
SUBMISSION

**Productivity Commission Inquiry
into the National Agreement for
Skills and Workforce
Development**

December 2019

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ABOUT THIS SUBMISSION

In its *Skills and Workforce Development Issues Paper*, the Productivity Commission (PC) has posed 19 groups of wide-ranging information requests across seven chapters.

This submission follows the chapter and questions structure of the issues paper. The Business Council has only responded to the information requests where it has relevant expertise and has removed questions if an earlier response has covered similar material.

CHAPTER 1: KEY PRIORITIES

The PC's issues paper covers a very broad agenda. 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

If Australia is to meet the objective of delivering a more productive and highly skilled workforce, enabling all working age Australians to participate effectively in the labour market and contribute to Australia's economic future, the *National Agreement on Skills and Workforce Development* (NASWD), needs to be broader than just the vocational education and training (VET) sector.

This review is an opportunity 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.

This is an opportunity to create a new generation intergovernmental agreement

The NASWD is consistent with the *Intergovernmental Agreement on Federal Financial Relations* (IGA FFR), however its implementation over the last decade has failed to solve the intergovernmental challenges in VET. Governments are not adhering to the agreed roles and responsibilities, and there are constant accusations of cost-shifting.

One solution to this problem is to move beyond the current roles and responsibilities and assign funding and pricing responsibility for all qualifications at a Diploma level and above to the Commonwealth. This should be roughly equivalent to the 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

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 reform directions are key to meeting the objectives of the NASWD, but the Agreement has 10 reform directions, which is too many to allow for a focused approach.

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. These bodies should become national bodies under the direction of the Ministerial Council or equivalent.

Governments need to understand the cost of delivery and the quantum 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.

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.

CHAPTER 2: ASSESSING PERFORMANCE AND THE SUITABILITY OF THE AGREEMENT

Information request 3

The Commission seeks views on:

- whether the objectives and policy directions for the VET sector set out in the NASWD are suitable for the future and why.
- if currently-stated objectives and policy directions for the VET sector are suitable for the future, which should be given priority.
- if currently-stated objectives and policy directions are not suitable for the future, how they should be changed and evidence in support of proposed changes.

The current objectives are suitable for the future

As noted in the issues paper, the NASWD has one objective, with additional objectives assumed based on the national training system the parties are aiming to create.

These objectives are suitable for the future. They capture the key priorities you would expect from governments investing in human capital development, such as delivering a productive and highly skilled workforce, increased workforce participation, accessibility, a responsive system that meets the needs of industry and students, and good information. These are all legitimate objectives and should deliver public good.

While the labour market is changing and there is a general expectation of continued disruption, the objectives of governments are unlikely to change. In the face of a transforming economy, the key will be how to create a system that can deliver on the objectives, rather than changing the objectives.

Reform directions are the key to meeting the objectives

The reforms are therefore crucial, and it is the reforms that need to be prioritised to identify how to deliver the outcomes.

The current agreement has 10 reform directions, with some of them appearing to be outcomes rather than reform directions, such as *'improving training participation and qualification completions, including at higher levels and by those who may be experiencing disadvantage.'*

To prioritise reform directions, it is important to return to the objective of the agreement *'a VET system that delivers a productive and highly skilled workforce which enables all working age Australians to develop the skills and qualifications needed to participate effectively in the labour market.'*

The Business Council would argue that the top two priority areas for reform to meet this objective are market information and improving accessibility through a national funding system with an entitlement model.

These reform directions are broader than VET and apply to the post-secondary education and skills system, including HE, and this section is written to cover both sectors. The Business Council addresses the need to broaden the NASWD to cover VET and HE later in this chapter.

Market information should be the top priority for reform

The last decade of reform has seen the introduction of demand-driven funding to VET and HE. This should have seen a shift of power from providers to learners and delivered a learner-centric system. However, a demand-led system must be supported by good information. Both the VET and HE markets have poor information and this has stymied a learner-centric approach and contributed to poor decisions on the part of learners.

Good market information is the foundation from which potential learners and businesses can assess the quality of courses or providers and make informed decisions. A lack of market information creates an environment where poor-quality providers can thrive.

To ensure funders, learners and businesses can make good decisions, market information needs to be the top reform priority. But market information in and of itself is not enough. The reform also needs to focus on the decision-making process. The Business Council has designed a learner-decision making process that should be used to form careers advice. This is detailed below and in the infographic on the following page.

Decision one: what to study

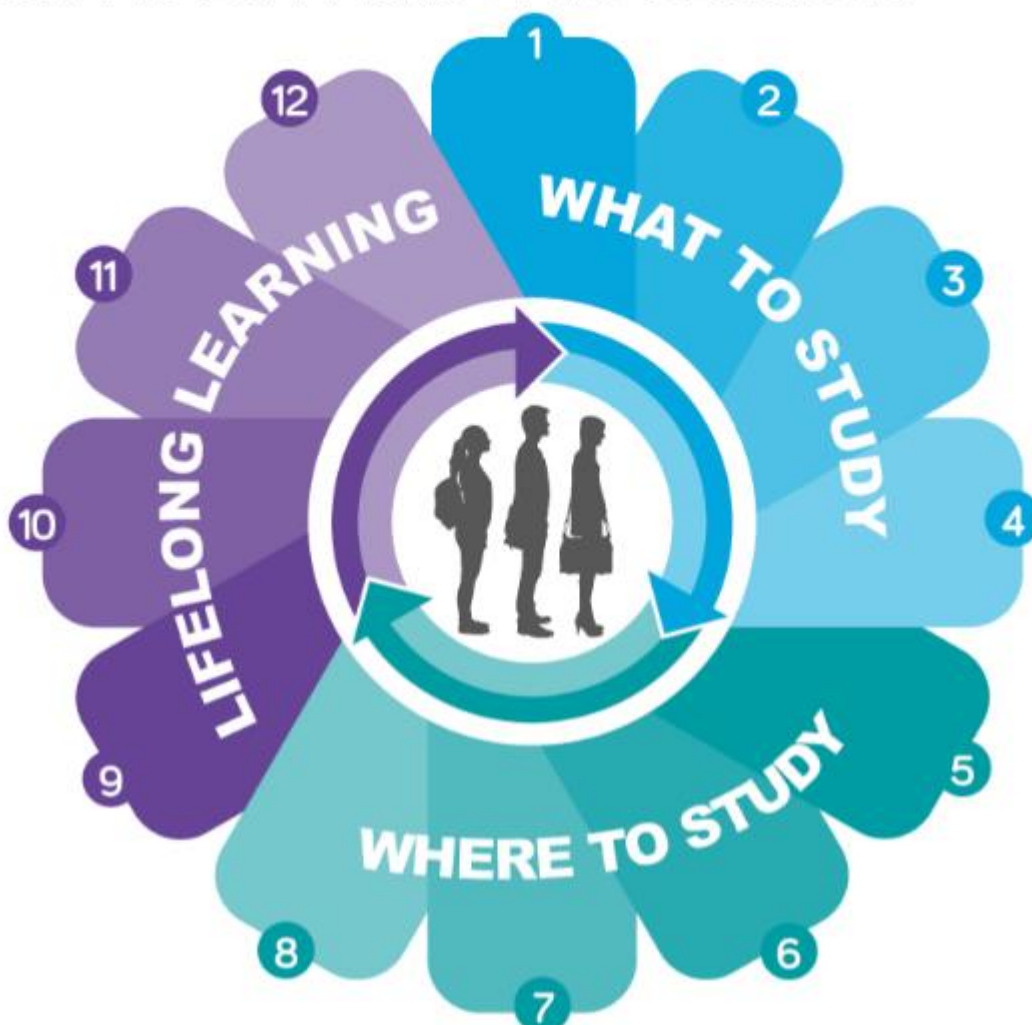
To make this decision learners should identify:

1. What they are good at, where their strengths are, and what they are interested in or passionate about
2. The different roles available in different industries that would suit these strengths and interests
3. The VET or HE courses that are relevant to these roles
4. The professional bodies that are relevant to the particular industry or role, and which courses they accredit.

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 up-front 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.

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 SLA
- 12** Return to step 1

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.

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:

- 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 up-front fees and access to government support
- a comparison across providers about how long the course will take, as well as the weekly time commitment
- a comparison across providers in terms of student outcomes, including employment and starting salaries
- a comparison across providers of the professional bodies that recognise or accredit their courses.

A potential learner should be able to follow this decision-making process through one digital location.

A great deal of this information is available, but it is scattered across a range of websites. Additionally, the information is generally not across VET and HE. For example, if someone was interested in engineering, they would need to move between MySkills and QILT, or the newer site COMPARED, 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.

Some of the data can be provided by government, whereas other data needs to come from providers. As part of contract management, governments can mandate that if providers have government funding, they must input specific market information into a national system that all potential learners could access.

The National Careers Institute can become the authoritative source of information

Market information cuts across both levels of government, and the only way to create a site that encourages informed decision-making is a collaborative approach that covers VET and HE. The recent creation of the NCI is the right body to lead this collaborative approach.

As part of the NASWD reform priorities governments should:

1. Establish the NCI as the single integrator of the multitude of information sites about courses, careers and the labour market.
2. Create a website or app, whatever is the most appropriate digital presence, for the NCI that becomes the 'go-to' location for all Australians, including professionals such as careers counsellors, looking for information.

3. This should be built around the learner and how they make decisions, starting with the questions of ‘what am I good at?’ and ‘what do I like?’.
4. Build and trial tools as part of the digital presence, including with gamification, to assist different cohorts of learners and workers to identify the industries relevant to their interests and skills.

A national funding model with an entitlement is needed across post-secondary education

In many ways access to education is the most important component of the design of a post-secondary skills system. If the system design fails to offer access to all Australians, or complicates access, people are less likely to be encouraged into post-secondary education, which will prevent achieving the objective of *a productive and highly skilled workforce*.

The concept of a government-supported entitlement to tertiary education works on two fronts:

1. The first and perhaps most important is that it removes barriers to access. In keeping with the concept of fairness, a well-designed entitlement model across the post-secondary system provides opportunities for education and skill development, regardless of someone’s background or financial circumstances.
2. The second is that a well-designed entitlement model actively encourages young people and workers to equip themselves with the education and skill development they need to fulfil their potential.

The system funding model should be centred around the learner not the provider

An entitlement is effectively a funding model, and a system’s funding model drives the behaviour of all players – potential learners, current students, enterprises, providers, and to a lesser extent, governments.

We currently have a funding model that is centred around a provider, not the learner, and providers have significant power in the system. This review is an opportunity to grapple with whether a learner-centred or provider-centred model is the best approach.

The Business Council believes a learner-centred model will deliver the best outcomes for learners, industry and the government. It is a more difficult model for providers to manage, but it will lead to increased power in the hands of the learner, which should in turn increase the quality and offerings made available to learners, and lead to innovation and specialisation of providers.

The funding model should also be sector-neutral

A well-designed entitlement is one that does not privilege one sector above the other and therefore inadvertently influence the decisions of the players in the system.

In our current system two different levels of government are managing the entitlement and funding levers in isolation of each other. The States and Territories are responsible for setting and providing the subsidies in VET qualifications. The Commonwealth sets the subsidies in HE and determines the rules for all the loan schemes.

Having multiple funding models across VET and HE that are not designed with the other sector in mind will result in an uneven playing field between the sectors. This uneven playing field leads to distorted incentives and influences behaviour.

The only way to provide a level playing field is to have a single funding system across the two sectors that does not provide perverse incentives for either learners or providers.

A single funding system does not mean a single level of government. It means governments working collaboratively to ensure the same principles are applied across both sectors (e.g. funding reflects the ratio of public and private benefit), and one group of students are not privileged over another (e.g. VET students being charged a loan fee and HE students paying no loan fee).

Future labour market needs don't divide neatly between sectors

In addition to a level playing field, a national funding model with an entitlement is much more suited to the demands of the future labour market.

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.

The current funding model and NASWD do not allow for this, and therefore rather than facilitating the change needed for the future workforce they will operate as barriers to reform and innovation.

The National Skills Commission can provide the foundation for a national entitlement

A single funding model and national entitlement across VET and HE will take some time for governments to implement, but the National Skills Commission (NSC) is a good first step and can undertake the work needed to enable governments to build such a system across VET and HE.

As part of the NASWD reform priorities governments should task the NSC with the following program of work:

1. Run a costing exercise to determine benchmark costs, including loadings or something similar to account for locational and student need variations.
 - the benchmark costs should be published to ensure transparency.
 - the NSC should periodically review the benchmark costs to ensure currency.
2. Develop a methodology to identify the ratio of public and private benefit in qualifications. The NSC should then use that methodology to create a national funding model that allocates the percentage share of training costs between governments, individuals and employers, and publish the information.
3. Take responsibility for the administration and monitoring of training funding, including subsidies, income-contingent loans, incentives and all other programs – subject to all training Ministers agreeing.

Note: this assumes each level government retains the right to determine funding and pricing for their jurisdictions.

4. Become the national body with responsibility for labour demand forecasts.
 - functions in demand forecasting should be broad and include qualifications, skill sets or clusters of skills, occupations, industry variations and needs, and regional variations and needs.
 - the NSC should work with all governments to agree on the appropriate methodology(s) for demand forecasting.

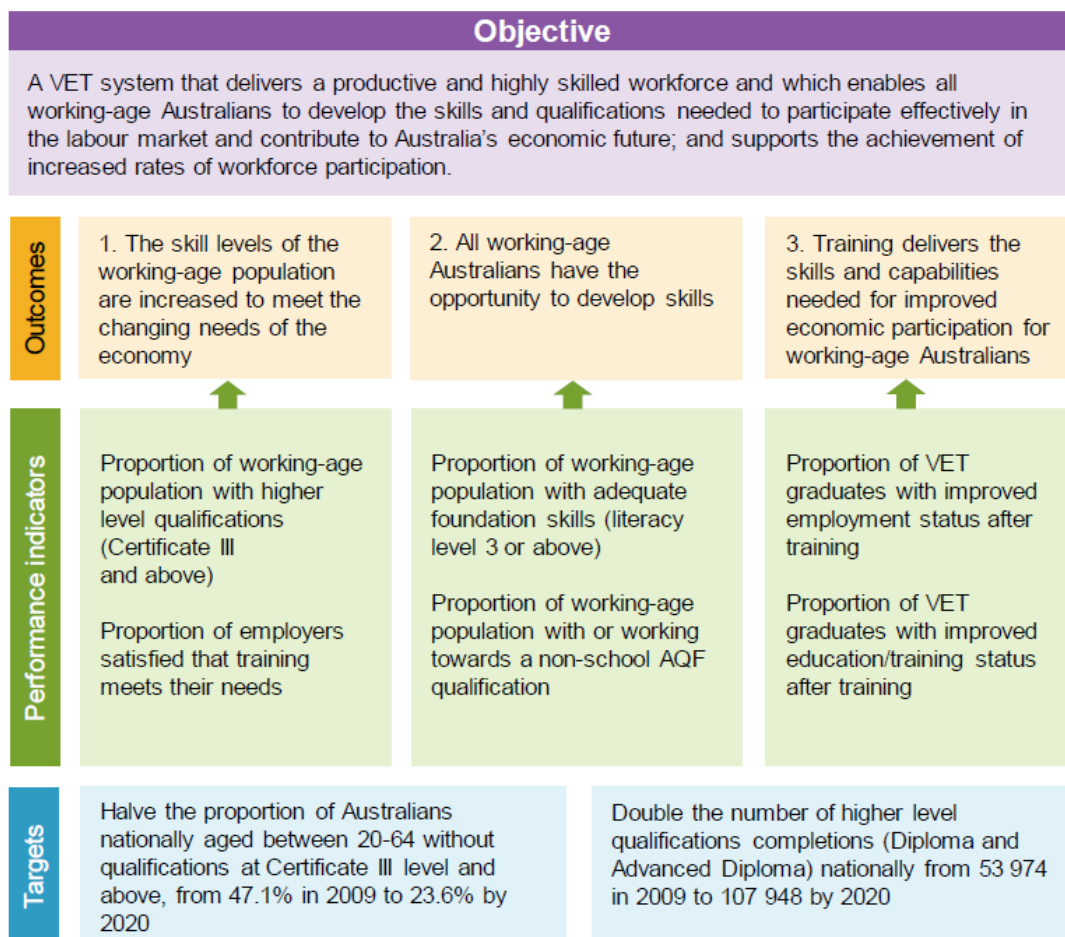
Information request 4

- What has affected the achievement of outcomes and targets to date, and how?
- Do current indicators and targets provide the right information to assess performance?
For example:
 - are the indicators and targets fit for purpose — are they reasonable and attainable; do they adequately reflect contemporary policy settings?
 - how well do the outcomes, performance indicators and targets link to each other and the objective?
- Are there other areas of performance that should be measured and, if so, why? What types of indicators should be adopted for these areas?
- What should a future performance framework look like and include?

The performance reporting framework is broader than the VET sector

The following infographic, taken from the issues paper, details the performance reporting framework of the NASWD:

Figure 1 NASWD’s performance reporting framework



While the agreement is about the VET sector, the framework 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.*’

This reflects the inherent tension in the NASWD – it effectively sets out the collective vision of governments for the Australian workforce, but its focus for both funding and reform purposes is limited to the VET sector.

The agreement’s focus needs to be expanded to post-secondary

This creates difficulties in determining whether the current indicators and targets are fit for purpose. The outcomes and performance indicators are appropriate for the NASWD’s objective, but the VET sector alone cannot deliver these outcomes, nor meet the performance indicators.

Additionally, actions outside the VET sector can have an impact on the ability of the VET sector to contribute to meeting the targets. Take for example the target of doubling the number of higher-level qualifications completions.

When demand-driven funding was introduced into HE, there was increased participation in bachelor level enrolments. This had an impact on enrolments in higher-level VET qualifications.

Is it feasible or appropriate to want to double completions of Diplomas and Advanced Diplomas if more Australians are studying in HE? If doubling higher level qualifications is the right target, wouldn't it be more sensible to have the target focus on all higher-level qualifications, rather than just VET qualifications?

If the current framework is maintained the tension between the overarching vision and objective will continue. The Business Council believes this review is an opportunity to broaden the agreement to cover the post-secondary education and skills system to include VET, HE and pathways to work.

Information request 5

- How well does the NASWD describe the roles and responsibilities of governments in skills and workforce development? Could this be improved?
- How well have the Australian, State and Territory governments fulfilled the agreed reform directions and their roles and responsibilities?
- How could governments better work together, for example, to improve the efficiency of tasks, or support accountability for outcomes?

The roles are clear, but are not always followed

The roles and responsibilities are clearly described, however the actions of governments are not always consistent with the descriptions.

For example, the NASWD says that States and Territories will determine resource allocation within their State/Territory. This is not the case for VET Student Loans (VSL), and the recent Joyce review commissioned by the Commonwealth government effectively recommends that the Commonwealth determine resource allocation.

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 again was effectively trying to determine resource allocation in jurisdictions.

Governments could divide funding responsibilities by qualification level

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.

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 a Lifelong Skills Account (LSA), but this is just one allocative method, and others could be used.

To manage this approach effectively, governments would need to establish some base costing, and this is discussed in chapter 4 on pricing and funding.

Information request 6

- How well have the intergovernmental arrangements instituted under the NASWD worked?
- Is an intergovernmental agreement still required, or the best instrument, to promote collaboration on policy directions and reform, and accountability for outcomes?
 - If not, what alternative mechanism(s) would be suitable?
 - If so, how should its overall form and structure differ from the existing agreement?

This review is an opportunity for a new generation intergovernmental agreement

Given the NASWD is supported by a specific purpose payment (SPP) 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 centrepiece of it could be a reform agenda that was developed in a genuinely collaborative manner, consistent with a system that is managed together by two levels of government, as outlined in the figure below.

THE GOVERNMENT EXPERIENCE

	BOTH LEVELS OF GOVERNMENTS	AUSTRALIAN GOVERNMENT	STATE GOVERNMENT
FUNDING All tertiary funding distributed through a new national body 	<ul style="list-style-type: none"> Maintain contribution to the Training System Commonwealth for 10 years, with review at 5 years 	<ul style="list-style-type: none"> Funds Diploma and above qualifications and income contingent loans (ICLs) The Australian Taxation Office manages repayment of ICLs via the tax return process 	<ul style="list-style-type: none"> Funds Certificates I-IV (AQF 1-4) May chose to provide 'top up' payments to public providers (to help ensure they remain financially viable)
POLICY	<ul style="list-style-type: none"> National agreement on key policy issues: <ul style="list-style-type: none"> design and management of the tertiary system Lifelong Skills Accounts and associated rules role and governance of the new institution 	<ul style="list-style-type: none"> Policy responsibility for ICLs and HE 	<ul style="list-style-type: none"> Policy responsibility for the public providers in their state
PROVIDERS 	N/A	N/A	<ul style="list-style-type: none"> Responsible for administration of public VET providers (TAFEs) Continue to own the land which universities operate on and have responsibility for making appointments to university senates
REGULATION	<ul style="list-style-type: none"> No change 	<ul style="list-style-type: none"> No change 	<ul style="list-style-type: none"> No change
AUSTRALIAN QUALIFICATIONS FRAMEWORK (AQF) All VET and HE qualifications are assessed against the AQF 	<ul style="list-style-type: none"> As per current arrangements, education, training and employment ministers collectively own and are responsible for the AQF 	N/A	N/A

This allows for each level of government to determine priorities within both their policy areas – the VET market for States and Territories, and the HE market for the Commonwealth – as well as allowing them to manage their budget exposure. Both of these are key to ensuring effective collaboration.

While there have been many reform attempts over the past 30 years for one level of government to take full responsibility for VET, the likelihood of all governments agreeing to transfer powers and funding is highly unlikely.

The VET sector, and the broader post-secondary skills system, is and should be a shared responsibility between two levels of government. The imperative is to create a sustainable framework that facilitates genuinely shared management.

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 and
- 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 1000 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, rather than a Ministerial Council.

If a tripartite approach were adopted it would provide a legitimate environment to have a frank discussion about financial contributions of each party, something that is discussed in further detail in chapters 4 and 5 of this submission.

CHAPTER 3: HOW WELL IS THE VET SYSTEM WORKING?

Information request 7

- Does the current division of joint and jurisdiction specific policy approaches (and approach to managing the associated tensions) produce the best outcomes?
- Is the current market structure efficient, and is it well placed to meet Australia's current and future skills and training needs?

The agreement should be about a post-secondary skills system

As discussed above, the tension around cost-shifting, and the Commonwealth's interest in how the States and Territories determine their resource allocation does not produce the best outcomes. This is compounded by the inherent tension of the agreement – a vision for the workforce, but a limited focus on VET for reform directions and funding.

If governments are serious about working collaboratively to develop Australia's current and future workforce and deliver the best outcomes, the NASWD needs to cover both VET and HE, as well as focusing on transitions into the labour market.

Each element of the market design needs to be examined

The VET market is one designed by governments. While there has been a focus on broadening the market and introducing competition, it is not a free market. In determining if the current market structure is efficient and well-placed to meet Australia's needs it is important to consider the key elements of the market design:

1. Learner access
2. Funding, including managing budget exposure
3. Fees and pricing
4. Quality assurance
5. Market information
6. Public and private providers
7. Governance.

There is discussion on learner access, funding, fees and pricing, market information and governance in other parts of this submission, so while part of the market design these topics are not repeated in this chapter.

Quality assurance is a perennial issue

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 VET FEE-HELP (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. 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, and
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 4000 registered training organisations (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 percent 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 risk management

When government money is available, or providers can collude with students, there is a likelihood that unscrupulous providers will attempt to enter the market. 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 new 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.

It is important to differentiate between quality standards and contract management

Quality standards are not robust enough to prevent poor provider behaviour in the government-subsided market, including both subsidies and loans. 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.

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.

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 tertiary education. The role of the funder or contract manager is to ensure that taxpayers money is being spent appropriately.

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 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 4000 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 earlier in this submission, coupled with risk-based regulation and strong contract management, is the best approach to managing providers and informing potential learners.

Public and private providers should both have a role

Private providers have always existed in the post-secondary market. They offer fee-for-service courses and have developed the skills of many Australians. The controversial question is whether private providers should be able to access government funding, or if government funding should be limited to public providers.

The Business Council supports market reform and encourages the use of contestability in markets. 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.

There is a tendency to blame failures that occur in an open system on contestability. It is important to be clear that contestability is not, and was not, the problem in the failure of 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 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 market reform, 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.

Public providers need a clearly defined role

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 incentivises 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.

The product is not part of the market design but is key to skilling the future workforce

While the product of the post-secondary system is not part of the market design, it is vitally important in determining if the sector is meeting Australia's skilling needs.

The Business Council believes there are two fundamental questions that need to be answered when considering the product:

1. What is the purpose of the education and skill development?
2. What is the content of the learning?

There are additional questions that impact on product, such as how it is funded, but these are already dealt with in the funding model.

Purpose of education and skills development

In *Future-Proof*, the Business Council proposed five objectives for our education system.

1. Equip people with functional competencies to enable them to effectively communicate, interact and work. This includes, but may not be limited to, minimum levels of literacy, numeracy and technology.
2. Prepare people to be good citizens and provide community-wide values of citizenship: honesty, compassion, respect, responsibility and courage.
3. Give people the capacity to think as well as absorb knowledge, including the knowledge we should all have as good citizens, such as history and our place in the world.
4. Equip people for entry into the labour market and the world of work.
5. Support people in the labour market to improve their knowledge and skills and transition to new roles or industries.

As this submission is focused on the post-secondary system, the third, fourth and fifth objective should be the primary focus of post-secondary education and skills learning. However, these would be further defined based on the stage of a learner's life.

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.

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, and this is discussed further in chapter 5 of this submission.

The content of the learning

In the case of learning content, form should follow function, and the learning content should be built around delivering on the purpose of the education and skill development.

The content of a qualification will be different to the content of a micro-credential.

Qualifications

Most qualifications across VET and HE prepare learners for a specific occupation or industry, with a small subset such as a Bachelor of Arts or Science focused on a broad academic field. As such, while qualifications can be personalised in terms of the electives learners select, qualifications tend to be designed for large cohorts of learners.

Across all qualifications, the Business Council believes that, in addition to the technical skills relevant to the industry or occupation, all learners should be equipped with a set of values, and a range of behavioural, literacy and numeracy, people, analytical and digital capabilities.

The technical skills content – the knowledge and tasks learners need to be successful in a specific occupation – is the foundation of all qualifications and should be designed to meet the needs of relevant businesses and industry. While the content of the learning product cannot be expected to be solely responsible for creating the values and capabilities in each learner, it should reinforce the values employers are looking for in a work setting.

Qualifications across both VET and HE should produce well-rounded learners who have a foundation from which to enter the labour market, and a foundation that will hold them in good stead as they develop across their working lives.

For HE qualifications, that means providers need to work closely with industry and professional bodies to identify their needs in both technical skills and broader behaviours, such as an understanding of customer focus and self-awareness.

For VET qualifications, that means keeping the centrality of industry in the development of Training Packages (TP), but also broadening the content of TP to encompass the behavioural, literacy and numeracy, people, analytical and digital capabilities.

Micro-credentials

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. 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.

Post-graduate qualifications versus micro-credentials

While the Business Council believes micro-credentials should complement the qualifications framework, this also raises the issue of workers undertaking coursework post-graduate qualifications (not research qualifications) when micro-credentials may be more suitable.

Some learners will want to undertake full post-graduate qualifications, but others will not. In a system designed around the learner, that should be the learner's choice.

Governments are naturally concerned about how to fund micro-credentials and the role of the individual and business contributions to the funding. These are legitimate concerns that will need to be worked through, including the contribution of business.

However, in working through these issues, it will also be important to take a step back and look at how post-graduate qualifications are funded and apply a level playing field between the two.

Under the current settings, learners can put the full cost of a Masters Degree by course-work on an ICL, and in some cases can get both a subsidy and a loan. Learners wanting to take a couple of modules to upskill cannot.

From a public policy perspective, it would seem irrational to allow funding of full qualifications, albeit through a loan scheme, and not micro-credentials that would allow workers to get the knowledge and skills they needed more quickly and at a lower cost.

Information request 9

- How effective are skills needs assessments as a basis for estimating demand for VET services?
- How do governments' skills needs matching efforts alter student demand for VET?
- Are priority skills lists the best way of signalling skills shortages?
- How could nationally consistent skills demand forecasting be implemented to better match training to the economy's needs?
- Noting that the National Careers Institute will cater for students' needs, do other market players have access to information to efficiently inform their choices? If not, how could this be improved?

An entitlement and informed market will best deliver future skill needs

Before the introduction of entitlement models, the VET markets were primarily driven by a labour marketing 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 focused 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.

'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 have 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.

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.

Information request 10

- How have the reforms undertaken by governments (such as the national entitlement system and introduction of income contingent loans) shaped the operation of the VET market?
- How well have these reforms contributed to the achievement of the NASWD's aims (such as improved access, quality and market efficiency)?
- What lessons can be learned from past reforms?

The reforms of the last 10 years changed the market and there are many lessons to be applied to improve the system design

In the first edition of *Future-Proof*, the Business Council analysed the last decade of reform across VET and HE to identify the strengths we need to build on, and the pitfalls we need to avoid in designing a tertiary model.

In discussing the major reforms of the last decade, the analysis focused on the Victorian package *Securing Jobs for Your Future*, the Bradley Review and the introduction of demand-driven funding in HE in 2009, and the 2012 National Partnership on Skills Reform, including expansion of VFH.

The analysis identified eight key lessons for designing a tertiary system:

1. We need a universal entitlement that is sector neutral.
2. A universal tertiary system needs to be funded by government and the individual, and the cost of the system needs to be calculated.
3. A demand-driven system is challenging to manage, and loans need to be designed around the student cohorts.

4. The tertiary education market needs changes before full fee deregulation can be effective across all cohorts.
5. The regulator needs to differentiate between providers, and the funder must put in place strong contract management.
6. Market information cannot remain in the 'too hard' basket.
7. The public provider must be supported but private providers are also needed.
8. We need a collaborative governance model where each level of government controls their financial contribution.

To read the detailed analysis leading to these eight lessons, please see Chapter 6, 'Lessons learned from a decade of education reform' in *Future-Proof: Protecting Australians Through Education and Skills*:¹

Please note, this analysis was conducted in 2017, so some data is dated, and it does not factor in the recent Joyce review, but the analysis remains relevant.

¹ Available from: https://www.bca.com.au/future_proof

CHAPTER 4: FUNDING AND PRICING OF VET

Information request 13

The Commission also seeks input on the following questions.

- How well do current funding and pricing arrangements support governments' shared goals for the VET sector?
- What aspects of funding and pricing should be undertaken on a nationally consistent basis, and how should this be achieved?
- What aspects of funding and pricing administration or supervision can be improved (within VET and across VET and higher education)?
- What alternative models for funding and pricing government services could the VET system draw from?

It is important to differentiate between costs, funding and pricing

Costs, funding, and pricing are often used interchangeably in a discussion about post-secondary education and skills, and this leads to confusion and people talking at cross-purposes. The Business Council believes that the review of the NASDW and the establishment of the NSC provides an opportunity to revisit costs, funding and pricing across VET and HE. For the sake of clarity, the following definitions are used:

- cost – the amount required to deliver the education and 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.

Costs

Funding and pricing are formed by policy decisions, but those policy 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 delivery will generally be greater than delivery 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 education or training, it is therefore important to assess how much it costs to efficiently deliver products that meets the minimum quality standards within the relevant system.

At this point in time there is not publicly available, credible data on the cost of delivering in VET or HE. Some States have more detailed data on the cost of VET delivery, and some universities and HE providers have detailed data on their delivery costs. However, there is not an agreed methodology on how to cost delivery, nor reliable and consistent data available for funders and learners.

A costing exercise across VET and HE would be a substantial amount of work, and it could not take into account every combination of special circumstances. However, a costing exercise could establish a benchmark cost could for each qualification, or groupings of qualifications.

A costing exercise is needed to underpin a fair and defensible funding model

Some may question the value or potential return of running such an exercise, given that it will take time and there will be a cost involved.

The first reason to do it is to get some much-needed facts on the table. The amount of funding needed to have a sustainable universal post-secondary education and skills system is a hotly contested subject, but 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?

The second is that most Australians will need to get a post-secondary qualification, so it is incumbent upon governments to establish what the cost of that entails, even if governments are not covering the full cost.

The third is that it is difficult to have a robust and consistent funding model across VET and HE if you do not have credible data on the cost of delivery.

The fourth is that without understanding cost, it is not possible to estimate return. It is quite possible that some qualifications are simply not of value due to the poor return to the individual, the cost of delivery and so forth. Governments need this information to assist them to determine how funding is allocated.

Assuming the NSC becomes a national body under the NASWD, its first piece of work should be to undertake a costing exercise to determine benchmark costs, including loadings or something similar, to account for locational and student need variations. Following the initial work, the NSC should periodically review the benchmark costs to ensure currency.

It is also important that benchmark costs are published to ensure transparency and help learners and industry understand costs.

Funding

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.

While governments should be able to retain control of their funding, there should be a single consistent funding model across VET and HE. Once a costing exercise is completed, it can be the foundation from which to build a national model.

Building on the costing exercise the NSC should develop a methodology to identify the ratio of public and private benefit in qualifications. The NSC should use that methodology to create a national funding model that allocates the percentage share of education and training costs between governments, individuals and employers. However, if the NASWD doesn't include industry it will difficult to drive industry accountability in funding.

The national funding model would then be a starting point from which governments determine both their total quantum of funding and their allocative model.

This is consistent with what the Business Council argued in our *Future-Proof* publications. VET is a shared responsibility and funded by both levels of government. As such, each level of government needs to be able to manage their expenditure and have the flexibility to direct funding to areas of their priority.

At this point of system maturity, the Business Council believe this remains the best approach to ensuring cooperative governance. The simple fact is that there are good reasons why government funding may differ between jurisdictions, including the availability of any government funding.

The value of a national funding model is it will provide consistency within and across sectors and provide transparency. Transparency between governments, as well as transparency to learners, industry, providers and citizens more generally.

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 relevant Ministers in all jurisdictions, or all first Ministers.

Pricing

The issue of pricing starts with a fundamental question – does government want to be a price-setter or a price-taker?

As a price-setter a government is choosing to regulate fees – the fees a provider can charge, as well as the total income a provider can receive from an enrolment. As a price-taker a government can choose on 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 \$1000 with a ratio of 80 percent to government and 20 percent 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 have to charge that fee to the learner. In a price-taking environment, the government may allow a provider to charge any fee within a range, such as \$0 to \$400. 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. Similar to funding the Business Council believes that determining pricing should sit with the government providing the funding.

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.

Information request 15

The Commission seeks:

- evidence of how funding (and other) settings affect learning and career choices
- views on options for achieving greater consistency in funding and loan arrangements between the VET and higher education sectors, and the likely benefits, costs and impacts of these options.

Multiple funding models can create perverse incentives and can be unfair

A system's funding model drives the behaviour of all players - potential learners, current students, enterprises, providers, and to a lesser extent, governments.

A well-designed funding model is one that does not privilege one sector of education above another, or one industry above the other, and therefore inadvertently influence the decisions of the players in the system.

In our current system two different levels of government are managing the funding levers in isolation of each other. The States and Territories are responsible for setting and providing

the subsidies in VET qualifications. The Commonwealth sets the subsidies in HE and determines the rules for all the loan schemes.

One of the most important lessons from the last decade of reform is that having multiple funding models across VET and HE that are not designed with the other sector in mind will result in an uneven playing field between the sectors. This uneven playing field leads to distorted incentives and influences behaviour.

For example, in *Future-Proof* the Business Council provided a worked example (below) of the funding models in nursing. The analysis shows how providers and learners are treated differently depending on the sector they are in. Note this data is from 2017.

Worked example of funding in nursing qualifications

Category	Diploma of Nursing (EN) NSW	Diploma of Nursing (EN) Victoria	Diploma of Nursing (EN) VET Full Fee*	Diploma of Nursing (EN) HE Full Fee**	Bachelor of Nursing (RN) Commonwealth
Government subsidy	\$9,050	\$16,388	\$0	\$0	\$40,368
Cost to student (student fee)	\$4,930 Regulated	Set by provider Not regulated	\$25,725 Not regulated	\$25,725 Not regulated	\$18,768 Regulated
Total	\$13,980	Varied	\$25,725	\$25,725	\$59,436
Loan available to cover student fees#	\$15,000 (loan cap)	\$15,000 (loan cap)	\$15,000 (loan cap)	\$99,389 (no loan cap)	\$99,389 (no loan cap)
Gap student must cover through non-government loan	\$0	Depends on student fee, could be \$0 or more	\$10,725	\$0	\$0
Government direct contribution	65%	Depends on student fee	0%	0%	68%
Student contribution	35%	Depends on student fee	100%	100%	32%
Average weekly income before tax	\$1,104	\$1,104	\$1,104	\$1,104	\$1,480

There are a number of differences in the treatment of learners and providers:

1. The fees a provider can charge are set by the Commonwealth for bachelor courses (both the direct government subsidy and the student fee), but are not regulated in all States and Territories for VET.
2. The government subsidy for people studying to be an enrolled nurse in VET is lower than for people studying to be a registered nurse in HE, both in total dollars and percentage share.
3. The loan schemes have different rules:
 - students in VET have to pay a 20 percent loan fee (i.e. if they borrow \$1,000 they are charged a \$200 loan fee) and students in HE pay no loan fee.

- there is a loan cap for each VET course (\$15,000 for nursing), but no fee cap. In HE if the course gets a government subsidy there is a fee cap but no loan cap, and if a course does not get a government subsidy but is eligible for a loan, there is no fee or loan cap.
- if a provider charges more than the loan cap in the VET course, students have to find a private source of income to pay the difference. This could not happen in HE.

Differences exist even when one level of government controls the levers

Some of these differences can be explained by different levels of government setting the policy. However some differences, particularly in the loan scheme, are within the control of one level of government and are inexplicable. Why should a VET student pay a 20 percent loan fee and a HE student pay no loan fee?

The differences are more confronting when potential earnings and employability are examined. As detailed in the table, there is a significant gap between earning potentials. A registered nurse (HE qualification) earns nearly \$400 per week more than an enrolled nurse (VET qualification), or nearly 35 percent more. That comes to \$200,000 over a decade of work. A registered nurse receives the highest subsidy in both percentage and real dollars despite having the greater earnings.

The pay difference relates to the skill level and responsibilities of the different roles and is not being debated. The issue is that despite earning significantly less and therefore receiving less of a private return, the average enrolled nurse will have contributed more to their education than the average registered nurse.

If we assume that registered and enrolled nurses generate the same proportion of public and private return, and you accept the principle that the ratio of public and private return are used to determine personal versus government contribution, it is clear that the current system does not provide a level playing field.

Learners find it difficult to understand the full picture

Additionally, it is very difficult for people to find the relevant information and construct a relative comparison. At least seven different websites had to be accessed to construct the table above, along with calculations to determine the individual versus government contribution. No potential learner would know where to look for all the different sources of information, let alone have the time to construct a comparison detailed enough to make an informed decision.

Providing this information to learners is crucial, but the only way to provide a level playing field is to have a single funding system across the two sectors that does not provide perverse incentives for either learners or providers.

A single funding system does not mean a single level of government. It means governments working collaboratively to ensure the same principles are applied across both sectors (e.g. funding reflects public benefit), and one group of students are not privileged over another (e.g. VET students being charged a loan fee and HE students paying no loan fee).

CHAPTER 5: GOVERNMENT INVESTMENT IN VET

Information request 16

- Are the contributions by government (on behalf of the public), industry and individuals towards VET proportionate to the benefits that each of these groups receive?
- Is direct estimation of public and private benefits as a means to direct government funding feasible and desirable? What would be the implications for other sectors (e.g. Higher Education) if such an approach was taken in VET?
- How should governments judge priorities for funding and effort, and why?
- How should employers and industry contribute to funding the skills training of their workforce? Are there any barriers or disincentives to private funding of VET?
- Should the level of government funding vary for different course or student types, and if so, how should government decide the relative amounts?
- What approaches are most useful to assess the effectiveness of government investment in VET?
- Should government investment in the VET system seek increased participation in training by all Australians? How should this goal be achieved?

There is insufficient data to determine the benefits of VET

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.

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 earlier 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 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.

There is 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. 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.

The approach can't be limited to VET

As highlighted in the previous chapter, having different funding models across VET and HE creates perverse incentives and influences the behaviours of players in the post-secondary system. The exercise should be across VET and HE to ensure a level playing field is created. This is particularly important when it comes to the question of employer and industry contributions.

In the approach the Business Council has proposed, we have suggested allocating shares between government, business and the individual. If there is an expectation that industry will contribute to an initial qualification, 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.

Employers and industries should 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.

Lifelong learning needs to become a reality in Australia

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 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:

Business	Government	Learner
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.

Businesses need to help with transitional requirements of workers

The Business Council also believes that businesses should identify the transitional requirements of their workforces. Workforce planning that maps the skills of their current

employees, where employees need to develop and where they could be more valuable in the business should be a standard approach. When businesses then need to develop new skills in the face of technological or other changes, they will be able to identify who in their workforce could be reskilled or redeployed or help their employees with a transition plan.

While business has an important role to play in the upskilling of their staff, it is also important that governments work with business to assist workers. SMEs in particular will often not have the resources to identify the right training for their staff or the cashflow to send staff for upskilling. In such cases, the LSA and micro-credentialing will become very important.

Information request 17

- How effective and accessible are data collection and reporting arrangements?
- How can data and information sharing arrangements be further improved to facilitate assessments of the effectiveness of VET investment and delivery?
 - What additional data (if any) or improvements in data quality are required to effectively monitor the performance of Australia's training system?
- How significant are current compliance requirements relating to the provision of data to authorities?
 - Can some data collections be ceased?
 - How can data be collected in a way that minimises reporting costs?

There is no reliable data source on industry investment

One of the challenges in discussing what role industry or business should have in developing skills is a lack of reliable data on what industry spends.

Businesses and industry invest in their workforce through many mechanisms including:

- financial contribution to a qualification – many Modern Awards require employers to pay the course fee for an apprentice
- paying for external training or development that sits outside the Australian Qualifications Framework (AQF).
- delivering internal formal training
- coaching and mentoring
- giving 'free' days for workers to focus on their own development.

And all of these also involve an additional cost of paying workers for no output.

However, this is not captured anywhere so there is a constant debate about whether or not industry is 'pulling its weight.' Without credible evidence, we are back to cost-shifting arguments and jumping at shadows.

There needs to be a regular, reliable source of data that estimates the contribution industry makes to skill development. It is important that such a data source is not confined to qualifications within the AQF as it would under-estimate the real contribution.

Government contributions are not easy to put together

While there are multiple sources of information on government contributions including reports from the NCVET, the Australian Bureau of Statistics (ABS), as well as PC's Report on Government Services, it is extremely difficult to assess the issue of cost-shifting between governments.

With publicly available data, it is not possible to construct a time series to show government contributions to VET and HE over the last decade. This has been compounded by the ABS now combining VET and HE contributions into one line-item. Additionally, it is difficult to obtain a comprehensive picture of the loans data.

Government expenditure should be transparent, and it should not be difficult to construct time series to analyse patterns or changing behaviour.

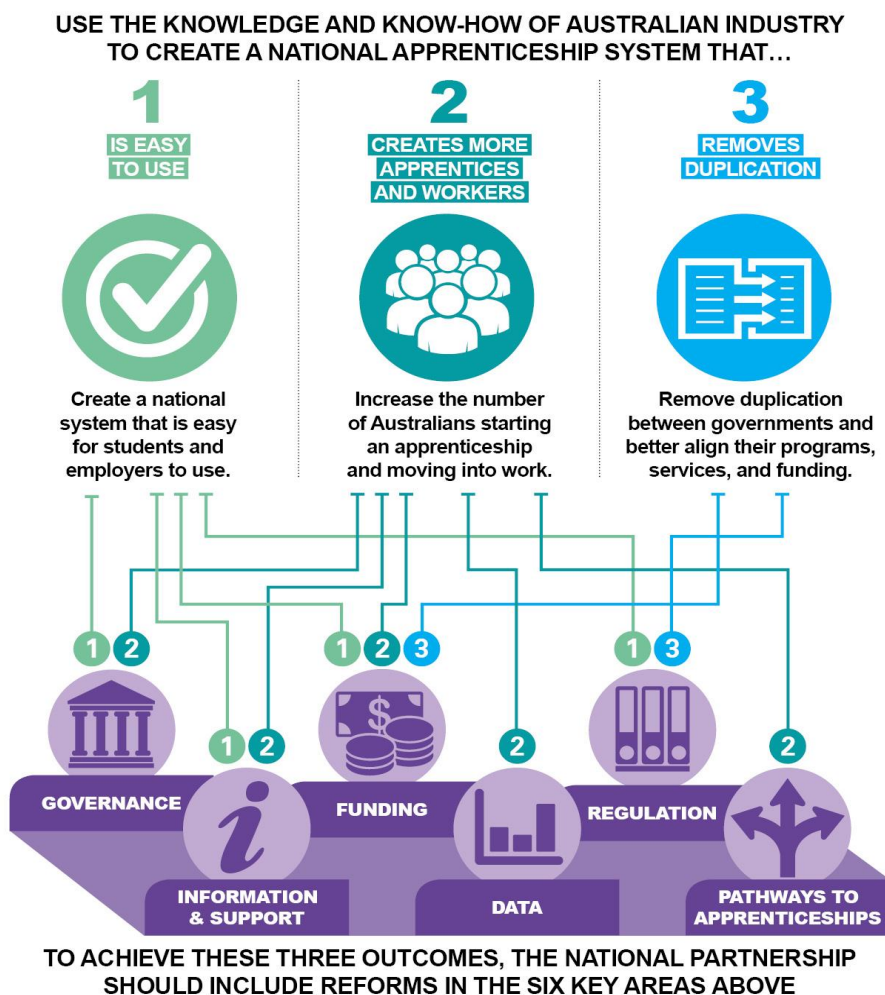
CHAPTER 6: OPTIONS TO BETTER COORDINATE AND STREAMLINE INITIATIVES

Information request 18

- Can the apprenticeships system and data collection by governments be better coordinated, or streamlined? If so, how?
- What other areas of the VET system are unnecessarily complex or inefficient? Are there any additional opportunities for governments to better streamline or coordinate their initiatives to improve the VET system?
- To what extent will fixing these issues improve the operation of the VET system?

A national apprenticeship system is needed

In 2017 the Business Council co-published a paper with the Australian Chamber of Commerce and Industry and the Australian Industry Group outlining a plan to create a national apprenticeship system.



The majority of reforms proposed in that paper are still very much needed and the relevant proposed actions across the six key areas are reproduced below.²

Governance

1. The national apprenticeship and traineeship system should be led by a National Apprenticeship Board, which is established by and reports to the COAG Skills Ministerial Council but is chaired by and comprised of industry representatives. Note: if the tripartite approach proposed in chapter 2 of this submission is adopted, the apprenticeship board could be a subcommittee of this body.
2. The Board will 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
3. The Board will review the qualifications list every six months and will assess new qualifications for apprenticeship and traineeship pathways as they are developed.
4. The Board, supported by an independent secretariat, will also have responsibility for providing policy advice to the Ministerial Council on all matters related to apprenticeships and traineeships.

Funding

1. Funding for apprenticeships and traineeships should continue to be based on demand-driven approaches reflecting employment opportunities.
2. A review is undertaken of the full costs associated with apprenticeships and traineeships (for employers, students, and government) and recommendations are developed to ensure funding is targeted at improving commencements and completions.

Regulation

1. The National Apprenticeship Board will oversee a shift to a national system removing national inconsistencies and unnecessary regulatory burdens that hinder participation.
2. The National Apprenticeship Board will develop a national set of standards for apprenticeship and traineeship regulation, and each State and Territory commit to adhering to the standards.

OR

The Commonwealth government assumes responsibility for regulation of the national apprenticeship and traineeship system.

² For additional analysis and detail please see https://www.bca.com.au/proposed_national_partnership_on_apprenticeship_reform

Information and support

Student support

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 is 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 is provided to students through third-party mentoring, including peer mentoring and utilisation of the group training framework as appropriate.

Employer support

1. Improved information is to 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 is to 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 by the training provider 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.

Data

1. The implementation of the national apprenticeship and traineeship framework needs to be underpinned by a strong evidence base and data collection through the NCVER. This data needs to be available in a timely way to better inform policy and implementation.
2. An independent review be undertaken of apprenticeship and traineeship data to determine how to ensure government and industry have access to timely data to monitor the system, assess the costs of apprentices and trainees and assess value for money of government expenditure.

Pathways to apprenticeships

1. Within the context of continuing levels of youth unemployment there is a need to clearly define and support pathways to apprenticeships and traineeships, including pre-apprenticeship arrangements and programs such as Youth JobsPaTH and other state and territory-based programs.
2. Increased opportunities need to be made available to assist employers to offer disadvantaged young job seekers apprenticeships and traineeships, and to support job seekers to access them.

3. Measures need to be adopted to facilitate greater participation by schools and employers to enable the wider implementation of the school-based apprenticeships and traineeships.

CHAPTER 7: OTHER TARGETED REFORMS

Information request 19

- If governments agree to extend programs to improve language, literacy, numeracy and digital (LLND) skills, who should these programs be targeted to?
- What is the role of the VET sector in teaching foundational skills as opposed to other sectors, such as schools?
- How can regulatory, program and funding arrangements for foundation level skills and education be improved? Can the schooling and VET sectors be better linked?
- How can funding arrangements between governments better support more efficient, effective and accessible services for disadvantaged groups?

Language, literacy and numeracy should be available to all

Language, literacy, numeracy (LLN) and digital skills are foundational skills for all jobs in the labour market. The level required depends on the job, however all residents in Australia should have government support to ensure they have the minimum level of skills and knowledge required to get a job, and progress in a career.

While the Programme for the International Assessment of Adult Competencies (PIAAC) has not been undertaken since 2011-12, it showed that only 53.2 percent of the working age population (WAP) had literacy levels at level 3 or above. Given that one of the performance indicators for the NASWD is the proportion of WAP with adequate foundation skills (literacy level 3 or above), this is troubling.

The data needs to be updated so the problem is defined, but there is no doubt there are many working aged-Australians, both in and out of the workforce, who need assistance with LLN and digital skills.

Targeting should start with a self-assessment

As noted earlier the two primary barriers to skill development are time and money. With literacy and numeracy there are two additional barriers. The first is the unknown – many individuals do not know if their skills are up to scratch, and they do not have a mechanism to make an objective assessment.

The second barrier is fear and embarrassment or shame. There is a stigma around poor LLN. People who are working and have been able to hide poor skills are loathe to expose their challenges for fear of losing their jobs.

Others are simply too embarrassed to seek help to improve their skills.

One way to get around both of these issues is to create a self-assessment tool to enable people to identify their skills gaps. A self-assessment tool is unlikely to be useful for those below a literacy level 1 but could be designed for those at levels 1 and 2.

Industry could also assist by providing options for workers to take the self-assessment in confidence, and then be a conduit for a worker to undertake the literacy and numeracy training they need to attain level 3 skills.

Literacy and numeracy are the role of schools but VET has to provide a second chance

Some people would argue that literacy and numeracy is the role of schools and VET does not have a responsibility for delivering LLN.

No young person should complete school without adequate foundation skills. However, the reality is that young people continue to graduate from school without the required skills, and a significant proportion of the working age population struggle with LLN. Additionally, there are people who come to Australia who have not had the benefit of educational opportunities. All these people must be given the opportunity to develop LLN. Without such an opportunity they will be condemned to unemployment or unskilled roles, with no chance of progression or fulfilling their potential.

A school environment is not the right place for adult learners, or learners who have previously failed to develop LLN in early education. The VET sector, or the Adult and Community Education (ACE) sector are the appropriate places for this second chance education.

Funding should be demand-driven for LLN

It is important governments use funding efficiently, but there is no incentive for an individual to undertake development in foundation skills unless it is needed. There is an incentive for providers to try and enrol people unnecessarily, and any program to improve LLN should be designed with this in mind.

There is debate about the best approach for delivering LLN – is it better to provide it as stand-alone learning, or as part of a broader training program so it is contextualised by occupational skills and requirements.

This should not be a one-size fits all model. Some learners will need to focus just on LLN, while others will be able to do it in context. The key is to make sure that LLN is available to all who need it, and that providers can adapt the delivery to the needs of the learner.

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