



ACT
Government

ACT GOVERNMENT RESPONSE

**Productivity Commission
Interim Report: National
Agreement for Skills and
Workforce Development**

July 2020

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EXECUTIVE SUMMARY/FOREWORD

The ACT government is committed to supporting a strong vocational education and training system that underpins equitable access to skills for Canberrans.

Gaining the skills of education needed at all stages of life

Canberrans have equitable access to education and learning opportunities, through all ages and stages of life, to develop and gain the skills needed to live life well.

- ACT Wellbeing Framework -

The ACT government supports the *2019 COAG Vision for VET* and notes the benefits the VET sector can bring to:

- > *the labour market* - qualifications provide entry to and progression in the workforce
- > *education* - qualifications provide students with the knowledge and skills they need to study at a higher level in their field or a closely related field
- > *society* - qualifications contribute to society by developing learners' appreciation of and contribution to culture and community
- > *individuals* - qualifications develop learners' capacity to meet their needs and aspirations and contribute to their families and communities.

The ACT government also supports the work of the (former) Skills Council in developing a Reform Roadmap to implement the COAG Vision.

The *National Agreement for Skills and Workforce Development (NASWD) Review: Interim Report* (the Interim Report) is presented at a time when the Reform Roadmap was well advanced, and changes foreshadowed to national commonwealth/state arrangements under the National Federation Reform Council. It is, therefore, timely to have the findings of the review to inform future national partnership arrangements.

The ACT Government supports the findings in the interim report that the NASWD is due for replacement and that there are opportunities to better allocate government investment in VET to improve outcomes for students and employers. However, ACT Government notes that there is limited focus on learner outcomes and quality of VET provision in the proposed principles of a new intergovernmental agreement.

This submission seeks to respond to the questions and recommendations raised by the Productivity Commission to assist further exploration of key issues.

Areas of broad support

The ACT Government supports recommendations that could assist with the evolution of the VET sector including:

- > the improvement of data linkages, access and skills demand forecasting,
- > enhanced curation of, and access to, information for VET consumers (learners and employers) and influencers (parents/carers, educators); and

- > a review of Australian Apprentice employer incentives to support identification of barriers and improved completion rates.

The ACT Government notes the work of the National Skills Commission on skills demand forecasting and the National Careers Institute on improving information for learners.

Areas that warrant further exploration

Alignment with COAG Vision for VET and Skills Reform Roadmap

Since August 2019, Skills Ministers have been driving a reform agenda to improve the VET system's relevance, quality and accessibility. The Interim Report's recommendations do not sufficiently acknowledge past and ongoing efforts, agreed by states and territories, to implement this agenda. Any future intergovernmental agreement should reflect the key priority areas and actions developed as part of the Skills Reform Roadmap, noting that this Roadmap has undergone extensive consultation with stakeholders and governments at the national and state/territory level.

Role of competition and price signals in delivering quality outcomes

There appears to be a reliance on competition and price signals as the key mechanisms to drive outcomes from VET promulgated in the Interim Report. There has been a history of price signals severely impacting on the quality of delivery and outcomes which have damaged the reputation of the VET sector. Governments cannot afford to do anything in the future that further risks the quality provision of VET.

Learners must be at the centre of VET reforms and be the prime focus of any funding agreement.

The risks posed by an over-reliance on markers of efficiency are most keenly felt by smaller jurisdictions (or thin markets), where there are outstanding questions around whether broad scale competition is the best way to deliver outcomes, or whether it would be more effective to invest in public providers.

Role of the public provider

An underlying assumption of the Interim Review appears to be that public and private providers should be treated similarly, in that they should both face additional competition. However, all governments will have different expectations for public and private providers in relation to how they operate, and how they deliver outcomes for the broader community.

The ACT Government has committed to providing the Canberra Institute of Technology a minimum of 70 per cent of public VET funding. This commitment acknowledges the important contribution made by the public provider, which includes delivering high-cost training not otherwise offered in the market; responding to current and emerging skills needs; and providing tailored services to a large variety of learner cohorts, including disadvantaged learners. For small jurisdictions such as the ACT, the public provider's role in meeting these needs is essential.

Existing policy frameworks and funding arrangements provide a sustainable platform for public providers, enabling them to fulfil legislated obligations and meet the broad spectrum of learners' and employers' needs. Public providers should remain the 'anchor' providers of VET, with government's efforts focussed on how public providers can be best positioned to meet student and employer needs both now and in the future. This approach does not negate the operation of a training market for particular sectors or locations.

Costing and pricing models

While there are improvements to be made with regard to common methods for measuring costs and loadings, implementing national pricing would prevent State and Territory Governments from responding to local labour market needs or emerging priorities. This issue is felt particularly strongly

by the ACT, given its unique economy and labour market. For example, higher-level (and higher cost) VET qualifications are in stronger demand in the ACT than in other jurisdictions, reflecting the ACT's unique workforce needs.

VET student loans

While an expansion of the VET Student Loans Scheme is supported in principle, further consideration is necessary to ensure: new learners are afforded an opportunity to participate in VET; there is no disincentivising in areas of skills need; and there is no cost-shifting to the States and Territories if the current policy continues of state and territory governments funding the debt not recovered where graduates do not meet the income threshold for repayment.

ALIGNMENT WITH COAG VISION FOR VET

Reform directions

The *COAG Vision for VET* agreed in August 2019 by the Australian Government and state and territory governments represents a consensus on VET reform in Australia. The VET Reform Roadmap, developed by senior officials lays out how this vision can be achieved. It views the reform direction of the system in a more contemporary context than the older NASWD, and is expected to play an important role in informing any future agreement.

The Roadmap's focus 'high quality education, training and assessment', could be more closely considered in the Final Report, as the interim report appears focused on efficiency and competition.

The Interim Report recommends the expansion of income-contingent loans, and underlines the importance of competitive markets, including competition for community service obligations. It is not clear how this would work to achieve the Roadmap's destination 'government VET investment supports economic and social priorities and complements the investment of industry and learners', which views VET as a means of achieving development goals, rather than as another market.

In addition to the Vision for VET and VET Reform Roadmap, any changes to the NASWD must ensure the VET sector can respond meaningfully to changes resulting from the Senior Secondary School Pathways and Australian Qualifications Framework Reviews

The 2019 COAG Vision for VET outlines seven key features that all Australian Governments were committed to delivering. While the interim report provides useful recommendations towards some elements of the Vision, its recommendations may bring unintended consequences affecting its other elements, particularly those that relate to culture, community, and the learner.

Principles based agreement

The ACT would welcome a principles-based agreement, including equitable access, a learner-centred approach, stable funding, more effective use of incentives, and greater parity in the treatment of the VET and higher education sectors.

While it is noted that additional measures may be required around the efficiency of the investment in VET, the rationale for inclusion of some of the proposed principles is less clear. For example, it is questionable that competitive neutrality is possible in some locations or markets, and it is unclear how this will drive improved outcomes for learners.

The targets under the NASWD have not maintained relevance over time. States, territories and the Commonwealth should work together to agree on targets that are both relevant and attainable

under the new NASWD, consistent with its principles, and which recognise different jurisdictions' labour market and economic realities. Such an approach would enable the design of a more responsive VET systems focussed on outcomes for learners and maximising returns on investment by governments.

QUALITY OUTCOMES

While it is important that the system be efficient, the pursuit of efficiency should not be at the expense of quality and outcomes for learners. Some courses are more expensive to deliver and providers in some locations face a higher cost of delivery. A focus on efficiency alone risks a 'race to the bottom' and could result in less than optimal outcomes for learners and, potentially, a lower return on government investment. Indeed, there is some evidence this has already commenced in some parts of the sector.

The proposed principles place a considerable focus on efficiency and pricing and need to be more balanced with quality and outcome principles.

Efficiency can be understood and pursued in a way that does not compromise quality. For example, allocative efficiency arises when VET products represent consumer preferences, and when additional investment provides a tangible additional benefit to learners, employers and the economy. Allocative efficiency can be contrasted with technical efficiency: producing the maximum output from the minimum quantity of inputs. Allocative efficiency addresses shortcomings in quality, where technical efficiency does not. As such, more focus should be given to improving student and employer satisfaction with the quality and relevance of training, and student employment and education outcomes.

Ensuring the VET system is effective is fundamental to underpinning quality outcomes. This requires:

- > understanding the multiple purposes of VET;
- > differentiating the needs of different cohorts of learners and employers; and
- > adapting VET products and funding to optimise outcomes.

The VET system, and any associated funding agreements, must recognise these differences, and tailor funding and incentives accordingly. In considering changes to the NASWD, it is crucial that it enables governments at both levels to better understand and target the multiple purposes of VET, better pursue fitness for purposes/effectiveness, and thereby better address the needs of its users.

LEARNERS AT THE CENTRE

Any future design of the VET system must be centred around learner outcomes. People will seek to access VET for different reasons, in different ways and at different times of their life. This concept underpins one of the 12 domains of the ACT Wellbeing Framework. The 'education and lifelong learning' domain recognises that education is key to influencing an individual's wellbeing from a young age; it enables people to make informed choices, meet their needs and aspirations, and participate in the community and the economy.

There is no 'one-size-fits-all' approach to funding and delivery of VET. Different learners will undertake VET for different reasons, they will seek different experiences and outcomes, and the measures of success will be different. Therefore, the system and its funding models should be flexible enough to accommodate the various expectations of learners.

Regional differences are also likely to affect outcomes. Outcomes are likely to be impacted negatively if funding is specified in such a way that it does not account for different regional costs of delivery, differences in capital requirements associated with different industry specialisations, and economies of scale. The future outcomes of the VET system depend on the ability of governments across Australia to recognise these critical differences and design a system that responds to them effectively.

Online Learning

Online learning has the potential to engage a broad range of learners and may be seen as a way to reduce the cost of delivery. For many providers, the COVID-19 pandemic has accelerated the shift to online delivery. In VET, which is by nature practical and applied, this is not necessarily an optimal end-state.

While certain courses can be delivered effectively online, for others, the nature of the learning makes online delivery challenging. Similarly, there is considerable evidence that many learners, especially those needing additional supports including in language, literacy, numeracy and digital skills, will not be able to engage meaningfully in online learning.

High-quality online delivery can be more expensive and time-consuming for providers to develop, particularly in the formative phases, but could lead to better outcomes for some learners.

Therefore, any price signals that may be sent to promote online learning should be done with learner outcomes in mind.

COMPETITION AND THE ROLE OF THE PUBLIC PROVIDER

The rationale for ‘competition’ as an outcome unto itself is neither clear, nor seemingly grounded in evidence. This approach fails to take into consideration the nature of VET as a public good and the variety of purposes for different types of consumers.

There are numerous examples of privatised markets in tertiary education (Chile, United States) and healthcare (United States) where competition has put upward pressure on costs and negatively impacted the quality of outcomes. While there is certainly a place for robust competitive markets in the case of upskilling, this is not the case across the board.

Internationally, in jurisdictions with the most effective VET systems for initial learners (such as Germany, Switzerland and Ontario), this education is provided almost exclusively by public providers. In this context, the assertion that ‘funding higher-cost providers outside competitive processes will diminish returns from the public funds invested in training’ is dubious.

Overall, the policy objectives of the NASWD should be on achieving improved student and employer outcomes and then using market competition to improve the allocative efficiency of those outcomes. Competition policies and market design must recognise the nature of VET is different for different cohorts. It should therefore focus on tailoring information to their needs, while also recognising the nature of VET as a public good.

This further puts into question the concept of competitive neutrality, given:

- > the substantial investments states and territories have made in their public providers,
- > the substantial public value that VET provides, and
- > the fact that delivery of public goods should not necessarily be attached to a profit motive.

CIT, the ACT's public provider, plays a central role in the design and delivery of VET for nearly twenty thousand Canberrans every year. In partnership with employers and community organisations across the ACT, CIT provides future-focussed education and training across a broad range of programs, giving learners agency in their personal and professional lives, and enabling them to contribute meaningfully to the community and the local economy.

Community Service Obligations

The Interim Report states a clear reform direction is 'supporting effective competition in service delivery by establishing clear, contestable community service obligations.' However, there is currently no shared definition for 'community service obligation' in the area of VET provision. This poses a challenge to understanding or quantifying the range of community service outcomes delivered by the VET system. Before the establishment of community service obligations becomes a reform agenda, a firm understanding of what these look like in the VET context must be obtained.

Further, any understanding or definition of a 'community service obligation' must recognise the costs incurred by supporting governments' economic and social priorities. It could be extended to include the need to deliver a breadth of courses, to a breadth of learners, in a breadth of locations, which may not be in the institution's commercial interest, but will benefit the economy and community they serve. In the ACT, these obligations are fulfilled by the public provider.

Public VET providers, such as CIT, are government agencies with legislated mandates. Given this, as well as the inconclusive outcomes of previous attempts to privatise public education services, there is currently insufficient rationale for introducing a competitive market for community service obligations.

Any assessment of public providers' current activity must recognise the challenges they face with balancing funding across government priority areas, which are often loss-making in a commercial sense, and the fact that the private provider market has increasingly taken over delivery of more profitable and less capital-intensive qualifications. Any consideration of imposing additional community service obligations on public providers must contemplate their pre-existing, and often expensive, role in serving the priorities of the Government of the day and the community.

COSTING AND PRICING MODELS

There is an intersection between quality and pricing and a high quality product would usually require a higher price compared to a lower quality product which could be delivered at a lower price, which is important when considering the level of subsidy

The ACT is a high-cost, high-quality deliverer of VET. A national efficient price is essentially based on average cost, and will not fund to the ACT's actual expenditure level. While the ACT could not support a nationally consistent set of course subsidies, there could be merit in simplifying subsidy groupings. States and territories need the flexibility to set subsidy rates that provide strong signals about priorities and skills needs specific to the local context. For the ACT, for example, this tailoring would seek to develop a VET system that responds to the unique needs of our knowledge economy.

To investigate merit in simplifying subsidy groupings, the ACT Government would welcome an approach to measuring cost that is strongly evidence-based and developed and agreed nationally by the National Skills Commission in partnership with state and territory governments.

It is acknowledged that price signals do play a role in course selection and the consumption of education services and that income contingent loans can balance the returns to the individual and the returns to society and the economy, when properly managed and appropriately applied. Part payment of courses can help with allocative efficiency and providing more places

VET STUDENT LOANS

Income-contingent loans have the potential to increase access to training for learners and promote parity with the higher education system. However, care must be taken in the design of a future loan scheme to account for the lower earnings typically achieved by VET graduates and the potential that many will face debt repayments for much of their working lives.

If tertiary education is going to support intergenerational social mobility, it must enable learners from disadvantaged groups to enter the labour market with a minimum of existing financial burdens. For these initial learners, there is no compelling reason to shift funding from governments to learners, especially where society as a whole stands to benefit most in the long-term.

It is also worth considering that in industries with low-cost funding models and skills shortages (e.g., children's services, aged care, the NDIS), loan repayments could be a disincentive for workers to engage in training and that the availability of student loans (in addition to baseline subsidies) could see the artificial inflation of course prices. This could have significant consequences for workforce supply in these key skill shortage areas.

Outside initial learners and industries with skills shortages, there is a case, however, for making income-contingent loans available to existing workers, particularly those who are already employed and seeking to build upon existing skills.

Student loans have a place in VET, but the scope and implementation of loans needs careful consideration.

As noted above, it is important that any changes to VET student loans not shift costs to states and territories, if the current policy continues, whereby state and territory governments fund the debt not recovered where graduates do not meet the income threshold for repayment.

DATA AND INFORMATION

The recommendations in the Interim Report about the need to improve VET data and information is strongly supported.

High quality data is essential to performance improvement and considerable progress has been made since the NASWD was first designed. The performance measures should be updated to include new sources of data and data collection methods implemented since the original NASWD was agreed. The updated measures of performance should continue the focus on quality, and not be primarily focused on technical efficiency.

The economic profiles of states and territories vary significantly, and the VET sector must respond to these varied needs. It will be important that state and territory governments have access to relevant information about local labour markets, workforces and future skills needs and growth sectors, which can be used to prioritise funding effectively.

The ability to account for time-lags is just as important as the measures: more access to valid real time data and greater use of longitudinal data would improve information on VET system performance and support policy decision-making.

Assessing skills shortages

The ACT Government would welcome the assistance of the National Skills Commission in developing robust forecasting methodologies for states and territories to take on board in determining their local skills needs lists. This would support a consistent approach to the determination of regional skills shortages, recognising variations in local labour markets and government economic priorities.

Labour markets are inherently local. It is therefore local specificities that determine the skills employers need. Skills that are highly specified at the national level will not necessarily be able to address these local needs especially in unregulated occupations. This ultimately undermines confidence in the system, as these employers will either provide negative feedback about the VET system, which will self-perpetuate, or will look for skilled workers elsewhere (for example in higher education). This highlights the importance of greater integration between industry and education, greater flexibility in meeting current skill needs, and improved ability to determine emerging needs.

Emerging skill needs are particularly difficult to forecast in areas of rapid transformation such as in digital and other emerging sectors, as the determination of skill shortages depends on the availability of indicators, which have both lag and lead-time problems. Any national methodology for skills needs forecasting should recognise and seek to alleviate this difficulty.

SUPPORT FOR APPRENTICESHIPS

The ACT supports a more effective approach to incentivising and supporting apprenticeships and traineeships.

The ACT supports the option to extend eligibility for trade apprenticeship incentives to all workers, regardless of their tenure with the employer. In addition to the benefits of administrative simplicity, this option would complement ACT Government-funded initiatives to support the upskilling of existing trades workers via Mature Australian Apprenticeships.

The ACT also supports the Interim Report's suggested options for supporting trade apprentices by addressing barriers to hiring apprentices, including their foundational skills, work readiness and the minimum wages or other award conditions set by the Fair Work Commission.

Future inter-governmental funding agreements will need to provide for any new or expanded initiatives that increase the commencement, retention and completion rates for trade apprenticeships which emerge during the life of those agreements.

For example, under the *National Partnership on the Skilling Australian Fund* (NP SAF), the ACT Government expanded its support for Australian Apprentices, including funding a range of services to address barriers to employment, develop foundational and work readiness skills, and provide mentoring and pastoral care. The success of these initiatives is evidenced by the increase in commencements and retention in the ACT in recent years. However, the NP SAF did not provide funding for the increased demand for Australian Apprenticeship training places associated with successful support initiatives, which placed pressure on the ACT Government's budget for Australian Apprenticeships.

As a means of increasing the funding base, the ACT also supports the option for a more in-depth exploration of training levies. Training levies have had some success overseas (e.g. England and Singapore). Levies can provide employers with joint ownership of the VET system in addition to giving them 'skin in the game'. They can also reduce incentives for employers to 'poach' trained workers from their competitors.



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