

# WESTERN AUSTRALIAN GOVERNMENT SUBMISSION TO THE PRODUCTIVITY COMMISSION REVIEW OF THE NATIONAL AGREEMENT ON SKILLS AND WORKFORCE DEVELOPMENT

## 1. OVERVIEW AND SUMMARY

This submission addresses key themes presented in the Productivity Commission's Issues Paper on the National Agreement on Skills and Workforce Development (NASWD) using the following structure:

- Section 2 presents information on the Western Australian vocational education and training (VET) system including: the strategic policy and economic context; the training market and service delivery; approaches to industry engagement, skills forecasting, funding and pricing.
  - *This section primarily relates to Information Requests 8, 9, 10, 11, 12, 13.*
- Section 3 discusses the NASWD and factors affecting the success of the NASWD.
  - *This section primarily relates to Information Requests 2, 4.*
- Section 4 presents WA's position on the recommendations from *Strengthening Skills: Expert Review of Australia's Vocational Education and Training System* (the Joyce Review) with respect to the NASWD, including the proposals for nationally consistent priority setting, funding and pricing.
  - *This section primarily relates to Information Request 7.*
- Section 5 sets out some suggested features of any future funding agreement which may be developed following the conclusion of the Productivity Commission's Review of the NASWD.
  - *This section primarily relates to Information Requests 1,3, 5, 6, 14,15-19.*

Key points covered in this submission include the following:

- The Western Australian Government has put skills and workforce development at the centre of its plans to grow and diversify the economy;
- The State's ambitious economic development agenda requires a strongly aligned VET sector that retains the flexibility and autonomy to respond to local demand, industry needs and government priorities;
- WA has service delivery challenges associated with the State's unique geographic, demographic and industry characteristics compared to the rest of Australia, these challenges present as unique skill needs, thin markets and higher costs to deliver VET;
- While both public and private providers make valuable contributions, TAFE colleges are the backbone of the VET sector and are critically important to regional communities. The costs associated with TAFE's community service obligations need to be recognised in funding arrangements;
- The State has robust frameworks for skills demand forecasting, setting priorities and pricing and does not support recommendations of the Joyce Review to centralise these functions or set nationally consistent priorities or prices;

- This submission sets out features of any future funding agreement for consideration. Priority should be given to the inequity in Commonwealth funding arrangements between the VET and higher education sectors, including differences in the availability of income-contingent student loans;
- WA welcomes the opportunity to enhance and reform the VET sector and is fully committed to the COAG vision for VET and the process of developing a roadmap to implement the vision. The current reform process offers an opportunity to strengthen national governance arrangements.

WA acknowledges the wide scope of the Productivity Commission's Terms of Reference, the tight timeframes for reporting and is happy to provide further information in support of this submission.

## 2. VOCATIONAL EDUCATION AND TRAINING (VET) IN WESTERN AUSTRALIA

### 2.1 State policy context - Skills and workforce development at the centre

The WA Government has put skills and workforce development at the centre of its plans to grow and diversify the economy for the benefit of all Western Australians as evidenced through key whole-of-government strategies, for example:

- *WA Labor Plan for Jobs*<sup>1</sup> - sets out election commitments for jobs, skills and the economy;
- *DiversifyWA*<sup>2</sup> - the State's economic development framework identifies training and skills as a strategic lever to achieve a more diversified economy;
- *Future jobs, Future skill – Driving STEM Skills in Western Australia*<sup>3</sup> - The State's strategy to prepare the workforce for the future world of work, technological advancement and automation through increasing science, technology, engineering and mathematics (STEM) skills;
- *Our Priorities*<sup>4</sup> - sets measurable targets for increasing the number of employed persons and the number of secondary students who have completed STEM-related VET courses.

The State's ambitious economic development agenda requires a strongly aligned VET sector that:

- can deliver quality training;
- respond quickly to emerging industry skill requirements;
- is affordable and accessible to all Western Australians regardless of where they live and work.

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<sup>1</sup>WA Labor Plan for Jobs, downloaded from [https://www.parliament.wa.gov.au/publications/tailedpapers.nsf/displaypaper/3914776c5d11d8c77eecb0714825804c0005d229/\\$file/tp-4776.pdf](https://www.parliament.wa.gov.au/publications/tailedpapers.nsf/displaypaper/3914776c5d11d8c77eecb0714825804c0005d229/$file/tp-4776.pdf)

<sup>2</sup> *DiversifyWA*, downloaded from [https://www.wa.gov.au/sites/default/files/2019-07/DiversifyWA\\_0.pdf](https://www.wa.gov.au/sites/default/files/2019-07/DiversifyWA_0.pdf)

<sup>3</sup> *Future jobs, future skill – Driving STEM Skills in Western Australia*, downloaded from [https://www.jtsi.wa.gov.au/docs/default-source/default-document-library/stem-skills-strategy-may-2019.pdf?sfvrsn=265f731c\\_6](https://www.jtsi.wa.gov.au/docs/default-source/default-document-library/stem-skills-strategy-may-2019.pdf?sfvrsn=265f731c_6)

<sup>4</sup> *Our Priorities* brochure, downloaded from [https://www.wa.gov.au/sites/default/files/2019-02/Our%20Priorities\\_brochure\\_0.pdf](https://www.wa.gov.au/sites/default/files/2019-02/Our%20Priorities_brochure_0.pdf)

## 2.2 WA economy and workforce – varies from the rest of Australia

The volatility of the resources sector and its significance to the State's economy means Western Australia is often at a different point in the economic cycle to other States and Territories. A 2019 report by ACIL Allen Consulting noted that Western Australia's economy continues to remain out of sync with the trends in other states, and therefore nationally<sup>5</sup>.

Figure 1 below shows the percentage point variance in annualised employment growth rates, comparing Western Australia to all of the other states (from 2004, when the State's last major resource upswing started). Figure 2 below similarly shows how Western Australia's unemployment rate has often tracked at the extreme ends of the range of all the other states over the same period.

Figure 1

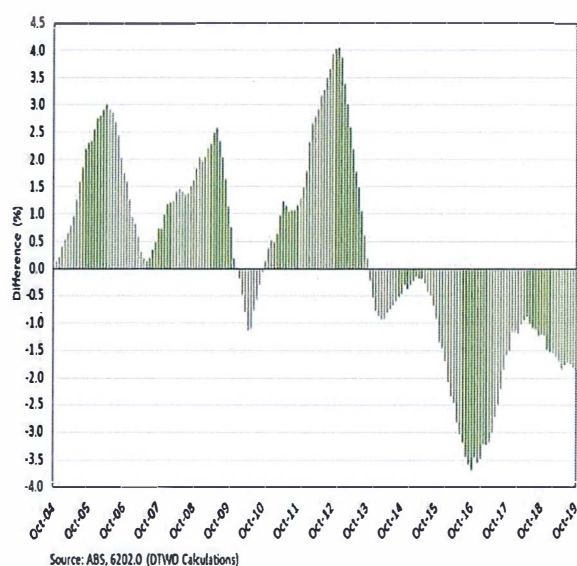
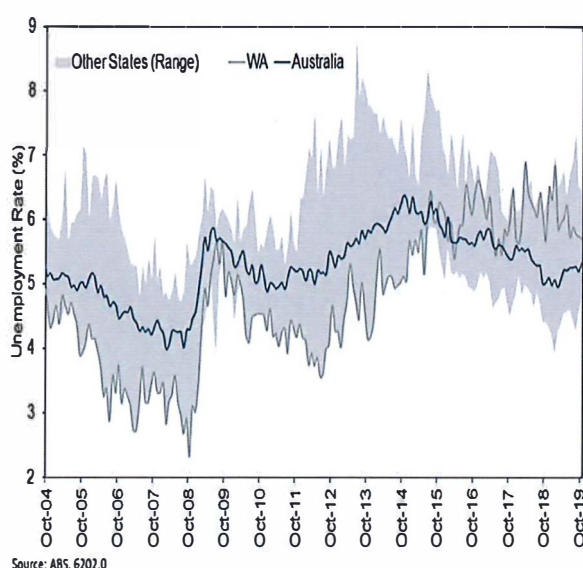


Figure 2



The State has a population of around 2.6 million people, of which more than half make up the State's workforce of some 1.4 million people. WA has the fourth largest workforce in Australia, and the highest rate of workforce participation of all the states (excluding ACT and NT).

- Aboriginal Australians make up 1.9% of the State's workforce, while those born overseas make up 39.8%.
- Youth aged 15–24 comprise about 14.3%, while those over 60 comprise 9.8%.
- WA's male to female workforce ratio is 55% to 45%.
- The vast majority (around 79%) of the State's population and workers reside in Greater Perth (including Mandurah).

<sup>5</sup> 2020 *Western Australia's Infrastructure Report: Economic Trends, Prospects and Policy Priorities*, ACIL Allen Consulting, downloaded from: <http://www.ccfwa.com.au/wp-content/uploads/2019/11/2020-Infrastructure-Report-for-web.pdf>

- Employment in service-related industries in WA is 74.4%, which is significantly lower than the national average of 79.1%.
- In proportionate terms, around four times as many workers are employed by the resources sector in WA compared to the national average.

### **2.3 Delivery of vocational education and training – public and private providers contribute value**

There are over 500 registered training providers across the State. Together they offer more than 1,000 nationally recognised VET courses and qualifications, and access to a range of traineeships and apprenticeships<sup>6</sup>.

- There were 89,386 government funded students enrolled in VET for 2018 in WA.
- In 2018, the total number of course enrolments for government funded VET was 120,702.
- National data shows that publicly-funded training comprises over two thirds of all VET enrolments delivered in WA.

WA has five TAFE colleges, with 70 campus locations and specialist training centres located across Perth and all regional areas from Albany in the south, to Kalgoorlie in the east and Kununurra in the north. Together, these TAFEs offer over 900 VET qualifications covering a diverse range of industry areas and occupations.

The public TAFE network is complemented by around 150 State-contracted private Registered Training Organisations (RTOs) which are quality assured through the Department of Training and Workforce Development's procurement processes and often service niche markets and demographics with tailored programs. Both TAFEs and contracted RTOs participate in a "user-choice", demand-driven, contestable market for delivery of apprenticeship and traineeship training and other priority training courses,<sup>7</sup> which accounts for around 50% of overall training delivery subsidised by the State Government annually.

### **2.4 Service delivery - the challenge of thin markets**

The geographic size and dispersion of the WA's population is a significant driver of cost and is further complicated by servicing the unique needs of regional communities. The impact of delivering training services in regional and remote areas of WA adds around \$45 million to typical costs of delivery (see Attachment 1). Costs are substantially higher than the Commonwealth Grants Commission (CGC) loading for remoteness (about \$10 million per annum), which does not include State spending on training in regional non-remote areas.

Many of the localised markets for VET are not viable for more than one provider, if any. While a common feature of regional and remote markets, it is also true for thin markets in the metropolitan area.

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<sup>6</sup> <https://www.jobsandskills.wa.gov.au/training/choosing-training-course#choosing-a-training-provider>

<sup>7</sup> While priority institutional training is user choice and competitive, it is a capped program to enable budget management.

The role of the State Government in managing these market related issues and the importance of maintaining a high-quality TAFE network is fundamental to providing equitable access to services, career opportunities and meeting localised employer needs.

## **2.5 The importance of the public provider**

The vision for VET agreed by the Council of Australian Governments (COAG) in August 2019 acknowledged the importance of a viable and robust system of both public and private providers, and the particular role of States and Territories in facilitating the public provision of VET.

TAFEs play a critically important role in the State's VET sector. Their primary objective is to enable greater responsiveness to local communities and fostering innovation. The community service obligation of the TAFE network means access to VET in many regions of the State is critically dependent upon TAFE.

There have been a number of systemic failures from the collapse of nationally regulated training providers delivering to school students in Western Australia. In response to these market failures, TAFE colleges were asked to support schools to ensure that approximately 23,000 students were able to complete their study. A similar situation occurred with the collapse of providers under the Commonwealth's student loan scheme, with TAFEs called upon to deal with around 15,000 displaced students Australia-wide for just one provider.

The cost of delivery through TAFE colleges is higher due to colleges delivering a higher proportion of more expensive technical and trades training, general education and regional delivery. The TAFE College infrastructure and overheads to deliver these technical and thin market courses often would not provide a return on investment for any private providers resulting in the State being required to be a sole provider.

## **2.6 Industry engagement is embedded in the State's VET system**

One of the reform directions set out in the NASWD to be pursued by governments is improving the engagement with industry. The WA State Training Board (the Board) was established under the *Vocational Education and Training Act 1996* (VET Act) to undertake strategic activities, tasks and projects to improve the links between specific industry developments and the vocational education and training sector.

In recent times, the Board has worked with industry to develop strategies to grow apprenticeship and traineeships, address social assistance and allied health workforce needs, which includes National Disability Insurance Scheme skill requirements<sup>8</sup>.

The Board develops the WA's State Training Plan which identifies current and future training and skill development needs of Western Australia's industries. This work is undertaken in close consultation with industry, unions, employers and community stakeholders.

The VET Act also recognises the role of industry training advisory bodies, which comprise nine Industry Training Councils (ITCs) in WA. The ITCs provide market

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<sup>8</sup> <https://www.stb.wa.gov.au/>

intelligence on skills supply and demand and information on current or emerging skills shortages.

## **2.7 Skills forecasting and labour market analysis at State and regional level**

The State has a well-developed workforce planning and priority setting framework consisting of industry intelligence via the State Training Board and ITCs and robust labour market analysis via Western Australia's State Priority Occupation List (SPOL)<sup>9</sup>. This market intelligence is used to drive priority setting and strategic planning for skills investment in Western Australia over the short, medium and long term.

In particular the SPOL not only focuses on current skills shortages, but also the maintenance of occupational supply chains to both support employment growth and satisfy net replacement need in order to prevent future skills shortages in the State. The economy and skills needs of each region are striking in their variability.

The SPOL framework is supplemented by annual regional labour market reviews which provide a basis for the development of region-specific lists of occupations that are difficult to fill. These lists and other findings from the regional labour market reviews guide training delivery that aligns with employment needs in each region.

Additionally industry workforce plans focus on specific growth areas targeted by the WA government to reduce the State's reliance on the resources sector. *DiversifyWA* commits to growing new industries and requires aligned skilled workforces. As part of this initiative workforce development plans are finalised and/or close to completion for the following industries; allied health and social assistance, defence, hospitality and tourism, lithium downstream processing and Metronet rail developments.

As part of the development of training priority and funding lists WA also consults with the Commonwealth and other States and Territories to ensure alignment with national skills requirements.

These functions are fundamental to planning requirements for local needs.

## **2.8 WA approach to pricing incentivises State priorities**

*Jobs and Skills WA* provides the framework for the State's investment in training delivery. The framework is designed to maximise participation for disadvantaged learners, encourage students to undertake training leading to priority occupations and training providers to deliver these courses. The general scheme uses *price signals* to incentivise priority courses by charging lower student fees and providing higher subsidies to training providers for priority courses.

Course fees for publicly subsidised training are set through regulation in WA, with contracted private providers also required to charge the regulated fee when delivering publicly subsidised training places. The current fee categories represent State priority categories, recognising industry need and affordability for students.

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<sup>9</sup> <https://www.dtwd.wa.gov.au/workforce-development#the-state-priority-occupation-list>

Fees are set on a student curriculum hour (SCH) basis at the unit of competency level, so the overall cost at the course level may vary between training providers depending on the units they build into the course. Providers are given flexibility to then tailor their course offering to suit learner and local industry needs. Diploma fees are higher due to the availability of VET Student Loans for many of these courses<sup>10</sup>.

**Table 1: Jobs and Skills WA student fee categories**

Course fee category	\$/SCH
Participation and Equity	0.21
Foundation skills*	0.21
Targeted fee relief**	1.62
Priority Industry Qualifications	3.25
General Industry Training	4.88
Diploma and Advanced Diploma	5.79

\*The Courses in Applied Vocational Study Skills and Underpinning Skills in Industry Qualifications are fee free. These courses are co-delivered with the parent course.

\*\* 34 targeted vocational qualifications to fill demand for jobs in growth areas such as tourism, METRONET, construction, defence, manufacturing and healthcare. An annual cap of \$1,200 applies for Targeted fee relief courses.

Fee caps, fee concessions, payment plans and fee waivers are available in accordance with the VET Fees and Charges Policy.<sup>11</sup> VET delivered to secondary school students is free for publicly subsidised training under a capped program, which is typically around 7,500 course enrolments annually.<sup>12</sup>

The WA funding methodology seeks to provide a fair and sustainable level of funding and avoid a race to the bottom in terms of low quality, and shortened delivery. Students and employers are encouraged to choose providers based on factors such as quality and flexibility of delivery to suit their needs.

### 3. THE NATIONAL AGREEMENT ON SKILLS AND WORKFORCE DEVELOPMENT

#### 3.1 Assessing the success of NASWD must take account of economic and policy changes

The NASWD has generally been an effective and efficient mechanism to distribute funding to States to run their respective systems within a national framework. The continuity and certainty of this funding stream has been fundamental to the operation of a robust and resilient VET system in WA and has underpinned the subsidisation of nationally recognised training to support skills attainment in occupations that are consistent with the needs of the State's economy.

<sup>10</sup> Noting that Commonwealth policy changes have reduced access to income-contingent student loans in recent years.

<sup>11</sup> VET Fees and Charges Policy 2020, Department of Training and Workforce Development, downloaded from: <https://www.dtwd.wa.gov.au/sites/default/files/uploads/dtwd-policy-vetfeescharges-2020.pdf>

<sup>12</sup> This includes the uncapped, demand-driven school-based apprenticeship and traineeship programs.

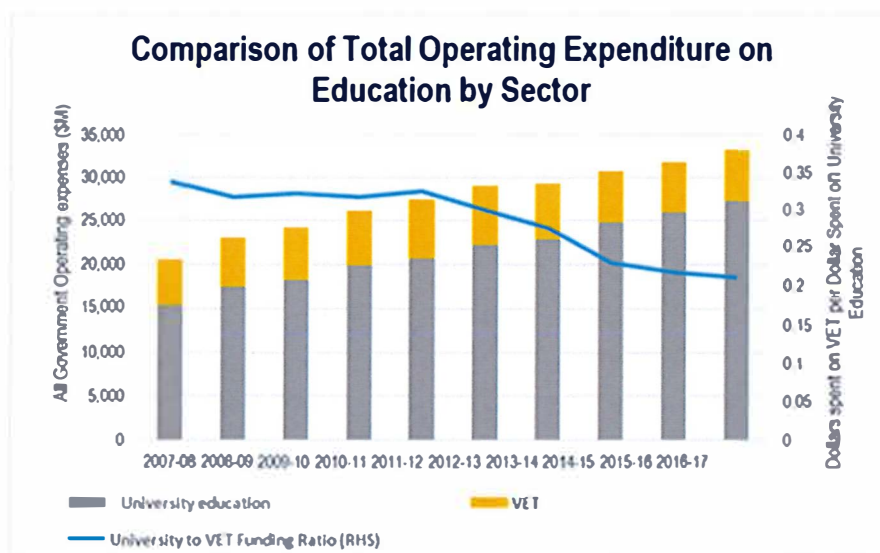
The NASWD has established an appropriate balance between enabling tailoring of VET offerings to address the skill needs of States and Territories, with a robust national framework for setting industry skills standards, regulating quality and recognising qualifications; arrangements which are the envy of many nations.

The NASWD sets out objectives, outcomes, performance indicators, targets, reform directions and roles and responsibilities for the national training system to be met by 2020. The Productivity Commission’s Issues Paper points out that formal reporting indicates mixed progress against outcomes in the NASWD. The Issues Paper and Section 23 of the NASWD notes that achievement of performance targets is dependent upon a number of factors including Government funding and policy decisions and the economy and the labour market.

The Commonwealth approach to funding and student loans for the higher education and VET sector has contributed to the performance against NASWD’s ‘aspirational’ targets and other objectives. The inequitable treatment between the VET sector and higher education distorts student choices and has worked against the achievement of NASWD targets.

From 2008 to 2017, the uncapping of university places resulted in a significant increase in the number of university enrolments and an increase in Commonwealth expenditure in the higher education sector. Over the same period, Commonwealth investment in VET significantly declined (see Figure 3).

Figure 3



(Source: CCIWA submission to Joyce Review referencing- ABS Cat: 518.0.55.001 - Government Finance Statistics, Education, Australia, 2016-17)

Focusing on achievement of the aspirational target for Diploma-level qualifications became redundant with the collapse of the VET FEE HELP scheme and subsequent legislative amendments which have reduced access to student loans for VET. The State supports a review, as recently prioritised by Skills Ministers, of the current VET Student



Loan scheme to ensure that there is greater parity of access to student loans between VET and higher education students.

One of the biggest skills issues facing the State during the resources sector boom was getting more trade skills, which are typically in the Certificate III and IV levels, not Diploma and above. State and national interest would not have been promoted by blindly pursuing the NASWD's Diploma and Advanced Diploma target.

Since the end of the resources sector construction boom, WA's domestic economy has contracted in five out of the six years to 2018-19.<sup>13</sup> This has put downward pressure on employment-based training (i.e. apprenticeships and traineeships) which has impacted on NASWD targets. This also meant that State finances were in a challenging position with limited capacity to fund counter-cyclical investments in VET to prepare for increasing skill demand as the economy emerged from recession.

Despite a decline in VET participation, employer satisfaction with the quality and outcomes of training remains strong with 78.9 per cent of WA's employers using the VET system being satisfied that the training provided met their needs<sup>14</sup>. WA VET graduates also regularly report high levels of satisfaction with their training<sup>15</sup>.

#### **4. JOYCE RECOMMENDATIONS FOR A NEW FUNDING AGREEMENT**

##### **4.1 Application of Joyce recommendations in the Australian Federation**

A number of reforms proposed in the Joyce Review have failed in New Zealand and have recently been overhauled.<sup>16 17</sup>

New Zealand's VET system, upon which many of the Joyce Review recommendations were based, was reviewed in 2019. RTOs and industry observed that the funding system was insufficiently flexible and adaptable to account for cost differences between student cohorts and delivery locations<sup>18</sup>. Students and employers in rural areas were particularly disadvantaged.

The application of the recommendations from the Joyce Review in a federated system such as Australia is not in the national interest, particularly in relation to funding and pricing of VET delivery.

In a federation, the *principle of subsidiarity* states that the responsibility for service delivery primarily rest with the level of government best placed to administer services and engage with the community.<sup>19</sup>

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<sup>13</sup> 2020 WA Infrastructure Report - ACIL Allen Consulting. <http://www.ccfwa.com.au/wp-content/uploads/2019/11/2020-Infrastructure-Report-for-web.pdf>

<sup>14</sup> NCVET Employers Use and Views of the VET System 2017

<sup>15</sup> NCVET VET student outcomes 2018

<sup>16</sup> <http://disclosure.legislation.govt.nz/bill/government/2019/170/>

<sup>17</sup> <https://conversation-space.s3-ap-southeast-2.amazonaws.com/R+27+CP1+short.pdf>

<sup>18</sup> <https://conversation.education.govt.nz/assets/RoVE/AoC/RoVE-Summary-of-Change-Decisions.pdf>

<sup>19</sup> Council for the Australian Federation: <https://www.caf.gov.au/Documents/AustraliasFederalFuture.pdf> (accessed online 12 December 2019)

This principle is also set out in the Intergovernmental Agreement on Federal Financial Relations (IGAFFR) which recognises that State and Territories have primary responsibility for the delivery of VET but that coordinated national action is also necessary to manage economic and social challenges.<sup>20</sup> The State strongly supports the IGAFFR and broadly supports maintenance of the roles set out in the NASWD as Commonwealth (section 25), State (section 26) and shared responsibilities (section 27)<sup>21</sup>.

## 4.2 Proposal for national priority setting

As discussed above in section 2.7, the State has a robust framework for skills demand forecasting with a methodology that is published and has been independently reviewed by independent experts<sup>22</sup>.

The State is open to collaborative efforts between Governments to improve forecasting methodologies and labour market information. The State would not, however, support a national body, such as the National Skills Commission, allocating resources to WA based on nationally-consistent skills demand forecasting which is highly unlikely to reflect State needs due to the differences in the economy and workforce described above in Section 2.2.

## 4.3 Proposal for national consistent pricing

The Joyce Review suggests that subsidies should be the same across all jurisdictions all the time, regardless of economic circumstances and industry needs. Western Australia does not support this position. As discussed above in section 2.8. Western Australia uses subsidy rates to influence the supply response by training providers by incentivising delivery in high priority courses. Subsidy rates are also adjusted in sync with regulated fee structures, which simultaneously sends a price signal to students to influence demand. These settings are reviewed annually to ensure they respond to changes in the economy.

The Joyce Review proposal for fully contestable funding at the national average price, even with regional loadings, without consideration of local market realities is a significant risk to the State. Reasons include the potential for 'cream skimming' behaviour where RTOs in a contestable market avoid servicing students that might reduce profitability. This would lead to emergence of a two-tiered system with the public network having to service a more costly residual pool of students.

Private RTOs tend to target the cheaper delivery with lower overheads rather than high end, high cost delivery. For example, TAFE colleges deliver over 80% of all apprenticeship training in the State while private training providers deliver 80% of the traineeship training. TAFE colleges also provide a greater proportion of literacy and numeracy support than private RTOs.

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<sup>20</sup> See "Part 3 – Principles", section 6 (p.5):

[http://www.federalfinancialrelations.gov.au/content/intergovernmental\\_agreements.aspx](http://www.federalfinancialrelations.gov.au/content/intergovernmental_agreements.aspx)

<sup>21</sup> [http://www.federalfinancialrelations.gov.au/content/npa/skills/national-partnership/skills-reform\\_NA.pdf](http://www.federalfinancialrelations.gov.au/content/npa/skills/national-partnership/skills-reform_NA.pdf)

<sup>22</sup> SPOL *Scope and Methodology paper*, Department of Training and Workforce Development, downloaded from: <https://www.dtwd.wa.gov.au/sites/default/files/uploads/dtwd-spol-2019-methodology.pdf>

This is an issue that has impacted the education sector and there is evidence of it in other markets. Public providers will become uncompetitive in the funding model proposed by Joyce, which will put the network of TAFEs at risk. The issue is further exacerbated by the presence of thin markets.

The Joyce Review highlights differences between jurisdictions' subsidy rates and student fees and argued it's confusing for stakeholders and undermines user confidence in the VET system. These differences were enabled by the Commonwealth under the National Partnership Agreement on Skills Reform<sup>23</sup> (NPASR) for 'jurisdictionally flexible' implementation. It should be noted that the staged and different approaches to funding and pricing allowed jurisdictions to learn from each other and avoid some of the unintended consequences that emerged as the various entitlement models<sup>24</sup> under the NPASR were rolled out. The ability to learn from differences between jurisdictions is one of the strengths of Australia's federal system of government.

Western Australia strongly supports the maintenance of the State's discretion to set pricing and funding arrangements which allows for a more agile and flexible response to the needs of the local labour market.

## 5. REVISING OR ENHANCING THE FUNDING ARRANGEMENT

The Productivity Commission has been asked to consider options for future funding arrangements to achieve further targeted reforms. The Joyce Review proposed replacing both the NASWD and National Partnership Skilling Australians Fund (NPSAF) with a single funding agreement. The Western Australian Government would suggest consideration of the following features for any future agreement or amendment to the NASWD:

1. **Flexibility** - A revised agreement must continue to provide sufficient flexibility to support States and Territories to effectively and efficiently respond to the needs of employers, students and communities at a State and regional level.
2. **Alignment to the COAG Roadmap for Reform** - A revised agreement must continue to provide sufficient flexibility to support States and Territories to effectively and efficiently respond to the needs of employers, students and communities at a State and regional level, while also addressing more systemic market issues such as the need for economic diversification.
3. **Shared responsibility** - A revised agreement must continue to recognise that States, Territories and the Commonwealth share responsibility for the national VET system in order to enhance the current federated model rather than replacing it with a centralised model run by the Commonwealth Government.
4. **Funding levels compared to higher education** - The fundamental issue affecting the VET system is the disparity in funding for the publicly funded VET sector relative to the higher education sector. This compromises the pursuit of

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<sup>23</sup> In operation from 2012-2017

<sup>24</sup> The reform required States and Territories to provide an 'entitlement' to a government subsidised training place for a student's first qualification to at least Certificate III level with a user choice of provider, public or private.

excellence in the VET sector, public perception of its value as a career pathway<sup>25</sup> and its core function as a critical source of skilled labour. The inequitable treatment of the VET sector and higher education distorts student choices and as a result does not serve individual, employer or national interests.

5. **Regional costs** - It has previously been noted that the geographic size and dispersion of the State's population is a significant driver of cost and is further complicated by servicing the unique needs of regional communities. This is not reflected in the NASWD funding model, which provides funding on a simple population share basis, and is inadequately captured through the Commonwealth Grants Commission's GST redistribution process. Consideration should be given to recognising State specific regional cost drivers for funding the higher cost of delivery in regional areas in any future agreement.
6. **Providing funding for population growth** - The NASWD currently provides indexation for wage inflation and adjusts by population share but does not recognise overall population growth. In practice this has resulted in falling per capita investment in skills through the NASWD.
7. **Skill sets** - Current reform priorities and feedback from industry suggests that the VET sector needs to be more agile and responsive, including increasing the use of skill sets and micro-credentials. The current NASWD's targets are expressed in terms of qualifications. Consideration should be given to funding and recognising the completion of industry identified skills sets in any future agreement.
8. **Roll NPSAF into NASWD and maintain its flexibility principles** - Consideration could be given to rolling the NPSAF into a revised NASWD agreement that gives States and Territories greater flexibility and reduces the impact of volatility in a levy-based revenue source such as the NPSAF.
9. **Recognise private sector fee-for-service activity** - Existing NASWD targets and indicators are defined with reference to government funded VET activity only. Now that private sector fee for service activity has become available through the *Total VET Activity* data collection, greater focus could be applied to identifying gaps in the market and how well public funding addresses these market gaps.
10. **Performance reporting obligations equally applied to Commonwealth Own Purpose Expenditure** - The NASWD sets aside \$47m annually (with indexation) for funding of a national architecture, research and governance under Commonwealth Own Purpose Expenditure. This funding lacks transparency and the functions are a critical component of the operation of the national VET system. WA suggests reporting against the performance of these

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<sup>25</sup> The Review of Senior Secondary Pathways into Work, Further Education and Training: Discussion Paper (Shergold Review), downloaded from: <https://uploadstorage.blob.core.windows.net/public-assets/education-au/pathways/190919%20FINAL%20Discussion%20Paper%20-%20Web%20accessible%20post%20design.pdf>

components, particularly as they are at the centre of stakeholder concerns which emerged through the Joyce Review.

## **6. CONCLUSION**

WA welcomes opportunities to reform and strengthen the national VET system. A more coherent, streamlined and agile national governance structure is needed. Attachment 2 provides a copy of correspondence from the WA Minister for Education and Training, the Hon Sue Ellery, which sets out WA's suggestion for strengthening the national governance arrangements.

Funding arrangements that provide autonomy for States and Territories to enable a flexible and responsive system that meets the needs of students, employers and the community is in the national interest. Retaining the current flexibility of existing NASWD arrangements is essential to achieving these objectives.

Management of the VET system involves a complex community of interest and requires localised industry liaison and consultation, workforce planning, training product development, delivery strategies and routine engagement with stakeholders. This includes schools, regulatory bodies, employers, unions, and various advocacy groups. Industry and community needs can vary by region and demographic and there is a clear need for 'on-the' ground engagement, which is best managed by States and Territories within an agreed national framework.

### ADDITIONAL COSTS OF REGIONAL DELIVERY

Western Australia has 12,200 students in remote areas enrolled in government-funded VET programs. This is the highest number of all States and Territories. Regional factors significantly add to the cost of delivering vocational education and training in regional and remote areas of Western Australia (for examples, see Table 1). Costs are substantially higher than the Commonwealth Grants Commission (CGC) loading for remoteness (\$10 million in 2015-16), which does not include State spending on training in regional non-remote areas.

Consequently, the State provides an additional \$45 million of funding each year for the delivery of training and related services in regional Western Australia.

**Table 1: Projection of additional costs for regional service delivery of vocational education and training in Western Australia (\$000)**

Calendar Year	TAFE Colleges						Private Training Providers	Total Regional Premium
	Salary award conditions <sup>(a)</sup>	Class size loading <sup>(b)</sup>	Base cost loading <sup>(c)</sup>	Housing costs	Goods purchase loading	TAFE Total		
2018	9,187	20,545	2,292	4,274	334	<b>36,633</b>	8,528	<b>45,161</b>
2019	9,297	20,792	2,320	4,274	334	<b>37,017</b>	8,630	<b>45,647</b>
2020	9,409	21,041	2,348	4,274	334	<b>37,406</b>	8,734	<b>46,140</b>
2021	9,522	21,294	2,376	4,274	334	<b>37,800</b>	8,838	<b>46,638</b>
2022	9,636	21,549	2,404	4,274	334	<b>38,198</b>	8,944	<b>47,142</b>

(a) Salary award conditions: loading to fund salary award conditions for staff in regions (e.g. country incentive)

(b) Class size loading: to assist smaller class sizes remain viable

(c) Base cost loading: to recognise lower economies of scale for smaller regional Specialised Training Programs

Source: Western Australian Department of Training and Workforce Development