

Tasmanian Government Submission

**Productivity Commission: Review of National
Agreement for Skills and Workforce
Development**

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EXECUTIVE SUMMARY

Vocational Education and Training (VET) underpins the productivity of the Tasmanian economy, provides a pathway into meaningful employment for Tasmanians, and is essential to meet the demands of the future economy.

The strength of VET in Australia is in its federated structure, where national consistency and standards are supported by system flexibility to address local priorities and needs.

Tasmania's economy is growing strongly, with Tasmanian GSP growth in 2018-19 the strongest in the nation.

To continue Tasmania's growth trajectory, a range of mechanisms will be required to deliver the skills and expertise that our economy requires. Central to this will be maintaining the current high levels of involvement by local industries and employers in the Tasmanian workforce development and training system.

The Tasmanian Government has undertaken significant work to address disadvantage in the state through structural reform that ensures all Tasmanians benefit from economic growth. It is therefore important that any new model recognises and supports the critical role of public providers in small regional economies with high levels of disadvantage.

The Tasmanian Government agrees that there are opportunities for change in the VET system, particularly in raising the public perception of VET, reducing the high levels of administrative burden and complexity, and increasing local industry engagement with VET.

Any proposed changes to national VET architecture and outcomes of the Productivity Commission review of the National Agreement on Skills and Workforce Development have the potential to materially alter the VET system in Australia.

The Australian Government's reforms and any proposals or outcomes of the Productivity Commission review should align closely with the COAG Skills Council led vision and priorities, which continue to highlight the fact that VET predominantly services local industries, employers and individuals.

INTRODUCTION

The Tasmanian Government recognises the critical role of vocational education and training (VET) in supporting economic growth and enabling individuals to take up opportunities to participate and reach their full potential.

The Tasmanian Government participates in established governance processes between the Australian Government and states and territories such as the Council of Australian Governments (COAG) and Ministerial Councils, as these provide the mechanism to progress nationally significant issues collaboratively while maintaining complementarity within the federated VET system. The Tasmanian Government, along with other state and territory governments, is a shareholder in the VET system in Australia.

COAG's newly agreed vision for the VET sector clearly articulates the purpose and importance of the sector for Australia. Work continues through the Skills Council to develop reform priorities and a reform roadmap as requested by COAG at its August 2019 meeting.

The independent Productivity Commission Review into the National Agreement for Skills and Workforce Development (NASWD) comes at a timely point in the continuing improvement of Australia's effective VET system.

The Tasmanian Government has not formally responded to the Expert Review of Australia's Vocational Education and Training System (Joyce Review).

The Tasmanian Government believes that any proposed changes to the VET system should:

- focus on delivering consistent outcomes rather than consistent processes
- be mindful of the differences between jurisdictions and regions and acknowledge that a 'one size fits all' approach may not provide the best outcomes
- appropriately consider the benefits and costs of any proposed changes including at a state and territory level
- not impact the amount of training that Tasmania can support
- not inhibit the ability of the VET system to respond rapidly to local training priorities
- maintain the integrated approach to learning across the Education and Skills sectors that the Tasmanian Government has worked hard to develop
- improve access to VET qualifications for disadvantaged learners
- result in no net negative financial impact on states and territories.

Each state and territory VET system operates within its own context and it is critical that VET remains highly responsive to local circumstances, including demographics and micro-economic trends. As a result, it is likely that prioritising objectives at a national level is fraught and consensus across jurisdictions will be difficult to achieve.

THE TASMANIAN CONTEXT

Tasmanian demographic profile

Tasmania's vocational education and training (VET) system is shaped by its population size, composition and distribution. The issues faced in Tasmania are similar to other rural and remote parts of Australia which have similar population characteristics.

Tasmania is a small island state with a population of approximately 533,300¹ people. The population is one of the most dispersed in Australia, with over 57 per cent of the population residing outside the two major urban centres and 29 per cent residing outside of any major town.² This long-established population pattern has influenced opportunities available to both individuals and industry.

¹ ABS 3101.0 Australian Demographic Statistics, March 2019 (population 533,308).

² ABS 3218.0 Regional Population Growth, Australia 2017-18 (March 2019 release).

The Tasmanian population is significantly older than the Australian population. In June 2018, 19.7 per cent of Tasmanians were aged 65 years or over compared with 15 per cent nationally.³ Population projections for the next 20 years⁴ suggest that this figure will increase to 27.5 per cent by 2067, with the working age population set to decrease from 63 per cent to 56.2 per cent.

In October 2019⁵, Tasmania's unemployment rate was 6.1 per cent and the labour force participation rate was 60.4 per cent. The underutilisation rate (trend) was 17.2 per cent, the highest of all the states and territories.

Tasmania has significant levels of intergenerational disadvantage and, of all the states and territories, Tasmania has the lowest proportion of people living in the most advantaged areas (4.6%) and the highest proportion of people living in the most disadvantaged areas (37%).⁶

The combined impacts of a small and dispersed population, an ageing workforce, significant disadvantage, the lowest labour force participation, the highest underutilisation of labour in the nation, and relatively low levels of literacy and numeracy⁷ continue to present challenges for employers and industries seeking to meet their current and emerging workforce needs.

This means that Tasmania's VET system has a core role in raising education and skills levels and ensuring that the disparate population has access to relevant skills linked to local economies.

Tasmanian economic profile

Tasmania's economy is currently experiencing a period of significant growth. Gross State Product (average) increased by 3.6 per cent in 2018-19 (the strongest growth in the country) with private sector investment expenditure increasing by 1.4% over the same period⁸.

The structural transition from traditional to service sectors continues in Tasmania and strong economic growth and labour demand is projected across Tasmanian regions in a number of key industries (for example, construction in the west and north west, and health care and social assistance across Tasmania). It is conservatively estimated Tasmania needs to grow its total workforce by approximately 11,000 persons (4.5 per cent) by 2023⁹.

97 per cent of Tasmanian businesses in 2018 were small to medium sized and only 40 per cent were employing businesses (15,192 employers, only 5,504 businesses hire more than 5 employees).¹⁰ The majority of Tasmania's industry sectors have a large proportion of small to medium employers and source their workforces from their local population. Even where an industry sector may be of major importance in the context of the Tasmanian economy, such as Aquaculture, their contribution to the national accounts is small.¹¹

For Tasmania to respond effectively to local industry needs and ensure the sustainability of the current period of growth, strategic investment in vocational education that is responsive to the challenges faced by local industry and that accommodates the small size of Tasmania's training sector and available workforce is crucial.

³ ABS 3235.0 Regional Population by Age and Sex, Australia, 2018 (August 2018 release)

⁴ Tasmanian Department of Treasury and Finance, 2019 Population Projections Tasmania and Local Government Areas, April 2019.

⁵ ABS 6202.0 Labour Force, Australia, October 2019.

⁶ ABS 2071.0 Census of Population and Housing: Reflecting Australia – Stories from the Census 2016; November 2018.

⁷ ABS 4228.0 Adult Literacy and Life Skills Survey, summary results, Australia, using Programme for the International Assessment of Adult Competencies (PIAAC) 2011-2012.

⁸ ABS 5220.0 Australian National Accounts 2018-19.

⁹ Australian Government Department of Jobs and Small Business. 2018 Employment Projections. Regional projections to May 2023.

¹⁰ ABS 8165.0 Counts of Australian Businesses, including Entries and Exits, June 2014 to June 2018, Businesses by Industry Division by Statistical Area Level 2(a) by Employment Size Ranges, (latest release).

¹¹ BDO EconSearch, Australian Fisheries and Aquaculture 2017/18: Economic contributions Estimates report, 30 September 2019.

Tasmanian training sector

Tasmanian demographic and economic characteristics present specific challenges to the state and affect its capacity to deliver the training required to maintain and grow the Tasmanian economy as a whole.

Training providers are often faced with small, dispersed, markets making economies of scale difficult to achieve. This means larger training providers from other states and territories are often reluctant to deliver in Tasmania and the fee-for-service market is comparatively small. In 2018 the fee-for-service market represented only 25 per cent of total activity¹² in Tasmania.

In 2018 there were 128 registered training organisations (RTOs) contracted to deliver government-subsidised vocational education in the state, including the single public provider. Many of the remaining RTOs deliver in specialist areas in which the public provider has limited capacity or experience. Private VET providers operating in Tasmania are often very small businesses employing only a few staff. Their operating margins are usually extremely tight and they are particularly sensitive to additional costs caused by system changes and the regulatory burden.

The characteristics and small size of Tasmania's population, industry sectors, and VET sector also creates inconsistent demand for, and supply of, trainers and assessors.

Periods of boom in industry mean that trainers often return to industry to take advantage of increased wages. At the same time, attracting new trainers becomes even more difficult and demand for training in that industry may be increasing. This issue is sometimes exacerbated by competitive funding systems that encourage casual and sessional employment. Retaining quality trainers within an RTO, and quality RTOs within the sector, particularly those that can deliver training in niche qualification areas, is becoming more difficult and more costly.

Issues such as these mean that Tasmania is highly dependent on both the public provider and the capacity to inject stimulus funding to meet changing skills demands.

Appropriate and consistent government investment in VET, and the capacity to inject funding quickly in response to micro-economic changes, is the cornerstone of the success of the Tasmanian VET system.

VET in Schools

In Tasmania, VET in Schools is predominantly delivered by a public RTO, which has an understanding of both the needs of the students and the schools as well as the needs of industry and employers.

With direction from local industry and employers, states and territories should retain the ability to contextualise VET in schools as part of the broader education responsibilities. This includes individualised career education and pathways into future employment, training and education.

Any new funding framework for VET in schools needs to recognise the Australian Government's role as a minority funder of VET in schools, and support a base level of access to VET in schools, particularly in regional and remote Tasmanian schools and communities.

VET IN TASMANIA

Tasmania supports the Australian Government's commitment and involvement in matters of genuine national interest.

For Tasmania, increasing labour force participation and maximising the efficiency of local businesses will maximize productivity dividends to the Commonwealth and is therefore in the national interest.

This is reflected in the *Intergovernmental Agreement on Federal Financial Relations (IGAFFR)* which recognises that national goals can only be achieved if they are implemented in reference to local conditions:

¹² NCVET Total VET students and courses 2018, data slicer, latest data available.

“...the States have primary responsibility for many areas of service delivery but that coordinated action is necessary to address Australia’s economic and social challenges.

It aims to improve the quality and effectiveness of government services by providing the States with increased flexibility in the way they deliver services to the Australian people, clarify the roles and responsibilities of each level of government and improve the accountability for the achievement of outcomes.”

Strengths of the VET system

As an agreement that links to the core intent of the IGAFRR, the Tasmanian Government considers that the objectives of the NASWD remain sound and reasonable.

The federated model of shared responsibility between the Australian and state and territory governments enables the development of skills that are consistent and transferable at a national level in a way that is flexible and responsive to local needs.

Tasmania’s training outcomes (in terms of employment after training) are above the national average¹³, with 88.4% of government-funded VET graduates in 2017 employed and/or in further study after training. This can be attributed in large part to the capacity to implement broader national directions with local specificity, as well as the strengths of our industry partnerships.

The Tasmanian Government recognises that local industry involvement in training, from fostering trainers and assessors to clarifying skill needs and developing new skills products, is fundamental to the health of the Tasmanian VET system. The strength of the Tasmanian Government’s partnerships with industry representatives means that the VET system can respond to evolving skills needs in real time.

Tasmania’s VET system can be largely characterised as a thin market. As noted, student numbers are comparatively low and are spread over multiple qualifications in multiple regions. As a result Tasmania is heavily reliant on a public provider that has presence in rural, remote and outer regional areas and that is supported to deliver training where the private market cannot.

The Tasmanian Government believes that, on balance, Australia’s VET system is a positive national asset that should continue to be refined and developed for the benefit of individual learners, employers and industry, to drive local and national economic development.

However there are some elements of the VET system that have been long-standing and often recurring impediments to the effective achievement of the system’s outcomes and goals.

Issues in the VET system

There are four key areas that hinder the effectiveness and efficiency of the VET system in Tasmania.

Public perception of VET

Both industry and training providers agree that work needs to be done to improve the overall perception of VET in comparison with higher education.

The VET FEE-HELP funding and regulation issues compounded the pre-existing perception of VET (although these issues were not experienced as acutely in Tasmania as they were in other states and territories) as a “lower value” choice, continues to affect career choices of both school leavers and existing workers, and contributes to skill shortages in a number of industry sectors and occupations.

¹³ NCVET National Student Outcomes Survey 2018 – summary of results related to employment after training, latest release at time of writing.

The Australian Government's response to the VET FEE-HELP issue included building Australian Skills Quality Agency (ASQA) capability and improving its regulation framework. Although this has achieved measureable progress in stemming corrupt and poor behaviour, there is still room for improvement.

Nationally, ongoing media focus on poor or corrupt providers, although of public importance, unfortunately also serves to detract from the impressive outcomes of the VET sector as a whole. This includes consistently high satisfaction rates by both employers and students, strong outcomes in terms of employment – notwithstanding the ongoing impacts of the Global Financial Crisis (GFC) and the current stagnation of wage growth nationally – and a high degree of engagement with VET by the population, employers and our industries.

In the future it will be increasingly important for the three distinct education sectors (schools, VET and higher education) to work collectively and collaboratively in the national interest to maximise skill development and employment outcomes. The ongoing poor public perception of VET will impact our capacity as a nation and in Tasmania to achieve this change.

Each sector largely operates independently from the other, and a lack of coordination and consistency in approach impacts the level of engagement (by both individuals and employers) with education and training as a whole.

The Tasmanian Government has made significant steps to improving this at a state level, however continuing disconnection is the result of the radically different way in which VET is regulated, managed, and funded compared to the other two sectors.

The Tasmanian Government welcomes the announcement of the recently created Australian Government Department of Education, Skills and Employment as one means of achieving greater policy integration.

Emphasis on compliance and activity measures

The Australian VET system is increasingly characterised by granular measurement of activity, rather than a focus on desired and actual outcomes.

At the national and state level this includes the tendency by the Australian Government to hold states and territories to account for quantity of activity and service delivery by linking these with budget input controls and payments, and a reluctance to collaboratively support state initiated programs with proven outcomes or that trial innovative approaches.

Australian Government programs tend to be introduced over the top of existing, long-established state based programs: this leads to inefficiency, duplication, reduced reach, low uptake and limited outcomes, alongside a disproportionate reporting burden on states.

The response to the VET FEE-HELP issues also intensified the compliance focus of on-the-ground delivery: from overly detailed regulatory requirements for RTOs to the excessively granular reporting required to demonstrate competency in large and cumbersome training packages. This attempt to manage quality issues through compliance based micro-management has created an impracticable level of administrative burden at both the RTO and trainer/assessor levels.

Measuring activity and adherence to compliance based tasks does not translate into quality, nor does it demonstrate the achievements (or other) of the VET system. In fact, with increasing complaints raised by providers, industry, employers and students, it is clear that this compliance based approach has not achieved its desired intent.

In Tasmania the impact of this approach has been particularly felt by our private providers, who have less capacity to manage the large burden of administration, and has resulted in their limiting or decreasing their scope and, in some cases, exiting the market. This has serious implications in Tasmania's narrow training market and has also been a key impediment to attracting and retaining trainers and assessors.

At all levels the focus on activity over outcomes, particularly where linked to funding, stifles innovation by limiting the injection both of funding and hindering new approaches that encourage non-standard, creative and responsive approaches to vocational education.

Current consideration of some of these issues through the Council of Australian Governments (COAG) Skills Council, as well as through the Australian Government's VET Reform agenda, are welcomed. These initiatives include the streamlining and rationalising of qualifications and the improvement of training package development processes and products.

However the continuing tendency to associate compliance focussed activity as a proof of quality or effort risks undermining the strengths of the VET system both at national and local levels, and the capacity to inject innovation and stimulus into the system when needed.

Industry engagement

Tasmania is strongly supportive of increased local industry engagement in the VET system. A persistent challenge is to ensure that industry is able to participate in a meaningful way to ensure the training system is responsive to changing industry needs.

The existing model of training product design, development and review, although sound in concept, relies heavily on limited points of industry representation and has varying levels of success in representing sectors where there are diverse training needs. Tasmania's industry sectors are composed primarily of small and micro businesses, potentially having vastly different needs and perspectives, making adequate representation difficult.

Relying on national representative bodies to accurately represent Tasmanian experience is problematic and results in a lack of a nuanced response to regional and local issues.

Tasmania engages effectively with industry groups through its Strategic Community and Industry Partners consultation framework. The state also supports industry to develop training and workforce development plans at state and local levels, followed by programs to implement those plans.

For industry and employers to have confidence in the VET sector, there needs to be consistency of training delivery and assessment so that employers are assured of the skills and competencies of persons with a particular qualification. Involving local industry and employers in the development of the trainer and assessor workforce could go towards improving the extent to which training meets the needs and expectations of industry, both in terms of its relevance to the local environment and in terms of training delivery.

It is of note that the quality of VET training and assessment overall has been increasingly questioned at the same time as training packages have increased in complexity and as regulation has increased the compliance burden. Reducing the complexity and burden of regulation and simplifying and streamlining training packages is likely to facilitate better engagement and understanding at local industry and employer level.

Relevant initiatives undertaken through COAG Skills Council and proposed in the Australian Government's VET reforms (for example, simplification of training packages and the development and supply of assessment tools) is to be welcomed.

VET funding in Tasmania

The types of VET activity funded by the Tasmanian Government are largely consistent with other states and territories; however the proportion of spending on activity types and specific qualifications varies due to the distinct nature of Tasmania's challenges.

The high costs associated with ensuring access to training and delivering training to a dispersed population with higher levels of disadvantage means that the Tasmanian Government invests a significantly higher proportion of funding into its VET system than other states.

In 2018, Tasmanian Government recurrent funding into the Tasmanian VET system accounted for 72% of total VET expenditure. The remaining funding consisted of the Australian Government Special Purpose Payment (22%) and National Partnership funding (6%). This is the second highest proportion of state/territory government to Australian Government funding in the country, after the Northern Territory (80%).¹⁴

¹⁴ NCVER, Government funding of VET 2018, December 2019.

The untied Australian Government funding (SPP) allows Tasmania to focus on base-level skills priorities as well as the immediate demands of industry. This is directly linked to the priority outcomes of increased labour force participation and increased workforce capacity and capability of local businesses.

Australian Government funding through National Partnerships is tied to specific activity and national generalised priorities, and while a valued investment, does constrain local flexibility and responsiveness and imposes additional restrictions on Tasmania's strategic investment.

The Tasmanian Government is both the primary investor in VET in the state and, through its public provider, the primary provider of VET.

Funding within the Tasmanian VET system is entirely demand driven, responsive to employer needs, and current policy settings impose very few restrictions or limitations. Non-apprenticeship training delivered by the private RTO sector is again directly linked to demonstrated employer demand and funding is allocated through a competitive process that focusses on achieving highest quality outcomes, for the greatest need, at the most appropriate price.

Any review of the way VET is funded in the future needs to be designed to support the ambitious reform agenda through COAG.

Demand for VET is increasing. Increased Australian Government investment is required not just for training delivery, but also to build and develop the trainer and assessor workforce, and for the development and delivery of new training products to meet future skills needs. The associated need to raise the overall education and skills levels of the population to meet global and technological changes is a transformative project and of significant cost.

Tasmania has limited capacity to raise additional revenue through fees. Thin markets, a high proportion of disadvantage in the population, and lower average wages increase Tasmania's reliance on the community service obligations of its public provider and limit the capacity for increased revenue sourced from individuals or employers.

A national efficient cost under these conditions has implications for the quantity of training able to be delivered in Tasmania and may restrict the capacity for Tasmanian Government investment into workforce capacity building, both for immediate industry needs and for the broader educational and skill goals of the state and nation.

As the primary investor into the Tasmanian VET system, the Tasmanian Government expects the flexibility to continue to support its priorities, namely: increasing education and skill levels across the dispersed Tasmanian population and supporting local economies, industry and employers, which all in turn contribute to national productivity.

