Submission to the Productivity Commission’s Interim Report on the Review of the National Agreement on Skills and Workforce Development

I have held a variety of roles in the VET sector. Within different state government agencies and at the national level I have had responsibility for VET regulation, statistics, research, training products and both strategic and educational policy. Given the focus of the Commission’s inquiry on the next VET funding agreement, it is also relevant to note that I was seconded by the Commonwealth to assist with negotiations on an earlier VET funding agreement with the States and Territories.

In my time in the TAFE sector I had responsibility for planning and performance reviews of TAFE NSW Institutes and Institute Directors. Prior to that I worked in a senior position in a national, not-for-profit organisation providing community and employment services, as well as VET. More recently I was the CEO of the peak body for 1,100 independent VET and higher education providers (now ITECA).

Today I advise institutions, investors and a range of stakeholders and consultants on policy, funding and regulatory changes in VET, higher education, international education and the emerging EdTech sector. I am a non-executive director of national apprenticeship provider MEGT and a member of the advisory board of technology services company HSD. I am the Australia analyst for HolonIQ.¹

To encourage discussion on the Commission’s Interim Report I have shared my views on its findings, interim recommendations and options in a variety of formats and with different audiences.²

I am pleased to offer this submission to the inquiry.

Claire Field

¹ HolonIQ’s clients include governments, tertiary education institutions, investors, technology companies and other education stakeholders. HolonIQ has developed comprehensive databases of global investment in education, as well as a range of other intelligence. They are supported by analysts and experts in six continents, publishing over 200 research notes and long-term forecasts each year https://www.holoniq.com
## Contents

Insights on VET funding reform under the current agreement.................................................................3
VET students ................................................................................................................................................3
TAFE funding ............................................................................................................................................8
Indigenous-owned organisations ...........................................................................................................10
Victorian Training Guarantee ..............................................................................................................11
Capacity of the public service .............................................................................................................12
Summary ..................................................................................................................................................13
Looking to the future .............................................................................................................................13
  New investors in VET .........................................................................................................................13
  EdTech..................................................................................................................................................14
Commission’s Interim Findings ............................................................................................................15
  Interim Finding 2.4 — The NASWD needs replacement .................................................................15
  Interim Finding 4.2 — Price controls are inefficient .................................................................16
  Interim Finding 4.3 — Jurisdictions’ approaches to subsidising courses .......................................16
Commission’s Recommendations and Options .............................................................................17
  Interim Recommendation 6.2 — Price controls should be removed ...........................................17
  Interim Recommendation 6.3 — Improving investment in public provision ..................................18
  Option 6.1 — Scope for more nationally-consistent course subsidies .......................................18
  Option 6.3 — Switching from supplier to customer subsidies .....................................................19
  Option 6.4 — A larger role for income contingent loans ............................................................21
Insights on VET funding reform under the current agreement

The Commission has done an excellent job of identifying many of the problems with current VET funding arrangements, as well as issues with earlier VET funding reforms. As the Commission correctly identifies the problems are legion.

It is extremely disappointing that some jurisdictions were less than forthcoming in sharing data with the Commission. It is almost certain that the Commission would have found more problems in the system’s current funding arrangements if all jurisdictions had fully cooperated with this inquiry. The fact that they chose not to necessarily has an impact on the Commission’s proposed recommendations and options. In turn that serves to undermine the likely success of any future reform of VET.

In reflecting on the Commission’s findings, and in the absence of a comprehensive dataset being made available to the Commission, I have drawn from my experience in the sector to provide additional context on some key policy and funding decisions and to highlight the likely impact of reforms on students and providers.

My comments on the Interim Report’s findings specifically cover: VET students, TAFE funding, encouraging more Indigenous owned organisations, lessons from the Victorian Training Guarantee, and the capacity of the public service to deliver VET funding reforms.

VET students

I strongly support the Commission’s view of the student as the VET ‘customer’ (however much, as an educator, I might not like the specific term ‘customer’ being used to refer to learners). Leaving that to one side, in VET we have tied ourselves in knots for years trying to put both industry and students at the heart of the sector. It has confused policy making as well as sector governance and added unnecessary complexity to the system, to the point where VET is becoming noticeably less responsive to the needs of employers (as the Commission identified with both declining graduate employment rates and a decrease in the proportion of graduates getting an improvement in their employment status after finishing a VET qualification).

I expect employer groups will not support the Commission’s emphasis on the student. I note though that the higher education sector produces engineers, doctors, accountants, and graduates for a range of other professions. Each of these professions has direct input into the design of higher education courses, but engineering firms, hospitals, accounting practices and the like do not see themselves, and are not seen, as customers at the heart of the higher education system.

Instead the professions see themselves as stakeholders in higher education. Their role is clear and it is also clear that the higher education system only works if institutions produce employable graduates. By making this distinction between students and employers the higher education sector has a clear purpose: teaching students (and conducting research).

In VET, governments should follow the Commission’s lead and recognise that vocational education is part of the education sector focussed on teaching individuals new skills and knowledge, and that it works with industry to ensure VET course content covers the requisite skills employers need.
In placing students at the heart of the VET system, it is important to recognise that not all students have the same experience in VET.

Some people from disadvantaged groups (for example people with disability) do not yet have ‘equitable access’ to VET and this needs to be addressed as a matter of urgency. Access on its own though is not enough. If the VET sector is to “put the customer at the centre” then it needs to understand who its customers are and then take an active role in reducing disadvantage. Specific policy and funding interventions (backed up by monitoring and reporting) will be required if the focus on the customer as well as the principle of equitable access are to be realised.

Aboriginal and Torres Strait Islander students
Aboriginal and Torres Strait Islander peoples are much more likely to enrol in VET than in higher education. They also have higher levels of VET participation than non-Indigenous learners.

Unfortunately equitable access only tells part of the story. When compared with non-Indigenous students Aboriginal and Torres Strait Islander peoples are much more likely to be enrolled in lower level VET courses, to have lower VET completion rates and poorer post-VET employment outcomes.

In his March 2019 report, former New Zealand Minister, Steven Joyce, highlighted these issues and recommended the Commonwealth, States and Territories needed to “specifically measure levels of enrolment, progress and outcomes for Indigenous learners at relevant funded Registered Training Organisations as part of a new Commonwealth-State vocational education funding agreement.”

Not only are Aboriginal and Torres Strait Islander learners missing from the Commission’s Interim Report, there was also no mention of them in the draft VET reform roadmap.

The good news is that Aboriginal and Torres Strait Islander graduates who complete a higher level VET qualification (Diploma and above) have similar employment outcomes to non-Indigenous graduates.

The very concerning news is that Aboriginal and Torres Strait Islander women who complete lower level VET courses (Certificates I to IV) have much lower employment rates than Indigenous men and non-Indigenous graduates of the same qualifications.

The third Joint Council meeting on Closing the Gap has as its first national priority “developing and strengthening structures to ensure the full involvement of Aboriginal and Torres Strait Islander peoples in shared decision making at the national, state and local or regional level and embedding their ownership, responsibility and expertise to close the gap”. The fourth priority is “ensuring Aboriginal and Torres Strait Islander people have access to, and the capability to use, locally relevant data and information to monitor the implementation of the Priority Reforms, the closing the gap targets and drive local priorities.”

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The draft Closing the Gap target for Aboriginal and Torres Strait Islander peoples’ tertiary education attainment is for 47% of Aboriginal and Torres Strait Islander peoples (aged 20-64 years) to have completed Certificate III or above, including higher education, by 2028.8

If this target is to be achieved and Aboriginal and Torres Strait Islander peoples are to be given the data they need to monitor progress, then the next Commonwealth-State VET funding agreement must include a specific focus on Aboriginal and Torres Strait Islander students.

**Rural, regional and remote students**

As the Commission notes in its Interim Report, there has been a significant decline in completion rates for learners in remote and very remote areas over the last decade.

As the recent review of rural education led by former Victorian Premier, Dennis Napthine, identified: there are fewer VET study options available in rural, regional and remote areas, learners from these areas are less likely to be prepared for tertiary education, there is insufficient targeted support for equity groups in these areas, the contribution of rural, regional and remote Australia is not being maximised, and there is a lack of a national focus and coordination for rural, regional and remote education.9

Recommendations of the report of the Napthine Review with particular relevance to VET include:
- improving access to high quality VET programs in rural, regional and remote areas
- establishing aspiration-raising initiatives covering both VET and higher education
- expanding access to high quality VET programs in rural, regional and remote schools.

If Australia is to seriously act on the findings and recommendations of the Napthine Review it must embed a specific focus on rural, regional and remote students in the next Commonwealth-State VET funding agreement.

**Learners with disability**

The last time a statistical compendium on learners with disability in VET was compiled was 15 years ago.10 The last time there was a specific review of research on this group of VET learners was in 2011.11

In 2005 people with disability had the lowest levels of educational achievement and employment outcomes from VET. With no specific programs or emphasis on this group of VET learners in the interim (despite the rollout of the National Disability Insurance Scheme) it is unlikely that their circumstances have greatly improved.

In the latest data on VET students and courses only 4.1 percent of VET students identified as having a disability.12

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8 [https://closingthegap.niaa.gov.au/draft-targets-for-discussion](https://closingthegap.niaa.gov.au/draft-targets-for-discussion)
Some people with disability choose not to identify as such when enrolling in VET and others have a disability which precludes them from tertiary education. Nonetheless the proportion of VET students reporting a disability is well below the number of people aged 15-64 years in Australia reporting a disability (13.1%).

In terms of the VET outcomes for people with disability, we know that smaller providers (with fewer than 100 students) are more likely to enrol learners with disability. Regrettably because of their size, the work that these providers do (and the outcomes achieved by learners with disability studying with these providers) is missing from a key part of the VET statistical collection, the VET Student Outcomes Survey. That means that our understanding of how well VET focuses on customers with disability is necessarily partial.

Disappointingly there is no mention of people with disability in the Commission’s Interim Report. This group of learners has significantly lower levels of access to VET and this must be addressed as an immediate priority. In addition, the next Commonwealth-State VET funding agreement must include better data on people with disability and their outcomes, and then use this data to ensure they benefit as other learners do from their VET studies.

Women
I have written elsewhere on the lack of women in the Commission’s report (just five mentions in 322 pages). While women as a whole are no longer a disadvantaged group in tertiary education (with higher rates of participation in higher education than VET and better graduate salaries as a consequence) there are different groups of women who are disadvantaged when it comes to access and opportunity in the VET system and in terms of the post-VET outcomes they achieve.

Furthermore, the lack of an evidence base which recognises differences within and across the VET student cohort, may potentially be leading to funding decisions which exhibit gender bias.

Due to the complexities in VET funding it is difficult to determine if a gender bias exists in funding for State and Territory programs but real problems existed in the original design of the VET Student Loan scheme. Specifically the VSL scheme made more generous loans available for courses leading to male dominated occupations with no apparent evidence base behind these decisions. This made it more difficult for women to receive adequate funding (loans) for the courses they wished to study and meant either the quality of their VET delivery was compromised or they faced higher upfront fees not covered by the loan cap.

As the Commission notes there are loan caps in the VSL scheme which determine the amount of funding students can borrow towards the costs of their courses. The government claimed that loan caps were calculated “based on (the) cost of delivery”.

I am unaware of any publicly available showing how the ‘cost of delivery’ was calculated. Rather many providers expressed concerns about the inadequacy of the caps for certain courses and it is

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13 https://www.abs.gov.au/ausstats/abs@.nsf/MainFeatures52018
15 To ensure ‘acceptable’ response rates, providers with fewer than 800 students are excluded from the survey.
16 This is because women in VET tend not to be studying traditional ‘male’ trades which attract higher salaries and instead work in poorly paid, feminised, industries including childcare, aged care, nursing, hairdressing, etc.
17 For example those from culturally and linguistically diverse backgrounds, those who are single parents, etc.
likely this was a factor behind the under-utilisation of the VSL scheme (ie the loan caps being inadequate to meet the costs of many of the courses).

The number of units of competency in a qualification has a direct relationship to course costs. New units typically require new equipment, potentially new facilities, potentially new trainer expertise, new course materials and the course is likely to take longer to teach. Research independently commissioned by Niche Education in 2019\(^1\) showed that Band 2 courses in the VSL scheme typically contained more units than courses categorised at Band 3 – but Band 3 courses received the more generous loans.

**Units of competency per course by loan cap band (2019)**

- **Band 3**
  - Diplomas: median number of units 14
  - Advanced diplomas and above: median number of units 14.5
- **Band 2**
  - Diplomas: median number of units 17
  - Advanced diplomas and above: median number of units 15
- **Band 1**
  - Diplomas: median number of units 12
  - Advanced diplomas and above: median number of units 12.5

Using ABS data on the gender profile of employment in each industry and matching that with the industry profile of each VSL-approved course shows that courses which were eligible for the most generous loans (Band 3) were most likely to lead to male-dominated industries, while course leading to work in female-dominated industries were more prevalent in Bands 1 and 2.

That is – course length and the number of units (as proxies for course costs) were not correlated with decisions about loan caps but the gender of the industries the courses led to appeared to be a factor.

**Figure 1: VSL-approved courses by band by industry gender employment profile (2019)**

[Figure showing gender makeup by band]

After this analysis was published, and with concerns also being expressed by States and Territories about the performance of the VSL scheme, in November 2019 COAG announced a review of the VET Student Loan scheme.


Page 7 of 22
On 20 January 2020 the Commonwealth made changes to the scheme via legislative instrument. While the Minister makes changes each year (to add a small number of new courses to the VSL-approved list and to remove superseded or deleted qualifications), this year the changes were significant and explicitly addressed the issue of longer courses having lower loan caps.

Specifically the changes moved:
- 33 courses from Band One (a maximum loan of $5,264) to Band Two (a maximum loan of $10,528), and
- 64 courses from Band Two to Band Three where students can access loans of up to $15,793.

It is pleasing that the Commonwealth recognised these gender-biased flaws in the design of the VSL scheme. It is disappointing that it took an independent VET provider to fund their own expert analysis to demonstrate the problems and their impact.

The new National Skills Commission will hopefully take a more transparent and evidence-based approach to determining the cost of VET delivery. However if the sector treats all 4.1 million students as an homogenous group we lose sight of the impact of different decisions on different groups of learners.

TAFE funding

The role of TAFE
It is disappointing but perhaps unsurprising that in its Interim Report the Commission seems to treat TAFE as just ‘another’ VET provider. The fact that most State and Territory governments as owners of TAFE do not articulate a specific role or purpose for their training provider is no doubt a contributing factor to the Commission’s approach.

To my knowledge only the NSW government has attempted to outline a vision for their TAFE system. I find the document a little imprecise but nonetheless I consider that other jurisdictions should attempt to articulate what vision they have for their TAFE systems, what they want TAFE to do and how and why it is different from other VET providers.

Is TAFE merely a ‘provider of last resort’, to help governments manage thin markets? It appears that this may be the Commission’s view when it recommends the market testing of TAFE’s community service obligations.

My experience is that there are a range of ways in which TAFE plays a broader role in communities than just delivering training. I think there is merit in considering the role of TAFE through the lens of public institutions “delivering public value”. I appreciate that to date there are only a small number

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22 Even if this is the only role for TAFE I would be concerned for people living in remote areas or using TAFE in other ‘thin markets’ (eg specialist courses with small number of students enrolling) if the market were the only solution. Obviously governments can contract the private sector to deliver training including in thin markets but there are a number of issues with this approach which others have articulated well, for example https://www.centreforpublicimpact.org/terry-moran-speech-oration-honour-jim-carlton-ao-next-long-wave-reform-will-ideas-come/
of examples of the use of public value in a funding context (in the United Kingdom and New Zealand). Nonetheless if we want strong public institutions which can operate effectively and we also want to continue to offer students choice in the VET provider they study with – then it is worth considering how TAFE funding might be conceptualised in a public value framework.\(^\text{23}\)

With no explicit role articulated for TAFE and little transparency in its current funding it is not just increased contestability which creates challenges for the TAFE sector. As the Victorian Auditor-General’s recent report\(^\text{24}\) on TAFE funding and performance highlights – governments publicise new funding announcements for their TAFE Institutes but do not typically discuss any withdrawal of funding for TAFE, nor the requirements placed on TAFE Institutes to at times pay unfunded salary increases to their staff (increases negotiated by governments rather than Institutes themselves).

Victoria is not alone in having issues in its TAFE funding, although the structure of TAFEs in different jurisdictions can inhibit the relevant Auditor-General’s ability to scrutinise their financial accounts. See for example the December 2019 report\(^\text{25}\) from the NSW Auditor-General which states that following a Machinery of Government change in the NSW public service, TAFE NSW and another education agency were now “exempted from reporting arrangements as their activities, which solely comprise employing the staff for the relevant parent entity, are reported in the parent entity’s consolidated financial statements.” The report noted that at 30 June 2019 TAFE NSW had revenue of $1.7 billion and expenditure of $1.9 billion.

With TAFE receiving approximately 75 percent of all government funding for VET and training half of all government funded students\(^\text{26}\) – the success of the next Commonwealth-State VET funding agreement will need to properly understand the role of TAFE and ensure it is adequately funded for that role.

**TAFE funding within Commonwealth-State funding agreements**

The Commission identifies that the NASWD has not achieved its objectives. In fact nor did earlier agreements. In some cases this was in part because of the opacity of TAFE funding and a significant portion of the additional funding committed by jurisdictions for extra training places being spent instead on TAFE salary increases (without the Commonwealth’s knowledge).\(^\text{27}\)

Clearly salary increases need to be paid but because they are not explicitly factored into the Commonwealth-State VET funding agreements they diminish the amount of additional funding States and Territories really have available to fund new training places.

If, as has happened in the past, additional funding which a state or territory claims to be investing in their VET system (as a means of triggering additional funding from the Commonwealth), is actually used to pay their TAFE teachers more rather than to fund extra training places – then the jurisdiction will not be able to achieve the additional training places expected. Alternately, to get closer to the

\(^{23}\) I first came across the concept of public value in the Executive Masters of Public Administration I undertook through the Australia and New Zealand School of Government (ANZSOG) in the mid-2000s. In the more than a decade since then it is disappointing that a concept agreed to by all Australian governments as being critical for all future leaders in the public service to understand and deploy, remains poorly used and understood within these same governments.


\(^{27}\) This will be an issue for consideration by the Commonwealth as they negotiate the $500 million contribution from States and Territories as part of the JobTrainer program.
target number of new places without all of the additional expenditure notionally allocated, jurisdictions may temporarily require their TAFE Institutes to go into deficit, or require them to fund some of their operating expenses through substantial increases in fee-for-service activity (in effect cross-subsidising additional government training places), or the jurisdiction will reduce the subsidy levels paid to non-TAFE providers for the training places they deliver.

The Commission and indeed governments may consider some of these activities to be useful within a market context (eg greater efficiencies in the prices paid to non-TAFE providers and/or more fee-for-service activity within the TAFE sector). The problem is that none of this activity is transparent. Furthermore the data which is available to monitor how funding is being spent (and how many additional training places are being delivered in each jurisdiction) is delayed in both its collection and reporting (as well as being reviewed and approved by some jurisdictions before its reporting to the NCVER). In addition there is a lack of publicly available data on individual VET providers. All of this means that although VET data is now timelier than it was, there can still be delays and challenges in terms of understanding where and what training is being funded.

As the recent Victorian Auditor-General’s report demonstrates TAFE salary increases are a significant additional cost which must be properly accounted for in VET funding arrangements.

**Indigenous-owned organisations**

In his Review of the Australian VET system, Steven Joyce notes that:

> Improving completion rates for courses and qualifications requires learners to be fully engaged in their learning. The Review heard concerns from Indigenous Australian stakeholders about the suitability and effectiveness of some of the training being provided to Indigenous learners. Some noted that the style of teaching and learning often did not align with students’ interests, upbringing or experiences.

> Research by NCVER suggests that Indigenous students are more successful when they are taught by local trainers and are able to engage in their learning on country and in their own language. This was supported by views heard during consultations and by experience in other countries with significant indigenous populations, including New Zealand.

> Accordingly, to improve outcomes, there needs to be a program that expands the pool of Indigenous-owned-and-led training organisations that can more easily provide the cultural setting and learning style that helps Indigenous learners succeed” (p.109).  

It is notable that among all of the Joyce Review recommendations which the government has so far supported and funded, none yet relate to improving the experiences of Aboriginal and Torres Strait Islander students.

The recommendation from Joyce for “the Commonwealth to support the development of more quality Indigenous-owned-and-led Registered Training Organisations to provide more Indigenous learners with the option of foundation and vocational training in an Indigenous cultural setting” deserves immediate attention and should be one of the initiatives included in the next Commonwealth-State funding agreement.

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Victorian Training Guarantee
The Commission’s analysis of the Victorian Training Guarantee is important not least because it puts ‘on the record’ the reality that while there was some misuse of funding by providers, the main reason why the scheme was replaced was the amount of money a genuine ‘student entitlement’ model can cost and the subsequent budgetary impact.

There are a few additional issues related to the design of the scheme which are worthy of further exploration, particularly in light of some of the Commission’s interim recommendations and options. These include the lack of expertise in the public service when it came to administering the scheme (which I have dealt with in the next section) and the lack of information available to the public to help them make good choices in which courses and providers they used their entitlement with. I note that the provision of meaningful information to prospective students remains an issue in VET. Other issues which are explored here are the impact on individuals of poor choices (of courses or providers) and the impact on providers themselves.

The impact on students and providers can be explained by examining training for the fitness industry and the introduction of the VTG.

Fitness training
The introduction of the VTG triggered a flood of providers with no history in the fitness training sector suddenly purchasing a few barbells, receiving regulatory approval to offer fitness qualifications, and then being able to enrol government funded students.

The funding rates for fitness training were generous and the set-up costs were low. Almost overnight there were thousands of extra students undertaking fitness training for jobs in gyms which had no vacancies. When (as the then head of the peak body for private providers) I raised my concerns with the senior public servant responsible for the program I was told not to worry and informed that there were “public health benefits” in thousands of people studying fitness. The problem is of course that students who had studied these courses but did not go on to find work in the fitness industry had ‘used’ their entitlement and could not access another course at the same AQF level (unless they were unemployed).

The impact of the scheme on public and private providers was equally severe and significant. Much of the focus of debates about the VTG have focussed on students choosing private providers over TAFE and funding following the students. This in turn created substantial problems for many TAFE Institutes. Their higher employment costs and less flexible IR arrangements made it more difficult for them to shift their training profile. Their higher salary costs meant they typically also had less money to spend on marketing to compete with providers which spent more on marketing and (some at least) less on training delivery.

What is not well recognised is the impact of the reforms on established fee-for-service providers with decades of experience offering training to the fitness industry. With students prepared to pay for their courses prior to the introduction of the VTG and strong employment outcomes for their graduates because of their close links to industry – these providers saw their businesses suffer by the rush of VTG-funded providers delivering fitness training and students looking for free training. These established providers subsequently moved into government-funded VET to try and keep their businesses afloat even though the level of VTG funding was lower than the fee-for-service revenues they had previously earned.
Of course, when the government started to ‘rein in’ the costs of the VTG scheme (in part by reducing the subsidy rates for fitness courses) – the new fitness providers shifted to other courses with more generous funding rates. The VTG-funded fitness courses were no longer financially viable for the long-established fitness providers to deliver, and they were left to try and rebuild their fee-for-service operations in a market that had experienced free training, where stories were emerging of problems with government-funded fitness training, and where new students were now much more reluctant to pay for training.

In short the manner in which fitness training was publicly subsidised under the VTG was a disaster for reputable, experienced private providers, for many TAFE Institutes and crucially for many students. It should serve as a lesson (along with the other known problems in the design and implementation of the VET FEE-HELP scheme among other reforms) that good policy intentions can have unintended consequences and that these have real impacts on both individuals and training providers.

Capacity of the public service
As the Commission notes, the capacity of the public service to administer contestable funding programs is a critical factor in their success or failure. To date there have been problems at the Commonwealth level (notably in the administration of the VET FEE-HELP scheme) but less well discussed has been the consequence of that public failure – that is the overly restrictive arrangements introduced in the VSL scheme which has seen it seriously underperform and deny students access to learning.

The same is true at the State-level. The South Australian government followed the Victorians in introducing a contestable funding scheme. Determined to do it differently from the Victorians and better manage funding to providers in an entitlement model – the South Australian government costed every individual unit of competency and designed an elaborate set of arrangements. That did not prevent them imposing enrolment limits on courses at short notice as students and providers enrolled in courses the State did not consider a priority and avoided other courses which were deemed priorities. Preventing providers enrolling new students at short notice after months of planning and investment led many providers to lose money and lose confidence in the South Australian arrangements and ultimately, like the VTG scheme, it was eventually replaced.

New South Wales is another study in contrasts. It was among the last of the States to introduce a contestable funding model (as required under the NASWD). It was determined not to repeat the mistakes Victoria had made with the VTG and spoke publicly about this. Instead it developed an algorithm that had its own unintended consequences. In the first year of the Smart and Skilled funding scheme all (then) 10 TAFE Institutes competed needlessly against each other in geographic areas where only an individual Institute had previously delivered, the scheme withdrew funding from providers it had funded for years in regions where their training was highly valued and where the Department knew they were doing a good job to instead give it to providers which had never delivered in the region previously, and it provided so little funding to some providers in geographic regions they had not applied for and had no premises in that they were forced to exit the sector.29

29 Half of one subsidised place was the lowest level of funding I heard that a provider had received but many providers reported receiving funding for literally only a handful of students in only one course – with no thought given to how the places could be advertised nor the administrative burden of receiving such a small amount of funding relative to the paperwork involved.
The Department eventually conceded the problems and remedied them through changes to the scheme rather than its replacement.

Introducing more contestability and choice is not a bad idea in and of itself but history shows it causes immense damage if public servants lack the skills and experience required to manage complex system change and if both public and private providers are not given time to transition to the new arrangements.

I cannot recall any VET reform in Australia in the last 15 years which has sought outside expertise (from countries or sectors with experience in introducing market reforms) at either the design or implementation stage so that lessons learned in other schemes could be applied. Instead we have taken a well-intentioned but cavalier (or overly confident) approach. This has in turn had a devastating on providers, on students and staff, and on employer and community confidence in the sector.

Summary
I would urge the Productivity Commission (and governments as they negotiate the next funding agreement) to think very carefully about transition arrangements as the sector moves from one funding approach to another.

Good VET delivery requires planning, recruitment of qualified teachers and assessors, links with industry and local employers, plus investments for many courses in specialist facilities and equipment. These cannot be done overnight and the community, students, employers and providers suffer if change happens too quickly.

The keys to the success of any increased contestability in VET funding will be:
1. governments defining a role for TAFE and funding it accordingly in the new agreement
2. finding a funding mechanism which provides some degree of certainty to providers while still encouraging student choice
3. thinking through transition arrangements for a new funding model,
4. developing greater experience and expertise within the public service, and
5. thinking through the impact of government funding changes on the fee-for-service market.

Looking to the future
New investors in VET
It is worthwhile noting that while government funding and reform of VET focuses on government owned and funded providers – the private sector is alive to the likelihood of reforms and considering new investment in the sector.

Australia’s understanding of private investment in VET relies on the recent expansion of the NCVER VET statistics collection to report the extent of ‘Total VET Activity’. While this is a welcome development it shows only the amount of employer and student fee-for-service activity in VET delivery. It does not provide insights into the level or nature of private investment in VET. At present there are significant Venture Capital and Private Equity investors looking to make new investments in the government-funded VET sector. Other established VET providers which have specialised in
international education are now looking at domestic opportunities with the announcement of the centrality of VET to the government’s JobMaker plans (through the next Commonwealth-State VET funding agreement).

While ASQA collects some details on the ownership of VET providers and ensures that those involved in the operation of providers are fit and proper, there is no public information on who, where and how serious private investment is occurring in VET.

**EdTech**

The Commission is to be applauded for its attempt to think through the potentially disruptive impact of the global EdTech sector on the formal VET sector. Regrettably very few senior leaders in the Australian VET sector have grasped the magnitude of what is happening in the non-accredited EdTech sector. COVID-19 has turbocharged a shift to more widespread use of EdTech which was already underway and which has the potential to change where and how learners who already hold a post-school qualification acquire additional skills.

The Commission considers that one way for governments to respond to the threat/challenge of the non-accredited EdTech sector is for VET to introduce assessment-only services where learners can get their skills formally certified irrespective of how they acquire them. The report’s authors do not seem familiar with the longstanding practice and requirement for VET providers to offer Recognition of Prior Learning. That is, these assessment services for skills and knowledge learned outside of the formal VET sector already exist (although there are problems with their utility because any RPL process must by necessity relate back to the relevant Training Package qualification or units for students to be assessed and certified against, with all of their prescriptive requirements).

As someone who is focussed on the EdTech sector and its potential to both support and disrupt formal tertiary education, I am uncertain if learners who have gained valuable industry-relevant skills through a non-accredited provider will want to pay more to get those skills certified in the VET sector but if they do then the current RPL arrangements provide for this.

I do consider that there is room for independent assessment services to be introduced into the VET sector and that (if done properly) they could strengthen quality and encourage greater innovation in training delivery.

Finally, I consider it most likely in the short to medium term that the non-accredited EdTech sector will not disrupt the provision of government-funded initial post-school VET qualifications. Instead it appears that disruption is already happening in the upskilling and reskilling part of the VET sector. In fact there is some early evidence that some fee-for-service providers which have traditionally catered to this market are already exiting the sector (with the restrictions imposed by Training Packages and the costs of regulatory compliance meaning they are not able to effectively compete with global EdTech providers offering industry-certified short courses with strong employment outcomes).

30 It is a situation I was keen to change even before the COVID pandemic hit see: https://www.clairefield.com.au/reinventing-vet-for-the-digital-age/
Commission's Interim Findings

I am in broad agreement with many of the Commission’s findings. I have the following specific comments on three of the interim findings.

Interim Finding 2.4 — The NASWD needs replacement

The NASWD is overdue for replacement. Governments have stepped back from several key policy aspirations. The performance framework has limited value for assessing the functioning of the VET system. Its targets have not been met and some performance indicators have proved to be deficient.

Some principles of the NASWD remain pertinent for a future intergovernmental agreement, including equitable access to training and contestability. Reforms are still needed to give students better information, increase user choice, improve quality assurance, and create a more interconnected education and training system.

Many of the principles in the Intergovernmental Agreement on Federal Financial Relations, including recognising the Australian Government’s interest in areas traditionally the responsibility of State and Territory governments, clarifying all governments’ roles, and allowing State and Territory governments flexibility in the use of grants, are a sound basis for negotiating any new agreement.

The Commission states that “allowing State and Territory governments flexibility in the use of grants” is a sound basis for negotiating any new agreement.

I agree that the current funding agreement needs replacement. I disagree that the current level of State and Territory flexibility in the use of grants is a sound basis for the next agreement. As the Commission’s own research shows this level of flexibility acts against the Commission’s principle of equitable access.

At a time when Australia requires a national response from the VET sector to the COVID-19 pandemic – we should be offering all learners (eligible for government funded training) the same level of funding for the same courses irrespective of where they live.

The anomalies both Joyce and the Commission identify in VET funding, whereby the same learner studying at the same provider is eligible for a subsidy worth thousands of dollars more or less depending on which jurisdiction they live in, is ludicrous.

We fund our universities consistently irrespective of where they are physically located. Taking Nursing again as an example: the annual student fee for a Bachelor of Nursing degree at a public university is $6,684\textsuperscript{33} and all universities receive the same annual $14,858 government subsidy. By contrast in VET, the Commission examined the fees for an 18-month Diploma of Nursing in VET across eight public providers. Student fees ranged from $0 to $15,780 and government subsidies ranged from $8,386 to $16,388.

It is not just students who suffer as a result of the current funding variability in VET. Providers operating across State and Territory borders must grapple with significant amounts of complexity and inconsistency as they try and manage State and Territory funding contracts, funding levels, and student eligibility requirements for the courses they teach.

\textsuperscript{33} Deferable through the HECS-HELP loan scheme
I am not suggesting that Australia needs a uniform approach to all aspects of its VET system. States and Territories clearly require some flexibility in their VET funding. An obvious example is that the number of mining graduates required in Western Australia will necessarily be higher than in the ACT.

I consider that flexibility can be achieved in a nationally-consistent VET funding agreement in a manner that still supports equitable access for VET students, which places the focus on the customer, and which reduces the unnecessary complexity for providers (see my comments below in response to the Commission’s Option 6.1).

Interim Finding 4.2 — Price controls are inefficient

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

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

I agree with the Commission that student fees for government funded VET do not need to be mandated but I am equally concerned at the Victorian and Northern Territory government’s approach of allowing fees to be set as low as $0. The Interim Report discusses jurisdictions where providers are not required to charge a student fee yet the matter is not addressed in any of the Report’s recommendations or options. Despite the publicity attached to the Victorian ‘Free TAFE’ places, in fact since the Victorian Training Guarantee was first introduced there has never been a requirement on funded providers to charge fees in Victoria. This feature of the Victorian system was based on the advice of the Victorian Essential Services Commission.

While in theory the principle of student choice and providers operating within a market might indicate that a student fee would not need to be mandated, in reality students do not have sufficient information to make informed choices in VET and providers do not operate in a ‘pure’ market.

States such as Queensland have taken a pragmatic rather than a purist approach. They do this by requiring providers to set some level of student fee (while allowing providers to determine the specific price). They then monitor providers which set fees significantly above or below the average. This has been effective in creating a partial market which supports student choice but also requires students to contribute to the cost of their studies, which in turn helps support better student decision making.

Students experiencing disadvantage (eg unemployed learners and those in receipt of Health Care Cards) obviously deserve full support for their study options and their courses should continue to be fully subsidised in all jurisdictions.

Interim Finding 4.3 — Jurisdictions’ approaches to subsidising courses

*State and Territory governments share the same goal that subsidies should increase participation in training, particularly by students facing disadvantage and in skill areas in short supply or with other public benefits. All take the same key steps in setting subsidies and managing subsidised services.*
However, there is significant variation in policy priorities and the approaches used to determine which courses receive subsidies, and in overseeing course costs and student fees. Consequently, subsidies and student fees for the same courses can vary widely across Australia.

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

While I strongly agree with this finding I note that it is again silent on the inequities students in different jurisdictions face as a result of these inconsistencies.

Commission’s Recommendations and Options

As with the Commission’s findings I am supportive of some of the Interim Recommendations proposed in the Interim Report. I have provided comments on those I disagree with or have concerns about.

Interim Recommendation 6.2 — Price controls should be removed

*Governments should not cap the prices of VET courses.*

I disagree with this recommendation. While hard caps like those imposed in the VET Student Loans scheme are inequitable, some government regulation of pricing for the courses they are subsidising is appropriate.

When it comes to government-funded activity the Interim Report makes it clear that VET has an immature regulatory system and there is also a lack of clear information to allow learners to make informed decisions on courses or providers. Not discussed within the Interim Report but a further issue which impacts on both students and a theoretically ‘pure’ market is the lack of differentiation the system allows providers in the courses they deliver.

As the architect of the national VET system Terry Moran made clear, in his review of TAFE SA, Training Packages have become increasingly prescriptive. This means that, for example, all 571 providers approved to offer the Diploma of Business (BSB50215) must by necessity all offer the course in very similar ways.

Until the reforms recommended by Joyce are fully enacted and there is more independence in assessment decision making, there will be very little variability in what providers offer. In this context there is a strong argument for governments to maintain some controls over VET pricing. As I have noted above the Queensland’s government’s approach has worked well and is worthy of consideration given the reality is that VET operates as a managed market at present, and will likely do so (and should do so) in the next Agreement.

Finally, while it is noted that the Interim Report is focussed on government-funded activity, for the sake of clarity I do not believe that governments should impose price caps on any fee-for-service activity.

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34 As a Board member of MEGT I note the submissions made by relevant apprenticeship peak bodies and I have chosen not to provide comments on the Commission’s interim recommendations and options for the apprenticeship system.

35 [https://www.voced.edu.au/content/ngv%3A80642](https://www.voced.edu.au/content/ngv%3A80642)
Interim Recommendation 6.3 — Improving investment in public provision

In making payments to publicly-owned VET providers, State and Territory governments should:

- adopt the principle of transparent disclosure in interim recommendation 2.2
- ensure compliance with competitive neutrality principles
- assess the efficiency and effectiveness of existing investments
- undertake market testing or other options to increase the contestability of existing obligations.

I agree that States and Territories should be more transparent about their funding for TAFE and their expectations of their TAFE systems. There should also be proper accountability in government funding and efficiency in public expenditure is important. As I have noted above, I consider that it would be preferable to determine TAFE funding in relation to its role in delivering public value rather than the ‘pure’ market efficiency/contestability elements included in this recommendation.

Option 6.1 — Scope for more nationally-consistent course subsidies

Australian, State and Territory governments should consider:

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

When considering more nationally consistent course subsidies, it is important to remember that it is not just the highly variable subsidy levels each jurisdiction allocates to each course which are inequitable in the current VET funding arrangements. Another critical issue which the Commission identifies is the major difference in the number of government-funded courses available in each jurisdiction (eg NSW subsidises 849 non-apprenticeship courses compared to just 102 in Tasmania).

As a consequence of the substantial variability and inequities in the current VET funding arrangements I strongly support Option 1 as the most appropriate for the future of the VET sector.

Considering the myriad issues the Commission identifies in the current funding arrangements and the following principles identified by the Commission as important for a future agreement (ie centring policy on the consumer, equitable access, recognition of fiscal sustainability and the stability of funding, efficient pricing and delivery, and neutral, but not equivalent, treatment of the VET and higher education sectors) there is both a much greater need for, and a much stronger argument for Option 1.

Letting States and Territories continue to do as they wish, albeit with some simplification (Option 2), does not centre policy on the consumer, does not support equitable access, does not contribute to stability of funding, does not deliver efficient pricing, and does not provide for equivalent treatment with higher education.

36 The Interim Report is correct when it notes that the ACT government subsidises fewer courses than even Tasmania but the ACT has (or at least it had) a relationship with TAFE NSW for the subsidised delivery of some courses. As a consequence I think it is likely that the Tasmanian government actually subsidises the smallest number of courses.
In higher education, all learners wishing to take up a government-funded place pay the same amount for their course and are eligible for the same loan arrangements irrespective of which jurisdiction they live in or which institution they study with. VET students deserve the same.

I accept that States and Territories do need to set their own priorities for their VET systems and that they will have some specific local labour market issues. I note though that they do not feel a need to intervene in a similar way in the higher education sector. Instead States and Territories trust the higher education sector to produce enough degree-qualified graduates in fields like accounting, engineering, ICT, nursing (and all the others in the higher education sector). It is inexplicable that a nationally consistent approach in higher education manages to produce sufficient graduates (by jurisdiction) across a range of industries but to produce VET graduates in the same fields there is a need for every State and Territory government to fund this training differently and to set their own limits on how many students can be trained in each of these fields.

Despite these substantial inconsistencies in the funding and planning for higher education and VET graduates in the same fields, I accept that States and Territories will not wish to have a nationally planned approach imposed on their VET systems, and the Commonwealth lacks the requisite skills and experience to manage a national system even if it were feasible and desirable.

I consider that we must move to national subsidy methods and nationally consistent funding rates. States and Territories should be able to determine how many places they wish to fund in the various nationally subsidised courses, and some portion of funding could also be set aside as ‘special purpose funding’ in each jurisdiction to allow for some flexibility beyond the nationally agreed arrangements (ie a set percent of total VET funding in each jurisdiction could be ‘discretionary’ and could be used for ‘Free TAFE’ initiatives, or for funding for new courses to address emerging industry needs)37.

Given the significant disparities in the number of courses which currently receive funding across jurisdictions, States and Territories should not be under any compunction to fund all courses other jurisdictions do – but there should be greater commonality across jurisdictions in the number of subsidised courses. Furthermore, where jurisdictions choose to subsidise courses they should follow nationally agreed subsidy arrangements – unless specific local circumstances apply and they wish to use their special purpose funding. I accept that this is not a neat solution but the VET sector is not neat. I do consider that it would be a significant step forward for students and providers and still allow States and Territories considerable flexibility.

Option 6.3 — Switching from supplier to customer subsidies
State and Territory governments could consider re-configuring subsidies paid to RTOs as student vouchers, with the voucher value depending on the method used to calculate subsidies as specified in option 6.1.

Given the myriad problems the Commission identifies in the VET sector at present and the proposals it is considering recommending to government to change how the sector is funded, all at a time when the national quality regulator is bedding down major changes in its regulatory approach I do not consider that a case can be made for the introduction of what the OECD terms ‘explicit’ vouchers

(noting that the current funding approach in VET is a form of ‘implicit vouchers’ with access to government funded training dependent on students meeting certain eligibility criteria).  

Students currently lack the information needed to make informed choices. Even if they are successful the new National Careers Institute and other mechanisms to improve the information available to students, parents, careers guidance counsellors will take time to have an effect. In the meantime providers, governments and regulators will all be adapting to new funding and subsidy arrangements. In that context the introduction of explicit vouchers (with their related and deliberate lack of funding certainty for providers) would not be a good policy option for VET.

**What training choices are available?**

As I have noted above, Moran in his review of TAFE SA commented critically on the impact of Training Packages on VET. He found that “Training Packages are costly, out of date, far too complex, and do not match the skills needed in modern workplaces. They have become the basis for an overbearing regulatory burden on RTOs and the training system more generally.” (p. 5)

He went on to observe that “Training Packages (TPs) have become the national curriculum for VET and for TAFE SA. They constitute a very high-stakes curriculum for RTOs since Government spends the overwhelming part of its Training Budget on TP outcomes and they are an integrated part of regulation. Regulation through ASQA fills the current policy and strategic vacuum by applying detailed, risk-averse controls at the delivery end of the system – an approach that polices the VET system in line with what Training Packages regard as competencies and the way they are assessed. This undermines the type of innovation that would come from the interaction of capable providers and employers.” (p. 26).

With little innovation possible amongst training providers because of the highly restrictive requirements of Training Packages it is surprising that the Commission apparently sees little merit in Joyce’s reform proposals in this area. Instead the Commission gives significant weight in its Interim Report to the views of business peak bodies like the Business Council, ACCI and AiGroup and appears to accept their claims that the New Zealand model Joyce recommends is unlikely to be workable in Australia. The Commission does not appear to take account of the fact that these peak bodies have a significant role in the current arrangements as members of the AISC but would lose that influence under Joyce’s proposals where the individual industries (e.g. horticulture), for example, would be funded directly by government and work directly with training providers.

While it is true that the recent changes to Training Package development are still being bedded down, I agree with Moran and Joyce that these changes on their own will not be sufficient to reduce the complexities and restrictions Training Packages place on innovation in the sector.

**Role of the States and Territories**

As the Commission looks to finalise its advice to government, it is also important to note that in the current arrangements the AISC cannot approve qualifications before States and Territories look at them, decide if they want to fund them and what level of subsidy they will attract. Then and only then can the qualifications be submitted to the AISC for approval.

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39 [https://www.voced.edu.au/content/ngv%3A80642](https://www.voced.edu.au/content/ngv%3A80642)
It should be noted that the role of States and Territories in the approval of new qualifications would also change in the proposals Joyce offers. Currently the two decisions: what new skills employers need the VET system to teach and what States and Territories will pay for them are interrelated and one cannot proceed without the other. Joyce correctly reframes these arrangements to allow industry and providers to collaborate on bringing new qualifications forward for approval and then States and Territories would separately decide if they wanted to fund them and what the subsidy rates would be (with some, yet to be determined, level of oversight from the National Skills Commission).

Independent Assessment
In a recent trip\(^{40}\) to examine how the German VET system is responding to the skills demands of the advanced manufacturing sector and Industry 4.0, I learned that the Germans take approximately 1.5 pages to document the same content we include in our units of competency. By contrast, the typical length of an Australian unit of competency is 3-5 pages.

The reason for the difference is that the skills learned by VET students in Germany are independently assessed and therefore there is no need for the tight prescriptions within Australian Training Packages because the determination as to whether or not students have been properly trained is impartial. In Australia by contrast we have a less well-developed VET regulatory system than the Germans and no independent assessment. As a consequence, every time quality issues emerge in the Australian VET sector, more and more prescription is added into Training Packages (and their component units of competency).

New Zealand also has a well-regarded VET system. It has chosen not to go as far as Germany in terms of independent assessment. Instead its regulatory agency, the NZQA, has an active role in moderating (quality checking) the assessment decisions made by providers.

Both of these systems are able to encourage much greater innovation and differentiation in the courses offered by their respective VET providers because the providers’ assessment decisions of students’ competence is independently verified. This in turns allows for much greater responsiveness to employer needs and a much more genuine basis for student choice.

As a consequence I support the reforms proposed by Joyce and do not consider that merely allowing the new Training Package development processes time to ‘bed down’ will be sufficient to improve innovation within the Australian VET system.

Option 6.4 — A larger role for income contingent loans

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

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

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

I concur with the recommendation to immediately extend the VET Student Loan scheme to all courses at Diploma level and above and to remove the loan caps. The Commonwealth will need to monitor the new arrangements carefully and can manage risk (as they do with the higher education FEE HELP scheme) by using limits on overall funding to providers.

I disagree entirely with the notion of a list of courses which (because of some ill-defined concerns) are ineligible for an income contingent loan. As above, the restrictions on the total amount of funding providers can receive each year manages the risks associated with any potential misuse of the scheme in any courses. Providers which demonstrate strong job outcomes for their students and genuine additional demand should then be able to apply (as they do now) for an increase to their overall funding limit.

The income threshold for loan repayments is already low enough and should not be lowered further.