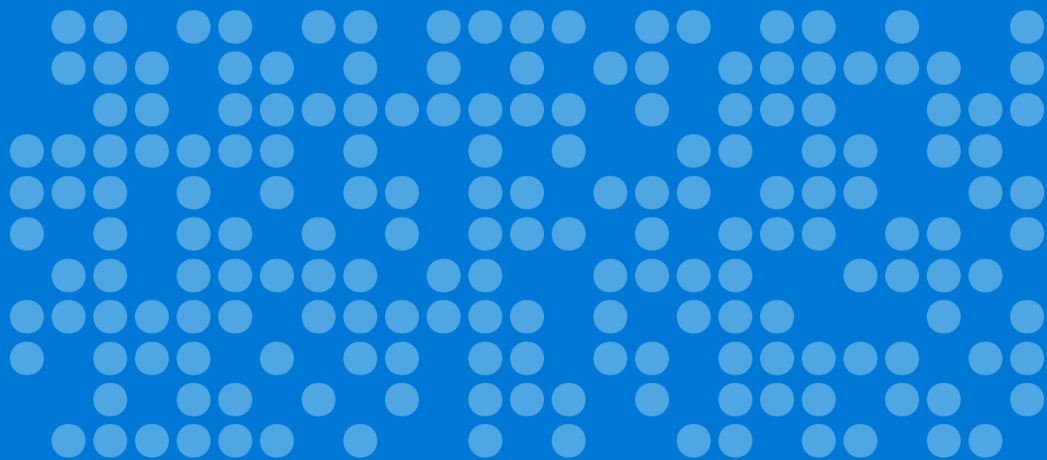


GOVERNMENTS WORKING TOGETHER

A NEW APPROACH TO WORKFORCE SKILLS FOR A MORE PROSPEROUS AUSTRALIA

Prepared by the Victorian Department of Premier and Cabinet



PREMIER'S FOREWORD

Australians and Victorians have been enjoying a sustained period of growing prosperity. This prosperity has in part been a result of key reforms that have made our economy more competitive, more efficient and more innovative. It has also been a result of investing in people by improving educational opportunities and outcomes.

While we welcome this prosperity, we must not become complacent and presume that it will continue indefinitely. There are changes ahead, and we must be ready to respond to them: the global economy continues to become more competitive; our population is ageing; and our own economy is evolving from an industrial economy into a knowledge-based one. The Victorian Government is confident that careful and considered planning will enable us to realise the opportunities of change.

The availability of a supply of suitably skilled labour will be a crucial part of our future economic prosperity. Governments, businesses and individuals have come to recognise the importance of skills development. Skills development can enable business to expand and flourish. At the same time, it can help a person to obtain a job, get a promotion, change careers or be personally enriched.

The 'skills development' system is an area of joint governmental responsibility. Victoria wants to work collaboratively with the Commonwealth and other States and Territories in this area of policy. Supporting education and skills as tools for ensuring equity, productivity and capacity to participate in society has been a bedrock policy of my Government. A collaborative approach is consistent with the broader benefits of federalism, which is a source of diversity and innovation, and ensures an appropriate system of checks and balances.

This paper considers how we can approach the issue of workforce skills and participation to meet future challenges. Importantly, it notes that these future challenges are not intractable, and it puts forward some ideas about a path forward. In particular:

- › It proposes a new model for delivering Vocational Education and Training (VET) that will enhance the system's effectiveness and improve accountability;
- › It identifies opportunities to ensure VET becomes even more valuable, relevant and responsive to a dynamic economy and a changing labour market; and
- › It highlights the need to think more broadly about the skills development system, including opportunities for reform in higher education.

Skills matter. They matter for individuals; they matter for the economy; and they matter for society. In the future they will matter even more, and that is why governments cannot afford to work in isolation. I welcome this paper as a contribution to the effort to foster collaborative policy-making, and to realise our common opportunities.



Hon Steve Bracks MP

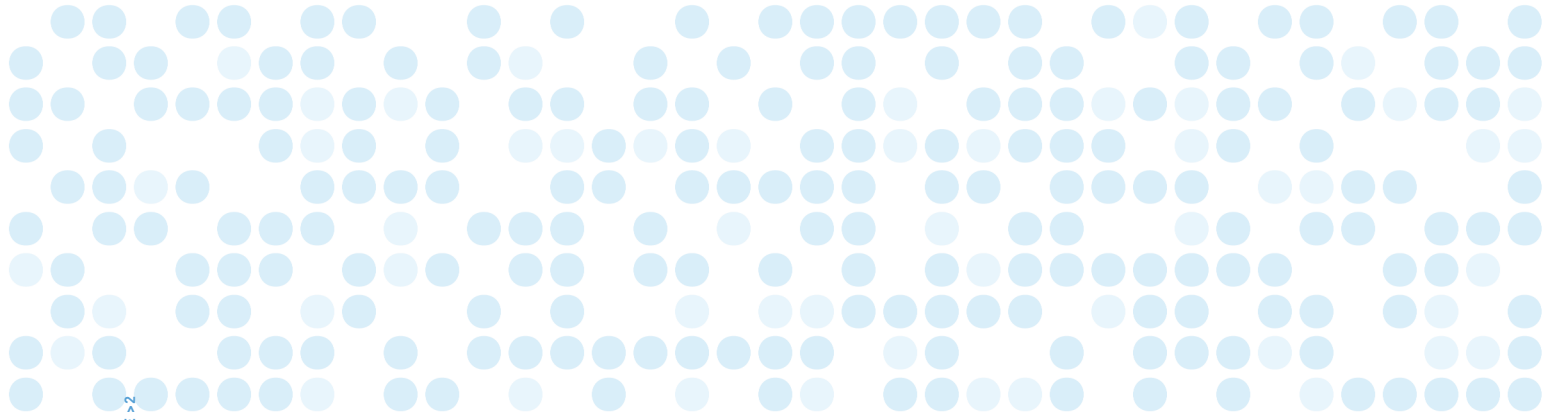


TABLE OF CONTENTS

1	Premier's Foreword
4	Key Messages
4	The Challenge
4	The Issues
5	The Way Forward
6	Section 1: Workforce Challenges in Victoria and Australia
6	1.1 Economic Growth and Structural Change
6	1.2 Nature, Extent and Causes of Current Skills Shortages
8	1.3 Future Workforce Challenges
12	1.4 The Skills Development System
14	Section 2 : A New Approach to Delivering VET in Australia
14	2.1 Background
15	2.2 ANTA—A Federalist Model
16	2.3 A New Approach
18	2.4 Benefits of the New Approach
19	2.5 Enhancing National Regulatory Arrangements
21	Section 3 : Enhancing the Responsiveness of the VET system
21	3.1 Context
21	3.2 Supply and Demand of 'General VET'
24	3.3 Opportunities within New Apprenticeships
26	3.4 Investment in VET: A New Impetus for Growth?
29	Section 4 : The Broader Skills Development System
29	4.1 'Skills Development': Beyond VET
29	4.2 The Need For Reform in Higher Education
30	4.3 Avenues for Reform
32	Appendix 1
34	Appendix 2

KEY MESSAGES

The Challenge

Victoria and Australia have been experiencing a period of sustained economic growth, but a continuation of this strong growth cannot be taken for granted. A combination of strong growth, structural barriers within the labour market and misalignment in the skills and training system has contributed to some short-term pressures on labour supply. Skills shortages are concentrated in particular industries, occupations or regions, although they are less pronounced in Victoria than in other States.

The more important (and longer-term) challenge is to ensure that Australia has the supply of skilled labour it needs to meet the challenges of demographic change (ageing) and the needs of a changing and dynamic 'knowledge-based' economy.

The skills and training system will be crucial in three regards. It will:

- › Contribute to Australia achieving the higher workforce participation and productivity rates that will help maintain economic growth and limit fiscal pressures as a result of ageing;
- › Ensure that our base of human capital has the right skills to operate in a high-skill, high-wage, knowledge-based economy; and
- › Facilitate a flexible labour force that is able to acquire new skills in response to changes in the economy and their professional aspirations.

The Issues

In relation to skills training and development, there are some important issues that require attention if we are to meet the future challenges ahead:

- › The gains in efficiency, consistency and co-operation that were being made under the Australian National Training Authority (ANTA) are at risk of diminishing if an appropriate arrangement is not agreed.
- › The current approach to funding and delivery of Vocational Education and Training (VET) has resulted in complex accountability and regulatory arrangements, creating inefficiencies and barriers to supply, private investment, innovation and diversity.
- › Current arrangements are inhibiting continued progression towards an education and training market that enables and encourages a close and flexible relationship between providers and 'clients' (businesses and students).
- › The VET system must become more agile to enable it to respond to a changing economy and labour market.
- › Growth in public investment in VET and Higher Education has slowed and may be insufficient to meet our future skills needs.
- › There is little effective coordination and communication in planning across the 'skills development' system.
- › Opportunities for improvement in the delivery of VET are equally relevant in the higher education sector and should be addressed.

The Way Forward

This paper identifies three broad areas for reform:

1. It proposes a new model for delivering VET to enhance the system's effectiveness and improve accountability. Under this model, the States would transfer responsibility for funding of New Apprenticeships to the Commonwealth. The States will be fully responsible for funding the provision of all other VET. In terms of qualifications, standards and quality assurance arrangements for public and private training providers, VET would continue to operate under a consistent, Australia wide regulatory framework that reflects federalist principles.
2. It identifies several opportunities to ensure VET becomes even more valuable, relevant and responsive to a dynamic economy and a changing labour market. Including:
 - › Understanding the diverse segments of VET users in order to provide training 'products' required by businesses and students;
 - › A priority-setting model to better determine course supply;
 - › Better targeting of Commonwealth incentives within New Apprenticeships; and
 - › A review of VET funding arrangements (quantum and origin) for growth.
3. It notes the need to think more broadly about the skills development system, including higher education. It calls upon the Commonwealth to initiate further reform in higher education to ensure that it is allocated sufficient public investment, and it enables universities to become dynamic and innovative.

1 NOVEMBER 2004.

2 DECEMBER 2004.

3 KEATING, M, *INCREASING EMPLOYMENT PARTICIPATION IN AUSTRALIA AND HOW TO FINANCE IT*, 2005 (CONFERENCE PAPER).

SECTION 1

WORKFORCE CHALLENGES IN VICTORIA AND AUSTRALIA

1.1 Economic Growth and Structural Change

The past decade has been a period of strong and sustained economic prosperity during which economic growth in both Victoria and Australia has outpaced the OECD average.

This strong growth is reflected in Victoria's labour market outcomes, with the number of people employed increasing rapidly over the period. The State's unemployment rate is at its lowest level since the early 1990s.

As the Victorian economy has grown, its structure has also changed. The services sector has led this growth—the fastest growing sectors have been business and financial, personal, cultural and recreation services. The construction sector has also grown over the past decade, with a corresponding increase in the number of construction workers employed. Conversely, areas that we might think of as 'traditional' sectors of the economy—mining, agriculture, manufacturing—have been characterised by slower growth over the same period.

These changes are the consequences of an evolving economy. Over the last few decades, economic conditions have changed markedly, with a more open economy encouraging global competitiveness and creating access to new markets. Output and employment have shifted towards higher value-add products and services as businesses have sought new opportunities. This trend is expected to continue. Victoria is well positioned to take advantage of this change, given our strong professional sector and our even spread of industry.

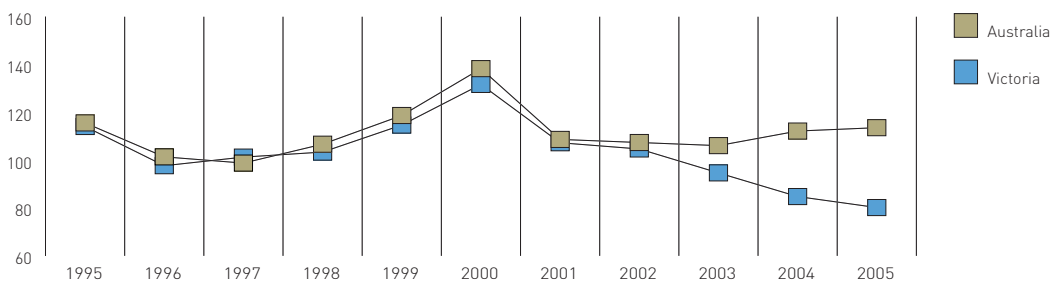
1.2 Nature, Extent and Causes of Current Skills Shortages

Rapid economic growth places short-term pressure on the supply of labour. In recent times, some business groups have expressed concerns about the increasing difficulty of finding suitably skilled labour. A recent Sensis Small Business Survey¹ highlighted this as the most pressing concern facing small and medium enterprises, with 13 per cent indicating that finding quality staff was a problem currently facing their businesses—the highest rate since the survey began in 1993.

While a temporary labour imbalance caused by strong demand can be a healthy sign for an economy, the situation becomes problematic when the imbalance is sustained. A business facing a sustained skill shortage may have to restrict its output. There is some evidence that this is happening now—a recent National Australia Bank Business Survey² showed that 20 per cent of respondents identified difficulty in obtaining suitable labour as a significant constraint on output.

The skilled vacancy index is below historic highs, but persistent shortages may eventually place upward pressure on costs and wages, creating inflationary pressures and threatening business competitiveness. While recent wage pressures have largely been contained, future growth in demand for employment without a corresponding increase in supply could lead to more widespread or acute skills shortages, leading to wage pressures.

**FIGURE 1 • DEWR SKILLED VACANCY INDEX, AUST AND VIC: 1995-2005
(INDEX 1997=100)**



SOURCE: DEWR, 2005.

Shortages of skilled labour appear to be less severe in Victoria than elsewhere in Australia. The Commonwealth Department of Employment and Workplace Relations (DEWR) maintains a monthly index that counts the number of skilled vacancies in each State. This index has actually fallen for Victoria in recent years, and is now significantly lower than the index for the rest of Australia (Figure 1). Notwithstanding this, there is no doubt that skilled workers are in short supply in some industries and localities.

This difference between States highlights a geographic dimension to the skills problem. Rather than being economy-wide, skills shortages appear to be more severe in some States/Territories than in others. Even within States/Territories, some regional areas face particular skills shortages, with substantial variation between regions in the types of shortages being experienced.

Furthermore, shortages tend to be concentrated in particular industries or occupations. While shortages in the 'trades' have received much comment in recent times, there are also region-based shortages in some professional and paraprofessional occupations, including nurses, teachers, dentists, doctors and accountants.

Causes of skills shortages

Current difficulties filling skilled vacancies result partly from strong growth in the economy and the labour market. The long period of sustained economic growth has absorbed much of the readily accessible labour capacity of the economy.

However, there still remains a large portion of the population that could potentially add to our labour supply. As well as those who are classified as unemployed, many people who currently have employment would like to work more hours. There are also people who, although not employed or actively seeking work, would actually work if they could (for example, discouraged jobseekers, early retirees, and some disability pensioners). There are possibly up to 1.5 million Australians in these categories, and it is estimated that if these groups were mobilised, even allowing for some frictional unemployment, the supply of labour hours could be increased by approximately 11 per cent⁹.

So although there is evidence of skills shortages in some industry sectors and some regions of the State, there appears to be a large pool of under-utilised labour, with sufficient human capital to meet our current labour needs. This suggests that any current skills shortages are a systemic problem, likely to be caused by a mix of structural barriers within the labour market, and a misalignment between those jobs available and the skills of the people who might be able to take them up.

Current Victorian Government Action

The Victorian Government recognises the need to ensure that the workforce is appropriately skilled so that skills gaps are not sustained for long periods.

Victoria's 2002 Ministerial Statement, *Knowledge & Skills for the Innovation Economy*, outlines how VET in Victoria will meet the emerging challenges of the innovation economy.

As the major purchaser of VET training, the Government is working to ensure that training is focused on meeting the current and emerging needs of industry and the economy. The Government has developed a strategy for establishing strategic priorities for publicly funded VET in Victoria. The strategy provides for improved targeting of government resources to priority training areas delivered by TAFE providers. The Victorian Government also plays a major role in other skills-focused programs in schools.

In addition to its core function in VET, the Victorian Government has also established a range of programs aimed at tackling specific problems related to workforce skills. Some of these initiatives are targeted at particular regions where skills shortages are more acute (see Table 1).

1.3 Future Workforce Challenges

While current skills shortages are a concern, we must be cautious not to lose focus from the more important longer-term challenges on the horizon, including impending demographic change, and ongoing structural changes in the economy. These challenges will place new and different demands on the labour supply, and in turn, the skills training system. It is vital that any responses to the issue of workforce skills are not reactive to short-term issues to the detriment of intelligent responses to longer-term challenges.

Demographic Change

Demographic change will present many new challenges for our workforce and economy over the next few decades. The ageing of the population is occurring across Australia, and will gather pace over the next few decades, with the significant impacts on participation and labour force growth commencing from 2012. Figure 2 shows how the age structure of Australian society has changed over the past 30 years, and how the percentage of older people is projected to grow in coming decades.

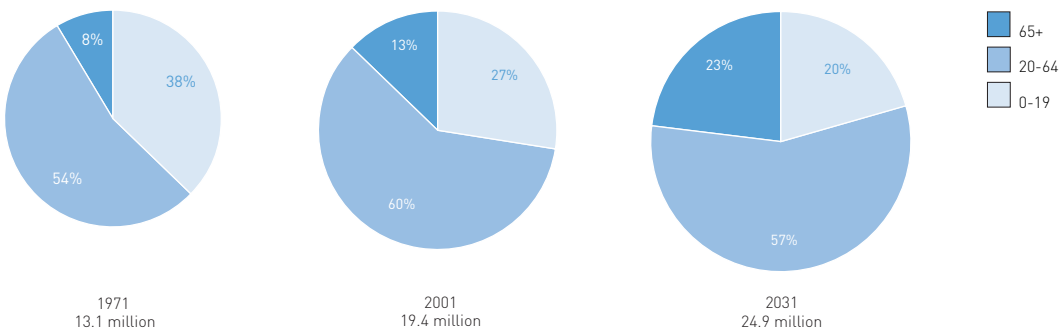
The impacts of this change will be considerable. Firstly, workforce participation rates will be lower, as there will be greater numbers of older people, who tend to have lower participation rates. The Productivity Commission projects that overall participation rates in Australia will drop from around 63.5 per cent in 2003-04 to 56.3 per cent by 2044-2045⁴ (see Figure 3). The effect is expected to be slightly greater in Victoria than in the rest of Australia, given our current age profile and projected birth rates.

Secondly, population growth will slow as there will be more older people, and hence net natural increases in population will slow. As a result, overseas migration will become an increasingly important source of population growth.

TABLE 1 • EXAMPLES OF CURRENT VICTORIAN SKILLS INITIATIVES

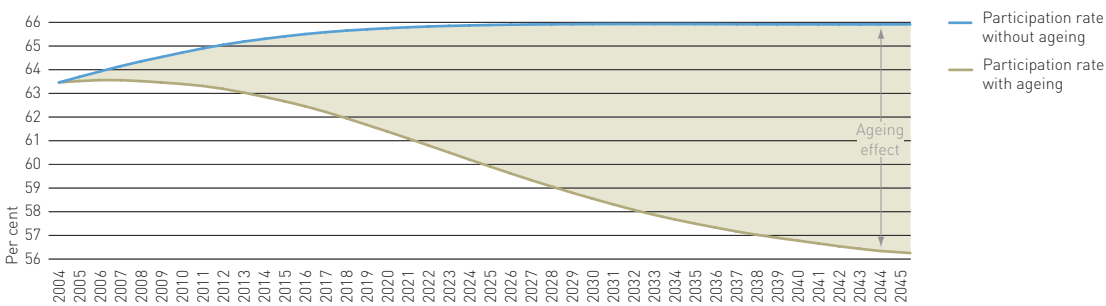
Initiative	Details
COMMUNITY REGIONAL INDUSTRY SKILLS PROGRAM (CRISP)	A \$10M PROGRAM TO TACKLE "SKILLS" SHORTAGES AND CREATE SUSTAINABLE INDUSTRIES AND JOBS ACROSS COUNTRY VICTORIA.
REGIONAL MIGRATION INCENTIVE FUND	AIMS TO ADDRESS SKILLS SHORTAGES IN RURAL AND REGIONAL AREAS THROUGH INCREASED SKILLED MIGRATION.
VICTORIAN SPECIALIST CENTRES	NINETEEN SPECIALIST CENTRES HAVE BEEN ESTABLISHED TO LEAD THE DEVELOPMENT OF INNOVATIVE AND SPECIALISED TRAINING TARGETED TO INDUSTRY EMERGING SKILL NEEDS, AND FOR BRINGING ABOUT NECESSARY CHANGES WITHIN TAFE FOR THIS TO OCCUR.
PRE-APPRENTICESHIPS	THE 2005/06 VICTORIAN BUDGET ANNOUNCED \$12.5 MILLION OVER FOUR YEARS FOR PRE-APPRENTICESHIPS TRAINING.
APPRENTICESHIP COMPLETIONS BONUS	A COMPLETIONS BONUS SCHEME WAS INTRODUCED IN 2003 TO ENCOURAGE APPRENTICES AND TRAINEES TO FINISH THEIR TRAINING.
PARENTS RETURNING TO WORK PROGRAM	ASSISTS PARENTS TO RE-ENTER THE WORKFORCE AFTER BEING AT HOME CARING FOR CHILDREN. ASSISTANCE TAKES THE FORM OF A GRANT FOR TRAINING AND RELATED EXPENSES UP TO THE VALUE OF \$1,000.

FIGURE 2 • AUSTRALIA'S CHANGING AGE STRUCTURE: 1971-2031



SOURCE: ABS (USING PROJECTION SERIES B) 2004

FIGURE 3 • FUTURE IMPACTS OF AGEING ON PARTICIPATION: TO 2045



SOURCE: ECONOMIC IMPLICATIONS OF AN AGEING AUSTRALIA, PRODUCTIVITY COMMISSION 2005

Left unaddressed, these two factors will bring about a slowdown in economic growth. Demographic change will not necessarily generate longer-term labour supply shortages—economic adjustment will restore equilibrium, albeit at a lower level of total output. However, the challenges for government will be considerable. Modelling suggests a fiscal gap of around 6.4 per cent of GDP by 2044-45⁵—a result of higher net demand for government services, driven primarily by increasing demand for health and aged services.

Governments therefore have a keen interest in policies that will stimulate economic growth and mitigate the impacts of ageing. Victoria agrees with the view that two key areas of focus to meet the demographic challenge are **participation** and **productivity**. Increasing labour force participation rates will limit the impacts of demographic change on workforce numbers. Further productivity gains will allow a smaller workforce to increase its output to even higher levels.

Response: Workforce Participation

Many factors drive workforce participation levels. One of the more important factors is the skill level of the potential workforce. Figure 4 highlights this link, using educational attainment as a proxy for skill levels.

As is evident, increasing educational attainment across the population tends to increase labour force participation levels across all age groups.

Australia has a relatively low level of educational attainment in its working age population compared to its major competitors. Forty-one per cent of people aged 24-65 have not completed Year 12 or an equivalent level of education, compared with 24 per cent in New Zealand, 18 per cent in Canada, 17 per cent in the UK, and 13 per cent in the USA. Numbers with post-secondary qualifications are also low (see Appendix 1 for further details).

A focus on raising the level of educational attainment across the population will be a key policy in meeting future demographic challenges.

The Melbourne Institute recently modelled the impact of five priority policy areas which would be required to maintain future labour force participation rates⁶:

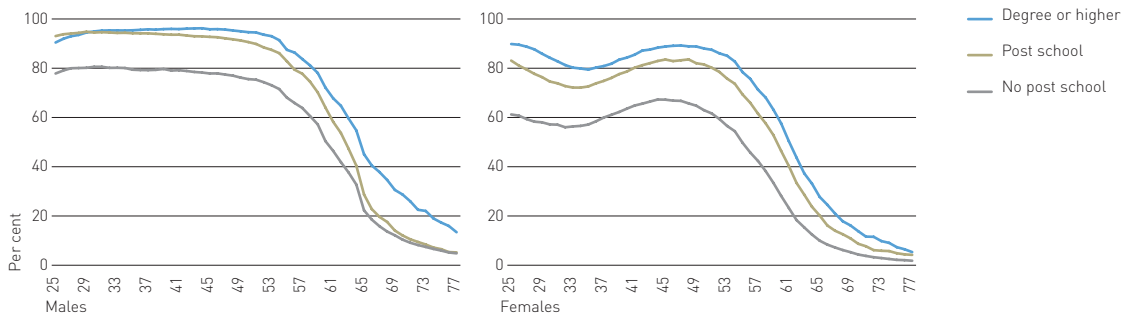
- › Improving educational attainment;
- › Delaying retirement;
- › Improving childcare services;
- › Undertaking welfare reform; and
- › Improving health outcomes.

These estimates indicate that there is potential to increase age-gender labour force participation rates and therefore maintain aggregate labour force participation rates at or near the current rate, despite population ageing. The cumulative impact of these measures on Victoria's 2041-42 aggregate labour force participation rates is illustrated in Figure 5.

The importance of skills and education is clearly evident. The research suggests that raising the educational attainment of Victorians is the most promising long-term policy in addressing participation—it is estimated to raise the aggregate labour force participation rate by as much as about five percentage points above what it would otherwise be in 2042.

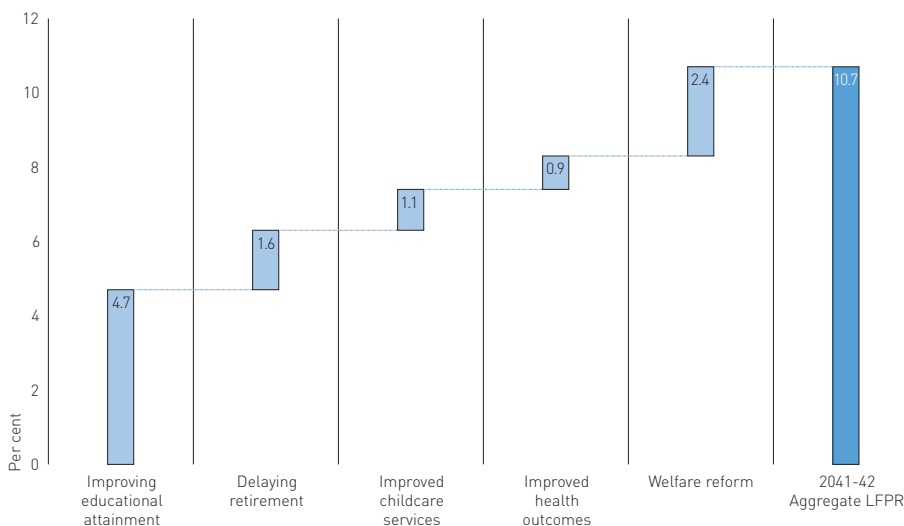
A focus on raising the level of educational attainment among the population will therefore be a key policy in meeting future demographic challenges. There are, however, several other important policy avenues that could be used to help lift participation rates.

FIGURE 4 • EFFECT OF EDUCATIONAL ATTAINMENT ON WORKFORCE PARTICIPATION: 2001 (BY AGE)



SOURCE: ECONOMIC IMPLICATIONS OF AN AGEING AUSTRALIA, PRODUCTIVITY COMMISSION 2005

FIGURE 5 • POLICY CONTRIBUTION TOWARDS IMPROVED AGGREGATE LABOUR FORCE PARTICIPATION RATES IN 2041-42 (PER CENT)



SOURCE: THE MELBOURNE INSTITUTE (ESTIMATES)

The next most promising strategy is to tackle welfare, with policies aimed at delaying retirement, increasing the availability and affordability of quality childcare and improving the general health of the population are predicted to have lasting positive effects on labour force participation.

The Commonwealth Government’s policy settings have a significant influence on labour force participation decisions including taxation, superannuation and welfare policy. The States also have influence over all five policy areas identified, as well as other relevant influences, and therefore the opportunity to increase age-gender labour force participation rates and maintain aggregate labour force participation rates. It therefore makes sense that the Commonwealth and the States/Territories work together to meet the challenges of an ageing population.

To contribute to these policy challenges, the Victorian Government recently established a Workforce Participation Taskforce of industry, union, academic and community representatives to advise the Government on strategies and initiatives to encourage maximum workforce participation.

Response: Productivity

Productivity growth has been a key driver of income and GDP growth in recent decades. Productivity growth has been driven to a large extent by microeconomic reform, with the liberalisation of trade and investment, deregulation of capital markets, more flexible institutional arrangements for labour markets, and the restructuring of public utilities.

The promotion of strong productivity growth must be a continuing focus of governments. Skills are an important driver of productivity. A more skilled worker is not only more likely to be part of the labour force, he or she will also be more productive. Skills are particularly important at the enterprise level as they enable firms to improve their competitiveness.

Ensuring the skills system is delivering an appropriate and flexible mix of skills will be an important component of maximising productivity in coming decades.

Structural Change

Changing market conditions, consumer tastes, access to new or emerging markets, technological change, and the drive by industry towards more intensive, higher-skilled, higher-yield products and services means that the economy is continually changing and evolving. The strong growth in output and employment in the services sector in recent decades is a reflection of this change.

This structural change is likely to continue, supported by the Victorian Government's ongoing efforts to foster an innovative economy. Substantial recent investments in research and development, science, technology and innovation reflect Victoria's commitment to ensuring this structural change continues.

It is important to ensure the skills development system has the flexibility to adapt in this ever-changing economy, helping minimise the costs involved in making the structural transition.

1.4 The Skills Development System

In light of the challenges outlined above, it is important to ask: how can we ensure our future workforce is appropriately skilled to help achieve the participation rates and productivity levels required for economic growth, and to provide individuals with opportunities to participate more fully in society?

This question requires a frank and considered assessment of the skills development system. We must assess the extent to which the current system is meeting the challenges of today, and consider how it is positioned to grow and adapt to meet future challenges.

Australia's education and training systems have made a significant contribution to the country's economic success by preparing a skilled workforce with increasingly higher levels of educational attainment in line with the needs of an emerging knowledge-based economy. Much of the success in education and training can be attributed to collaborative efforts between the Commonwealth and State/Territory governments, and a major element of this success has been in the VET sector.

Notwithstanding this success, the imperatives of future change and continuing evidence of a mismatch between the output of education and training systems and the needs of the labour market mean that now is the time to consider whether the structural, regulatory and funding arrangements are optimal for the future. Issues of particular concern include the following:

The current approach to funding and delivery of VET has resulted in complex accountability and regulatory arrangements

- › Such arrangements are inefficient and create barriers to supply, private investment, innovation and diversity.

Current arrangements are inhibiting continued progression towards an education and training market that enables and encourages a close and flexible relationship between providers and 'clients' (businesses and students)

- › This prevents the development of a more competitive market with an increased emphasis on client choice.
- › More open training markets will encourage businesses to invest more in training and skills development for their employees in order to improve productivity and competitiveness.

The VET system must be sufficiently dynamic to be able to be responsive to a changing economy and labour market

- › Current skills shortages and levels of underemployment suggest there are some opportunities to improve the alignment of VET demand and supply.

The rate of growth in public investment in both VET and Higher Education has slowed

- › Australia was only one of two OECD countries to reduce public spending on tertiary education between 1995 and 1999.
- › In higher education there has been a major shift in the balance of funding from the Commonwealth to students, and domestic undergraduate commencements have not grown since 1996.
- › In VET, Commonwealth funding growth has been stagnant and the shared Commonwealth/State arrangements have encouraged each jurisdiction to meet minimum requirements.

There is little effective coordination and communication in planning across the skills development system

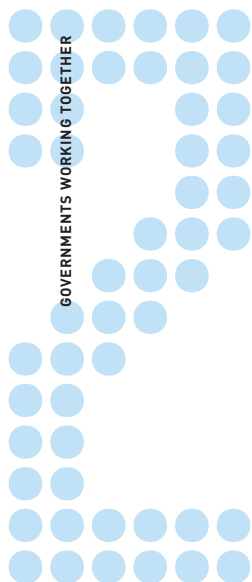
- › Despite the fact that VET and higher education are both parts of what might be called the broader 'skills development system', the linkages between the two are tenuous and could be enhanced to enable more informed investment and policy-making.
- › Aspirations for improvement in the delivery of VET are equally relevant in the higher education sector and should be addressed.

This paper considers these issues in detail within the broader context of identifying a way forward to meet the workforce skills and participation challenges ahead.

Section Two outlines a new approach for delivering and regulating VET so as to clarify accountabilities and remove overlaps and duplication in Commonwealth and State responsibility for the funding of VET.

Section Three provides an overview of opportunities to enhance the responsiveness of the VET system and considers the issue of quantum investment in VET.

Section Four considers the broader skills development system and its components, and calls for increased co-ordination of the skills system and the need for ongoing reform in higher education.



SECTION 2

A NEW APPROACH TO DELIVERING VET IN AUSTRALIA

2.1 Background

VET is an important part of the skills development system. Many people associate VET with Technical and Further Education (TAFE) Institutions. While these institutions are significant and valuable providers of vocational training, the sector also comprises thousands of private providers who compete in the VET market. TAFE institutions serve both the VET sector, and the community more generally, through the Adult Community Education (ACE) sector, which itself is responsive to the very wide range of community interests and needs (see Figure 6).

A principal objective of VET is to provide people with practical skills that will enable them to enter or re-enter the workforce, to obtain new jobs, or to grow their skills within their existing jobs.

VET encompasses an increasingly diverse suite of training 'products' and outcomes. Such diversity has evolved over the last two decades in tandem with, and in response to, the changing economy and labour market. Today VET offers skill development to enter the labour market, to re-enter the labour market, to improve employment prospects and build foundation skills for life and work. It is estimated that around one in eight working age Australians—about 1.7 million people—are undertaking VET at any given time.

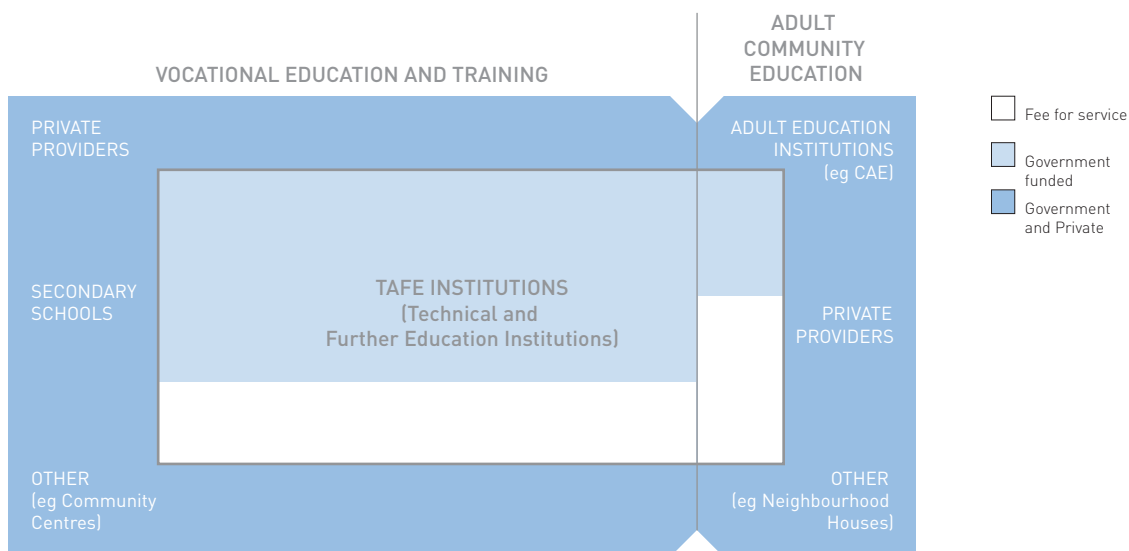
Delivery of course-based training, mixed with 'on-the-job training' and employment in the form of apprenticeships and traineeships (collectively known as 'New Apprenticeships'), remains an important feature of the VET system, representing approximately 20 per cent of all training delivery. In particular New Apprenticeships provide important pathways for new entrants to the workforce, whether it entails a four-year apprenticeship in a traditional trade area or a shorter traineeship to acquire entry-level skills in the service industry.

In addition to the delivery of New Apprenticeships, the VET system offers an increasingly broad suite of vocational education and training options to people of different ages and stages of their working life. VET students include job seekers, skill improvers, career changers, the self-employed, or people seeking a bridge from one educational qualification to another. They can be enrolled either full or part time, receiving education and training in a range of settings, including the workplace, class rooms, or at home. They can select from all levels of qualifications from Certificate I through to Advanced Diplomas. The delivery of publicly funded and fee-for service VET is undertaken by TAFE Institutes, ACE providers and private training providers.

Currently the Commonwealth and States/Territories collaboration through ANTA extends to all aspects of VET delivery, including New Apprenticeships. However, following the Commonwealth Government's decision to abolish ANTA, a new approach is now required.

The consideration of a new approach presents an opportunity to identify how the VET sector can become more responsive to both long and medium term labour market needs.

FIGURE 6 • VET AND ACE DELIVERY STRUCTURE WEIGHTED BY STUDENT CONTACT HOURS (2003)



2.2 ANTA—A Federalist Model

The Commonwealth and the States/Territories established ANTA in 1992 as a means of delivering a nationally coordinated VET sector. Victoria was an active supporter of national collaboration in this area of policy, and the ANTA structure provided a good practical example of collaborative federalism in operation.

Key objectives of the ANTA agreement included:

- › Creating a national VET training system with agreed objectives, priorities, funding, consistent national strategies and a network of providers delivering nationally recognised programs;
- › Fostering close interaction between industry and VET providers so that the training system operates with a strategic plan reflecting industry needs;
- › Establishing an efficient training market with public and private providers;
- › Developing an efficient network of publicly funded providers; and
- › Improving cross-sectoral links between schools, higher education and VET.



7 COMMONWEALTH OF AUSTRALIA,
REPORT OF THE REVIEW OF THE ANTA
AGREEMENT, CANBERRA, 1996, P. 100.

8 'USER CHOICE' ALLOWS EMPLOYERS OF
APPRENTICES/TRAINEEES, TO SPECIFY
WHICH REGISTERED TRAINING PROVIDER
(PUBLIC OR PRIVATE) SHOULD RECEIVE
PUBLIC FUNDING TO PROVIDE TRAINING.

The new national framework was established as a collaborative initiative recognising that both State Governments and the Commonwealth, along with industry, had a role to play. The structure included: shared funding distributed through a common planning process; dual accountabilities; the creation of a Ministerial Council of Vocational Education and Training Ministers (MINCO); and the establishment of a Commonwealth statutory agency—ANTA—providing the basis for industry leadership of the national training system. After its establishment, additional powers in relation to national VET quality assurance and regulation were conferred on ANTA.

While the ANTA arrangements were not without problems, they facilitated significant progress in VET. They also demonstrated the benefits of cooperation. Over the past decade, the VET sector has become increasingly competitive and efficient. As mentioned, in addition to TAFE institutes, thousands of private providers now offer VET across Australia; student numbers and student contact hours have increased; and a national regulatory framework has been put in place, ensuring consistency in standards and qualifications across Australia.

As noted in a 1996 review of ANTA:

The fundamental strength of the Agreement is that it is a co-operative, federalist approach to create a national system addressing an issue that governments agreed to be of national significance.⁷

2.3 A New Approach

In light of the Commonwealth's decision to abolish ANTA from 1 July 2005, it is an appropriate time to identify a new structure that will best ensure effective delivery of VET in Australia. The Commonwealth Government has proposed that its Department of Education Science and Training (DEST) should now assume ANTA's functions and responsibilities. However, the Victorian Government considers this proposal to be inappropriate, and proposes an alternative approach that will retain the benefits of the ANTA arrangements, but offer greater clarity of responsibility for governments, which will in turn benefit industry, students and training providers.

Principles of a New Structure

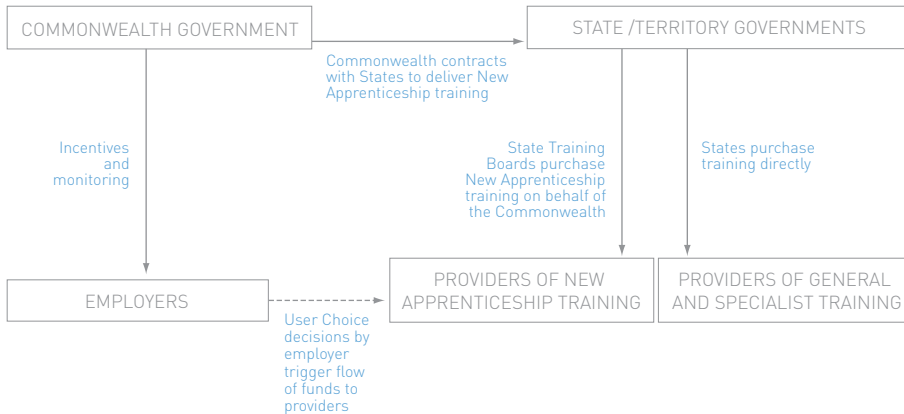
ANTA was founded on principles of cooperation, a commitment to funding growth and the establishment of national arrangements for the recognition and regulation of training. However, in recent times the Commonwealth's commitment to a collaborative approach has stalled. Real growth in funding has been stagnant, and the decision to subsume ANTA's responsibilities into DEST reveals a misconception that ANTA was purely an administrative body whose functions can be undertaken 'in-house' by a Commonwealth Government Department.

Prior to identifying a new structure, it is important to specify the principles that should underpin it. Such principles fall into two broad groups:

(i) Public Policy/Administration Principles

- › Simplicity and clarity of functions wherever possible;
- › Broad national frameworks (to reflect the breadth and national nature of the issues);
- › State and local responsiveness;
- › A focus on quality outcomes for clients and the community; and
- › Efficiency and encouragement of appropriate investment and innovation.

FIGURE 7 • PROPOSED NEW VET FUNDING AND ACCOUNTABILITY STRUCTURE



(ii) Education and Training Principles

- › Quality educational provisions that engender confidence in national consistency;
- › National standards and outcomes (qualifications);
- › Choice in provision; and
- › Training supply and demand responsiveness.

Above all, it is vital that the new structure is consistent with the key objective of ensuring that Australia has the skilled workforce it needs in the future to address the impending challenges that were outlined in the first section of this paper.

Proposed New Structure

Under ANTA, State and Commonwealth recurrent and capital funds were ‘pooled’ and used to purchase VET courses in each State/Territory. As a result, both tiers of Government were jointly accountable for all types of training—apprenticeships, traineeships and ‘general VET’—but the Commonwealth was not directly responsible for the purchase of training from providers. Purchasing was carried out by State Training Authorities in each State/Territory.

Local responsiveness was further encouraged through ensuring that providers (public and private) retained a considerable degree of independence in managing training delivery. Under ANTA, the system of ‘User Choice’⁸ was introduced to strengthen the demand-side signals in a more market-oriented system.

In recent years, however, the Commonwealth has sought to expand its role to more directly influence training purchasing decisions. In essence, the Commonwealth’s proposed new approach seeks to exercise maximum leverage over all VET effort while funding only a portion. However, ‘pooled’ funding becomes problematic when each level of Government seeks to take an active role in purchasing training from providers, as it leads to duplication of effort and reduced efficiency. Confused and unclear responsibilities will arise from the Commonwealth’s attempts to exercise inappropriate authority without funding responsibility. This in turn calls into question the merits of maintaining a model that links funding to a national system that does not distinguish between the sources of funding.



In light of the difficulties and confused accountabilities that developed under ANTA, and that would be exacerbated if the Commonwealth's current proposal were implemented, Victoria proposes an alternative approach for consideration and negotiation. Under this, the Commonwealth and the States and Territories would take full responsibility for discrete aspects of VET, including funding, purchasing and regulation. To this end, the States would transfer responsibility for funding training for apprenticeships and traineeships ('New Apprenticeships') to the Commonwealth Government. The States in turn will be fully responsible for funding all general publicly supported VET, including general vocational and specialist industry training not catered for through New Apprenticeship programs.

Specifically, under this approach the Commonwealth would purchase training courses on a contractual basis from or through State/Territory Training Authorities (or equivalent) with the principles of User Choice being applied. These arrangements are represented diagrammatically in Figure 7.

2.4 Benefits of the New Approach

This proposed structure will provide certainty and clarify the financial accountability in VET while ensuring a nationally consistent approach to regulation of all VET. It will help to increase the efficiency and effectiveness of VET delivery.

The proposal recognises that there is a need for clarity of government financial responsibility and a need to reduce unnecessary complexity. It is sensible for the Commonwealth to assume direct funding responsibility for New Apprenticeships given its strong focus on this part of VET. This approach would enable the Commonwealth to pursue its objectives as specified in its recently released *Skilling Australia* paper. The Commonwealth already has a direct relationship with employers through the provision of incentive payments for firms that take on New Apprentices. Victoria's proposed approach will align Commonwealth funding and responsibility for employer incentives with responsibility for the purchase of the training to which these incentives are linked.

Clarifying areas of financial responsibility will translate into an increased ability of providers to be flexible and dynamic in providing training in the context of an ever-changing economy that is placing different requirements on the VET system.

Within the agreed national framework this approach would enable the Commonwealth to concentrate on its strong area of interest and the States/Territories to focus greater attention on important emerging areas of training, such as innovative entry-level training, advanced high-level technical training and adult workforce development. These will be the key areas of training to support the development of competitive businesses and regions in the future. Entry-level training is being transformed as young people enter with higher-level qualifications—most have completed year 12—and is increasingly utilising new arrangements. The States/Territories will also be able to bring greater focus to upgrading the skills of those already in work. This skills development will become increasingly important as workers use VET to change careers, or to boost careers and maintain skills (see 'emerging trends' in Section 3.2). An example of how VET is being transformed is in the cadetship in manufacturing, which enables students to achieve diploma and advanced diploma level qualifications through a mix of work, study and advanced technical training.

While the new model will enable all jurisdictions to focus on particular areas of VET, it will be underscored by a national regulatory framework (see below) and maintain a mechanism to ensure that delivery across the system is broadly consistent and mutually informed.

Importantly, the new approach would also ensure that providers and employers are sent clearer signals by the financial decisions of the relevant responsible level of government, which will in turn enable them to plan and respond to demand more efficiently and effectively.

2.5 Enhancing National Regulatory Arrangements

An effective VET system requires public confidence in the quality of training outcomes and national portability and recognition of such outcomes in the context of a national labour market which values flexibility and mobility.

Over the past fifteen years, State Governments and the Commonwealth have collaboratively established a national VET regulatory system that enables:

- › mutual recognition of program outcomes (qualifications or modules), based on national competency standards that are organised within Training Packages endorsed by all Ministers for Vocational Education and Training; and
- › the registration of VET providers against a set of agreed national standards so that a provider registered in one State can operate in all States.

This system has facilitated the development of a training market of public and private providers that delivers nationally recognised VET programs, and has actively sought to meet the needs of industry and students in an increasingly mobile labour force.

ANTA was given authority to oversee this system through the National Training Quality Council of the ANTA Board. In effect, the States agreed to mutually exercise and recognise VET regulation through ANTA, and conferred powers on ANTA to undertake elements of this role. The Commonwealth decision to abolish ANTA and assume its functions within DEST removes the authority for the exercise of this function nationally.

To date there has been no agreement on the Commonwealth's post-ANTA proposals. With ANTA due to cease operations shortly, the national VET standards and quality assurance arrangements are at risk.

Victoria again proposes an alternative approach, which complements shared funding responsibility and clear purchasing functions. It maintains key elements of a national system while recognising the respective roles of governments. This approach would continue the gains made under the ANTA arrangements, and build upon them via a refreshed agreement between governments to clear away barriers to efficiency that have developed in the national regulatory framework. Such barriers include the trend towards centralised, overly-bureaucratic and prescriptive approaches to regulation that have emerged.

All VET would continue to operate within recognition and quality assurance arrangements that maintain nationally agreed standards and enable portability of skills. These arrangements would be collaborative and operate through a Federal system where States/Territories' regulatory functions were exercised jointly.

The refreshed agreement between the States and the Commonwealth should utilise a similar approach to the Higher Education's Australian Universities Quality Agency (AUQA) by establishing a Ministerial company, owned by the nine Ministers. This could be serviced by an independent secretariat and oversee the ongoing administration of the Australian Quality Training Framework, and the development and endorsement of national standards and qualifications to ensure consistency in the operation of the framework and to progress important reforms to modernise Australian qualifications.

The proposed new VET funding model, combined with an improved national regulatory and quality assurance framework, would together position the VET system to grow and adapt to meet the future skills training needs of the nation.



9 SCHOFIELD, K, *MOVING ON ...*,
REPORT OF THE HIGH LEVEL REVIEW
OF TRAINING PACKAGES, ANTA,
2004.

10 PRODUCTIVITY COMMISSION,
REVIEW OF NCP REFORMS,
CANBERRA, 2005.

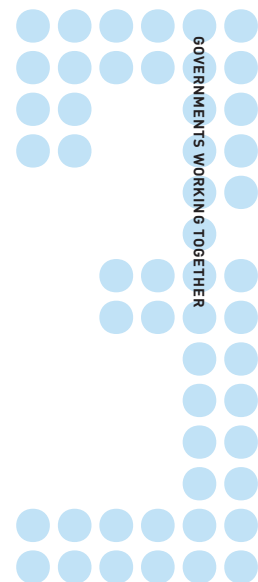
Training Packages

Training Packages are sets of industry-developed nationally endorsed standards and qualifications for recognising and assessing people's skills. Across the national VET system there are 71 Training Packages that cover over 50 per cent of courses, and 95 per cent of apprenticeships. Two central objectives of Training Packages are the need to maintain a nationally consistent view of the skills and knowledge needed to perform effectively in a workplace, and to avoid becoming overly prescriptive or constraining, allowing training providers to develop programs that meet the needs of firms and individual without the constraints of a prescribed curriculum.

A recent major review of Training Packages for ANTA⁹ considered the strengths of Training Packages, and identified areas for future development. It noted that Training Packages were fulfilling the role of national consistency and successfully utilising heavy industry involvement.

However, the review also noted that Training Packages need to: have fewer but more meaningful rules; give greater freedom to providers; be less focused on risk aversion (and more on risk mitigation); and involve more flexible, streamlined and simplified processes. In some areas the industry parties overseeing the development of Training Packages have established the rules for the use of particular Packages in a way that has recreated the very inflexibilities they were designed to overcome.

Under Victoria's proposed new approach to VET, Training Packages would continue to play a valuable role. However, collaborative efforts should be made to address the challenges identified in the ANTA review so as to ensure that Training Packages are effective and do not constrain training providers' ability to be responsive to the needs of employers and students. In particular, Training Packages must be able to provide a framework to meet evolving skill needs and recognise the changes that will occur in employment arrangements over time.



SECTION 3 ENHANCING THE RESPONSIVENESS OF THE VET SYSTEM

3.1 Context

The previous section of this paper noted the need to rethink the approach to funding contributions and structural arrangements for VET in Australia. While this is important, it is only part of the solution to ensuring that the VET system is positioned to meet our future skills and training challenges. Equally important is the need to improve the system's responsiveness so that it can meet the needs of its 'clients'—businesses and students—in a changing economy.

While significant advances have been made since the early 1990s to make the VET system more agile, Victoria agrees with the Productivity Commission's recent assessment that there is now a need to take *'collective action to re-energise the process of VET reform.'*¹⁰ To this end, this section considers issues relating to the supply and demand dynamics of VET, and identifies opportunities for improvement. It is intended to provide a platform for future reform initiatives.

As previously mentioned, VET involves skills development for a vast number of students with different objectives and ages, across a wide spectrum of industries and occupations. Although New Apprenticeships are an important and well-known aspect of VET, over 70 per cent of VET public funding and 80 per cent of all students are enrolled in 'general' vocational education and training outside of apprenticeships and traineeships. The size of this part of the VET system, and the likelihood of its increased future importance (see 'emerging trends' below), heighten the importance of ensuring that the system is dynamic and responsive.

3.2 Supply and Demand of 'General VET'

The breadth of VET is a fundamental strength because it allows the system to be many things to many people. However, it also creates challenges for governments in deciding how to spend public funds to purchase training from providers. It means that purchasing decisions must take into account many factors, which can very often be contradictory or can lack certainty.

The complexity of VET supply and demand is illustrated in Figure 8. As is evident, training purchasing (or supply) decisions must attempt to satisfy the different, and at times competing, demands of students, industry and the community.

In Victoria, the Government actively engages with industry and other groups, and analyses labour market trends to identify purchasing priorities. These priorities are then used to inform purchasing decisions over a three-year cycle.

Responding to 'Misalignment' and Emerging Trends

There are many factors that individually and collectively can cause a misalignment of VET supply and demand. Some of the most relevant of these factors are set out in Table 2.

Misalignment may therefore occur in a number of ways. For example, there may be insufficient graduates because not enough students wanted to undertake a particular course. Alternatively, the VET system may not have supplied enough places because it could not respond quickly enough to changed labour market conditions. Furthermore, an unanticipated number of students may not complete a course, resulting in an inadequate supply of graduates.

In addition to Table 2, there are a number of emerging trends that will place further pressure on the need for the general VET system to become more responsive in the future.

Broad entry qualifications: Graduating students entering the workforce are becoming less and less likely to view their first career choice as the only one they will make. Multiple career changes are far more prevalent than in the past, and, as a result, students often prefer to gain broader entry qualifications that can act as a platform for more specific training as required.

Growth in specialised modules: At the same time as students and employers are preferring breadth in initial qualifications, industry (and therefore the workforce) is becoming more specialised. A particular characteristic of the VET system is its modular approach which allows students to study a single or tailored 'bundle' of modules. Businesses will increasingly demand specific training modules for their employees as they seek to drive productivity improvements through targeted investment in training. More students will be employed, non-entry level (people aged twenty-five years and older), and seeking to build on their qualifications base through short-term, specific training to advance their career or business.

Demographic change: Many individuals already in the workforce are responding to structural changes in the economy by altering when, and how frequently, they engage in VET. The demographic changes discussed in section one of this paper will mean that a greater percentage of older age cohorts will be engaging in education, and a greater percentage of the workforce will be in those cohorts. 'Skill improving' will therefore become increasingly important as workers use VET to change careers, or to boost careers and maintain skills. Workers in slow growth or declining parts of the economy will utilise VET to re-enter the workforce with newly-acquired skills. The system must be positioned to accommodate what will become an important segment of the training market. The OECD has already undertaken work looking at new delivery models for older participants in education, and more detailed investigations on this matter are about to commence in Victoria. This segment will require a more effective model for recognising prior skills, may require new delivery models, and must be appropriately resourced to encourage participation and achievement.

Opportunities for Enhanced Responsiveness

Given these emerging trends and the risks of misalignment, the question arises: how can the responsiveness of the VET system be enhanced? The need for a flexible dynamic system is vital, and has been further confirmed by various market research undertaken to explore the perceptions and expectations of VET (see Appendix 2 for detail on this research).

The challenge is to strike an appropriate balance between investing in areas that are in the interests of the community and industry, and delivering in a way that is sufficiently flexible and engaging to meet students' needs. Three opportunities for further action emerge as being particularly relevant: better information; student segmentation; and industry prioritisation.

FIGURE 8 • DEMAND AND SUPPLY DYNAMICS IN VET

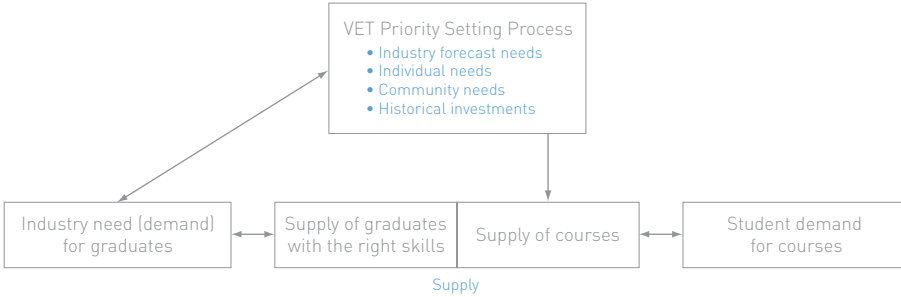


TABLE 2 • FACTORS INFLUENCING VET SUPPLY AND DEMAND

Factors Influencing Students' Demand For Courses	Factors that Influence Industry's Demand and Course Supply
<ul style="list-style-type: none"> › THE CHANGING CONTRACTUAL NATURE OF WORK IS ALTERING STUDENTS' STUDY OBJECTIVES (E.G. NO 'JOB' FOR LIFE) › DEMOGRAPHIC CHANGE, WITH GROWING NUMBERS OF OLDER WORKERS › CHANGING SOCIETAL VIEWS ON THE STATUS OF VET OR PARTICULAR OCCUPATIONS › A GROWING DESIRE FOR GREATER FLEXIBILITY IN COURSE CONTENT AND DELIVERY (SEE APPENDIX 2) › INDUSTRY WAGES AND CONDITIONS 	<ul style="list-style-type: none"> › DIFFICULTIES FORECASTING INDUSTRY GROWTH AND REQUIRED REPLACEMENT RATES › DYNAMIC ECONOMIC GROWTH LEADING TO NEW AND GROWING INDUSTRIES › DECLINING LEVELS OF UNSKILLED JOBS BEING REPLACED BY NEED FOR SKILLED WORKERS › CHANGING CONTRACTUAL EMPLOYMENT ARRANGEMENTS INFLUENCE THE VOLUME AND LENGTH OF TRAINING REQUIRED › INVESTMENT IN VET INFRASTRUCTURE IS INFLEXIBLE IN THE SHORT-TERM › ATTRITION RATES DUE TO POOR EMPLOYMENT CONDITIONS

(i) Better Information for Stakeholders

The provision of timely and accurate information is vital in ensuring that VET users, providers and governments can make well-informed decisions. A significant achievement of ANTA has been to establish a national performance measurement system. This has greatly improved the quality of information, but better information is still required by stakeholders.

Employers indicate they require clearer information in areas such as course suitability, course content and provider performance. Market research indicates that students, their parents and career advisers would also benefit from clearer (and earlier) information on what VET can offer students, both in terms of courses and career pathways. Standardised information on the performance of individual providers is not yet publicly available and stakeholders are still reliant on information from providers when making choices. This issue will become important as the VET system becomes increasingly market-oriented.

Better information also means better data clarity and timeliness. The current time delays between collecting data and it being fed back into the purchasing decision-making process are too long.

Course completions data is a good example of this issue. Information on completion rates are a useful measure for stakeholders. However, the growing trend of specific module training (i.e. students bundling specific modules into an ad hoc training program to meet their needs) means the 'course completion' measure is unclear and misleading. Module completions are a useful but insufficient measure of performance, and a robust information system would measure the reality of student practices. A more up-to-date definition of 'course' should reflect the changing use of VET and capture 'subjects intended to be studied'. This highlights the challenge of collecting and using data to benefit key stakeholders across the VET system.

(ii) Understanding Student 'Segments'

The increasingly diverse use of VET has been a consistent theme of this paper, and confirms the need for a sophisticated understanding of VET's clients to ensure that the 'product' offerings are what students and businesses require. Segmentation will facilitate this understanding and enhance responsiveness by both purchasers and providers of VET.

Segmentation of the VET student base is being implemented in Victoria and is summarised in Figure 9. The three broad student types (Employment Seekers, Career Improvers and Personal Developers) each have sub-categories that stretch across or within different age cohorts. The shading indicates student weighting (darker portions having a greater percentage of students within the segment).

Segmentation will permit adaptability by enabling more rapid changes to elements such as course structure and module timetables. In short, it will enable more strategic responses to a dynamic customer base.

(iii) Industry Priority Setting

Industry prioritisation entails the development of a better understanding of industry (and therefore VET's) priorities. Such prioritisation is vital to ensure optimal expenditure of finite public funds.

A priorities framework has been established in Victoria that seeks to evaluate public investment in VET by industry, sub-industry and region against forecast need. Areas (industries, sub-industries and regions) are then given a priority which subsequently guides government purchasing decisions.

While the three opportunities outlined above are by no means an exhaustive set of areas for action, collectively undertaken they will enhance the ability of the general VET system to respond to emerging trends and reduce the ongoing risk of misalignment between demand and supply.

3.3 Opportunities within New Apprenticeships

New Apprenticeships differ from the general VET system in important respects, and there are also opportunities to improve responsiveness in this area. New Apprenticeships involve work-based training and are established through a joint employment and training contract. They also include incentives, which take the form of direct employer wage subsidies from the Commonwealth and completion incentives paid to employers by both State and Commonwealth Governments. These incentives exert considerable influence on industry, as they reduce the cost of wages and encourage investment in training, particularly traineeships.

Unlike general VET, training for New Apprenticeships is dependent on demand from employers wishing to take on apprentices or trainees. There are many documented cases of employers not being able to attract people to apprenticeships, particularly in traditional trades, however in some cases employers do not offer sufficient apprenticeship positions to ensure future supply of skilled workers in an industry (particularly when non-completions are high). Like general VET, misalignment of demand and supply of New Apprenticeships is driven by multiple factors, as outlined in Table 3.

FIGURE 9 • STUDENT SEGMENTATION IN VICTORIA'S VET SYSTEM

	UNDER 25	25-45	OVER 45
EMPLOYMENT SEEKERS	Young Entrants	Job Seekers	
CAREER IMPROVERS	Self Employed		
	Skill Improvers		
	Career Changers		
PERSONAL DEVELOPERS	Bridgers		
			Basics
	Personal Developers		

TABLE 3 • FACTORS INFLUENCING SUPPLY AND DEMAND OF APPRENTICESHIPS AND TRAINEESHIPS

Factors Influencing Student Demand	Factors that Influence Industry Demand
<ul style="list-style-type: none"> › EMPLOYMENT OPTIONS—EXCESS GROWTH IN SOME GOVERNMENT-SUBSIDISED TRAINEESHIP AREAS COULD BE DRIVEN BY AVAILABILITY OF JOBS IN THAT AREA. › LOW SKILL ATTAINMENT IN SOME AREAS. › APPRENTICESHIPS ARE PERCEIVED TO BE TOO LONG IN SOME INDUSTRIES › LOW APPRENTICESHIP WAGES ARE A SOURCE OF COMPLAINT. › RESEARCH INDICATES STUDENTS WANT MORE FLEXIBILITY IN COURSE LENGTH AND CONTENT › TRAINING MATURE AGE (25+) WORKERS HAS NOT BEEN SUFFICIENTLY FLEXIBLE TO LURE A LARGE NUMBER 	<ul style="list-style-type: none"> › POTENTIAL STRUCTURAL MISALIGNMENT BETWEEN THE INDUSTRY'S NEED FOR GRADUATES (AND THEREFORE APPRENTICES IN TRAINING) AND AN INDIVIDUAL COMPANY'S INVESTMENT IN TRAINING (OFFERING APPRENTICESHIPS). › FEDERAL GOVERNMENT INCENTIVES, A POWERFUL AND USEFUL LEVER, ARE DISTORTING DEMAND FOR TRAINEESHIPS, AND PROVIDE INSUFFICIENT SUPPORT OF TRADITIONAL APPRENTICESHIPS. › GOVERNMENT FUNDED APPRENTICESHIP REDUCTIONS, AS PUBLIC INFRASTRUCTURE HAS BEEN PRIVATISED. › INDUSTRIAL RELATIONS SETTINGS AND A LACK OF WILLINGNESS TO INVEST IN TRAINING ARE ALSO CONTRIBUTING TO THE CURRENT SITUATION.

11 DEST, *SKILLS AT WORK: EVALUATION OF NEW APPRENTICESHIPS*, DECEMBER 2004.

12 GRANT, P., *FUTURE LEVELS OF DEMAND FOR VET: SOME PRELIMINARY FINDINGS*, OCTOBER 2004.

Opportunities

Opportunities to improve traineeships and apprenticeships fall into three categories, each of which is discussed below.

(i) Improve Flexibility

There are opportunities to investigate issues involving flexibility of apprenticeship arrangements. These include: overall length of training; 'fast tracking' of competent individuals; increased recognition of prior learning; increased use of pre-apprenticeship training; and a better and more flexible approach to adult qualifications. The length of apprenticeships should be increasingly defined by individual competency rather than duration. Increasing apprenticeships' flexibility might go some way to alleviating potential student concerns about entering trades.

(ii) Align Incentives

A detailed review of the structure, magnitude and destination of Commonwealth incentives for traineeships and apprenticeships is required. Incentives can be a valuable tool for encouraging investment in training, but there is strong evidence¹¹ that current Commonwealth incentives are poorly targeted and frequently used as a wage subsidy, rather than encouraging training in the right areas.

(iii) Identify New Structural Arrangements

An investigation into possible structural solutions for apprenticeships is also required. As many former public utilities have been corporatised or privatised, effective government investment in apprenticeships (as employers of apprentices) has declined. Commercial imperatives have led the owners or managers of these formerly large employers to reduce their investment in training. The trend to corporatise sub-contracting has also reduced the average size of companies in many industries, and smaller companies are often less inclined to take on apprentices.

Further work is required to identify more efficient ways than purely increasing incentives to align individual businesses with the interests of industry and government. Possible initiatives could include creating co-apprenticeships (two firms co-contracting an apprentice) and greater 'group-training' type arrangements.

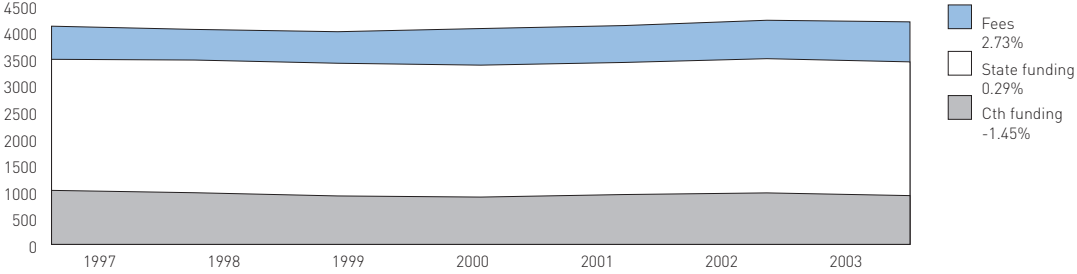
3.4 Investment in VET: A New Impetus for Growth?

While there are opportunities to improve the responsiveness of the VET system, the issue of quantum investment must also be considered. In particular it is important to ask: what is the right level of investment in VET and who should pay for it? Answering these questions is difficult, but vital, given the importance of an effective skills system to moderate future challenges. Although this paper does not quantify the required future levels of investment, it recognises that there should be renewed debate on the size of growth and the source of funding in VET.

Despite relatively modest funding increases in recent years, efficiency gains have enabled the VET sector to grow. While there remains room for continued efficiency improvements, especially those driven by increased competition, it is unclear whether (and for how long) these can keep pace with the growing demands that will be placed upon the system. There is nothing inconsistent with increasing funding while simultaneously progressing efficiency reforms.

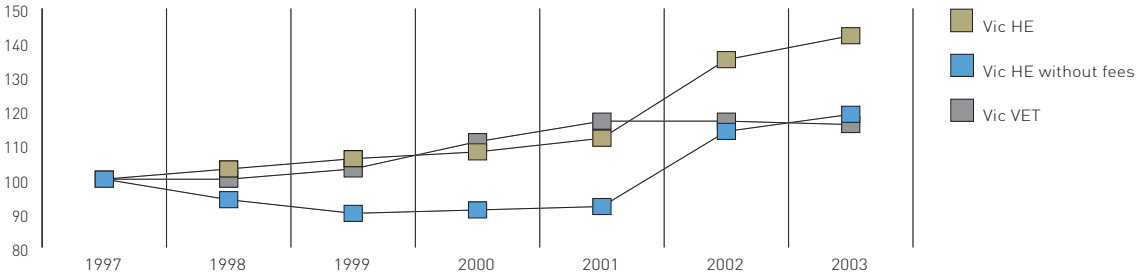
ANTA was established on the back of a Commonwealth commitment to funding growth. This growth consequently increased the Commonwealth's share of total recurrent funding from approximately 8 per cent in 1992 to more than 25 per cent in 1996. However, since 1997 there is clear evidence that this growth has stalled, and government funding increases have been restricted to some states. Victoria, for example, has increased real funding by more than 3 per cent per annum since 1997. Commonwealth funding has declined in real terms over this period, as indicated in Figure 10.

FIGURE 10 • AUSTRALIAN VET FUNDING BY SOURCE (1997-2003, \$M, CONSTANT PRICES)



SOURCE: NCVER STATISTICS, VARIOUS YEARS
NOTE: CAGR IS COMPOUND ANNUAL GROWTH RATE

FIGURE 11 • INDEXED VET AND HIGHER EDUCATION FUNDING (GROWTH OVER TIME IN REAL TERMS)



SOURCE: NCVER STATISTICS, DEST, DPC ANALYSIS

Analysis undertaken for ANTA by Access Economics in 2004 indicated that the total number of VET students in Australia actually fell by 42,400¹² between 1999 and 2003. It estimated that in order to keep pace with the demand for skills, the VET sector would need to grow by at least 2.5 per cent per annum until 2010, if not more, based on modelled demographic and labour market changes alone. Fundamental shifts in the policy agenda, such as substantially expanding the availability of publicly funded VET to firms and their employees, would increase that significantly.

One of the differences between funding growth in VET and higher education has been higher education's ability to attract private investment through domestic and international fees (see Figure 11). This has seen the ratio of spending on higher education to VET increase from 2:1 to nearly 3:1 in less than ten years.

In principle, shared investment in education and training by governments, businesses and individuals reflects the shared gains enjoyed by the community, enterprises and individuals. However, it is important to note that personal returns from higher education are often more obvious than for VET, and there are limits to the use of such comparisons when considering issues of student contributions to post-compulsory education. The case for continued public funding growth in VET remains compelling.

In practice, the current public funding model for VET reflects an assumption that it generates a substantial public benefit and a relatively small private one. A publicly funded student currently contributes around ten per cent to the cost of their training through fees, and the government finances the remainder. However, as we have shown earlier, the student profile has changed over time to include a wider client group. The growing number of students who are already employed enjoy (together with their employers) greater private gains than the current public funding arrangements imply. As VET shifts its focus to better meet the changing needs of enterprises and the workplace, benefits will become more directly related to businesses and their employees.

On the other hand, as the training market has developed, many firms and some individuals have purchased training to meet their requirements, often meeting the full cost of that training. Arguably, in many cases this skews the cost burden too much towards private payments and does not reflect the public benefit derived from this training.

The current funding model may be distorting choice and investment decisions because there is no flexibility between two simple funding options—either largely government funding or employer/employee funded. To meet the challenges identified earlier in this paper, public and private investment in VET will need to increase, and it is imperative that governments and industry work together to identify the opportunities and approaches to enable this investment to take place.

SECTION 4

THE BROADER SKILLS DEVELOPMENT SYSTEM

4.1 'Skills Development': Beyond VET

Just as the workforce skills issue is not only about current shortages, skills development is not only about VET. In particular, as discussed in the first part of this paper, higher education and professional skills are also central issues for the future.

When considering the delivery of codified skills—the area in which government support through funding and regulation has the most direct role to play—the VET system must not be considered in isolation, but in the context of a broader skills development system. Reforming the higher education sector and building its complementary relationships with VET will be a crucial part of any required policy response.

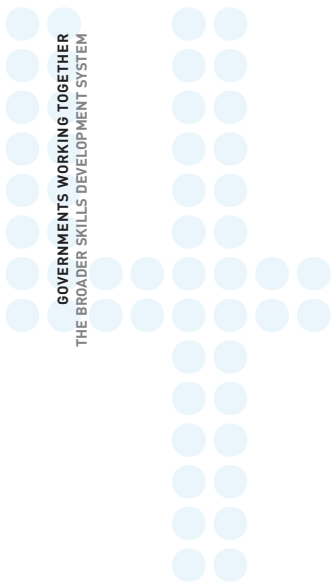
4.2 The Need For Reform in Higher Education

All the States and Territories, including Victoria, have a considerable interest in the higher education system. Not only are the States and Territories responsible for university governance and legislative oversight, our businesses and governments are also major employers of university graduates. Universities make a major contribution to a State's innovation capabilities and enhance its competitiveness. More generally, States and Territories, including Victoria, see education as impacting significantly on individual social mobility and outcomes.

The Commonwealth has taken on the role as the most substantial source of public funding for our universities. It has a responsibility to maintain public investment in higher education at levels that support quality, access and competitiveness—including responsiveness to the demands of the economy.

There have been significant changes in higher education since the late 1980s. However, recent changes have focused increasingly on securing additional contributions from students towards the costs of higher education (e.g. HECS supported fees, postgraduate fees, overseas student fees). Arguably, the reliance on student-sourced revenue has been over-emphasised and is now out of balance. Further action is still required in several other areas.

As with the VET system, there is a need to maintain overall levels of public investment in the education of Australian students, reflecting the strong public value that results from post-compulsory education and training. The increasing contributions from students have not been matched by an increase in public investment, and the Commonwealth Government's share of higher education funding has fallen markedly, as shown in Figure 12.



This shift away from public investment is reflected in the number of domestic undergraduate places, which has been steady for almost a decade despite strong economic and population growth. Growth in undergraduate commencements since 1996 has been almost entirely from overseas students, and the number of publicly funded places has been flat (see Figure 13).

Similar to the VET challenges outlined earlier in this paper, there is also a need to improve responsiveness to Australia's domestic labour supply requirements. There is now evidence of growing skills shortages in a number of occupations served by university graduates. The most recent list of national skill shortages from the Commonwealth Department of Employment and Workplace Relations identified 16 professional or para-professional occupations that are in shortage around the country, with other professional shortages in specific States/Territories and regions. For example, accounting, engineering and nursing.

However, since 1996 there has been no significant growth in domestic undergraduate commencements and there have been declines since 2001 in many key disciplines, including management and commerce, IT and engineering courses¹³. This has the potential to fuel even more serious skills shortages in the future.

All governments need to analyse the economy and future labour force needs to provide a critical information base that informs education investment decisions and assists students and businesses.

Current funding and regulatory systems are overly centralised and rely on high levels of detailed intervention by the Commonwealth Government which allocates places and funding. One Vice Chancellor recently noted that nearly 140 Commonwealth interventions in 2004 concerned ten student places or fewer. Many educational leaders feel that current institutional arrangements are stifling innovation in the higher education sector—resulting in a lack of choice for students, and potentially a less diverse range of workforce skills.

The trend towards centralised, highly interventionist bureaucratic involvement in institutional management is at odds with the reform direction of most high-performing organisations—public and private. The trend in these organisations is to reduce regulation and enable more open and flexible market relations between provider and client. These are the types of changes that have emerged in VET, and, as noted earlier, need to be further enhanced.

Market reform in higher education has stalled in recent years. More flexible arrangements are needed if the higher education sector is to sustain and drive our future economic performance effectively.

Pricing is a further area requiring attention. In many cases, course costs and student contributions are based on precedent, rather than rational calculation. This in turn has caused universities to create complex webs of cross-subsidies across courses, which is not conducive to efficient allocation.

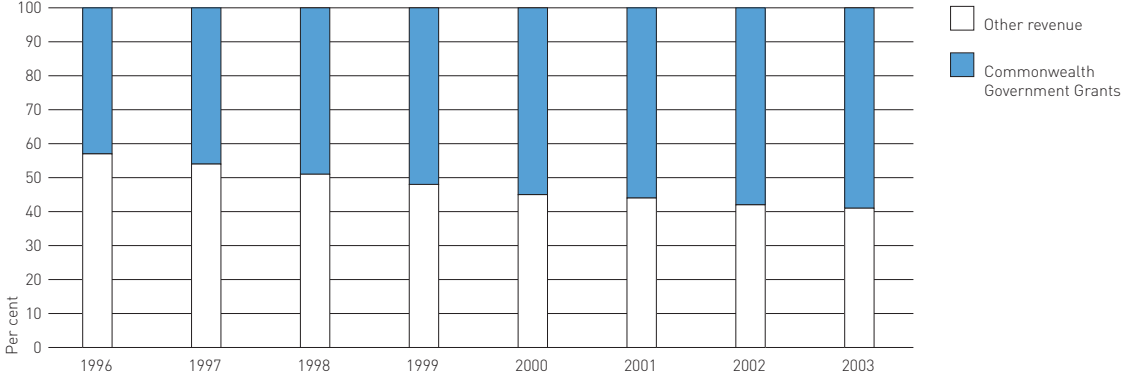
4.3 Avenues for Reform

There are two important trends that should be noted when considering higher education policy.

On one hand, there is a trend towards a national (and global) economy—increasing labour force mobility between regions, occupations, industries and different skill levels means that distinctions or boundaries between education sectors and jurisdictions are becoming increasingly blurred. Many employers and industries are national, and require workforce skills to be consistent and transferable around Australia. The costs of a disjointed or inconsistent skills system are potentially large.

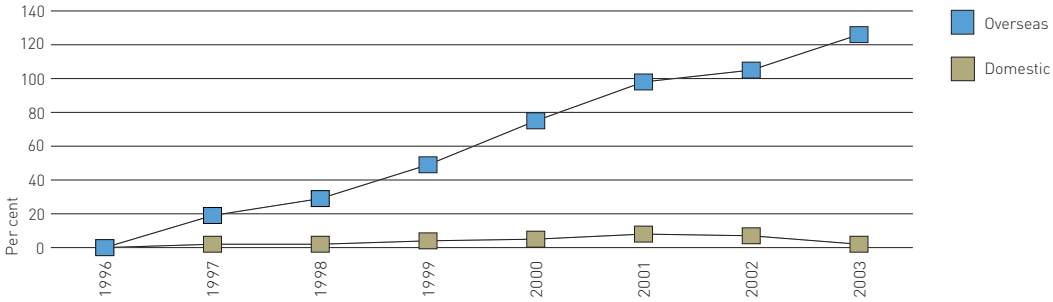
At the same time, there are distinctive differences in State, regional and local economies, and a distinct local and tailored response to education and training is often necessary.

FIGURE 12 • PERCENTAGE HIGHER EDUCATION FUNDING - UNIVERSITY REVENUE BY SOURCE (1996-2003) (%)



SOURCE: AUSTRALIAN VICE CHANCELLOR'S COMMITTEE, 2005.

FIGURE 13 • CUMULATIVE PERCENTAGE CHANGE IN STUDENT LOAD FOR COMMENCING UNDERGRADUATE STUDENTS (1996 TO 2003) (%)



SOURCE: BIRRELL ET AL, 2005.

A balance is therefore required between these two competing trends, and federal arrangements are best placed to strike this balance. Given the complementary roles of Commonwealth and State/Territory Governments in coordinating higher education, the Victorian Government proposes a national collaborative dialogue on reform of higher education involving Australian governments, providers and employers.

One possible approach to this was outlined in Victoria's 2002 Ministerial Statement on the future directions of higher education. This proposed the establishment of a Council of Ministers for Higher Education within the Ministerial Council on Employment, Education, Training and Youth Affairs (MCEETYA) framework. This Council would provide a formal mechanism for consultation between the Commonwealth and State/Territory Governments.

Regardless of the mechanism, a national approach that utilises the capacities of all governments and addresses the needs of business and the community is needed now—not after a further period of monitoring or contemplation as suggested recently by the Productivity Commission.

Together, Australian governments can create the conditions to stimulate innovation and efficiency in a sector of vital importance to the collective and individual future well-being of all Australians.

APPENDIX 1

TABLE 1 • PERCENTAGE OF AUSTRALIANS WITH NON-SCHOOL QUALIFICATIONS OVER TIME (TOTAL)

	1994	1996	1998	2000	2002	2003	2004
15-24	21.8	23.2	22.1	22.4	25.1	25.7	25.9
25-34	46.6	50.1	51.6	54	59.1	60.4	63.2
35-44	48.4	52.2	50.7	52	56.4	57.5	58.9
45-54	42.8	46.2	45.6	48.9	54	54.5	57.1
55-64	33.6	37.1	36.1	38.6	44.2	45.6	47.9
TOTAL	39	42.3	41.9	43.8	48.2	49.1	50.9

SOURCE: ABS CAT. 6227.0, 2004

TABLE 2 • YEAR 12 RETENTION RATES (AUSTRALIA, %)

	1979	1984	1989	1994	1999	2004
YEAR 12 RETENTION RATES	39.6	48.5	63.4	75.3	74.4	77.1

SOURCE: ABS CAT.4221.0, 2004

TABLE 3 • DISTRIBUTION OF PERSONS AGED 25-64 YEARS BY EDUCATIONAL ATTAINMENT (INTERNATIONAL COMPARISONS, %)

Country	Below upper secondary education	Upper secondary and post-secondary non-tertiary	Tertiary Type B (undergrad)	Tertiary type A (bachelor or higher)	Total
AUSTRALIA	41	30	10	19	100%
CANADA	18	40	21	20	100%
FRANCE	36	41	11	12	100%
GREECE	49	33	5	12	100%
INDONESIA	77	18	2	3	100%
ITALY	55	35	0	10	100%
JAPAN	17	49	15	19	100%
KOREA	32	44	7	17	100%
NEW ZEALAND	24	47	15	14	100%
SWEDEN	19	49	15	17	100%
UNITED KINGDOM	17	57	8	18	100%
USA	13	50	9	28	100%

SOURCE: ABS CAT.4102, 2003



TABLE 4 • NUMBER OF STUDENTS IN VET ('000, VICTORIA AND AUSTRALIA, 1994-2003)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
VIC	331.7	367.5	395.5	417	428.7	475.7	468.2	471.1	496.8	511.2
AUST	1116.5	1268.9	1341.2	1449.1	1509.8	1614.6	1707.9	1679.1	1682.9	1717.8

SOURCE: NCVET DATA 'STUDENTS AND COURSES' 2003

TABLE 5 • VET ENROLMENTS OVER TIME BY QUALIFICATION LEVEL (VICTORIA)

	1999	2000	2001	2002	2003	2004
DIPLOMA AND ABOVE	201,636	199,745	202,622	209,915	202,929	167,257
CERT IV	63,287	63,987	63,940	65,746	71,298	76,184
CERT III	89,578	104,162	115,415	126,369	137,568	142,528
CERT II	94,780	106,518	114,945	116,879	110,414	102,315
CERT I	32,757	30,953	33,882	36,095	40,946	40,513
YR 12	4,312	3,625	3,668	3,757	6,226	6,589
OTHER UNCLASSIFIABLE	131,584	104,513	91,305	105,450	109,237	114,901

SOURCE: NCVET DATA 'STUDENTS AND COURSES' 2003

TABLE 6 • PARTICIPATION RATE OF STUDENTS AGED 15-64 YEARS IN VOCATIONAL EDUCATION AND TRAINING (1999-2003, %)

	Raw numbers				Percentage	
	1999	2000	2001	2002	2003	2003
UNKNOWN	77.3	73.2	68.2	55.4	57.8	3.4%
UNDER 25	578	608.5	618.1	633.8	642.2	37.4%
25-44	667.1	682.8	666.6	660	660.2	38.4%
45+	292.2	343.3	326.2	333.8	357.6	20.8%

SOURCE: CUSTOMISED DATA, NCVET DATA 'STUDENTS AND COURSES' 2003

APPENDIX 2

* THIS BRIEF REVIEW WAS PREPARED BY QUAY, A NATIONAL RESEARCH AND SOCIAL MARKETING AGENCY. IT DRAWS ON THE EXTENSIVE BASE OF RESEARCH QUAY AND OTHERS HAVE CONDUCTED WITH VET CLIENTS, INCLUDING RESEARCH FOR: NATIONAL MARKETING STRATEGY FOR VET (ANTA 1999); CLIENT FOCUS IN VET (ANTA, 2001/02); MARKETING ACE (ACE, VICTORIA 2002/03); NATIONAL STRATEGY FOR VET (ANTA 2003); MARKETING APPRENTICESHIPS (TAFE NSW 2003); BRANDING AND POSITIONING FOR VET (ANTA 2003/04); CLIENT INFORMATION NEEDS IN VET (ANTA/NTQC, 2005); GOOD PRACTICE IN VET DELIVERY FOR EQUITY CLIENTS (ANTA, 2004/05).

Expectations and Reality

The client experience of vocational education and training

This brief paper draws on a range of qualitative research studies conducted between 1999-2005 with clients and potential clients of the vocational education and training system including employers, home based businesses, parents, careers advisors, young people, VET students, apprentices and tradesmen, mature aged students, existing workers, and training providers.*

The gap between the client expectations of vocational education and training and the reality of their experience of VET is intriguing. Fundamentally, it is an issue of client satisfaction but it has many faces. The diverse client groups that VET serves each bring their own particular perspective on the gap between what they want and what they get. For some, VET consistently delivers more than they expect, for others the report card reads 'could do better'.

Young people

For most young people in training, VET consistently over delivers on its promise, the experience far exceeds their expectations. It is "way better than school", more engaging and more practical than they thought it would be. Their satisfaction with the experience and the outcomes is high. What delivers that high level of satisfaction is:

Good teachers: people who are good at training but also know their industry and teachers who care about how you are doing.

"She's like a friend as well as a teacher—she doesn't leave me to hang out there on my own."

Skills and qualifications that other people want: certainty about the recognition and value for the VET qualification they will have and confidence that the skills they acquire are up to date, based on what industry 'wants now not ten years ago'.

"I'm at TAFE because I want a job; I want to know that it's (the qualification) worth something (to an employer)"

Opportunities: they want to know that their training in VET is opening doors, not closing them and that's not just the door to a job. They want to know that qualifications will be valued around Australia, they want to travel with a qualification that is recognised overseas, they want easy transfer to other study options, clear pathways, cross accreditation and articulation into other programs.

"My trade teacher is great, he showed me how I can take this unit and go into drafting—I don't have to stay a fitter for ever".

And someone to talk to, most of all: young people want to talk about how they are going, about what they do next, about problems with the course or with their employer. They also want help to get the most out of the system—to change course if they need to or to get recognition for things they have already done.



“At TAFE, you’re really on your own, it’s up to you. When you’ve got a problem, you can’t just rely on your mates ...”

“He helped me sort out my boss; it’s much better now.”

But young people are also articulate about improvements, to make the VET experience even better. They say:

An earlier start to careers advice: young people feel stressed about the choices they have to make at school and how early they have to make them. They feel unprepared for the subject choices they make but they are all too aware that these choices might be cutting off options. They want to start hearing about jobs and careers options soon after they get to high school, real work experience not just ‘sweeping the floor for a week’, something or someone—that will help them understand what different jobs are like and better links between their school and the TAFE. VET in schools programs are valuable but the experience is patchy and too limited.

“You don’t know anything. I want to talk to someone about what I’m good at, what I can do, what the jobs are like ...”

“I went on this website and did all these questions and the answer came back—you should work outdoors—big help—I don’t think so!”

“The careers teacher just gives you pamphlets or tells you to go to the careers expo. We all wagged that day.”

“I want to know what they (employers) really want”

Respect for their choices: many young people want to study in VET but teachers and parents want them to go to university. They don’t want to have to defend their choice to go to TAFE or do an apprenticeship. They want others to value VET the way they do—as a liberating choice.

“I could have gone to uni, I had the marks but I just get into trouble when I’m sitting still; getting the apprentice thing saved my life!”

“Dad doesn’t want me to be a plumber but I think it’s good—you can run your own show and people need you.”

Mentoring: young people talk a lot about the need for advice and guidance and they can’t always rely on their most trusted sources—parents and peers—for advice about training or careers. The experience is significantly better for young people training through Group Training schemes who say they often have a mentor figure in the GT scheme or at work; young people in college-based courses often have a hard time finding an empathetic guide.

Pathways: young people want to see something of the road ahead or at least some of the markers. They have difficulty understanding pathways following the options and school and post school and understanding the links between courses and the diversity of jobs available. The information and advice they get is often inconsistent or hard to follow—they are looking for a clear map, literally, that draws the pathways for them and shows them the side roads available.

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Parents

In a nutshell, parents worry about their childrens' future. They want them to be happy and they see career success as an integral part of that happiness. On the whole they perceive VET as a second—or even third—choice after university because their first choice offers status and breadth, a perceived better chance at a higher standard of living. For those parents who went to university, it's the obvious choice; for those who didn't, it might be an aspirational choice—*"I didn't go to uni and it would be nice if he could ..."*—or an uncertain option—*"you'll always have a job if you've got a trade, you can't say that for a degree"*.

VET would be a more competitive option for all of them if the qualifications had higher status and had closer links to post VET study options, especially the option of easier articulation into degree programs.

Recently (2005) we are observing a sense of urgency and stress among parents about the choices their children are making at school and the extent to which they—both parents and young people—are equipped to make sound decisions. They just don't have enough information, early enough, to think through the range of options and choices and the work opportunities to which those choices lead.

They want to see a much greater link between school, work and post school study and they want to understand the pathways too. They know their children come to them for advice and they feel ill equipped to provide it.

"They come to you to talk and you feel a bit of an idiot—everything has changed so much and their world is so different from what mine was. And if they make the wrong choice—they could be stuffed!"

Employers

Many employers say that they have "found TAFE students are actually better than the university ones. TAFE is more practical, more hands on, uni is all theory".

However, they also give VET a much more mixed review than other clients. For many, VET still does not deliver on its promise and they settle for much less than they want or thought they might be able to expect. While their dissatisfaction with the experience has many facets, it comes down to one thing—the VET sector still doesn't deliver a truly client focussed service, although they make a strong distinction between public providers (who generally don't) and private providers (who generally do).

Size and experience also count. Large employers take control of their training agenda and are skilled at investing their own resources to ensure that they get more of what they want. The small business operator usually knows what he or she needs but usually hasn't the time or the skill to get that from the system. What creates satisfaction for employers is:

Flexibility: they want a service that meets their needs, develops the skills they want to use and delivers in a way that takes account of their business—whether that's about when or how training is delivered. They want customised products and services.

"It's my busiest time of year and they ring me and tell me he's got to be out for the next six weeks. Well I just can't do that."

Employers like the flexibility of on the job training but they also want to know that their employees will be developing both high quality technical skills and generic skills for work. They want productivity from trainees as quickly as possible; many believe that public sector trainers still don't understand that basic economic imperative.

Recent research shows that even managers in larger organisations still have their work cut out justifying the dollar investment in training. The more flexible the training, the quicker they get productivity results and that makes the return on investment argument easier to make.

Greater flexibility will deliver greater satisfaction. In small centres or thin markets, there is little competition and provider inflexibility just increases the cost of training to the business.

Consistency: employers also want to know that training and accredited skills really do meet the same national standards, no matter where they have been developed and want evidence of national recognition, especially in trades. Greater confidence in consistency of qualifications and 'tickets' would improve their satisfaction with VET.

Interestingly, employers don't see any contradiction between a desire for consistent content and flexible provision—that's what they expect from a client focussed system, a customised approach to providing a product that suits their business.

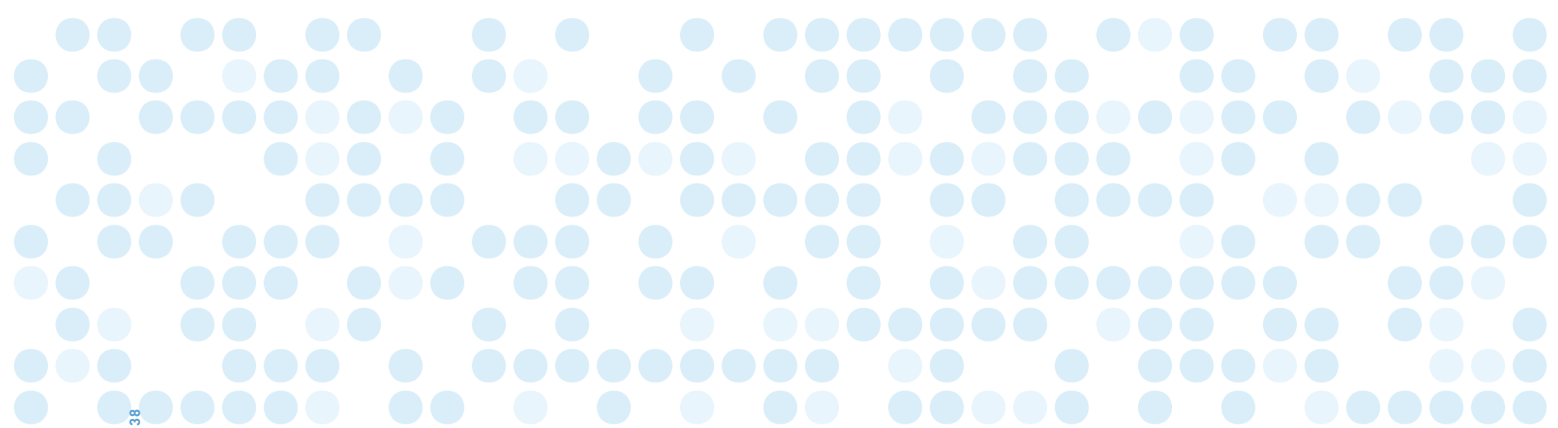
Customer service: employers want to be treated like a customer, one whose needs come first; they want a sense that their satisfaction is important to providers. They get that from private providers, less often from TAFE. It is not about having a service charter but about a way of doing business.

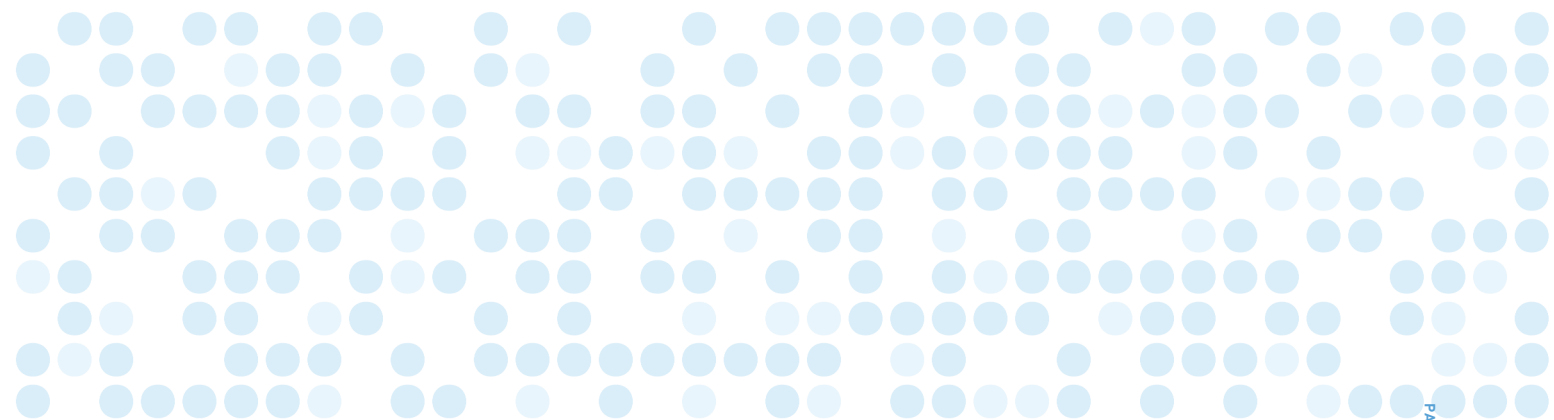
"Our trainer comes out to see us every month, he spends time in the workshop with our trainee and we work out together what's going to happen next. It's terrific."

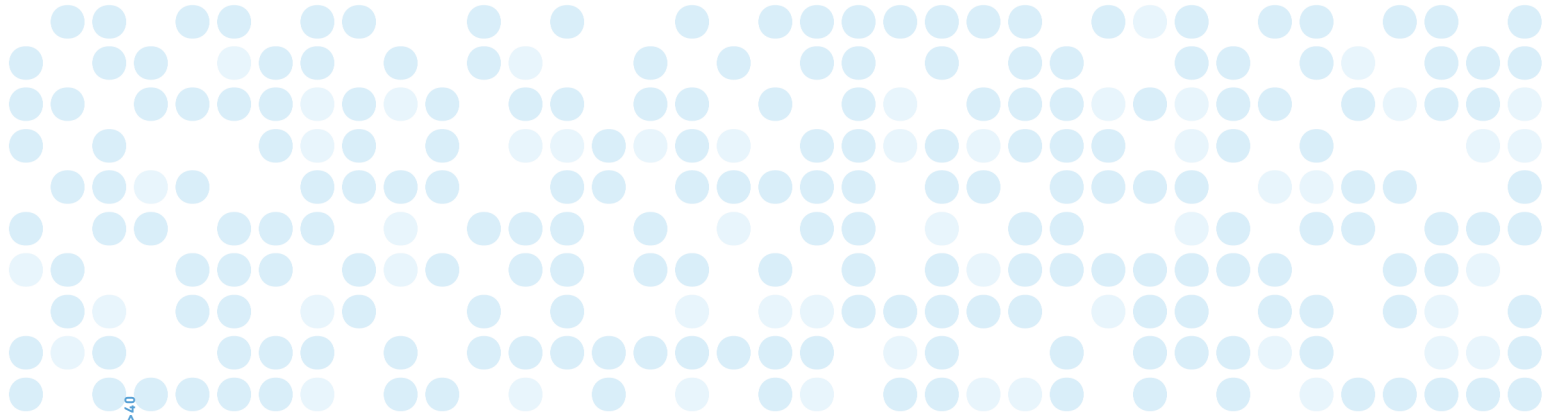
"There's no negotiation. It's 'he's got to come every Tuesday', it's that or nothing."

Advice: Choice can be a double-edged sword, especially when you don't know where to start so employers want advice—which is not always easy to find—about a lot of things:

- › Help to find their way through the maze—to work out which course, which mode of delivery, which location, what kind of training arrangement will best suit their needs. For small businesses, this is one of the biggest headaches but they still want to see the full range of options
- › Information about the content of the course—they want to know what their trainee will be doing when and when they can confidently build on that off site training with on the job experience
- › Advice about grants and subsidies, anything that makes training more affordable and better value for money
- › Help to make sense of training packages—the concept is complex and the packages are too difficult for all but the largest and most experienced employers to navigate to provide the customised outcomes they were designed to deliver
- › Help to develop good staff—young people who can '*think for themselves a bit*' or '*write out a quote, talk to a customer*' or '*turn up at 7*' as well as do the job—and advice about sorting out problems with young trainees







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