



Productivity Commission Review of the National Agreement for Skills and Workforce Development

Victorian Government Submission
to the Interim Report

VICTORIAN GOVERNMENT SUBMISSION

1. Introduction

It is now more important than ever to ensure the training system supports quality training that is aligned to real jobs. The Victorian Government recognises that TAFEs play a critical and central role in delivering these outcomes.

Australia and the world are facing extraordinary times. The COVID-19 pandemic is presenting all Australians and Governments with unique social and economic challenges that we have never seen before. More than ever, Victoria's education and training system has a critical role to play in rebuilding its community and workforce to help Victoria get back on track with the skilled workers it needs.

In responding to the COVID-19 pandemic, Victorian TAFEs and other Victorian government-funded training providers have rapidly adjusted their delivery to meet COVID restrictions and to provide flexible learning offerings for students. Initiatives introduced by the Victorian Government include:

- The recently announced \$163 million **Skills for Economic Recovery** package which provides an immediate skills response to economic recovery by assisting Victorians most impacted by COVID-19. It aims to provide rapid skill development for jobs available immediately and enables the re-skilling of people who have lost their jobs in areas likely to be more sustainable post COVID-19.
- **Providing funding certainty** to its public and community-based training providers, enabling them to focus on transitioning to online and socially distanced delivery.
- **Providing online Free TAFE qualifications and non-accredited short courses** in areas with high employment prospects in the economic recovery (part of the \$500 million Working for Victoria Fund).
- **Supporting essential skilling** requirements by working with the Commonwealth and other States and Territories to establish the infection control skill set fund that aims to help upskill existing workers to administer and implement infection prevention and control policies within workplaces in specific industry areas.
- **Establishing arrangements** to protect government-subsidised students impacted by a provider closure to continue their studies at a TAFE in the same or a similar course without having to pay more tuition fees and receive a fee credit (or fee waiver) for any units of study commenced but not completed when the provider closed.

Beyond the immediate challenges posed by COVID-19, the Victorian Government has a successful track record of managing its government-funded VET system by supporting a strong TAFE network, working with local industry and employers, and delivering real training for real jobs.

Successes over the recent years include the full implementation of *Skills First*, the introduction of *Free TAFE for Priority Courses*, and the \$220 million *Building Better TAFEs Fund* which is rebuilding facilities and campuses around Victoria, ensuring that every Victorian community has a great local TAFE.

The Victorian Government welcomes the opportunity to work collaboratively with the Commonwealth, and other State and Territory Governments to strengthen the national VET

system moving forward. As such, Victoria reiterates its position that **new national funding and governance arrangements must:**

- recognise the **central role of TAFEs in providing a well-funded, high-quality and responsive public training system**
- reflect a **shared governance model based on a federated system**
- recognise the **role of State and Territory governments in managing their VET systems by maintaining state flexibility in funding settings** and allowing jurisdictions to respond to local skills needs and support the delivery of government priorities
- **improve access to VET Student Loans (VSL).**

There are **significant risks in returning to a fully contestable and competitive market** in VET. Victoria has learnt from its previous fully demand-driven, contestable funding system that without robust quality controls, rogue providers will rot the system and leave vulnerable students with potentially worthless qualifications. Victoria has also learnt that if TAFE is not at the centre of the training system, there is a significant risk that everybody will not be able to access high quality public training.

As a result, Victoria is **committed to a locally planned and managed approach for its TAFE and training system**, and has focused its reform efforts on **improving quality and supporting TAFE** to deliver the training our economy requires so that students obtain **real training for real jobs**.

2. TAFE at the centre of the training and education system

TAFEs are at the centre of the Victorian training system. Victorians have the right to a well-funded, high quality public training system. TAFEs have unrivalled breadth of course offerings, student support services, tailored programs and pathways, and serve students and communities across the whole of Victoria. TAFEs provide more than training – they have strong connections with industry and are a core part of the community.

The Victorian Government acknowledges that the Productivity Commission's Interim Report considers an extensive list of principles that could be included in the new agreement (including quality training). However, the **principles recommended by the Productivity Commission** that should be included in a new agreement and **the approach to VET** are heavily focused on efficiency, **fail to recognise and acknowledge the importance of quality and the distinct role of public providers in providing access to training** across Victoria.

Both public and high-quality private providers make valuable contributions to the training system, however **public providers have a distinct role** in the Victorian training system. The Victorian Government believes that Victorians have the right to a well-funded, high quality public training system. TAFEs and other public providers also:

- **Promote stability of the VET system particularly during times of crisis**, including bushfires and the COVID-19 pandemic. For example, TAFEs have remained open for business during the COVID-19 pandemic, delivering training through a combination of online delivery and face-to-face teaching with appropriate social distancing. TAFEs have been at the centre of the COVID-19 response initiatives such as Working for Victoria, through the rapid development of an online training platform to give Victorian job seekers the skills to quickly redeploy into jobs to support the COVID-19 response.
- **Partner with industry and Government to respond to key economic priorities.** TAFE/industry partnerships are delivering skills for major projects, including through

Wodonga TAFEs partnership with the Australian Defence Force; Holmesglen's role in the Cross Yarra Partnership providing a pipeline of skilled workers for the Metro Tunnel; and the innovative partnerships between the Civil Construction Federation, Lend Lease and the Gordon to deliver skills for Victoria's major infrastructure projects.

- **Provide essential life skills and support services** above the minimum supports expected of other providers. These include access to careers, training and employment advice via the Skills and Jobs Centres, library and learning support services, disability support and culturally specific support services, pathway support for students moving on to further study, and wellbeing support services including mental health support.
- **Help disadvantaged students and communities** – between 2018 and 2019, enrolments by students with a disability increased in TAFEs (13 per cent) but decreased in private providers (7 per cent). The *Free TAFE* initiative has also provided increased access to Victorians who traditionally face barriers to participating in further education and training, including students in regional areas and women in non-traditional trades.

TAFEs are at the centre of the Victorian training system, have unrivalled breadth of course offerings and deliver training and serve students and communities in both metro and regional areas of Victoria. TAFEs deliver value and benefits to students, communities and industry in a way that other training providers do not (and often cannot), in terms of access and breadth. For example, in terms of provision, private providers can cherry pick popular and cheap courses, especially courses that are shorter and require less specialised physical infrastructure.

TAFEs are also expected to meet a range of Community Services Obligations by providing a broad range of general and tailored support programs and pathways for a large number of diverse students and communities. Therefore, TAFEs provide more than training – they are embedded in the community in a way private providers are not.

The **Victorian Government**, through *Skills First* and *Free TAFE*, **supports TAFE in undertaking its distinct and important role, and acknowledges through funding arrangements** Victoria's commitment to providing public education and the higher costs of delivery TAFEs face.

It should be noted that the Commonwealth Government recognises the need for and provides a range of supports for the public provider in higher education relating to the provision of support programs, through system and funding settings. These supports include the Disability Support Program which aims to provide funding to eligible higher education providers to improve access for students with disabilities, and the Indigenous Support Program which aims to provide grants to higher education providers to assist them to meet the needs of their Aboriginal and Torres Strait Islander students¹. However, there is not the same level of recognition or support by the Commonwealth Government for public providers in the VET system.

¹ Department of Education, Skills and Employment, (2020), Funding, <https://www.education.gov.au/funding>, last accessed 22 July 2020.

3. A managed training system approach, with a strong focus on TAFE, restored Victoria's training system from the brink of collapse

A return to a contestable market-based approach would undermine Victoria's efforts to restore its TAFE and training system. By supporting TAFE and introducing a more managed approach to the VET system, Victoria has successfully delivered high quality training aligned to industry needs and government priorities. This has played a key role in restoring public confidence in VET in Victoria.

The **strength** of Victoria's training system is based on its managed system approach, which focuses on providing high quality training by TAFEs with the flexibility to address local skills needs.

As outlined in the Victorian Government submission to the Issues Paper, the Victorian student entitlement model (the Victorian Training Guarantee (VTG)) introduced in 2009 aimed to increase participation in VET and lift qualification levels through an entitlement to funding for courses at a higher level than that currently held by an individual. The VTG was designed so that student choice could drive provision through a demand-driven funding model.

During this time, Victoria moved more than any other jurisdiction towards a full implementation of a training market. While the VTG did stimulate growth in the training sector, and provided greater choice for students, employers and industry to meet their training needs, its implementation beyond 2010 presented significant problems. These included a proliferation of training providers operating in the market without the necessary quality assurance mechanisms, unstable funding rates, which drove perverse behaviour by some training providers, and a failure to incentivise quality training provision.

These backward steps caused significant damage to the reputation of VET and left Victorian businesses without a pipeline of skilled and trained workers necessary to meet the needs of the job market. This neglect occurred during a time of significant population growth that required more infrastructure, more social services and more skilled workers than ever before.

In response to the failure of the fully contestable demand-driven VET system approach, the Victorian Government implemented a quality blitz which removed poor performing and unscrupulous providers from the funded system and a TAFE rescue fund to restore the centrality of the public provider. From January 2017, the *Skills First* package included a range of reforms designed to improve mainstream training system settings and ensure targeted funding to facilitate high quality training provision by TAFE, Learn Local and private training providers.

Skills First and a focus on TAFE – the first step in restoring confidence

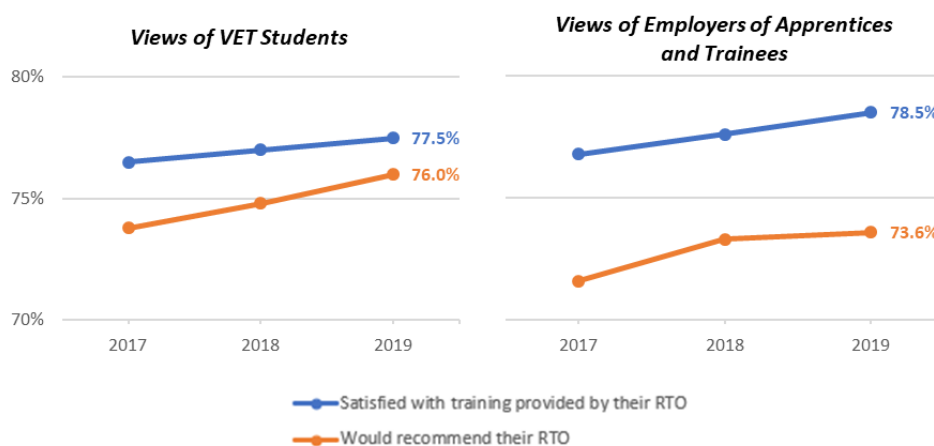
The **success of *Skills First*** has gone a long way in restoring public confidence in the Victorian VET system following the highly publicised rorting of the market-based VET system in Victoria and in other jurisdictions, along with the VET FEE-HELP debacle. Not only did the Victorian Government rescue a fragile and teetering system, but it set it up for future success and to meet the needs of a State undergoing major social and economic growth by prioritising opportunities for Victorians to fill skills shortages.

An evaluation of *Skills First* undertaken in 2019 found that the new system settings under *Skills First* had a positive impact on training quality, and that more students had engaged with vocational training across all sectors, particularly in those with skills shortages. For example, enrolments in all training increased by 4.3 per cent between 2018 and 2019, with significant

increases across several industry areas with current and forecast skills shortages including education and training (35.9%), NDIS (26.8%), family violence (19.9%) and infrastructure (6%).

Enrolments in VET by vulnerable student groups also increased between 2018 and 2019 - students with disability (3.5%), Indigenous people (6.4%) and those without a Certificate III (3.6%). The quality of training in Victoria has also increased between 2018 and 2019 with the proportion of employers of apprentices and trainees who are satisfied with training increasing from 77.6 to 78.5 per cent, and the proportion of students who are satisfied with their training increasing from 77 to 77.5 per cent (chart 1).

Chart 1: Quality of training in Victoria, selected measures 2017-2019



Source: 2017, 2018 and 2019 Victorian Student and Employer Satisfaction Surveys (Unpublished)
 Note: Data includes both completers and those who have withdrawn from studies.

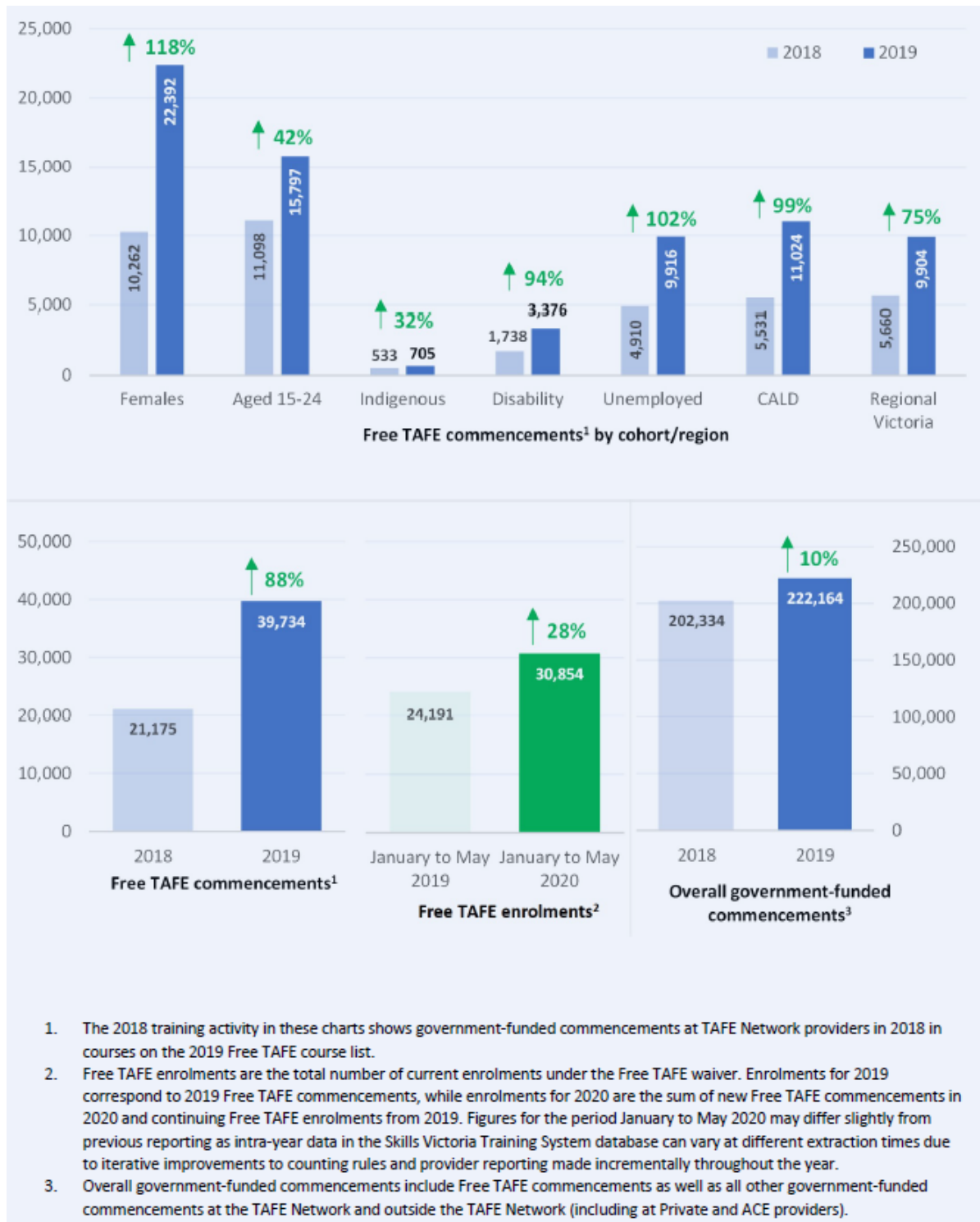
Free TAFE for Priority Courses - reducing financial barriers, improving access and meeting the needs of the economy

Building on the success of *Skills First*, in 2019, the Victorian Government introduced *Free TAFE for Priority Courses* to further improve access to training that Victoria’s economy needs to build our state, which is largely delivered by TAFEs. *Free TAFE for Priority Courses* has and continues to reduce the financial barrier for students wanting to train in courses that lead to jobs in demand from Victorian employers across a range of key industry areas including civil construction, community services, health care, early childhood education, disability, hospitality, cyber security and agriculture.

Free TAFE has been highly successful (chart 2). Between 2018 and 2019:

- it has helped 40,000 students commence training, a 88 per cent increase in commencements of courses on the Free TAFE course list
- commencements in courses on the Free TAFE course list doubled for unemployed Victorians
- commencements of individuals from culturally and linguistically diverse backgrounds and those with disability almost doubled
- women accounted for 56 per cent of all Free TAFE students across Victoria, an increase of 118 per cent
- there was a 75 per cent increase in enrolments for Free TAFE courses in regional Victoria.

Chart 2: Free TAFE activity in Victoria, 2018-2019



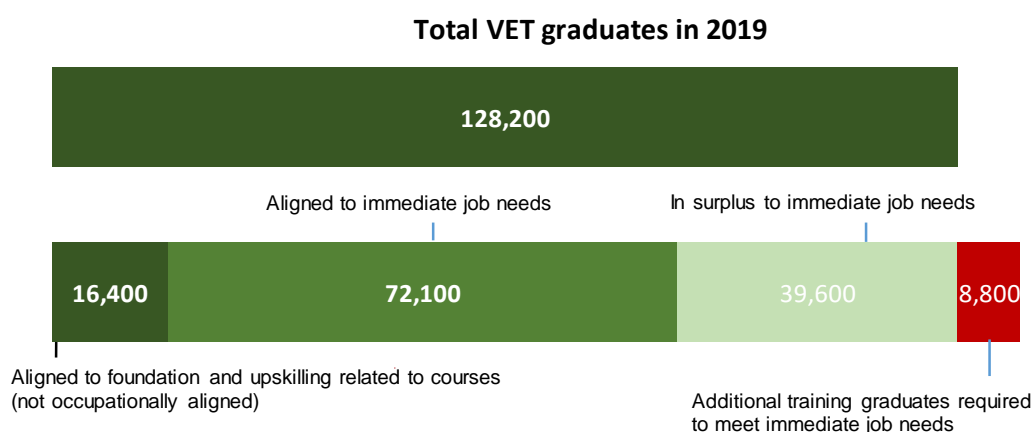
There is no doubt that alongside the significant reforms and improvements achieved over the last five years, there is still more to be done to ensure that the reform process continues and delivers the best possible outcomes for every Victorian who needs further education and training. To this end, Victoria has an independent review process underway, with Jenny Macklin appointed in October 2019 to lead the thinking and stakeholder consultation processes. After getting straight down to work and talking to many people across the education and training sector, an Issues Paper was released in mid-March 2020 outlining the key areas for review and reform with a final report due in October 2020.

Strong alignment between Victoria's training and its industry job needs

The TAFE and training system in Victoria has demonstrated strong alignment between training activity and Victoria's industry job needs. In 2019, VET either partially or fully serviced the training and skills needs of 86 per cent of the labour market in Victoria. In 2019, the supply of graduates from the Victorian TAFE and training system met 89 per cent of demand for additional workers in occupations requiring a VET qualification (chart 3).

As outlined in the Victorian Government submission to the Issues Paper, Victoria has extensive experience with skills forecasting and would be open to engaging with the National Skills Commission on this important work. The National Skills Commission may be able to assist in understanding labour market needs, **but it is vital that it takes into consideration information from and variations in local labour markets – local intelligence is as important, if not more so, than national data particularly in VET.** The benefits of using local labour market data in assessing skills needs and matching people with jobs has been highlighted by the OECD. The *Getting Skills Right* report found that in Australia VET graduates were better matched to their jobs than graduates from higher education². Assessing skills needs using national labour market data only, would reduce the alignment between training and labour market needs in each jurisdiction.

Chart 3: Supply of and demand for additional workers in VET occupations, Victoria 2019



We must learn from past failures

The fully demand-driven and contestable funding approach to the VET system was introduced without the appropriate system infrastructure in place, including information on courses and their associated employment outcomes, quality of training providers, and the guidance to inform the educational pathways of prospective students.

A return to a fully contestable market-based approach would undermine Victoria's efforts to build a strong TAFE and training system, which has focused on improving quality, supporting TAFE, aligning training with Victorian industry needs and government priorities, and delivering training in a timely manner.

Further, the VET system is made up of a large number of complex products, offering a largely non-repeatable and delayed good. This makes VET complex for an individual to navigate successfully. It is therefore highly risky to assume that an individual consumer of training will routinely be in a strong position to choose quality, let alone drive quality across the system. This is partly because of the difficulties of overcoming information asymmetry, especially for

² Organisation for Economic Cooperation and Development, *Getting Skills Right: Australia*, OECD Publishing, 2018.

parts of the VET cohort who have low skills. It is also because some individuals will have an overriding motivation to gain qualifications quickly, easily and at the lowest cost, particularly those that require certain qualifications to work in a given occupation. This can lead to individuals' short-term interests aligning with those of lower quality, and in some cases, unscrupulous providers.

Given Victoria's experience, and that of other jurisdictions, it is clear that **good outcomes** for students, employers, industry **and return on public investment require** not only **better information** and clearer choices for students and employers, but also – and critically – **strong public mission-based providers with a focus on quality training, robust funding policy, and the appropriate regulatory infrastructure in place.**

Future national **funding and governance arrangements** in VET should **recognise the role of State and Territory governments in managing their VET systems**, allowing them to meet the skills needs of *their* labour markets while contributing to increased national productivity. National arrangements should also reflect a **shared governance model based on a federated system**, including in aspects of the system relating to quality assurance and development of national qualifications.

The adoption of a **nationally consistent set of subsidy rates**, based on the efficient cost of delivery (as recommended by the Joyce Review), **would significantly constrain Victoria's ability to manage its own system and respond to local skills needs.** Subsidy rates in Victoria are informed by industry and community needs that reflect the composition of Victoria's economy and society.

Providers are also extremely responsive to price signals in the training market. While greater information and reporting of efficient prices could improve outcomes, **retaining the ability of State and Territory governments to set key system parameters, including price signals, will help to support better matching between supply and demand in local labour markets.** There are few benefits from achieving consistency for its own sake, however they come with significant costs. It is therefore important that the **Victorian Government retains flexibility in funding rates to effectively address local skills needs.**

The Victorian Government supports the principle of simplification of subsidy rates, including the Commonwealth funding States and Territories relative to an agreed view of the costs of training, provided that Victoria retains its independence on determining 'retail' funding of training in Victoria (e.g. subsidy rates, list of subsidised courses and the eligibility criteria for subsidised courses). Victoria's preferred option in terms of simplification of subsidy rates would be to have a small set of subsidies that reflect levels of priority in terms of skills needs. **Any work on costs and pricing should take into consideration the costs associated with quality training and education.**

4. Expansion of the VET Student Loans scheme

Expanding the eligibility criteria for VET Student Loans would improve access to VET for students, but the design of the expanded scheme must protect students from taking on large debt burdens they may never be able to repay.

A better designed and well-regulated VET Student Loans (VSL) scheme, consistent with those in higher education, would help reduce the financial barriers students face in accessing training. **Expanding the eligibility criteria for VSL to, for example include a broader range of higher-level qualifications, would improve access to VET for those students** that may face

some upfront costs. Likewise, aligning income-contingent loans in VET with those in higher education would **support links between post-secondary pathways and create more parity** in funding arrangements between the sectors.

However, there are **significant risks in a wholesale shift from subsidies to loans to radically expand VSL**. This would shift training costs from governments to individuals (in the form of student debt), and significantly reduce the ability of States to fund courses to improve access to training for certain groups of students.

Many students are disadvantaged and need fee relief provided by Free TAFE to access training. Shifting costs to the individual in the form of debt is not an optimal solution, particularly for qualifications that have limited private returns (e.g. Certificate I and II). The **design of the expanded VSL scheme should therefore consider the potential private returns of qualifications**, to prevent students from taking on large debt burdens they may never be able to repay.

5. Conclusion

A new National Agreement presents an opportunity to pursue reforms that keep TAFEs at the centre of the training system and enable improved student outcomes.

The Victorian Government welcomes the opportunity to work collaboratively to strengthen the national VET system, particularly given it will play a crucial role in Australia's economic recovery following COVID-19. A more coherent, responsive, integrated and flexible system is needed to effectively meet the skills and training needs of Australia's future economy.

A new National Agreement presents an **opportunity to deliver increased funding from the Commonwealth for the VET system to create more equitable funding arrangements between the VET and higher education sectors** and reduce distortions in student choice. The new Agreement also presents an opportunity to provide clear policy direction by aligning to the reform priorities agreed by Skills Ministers (through the VET Reform Roadmap) and increase stability and trust in the sector. The **design of a new National Agreement and its reforms**, should:

- acknowledge the **importance of quality training and the distinct critical role of TAFE**
- include new **national governance and funding arrangements based on a federated system**
- take into **consideration lessons learnt over the last decade, including the failures of a fully contestable, demand-driven system** and VET FEE-HELP
- enable **State and Territory governments to respond to the skills needs of their labour markets** while contributing to increased national productivity
- include **reforms to the VET system being developed through the VET Reform Roadmap**.

The Victorian Government trusts the Productivity Commission will take its views into careful consideration as it moves to finalise the Review of the National Agreement for Skills and Workforce Development.