102 Mr D Strain (Construction Industry Training Board), *Hansard*, Adelaide, 16 May 2000, p.530

103 Submission 93, Housing Industry Association, vol.5, p.1266

can actually be counter-productive. ACCI did not object to levy schemes originating within certain industries, providing contribution is voluntary.<sup>104</sup>

7.154 The Queensland Department of Employment, Training and Industrial Relations argued that in the absence of a compulsory training levy, the only way to increase employers' contributions is to make the services of the VET system attractive enough for employers to want to invest in it.<sup>105</sup>

7.155 The Committee notes the agreement of ANTA MINCO to a National Marketing Strategy for Skills and Learning but considers there are other measures that need to be taken in regard to industry investment in training. It is apparent to the Committee that industry investment in training, and the returns to industry by way of incentives and subsidies and other measures, are regarded as two separate policy areas. The Committee's view is that they are, in fact, two sides of the one coin and need to be considered as a whole.

7.156 The Committee considers a fundamental review is needed that examines both employer contributions, in all forms, to training, and the returns or benefits received by employers through the combination of all incentives (both state and Commonwealth) such as grants, tax concessions, subsidies for the employment of apprentices etc. When a sounder understanding of the level and areas of industry investment in training is obtained, more strategic and effective targeting of incentives and subsidies will be possible.

**The Committee recommends that:**

**(a) an independent review of employer investment in training be undertaken. The review should take account of both employer contributions, in all forms, to training, and returns or benefits received by employers through the combination of all incentives (both state and Commonwealth) such as grants, tax concessions, subsidies for the employment of apprentices and trainees, workers' compensation arrangements etcetera. The review should investigate measures which could be introduced to lift the level of enterprise investment in vocational education and training which leads to national qualifications, including:**

- (i) options to encourage and support cooperative schemes at the industry level which work toward this objective;**
- (ii) incentives which could be introduced to encourage firms to make additional investment,**

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104 Submission 137, Australian Chamber of Commerce and Industry, vol.8, p.2271

105 Mr P Noonan (Queensland Department of Employment, Training and Industrial Relations), *Hansard*, Canberra, 5 July 2000, p.791

- (iii) the establishment of a target of a minimum investment by each enterprise equivalent to (say) 3 per cent of payroll to be spent on training (exclusive of the wages of those being trained) and the marketing and monitoring of this target;**
  - (iv) measures to ensure that minimum levels of investment in training leading to national qualifications by individual enterprises are a condition of the letting of government tenders, infrastructure projects and contracts;**
  - (v) the benefits which would flow from, and the costs of, extending the research and development tax concession arrangements to include investment in vocational education and training which leads to national qualifications where the employer spends more than (say) 3 per cent of payroll on training; and**
  - (vi) changes to the Commonwealth New Apprenticeships Financial Incentives Program including the feasibility and likely effectiveness of varying the rate in different industry sectors to encourage training in industries that suffer skill shortages.**
- (b) ANTA MINCO approve the terms of reference for the review following advice from the Commonwealth and ANTA CEOs.**

