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# **Workforce Futures:**

## **A Paper to Promote Discussion**

## **Towards an Australian Workforce Development Strategy**

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### ***How can we best ensure Australia has the workforce capability required for a productive, sustainable and inclusive future?***

That question goes to the heart of how our economy and society operates and is the driving concern for the latest program of work at Skills Australia. Skills Australia is an independent statutory body established to provide advice to the Government on Australia's current, emerging and future skills and workforce development needs. This advice includes identifying skills needs to help inform decisions on all aspects of Australia's labour market.

We are addressing the above question in three different ways.

#### ***What does the future hold?***

What futures can be envisaged, what could be the demand for future skills in these futures and what exactly should we plan for?

*A detailed consideration of these issues will soon be available in Background Paper No.1, from [www.skillsaustralia.gov.au](http://www.skillsaustralia.gov.au)*

#### ***How can we best realise Australia's skill potential?***

How can we improve the value from our skills investment, could the relationship between productivity and skills be improved and, what exactly would a workforce development response look like?

*A detailed consideration of these issues will soon be available in Background Paper No.2, from [www.skillsaustralia.gov.au](http://www.skillsaustralia.gov.au)*

#### ***How can we best co-ordinate across sectors and agencies?***

How can we join up separate areas of government action on workforce participation and how can we co-ordinate across education, government and industry sectors?

*These considerations will be discussed with the different sectors and agencies in a National Consultation process.*

## The case for change

### *Is there a need to shift the focus from a one-dimensional 'skill' or 'job' solution to a broader workforce development approach?*

In the past, policies and programs have primarily offered remedies for workforce productivity or unemployment in terms of either a skill or job solution. This approach emphasises the need to match qualifications with industry needs in such a way that the education and training system is industry led. We adopt that approach, in part, for the first background paper, *What Does the Future Hold? Meeting Australia's Skill Needs*, and consider the short-term and medium-term implications for training, given different economic projections. Gaps and shortfall are identified in certain skill areas and issues regarding the supply side of the equation are considered.

These considerations lead to the position, first presented in Skills Australia's *Foundations for the Future (2009)*, that we need a more nuanced interpretation about the relationship between skills development and deployment. This thinking is supported by national and international research that shows there are many jobs that are not skill-specific and that national forecasts of the likely growth in employment demand is of limited utility for many jobs.

In the second background paper, *Powering the Workplace: Realising Australia's Skill Potential*, we adopt a demand-based perspective and consider, amongst other things, the relation between skills, participation and productivity. Despite the strong relationship between qualifications and earnings there is a lack of evidence that increased investment in skills leads to increased productivity. In other words, a highly qualified population does not necessarily lead to increased productivity and economic growth.

Our demand-side considerations lead to the argument for a broader workforce development approach. This perspective captures very recent developments that are evolving in response to a need for a more complex and devolved approach to workforce productivity.

A workforce development approach is characterised by policies and practices which support people to participate effectively in the workforce and to develop and apply skills in a workplace context, where learning translates into positive outcomes for enterprises, the wider community and for individuals throughout their working lives.

Skills Australia has considered the arguments and the evidence in support of this change to a workforce development approach and believes there is a case for change. However, while the evidence is in favour of change, there are many issues that need resolving. To help in our consultations we offer a summary of our alternative considerations in what follows.

## What does the future hold?

*How can we assess our future skill needs? How can we take account of the dynamic forces in our economy along with the complexities of labour market behaviour? What is the most appropriate response for government policy in planning for the future?*

These are the core questions we address in the first background paper, *What Does the Future Hold: Meeting Australia's Skill Needs*. We draw on original analysis and modelling commissioned by Skills Australia to better understand how the forces driving change—such as population growth, globalisation and productivity—are likely to impact on employment and skills demands over the medium to long term. In thinking about planning for the skills of the future workforce we identify anticipated demand across industries and occupations. We also address questions about the type of responses that may be needed in regard to our collective public and private education and training.

### Observations

#### In the short-term

There has been a considerable shift from manufacturing to services over a long period and this trend is likely to continue in the short term at least. The industries that are projected to have the highest growth in the next five years include health and social services, education and training, retail, and professional, scientific and technical services.

#### In the long-term

Considering recent trends only partially inform us about where we should be aiming our efforts. Understanding the forces driving the change and gathering broad based intelligence on how to best engage with these forces is another aspect of thinking about the future.

To further inform what we may envisage for the future we have considered three possible scenarios that Australia may plausibly face in fifteen years time—2025. Two of the scenarios envisage an industry and occupational structure that is driven by a greater global openness, with Australia being more trade-exposed in the traditional sectors of mining and agriculture as well as high-end services. The more conservative scenario sees a protectionist response and a greater move to domestic self-sufficiency.

In all scenarios, the most notable demand for qualifications is in the Diploma and above range. We can thus anticipate a trend of a significant increase in level of skill emerging under each of the scenarios. There is a marked move towards

graduates and a movement away from Certificate I and II qualifications. Interesting questions emerge from the modelling around future levels of demand for Certificate III and IV qualifications and their effective articulation into higher-level qualifications.

Each of the scenarios project the need for additional qualifications in the mid and long terms. The demand for qualifications ranges from an average of 600,000 per annum under the conservative and protectionist scenario, to 800,000 per annum under the most liberal, open economy scenario. Under the latter scenario, the increase in migrants with qualifications will still not offset the demand for skills.

All scenarios identify varying degrees of mismatch between the supply of qualifications and the demand created by expected employment growth. They also signal areas of potential risk associated with each global outlook.

The liberal, open economy scenario is probably the closest to Australia's current policy settings and recent economic, demographic, migration and labour force parameters. It would prudent to plan for this scenario. However, the significant demand for qualifications will require policy interventions over and above those that narrowly focus on the increased output of skills.

## **So what should we plan for?**

### **How far can matching go?**

Having identified a need for more and higher qualified workers, the obvious response is to ask how we can best match the need. There is sense in this, to the extent that education providers want to avoid training people in redundant skills, and employers want to avoid shortages of skilled workers who are critical to their profitability. However, on closer investigation, the idea of a match doesn't fit well with the fluid and dynamic way labour markets, employers or individuals behave.

First, almost half of the workforce changes their employer every three years, and many people change not just their employer but also their industry and occupation. So even if there may have been a 'match' at one point it is not likely to be stable.

Second, the relevance of people's first post-school qualifications fades as people progress through their careers, often retraining and increasing skills along the way. Many people work in fields for which they have acquired skills and experience over time, rather than through formal education. This reflects the role of education and training in providing generic preparation for work, as much as imparting specific vocational skills. Less than one-third of managers and administrators have a university degree although management is regarded in many forecasts as a highly skilled occupation with which such a degree is associated.

Striving for a perfect demand-supply match appears neither possible nor appropriate. Instead, we must be far more cognisant of how employees, employers and labour markets actually behave when developing plans for the workforce.

### **Different planning for different purposes**

In recognition of the complexity of the dynamics in labour markets and the impossibility of addressing all the issues and concerns at a national level, we propose that we use different approaches to planning for different types of occupations and skills. One approach is best suited for educational providers and the other for national and state governments.

For example, education providers such as universities and training organisations already gather their own information on labour market supply and demand patterns. Where they have good local data it would seem best to leave the decisions regarding the allocation of training resources to these organisations, within the broad parameters governments set to ensure sufficient overall workforce capacity.

On the other hand, there are occupations with certain characteristics that fall more obviously within the ambit of government responsibility; in particular, where there is a public interest in improving on market outcomes, to mitigate possible market failure or to promote particular government priorities or initiatives. We propose that these are the occupations that governments should focus on in their future planning – adopting a risk based approach.

### **Identifying the occupations for national planning**

Given the above, we need agreed criteria to guide which jobs/occupations/skills it is most useful to plan for in the future. The criteria would aim to distinguish the skills and occupations that governments are better to focus on from the ones labour markets and local planning deal with effectively.

We suggest the following criteria for identifying 'high-risk occupations':

- where there is a long lead time to develop the skills
- where there is good fit between what people train for and the jobs they get
- where there is significant disruption if the skills are in short supply—eg causing bottlenecks in supply chains, generating significant community cost, and not meeting government priorities
- where there is sufficient information to assess the future demand for a skill.

## **Questions arising**

### **Factors missing from our projections?**

- How can we take the realities of the labour market into better account?
- Have we sufficiently captured the main future skill needs?

- What else should/could we consider?

**Risk occupations only?**

- What is your response to adopting a risk based approach to planning?
- What types of interventions may this require from government, training organisations and other bodies?

**Best use of investments?**

- How can we best use current investments to support our emerging workforce demands?
- What types of interventions may this require from government, training organisations and other bodies?

**And?**

- How might our suggestions impact on your organisation/industry?
- Can you see a downside to our proposals here? What could we do about it?
- What else should we be considering to make our future planning even better?

## How can we best realise Australia's skill potential?

*How can we capitalise on Australia's investments in tertiary education? How can we link educational and community-based strategies with employment strategies to bring about greater opportunities for participation? Is it timely to take the next step towards a shared Australian workforce development strategy?*

These are the central questions considered in the second background paper, *Powering the Workplace: Realising Australia's Skill Potential*. This paper brings together a wide range of recent empirical work analysing workforce and workplace trends. The analysis points to the complexity of skill and workforce dynamics, and the unevenness of skill trends evident across Australia and in comparison to international experience. The evidence also indicates that there are areas where individuals, locations or industries are missing out on the potential gains of higher skills as well as areas where we are travelling well. Most importantly, the paper identifies a national interest in workforce development, the work already underway in this area, and where fresh thinking and new approaches are needed if we are to better realise Australia's skill potential.

### Major observations

#### Skills in use

In recent times, there has been a significant period of demands for greater investment in education and training in response to identified skill shortages. However, simply addressing the need to raise skill levels is no longer seen as a sufficient response for improving productivity and economic growth—it may be necessary, but it is not sufficient.

There is growing evidence to suggest that many people with high-level qualifications are employed in jobs that correspond to lower types of qualifications. Data from ABS labour force surveys indicate that some 30 per cent of Australian tertiary education graduates work in jobs classified at a lower skill level than their qualification. Moreover, the proportion has increased over the past decade.

Data also indicate a significant number of people in the workplace report that they do not the skills and knowledge they possess. Employers also report that their workforces have more skills than the organisation requires, although in some industries it has been hard to recruit sufficient numbers of suitable staff during the recent boom.

In all, these data suggest that boosting the demand for and use of high skills may be as important as boosting the supply. They also suggest a more complex consideration of the relationship between skills and industry productivity, noting the relevance of factors such as job design and work organisation, the quality of management and the extent to which workplace culture encourages learning, innovation and autonomy.

The ability to use skills and knowledge, and to use them well, in the workplace is what really matters for productivity: not just the acquisition of skills *per se*.

### **Workforce participation**

In parallel with under-use of skills is the un-realised potential of those who remain outside the labour force and want work. In recent decades Australia's workforce participation rate has also increased—from 61 per cent to 65 per cent between 1986 and 2006. However, there are still many people outside the labour force who want to work and there are significant imbalances in participation across different States and Territories and for those living in different regions.

In the decade to 2008, employment grew by 25 per cent (or 2.2 million people). But this was accompanied by the rise of part-time and casual work—comparatively high in OECD rankings—as well as growth in the numbers of people wanting to work more hours. Women and young people are specifically affected by both of these trends. Indigenous Australians continue to face profound employment barriers and, despite the buoyant job growth of recent years, a significant number of young people persistently remain in marginal labour market situations.

Men of prime working age have low rates of participation compared to other OECD countries; those with incomplete schooling and no further education are poorly equipped to take up jobs in the new economy.

The economic downturn in 2009 puts at risk past gains and improvements in our labour market profile, raises potential for long-term unemployment and exacerbates the vulnerability of groups already on the margins of employment. Today, over 1.5 million people are currently unemployed or want more hours of work. Current evidence suggests young people and recent non-English speaking migrants appear to be bearing a disproportionate impact of the current economic downturn, potentially repeating the pattern of previous recessions.

Literacy and numeracy rates remain stubbornly resistant to improvement. In all, the evidence suggests that Australia's employment potential is not being fully realised by certain groups and in certain locations across Australia. We particularly emphasise the need to adopt a place-based approach to underemployment and unemployment so that significant pockets of disadvantage can be redressed.

## So what should we do?

### Have an integrated approach

Policy and program solutions have in the past tended to conceive of remedies for workforce productivity or unemployment simply in terms of either 'skill' or 'job' solutions. But we believe a more complex and devolved approach is now needed. Such an approach would acknowledge the interdependence of social, economic and ecological factors as well as global market influences affecting regions and industries.

There is often not just 'the one' workforce development problem. Some regions or industry sectors operate in environments of low skill intensity. These characteristics also affect the demand for skill or opportunities to improve skills available from employment in particular communities. Regional or local skill issues experienced by employers may sometimes result from education system shortcomings, while in other cases, they will result more directly from industry practices and choices made by individuals and families. Improving the skills of the unemployed or those in jobs will only deliver positive outcomes if there is identified demand for the skill and more importantly if there is industry, regional and enterprise capacity to nurture and use the skill.

Workforce development is concerned with the factors that encourage both skill formation and skill use in ways that generate positive outcomes for the person, the enterprise and the community. Workforce development strategies that work with enterprises or clusters of enterprises to address both skill and business performance issues are becoming widely adopted around the world. Within Australia, State and Territory governments, Industry Skills Councils and industry associations, education providers, research organisations and intermediaries are embracing workforce development. Many of the options proposed in this paper are derived from the policies and projects these Australian organisations are trialling.

### A shared national framework for workforce development

Australia has already made a mark with a wide range of workforce development initiatives being pursued across States and Territories, within regions and at the organisational level. What has been lacking to date is a comprehensive national understanding that skills on their own are an insufficient policy response in a time of dynamic economic change and entrenched social inequalities.

The rationale for governments and others engaging in a workforce development strategy is to offer a way of better integrating education and training policies with economic development, social inclusion and sustainability measures. There will not be a single path forward—alternatives will depend on industry, regional and enterprise circumstances. A national approach offers a way to overcome disconnections or missed opportunities to share and strengthen good practice among those involved. These will include agencies concerned with industry and innovation, those concerned with education and training and those that focus on regional development.

Such a national approach has the potential to ensure governments, education and training providers and industry bodies collaborate to offer a better return on investment of public monies in education and training.

It could:

- sharpen the way we think about and plan for future skills
- improve access to development and job opportunities among workers who are currently under-employed
- help ensure better use of people's skills in Australian workplaces
- maximise the participation of the working age population in the workforce
- increase the demand for high skills
- develop customised and collaborative local solutions
- improve coordination between government programs that focus on enterprise and industry capability.

## Questions arising

### Need for a national approach?

- How important is the need for a shared Australian national workforce development approach?
- Are there factors that we haven't considered here?

### The impact of a workforce development response

- What might be the impact of this new proposal on your organisation and/or industry?
- How might we take this impact into account? With what import?

## **Our proposal: A workforce development response**

As a starting point for discussion, Skills Australia proposes the following strategic priorities to guide the development of a comprehensive national workforce development response.

### **Identifying skill and workforce demands**

We need to identify Australia's future skills and workforce needs based on assumptions of sustainable economic growth and preparing for the risks of alternative economic, demographic and social scenarios. Amongst other things this will require:

- the development of a nationally agreed 'risk-based' approach to skills and workforce planning
- streamlining workforce planning responsibilities and ensuring adequate information and capacity at all levels.

### **Establishing a shared national framework for workforce development**

We need a comprehensive strategy to support people to better connect with work, capitalise on our skills and position ourselves for future challenges in the global community. Amongst other things, we will need to consider:

- leading the impetus for change—establishment of a whole of government approach and national agreement on a workforce development
- resourcing change—adoption of new funding principles to support workforce development initiatives
- guiding reform and catalysing change—identification of 'change agents' and activities such as a centre of excellence and lighthouse projects to build knowledge and expertise and diffuse best practice on workforce development.

### **Promoting demand for and the full use of higher-level skills**

We need to promote the demand for higher-level skills along with the effective use of those skills in the workplace. This will require:

- enabling new industry connections—identification of industry clusters or regions in which to create multi-faceted solutions to address skill demand issues, business problems and lift performance and capability across a range of workplaces
- addressing skill use directly at the enterprise level—use of training and/or other interventions within enterprises to tackle job design, work organisation or organisational strategy and engagement of skills

- developing the capacity of enterprises—examination of opportunities to build the internal capacity of enterprises as innovators by developing leadership and other potential.

### **Focusing on workforce participation**

We need to address regional and local workforce participation challenges, especially in areas of entrenched disadvantage. This will include:

- identification of opportunities to use skill ecosystem 'locational approaches' to complement work on workforce participation in areas of entrenched disadvantage
- adopting a holistic approach that takes into account the range of issues faced by workers and enterprises.

## **Questions arising**

### **The strategy?**

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

### **A shared agenda?**

- How can we strengthen the linkages between state and federal governments and across government agencies?
- Can you envisage different funding flows?
- What might be a good outcome from having a shared framework?

### **Improving participation?**

- What do we need to include as key elements for best practice?
- Do we need to pay any special attention to the under-employed?

### **Promoting demand?**

- How can we ensure more enterprises develop workplace strategies that encourage use/development of people's skills to improve performance?
- Is a focus on skills use one way to increase employee engagement in work?

### **And?**

- What would you suggest we need to do next?

## To send us your comments

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