

---

**SUBMISSION**

Response to the Productivity  
Commission inquiry into the  
National Agreement on Skills and  
Workforce Development

---

## CONTENTS

<b>Introduction: Business Council's priorities</b>	<b>4</b>
The agreement's scope should be expanded to cover post-secondary education and skills	4
A principles-based agreement could also remove a funding transfer	4
Governments should consider a tripartite approach to the post-secondary system	4
Reform priorities should be focused	5
Understanding costs and ensuring an appropriate quantum of funding is vital	5
The NCI is a good start, but information must remain a priority	5
A different approach to careers and sophisticated tools are needed	6
<b>Section one: Progress against the NASWD</b>	<b>7</b>
In considering efficiency, each element of the market design needs to be examined	7
There is not a single VET market	7
A learner-centred system needs choice	8
Public, private, enterprise and not-for-profit RTOs are needed	8
But public providers do play a unique role in the VET market	9
Quality assurance is a perennial issue in VET	9
Harsh regulation is not a legitimate approach to consumer protection	10
Effective regulation coupled with contract management and good information should deliver consumer protection	11
Strong contract management is essential when government funding is available	11
A quality rating system will not improve quality	11
'Discover your future' – the go-to platform for careers advice	12
<b>Section two: A new agreement to guide policy</b>	<b>19</b>
A principles-based agreement is a good starting point for reform	19
Having the agreement cover both sectors would allow for clearer lines of responsibility	20
Governments could divide funding responsibilities by qualification level	20
The form of the agreement could support cooperative federalism	20
But governments should also work collaboratively on governance	21
Be open to the possibility of including industry	21
Current governance confines industry's role to training packages	22
Post-secondary education could be tripartite	22
<b>Section three: Government's funding of VET</b>	<b>23</b>
The cost of learning should be shared by those who benefit	23
There should be a shared approach across VET and HE	23
Employers and industries should also contribute to skill development	24
Industry contributions should also be consistent across sectors	25
There is insufficient data to determine the benefits of VET	25
The current system may be too costly to deliver private returns	25
'Skills shortages' and oversupply are often misdiagnosed	26
An entitlement with an informed market will best deliver future skill needs	27
Labour market planning doesn't work, but projections are important	27
Skills shortages are not the right lens to initially determine subsidies	27

Jurisdictions should work together to agree a common methodology with a broader framework	28
<b>Section four: Options for funding and pricing reform for course subsidies</b>	<b>29</b>
Fee deregulation is problematic in practice in the VET market	29
Foundation work needs to happen before getting to national consistency	30
A costing exercise to establish benchmark costs is needed	30
A national funding model with a transparent methodology	32
A national funding model does not mean jurisdictions will make the same policy decisions	32
Each government must decide the extent it wants to regulate price	33
Each government must also decide about provider eligibility	33
Vouchers are the first step towards a learner-centred funding model	34
Loans should be part of the VET funding model, but should not replace subsidies	35
ICLs offer a fair way for learners to pay for the private benefit they gain from learning	36
Lessons from VFH should be applied when expanding loans	36
Unregulated fees resulted in unregulated loans	37
Fee deregulation should be approached cautiously	37
The current course lists mean there is no neutral treatment of HE and VET	38
All industries need a pipeline of skilled workers	38
Governments can use a blacklist and caps as control mechanisms	38
Loans should only be extended to AQF levels where there is significant private benefit	39
<b>Section five: Trade apprenticeship and traineeship incentives</b>	<b>40</b>
New industry levies are not justified	41
The PC may consider employer incentives ineffective, but they remain important	42
A national apprenticeship board could streamline the system	42
Information and support for potential learners should be a focus	43
These proposals should be pursued	43
<b>Section six: Training package development</b>	<b>44</b>
The concept of what is in a training product needs to be expanded	44
A broader definition of competence needs to be applied across the sector	44
Learners need to develop more than technical skills	45
Industry does not have a singular voice	45
A clear policy framework would improve some of the issues	46
The product development process is cumbersome	46
Focus on the specific problems	47
Radical reform is also possible	47
<b>Section seven: New developments in the VET sector</b>	<b>49</b>
Displacement from the labour market is real in COVID and post-COVID world	49
The training sector cannot create jobs	49
Future labour market needs don't divide neatly between sectors	49
Micro-credentials are key to an individualised approach	50
Lifelong learning needs to become a reality in Australia	51

---

## **INTRODUCTION: BUSINESS COUNCIL'S PRIORITIES**

In its *Interim Report on the National Agreement for Skills and Workforce Development Review* (report), the Productivity Commission (PC) has set out a range of interim findings and recommendations, reform options, and information requests across a broad range of issues. This submission follows the report structure, but the Business Council has only responded where it has relevant expertise, and some findings/recommendations have been removed.

The PC's interim report covers a very broad agenda and has managed to accurately capture some of the big complexities and challenges that need to be resolved in the VET sector. While all the issues are pertinent, the Business Council believes there are some key priorities that the PC should focus on which are highlighted below. These priorities are discussed in more detail in the body of the submission.

### **The agreement's scope should be expanded to cover post-secondary education and skills**

The Business Council strongly supports the PC's interim recommendation that governments should negotiate a new, principles-based intergovernmental agreement. However, the Business Council would urge the PC to go further than its current interim recommendation and broaden the scope of the agreement.

Negotiating a new agreement opens the option to expand the scope of the NASWD to cover VET and higher education (HE). This expansion will allow governments to create a genuinely joined up post-secondary system that will be able to support Australian learners, businesses and industry, and build a culture of lifelong learning.

### **A principles-based agreement could also remove a funding transfer**

In adopting a principles-based agreement, the PC could also recommend a funding split that could resolve the consistent arguments about cost-shifting.

The PC could recommend that funding and pricing responsibility for all qualifications at a Diploma level and above is assigned to the Commonwealth. This should be roughly equivalent to the current Special Purpose Payment (SPP) associated with the NASWD, which would mean the NASWD would not require a funding transfer.

Removing a funding transfer from the NASWD removes the current power imbalance which opens up the possibility for genuine cooperative federalism. The next generation NASWD could be an agreement focused on how to design and manage the post-secondary system Australians deserve.

### **Governments should consider a tripartite approach to the post-secondary system**

Moving to a new principles-based agreement is also an opportunity for governments to make a clear statement about the role of industry.

Given the desire of governments for industry and business to be more involved in the post-secondary system, including through funding of skill development, the review is an opportunity to give industry a genuine role to play.

While it would be a radical option, a tripartite agreement between the two levels of government and industry, overseen by a representative board or council of Ministers, and senior industry representatives, could put Australia's post-secondary system on a new footing. It would also provide a legitimate environment to have a frank discussion about the financial contributions of each party.

### **Reform priorities should be focused**

The interim report is lengthy and covers many of the hot-topic issues in VET including funding, information, regulation, apprenticeships, training packages and multiple regulators. Given the breadth of the interim recommendations, the Business Council would urge the PC to prioritise the areas for focus and reform.

The Business Council suggests that market information and a national funding model with an entitlement should be the focus areas of reform. The creation of the National Careers Institute (NCI) and the National Skills Commission (NSC) are the first steps in prioritising these reform directions, but if these institutions are to be successful collaboration with the States and Territories is vital.

### **Understanding costs and ensuring an appropriate quantum of funding is vital**

Governments need to understand the cost of delivery and the quantum of funding needed to sustain an effective post-secondary system. It is widely accepted that most Australians will need a post-secondary qualification, along with opportunities to upskill and reskill over their working lives. In a COVID and post-COVID world, access to reskilling has never been more important.

To ensure such a system is available, governments need to understand the cost of delivery to ensure there is sufficient funding available, as well as apportioning costs between the parties who benefit from post-secondary education.

But the amount of funding needed to have a sustainable universal post-secondary education and skills system is a hotly contested subject, and no one has a clear answer on how much is needed or why that figure is the correct one.

We know there appears to be a tremendous inequity in the funding between VET and HE, based on the quantum committed, the decline over the last decade of VET funding, as well as the number of learners each sector delivers to.

But without a costing exercise, how do we know if the funding models are indeed inequitable for VET students? And how do we know the effort we need in VET or HE, and whether we have the right level of funding for it?

Governments therefore need to commission the NSC to undertake a costing exercise across VET and HE to determine benchmark costs, including loadings or something similar, to account for locational and student need variations.

These benchmark costs should be published to ensure transparency and help learners and industry understand costs.

### **The NCI is a good start, but information must remain a priority**

In a COVID or post-COVID world, careers advice has never been more important. Careers advice needs to start with a candidate or person-centred approach. School students need to get a better understanding about what jobs and careers are likely to be available in the

future, and how roles would suit them. They also need to know what to do, in terms of skill development or additional experience, to broaden the scope of jobs available to them in the near and longer term.

### **A different approach to careers and sophisticated tools are needed**

There is an inbuilt assumption in the current approach to careers advice that young people will have an idea about what they want for their future. While they may have ideals and ambitions about the life they want to lead, many young people have no idea how that relates to their future work lives.

Governments need to give better support and information to help young people, as well as existing workers, make good decisions, including:

1. A range of sophisticated diagnostic tools, including online quizzes and games, to help them identify their strengths, interests and values, and the potential industries or roles that are relevant.
2. A good understanding of what work life in the relevant occupation(s) is like day-to-day.
3. What employers expect across occupations.

## SECTION ONE: PROGRESS AGAINST THE NASWD

### INTERIM FINDING 2.3 — VET MARKET COMPETITION AND EFFICIENT TRAINING DELIVERY

Early efforts to promote a ‘more open and competitive training market’ have stalled. Improving the efficiency of training markets is no longer an explicit priority for most governments.

Further work is required by governments on the policy settings that best facilitate a responsive and efficient training market. This includes a more clearly defined role for public providers.

### INFORMATION REQUEST — ROLE OF COMPETITION IN THE VET MARKET

*What role should competition play in meeting users’ needs, including the quantity, type and quality, and regional accessibility of VET services?*

*How should the efficiency of the VET market be measured?*

*What is the appropriate (and exclusive) role of public providers, and why?*

*Are additional consumer protection arrangements required to support a well-functioning VET market? What are the costs and benefits of different models of consumer protection established by governments, including ombudsmans’ offices?*

### **In considering efficiency, each element of the market design needs to be examined**

The VET market is one designed by governments. Efficiency measures could be developed for each element of the market including:

- learner access
- funding, including managing budget exposure
- fees and pricing
- quality assurance
- market information
- public and private providers
- governance.

### **There is not a single VET market**

In thinking about the design of the VET market and the role of competition, it is important to note that at the highest level there are two markets:

1. The fee-for-service, privately funded market, where the full cost of training is borne by the individual learner or a third party such as an employer.

2. The publicly-subsidised market, where the cost of training is shared between government and the individual learner, or a third party. Within the publicly-subsidised market there are eight markets, one in each State and Territory.

Within the eight publicly-subsidised markets, two levels of governments make decisions across a broad range of issues including:

- The amount of public funding or the number of government-subsidised training places and/or loans available.
- The eligibility criteria for learners to access a government subsidised training place and/or loan.
- The rate a learner will need to pay to a registered training organisation (RTO) as their contribution to a government-subsidised training place.
- The courses where government-subsidised training places and/or loans can be offered.
- The RTOs that can offer a government-subsidised training place and/or loans.
- The number of government-subsidised training places and/or loans a RTO can offer.
- The rates RTOs receive for a government subsidised training place and/or loan.
- The allocation of government subsidised training places and/or loans between industries.

The decisions governments make across these factors contribute to the design of the market, and within these decisions, governments can employ market mechanisms to achieve the outcomes they desire.

## **A learner-centred system needs choice**

The Business Council believes that the starting point for good market design is to place the user – the learner or the employer – at the centre of the system. Placing the user at the centre of system means giving the user choices. Choices about what to learn, where to learn, and how to learn.

While a single provider may have a range of courses or delivery methods that provide for some choice, real choice can only exist if the learner has multiple providers available to them, and the learner is properly informed about those providers. User choice therefore goes hand in hand with competition.

## **Public, private, enterprise and not-for-profit RTOs are needed**

The VET market has never been confined to public providers, with non-public RTOs having developed the skills of many Australians. The controversial question is whether access to government funding/loans, should be limited to public providers.

Limiting government funding to public providers is not in the interest of learners, industry or government. Contestability drives innovation, a stronger customer focus and efficiencies. This is to the benefit of learners, and in the case of a government-subsidised market, is also of benefit to taxpayers through value for money.



Within the VET sector, there is a tendency to blame failures that have occurred on the existence of non-public providers and competition. It is important to be clear that contestability is not, and was not, the problem in the failure of VET FEE-HELP (VFH). It was the poor design of the program and the paucity of regulation or contract management that allowed rogue providers to enter the market and flourish.

The Australian National Audit Office (ANAO) made it clear there were failures from the beginning: *'Weaknesses included insufficient safeguards for students from misleading or deceptive conduct, and inadequate monitoring, investigation and payment controls for poor or non-compliant providers... Within Education, until 2016 there was little analysis or internal management reporting of the VFH scheme to identify emerging problems.'*

While the Business Council supports competition, we also recognise that there are inherent challenges for the public provider in a contestable model. Contestability in and of itself should not be a reform objective. The improved outcomes that contestability can deliver should be the reform objective.

### **But public providers do play a unique role in the VET market**

The Business Council has long been a supporter and advocate of the important role the public provider (TAFE) plays in post-secondary education and skills system, and the community more broadly. An effective post-secondary education and skills system needs a sustainable and strong TAFE network across the country, in the same way it needs a strong public university network.

However, a monopoly for TAFEs or public universities, is not the answer. Contestability and student choice incentivise a stronger focus on the needs of students and encourages providers to specialise in their areas of strength and innovate. Removing this incentive will not deliver a good long-term outcome.

TAFEs becoming residual providers will also fail to deliver a good long-term outcome. Governments need to put TAFEs on a good footing to compete with private providers, but TAFEs must also operate efficiently and deliver value for money.

### **Quality assurance is a perennial issue in VET**

Concerns about the quality of VET delivery have been around for decades, but they became heightened as a result of the introduction of entitlements and the VFH scheme. It is well known that the implementation of some entitlement models saw the initial entry of poor providers into the market. The opening up of VFH however was the single biggest issue.

As a result of the rorts in the VET sector, there have been many arguments made that the current quality and regulatory standards are insufficient, including for consumer protection. There have also been many arguments put forward that there are too many providers for the regulator to manage, and that the number of providers needs to be significantly reduced.

This becomes an emotive debate, particularly given the excessive abuse in the VFH implementation, but it is vital to accurately diagnose the problem.

There are three key risks factors in quality in VET:

1. access to government funding, in subsidies and loans
2. being approved to enrol international students

3. being approved to offer high-risk or mandatory courses.

### **Government funding**

To date, evidence suggests that the quality of training has suffered primarily in the government-subsided market, suggesting access to government funding is a primary risk factor. The fee-for-service market continued and continues to operate as it has for decades.

There are over 4,000 RTOs in the market, and while it is difficult to count how many providers are approved to offer loans or subsidies, it is safe to assume it is no more than 25–30 per cent of providers. Consequently, most providers are not high-risk, and the quality standards are sufficient safeguards for entry into the market.

### **International students**

If a provider is approved to enrol international students a new range of incentives for poor behaviour come in to play, for both providers and learners.

Fees for international students are, on average, higher than local students and are therefore more profitable for providers. From a student's perspective, completion of a qualification could ultimately lead to permanent residency in Australia.

Similar to access to government funding, these factors can incentivise rogue or poor-quality providers into the market or incentivise providers and learners to collude in creating false qualifications.

### **High-risk or mandatory courses**

As a rule, learners need to participate to gain value or benefit from education so in most cases they are unlikely to collude in receiving false qualifications.

However, there are high-risk qualifications including mandatory ones that people must complete before starting work in an industry, such as the White Card for the construction industry.

Providers who are approved to offer such qualifications carry a higher risk to quality in the market.

### **Harsh regulation is not a legitimate approach to consumer protection**

When government money is available, or providers can collude with students, there is a likelihood that unscrupulous providers will attempt to enter the market, and that puts consumers at risk. It is this group of providers that need extensive focus, not all providers. Those providers who limit their offerings to fee-for-service training do not present the same risk.

There is a natural inclination to create a harsh regulatory regime to provide disincentives against bad behaviour, as has occurred with the VET Student Loans program. However, poor past design should not lead to over-regulation. Such an approach is poor regulation, as best practice regulation suggests that a risk-based approach is most effective.

If a risk-based approach is to be applied in the education market, then both the funder and the regulator need powers to immediately withdraw government funding and suspend operations when needed to protect consumers and government investment.

## **Effective regulation coupled with contract management and good information should deliver consumer protection**

Quality standards are not robust enough to prevent poor provider behaviour in the government-subsided market, including both subsidies and loans, which has a negative impact on consumers. The solution to this problem is not creating additional quality standards or a quality star rating system. It is having strong and effective contract management for government funding and good information.

Contract management is a tool that allows governments to be selective about where taxpayers funding can be used. It is also an additional mechanism for real-time monitoring of provider performance and is a function for the funder rather than the regulator.

The funder's role of contract management is as important as the regulator, and the roles should not be confused.

A provider who establishes they meet the minimum standard to enter a market is subject to the regulator. But if a provider wishes to access government funding, they can be subject to both the regulator and the funder through contract management. This provides consumer protection.

The regulator and the funder have different roles. The role of the regulator is to ensure that the provider meets the standards that allow them to offer training. The role of the funder or contract manager is to ensure that taxpayers money is being spent appropriately, which also provides consumer protection.

## **Strong contract management is essential when government funding is available**

In the tertiary market it is not, and should not be, the role of the regulator to monitor government expenditure.

If from the beginning of the VET reforms, governments had been closely monitoring expenditure, and if they had had contract management conditions that required real-time data or gave the Department the ability to freeze or remove government funds, budget and consumer exposure could have been minimised.

Contract management needs to focus on three key issues:

1. Ensuring government has access to real-time data, so the relevant agency can monitor expenditure and have an early warning of emerging problems.
2. Ensuring government has the authority to remove government funding from the provider where issues have emerged, rather than relying on the regulator to go through the process of de-accreditation.
3. Requiring providers to publish market information so informed decisions can be made.

## **A quality rating system will not improve quality**

Standards and regulation are an important safeguard in the training system. If a provider is accredited by a government, such as an RTO, then citizens have a reasonable expectation that the provider will meet the quality standards.

But those standards are for entry into the market and are not a guarantee beyond that minimum standard. In addition to increased and costly regulation, the reaction against the

VFH situation has been a renewed push to create something like a quality star rating system in VET.

Quality is not an objective measure. Creating a framework to judge quality across 4,000 providers, assess and monitor it would be an enormous task, and even with the best intent, it would also remain subjective.

Improving market information, as discussed later in this submission, coupled with risk-based regulation and strong contract management, is the best approach to managing providers and informing potential learners.

#### INTERIM RECOMMENDATION 2.1 — INFORMATION ON VET SYSTEM PERFORMANCE

Australian, State and Territory governments should develop improved performance measures to provide a more complete picture of system performance. Any future sector-wide performance framework should better measure:

total VET activity

the contribution of VET to developing the foundation skills of Australians

skills obtained through the VET system when students do not complete a course

students' longer-term labour market outcomes.

---

#### INFORMATION REQUEST – CAREER GUIDANCE FOR STUDENTS

*What changes could be made to ensure school students have appropriate career information and advice?*

### **‘Discover your future’ – the go-to platform for careers advice**

In a COVID or post-COVID world, careers advice has never been more important. Careers advice needs to start with a candidate or person-centred approach. School students need to get a better understanding about what jobs and careers are likely to be available in the future, and how roles would suit them. They also need to know what to do, in terms of skill development or additional experience, to broaden the scope of jobs available to them in the near and longer term.

#### **Diagnostic tools**

While there are some quizzes currently available (see [joboutlook.gov.au](http://joboutlook.gov.au) and [lifelauncher.nsw.gov.au](http://lifelauncher.nsw.gov.au)), they are at such a level of generality that most young people will not gain a greater level of self-understanding to help them decide on an industry or role that suits them. Alternatively, there are so many options suggested that it overwhelms people.

Sophisticated diagnostic tools need to be developed and aligned to information about jobs in the labour market, that will help people make more informed decisions. More user-friendly techniques, such as gamification, could make the diagnostic tools both easier to use and more attractive and enticing for young people to use.

While there are some more sophisticated diagnostic tools, these tend to be developed by companies looking to profit from a gap in the market, and therefore monetise their use.

Careers advice, including diagnostic tools, should be free and readily available to all Australians.

The National Career Institute's new digital hub would be the natural home for such diagnostic tools and would form part of the new learner decision-making approach discussed below.

### **Make information available about what occupations exist and what work life is really like**

There are currently over 1,300 occupation categories in the Australian labour market. Most people, including parents and careers advisers, would not be able to list 10 per cent of the occupations, let alone explain what the work entails or what day-to-day life would be like in most of the occupations.

These occupations, along with detailed descriptions, should be converted into plain English and be the foundation to create an information source that is trusted and becomes the go-to source for all careers discussions. This information should be linked to the diagnostic tools, and like the diagnostic tools, the NCI's digital platform would be the natural home for this.

As a second stage, the occupations should then be grouped across industries to show how people can move between roles and industries, and the descriptions of the occupations should be fleshed out with case studies or examples from companies operating in Australia to provide real-world examples to help people understand what day-to-day life is like in the occupation.

#### *Build a broader and more comprehensive data set and common taxonomy*

Governments have long been the creator and holder of data and taxonomies that contribute to policymakers understanding of the labour market, including through statistical indexes such as the Australian and New Zealand Standard Classification of Occupations (ANZSCO) and the Australian and New Zealand Standard Industrial Classification (ANZSIC).

While these indexes, and other data collections such as the census, provide a robust framework to understand the Australian economy and labour market, the level of detail available and the currency of information is problematic for the modern economy and future of work.

For example, ANZSCO was updated at the end of 2019, but it took many years to update and it still has not come to terms with industries and roles that can change rapidly, such as technology-focused roles. While ANZSCO is appropriate for some industries, it struggles to remain current with others.

Additionally, unlike the US's Department of Labor O\*Net portal, ANZSCO does not include the functions of occupations, nor the relevant skills.

If people are to truly gain an understanding of what jobs are in the labour market, as well as the nature of the roles, and keep up with changes in industries, we need to expand our data sets and develop a common taxonomy.

While government should be the integrator of these data sets, there is no reason for government to be the only collector of such data. Over the last decade private companies, such as SEEK and Burning Glass have moved into the field of collating new data sets, and in

an era of big data, it would be inefficient for government to try to recreate data held by third parties.

These data sets would be invaluable in creating a more current and comprehensive picture of both the labour market, and the skills employers are looking for. Governments need to be open to sourcing new data sets from third parties.

Additionally, it is no longer sufficient for policymakers to be the only target for data sets and taxonomies. If candidates/people are to become empowered to build their careers, and create their own skill development plan, they need to be able to easily understand the labour market and what they need to do to achieve the outcomes they want.

Data and taxonomies need to be presented in a way that will benefit a user, rather than being presented to a policymaker with an expectation of a certain level of expertise. In addition, intuitive user interfaces and underlying intelligence in the platform will be critical in making the data practical and user-centric. This is another reason to work with third parties.

### **Clarify what employers expect**

Many employers complain about the quality of the graduates coming out of school, VET and HE, and say that they are not coming equipped with the skills they want, or do not understand what employers are looking for.

Educational institutions have complained that employers have been vague in specifying where the gaps are. To close this gap the Business Council worked with employers across a wide range of industries to create the *Modern Worker: A Guide to What Employers Want*.

In the Guide we have identified six groupings of capabilities employers look for in addition to the technical knowledge and skills people develop from their education and training:

1. values
2. behavioural capabilities
3. literacy and numeracy capabilities
4. people capabilities
5. analytical capabilities
6. digital capabilities.

The capabilities have been matched across the labour market with the 1,300 occupations grouped between trade and technical occupations, professional and managerial occupations, and all other occupations.

The Guide fills a significant gap in the market and provides useful information to young people and existing workers and was only completed at the end of 2019. The NCI could include the publication on their digital platform, but as a hardcopy publication or PDF it does not meet its full potential.

An interactive digital presence that is user-friendly and has more colour and movement about the different roles and how the expectations apply in the workplace would be a useful addition to the NCI's hub.

## **Systemic shift in approach to careers advice**

Many conversations about a young person's future start with 'what university do you want to go to?' While selecting a place to study is a very important decision for a young person, the future career or roles they want, and therefore what they need to study or go into, work as a starting point and should be the primary decision. Additionally, university is not the only pathway and focusing on an educational institution as the first discussion point unnecessarily constrains the options available to young people.

Other conversations start with 'what do you want to do?', which assumes a level of knowledge that most young people, let alone their parents and careers advisers, don't have including:

- A good understanding of the labour market – what jobs are available, what working in a particular job or industry would be like, and what employers expect from them.
- What roles would suit them given their strengths, interests, personal values and attributes.

To help young people, and existing workers make informed decisions about their futures, we need a systemic shift in the approach to careers advice and decision-making by building an information model around an individual's decision-making process.

If you consider a potential learner's decision-making process, there are two key decisions they need to make, and to ensure a considered decision a range of information needs to be readily available.

### *Decision one: What to study?*

To make this decision people need to consider:

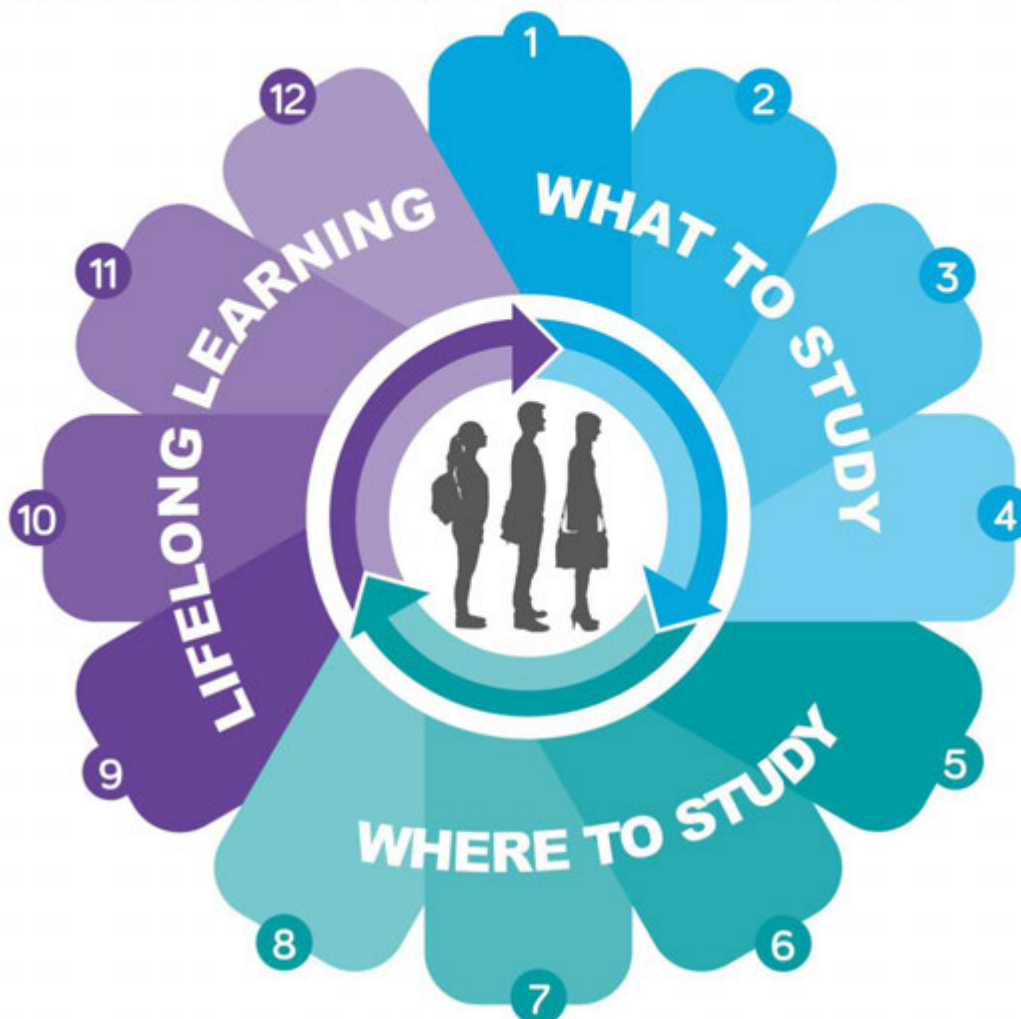
- What they are good at, where their strengths are, and what they are interested in or passionate about (the proposed diagnostic tools will do this).
- The different roles available in different industries that would suit these strengths and interests.

Once a potential learner has identified courses of interest, they need to consider a range of factors including:

- The full cost of the course, including upfront fees and access to government support.
- If government support is provided, how much the government is willing to subsidise the course, the potential cost to them and the length of time it will take them to pay back their loan.
- The likely availability of roles relevant to the courses.
- Graduate salaries and long-term potential earnings.

The answers to these questions will affect people differently. Some will be strongly motivated by potential earning capacity, while others will be focused on their passion regardless of cost or earning capacity.

# HELPING LEARNERS MAKE DECISIONS



## WHAT TO STUDY

- 1** Figure out strengths and passions
  - Use self-assessment tools on the portal to help
- 2** Review roles and industries that suit strengths and passions
- 3** Identify the relevant VET and HE courses/skills sets
- 4** Compare the courses/skills sets including:
  - Upfront costs, subsidy and ICL
  - Future job prospects
  - Graduate salaries and long-term potential earnings

## WHERE TO STUDY

- 5** Identify providers of the course/skills sets and compare:
  - Location
  - Costs
  - Length of course
  - Student outcomes
  - Professional body recognition
- 6** Apply for selected course/skills set
- 7** Enrol with provider
  - approve provider access to subsidy and/or ICL
  - pay upfront fee
- 8** Complete study

## LIFELONG LEARNING

- 9** Find a job and start to repay ICL
- 10** Ongoing self-assessment of skills or knowledge gaps
- 11** Check balance of LSA
- 12** Return to step 1



### *Decision two: where to study?*

Once a learner has decided what to study, they need to determine where to study. To do this, learners need to be able to see a range of information such as:

- Which institution offers the course and where the course is located.
- If the costs are different between providers, a comparison of the costs across the providers including upfront fees and access to government support.
- A comparison across providers about how long the course will take, as well as the weekly time commitment, student outcomes including employment and starting salaries, and the professional bodies that recognise or accredit the course.

This approach needs information to be in one place.

This approach to decision-making is intuitive and would be easy for young people and workers to understand and follow. However, the relevant information needs to be available in one place, rather than being scattered across a range of sites that young people or existing workers would not know about or ever visit.

A systemic shift in approach will only be successful if it is supported by two key planks:

1. Tools, primarily online, that are built around the user and help them identify their strengths, weaknesses, interests, and values, all of which can then be used to point the individual towards industries and occupations (as discussed above).
2. Comprehensive, useful and trusted information that can be customised and adapted to the user.

A great deal of this information is available but is not user-friendly and is scattered across a range of websites including:

- MySkills (<https://www.myskills.gov.au/>) which allows you to search for VET courses and includes some information on potential jobs and income
- Compared (<https://www.compared.edu.au/>) which has some quality data indicators for HE providers
- JobOutlook (<https://joboutlook.gov.au/>) which is a Commonwealth government site that has quizzes to help people identify potential careers and provides information on potential jobs and income.

Additionally, the information for an industry is divided by the type of education so learners have to move between two sites. For example, if someone was interested in engineering, they would need to move between MySkills and QILT to look at the differences between the VET and HE qualifications, and they would then have to go to each provider's website to get additional information.

The data points detailed in the learner-decision-making process, including the labour market data, need to be accessible in one location by the potential user. The data can be drawn from multiple sources, but that should be invisible to the user, and it should also link to the diagnostic tools.

The data source should be freely available, updated in real-time, and should not be at risk of monetisation or limiting access.

## SECTION TWO: A NEW AGREEMENT TO GUIDE POLICY

### INTERIM RECOMMENDATION 2.2 — A NEW PRINCIPLES-BASED AGREEMENT

Australian, State and Territory governments should negotiate a new, principles-based intergovernmental agreement. Such an agreement should commit governments to developing an efficient, competitive market driven by the informed choices of students and employers. The agreement's principles should include:

centring policy on the consumer, including information provision for informed choice  
equitable access

recognition of fiscal sustainability and the stability of funding

transparency about where funding is allocated, including detailed information on course subsidies, costs and the size and nature of funding to public providers

efficient pricing and delivery

designing incentives to increase the likelihood of eliciting training

competitive neutrality between public and private provision

neutral, but not equivalent, treatment of the VET and higher education sectors.

---

### INFORMATION REQUEST — DESIGNING A NEW INTERGOVERNMENTAL AGREEMENT

*If a new principles-based agreement was negotiated in line with interim recommendation 2.2:*

*how should it consider other educational sectors, informal training and non-government funded training?*

*what other mechanisms to facilitate reform and improve accountability would best complement an agreement?*

### **A principles-based agreement is a good starting point for reform**

The Business Council supports the move to a new principles-based intergovernmental agreement, and strongly supports the move to place the learner at the centre of policy design and the overall system.

The performance framework for the current agreement is much broader than the VET sector, which is acknowledged in the agreement: *'This Agreement while focused on the VET sector recognises the role played by governments, individuals, industry and by the higher education and school sectors in attaining these targets.'*

A move to a principles-based agreement is a good opportunity to reframe the agreement and expand it to cover all post-secondary education. The VET sector is not an island. Actions outside the VET sector can have an impact on the ability of the VET to deliver on governments' policy agendas.

A new agreement should explicitly recognise the crucial role the VET sector plays in the modern economy. Ideally an agreement should set out a clear purpose for VET.

Having the agreement cover both VET and HE would enable both levels of government to develop policies consistent with the proposed principle of ‘neutral, but not equivalent, treatment of the VET and higher education sectors.’

### **Having the agreement cover both sectors would allow for clearer lines of responsibility**

The issue of resource allocation has been a consistently contested space since the first NASWD was introduced. The then Commonwealth government was introducing the Productivity Places Program, which was effectively trying to determine resource allocation in jurisdictions.

The contesting of resource allocation then bleeds into a debate about funding levels and accusations of cost-shifting between the different levels of government. While the NASWD is clear about roles and responsibilities, it is sufficiently vague to allow for these debates to occur.

Given it is unlikely that the Commonwealth will allow jurisdictions to allocate loan resources, nor States and Territories allow the Commonwealth to determine resource allocation within their jurisdiction, this review is an opportunity to solve these perennial issues.

### **Governments could divide funding responsibilities by qualification level**

One solution is to split funding responsibilities for the post-secondary skills system by qualification level. In its reform agenda for the post-secondary education and skills system, *Future-Proof*, the Business Council proposed a model with the following responsibilities:

1. States and territories have responsibility for funding:
  - pre-accredited and foundation
  - Certificates I–IV
  - any base funding needed to make the public provider sustainable.
2. The Commonwealth has responsibility for funding:
  - Diplomas, Advanced Diplomas, and Bachelor Degrees
  - income-contingent loans
  - research training and research more broadly.

Such an arrangement would stop the arguments about cost-shifting and would also allow the Commonwealth to set the subsidies and prices where they are offering loans, and therefore ensure the most efficient use of government resources. It also provides transparency for reporting purposes and enables the public to hold the relevant government accountable.

The Business Council has proposed that the model to support and distribute such a funding split could be through the Lifelong Skills Account, but this is just one allocative method, and others could be used.

### **The form of the agreement could support cooperative federalism**

Given the NASWD is supported by a specific purpose payment from the Commonwealth to the States and Territories, there is often a strong focus on how that funding contribution is spent.

This focus detracts from a cooperative federalism approach, which necessarily distracts from governments working collaboratively on reforms. If the funding responsibilities were resolved as proposed above, the Commonwealth's funding of Diplomas and Advanced Diplomas would likely consume the SPP funding and negate the need for a funding transfer.

Rather than see this as an opportunity to get rid of the NASWD, such a change is an ideal opportunity to consider better ways for an intergovernmental agreement to facilitate cooperative federalism.

National Agreements were created a decade ago to change the dynamics between governments and improve intergovernmental cooperation. This has not occurred in the case of VET, primarily because there is a power imbalance. States and Territories are reliant on a funding transfer from the Commonwealth to deliver key services, and the Commonwealth wants to monitor and control performance in a way that goes beyond the intent of the reforms that produced the IGA FFR and the associated National Agreements and National Partnerships.

If there were no longer an SPP, the power imbalance would disappear, and the focus and purpose of the NASWD could be a truly collaborative management of the post-secondary skills sector. The reform agenda could be centred on the PC's proposed principles, developed in a genuinely collaborative manner, and consistent with a system that is managed together by two levels of government.

### **But governments should also work collaboratively on governance**

While an intergovernmental agreement is important, it should also be supported by a clear governance framework. If the sector is a shared responsibility, then development of the governance framework is also a shared responsibility and should sit within the reform scope of the NASWD.

The recent Commonwealth announcement of the NSC and the NCI are good examples. These new institutions are important and should be supported, but they were not proposed through a collaborative reform process. In designing the next stage of the NSC and the NCI it is imperative they are national bodies, not Commonwealth institutions.

If an intergovernmental agreement remains the mechanism to enable governments to work collaboratively, the agreement should be expanded to cover the breadth of managing the sectors, including governance.

### **Be open to the possibility of including industry**

In thinking of a new generation of intergovernmental agreement, this review is also an opportunity to consider the role of industry and business in the post-secondary system.

VET sector is often spoken of as an 'industry-led' sector. The Department of Employment's website says 'Australian industry plays a leading role in the VET system to ensure the sector drives improvements in productivity and competitiveness across the economy.'

Since the closure of the Australian National Training Authority (ANTA) in 2005, the role of industry in VET has been whittled down by successive governments at both the Commonwealth, and State and Territory levels. Industry's primary function now rests with the

development and approval of Training Packages through the 64 Industry Reference Committees (IRCs) and the Australian Industry Skills Committee (AISC).

### **Current governance confines industry's role to training packages**

The Department's website states 'the Australian Industry and Skills Committee was established to provide industry with a formal role in advising the COAG Skills Council on policy directions and decision making in the national training system'. A review of the functions of the AISC makes it clear it does not have an advisory function on policy, and its decision-making capacity is limited to training packages.

The functions of the AISC are to:

- advise on the implementation of national training policies
- quality assure and approve training packages for implementation
- oversee the process for development and approval of accredited training
- provide direction on the national VET sector research priorities, including the work of the National Centre for Vocational Education Research (NCVER)
- provide advice to the COAG Industry and Skills Council on training provider and regulator standards
- coordinate industry engagement through the COAG Industry and Skills Council meetings
- undertake work as directed by the COAG Industry and Skills Council.

And despite the best of intent, the AISC's role has become a bureaucratic paper-processing function. Members are often required read up to 1,000 pages of materials for meetings, leaving no room for a strategic agenda or discussions.

### **Post-secondary education could be tripartite**

Policy settings and decision-making are the core functions of governments, and it is for them to decide what they delegate to, or share with, external parties. However, if governments collectively want industry to be deeply engaged with the post-secondary system, they need to have greater ambitions for the role of industry than the current incarnation of the AISC.

While it would be a radical approach, this review provides an opportunity for governments to collectively decide that the governance of the post-secondary system is tripartite rather than simply a shared responsibility between two levels of government. The governance could be a tripartite agreement rather than an intergovernmental agreement, and a board or council made up of Ministers and senior industry representatives, covering both businesses and unions.

If a tripartite approach were adopted, it would provide a legitimate environment to have a frank discussion about financial contributions of industry.

## SECTION THREE: GOVERNMENT'S FUNDING OF VET

### INTERIM FINDING 3.1 — PUBLIC AND PRIVATE RETURNS TO VET

There are significant private and public economic returns to VET, with returns larger for Diploma and Advanced Diploma VET courses.

There are also indirect benefits — such as reduced crime and intergenerational economic mobility — which may be greatest for lower-level VET qualifications.

### INTERIM FINDING 3.2 — ALIGNED TREATMENT OF VET AND HIGHER EDUCATION

The use of subsidies in the university system provides a robust efficiency and equity rationale for subsidies in the VET system.

However, given the public benefits and aims of the VET and higher education systems differ, subsidy rates do not need to be identical in the two sectors for all occupations and fields.

### **The cost of learning should be shared by those who benefit**

In designing a modern tertiary education system that covers VET and HE, we must have a realistic conversation about the trade-offs between access and how it is funded, and how we ensure the system is fair and sustainable for all Australians. A mass tertiary education system comes at a cost beyond current government income. Growth in participation cannot be funded solely by taxpayers, unless governments are willing to increase taxes.

Education is an intrinsic good that delivers benefits beyond the individual. This is partly why we have compulsory school education, and why governments effectively ensure that young people can receive 13 years of schooling at no, or very little cost, to their families.

Basic levels of education deliver a significant private benefit, but because of the spill over benefits, or broader societal benefits from basic education, the ratio of public benefit to private benefit is high. However, as an individual achieves greater levels of education, the balance of the benefit shifts in favour of the individual.

This is evident in the data that people who complete Year 12 or equivalent fare better than those who do not, and people who complete tertiary education fare better than those who do not study beyond schooling.

Given the private benefit an individual receives from tertiary education, it is reasonable to ask that they make a personal contribution to it. The ratio of the personal contribution versus the government contribution, should reflect the ratio of the private and public return that is likely to occur as a result of the education.

### **There should be a shared approach across VET and HE**

Determining the ratio of public and private benefit is not a science, but approximations, and transparency about how those approximations were estimated, would be a significant improvement on the current approach.

Potential learners should know both the cost of delivering education as well as the private benefit that it will deliver. This will ensure they know what that private benefit is relative to the cost they will pay and can therefore make informed decisions.

An approach like this would ensure that people make a fair and efficient contribution to their own education, rather than expecting other taxpayers who do not receive the private benefit to subsidise them.

Additionally, a funding model with this approach – sharing the costs between government and individuals based on the ratio of public and private return – is the easiest way to provide a level playing field between VET and HE.

The PC has noted that ‘subsidy rates do not need to be identical in the two sectors for all occupations and fields’. While the Business Council can support the PC’s arguments that the subsidy rates do not need to be identical between the VET and HE sectors, we would urge the PC to expand on this finding to ensure there is no confusion about this finding.

Our interpretation of the second part of interim finding 3.2 is that the higher benefits generated in HE would see a lower percentage of support by government through the subsidy. However, the finding could be interpreted to suggest that there is a higher purpose in the aims of HE which should result in a higher subsidy.

The Business Council would argue that it is important the subsidies are on a level playing field regardless of sector. Subsidies should be based on the cost and likely ratio of public and private return, neither of which is likely to be the same across the sectors. The approach however between the two sectors should be the same to ensure that learners in one sector are not being privileged over learners in another.

## **Employers and industries should also contribute to skill development**

The Business Council believes that businesses and industry have an obligation to develop their workforce. In determining the contribution employers should make to skill development it is important to differentiate between an initial qualification and career-specific skill development.

It is well understood that, in general, the lower the level of education, the greater the public benefit. Schooling and literacy and numeracy as examples, are fundamentally important for people to be able to operate in society. Based on that, there is an expectation that governments will be responsible for the cost of that development.

At what point then does business and industry start to contribute? Is it in the initial qualification, or is it when people have already completed a qualification and are working and then needing further development?

Given that an initial qualification is generally for entry into the labour market, the Business Council would argue that the cost of it should be primarily shared between governments and the individual. If a portion of the cost of an initial qualification is to be shared with business and industry, then that should apply across the economy, not be limited to VET.

Once an individual is working and in the labour market, businesses and industry have a much greater responsibility for an individual’s skill development. That responsibility can take many forms. It may be internal training, external training the business pays for, or time off for workers to attend training.



## **Industry contributions should also be consistent across sectors**

Having different funding models across VET and HE creates perverse incentives and influences the behaviours of players in the post-secondary system. This is particularly important when it comes to the question of employer and industry contributions.

If there is an expectation that industry will contribute to post-school education, then that expectation should be across all of the economy. Why is there an assumption business should pay for VET but not for HE qualifications?

It has been argued in the past that VET is a more labour-market facing sector, and employers therefore realise more benefits. This argument simply does not accord with the modern post-secondary system. Undergraduate HE delivery is primarily focused on occupations – law, accounting, engineering, architects, a range of health professionals and so forth.

If business and industry are responsible for contributing to an initial qualification in the trades and technical areas, why are they not responsible for contributing to an initial qualification in the professions and technical services? Particularly noting that graduates of the professions generally get a greater private return than graduates in the trade and technical occupations.

## **There is insufficient data to determine the benefits of VET**

While the Business Council agrees with the PC's finding that there can be significant private and public economic returns to VET, private returns are not universal and if the cost of training is too high, the cost may eclipse the private returns.

At this point in time there is no way to assess whether contributions towards VET are proportionate to the benefits each group is receiving. That is why the Business Council believes a costing exercise needs to be undertaken, along with the development of a funding model based around the ratio of public and private benefit (see options for funding and pricing reform section).

There is also no way to determine if the VET sector is being sufficiently funded. Given what the VET sector is being asked to deliver, is the total amount of funding enough? And is the funding equitable, particularly from the learner perspective?

As discussed later in this submission a costing exercise and allocating returns will be a significant piece of work that will take time and money. It also will not be an exact science. However, what is the alternative?

Given the decline in VET funding, it is possible that the sector is severely under-funded and simply does not have the capacity to deliver what the economy needs. It is also quite possible that the cost the individual and governments are bearing for some VET qualifications do not realise benefits. This is something that has to be known and understood from both a government investment perspective, as well as a learner perspective.

## **The current system may be too costly to deliver private returns**

There is also the potential that determining the costs and benefits may show that government investment is too low and that learners are paying far beyond the return. While this would be a difficult situation for governments, choosing to not know is the equivalent of burying your head in the sand, and is not a legitimate way to manage the training system. It is also a sure-

fire way to make sure the Australian economy does not have the skilled workforce it needs to grow and prosper.

Additionally, if a costing and funding model exercise show there is insufficient return, it opens the question of the validity of the overall VET system. We need a training system that can build the future workforce the Australian economy needs, never more so than in a COVID and post-COVID world. If a costing and benefits analysis shows that there is insufficient return from that training, then we need to look at the fundamentals of the system and build one that can deliver a sufficient return.

---

#### *INFORMATION REQUEST — IDENTIFYING AND ACTING ON SKILLS SHORTAGES*

*What are useful ways of defining and measuring the skills shortages (and surpluses) relevant to the VET sector?*

*What factors are causing an apparently persistent shortage of skilled workers in some occupations, despite these occupations being a priority for government support?*

*To what extent are skills forecasts based on future industry growth a useful and reliable basis for providing course subsidies?*

*In what circumstances do skills shortages justify course and employer subsidies and at what level of granularity?*

#### OPTION 6.2 — CONSISTENT METHODS FOR ASSESSING SKILLS SHORTAGES

Australian, State and Territory governments could consider adopting consistent approaches to the determination of skills shortages, while taking account of variations in local labour markets, with this task undertaken by the National Skills Commission.

### **‘Skills shortages’ and oversupply are often misdiagnosed**

Discussion on skills shortages, or skills oversupply, often confuses the issues of the availability of skills in the labour market with both the willingness of workers to utilise their skills, and the ability of workers to utilise their skills in other areas. Take nursing and law as examples.

Over the last couple of decades there have been periods of nursing ‘skill shortages’. However, in these instances there has not been a lack of trained nurses. Rather, people with nursing qualifications were choosing to work in other occupations. This kind of ‘skill shortage’ is generally about the industry or the role. The jobs are difficult or poorly paid, or a combination of both that make the occupation unattractive to potential workers.

A priority skill list or trying to match training offerings to skill shortages, will not change this. The only way to change this type of skill shortage is to change the pay and or conditions of the roles, or the culture of the industry.

Take law as a different side of the utilisation issue. There is a great deal of commentary about the significant over-supply of law graduates and the need to reduce the number people entering law qualifications.

However, the data does not suggest that these graduates are finding it difficult to find their first career role. This is because the over-supply is based around the notion that a law

qualification has only one pathway, when in fact law has become a springboard qualification that is used to enter a range of occupations and professions. These graduates are utilising their training, simply not in the legal field.

### **An entitlement with an informed market will best deliver future skill needs**

Before the introduction of entitlement models, the VET markets were primarily driven by a labour market planning focus. Governments would consult with industry to determine their future skilling needs and then allocate places and/or funding to match these needs.

Despite this labour market planning, governments were not able to prevent skill shortages nor encourage learners into courses they wanted to fill. This is because historically labour market planning in Australia has focused on jobs rather than skills and capabilities.

The volatility and the fluidity of the labour market means that any analysis at a jobs level will be out of date by the time learners graduate. An approach that focuses on the capabilities and skills learners need is one way to do some effective labour market planning.

If this were coupled with learner choice through an entitlement model and good market information, it would be a much better way to deliver the skilling outcomes the labour market needs.

Take for example the Victorian reform, *Securing Jobs for Your Future*. The reform significantly increased the size of the market, with a commitment of an additional \$316 million dollars in funding and 172,000 training places.

Prior to the reforms some TAFEs were returning their allocated funding for higher level qualifications because they could not find students interested in higher level qualifications. A reform objective was to increase the ‘number of people undertaking and completing qualifications at the Diploma and Advanced Diploma level.’ The reforms delivered this outcome, something that a labour market planning approach had previously failed to achieve.

### **Labour market planning doesn’t work, but projections are important**

While labour market planning is an unreliable tool for incentivising learners into skill-need areas, it is important for both governments and learners to have access to projections of labour market demand.

No one can predict what new industries or jobs may emerge but having reliable information about the stock and flow of skills and labour is important for government to assist them in decision-making about which qualifications they choose to fund. It is also important that potential learners have access to this information to assist them to make more informed decisions.

### **Skills shortages are not the right lens to initially determine subsidies**

In the report the PC notes: ‘Overall, the public returns to VET justify some level of government support. However, unlike the rationale of addressing skills shortages, the existence of public benefits justifies broad access to subsidies (as in higher education), not just access limited to occupations in short supply.’

The Business Council strongly supports this conclusion and does not believe that skills shortages are the right mechanism for initially determining subsidies. As discussed above, the ratio of public and private benefit should be the first determinate of the percentage of subsidy provided.

While this should be the starting point, governments also need to have flexibility to prioritise their funding, beyond the rate of private return. The supply of skills in the economy may be a second layer for determining either the rate of subsidy, or the number of subsidised places governments wish to subsidise.

Take millinery design as an example. People working in millinery design earn less than 60 per cent of average earnings. Based on this, the worker is getting a low private return. This is not an argument for a higher rate of subsidy as the public return is also likely to be low.

Millinery also has low expected job openings over the next five years, so governments may not wish to subsidise large enrolments in this area. To manage this, they may choose to cap enrolments and/or provide minimal, if any, subsidy.

The most important factor here is that the decision-making process is transparent. Learners should be able to see what the subsidy would be based on, the ratio of public and private return, and changes the government makes, and why. Having the decision-making transparent helps potential learners make informed decisions.

### **Jurisdictions should work together to agree a common methodology with a broader framework**

As noted above skills shortages are often misdiagnosed, so the Business Council supports the option for a consistent and transparent methodology for determining skill shortages. The Business Council further suggests that a broader framework is adopted that also factors in the stock of trained workers with relevant skills across the economy; skill gaps that emerge within organisations; gaps between the experience level of workers and employer expectations, and within organisations; and the willingness of workers to utilise their skills in specific occupations and/or industries.

While the Business Council supports a consistent methodology, it should be one developed in collaboration between jurisdictions, rather than one imposed by one level of government.

If the NSC were to take on the role of applying the agreed methodology, they would also need to commit to working with all jurisdictions to ensure sufficient work is done to determine skill shortages in local labour markets. If this work were not to occur, jurisdictions would likely return to doing the work themselves and applying their preferred methodologies.

## SECTION FOUR: OPTIONS FOR FUNDING AND PRICING REFORM FOR COURSE SUBSIDIES

### INTERIM FINDING 4.2 — PRICE CONTROLS ARE INEFFICIENT

Fixing student fees can stifle competition, inhibit allocative efficiency and reduce incentives to improve the quality of training.

There are more direct instruments to address issues of quality management, information asymmetries and budget control.

### Fee deregulation is problematic in practice in the VET market

In a perfect market, interim finding 4.2 is correct. However, VET is not a perfect market. As the Business Council has previously argued, fee deregulation works for some, but not all, student cohorts across the tertiary education system.

In theory, competition should ensure that prices are not increased without additional value being added. However, getting the benefits of competition to flow can be difficult in a system that has poor information, significant taxpayer expenditure, and, for some cohorts, muted price signals resulting from an income-contingent loan.

History has shown in the VET market that there is the potential for providers to excessively price training. This was a key problem in the implementation of VET FEE-HELP, where the average cost of a loan per enrolment increased by 606 per cent between 2011 and 2014. While the design of the system allowed this to happen, if student fees are not fixed or placed within a range, this problem could reoccur.

Previous attempts at reform in this space have shown us that while, in theory, fee deregulation can deliver improved efficiency and outcomes for learners and government, the VET sector is not currently designed to support fee deregulation.

Significantly improved market information, contract management and students having some 'skin in the game' would need to be embedded in the system before the benefits of fee deregulation would outweigh the potential costs.

See the response to interim finding 6.2 for additional commentary on fee deregulation.

### INTERIM FINDING 4.1 — DATA UNDERPINNING SUBSIDY RATES

Data used to estimate course costs (which inform subsidy rates) are dated in most States and Territories and are not a sound basis for setting subsidies.

#### INTERIM FINDING 4.3 — JURISDICTIONS' APPROACHES TO SUBSIDISING COURSES

State and Territory governments share the same goal that subsidies should increase participation in training, particularly by students facing disadvantage and in skill areas in short supply or with other public benefits. All take the same key steps in setting subsidies and managing subsidised services.

However, there is significant variation in policy priorities and the approaches used to determine which courses receive subsidies, and in overseeing course costs and student fees. Consequently, subsidies and student fees for the same courses can vary widely across Australia.

The effects of different settings on the behaviour of students and training providers are poorly understood.

#### INTERIM FINDING 4.4 — LACK OF TRANSPARENCY IN SUBSIDY SETTING

There is a general lack of transparency on subsidy- setting processes and the rationales for subsidies. There is also a lack of transparency on course costs faced by students.

This transparency deficit adversely affects the ability of students and training providers to make informed decisions on investment in training.

### **Foundation work needs to happen before getting to national consistency**

The Business Council broadly supports interim findings 4.1, 4.3 and 4.4, but notes that States and Territories employing different policies and approaches while working towards a common goal is perfectly legitimate, and consistent with the principle of subsidiarity the PC discusses in its section on principles for a new agreement.

Before governments can get to a nationally consistent set of course subsidies they need to do work on costs, pricing and funding.

Costs, pricing and funding are often used interchangeably in a discussion about tertiary education, and this leads to confusion and people talking at cross-purposes. For the sake of clarity, the Business Council proposes the PC uses the following definitions:

- **Cost** – the amount required to deliver the training.
- **Funding** – the amount of government support provided, through a subsidy, an income-contingent loan (ICL), or a combination of both.
- **Pricing** – the amount a provider charges for the training.

Additionally, governments need to consider the provider market they wish to create in their jurisdiction.

### **A costing exercise to establish benchmark costs is needed**

Funding and pricing are formed by policy and provider decisions, but those decisions should start with the base information of what training costs.

While cost is the most evidence-based of the three, calculating cost in education and training is not a precise science. Costs will differ across qualifications, and will differ within qualifications according to location, and/or learner characteristics/cohort. For example, all other things being equal, the cost of delivering in remote communities will be higher than the cost of delivering in a major city.

Cost is also impacted by the environment in which the provider operates – e.g. labour costs – but, it is also reflective of how a product is delivered. If class sizes are deliberately small, the latest equipment or technology is made readily available, or industry secondments are offered, the cost of delivering that training will generally be greater than training without those components.

Some providers will argue that these offerings provide a better-quality product, but the quality of delivery is difficult to assess as it is dependent on the quality of the trainer, the materials provided to the learner, and the learner's engagement and effort.

In determining the cost of training, it is therefore important to assess how much it costs to efficiently deliver training that meets the minimum quality standards within the training system. A costing exercise would be a substantial amount of work and could not take into account every combination of special circumstances, but a benchmark cost could be established for each qualification or group of qualifications.

As noted by the PC in interim finding 4.1, data used to estimate course costs are dated. Consequently, governments do not have the information they need to agree to a nationally consistent set of course subsidies. They first need to undertake a costing exercise to determine benchmark costs, including loadings or something similar, to account for locational and student need variations. If States and Territories were in agreement, this costing exercise could be done by the NSC.

#### OPTION 6.1 — SCOPE FOR MORE NATIONALLY-CONSISTENT COURSE SUBSIDIES

Australian, State and Territory governments should consider:

- adopting a nationally consistent set of course subsidies, based on the efficient cost of delivery for groups of similar courses, with loadings to address higher delivery costs in some locations and to some student groups (as in the Joyce Review); or
- simplifying the large number of different subsidy rates for courses but otherwise leaving jurisdictions to set their own subsidy rates and their allocation.

---

#### INFORMATION REQUEST — SIMPLIFICATION OF SUBSIDY GROUPINGS

*In judging the relative merits of alternatives in option 6.1:*

how should subsidy groupings be simplified?

what criteria should be used to bundle courses and set subsidy rates?

what are the trade-offs between the greater simplicity of adopting nationally consistent subsidies and the reduced discretion for jurisdictions?

**INTERIM RECOMMENDATION 6.1 — COMMON METHODS FOR COSTING**

State and Territory governments should use common methods to measure costs and determine loadings.

**A national funding model with a transparent methodology**

Governments have finite resources, so the amount of funding governments provide to support learners needs to be rationed. This automatically requires policy decisions to determine how much funding should be made available, and how to ration funding. As two levels of government provide funding for training, two levels of governments currently make policy decisions around funding, and, as noted by the PC, jurisdictions adopt different approaches.

A costing exercise is the first step in establishing what could be a nationally consistent framework for subsidies. The costing exercise could also answer the question of how to simplify subsidy groupings, as cost should be the starting point for such groupings. It is important that benchmark costs are published to ensure transparency and help learners and industry understand costs.

The second step is developing a methodology to identify the ratio of public and private benefit in qualifications. That methodology could then form the basis of a national funding model that allocates the percentage share of training costs between governments, individuals and employers.

Determining the ratio of public and private benefit, and then developing a national methodology to share the cost is a significant piece of work that will ultimately need to be signed off by Ministers in all jurisdictions, or all first Ministers.

**A national funding model does not mean jurisdictions will make the same policy decisions**

The national funding model would in effect be the nationally consistent set of course subsidies. However, a national funding model would not mean that the Commonwealth determines subsidies, that subsidies are the same in every jurisdiction, or that a qualification funded in one jurisdiction will be funded in another. The level of government with responsibility for the training market (States and Territories), and consistent with the subsidiarity principle noted by the PC, would use the national funding model as a starting point, but may make changes to both subsidy levels and what they fund based on their policy priorities.

The simple fact is that there are good reasons why government funding may differ between jurisdictions, including the availability of any government funding. While there can be equity arguments made about a learner in Victoria getting a higher subsidy than a learner in NSW, those arguments could be applied across the whole public policy spectrum within the control of States and Territories.

The value of a national funding model is first to get some facts on the table, and second to provide transparency. Transparency between governments, as well as transparency to learners, industry, providers and citizens more generally. If a jurisdiction decides to not fund a qualification that has a high ratio of public benefit, that information would be available. If



another jurisdiction chose to reduce the level of subsidy, that information would also be available.

## **Each government must decide the extent it wants to regulate price**

The issue of pricing starts with a fundamental question – does government want to set the price, provide a range of prices or let the market determine the price?

As a price-setter a government is choosing to regulate training fees – the fees a provider can charge, as well as the total income a provider can receive from an enrolment. Alternatively, a government can choose a spectrum of regulation – they could allow some freedom in setting the price or allow the provider to determine the fee.

For example, if the national funding model determined the benchmark cost for a qualification was \$1,000 with a ratio of 80 per cent to government and 20 per cent to the learner, the subsidy would be \$800 and the fee, or learner contribution would be \$200.

In a price-setter environment, the government would set the fee at \$200 and all providers would be able to charge that fee to the learner. In a less regulated environment, the government may allow a provider to charge any fee within a range, such as \$0 to \$300. Alternatively, the government may allow the provider to set their own fee with no cap imposed.

Pricing, like funding, is a policy decision and therefore a decision for government. As discussed above, the Business Council does not believe the VET market is sufficiently developed to support full fee deregulation.

## **Each government must also decide about provider eligibility**

The issue of the level of fee regulation is different to provider eligibility for the provision of government-support training. Again, there is an initial policy decision for governments as to how big they wish the government-supported market to be.

Some governments may wish it to be limited to the public provider, others may want a mix, while others may want to have a broad market.

The Business Council believes that the most effective training system is one where the learner is placed at the centre. Part of this is allowing the learner choice – choice about what they enrol in, where they enrol, and when they enrol. The Business Council therefore believes that the market should be as broad as possible.

### **OPTION 6.3 — SWITCHING FROM SUPPLIER TO CUSTOMER SUBSIDIES**

State and Territory governments could consider re-configuring subsidies paid to RTOs as student vouchers, with the voucher value depending on the method used to calculate subsidies as specified in option 6.1.

---

*INFORMATION REQUEST — IMPACTS OF VOUCHERS**In judging option 6.3:*

how would vouchers be provided for courses with capped places?

what impacts would vouchers have on effective competition?

what are the risks of vouchers?

## **Vouchers are the first step towards a learner-centred funding model**

The Business Council has been a long-time advocate of shifting funding in both VET and HE to a funding model that is built around the learner rather than the provider. Such a funding model should, as the PC notes, support user choice and make providers more responsive.

While option 6.3 talks about the voucher focusing on the subsidy component only, the Business Council suggests that the best approach would be to have a voucher that is made up of two components:

1. Access to the government subsidy consistent with the national funding model and the relevant jurisdictional policy decisions on the subsidy.
2. Access to an income-contingent loan, consistent with the Commonwealth's policy decision.

As both the subsidy and loan are paid to the provider, it would be simpler and more transparent for the voucher to cover all government support.

The Business Council has also been a long-time advocate for the introduction of an entitlement in the form of a Lifelong Skills Account (LSA) made up of a subsidy and access to an ICL.

The introduction of vouchers in this form could be the first step in introducing an LSA, and the Council urges the PC to consider the long-term reform agenda across VET and HE and propose the introduction of an LSA as a long-term reform agenda.

---

**INTERIM FINDING 6.1 — WELL-DESIGNED VET STUDENT LOANS IMPROVE AFFORDABILITY**

Poor design, rather than poor policy justification, was the source of the rorting of VET FEE-HELP. A well-designed VET student loan scheme can improve affordability and access to VET courses with few fiscal risks to government.

#### OPTION 6.4 — A LARGER ROLE FOR INCOME CONTINGENT LOANS

Income contingent loans have significant advantages. Governments should consider making VET Student Loans available for a wider range of qualifications. Current restrictions — by AQF level or inclusion on a skill/priority list — could be relaxed to support greater user choice and participation, as could loan caps.

The degree to which restrictions should be relaxed should be based on risks, costs and administrative complexity.

Widening access to loans should largely maintain the existing strong regulations that reduce risks associated with loans, but could also include the adoption of a 'black list' that identifies courses ineligible for loan support, setting a transition path to a less-restrictive system, testing risk as caps and course restrictions are lifted, and reducing the income thresholds for loan repayment.

---

#### INFORMATION REQUEST — IMPLEMENTING AN EXPANDED LOANS SCHEME

*If VET Student Loans (VSL) were expanded in line with option 6.4:*

to what degree and where should restrictions on the VSL scheme be eased?

what would be the costs and benefits (to governments and students) of:

removing course list restrictions?

expanding the VSL scheme to Certificate-level qualifications?

re-orienting the role of the Australian Government from a direct funder of the VET system to an issuer of income contingent loans to all students in nationally recognised training programs?

changing the loan caps?

what would be the appropriate roles and responsibilities of Australian, State and Territory governments in the VET system if the prime responsibility of the Australian Government was to extend VSL rather than provide subsidies?

which parts of the VSL administration and reporting requirements are most burdensome?

what aspects of a system architecture and settings may need to be in place to reduce risks, assure quality and support the operation of a well-functioning market, including consideration of 'black lists', repayment thresholds, and recovery of unpaid debt from deceased estates?

---

#### INTERIM RECOMMENDATION 6.2 — PRICE CONTROLS SHOULD BE REMOVED

Governments should not cap the prices of VET courses.

### **Loans should be part of the VET funding model, but should not replace subsidies**

The Business Council agrees with the PC's conclusion that income-contingent loans should have a larger role in the VET sector. The disparity between the VET and HE loans is unfair and creates perverse incentives.

However, any suggestion that loans replace direct funding (i.e. transfers to the States and Territories or subsidies) would fundamentally change the way VET learning is funded. It would put the VET sector, and its learners at even more of a disadvantage than is already the case.

Subsidies are simply that. Governments and therefore taxpayers bear some of the cost of education and training because of the public benefit. It is government's direct contribution for the ratio of public good.

If the current level of Commonwealth direct funding was taken away from subsidies and put into loans, the direct funding would not be replaced by States and Territories. The funding transfer in the NASWAD is directed to subsidies. Removing the funding transfer and putting it into loans would result in a direct additional cost to the learner in the publicly-subsidised system.

### **ICLs offer a fair way for learners to pay for the private benefit they gain from learning**

ICLs do come at a cost to government, but it is a very different quantum of cost to a direct subsidy. A subsidy reduces the overall direct cost of a qualification for a learner. A loan defers the cost to a later date.

Moving all Commonwealth funding into a loan scheme should result in more loans being available, which could in turn increase access and potentially increase participation. A bigger loan pool however is not the same as a publicly-subsidised market.

The brilliance of an ICL of course is that a learner does not pay back the loan until they reach a certain income. This is indeed a protection for the learner and enables initial participation regardless of ability to pay. However, it does not change the fact that putting the subsidy cost into a loan would result in the learner paying back a greater percentage of the overall cost, than if there were a subsidy.

One of the PC's proposed principles for a new agreement is 'neutral, but not equivalent, treatment of the VET and higher education sectors.' Taking funding away from subsidies and putting them into loans is inconsistent with this principle. Learners in higher education would be privileged over learners in VET.

ICLs should be part of the funding approach in VET but should share the approach in HE. An ICL in VET should be one component of a funding model that removes barriers to participation, and a mechanism for the learner to contribute to the cost of their learning.

### **Lessons from VFH should be applied when expanding loans**

The provision of an ICL is not a difficult process for government, but the most important lesson from the VFH failure is that the loan product must be designed for the student cohort it is serving.

It is important to note at this point that while the loans should be designed around the student cohort they are serving, the design should be fair in the treatment of students. Fair treatment for example would be all loan schemes being demand-driven, and students being charged the same loan fee.

The importance of understanding the market in setting up the loan design is supported by the ANAO review of VFH:

*'While concerns about the application of legislative arrangements designed for higher education were identified in 2012, the expanded VFH scheme did not include adequate controls to manage risks specific to vocational education.'*

An example of problems that came about from this approach is around tax file numbers. Under HE legislation, providers could apply to the Australian Tax Office (ATO) for a student's tax file number and then take out a loan for the student's course contribution. This same rule was carried across to VFH. While it seems self-evident that this option could lead to rorting and would be an easy fix to remove, this process continued until the end of September 2016, when the ATO changed its process at the request of the Department of Education (ANAO 2016).

### **Unregulated fees resulted in unregulated loans**

Another example is fees and pricing. The HE undergraduate market is tightly regulated. The government sets the subsidy as well as the student fee, and therefore controls prices and the loan amount.

In VET, the student fee was unregulated so the loan amount was effectively unregulated. Additionally, the loan was extended to the fee-for-service market which had not previously received any government funding.

An unregulated fee can be managed, but it requires the funder to establish strong contract management from the beginning of the process. Strong contract management and monitoring did not occur, and this was noted as an issue by the ANAO:

*'Weaknesses included insufficient safeguards for students from misleading or deceptive conduct, and inadequate monitoring, investigation and payment controls for poor or non-compliant providers... Within Education, until 2016 there was little analysis or internal management reporting of the VFH scheme to identify emerging problems.'*

When design flaws were coupled with unregulated fees and poor contract management and monitoring, the worst excesses occurred.

### **Fee deregulation should be approached cautiously**

The Business Council notes the interim recommendation that price controls be removed and recognises that regulated prices do reduce the ability of RTO's to differentiate themselves in the market.

However, the Business Council urges caution in moving to unregulated fees before the market is sufficiently mature. The PC states, 'The risks of excessive student fees would be mitigated through the provision of information to students and possibly some initial price monitoring.'

History has shown that good information to support informed decision-making is a pre-requisite for governments to consider fee deregulation. While other recommendations made by the PC are focused on improving information, these recommendations will need to have been fully implemented and impacting on the market before fee deregulation should be pursued.

## **The current course lists mean there is no neutral treatment of HE and VET**

If VET and HE are truly to have neutral but not equivalent treatment which minimises distortions in students' choices, then a learner's access to the loan should be equal regardless of the sector. If a provider has applied and been granted approval to offer loans, then the loans should be available for all AQF qualifications at the relevant level (see below for further discussion on AQF levels).

There is no doubt that given the disparity of the provider markets in VET and HE, that it is far more difficult for governments to manage their funding in VET than it is in HE. However, that should be controlled through provider eligibility rather than course eligibility.

If all courses offered by universities are eligible for loans, but loans are only available to a select group of VET courses, the message is clear that university courses are more important, or a higher value.

## **All industries need a pipeline of skilled workers**

Vocational training is not limited to the trades and areas of skills shortage. It services every industry in the country, and every industry in the country needs a pipeline of skilled workers.

There is a public policy argument to exclude courses that do not have a potential employment outcome. However, given that VET is deeply vocational and industry-led, the list of Training Package qualifications and accredited courses without a potential employment outcome should be quite limited.

The loan scheme should support students to undertake VET studies in growth industries such as health, as well as industries that have fewer employees than 20 years ago such as agriculture and manufacturing, and small industries such as creative arts.

Courses that may be seen by some as 'personal interest' such as ceramics, jewellery making, musical theatre, performing arts, reflexology, kinesiology, or life coaching, are occupations that exist in our economy.

As people's incomes grow they have greater capacity to spend on services, consequently personal services is a growth area. We would be a poorer society if we were to limit access to such courses to those who had a private means of income to pay for them.

Given that VET is deeply vocational and Training Package development is industry-led, qualifications and accredited courses, including ones that may be judged as 'personal interest', that do not result in an employment outcome should be quite limited.

## **Governments can use a blacklist and caps as control mechanisms**

If governments are searching for a mechanism to ensure thousands of students do not enrol in such courses, at the expense of other industries, a narrowly defined list of eligible courses that excludes multiple industries is not the answer.

Such a list is, by default, a labour market planning tool. As discussed earlier, the VET sector has a long history of failing in labour market planning and adopting such an approach is counterproductive.

If governments are concerned about managing demand or budget exposure, they could utilise an exclusionary rather than inclusionary list, cap the number of loans in particular courses, or a combination of both.

With an exclusionary list, the government would nominate the courses they will not provide loans to, rather than the courses they will provide loans. This would allow the government to rationalise the course list, while still providing breadth in the courses eligible for a loan.

### **Loans should only be extended to AQF levels where there is significant private benefit**

As discussed above, the role of the loan is to prevent barriers to participant, whereas the role of the subsidy is to cover the public benefit from qualifications. In an environment where subsidies and private contributions are not transparent, the existence of a loan can both hide the true cost to learners, as well as encourage larger fees.

Qualifications at a Certificate I and II level will primarily deliver public rather than private benefit. If the fee for these qualifications was at a level that learners need an ICL to participate, then it would seem unlikely that government was contributing a sufficient level of subsidy for the qualification.

Qualifications at an AQF III and IV level are more difficult. Some qualifications, particularly trade apprenticeship, will generate significant private benefit, and this should be reflected in the subsidy rate and the contribution the individual learner makes.

However, the private return can vary significantly across industries. Consequently, rather than extend ICLs to all qualifications at a Certificate III and IV level, the Business Council suggests that loans are only available for courses where there is a significant ratio of private return, and learners would therefore be making a greater contribution and could face barriers to paying the relevant fees.

## SECTION FIVE: TRADE APPRENTICESHIP AND TRAINEESHIP INCENTIVES

### OPTION 6.5 — SUPPORTING TRADE APPRENTICESHIPS

Given the apparently poor effectiveness of employer incentives, the Australian and State and Territory governments could consider:

addressing barriers to hiring apprentices, including their foundational skills, work readiness and the minimum wages or other award conditions set by the Fair Work Commission reintroducing (better-designed) industry levies.

Consideration of these options should take into account the effectiveness of any measures to strengthen pastoral, mentoring and other support services for VET students in general (options 6.6 and 7.3).

### *INFORMATION REQUEST — IMPLEMENTING NEW SUPPORT ARRANGEMENTS FOR TRADE APPRENTICESHIPS*

*In assessing the merits of option 6.5:*

does the nature and size of the ‘apprenticeship problem’ merit new policy measures?

how significant is ‘poaching’ as a problem that would justify industry levies?

how effective are levies in increasing apprenticeships?

are there other reasons for using industry levies?

how would the problems of administrative complexity for some existing levies be addressed?

### INTERIM FINDING 7.1 — STREAMLINING APPRENTICESHIPS

Governments have made progress in harmonising and streamlining the apprenticeship system but there is scope to further simplify arrangements for student support and system administration.

### OPTION 7.1 — BETTER COORDINATING AND STREAMLINING INFORMATION ON APPRENTICESHIP INCENTIVES

To better coordinate and streamline information on their multiple apprenticeship incentives, Australian, State and Territory governments could implement one or more of the following options:

task the Australian Apprenticeship Support Network to assist employers in determining their eligibility for benefits offered by both the Australian and relevant State or Territory governments

publish clearer information on all incentive payments that employers in each jurisdiction may be eligible for

strictly delineate the roles and responsibilities for managing apprenticeship supports.



---

*INFORMATION REQUEST — ASSESSING STREAMLINING OPTIONS**In assessing the policy alternatives in option 7.1:*

what are their relative costs and benefits?

are there alternative ways to encourage governments to coordinate or streamline their employer incentive programs?

**OPTION 7.2 — STREAMLINING TRADE APPRENTICESHIP INCENTIVES**

In considering how to streamline trade apprenticeship incentives, the Australian Government could consider extending eligibility for trade apprenticeship incentives to all workers, regardless of their tenure with the employer.

---

*INFORMATION REQUEST — EMPLOYER INCENTIVES TARGETING DISADVANTAGED GROUPS**What are the benefits and costs of targeting disadvantaged groups for additional incentives at the Certificate II, and Certificate III and above qualification levels?***OPTION 7.3 — IMPROVING THE AUSTRALIAN APPRENTICESHIP SUPPORT NETWORK**

The Australian Government could improve apprenticeship support services by:

- publishing more information on the scope of services that Australian Apprenticeship Support Network (AASN) providers are contracted to deliver
- evaluating the AASN contracts to assess how recently-revised arrangements have affected the efficiency of service provision and outcomes for users
- cooperating with State and Territory governments to jointly contract AASN providers to better align services with local needs, as is the practice in the Northern Territory.

---

*INFORMATION REQUEST — APPRENTICESHIP SUPPORT NETWORK SERVICE DELIVERY**In assessing the three options in option 7.3:*

what types of information could the Australian Government provide to help State and Territory governments plan their service delivery?

what is the effectiveness of the joint contracting model in the Northern Territory and the feasibility of extending this model to other jurisdictions?

**New industry levies are not justified**

The rationale for the introduction of new industry levies is that they would be an alternative to employer incentives in resolving the ‘free-rider’ problem. In our initial submission to this inquiry the Business Council did not indicate this was a significant issue, and further discussions with our membership has confirmed that free-riding is not one of the key areas to be repaired in the apprenticeship system.

As the PC's report indicates, the history of government-mandated levies in Australia has been mixed, and the Business Council does not support introducing a new scheme. Additionally, there is already an effective levy on industry. The rationale for the Skilling Australia Fund was to provide funding to the apprenticeship system. While COVID and its impact on skilled migration has obviously had a significant impact on this fund, it remains a levy on industry.

### **The PC may consider employer incentives ineffective, but they remain important**

The PC notes that few employers cite employer incentives as the main reason for their decision to hire an apprentice. This however does not mean that the employer incentives are not important, both in real terms and as a signal to employers.

Incentives do not cover the cost of training or hiring an apprentice, but they do contribute to the cost. Moreover, they demonstrate a clear signal from government that apprentices are an important pipeline of skilled workers for the economy.

Any move away from providing incentives to employers would be a signal to those employers that government priorities have shifted, and employers would need to find a new revenue source to fill the gap. While incentives may not be the main reason employers hire apprentices, their removal may be the tipping point for some employers, particularly small businesses, in determining if they will hire an apprentice.

The Business Council supports the PC's focus on assessment tools and pastoral care as mechanisms to increase retention and completion of apprentices, but this focus is not a replacement for employer incentives.

### **A national apprenticeship board could streamline the system**

In 2017 in conjunction with ACCI and AiGroup, the Business Council proposed that governments establish a national apprenticeship and traineeship system to be led by a National Apprenticeship Board.

The Board, to be chaired by and comprising industry representatives, could have responsibility for:

- developing and issuing clear nationally consistent definitions of apprenticeships and traineeships and their pathways
- determining which VET qualifications are suitable for apprenticeships and traineeships, including arrangements that bring in innovative approaches to blend vocational and higher education
- identifying a nationally consistent approach to funding levels for each qualification, recognising that there will be a need for variation due to location and delivery mechanisms across jurisdictions.

## **Information and support for potential learners should be a focus**

The Business Council strongly supports the need for better information, mentoring and pastoral care of apprentices and trainees. In the shared proposal with ACCI and AiGroup the Business Council had proposed the following approaches to student and employer support.

### **Student support options**

1. To develop a better informed market, government working with industry, should develop material in a suitable form which targets potential apprentices and that clearly outlines the functions of each role, what they can expect in each stage of their apprenticeship or traineeship, what employers expect from their apprentice or trainee, wages for each stage of their training and potential future earnings, and future career options associated with the apprenticeship or traineeship.
2. A pre-intake process should be developed and used for all potential apprentices and trainees that includes appropriate literacy and numeracy testing, aptitude testing, personality testing and career guidance.
3. On-going access and support should be provided to students through third-party mentoring, including peer mentoring and utilisation of the group training framework as appropriate.

### **Employer support options**

1. Improved information should be developed and distributed that better outlines the business case for taking on an apprentice or trainee to encourage more employers to engage.
2. Professional development should be available for new employers taking on apprentices and trainees that provides a framework for the management of the roles.
3. There needs to be strong engagement from the RTO with employers, including linking the off-the-job training to the relevant workplace.
4. Engagement opportunities and support should be provided to participating employers including through support services and group training arrangements.

## **These proposals should be pursued**

While these proposals were made in 2017, they are still viable options to resolve the current issues.

Many young Australians and current workers do not know about the wide career opportunities available through the apprenticeship system. Filling this knowledge gap in the market should increase the potential supply of apprentices.

Apprenticeships require a great deal of commitment on behalf of the learner and the employer. The requirements on both parties are not always well understood, and this contributes to the high drop-out rate from the system.

Ensuring the apprenticeship system attracts both learners and employers who are willing to make the effort and commitment needed, should increase the number of apprentices qualifying and transitioning to permanent workers.

## SECTION SIX: TRAINING PACKAGE DEVELOPMENT

### INTERIM RECOMMENDATION 7.1 — TRAINING PACKAGE UPDATE AND APPROVAL PROCESSES

Reforms planned or underway to streamline the development and updating of training content should address most stakeholder concerns. To further improve the timeliness of the process, the COAG Skills Council should consider delegating to Industry Reference Committees the power to:

- commission updates to training packages where there is an industry-agreed change to work standards or a new technology
- approve straightforward, non-controversial or minor changes to training packages.

### INFORMATION REQUEST — FLEXIBILITY ALLOWED BY TRAINING PACKAGES

*How could the approach to developing training packages more effectively manage the trade-offs between consistency and flexibility?*

### **The concept of what is in a training product needs to be expanded**

In 2017 a project focused on training product reform was coordinated by government departments under the auspices of the Ministerial Council. Unfortunately, the project did not continue, and no real reform of the product came from that process.

The Business Council has previously written about the need for greater breadth in training packages, as well as the introduction of micro-credentials to supplement initial qualifications. The current product is too narrowly defined and does not provide room for learners to develop their literacy and numeracy skills. Additionally, the current product does not sufficiently cover the non-technical skills employers are looking for such as problem-solving, computational thinking, design thinking and so forth.

### **A broader definition of competence needs to be applied across the sector**

The issue of the definition of competence is also problematic. In 2009, COAG adopted a broad definition of competence that covered both skills and knowledge, *Competency is the consistent application of knowledge and skill to the standard of performance required in the workplace. It embodies the ability to transfer and apply skills and knowledge to new situations and environments.*

This definition is broad and recognises that workers need both skills and knowledge, and the ability to transfer both. However, while COAG adopted the definition, this has not translated into practice.

To ensure the product keeps pace with the changing workplace, and the increasing development needs of workers, the Business Council proposes governments take two key steps.

1. Embed across all training products the definition of a unit of competency endorsed by COAG in 2009.

2. Broaden the product (Training Packages or a new iteration) to have three core elements:
  - 2.1 occupational standards as defined by industry, through the IRCs or an equivalent body
  - 2.2 foundation skills including literacy, numeracy and technological skills
  - 2.3 '21<sup>st</sup> century skills' such as problem-solving, computational thinking, critical analysis and business-mindedness.

## **Learners need to develop more than technical skills**

The Business Council believes that broadening the product is consistent with a policy of an initial qualification providing a learner with the foundations to both enter a new role and be able to adapt and move into different roles or industries.

In broadening the product, there should not be a one-size fits all approach. Rather, the product should be able to include units from each of the core elements, subject to the needs of the industry and the needs of the learner.

For example, a young person who has not completed senior secondary school may need some literacy and numeracy units, the occupational standards and the 21<sup>st</sup> century skills. A mid-career worker who is interested in a micro-credential to learn about robotics will likely only need a few units from the occupational standards.

In their current form Training Packages (TP) are very difficult to navigate and can be quite cumbersome. It will be important that the process of reframing them to cover the three categories also looks at ways to make training packages easy to navigate for all users of the VET system.

Making these policy changes would set a clear direction, and the AISC and IRCs, or equivalent bodies, could then focus on the product development process.

## **Industry does not have a singular voice**

'Industry' in the world of VET has many faces. There are peak bodies such as the Business Council and the AiGroup; industry associations such as the Food and Grocery Council or the Master Builders; unions; and employers with a handful of staff through to businesses with over 100,000 employees.

The needs and interests of these various parties are not and will never be the same. These differences are not just limited to the perspectives of employer versus employee representatives. There are significant differences within industries and employers, and differences according to location. Some employers want employees with the bare minimum of training – low cost and in-time training. Other employers are looking for workers with something more than just the technical skills to do the bare minimum.

In seeking the views and input of industry, governments seem to expect it is the role of the different faces of industry to come to an agreement on what their needs are. This is unrealistic as the only way to come to an agreement would be for one party to change their needs or philosophy.

The qualification process is designed for a one-size fits all model for each industry. The different views within industries reflect the different views of constituencies, including

locational differences. It is these different views, that materially contribute to the time it takes to get agreement on a new unit or updated qualification or TP.

## **A clear policy framework would improve some of the issues**

In the context of VET, it is the role of public policy and therefore governments, to establish the framework and minimum standards.

Take as a case study the unsolved debate that continues about the breadth of qualifications.

Some parties argue that future workers should be able to do short-courses that qualify them in one or a handful of skills of a traditional occupation. Other parties argue that doing so would limit the prospects of the future worker, and that a qualification should cover the whole occupation.

If industry is expected to resolve this debate, there will be no progress. This is where the role of public policy comes in. Government needs to set a clear framework that outlines the purpose of both government subsidising training delivery, and funding to develop national qualifications.

The Business Council would argue that if an individual wants to do the short-course and the employer will hire them for a role, then it is not the role of government to prevent that happening. However, if government is subsidising the training, or paying for the development of qualifications, then governments have an obligation to ensure taxpayers money is used most effectively.

Consequently, the Business Council believes the objective of government-subsidised training and education is to ensure that individuals are mobile in the labour market. That means being trained for a future where they can move between industries and roles, not just trained for a single employer.

And while this view is shared by some industry players, it is far from a unanimous 'industry' view. It is therefore the role of government and public policy to set a clear direction and create the relevant policy framework that outlines the purpose of government investment.

It is not the role of industry, which is not a singular voice, to agree on issues that go against the interests they represent. Once the framework is set, then industry can work collectively to resolve issues within the framework.

## **The product development process is cumbersome**

There are a range of issues that are complained about in the product development process – speed to market, the amount of work required to get qualifications approved, and the length of the process leading to obsolete units of competency being included in qualifications.

While these issues are real, the simple fact is that TP, and updating of them, is a massive bureaucratic machine. According to training.gov.au the national training system currently has:

- 57 training packages
- 1,433 qualifications

- 679 accredited courses
- 1,424 skill sets
- 16,791 units of competency.

A unit of competency is the smallest unit, and each unit has documentation that includes the current status, if it has been superseded, the qualifications that include the unit, as well as the application of the unit, prerequisites, the elements and performance criteria, and assessment requirements. That is a significant amount of content to codify for over 16,000 units.

In addition, there is then the structure of qualifications and TP. For example, the Automotive Retail, Service and Repair TP runs to over 5,000 pages, and the Community Services TP is just under 4,000 pages. This amount of documentation is enormous, and its compounded by the processes required by the AISC including the case for change and case for endorsement.

On top of that documentation, there is also the consultation phase. IRCs are made up of industry appointees and they have frequent and ongoing debates before they can agree on qualifications, including for the reasons discussed above.

### **Focus on the specific problems**

Turning the whole product development process around would be like trying to turn the Titanic, but there is an opportunity to identify specific functions and focus reform on them.

For example, providers complain that qualifications include obsolete units. Rather than take this through the AISC, IRCs could be delegated authority to delete obsolete units as they emerge. If there is a demand for a skill set, and the units of competency are already approved within a TP, IRCs could have delegated authority to approve them.

While there may be some hesitation within the bureaucracies to delegate these functions, a strong policy framework to guide decision-making, as proposed above, should minimise concerns.

### **Radical reform is also possible**

One of the complaints regularly raised by bureaucrats and some providers is the quantum of qualifications and TP, and commentators point to the fact that many qualifications are rarely if ever used.

Governments, through the former Ministerial Council, tasked the AISC to reduce the overall number of units and encourage the use of common units.

One radical option that could be considered is similar to a zero-based budgeting approach. The appropriate government body could determine that all current units, qualifications and TP are void and then rebuild the products from the ground up.

The IRCs, or equivalents, would need to make the case for why a qualification or TP is needed, identify the units in each of them, and make the case for why a common unit, such as communication, needs to be specifically written for that industry.

Such an option is extreme and does not grapple with the reality that most qualifications currently exist because an industry has said they required them. However, if governments are serious in their intent to reduce the number of qualifications, this would be a transparent approach to adopt.



## SECTION SEVEN: NEW DEVELOPMENTS IN THE VET SECTOR

---

### *INFORMATION REQUEST — IMPACTS OF COVID-19*

What, if any, are the likely medium and long-term impacts of the COVID-19 pandemic on skill formation and the market in the VET sector?

To the extent that some cohorts face enduring displacement from the labour market, particularly younger Australians, what role beyond current arrangements should VET play in augmenting their skills and employability?

### **Displacement from the labour market is real in COVID and post-COVID world**

Around 3.5 million Australians were on JobKeeper and around 1.6 million Australians were on JobSeeker and Youth Allowance (other) at the end of June. The number of people on JobSeeker was double what it was at the beginning of the COVID crisis.

While stimulus measures and easing restrictions should begin to create jobs, it is highly likely that a substantial proportion of people currently on JobSeeker will still be on it heading into 2021.

Additionally, at the end of the calendar year there will be three cohorts of learners finishing their studies – school, VET and HE and trying to enter the labour market. While school leavers should be encouraged into full-time VET or HE studies there will be a proportion of the cohort who will not do so, and the graduates of VET and HE will be looking for their first career role.

### **The training sector cannot create jobs**

It is important to be clear about the role of the training sector in the COVID and post-COVID environment.

The role of education and training sector is to prepare people for work. The preparation that is needed will differ according to where the person is at on their learning journey, as well as the outcome they want to achieve.

What is clear however, is that in a post-COVID environment, the education and training sectors will need to be more adaptable to the needs of individuals, as well as more seamless for learners and workers to move between.

### **Future labour market needs don't divide neatly between sectors**

The current division between VET and HE, as well as the lack of shorter courses and micro-credentials will not be able to deliver the outcomes learners and workers will need in the future.

People will need to do shorter courses, work-integrated learning, micro-credentials, and draw on modules and units of competence from across VET and HE.

For example, for learners coming from school or workers looking for a change of industry or profession, full qualifications should remain the way in which skills and knowledge are developed in VET and HE.

It is through these initial qualifications that learners further develop their capacity to think, as well as prepare for the labour market. A full qualification should equip learners for a career, not just a single job, and it should be broader than the technical skills an industry requires. In short, any learner completing a qualification should be both ready to start work and resilient in the face of changes in the labour market.

However, for those workers who already have a base qualification, the idea that another full qualification is always needed is out of step with the modern world. Some people working in academic fields may need to study a post-graduate degree or a PhD, and others may wish to undertake a full qualification for their own enjoyment, but many workers will only need to pick up a set of skills or knowledge or even pick up a single unit.

In such cases, workers need to be able to find a product that suits their needs, noting that, unlike learners looking to establish themselves with a broad qualification, many older learner's needs will be unique.

### **Micro-credentials are key to an individualised approach**

A micro-credential can take many forms. At its smallest, it is a single module, subject, skill or competency, but it can also be a suite of skills or knowledge, or a skill set.

For example, if someone becomes a company secretary and does not know how to read a balance sheet, they could complete a training module that would teach them how to do it.

Another example is a technical expert, like a mechanic, who is promoted to managing a team of mechanics. Leadership and management may not be skills they have learned or developed, so they may need to do some leadership micro-credentials by putting together some module offered at Deakin University like Adaptive mindsets; Driving strategic results; Empowering others; or Leading and developing people.

Another example is someone who has a qualification in Fine Arts in either VET or HE. They may have the artistic skills to deliver good products but are not good at building a client base because they do not know how to develop detailed and well-considered quotes. They could construct a micro-credential by selecting two units offered by a VET provider such as Provide a quotation and Engage the customer.

Some micro-credentials may have a form, such as skill sets defined within a TP, while others could be specific to an individual company or an individual learner. In a world where there are both qualifications and micro-credentials, a micro-credential would always be smaller than a full qualification.

Unlike qualifications, however, the point of a micro-credential would be to meet the unique needs of an individual learner. As each learner's needs are unique, the content of the micro-credential would also be unique. The micro-credential would be responsive to the stage a worker is at in their career and what their employer needs from them as well as their developmental needs. Consequently, the content of the product would be customised to the learner, rather than there being a list of approved micro-credentials that learners would choose from.

This is not to say that providers could not create and publicise a micro-credential in response to demand or include micro-credentials in a qualification, or governments could choose to fund specific micro-credentials.

If an industry identified the need for a single micro-credential, providers could respond. For example, the University of Melbourne has partnered with Learning Machine, a US-based company associated with the Massachusetts Institute of Technology Media Lab, to pilot a blockchain-based micro-credentialing system. RMIT launched a pilot to create a university-wide credentials program that allows students to create their own portfolio of micro-credentials to complement their qualification. Several of the RMIT credentials have been co-created with industry.

The Business Council believes that micro-credentials provide the best opportunity for the future of skill and knowledge development for workers who have to adapt in a rapidly changing world. The key to micro-credentials being successful is that the learner and businesses remain in control of the content. Micro-credentials should complement the current qualifications framework but should not seek to replicate it.

## **Lifelong learning needs to become a reality in Australia**

A product that is individualised to suit the need of each learner, or a micro-credential that modern workers and businesses will need to keep up with the changes in the world of work, is the key to building a culture of lifelong learning, a culture that will be very much needed in the post-COVID world.

Rather than seeking increased participation in training, the Business Council thinks governments should focus on building a culture of lifelong learning, and that is where business and industry contributions should be primarily focused.

One of the reasons the Business Council has proposed a Lifelong Skills Account in previous work is because most Australians will be working for at least 40 years of their life, and it is simply unrealistic to think that formal learning will not be needed throughout that progression.

That's not to say that individuals need multiple qualifications, but most Australians will need a foundational qualification that enables them to enter and be mobile in the labour market. They will also then need to upskill and reskill with task change, including through micro-credentials. They may need to do another qualification if they want to change industries during their working life, and they should have the mechanism to do that.

A funding model that is focused on a single post-school qualification is inconsistent with the need for lifelong learning. The contributions between individuals, business and government should change across an individual's working life, but that contribution should be consistent with the ratio of return.

Take a micro-credential as an example. The two key barriers to people undertaking formal learning beyond their initial qualification is time and cost. In a funding model that allocated shares between individuals, business and government the model may look something like this:

<b>Business</b>	<b>Government</b>	<b>Learner</b>
Provides paid time off for the worker to attend formal learning	Offers an ICL so the learner has minimal upfront costs	Pays back the ICL

In this case, all parties are making a contribution as all parties benefit.

If Australia is to truly embrace lifelong learning, we need a system, including funding, that supports Australians to easily undertake formal learning while staying in the labour market.

---

BUSINESS COUNCIL OF AUSTRALIA

42/120 Collins Street Melbourne 3000 T 03 8664 2664 F 03 8664 2666 [www.bca.com.au](http://www.bca.com.au)

© Copyright July 2020 Business Council of Australia ABN 75 008 483 216

All rights reserved. No part of this publication may be reproduced or used in any way without acknowledgement to the Business Council of Australia.

The Business Council of Australia has taken reasonable care in publishing the information contained in this publication but does not guarantee that the information is complete, accurate or current. In particular, the BCA is not responsible for the accuracy of information that has been provided by other parties. The information in this publication is not intended to be used as the basis for making any investment decision and must not be relied upon as investment advice. To the maximum extent permitted by law, the BCA disclaims all liability (including liability in negligence) to any person arising out of use or reliance on the information contained in this publication including for loss or damage which you or anyone else might suffer as a result of that use or reliance.