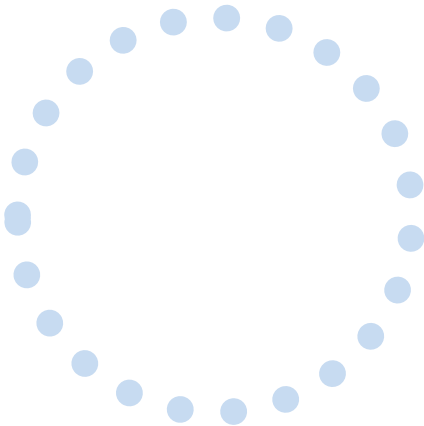
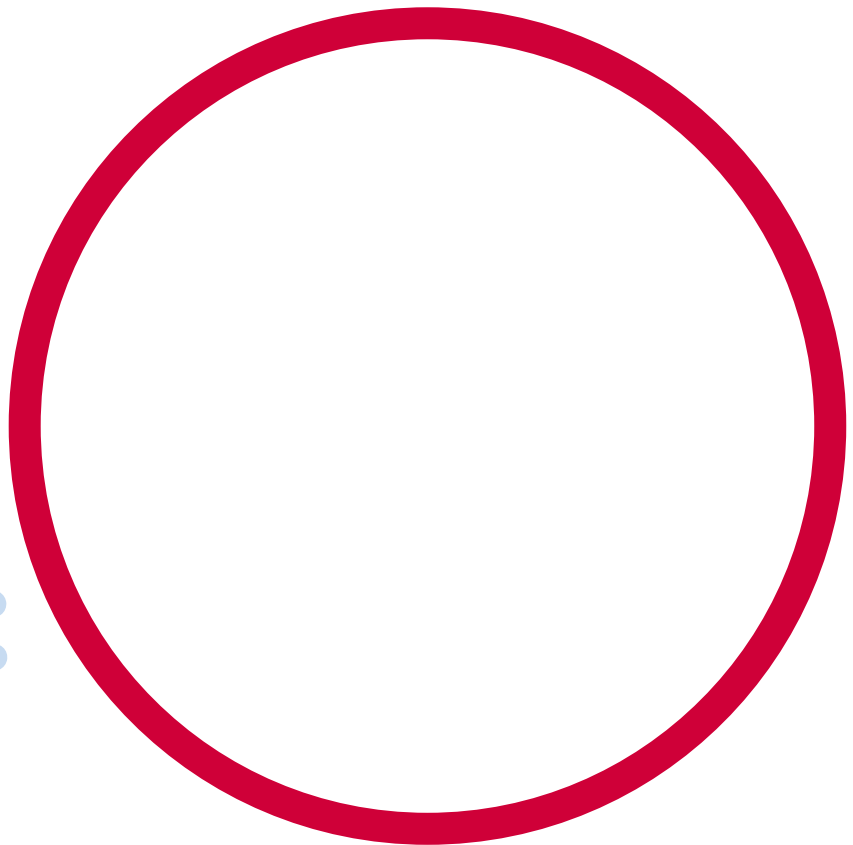
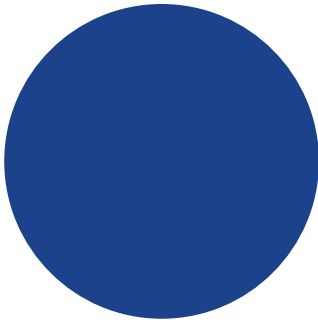


# NSW Government Response to the Australian Government Productivity Commission's National Agreement for Skills and Workforce Development Review – Interim Report

July 2020





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# 1. Introduction – Context for the NSW Government’s Reform Agenda for VET

## Executive Summary

NSW welcomes the Productivity Commission’s Interim Report on the review of the National Agreement for Skills and Workforce Development (NASWD), including interim recommendations and options for reform.

Since NSW’s initial submission to the Productivity Commission was made, Australia and in particular NSW have experienced unforeseen challenges, including drought, bushfires and now the COVID-19 pandemic. It is more important than ever that the NSW Government and the Commonwealth Government work hand in hand to overcome these challenges, and the significant impact they have had on our community and economy.

This submission articulates NSW’s position on a number of key findings from the Productivity Commission’s Interim Report. NSW looks forward to continuing this collaborative and productive approach to co-designing reforms to the vocational education and training (VET) sector in Australia.

Broadly, NSW supports some of the interim recommendations but has concerns about the risks to the national and NSW VET systems posed by others.

In this submission are detailed arguments both supporting and offering an alternative view on a range of key Productivity Commission interim findings and recommendations. It is also important, however, to properly ‘set the scene’ and articulate the unique operating context of NSW. COVID-19 and natural disasters have shifted the priorities (and their urgency) of most States and Territories, with NSW being no exception. The submission’s arguments cover:

- Current evidence for change;
- The current state of the VET market’s maturity and the availability of market information, and its impact on reform;
- The role of TAFE NSW;
- NSW’s broader response to COVID-19 and natural disaster recovery;
- The newly emerging emphasis of skilling for recovery;
- The broader NSW reform agenda.

A future agreement should be underpinned by concepts of national aspiration with bilateral implementation

The Productivity Commission’s interim recommendation 2.2 to adopt a new, principles-based intergovernmental agreement aligns with NSW’s initial submission to the

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Productivity Commission. NSW's first submission advocated for a revised approach to a new national agreement that re-imagines the way the Commonwealth and NSW Governments work together by:

- Introducing joint cross-jurisdictional decision-making on implementation of the objectives;
- Introducing an agreed set of targets with agreed contribution from the Commonwealth towards achieving NSW's share of these targets;
- Introducing a bilateral agreement that recognises that both the Commonwealth and NSW contribute funding to the VET sector and that this should be considered in the negotiation of future funding arrangements;
- Acknowledging that unilateral changes to arrangements for VET funding can have a detrimental impact on the NSW and national economies; and
- Working together on a skills and workforce development agenda that spans schooling, VET sector and higher education.

NSW supports a principles-based future agreement but the proposed principles need to acknowledge the roles of all governments in VET, and have a greater focus on quality and outcomes

The Productivity Commission proposes a principles-based future funding agreement. NSW agrees that this would retain flexibility for state and territory governments and protect against overly prescriptive objectives.

In its first submission, the NSW Government supported a new national agreement based on the principles of mutual obligation and state autonomy, and reciprocal accountability for good outcomes for students. The Productivity Commission's Interim Report does not reflect these principles and should be updated to recognise their importance.

Informed user choice and effective regulation are keys to a well-functioning competitive market for government funding of VET

NSW recognises that competition can play an important role in aligning training with user needs (students and employers) and helps to increase efficiency in the VET market. This view is exemplified by the strong contestable market currently operating within NSW.

A well-functioning competitive VET market requires evidence of effective regulation and good consumer information to avoid information asymmetries between users and providers. The NSW Government is working towards greater use of student outcome data to inform consumer choice in the NSW Government-funded VET market. However until this is in place, NSW contends that it is too early to introduce the particular market designs favoured by the Productivity Commission.

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## NSW is committed to its comprehensive public provider, TAFE NSW

NSW recognises the essential and unique role of TAFE NSW. As the comprehensive public provider, TAFE NSW is well positioned to deliver on government and community expectations to support a skilled workforce through delivery of industry relevant training and to provide access and opportunity so the community can benefit from skills and employment.

## NSW has concerns with a national administrative price setting mechanism or options that would limit its ability to reflect local conditions

Consistent with its first submission, NSW has concerns with proposals that would limit its ability to set prices (or subsidies) to reflect local conditions and NSW policy objectives, such as recovery from the COVID-19 pandemic.

Similarly, while the NSW Government does not oppose the principle of price deregulation, at this time the VET market lacks both the market maturity and availability of accurate consumer information to support it.

## Skills is a key lever to support jobs in the recovery

COVID-19 will have significant and long-term impacts on the NSW labour market and workforce. The most affected industries will be those whose operations have been or continue to be directly limited by COVID-19 restrictions (e.g. hospitality, air travel and tourism, retail and automotive). Our most affected citizens will be young people, including early school leavers, displaced workers, and people from disadvantaged backgrounds. They will be at increased risk of experiencing longer periods of unemployment, underemployment or disengagement from the labour force altogether.

More broadly, COVID-19 is likely to shift the structure of the Australian economy, meaning that the jobs lost as a result of the pandemic will not align to the jobs that will be created over the recovery period. In this context, VET will be critical to help people reskill and upskill through micro-credentials or full qualifications to meet the emerging and evolving skills needs of the NSW economy.

## The review of NASWD must be considered in broader context of the NSW Government's reform agenda for VET

The NSW Government's response to the Interim Report needs to be understood in the context of the NSW Government's priorities and specific challenges, as well as the economic challenges from the COVID-19 pandemic faced by all governments. NSW's challenges have been compounded by the twin impacts of the drought and bushfires natural disasters, followed by COVID-19.

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## The NSW Government's skills and productivity agenda

The NSW Government has set a clear direction for the NSW economy in its *NSW 2040 Economic Blueprint: Investing in the State's Future* to respond to the challenges of a changing world and expanding global economy. Adding to this, in October 2019 the NSW Productivity Commissioner released a Discussion Paper entitled *Kickstarting the productivity conversation*. It identified six priority areas with the potential to boost productivity in NSW, including 'building human capital for a modern and evolving economy'. While the COVID-19 pandemic has focused the NSW Government's efforts on addressing its impacts, skills and productivity remain high on the NSW Government's agenda.

Feedback on the discussion paper will inform the development of a Productivity Green Paper, followed by further consultation. Final recommendations will be put forward in the Productivity White Paper later in 2020. The NSW Government will consider the White Paper recommendations and prepare a Government response.

### Strengthening the VET sector in NSW

The NSW Government has already begun to address the challenges facing the NSW VET sector highlighted in the Productivity Commission's Interim Report and other recent reviews. These challenges include ongoing skills shortages, issues of quality and efficiency, less favourable public perceptions compared to higher education and system complexity. Many of these challenges are also faced by other Australian jurisdictions.

A Review of the NSW VET Sector, announced by the NSW Government in early 2020 but paused because of COVID-19, has now recommenced. Led by Mr David Gonski AC and Professor Peter Shergold AC, the scope of the review is that reform to the VET system is needed if NSW is to remain nationally and internationally competitive, and that VET needs to be regarded as a genuine and desirable option for school leavers.

This Review will examine the findings and recommendations of recent State and Commonwealth reviews to identify and prioritise proposed interventions to strengthen the NSW VET system (including its public provider TAFE NSW) and support rebuilding the NSW economy and skills capacity post-COVID-19.

### Driving reform through a greater focus on outcomes

In the broader context of outcomes-based budgeting, NSW is working towards an outcomes-driven VET system with strong student outcomes and high provider performance. To help deliver a highly skilled, employable and adaptable workforce, prioritising its funding to achieve targeted training and employment outcomes is a key reform direction for the NSW Government.



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As part of this, NSW has, and is continuing, to review qualifications on the NSW Skills List, to move to a focus on high quality in-demand qualifications that achieve better post-training outcomes for students. This reform direction aligns with recommendation 2.1 in the Interim Report which states that any future sector-wide performance framework should better measure students' long-term labour market outcomes.

NSW is also focused on promoting a healthy provider landscape that delivers quality training at an affordable price, and ensuring informed and effective consumer engagement in the training system. This includes work underway to update the NSW VET Quality Framework to focus on achieving high quality post-training outcomes.

Promoting a healthy provider landscape also includes improving the operation of the market through better understanding of costs, consumer information, moving to provider allocations based on outcomes, making funding responsive to users, and improving market diversity to foster a more efficient, competitive and high performing VET market. Outcomes-based measures should be incorporated into future national funding arrangements for VET.

### An improved curriculum will better equip NSW students for work and lifelong learning

On 23 June 2020, the NSW Premier announced significant reforms to the NSW school curriculum, with a new school curriculum to be delivered over the next four years. The NSW Government is undertaking these significant reforms to better equip students with the knowledge, skills and attributes needed for future jobs, lifelong learning and active and informed citizenship. The reforms are based on the recommendations of the NSW Curriculum Review led by Professor Geoff Masters - the first significant review of the NSW curriculum since 1989.

The reforms include stronger foundations in literacy and numeracy with new English and maths syllabuses for Kindergarten to Year 2 by 2022. The review found that some students are not getting these solid foundations to unlock their potential at school and prepare them for future careers.

Most relevant to VET, some senior secondary subjects do not provide clear links to further study and pathways, and there is a divide between academic and vocational learning in the curriculum. From 2022, Year 11 and 12 learning in NSW will be better linked to future work and study with new key learning areas and career pathways. By 2024, the NSW Government will introduce new syllabuses for senior secondary courses in key learning areas, which will involve rigorous, high quality learning that integrates both knowledge and skills.

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## 2. A new principles-based agreement and performance framework for the NASWD

The Productivity Commission's interim recommendation 2.2 to adopt a new, principles-based intergovernmental agreement aligns with NSW's initial submission to the Productivity Commission. NSW's position is that a new national agreement should have objectives and principles complemented by bilaterally agreed implementation strategies and key performance indicators. NSW agrees with the finding that an over-arching national agreement would help define the roles of governments and facilitate intergovernmental collaboration to achieve agreed priorities and national targets without being prescriptive about the approach.

Accompanying bilateral agreements would provide the required accountability and specific implementation strategy for each jurisdiction, with flexible performance targets, without unduly affecting the specific policies of other governments. This would provide the framework for monitoring and promoting progress against nationally agreed objectives or high level targets. NSW would support targets in the following areas:

- Increased engagement in training, higher education and employment among NSW youth aged 15-29 years;
- Meeting the needs of NSW industry, as evidenced by increased employer satisfaction with training as a way of meeting their skill needs;
- Supporting an increasingly skilled NSW workforce, as evidenced by more people in NSW holding qualifications at Certificate III level and above; and
- Improved employment outcomes for NSW government-funded VET graduates.

In addition, NSW would support targets on apprenticeships and traineeships. These types of targets are currently in NSW's bilateral schedule to the National Partnership Agreement on Skilling Australians Fund.

One of the strengths of the NASWD was that governments were incentivised and given the requisite breadth to design and implement innovative approaches to skills reform. A principles-based future funding agreement would retain this flexibility for state and territory governments and protect against overly prescriptive objectives.

The principles proposed by the Productivity Commission have insufficient focus on quality or outcomes

Many of the principles proposed by the Productivity Commission (below) relate to efficiency, pricing, funding and contestability. However, some key principles are insufficiently addressed and NSW recommends that the principles be updated to include a

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greater focus on quality and student outcomes. For example, the principle of ‘transparency about where funding is allocated’ should include outcomes for students. It is important to note that greater efficiency should not be driven at the cost of lower quality and that efficient pricing needs to take into account the quality of training and unique operating contexts of different states and territories.

Principles proposed by the Productivity Commission include:

- Centring policy on the consumer, including information provision for informed choice;
- Equitable access;
- Recognition of fiscal sustainability and the stability of funding;
- Transparency about where funding is allocated, including detailed information on course subsidies, costs and the size and nature of funding to public providers;
- Efficient pricing and delivery;
- Designing incentives to increase the likelihood of eliciting training;
- Competitive neutrality between public and private provision; and
- Neutral, but not equivalent, treatment of the VET and higher education sectors.

### Support for the principle of efficient pricing and delivery is subject to the implementation approach

The principle of efficient pricing and delivery acknowledges the benefits to students and employers from a simplification of pricing arrangements and a move toward greater alignment of costs nationally. However, NSW’s agreement to adopt this principle for a future funding agreement would depend on the implementation approach. NSW would not agree to an approach which would risk or restrict its ability to set prices or subsidies to reflect local conditions and to meet the NSW Government’s specific policy objectives.

### Competitive neutrality between public and private providers must be considered carefully

The principle of competitive neutrality could be supported where greater competition would promote a more efficient and higher quality VET market. Opportunities to increase competition would need to be carefully considered, particularly having the necessary confidence in the maturity and stability of the broader market.

NSW would need to assess the potential risks, benefits and practicalities of increased competition. TAFE NSW, as the independent public provider in NSW, plays a vital role in ensuring the availability of high quality training across a wide geographic area and across a range of skill areas, and in meeting community service obligations. Adoption of competitive neutrality would undermine budget certainty for public providers. Steps would need to be taken to ensure the VET market would be able to support the transition and

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avoid negative impacts on public providers or students. As noted elsewhere in this submission, NSW does not support measures such as making all VET funding contestable at the current time.

## Ensuring accountability through the National Skills Commission (NSC)

For future funding agreements, the Productivity Commission states there must be meaningful and transparent progress reporting and accountability on the use of Commonwealth Government grants by State and Territory Governments. The Productivity Commission proposes that the NSC could be a supporting mechanism to ensure accountability in a future national funding agreement and act as an independent organisation with oversight of the agreement. NSW would support an independent organisation being responsible for ensuring accountability through the agreement, in partnership with NSW Government agencies.

## The final report should provide clearer evidence for some of the proposed reforms

In assessing the performance of the NASWD, the Productivity Commission comments that many reform directions have not been achieved. It further notes that, following policy implementation failures, the commitments to greater competition, a comprehensive entitlement and wider use of income contingent loans have not been pursued.

The Productivity Commission finds that efforts to promote a 'more open and competitive training market' under the existing NASWD have stalled and that improving the efficiency of training markets is no longer an explicit priority for most governments. In its final report, it would be useful for the Productivity Commission to further analyse the reasons for failure of key policy directions and make a strong case for why governments should continue to pursue them.

In responding to some of the Productivity Commission's interim findings and recommendations, NSW has found that the Interim Report lacks enough evidence to support them, which makes it difficult to see how they would improve the VET system. This is most evident in the interim recommendations to increase competition by introducing student vouchers where funding goes directly to the user, and making current direct funding allocations to public providers contestable by all approved providers.

There is an underlying assumption in the Interim Report that greater competition in the VET market is more desirable than the managed market arrangements operated by jurisdictions currently, which sees providers (public and private) compete for contestable government contracts. The Productivity Commission recommends that governments introduce new reforms to make the VET system a more efficient and competitive market. In responding to these recommendations, NSW has to recognise the risks and the maturity

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of the current VET market to deliver this. These issues are discussed in more detail in section 3 below.

### 3. The role of competition in the VET market

The Productivity Commission recommends governments introduce new reforms to make the VET system a more efficient and competitive market. The Productivity Commission finds that efforts to promote a 'more open and competitive training market' under the existing National Agreement on Skills and Workforce Development (NASWD) have stalled and that improving the efficiency of training markets is no longer an explicit priority for most governments.

The Productivity Commission argues that states and territories have turned to a limited form of contestability rather than user choice to support competition, with states and territories making only a fixed part of the pool of public funding open to bids from private Registered Training Organisations (RTOs). Further, governments have shifted from promoting competition through user choice to a more managed market, which sees providers (public and private) compete for contestable government contracts.

The Productivity Commission is proposing increased competition be achieved through two main reforms:

- Introducing student vouchers where funding goes directly to the user; and
- Making current direct funding allocations to the public provider contestable by all approved providers.

#### NSW supports the principle of a competitive market for government funding of VET

NSW's introduction of reforms under the NASWD (and related National Partnership Agreement on Skills Reform) was designed to support fiscal sustainability and avoid implementation issues experienced by other jurisdictions.

Competition can play an important role in aligning training with user needs (students and employers) and helps to increase efficiency in the NSW VET market. The NSW VET system includes competitive elements that are designed to suit training in NSW and meet the needs of users. It includes competitive markets that are demand driven (apprenticeships and traineeships) or based on funding allocations to providers but with high degrees of flexibility to respond to user demand by allowing flexibility in the use of caps across multiple qualifications.

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NSW also provides funding for part qualifications that is employer-led and open to all Smart and Skilled providers, including TAFE NSW and Adult and Community Education (ACE) providers. TAFE NSW and ACE providers also receive direct funding allocations, some of which can be used for part qualifications.

Under Smart and Skilled, funding for apprenticeships and traineeships is demand driven. Students and employers are free to choose their preferred provider, and their choice directs to the subsidy to that provider (similar to the approach for funding providers in the higher education sector).

For non-apprenticeship and traineeship qualifications, it is users exercising their choice of where to study and in what qualifications that drives funding to providers within capped funding allocations. Providers have several opportunities throughout the year to apply for their caps to be adjusted. Funding originally allocated to underperforming providers may be redistributed to other providers that are expected to fully use their allocations.

At the moment, allocation of funding by provider and by region is based on the NSW Skills List of priority qualifications and provider past performance.

### NSW continues to improve the operation of the NSW VET market

The NSW Government has adopted a number of indicators to gauge the performance of the VET market. The measures cover: levels of young people not in employment, education or training, employer satisfaction with training, level of VET qualification attainment in the population, and employment outcomes for VET graduates. While the NSW Government does not control all the levers that impact on these indicators, it can play a significant role through its VET policies.

The NSW Government continues to look to improve the operation of the market through improved consumer information, moving to allocations based on outcomes, and making funding responsive to users.

The NSW Government is working towards an outcomes-driven VET system that focuses on strong student outcomes and high provider performance based on data. NSW has developed a set of indicators on a range of student outcomes that can help Smart and Skilled providers improve performance. Provider dashboards outlining these performance indicators have been recently distributed to Smart and Skilled providers. It is planned that this information will be released publicly by the end of the year.

### NSW's approach recognises that establishing the pillars of a well-functioning market takes time

NSW recognises that poorly managed implementation in the VET market, such as VET FEE-HELP, has significant impacts on public trust in the VET system that can increase

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barriers to ongoing reform. NSW is committed to exploring options for increasing contestability of public funding but believes a staged approach is likely to be more effective, including consideration of market maturity and provider diversity. In this context, NSW does not support measures such as making all VET funding contestable or the introduction of student vouchers at this time.

A well-functioning competitive VET market requires good consumer information to avoid information asymmetries between users and providers, including information on the quality of providers. The NSW Government supports the Commonwealth Government's initiatives to improve the quality of the VET market, including through its reforms of the Australian Skills Quality Authority (ASQA). Continuing evidence from ASQA of quality improvements and better student outcomes in VET is a pre-requisite for greater public confidence in the VET system and a necessary condition for achieving greater contestability. NSW also supports further work on the MySkills website by the Commonwealth Government to improve national consumer information on fee-for-service and government-funded RTOs.

However, it is too early to introduce market designs in NSW that assume there is sufficient information available to users. There may also be limits to the effectiveness of improved consumer information in guiding user choice. Future reforms should be based on actual evidence of an effective consumer information environment, not done in anticipation of it.

NSW also recognises limits to the effectiveness of greater contestability in government-funded VET markets where there is insufficient provider diversity to support greater competition, for example thin markets for certain qualifications in regional areas. While there could be opportunities to increase market diversity through accessing capacity in the private market, these may be limited.

There is also a tension between the principles of greater competition and fiscal sustainability. Demand driven funding for non-apprenticeship and traineeship qualifications would put pressure on the NSW skills budget. Given the range of current barriers, the NSW Government needs to continue its role in managing the system through a managed allocation mechanism for the time being.

Improving the quality of providers and consumer information may be more effective than consumer protection mechanisms such as ombudsman's offices.

Consumer protections are an important part of the NSW VET market and are needed to give confidence to users that avenues exist to seek redress when they have not received the training for which they paid. NSW has a range of mechanisms to protect Smart and Skilled students when their provider is no longer able to deliver training, including statutory responsibilities for protection of its apprentices and trainees. These mechanisms ensure students are not disadvantaged and are able to complete their course.



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## 4. Investment in public provision

The Productivity Commission argues that direct payments to public providers such as Community Service Obligation (CSO) funding, outside contestable processes, may be distorting competition between public and private providers and will diminish returns from government funding of training. It argues that payments to public providers should:

- Adopt the principle of transparent disclosure of costs and the size and nature of funding to public providers;
- Ensure compliance with competitive neutrality principles; and
- Assess the efficiency and effectiveness of existing investments.

### TAFE NSW plays a unique role in the NSW training market

The NSW Government continues to support TAFE NSW as the comprehensive public provider.

In NSW, TAFE NSW is the backbone of the market, providing comprehensive training opportunities throughout the State across a wide range of skills areas, including in thinner markets (where no private provider exists), and to our most disadvantaged students.

NSW recognises the need for TAFE NSW to adapt, to remain a leader in the VET market and to respond to the changing nature of work and future skills and - post COVID-19 - contemporary processes for learning and work. NSW is considering the future direction of the public provider, including opportunities to improve market operation and ensure efficiency for commissioned activity. Any review needs to take account of the significant and dispersed asset base managed by TAFE NSW.

CSO funding is an important investment in the NSW Government's expectations that TAFE NSW ensures outcomes for disadvantaged students, including Aboriginal students and students with a disability. In NSW, the CSO obligation is built into legislation, and is a commitment the NSW Government will continue to honour. NSW strongly supports the principle of ensuring transparency of funding for publicly funded VET services, including opportunities to improve the efficiency of our investment in training and strengthen the operation of the training market.

### The NSW VET funding model has improved transparency of funding for TAFE NSW by establishing a clearer funder/provider split

TAFE NSW is funded contestably alongside private and community providers for qualifications up to and including Certificate III under Smart and Skilled.



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The additional funding provided to TAFE NSW is explicit in a funding deed between the NSW Department of Education and TAFE NSW. This deed includes allocations that include funding for Certificate IV and above training, CSOs and a residual amount for operational base funding that recognises TAFE NSW's higher wage costs and heritage asset costs. The funding deed includes accountabilities against which TAFE NSW is required to report to the NSW Department of Education.

## 5. Approaches to setting prices, subsidies and fees

NSW has concerns with a national administrative price setting mechanism or options that would limit its ability to reflect local conditions

NSW strongly supports options that ensure our ability to set prices (or subsidies) to reflect local conditions and NSW policy objectives, such as recovery from the devastating bushfires in late 2019 and early 2020, or the COVID-19 pandemic. NSW notes that the Productivity Commission agrees that the Joyce Review recommendation for national subsidies would have this effect.

The NSW Government supports the principle of transparency in terms of making public pricing and funding mechanisms and methodologies. However, the NSW Government has significant concerns with a national administrative price setting mechanism. Administrative pricing mechanisms have limited responsiveness to changes in training costs over time, whether these are increased costs (e.g. introduction of work placement requirements in training products) or decreased costs (e.g. innovations in delivery that lower efficient costs). It is unlikely that a national administrative pricing mechanism could effectively account for variations in efficient cost across jurisdictions and geographic regions.

The pre-conditions for price deregulation are not in place

NSW supports moves towards greater market-based pricing but does not support price deregulation at this time because not all the pre-conditions for a well-functioning market are in place. As argued elsewhere in this Submission, there is a lack of publicly accessible and reliable information on RTO performance and student outcomes, for students to make informed choices between providers with different prices.

As the experience with VET FEE-HELP has shown, deregulated prices, especially coupled with uncapped loan limits, can lead to undesirable incentives for course providers to increase fees, passing the costs to the student and, through unpaid debt and interest rate subsidies, to the taxpayer. The key problems in VET FEE-HELP arose for courses that had deregulated fees and insufficient regulatory oversight.

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NSW also notes that potential extension of income contingent loans (ICL) to certificate IV and below qualifications would further dampen the responsiveness of students to price signals, and if implemented with fee deregulation, risks introducing a scenario similar to that which existed under VET FEE-HELP. A staged process, starting for example, with trials of competitive pricing, and consideration of outcomes-based incentives regimes, would provide a stronger basis on which to develop new pricing mechanisms based on provider diversity and safeguarding quality to improve value for money from the investment.

Smart and Skilled supports a large disadvantaged cohort of students. Fee deregulation is likely to see increases in fees that would be a barrier to students to undertake training (even allowing for the extensive fee free and fee concession arrangements).

### NSW supports variation in government funding for different courses and students to reflect local conditions

The NSW Government supports variation in the level of government funding for different courses and student types. Under Smart and Skilled, additional loadings are paid to providers to facilitate the delivery of high quality training to students who may require additional support. Courses are fully subsidised for some student cohorts so that all training costs are funded and students do not pay a fee. Further, all foundation skills qualifications are zero fee, meaning the NSW Government subsidy covers the full cost of training. The NSW Government has committed to fully fund courses for 100,000 apprentices from 1 July 2018, and 75,000 traineeships from 1 January 2020. Student fees at higher qualification levels contribute a higher proportion of costs to reflect the greater private benefits to the individual.

Applying an average price based on cost data from multiple jurisdictions and sectors may result in specific challenges for TAFE NSW, alongside public institutions in other jurisdictions. Public providers play an important and unique role in the provision of vocational training, but face inherently different cost structures to private RTOs given industrial agreements, geographic coverage, and servicing of thin markets. Current funding arrangements in NSW provide base funding for TAFE NSW to reflect its specific cost challenges, without distorting market prices. It is likely that averaged costs will be lower than TAFE's profile, as it does not capture its specific cost challenges, and would present problems if used to inform prices and would potentially make continued delivery of key qualifications unviable. Conversely, average prices risk overpayment of private operators in competitive markets. For these reasons, NSW has concerns with options that limit its ability to set prices or subsidies to reflect local conditions and policy objectives at this time. Applying an average price across all jurisdictions and providers will also limit flexibility for NSW to set prices or fees to reflect local conditions and policy objectives. For

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example, higher prices may be desirable where higher quality or outcomes are the objective.

These factors indicate that there would be significant complexity in moving forward with a national pricing system, and that at this stage the case for such a reform is not clear. Should the Commonwealth choose to move forward with this approach, NSW Treasury suggests that state specific factors such as the cost of living, state wages, and degree of regionality be considered in any pricing mechanism.

## NSW supports a centralised costing process to provide rich information to jurisdictions in setting prices and subsidies

NSW supports efforts to collect reliable, comprehensive, and regionally specific cost data. Establishing a solid set of cost data should be a first step in assessing if there is a basis for jurisdictional differences in prices and subsidies.

A centralised costing process conducted by the National Skills Commission (NSC) could provide rich information that is useful for all jurisdictions, particularly if it establishes guidelines for delivery to assess claims about costs and identifies cost drivers that allow grouping of similar qualifications under a smaller set of price points.

If the Commonwealth Government, with the support of States and Territories, can establish a credible data set on cost, then it is likely to be used by jurisdictions in setting prices and subsidies, leading to increased national consistency without the need to mandate subsidy amounts or calculation methodologies.

In establishing a set of cost data, the NSC should consider the mechanisms needed to keep this data up to date, for example mechanisms to capture cost movements reflecting service or product changes.

## NSW supports simplification of prices

NSW has clustered prices by rounding them up and down to the nearest \$250 price point. This is an effective, low burden way of reducing complexity in the system caused by large numbers of prices. NSW has not sought to create enduring bundles of qualifications with a set subsidy rate and continues to apply the IPART methodology to re-price qualifications as they are superseded through training package updates.

NSW agrees with the Productivity Commission that large numbers of price points that are sometimes close together in value is not justified by the available costing data or impact on decision-making by providers or users. NSW has implemented clustering of prices for 2020-21 to simplify pricing in NSW, which has reduced the number of unique price points for the 770 qualifications on the NSW Skills List from 570 to less than 80.

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NSW acknowledges the benefits to students from a simplification of pricing arrangements and a move toward greater alignment of costs nationally but also notes there is significant complexity in aligning prices, given the significant variations in cost drivers across different jurisdictions.

### Student and training providers are more likely to make decisions about investment in training in response to the final financial outcome

Informed and engaged consumers are critical to a well-functioning VET system and are a priority for NSW. The NSW Government supports the principle of transparency in terms of making public pricing and funding mechanisms and methodologies. The IPART report guiding NSW subsidy and fee processes and rationales is publicly available.

NSW fully regulates student fees and publishes this information on its Training Service NSW website, giving full transparency on course costs for students. In limited circumstances, NSW policy allows that additional, optional costs may be incurred, and providers must clearly communicate these to the student before the cost is incurred.

Students and training providers are likely to make decisions about investment in training in response to the final financial outcome rather than the various components that go into calculating fees and subsidies respectively.

### Directly funding students may have risks that may outweigh the benefits to students

NSW does not support the introduction of student vouchers where funding goes directly to the user, without further maturity of the training market and better market information.

NSW does not support the introductions of vouchers due to concerns about the maturity of the market. It also believes that a system of vouchers with capped places would be complex for users and difficult to administer, potentially outweighing the identified benefits.

Previous experiences of voucher like arrangements (e.g. VET FEE-HELP) have shown that in practice users are susceptible to provider behaviour that undermines student choice. Research shows that student choice is driven by location of the provider and NSW Government analysis shows that students have relatively few choices of provider once location and qualification preference is taken into account. In these conditions, it is unlikely that vouchers will on their own lead to effective competition.

It is also important to recognise that significant numbers of students entering government funded training systems are referred from Commonwealth Government income support programs where employment services providers are directing course selection.

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## The National Skills Commission is well placed to undertake work on determining skills demand

The Interim Report notes that addressing skill shortages is a valid rationale for governments to invest in VET, although it comments that skill shortages are not rigorously measured, reflecting problematic conceptual frameworks and poor data.

In Option 6.2 Consistent methods for assessing skill shortages, the Interim Report suggests that Australian, State and Territory governments could consider adopting consistent approaches to the determination of skills shortages, while taking account of variations in local labour markets, with this task to be undertaken by the National Skills Commission.

NSW agrees with the Interim Report's assessment that there are good grounds for using consistent methods to determine demand for skills, which is a major determinant of the eligibility of courses for subsidies. The National Skills Commission is well placed to undertake this work, subject to it adopting methods that can take into account variations in local labour markets.

The provision of high quality nationally consistent methods to determine skills demand should support state and territory governments in deciding what qualifications to subsidise and at what level.

Given the uncertainty over the trajectory of the Australian economy because of the COVID-19 pandemic, assessment of skills demand should focus on current and emerging skills needs, with skills forecasts based on future industry growth repeated at regular intervals to ensure their reliability. Assessment of skills demand also needs to include consultations with industry and other users of training, as well as analysis of labour market trends and the uptake and employment outcomes of qualifications.

## Training is not the only lever to address skill shortages

There are a number of reasons why some skill shortages persist and there are a range of levers which governments and industries can use to address skills shortages in addition to training subsidies. Barriers to addressing skill shortages include: skilled migration policies not targeting shortages effectively; information asymmetry for students on occupations in shortage; complex government support services for apprentices and trainees may deter employers from enrolling their employees in the VET sector and may discourage employers from taking on apprentices despite having skill shortages; and lack of attractiveness of occupations in shortage for students.

In the VET sector, the existence of a training subsidy through a government-funded skills list is an important signal to employers, training providers and students on which skills are in demand. Other complementary levers for governments include better information on

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skills needs for students to make better informed decisions, skilled migration policies and industry-specific or regional programs. For their part, industries need to develop workforce development strategies to address their skill shortages.

## 6. Greater alignment of VET and higher education/ an expanded role for income contingent loans in VET

A well-designed VET student loan scheme can improve affordability and access to VET courses with few fiscal risks to government

NSW agrees with Interim Finding 6.1 that a well-designed VET student loan scheme can improve affordability and access to VET courses with few fiscal risks to government. The HECS system, for example, demonstrates the significant advantages and benefits of a well-designed student loan scheme that provides low risks to government without imposing stringent controls (such as prescribed course lists or loan cap restrictions). Given its robust design, it has effectively avoided the issues relating to the VET FEE-HELP scheme. While the current VET Student Loans scheme is a significant improvement on VET FEE-HELP some of its control, such as its prescribed course list and loan cap restrictions, still create significant access issues for VET students.

### Implementing an expanded loans scheme

In considering the parameters of the expanded loans scheme envisaged in the Interim Report's Option 6.4, NSW would support:

- Removing course restrictions on Diploma level and above qualifications;
- Expanding the VSL scheme to Certificate III and Certificate IV level qualifications;
- Easing restrictions on loan caps; and
- Removing loan fees.

NSW would support removing course restrictions in Diploma and above qualifications and expanding the loans scheme to Certificate III and IV level qualifications. NSW would particularly support the latter option as it would significantly improve access to VET qualifications and deliver benefits for a large portion of students and employers. Based on NCVER's Total VET Activity data, about 13 per cent of students in NSW undertook a Diploma or Advanced Diploma level qualification in 2018, compared to 60 per cent of students who undertook a Certificate III and Certificate IV level qualification. Expanding access to loans in the fee-for-service market may require safeguards to prevent unscrupulous provider behaviour and support quality training.



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Certificate III level courses are broadly considered to play a key and increasingly important role in providing entry to the labour market. As the Interim Report notes, Certificate III and IV level qualifications are becoming increasingly more important to filling gaps in the labour market. Research published on the Commonwealth Government's Jobs Outlook website also shows that NSW's current and future workforce demand is focused on skills delivered at qualification levels Certificate III and above. An expanded loans scheme could therefore support more students to enter the labour market and deliver significant benefits, particularly in employment outcomes.

Expanding the loans scheme to Certificate III and Certificate IV level qualifications would significantly strengthen the alignment between HECS and VSL, supporting parity of access between higher education and VET.

The use of loan caps in VSL creates significant access issues for students who need to pay out-of-pocket for any costs above the cap. Loan caps add limited protection for students against accumulating excessive debt, as students already have a lifetime loan limit under VSL. Rather, loan caps currently disincentivise students from undertaking VET rather than higher education, given that loan caps are not applied in the HECS system.

The prime responsibility of the Commonwealth Government should not be changed from providing direct funding for the VET system to issuing income-contingent loans for VET students

NSW does not support the Interim Report's notion (under Information Request – Implementing an expanded loans scheme) of changing the prime responsibility of the Commonwealth Government from providing subsidies to extending the VSL scheme. NSW does not support this notion for a number of reasons:

- There is a role for both subsidies and loans in tertiary education given that there are both public and private benefits of undertaking tertiary education;
- Subsidies and loans can be effectively used together. In higher education, the Commonwealth Government provides subsidies through Commonwealth Supported Places and manages the HECS loans system;
- The change could result in the Commonwealth Government reducing funding to the VET sector over time so long as students repay their loans. This would particularly apply if the minimum repayment income threshold were lowered;
- The change could significantly increase the costs for state and territory governments to support their VET markets, even as the benefits accrue to the Commonwealth Government through increased income tax and decreased welfare expenditure;
- The change would not support funding certainty for state and territory governments. Instead of a fixed funding stream from the VET Specific Purpose Payment, which supports the delivery of a range of targeted and fee-free initiatives in NSW such as

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apprenticeships, the change would provide for NSW a variable funding stream to support VSL eligible qualifications – a stream that would decline if student demand for training drops; and

- NCVER research has found that disadvantaged students are over-represented in lower-level VET qualifications, more so than in higher-level VET or higher education.<sup>1</sup> As a result, there is a greater need for Commonwealth funding in VET as it is more targeted to support the needs of disadvantaged students.

## The existing VET funding structure should not be significantly changed to accommodate an expanded VSL scheme

NSW would not support significant changes to the existing VET funding structure to accommodate an expanded VSL scheme. Under current arrangements, the Commonwealth Government provides consistent funding through the VET Specific Purpose Payment (SPP) to state and territory governments to support their training markets. State and territory governments are responsible for allocating this funding, providing their own funding, overseeing expenditure for delivery of training and ensuring the effective operation of the training market. These arrangements have provided the NSW Government with the stability, autonomy and flexibility needed to address the specific skills needs of the NSW economy. The VET SPP has also provided a strong framework and base funding to support reform through national partnerships, since national partnership funding has mainly been paid through reward payments in arrears.

Under these arrangements, NSW pays a larger share of funding into the VET market at 63 per cent of total Commonwealth and NSW Government funding for VET.<sup>2</sup> The NSW Government's investments have demonstrated very positive outcomes. The Infrastructure Skills Legacy Program (ISLP), for example, has set a range of targets across 14 NSW Government infrastructure projects since June 2016. This has resulted in over 35,000 people being inducted to work on construction sites, of whom over 26 per cent have undertaken accredited VET. This has also helped to create apprenticeship opportunities, with around 30 per cent of the projects' trades workforce having been apprentices. From 1 July 2020, the ISLP will become a mandatory requirement for all NSW Government infrastructure projects valued at over \$100 million. There is an expectation that the uptake of VET will increase significantly, given the NSW Government's investment of \$97 billion in infrastructure.

Expanding VSL should not come at the expense of providing the funding that NSW currently receives from the Commonwealth Government. The costs associated with

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<sup>1</sup> Tabatha Griffin, *Disadvantaged Learners and VET to Higher Education Transitions*, (Adelaide, National Centre for Vocational Education Research, 2014).

<sup>2</sup> National Centre for Vocational Education Research, *Government funding of VET 2018*, (Adelaide, NCVER, 2019).



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expanding VSL could be shared between governments. For this purpose, NSW supports greater joint planning and co-design with the Commonwealth Government to support shared accountability and avoid unintended consequences.

### The reporting processes for VET Student Loans could be streamlined

NSW supports streamlining VSL reporting processes for government-funded providers. Consideration should be given to enabling government-funded providers to report VSL data through standard processes under AVETMISS.

NSW would support easing the requirement for low-risk RTOs that VSL students confirm their continuation of studies at points throughout the year before the RTO is paid in arrears.

### Other approaches to supporting a well-functioning market could be considered

To inform and improve regulation of the VET market, governments could consider opportunities for increased collaboration and information sharing between the Commonwealth Government, the Australian Skills Quality Authority (ASQA) and other VET regulators, and state and territory governments. Potential areas for increased collaboration include the assessment of RTO applications to become a VSL or government-funded providers and the ongoing performance monitoring of RTOs.

Reducing the VSL's minimum repayment income threshold (as per Option 6.4) is not supported. It could be administratively complex for governments to manage and for students to navigate insofar as different thresholds would apply to VSL, HECS-HELP and FEE-HELP loans. The income threshold is currently consistent across the loan schemes.

## 7. Support for apprenticeships and traineeships

Experience shows that targeted incentives can be effective in increasing traineeship numbers in particular

Generally, apprenticeship take-up tends to reflect the state of the economy and employer confidence that their businesses will be strong into the future. When tracked against productivity measures over a 30-year period, NSW's apprenticeship growth waxes and wanes with gross state product. For traineeships, increases and decreases are found to correlate with availability of financial incentives for employers. When the Commonwealth Government rolls out incentives for specific industries, employers appear to respond. For example, the Kickstart initiative aimed at construction workers was heavily oversubscribed.

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Similarly, the withdrawal of incentives for existing worker traineeship subsidies in mid-2013 cut the number of existing workers traineeships in NSW from 19,941 in 2013, to 3,969 in 2014.

Supply of apprentices has been affected by the trend for and increasing share of school leavers and young people to enrol in universities. University studies are generally promoted over VET which, in tandem with uncapped funding in universities in recent years, has reduced the available pool of potential apprentices and trainees - students who in earlier years would have been available for trades and non-trades training. The Joyce Report stated that 'Fewer young people aspire to undertake vocational education courses. Many consider VET as less prestigious and only for students who are of low academic ability.'<sup>3</sup>

Some studies suggest career advisors and teachers promote apprenticeships and traineeships as a career option only for low achieving students. For example, Misko et al. noted that a lack of encouragement from teachers and counsellors can act as a potential barrier to greater interest in apprenticeships among school students.<sup>4</sup> Categorising students by their perceived ability levels, Misko et al. found that teachers were more likely to suggest to students that were 'performing not so well or not so well at all' to undertake apprenticeships compared with students that were 'performing at a very high level.'<sup>5</sup>

The growth in higher education participation is largely attributed to individuals with middle to high SES backgrounds. Karmel et al. noted that 'an expansion in the university sector had a negative effect on equity, with the distribution of apprentices shifting toward low-socio-economic status individuals.'<sup>6</sup> Karmel et al. noted that there was also an increased share of apprentices with below average mathematics and reading achievement levels.<sup>7</sup> These findings have implications for completion rates given the minimum literacy, numeracy and social skills required to successfully enter and complete even the least technically oriented trades.<sup>8</sup> The focus should be on recapturing the pool of young people who have been encouraged into universities, as well as bolstering skills, post school, through foundation skills courses.

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<sup>3</sup> Department of the Prime Minister and Cabinet, *Strengthening Skills: Expert Review of Australia's Vocational Education and Training System*, (Commonwealth of Australia, 2019).

<sup>4</sup> Josie Misko, Nhi Ngyen & John Saunders, *Doing an Apprenticeship: what young people think*, (Adelaide, National Centre for Vocational Education Research, 2007).

<sup>5</sup> Ibid.

<sup>6</sup> Tom Karmel, David Roberts & Patrick Lim, *The impact of increasing university participation on the pool of apprentices*, (Adelaide, National Centre for Vocational Education Research, 2014).

<sup>7</sup> Ibid.

<sup>8</sup> Phillip Toner & Chris Lloyd, *A study into pre-apprenticeship delivery models and their labour market outcomes*, (Sydney, Group Training Australia, 2012).

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## Levies are unlikely to increase employer take-up of apprentices

In NSW we are constantly reviewing our apprenticeship policy measures aimed at increasing the take-up. A national policy is needed to change the current educational focus on higher education entry which diverts attention from other available options for skills development. Such a policy could encompass changes in focus across all spheres including schools, industry and parental influence.

NSW has not applied industry levies in the past. In other states they appear to have been limited to the construction sector. Conceptually levies may appear to provide an “incentive” to employ apprentices. However, it is more likely they would penalise employers for not employing apprentices.

Levies might not change employer behaviour, even if revenue is reinvested as incentives, as there may be diverse reasons that employers do not employ apprentices.

## NSW has implemented a range of changes to streamline apprenticeships

Over the last five years NSW has implemented a range of improvements to the apprenticeship system to make it more nimble and responsive to industry needs:

- Apprentices and trainees may progress through their apprenticeship or traineeship at their own pace, use a variety of training delivery modes, and seek credit for previous relevant studies;
- The employer and their apprentice or trainee may apply to shorten or extend the training term in response to business or personal needs; and
- An employer and/or apprentice or trainee may complete their apprenticeship or traineeship before the completion date if they establish competency on the job and by completing their RTO training. In 2019, 60 per cent of all apprenticeships and 53 per cent of traineeships were completed based on competency-based completion.

In addition, NSW also offers:

- Non-apprenticeship pathway training in traditional apprenticeship trade vocations for people who have extensive industry experience; and
- Trade recognition for people with an Australian qualification and industry experience.

In its Interim Report, the Productivity Commission suggested several options to improve apprenticeship support services delivered by the Australian Apprenticeship Support Network (AASN) providers.

During the consultation process for the review of the NSW Apprenticeship and Traineeship Act in 2017, stakeholders raised concerns regarding services provided by the Australian

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Apprenticeship Support Network (AASN) citing lack of involvement or provision of timely advice. The requirements of the AASN's administrative practices, together with state practices, could be reviewed in an effort to further streamline the management process. Data interactions between AASN and NSW's VET data systems appear to be working efficiently. In NSW, employers and their apprentices and trainees are supported by Training Services NSW staff who are highly trained experts in dispute resolution, training options, legislative requirements and administrative procedures.

### Streamlining information on incentives

The Productivity Commission asked about ways to better coordinate and streamline information on the multiple apprenticeship incentives offered by Australian, State and Territory governments. It is already a function of AASNs to inform employers of all the incentives available to them. As the first point of contact, AASNs are best placed to explain those roles and responsibilities to employers and learners.

NSW employer incentives are limited to payroll tax deductions and reduced workers compensation premiums. Training for all apprentices and trainees is free in NSW and there are no tenure restrictions on the take-up of a trade apprenticeship in NSW. TSNSW meets regularly with AASNs to provide updated information on incentives.

### Consolidation of apprenticeship and traineeship support services in one agency may be more effective

Employers and apprentices and trainees may be confused by the variety of agencies engaged in apprenticeship and traineeship support. Governments could consider consolidation of these services in one agency.

The Productivity Commission may wish to consider the joint contracting model that has operated in the Northern Territory for some time, to assess whether this model might have application more broadly. Training Services NSW is an experienced provider of AASN services.

### Investment in employer support services and mentoring of disadvantaged learners may be more effective than incentives

The Productivity Commission's Interim Report asked about the effectiveness of measures to strengthen pastoral, mentoring and other support services for VET students. Barriers to apprenticeship take-up by disadvantaged groups often relate to employer reticence rather than availability of financial incentives.

In NSW, Opportunity Hubs are a major initiative of OCHRE, the NSW Government's Plan for Aboriginal Affairs. The Hubs provide personalised support for Aboriginal young people

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in their local area, particularly those at risk of leaving school. The Hubs link with schools, employers, training providers, support services and Aboriginal communities to deliver improved outcomes for Aboriginal young people, including increased participation and retention at school, aspiration and expectation of career pathways post-school. In 2019-20 the Hubs are currently engaged with 101 schools. The Way Ahead for Aboriginal people program provides targeted and culturally appropriate mentoring support for Aboriginal apprentices and trainees. There are 18 Aboriginal mentors who provide a range of mentoring services and support to Aboriginal learners.

## 8. Other issues

### COVID-19

The COVID-19 pandemic will have long-term impacts on skill formation and the VET sector in NSW

The COVID-19 pandemic has wreaked significant and enduring impacts on the labour market in NSW, which will have both medium and long-term impacts on skill formation and the VET sector market. The impact of COVID-19 will require a comprehensive and targeted skills response focused on the most heavily impacted sub-sectors, age groups, regions and occupations. Skill formation and the VET sector market are both critical levers in this response, meaning that both will be impacted by the needs of NSW's post-pandemic economy. There will be an amplified need for skills formation in certain sectors, for the delivery of skills to be targeted to vulnerable cohorts, and for the VET market to be increasingly flexible in delivering skills to match the immediate needs of the economy.

Younger employees are experiencing disproportionate displacement from the workforce as a result of COVID-19

Research commissioned by the NSW Department of Education finds that young, displaced workers are approximately 50 per cent more likely than other workers to stay unemployed for over twelve months, could have reduced earnings for up to ten years post-displacement, and are unable to fully shift into better jobs even once the economy returns. There is a need for VET to play a more active role in supporting vulnerable cohorts of young people, which includes providing support for young displaced workers, apprentices and trainees being stood down, and school leavers at risk of losing a connection to the job market. Further, as both an alternative to higher education and a pathway to it, VET can play a strong role in this impacted economy to ensure that young and vulnerable cohorts avoid a cycle of long-term unemployment.

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Beyond current arrangements, the VET sector can use the levers at its disposal to augment skills and employability. This means ensuring more readily available training in areas of need by refocusing the skilling offer to support redeployments and career transitions. It could also include offering wage subsidies for A&T employers for retention and schemes for additional hiring so that young and vulnerable workers retain a link to their employers. The VET sector could also play a bigger role in ensuring coordination between skills and employment, and generating more opportunities within regional areas. VET has a significant opportunity to expand its role in connecting vulnerable (particularly young) people with the job market through upskilling, driving opportunity, and facilitating employer engagement.

## Training product development

### NSW strongly supports efforts to streamline training package development, especially to improve speed to market

It is widely acknowledged that the training package development process is cumbersome and rigid. The VET Reform Roadmap, which is under further development in response to the COVID pandemic, has a strong focus on streamlining training package development, including fast tracking training product development. NSW strongly supports efforts to streamline training package development, especially to improve speed to market.

Another method to improve the speed to market of training package updates would be to maintain and expand the responsibilities of the Australian Industry and Skills Committee (AISC) Emergency Response Sub-Committee. This Sub-Committee was established to identify critical skills needs resulting from the impacts of COVID-19 and to fast-track training product development to address those needs. It has to date resulted in multiple new skill sets being established and placed on the National Training Register in a very short timeframe. The Sub-Committee will continue its work, identifying skills needs and training package development required to support industries and economic recovery.

The Sub-Committee is a good example of how training product development can be rapid and agile and be managed effectively and collaboratively between all key stakeholder groups, including industry, training package developers, and governments.

The Productivity Commission's suggestion of deferring responsibility to Industry Reference Committees (IRCs) to 'approve straightforward, non-controversial or minor changes to training packages' would, as the Productivity Commission notes, remove government oversight. It would increase decision-making in the IRCs with the intention of making industry more accountable. NSW would support such an approach being piloted, subject to processes being built in to allow escalation of any issues that may emerge to the AISC allowing it to intervene if required.

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The Productivity Commission's recommendation that IRCs 'commission updates to training packages where there is an industry-agreed change' would need evidence that the majority of the industry has agreed to the change and that the change is necessary, given that IRCs are representative in nature. The need to increase speed to market of training products needs to be balanced carefully against increasing unnecessarily the number of training products in the national system.

## The challenges of online delivery

The restrictions imposed by COVID-19 have challenged RTOs to dramatically increase the proportion of its delivery that is digitally-enabled. For example, TAFE NSW adopts a variety of approaches in online delivery, ranging from self-directed engagement with learning materials to teacher-led connected delivery sessions. These different approaches require distinct teaching and assessment resources and have quite different cost structures.

### There is scope to increase online delivery of training in some courses and for some students

There is some scope to increase the use of fully online delivery of VET, though this scope should be targeted and limited to suitable courses and students for whom online learning would meet their needs. There are some clear advantages of online delivery. As the Interim Report notes, increasing the use of online delivery could support increased competition and variety in the supply of courses, and address barriers to training relating geography (including the time and costs associated with travel), and flexibility for students (for example, for students who need to balance study with other commitments). While these benefits are supported by research for the NSW Department of Education, in general students were found to have a strong preference for modes of delivery that involve face-to-face interaction.

The suitability of online delivery depends on the kind of skills and potential risks involved in the training. In many cases training package requirements and pedagogical considerations will prevent adoption of fully online delivery of many qualifications. Blended delivery involving online delivery (and assessment) of knowledge-based components and in-person training and assessment of skills components is the best approach for many typical VET courses.

Fully online delivery may be suitable for some courses, such as courses focused on the provision of knowledge. These courses can more readily leverage the advantages of online delivery with its varied communication and collaborative platforms and channels, without necessarily posing training quality or safety risks.

On the other hand, courses that are focused on applied or practical skills, particularly involving the use of equipment or the implementation of safety procedures and practices,



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are less suitable for fully online delivery. For these courses, some components of training as reflected in training package requirements may need to be delivered and assessed face-to-face by a trainer or employer, or delivered and assessed on-site or in a regulated, simulated environment, to ensure the quality and safety of training. These courses are particularly common in the trades, including courses in electrotechnology, plumbing, gas, engineering and construction.

Other challenges to expanding online delivery include designing a learning program that fully addresses the range of knowledge and skills requirements of the qualification, maintaining learner engagement (and retention), and identifying a sustainable revenue and cost model.

### Innovative models of training can be applied to many areas where face-to-face delivery remains dominant

For example, TAFE NSW's Mobile Training Units allow it to extend delivery in the traditional trades to smaller campuses in regional NSW through Connected Learning Centres. Students from different sites can study knowledge components in the same learning session connected via videoconferencing technology with a teacher based on another campus. The Mobile Training Units are fitted out to meet training package requirements for the particular subject area (e.g. hospitality, welding, nursing).

TAFE Digital is also exploring the application of virtual reality and alternate reality technology in training delivery and assessment. TAFE NSW was recently recognised with a Platinum IMS Global Learning Impact Award on measuring the effectiveness of virtual reality for learning.

### Online training may not necessarily lower the cost of training

Online delivery may not necessarily facilitate lower incremental costs and therefore affordability of training. It is not yet clear whether online delivery necessarily reduces the contact hours (online or face-to-face) students need to achieve competency. The cost efficiencies provided by online delivery may be offset by students requiring further contact hours with the trainer to reinforce, validate or complement the knowledge and skills provided through online delivery. This is a particular risk where online delivery facilitates a significant increase in the student to trainer ratio. In addition, some RTOs (e.g. TAFE Digital) invest considerable resources ensuring that the fullest possible range of student support, including counsellors and disability consultants, is available to support online students. Fully online delivery may not involve a cost advantage for RTOs, particularly if lower completion rates typical of fully online delivery mean lower revenue for RTOs.



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The incremental costs of online delivery should be considered in the specific circumstances of each case, including student needs, training requirements, course enrolments and training provider capacity.

### Specific initiatives may be needed to encourage the adoption of innovative delivery methods

Investment by RTOs in innovative delivery of training or new types of training needs to take into account the risk that there may not be long-term payoffs against what is often a substantial upfront investment of capital, capability and other resources. Training package assessment conditions that are overly prescriptive in the way they specify the performance of tasks can also be a barrier to innovation.

### Online training is not accessible to all students

Analysis by the NSW Department of Education indicates that metropolitan students are more likely to undertake training online, which raises potential concerns about equitable access to training for students in regional and remote areas.

Fully online delivery may not be suitable or feasible for some students. For example, some students may not have the required language, literacy, numeracy and digital (LLND) skills to set up and operate online systems. Other students, particularly disadvantaged students or those in rural and regional areas, may not have access to the required technology (computers, Wi-Fi, bandwidth) for online learning. Some students may also require face-to-face training to support their LLND skills and to fully understand and complete the training requirements.

### Subsidy and pricing arrangements for the delivery of training

The Productivity Commission has asked what subsidy, pricing and costing approaches are appropriate for services that have high fixed costs and low incremental costs. NSW supports efforts to collect reliable, comprehensive, and regionally specific cost data. If a credible data set on cost can establish that some forms of training exhibit high fixed costs and low incremental costs and others do not, then consideration could be given to adjusting pricing and subsidy arrangements. Poorer outcomes for online students and higher withdrawal rates suggest that increased effort/ engagement by providers for online delivery than is currently provided is needed to address these issues, which implies that incremental costs may increase. The NSW Government supports the principle of transparency in terms of making public pricing and funding mechanisms and methodologies.

However, as stated in this submission the NSW Government has concerns with a national administrative price setting mechanism. A national model would also limit the NSW Government's ability to consider alternatives to the administrative model for setting prices,

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subsidies and fees, including using competitive mechanisms to determine providers' costs of delivery and set prices, or allowing flexibility in subsidies and/or fees. Reliable and comprehensive data should be collected on the costs of delivering training, including variations by region and mode of delivery and in the mix between fixed costs and incremental costs. Such data could help to inform pricing and subsidy arrangements.

NSW already has subsidy arrangements for payments across jurisdictions for online delivery of services. NSW makes payments to providers (some of which are registered or based interstate) under the terms of the Smart and Skilled contract, and these arrangements are equally appropriate concerning fully online delivery.

### Separation of training and accreditation

The potential for separating training and accreditation for online learning should be considered in the broader context of independent assessment and accreditation of skills.

The successful separation of accreditation from training is contingent on many factors. Best practice and innovative learning design may integrate assessment with training delivery to promote deeper understanding. The current business models of public and private providers are premised on training and assessment. The current design of training packages is also based on integrated training and assessment.