

Productivity Commission

Review of the National Agreement on Skills and Workforce Development

Submission from the South Australian Government on the Interim Report

July 2020



South Australian Government submission to the Productivity Commission's Interim Report on the National Agreement for Skills and Workforce Development Review

Summary

South Australia is committed to working with the Australian Government and other jurisdictions to reform vocational education and training to ensure it delivers quality outcomes for individuals, industry and the economy from the significant public investment that underpins the system.

As a nation, we need VET to be relevant, accessible and high quality, delivering an excellent standard of education and training that supports individuals to obtain the skills they need to participate and prosper in the modern economy. We need to rebuild trust and confidence and make the system more responsive and adaptable to changing economic, labour market and social conditions.

As we move to a new national agreement, Australia's skills system needs a level of stability to ensure training providers are viable and adaptable, combined with significant reform to rebuild credibility, effectiveness and trust. Likewise, national coordination and leadership must be balanced with the flexibility for jurisdictions to develop policies and allocate funding based on local needs and circumstances.

South Australia will seek a long-term principles-based agreement that provides stability for the sector, flexibility to allocate funding based on local needs, and responsiveness to adjust to emerging needs.

The new national agreement should be underpinned by accountability and transparency in the allocation of funding and the outcomes achieved from both public and private investment.

South Australia calls on the Australian Government to urgently clarify national governance arrangements for vocational education and training.

Introduction

South Australia welcomes the Productivity Commission's interim report on the NASWD and agrees that significant reforms are required to make Australia's VET system a more efficient, competitive market, driven by the informed choices of students and employers, with the flexibility to deliver a broad suite of training options, now and into the future.

As noted in South Australia's initial submission to the Review, a changing national context combined with shortcomings in governance means there has not been a stable focus on the outcomes sought in the NASWD. And while there has been progress against the objectives in the agreement, the outcomes and reform priorities need clarification and updating. This need has intensified as a result of the COVID-19 crisis which is having significant short-term disruption and long-lasting impacts on the sector and economy.

There must be capacity within a new funding model to adjust approaches to respond to changing circumstances, without the need to renegotiate a new agreement. Stability in funding arrangements will provide greater certainty for jurisdictions making investments during uncertain times.

The agreement must be underpinned by improved performance measures that are valid, reliable, easily collected and nationally consistent.

There are many strengths in current arrangements that should be maintained in a new agreement. As the Productivity Commission notes, South Australia's approach to determining students' suitability for their chosen course and their need for any supports is an essential part of a student-centred approach which should be adopted more broadly across Australia.

Throughout the life of the current NASWD South Australia has responded nimbly to changes in national policy direction, being one of the first states to introduce an entitlement system and more recently, under the Skilling Australians Fund National Partnership, to focus on growing apprentice and trainee commencements. This has been achieved by partnering with industry, co-designing tailored projects to meet their needs, promoting skilled careers as a first choice and building the capability and capacity of the training sector.

Since the launch of Skilling South Australia in September 2018, we have worked collaboratively with industry and business to develop over 130 projects, valued at more than \$24m, to address workforce needs and create apprenticeship and traineeship opportunities for individuals. Projects have been developed in industry sectors as diverse as aged and disability care, craft brewing, childcare, ICT, cybersecurity, aerospace and food, wine and tourism.

These projects have been developed by working collaboratively with industry stakeholders to co-design skilling responses that are tailored to the specific needs of sectors, regions and individuals. They support training delivery as well as mentoring and other supports.

We have also invested \$1.5m to support training provider capability and created a multi-faceted marketing campaign with promotional information available on new websites for students, employers and training providers.

Future policy and funding arrangements should enable jurisdictions to respond in this way and to continue to deliver innovative responses.

The need for a new national agreement

It is time to establish a new national architecture that gives VET credibility and stability and that restores trust in the sector. Commonwealth, State and Territory governments have legitimate and important ongoing roles in the VET system and a well-managed approach of cooperative federalism is the appropriate mechanism to guide future VET reform. South Australia welcomes negotiations on funding arrangements and respective roles and responsibilities going forward. Role clarification and improved role articulation between the Commonwealth and jurisdictions will streamline and improve the effectiveness of Australia's VET system for the future.

South Australia supports the Productivity Commission's call for a principles-based approach to future VET reform, underpinned by improved targets and performance measures. There must also be a renewed commitment to evaluation, monitoring and reporting on implementation and outcomes by all parties to the agreement.

South Australia has worked closely with other jurisdictions on the draft national VET Reform Roadmap and is pleased that the reform directions developed by Skills Council will provide a solid base from which to negotiate a new national agreement for skills and workforce development. Funding provided through a new agreement should support the delivery of the short, medium and long-term actions outlined in the Roadmap.

The principles underpinning a new agreement should align closely with the shared Vision for VET agreed by COAG in August 2019, including the acknowledgment that VET and higher education are equal and integral parts of Australia's post-secondary education system. The principles should also take account of the three priority reform areas outlined in the draft VET Reform Roadmap: relevance, quality and accessibility.

The Productivity Commission's interim report is seeking detailed further information from stakeholders. South Australia is of the view that many of these details are best negotiated through national governance arrangements and bilateral negotiations.

The shape and content of a new national agreement

In line with the Intergovernmental Agreement on Federal Financial Relations, South Australia advocates that states and territories should retain primary responsibility for service delivery – including purchasing training, VET market development, accessibility and pathways and program delivery. South Australia remains strongly of the view that to be effective, the VET system needs to combine national consistency in relation to such things as regulation with responsive local (State and Territory) funding and management of training and support services. This is supported by the Productivity Commission's principle of subsidiarity.

States and Territories are closest to industry and need the flexibility to determine the best approach to meeting local skill needs, with the ability to adjust settings in the local market as circumstances change. Jurisdictions should have the autonomy to determine and allocate investment aligned to their economic and social objectives and customer (student and industry) needs. To achieve this, South Australia is seeking a long-term agreement with a combination of block and activity-based funding.

Block funding over a two or three year period will provide stability for the sector and help support the development and implementation of strategies to increase industry engagement, drive sector capability and capacity, improve the viability of the public provider, develop information and advice that support decision making and provide gateway and support services that help students to select training most suited to their needs and aptitudes, and to successfully complete their studies.

Activity based funding for training delivered, rather than rigid performance benchmarks and milestones that require frequent reporting against targets, will help streamline the system considerably. Activity based funding also provides the flexibility to target delivery based on local needs, through loadings for delivery mode, regionality and assessed student support needs.

Funding should support qualifications as well as shorter form training such as micro-credentials including skill sets and skills clusters. South Australia is well positioned to do this given its current approach to subsidies, in particular the practice of paying providers based on actual activity at the unit of competency, rather than course, level. South Australia's approach to subsidy pricing provides a number of key benefits that other jurisdictions are not able to achieve, including:

- greater efficiencies
- the ability to drive consumer and provider behaviour (avoid 'cherry picking')
- improve cash flows for training providers
- better alignment with future directions and the shift in demand to short form credentials.

The new agreement should be supported by well designed *transition arrangements* that ensure viability of training providers and affordability of training for students, while also minimising further disruption. It must be underpinned by improved performance measures that are valid, reliable and easily collected and nationally consistent transparent reporting aligned to improved data collections.

A mix of short, medium and longer-term reforms

The Productivity Commission review is being undertaken against the backdrop of the COVID-19 crisis which is causing significant disruption for students, employers and VET providers, but also resulted in innovative ways of delivering training which provide the opportunity to embed new, more efficient practices across the sector.

There is significant disruption to the governance, funding and operations of the sector - at a time when engagement in education and training is more important than ever and when certainty and stability are critical.

This combination of factors calls for a reform approach that supports short, medium and long-term objectives as the economy and society rebuild in a COVID-safe environment. The draft VET Reform Roadmap provides a framework for this and the Productivity Commission's interim report acknowledges the challenges and opportunities resulting from the pandemic.

Reforms should allow for continued support for traditional forms of skills development such as apprenticeships, combined with new and innovative approaches to support other forms of employment based training as well as the acquisition of foundation literacy, numeracy and digital skills, and skills to support worker transition to new and emerging jobs as the economy rebuilds.

Reform priorities

South Australia broadly supports the areas of reform identified in the interim report, which deal with establishing clear community service obligations; better data collection and more transparent reporting; better information for students; course pricing; and a single national regulator.

The Commission has also flagged for further consideration a number of reforms to VET funding including simpler subsidies, expanding access to VET Student Loans, using student vouchers instead of subsidy payments and changes to incentives for employers to train apprentices.

From South Australia's perspective, the most immediate reform priorities include design of qualifications and other credentials that respond to current and emerging industry needs; delivery approaches that are flexible and meet the needs of industry and students; building the capacity and capability of the VET sector; and repositioning VET within secondary education and developing clearly articulated pathways between school, VET and higher education.

Promoting choice, quality and seamless pathways

South Australia is of the view that there is a role for both income contingent student loans and course subsidies in a well-functioning market, however design of these approaches is critical to their success. It is also important that sufficient investment is allocated to support market development objectives and capability building of the VET sector workforce to support quality, accessibility and user choice.

South Australia has already identified a need for immediate reform of VET Student Loans (VSL) and agrees with the Productivity Commission's findings that the current VSL is bound by complex restrictions and poorly targeted and burdensome administration. In its current form, not only does VSL limit access to loans for many students, but it has adverse effects on incentives. Current settings for VSL have limited student choice and created barriers to undertaking vocational training at higher levels. South Australia is of the strong view that qualifications at higher levels that are occupationally aligned should be more accessible to learners. Reform of VSL is essential in achieving greater gender equity in VET enrolments and improved access by other underrepresented groups.

Reforms to VSL should focus on removing barriers to accessing training and ensuring learner choices are not distorted. Student loans are a critical tool in facilitating better integration and permeable pathways between VET and higher education, and in positioning VET as an equal and valued pathway for students. VSL is an important tool in achieving greater consistency between VET and higher education loan arrangements, in support of the national vision for VET.

Stability in the training system and rebuilding market depth and trust

Any expansion in access to loans should not be at the expense of course subsidies paid to providers. As the Productivity Commission notes, there are public benefits associated with training that justify well targeted subsidies. Subsidies allow jurisdictions to target investment to priority sectors and to manage market stability and development. When combined with concessions and loadings they also enable states and territories to ensure access and equity for students and regions.

South Australia supports work on a consistent national methodology for determining prices and subsidies but strongly believes that states and territories should have the flexibility to determine their subsidy arrangements and to set subsidy pricing that reflects the full cost of delivery which meets Government expectations of training that is relevant, accessible and high quality.

State and Territory governments play a significant role in the operation of a contestable VET market that provides choice and access for students and industry. This includes balancing diversification of the supply of training with the significant ongoing role of public providers, particularly in thin markets. The role of the state is critical in driving both training supply as well as student demand to meet economic and social priorities.

Better public reporting of subsidies and subsidy rates by governments, and course prices by providers will significantly improve transparency and contestability, and support more informed decision making by students and employers.

A greater focus on students

South Australia supports the Productivity Commission's focus on a 'student-centred' VET system. This is best achieved through the provision of good information and navigation of services, choice of course and RTO, access to gateway and learner support services and the availability of a well designed and accessible student loan scheme that supports the attainment of credible qualifications and lifelong learning pathways.

South Australia has led the way nationally in relation to gateway and learner support services. South Australian students are well-supported as they start, maintain and complete their studies. All students undertaking publicly subsidised vocational education and training undertake an upfront assessment of need to determine their suitability for VET study, as well their need for additional supports. For students who are assessed to need additional support, Learner Support Services provides individualised support to students, including apprentices and trainees, with barriers to training through a case management model. The overall completion rate for students receiving LSS is approximately 7 per cent higher than overall completion rates and more than double the average completion rate for students facing complex barriers generally. In 2021 upfront assessment of need and learner support services will be extended to school students undertaking publicly subsidised VET through school-based arrangements.

South Australia is of the view that student fees should remain as an effective way of ensuring co-investment in training (skin in the game) but believes that price (and fee) setting by providers is a fundamental driver of competition and should remain a feature of the system. Greater transparency in the prices charged by providers is critical in empowering students to make informed choices.

National coordination and leadership, coupled with local flexibility

Australia's VET system would benefit from a more reciprocal accountability approach embedded in a new national agreement. Targets and the performance framework could be better aligned with areas that each level of government can effectively manage. National governance would be strengthened by reflecting the national VET sector leadership role that most appropriately rests with the Commonwealth - to coordinate and lead national reforms in partnership with States and Territories.

It is critical that all players in the system have a better understanding of the true costs associated with the delivery of responsive, high quality and accessible training. South Australia supports the establishment of the National Skills Commission (NSC) to coordinate and consolidate the nation's capability to support knowledge development, as a resource and reference for all jurisdictions and stakeholders. It is imperative that this work is undertaken in consultation with States and Territories. South Australia suggests that the NSC be broadened to a national body with buy in from States and Territories to deliver on shared priorities.

Streamlining training products and processes

The changing nature of work and the need to support mobility across the labour market, as well as movements in and out of work and learning, highlights the importance of a life-long learning approach to the pathways through which VET can be accessed. In the context of an increasingly contestable approach to government funding, reforms that reduce complexity such as reform of training packages to rationalise qualifications and improving the timeliness and relevance of training products, and quality of information available, are all important.

Streamlining and rationalising qualifications and credentials will simplify delivery, make the system easier to navigate for users, and enable greater investment in learning materials and practitioner capability. Speeding up the development of training packages and qualifications, and ensuring qualifications are relevant to the recovery environment, including through the use of micro-credentials and other shorter forms of training, is more important now than ever.

The NSC will play a role in developing a nationally consistent framework for skills and occupational demand forecasting to inform decision-making and VET investment to meet the needs of the changing economy and society. This could be supported by the exploration of new assessment models to increase confidence in VET qualifications.

A balance of traditional approaches with new, innovative models

Building on the innovative approaches witnessed during the COVID-19 crisis - which saw a large scale shift to new delivery platforms, most notably online delivery - provides the potential for significant efficiency gains across the system. However the implications on quality, for cross-jurisdictional delivery, and associated pricing and funding arrangements, need to be carefully worked through. While there is undoubtedly room for efficiency improvements through expanded use of technology in the delivery of VET, we must remember that online delivery is more suited to some occupations than others. There will always be a need to balance online delivery with the on-job competency-based approach that is the defining feature of the VET system.

The COVID crisis also saw a large drop out of apprentices from the system. There is a need to urgently develop measures to keep apprentices and trainees connected to employment to provide a pipeline of skilled workers for the future. There is also a need to ensure long term commitment among all stakeholders to employment-based training arrangements, broader than just apprenticeships and traineeships. A considered review of employer incentives which identifies workable alternatives is central to this. It will be important that any changes to current arrangements do not result in unintended consequences as has occurred in the past.

Through Skilling South Australia there has been a renewed commitment to apprenticeship training in South Australia by employers, job seekers and training providers. This must be maintained post COVID and embedded in a new national agreement, while also supporting new innovative forms of skills and workforce development.

South Australia agrees with the Productivity Commission's observation that, in addition to a review of employer incentives, there is a need to address barriers to hiring apprentices, including their foundational skills, work readiness, and the minimum wages and other award conditions set by the Fair Work Commission.

Summary

This submission from the South Australian Government argues that, as we transition to a new national agreement, Australia's skills system needs a level of stability to ensure high quality training providers survive the current crisis and market depth can be maintained and expanded. Moving forward, there is a need for significant reform to rebuild credibility, relevance, effectiveness and trust.

National coordination and leadership must be balanced with the flexibility for jurisdictions to allocate funding based on local needs. This will be best achieved through an agreement that is based on sound principles and that allows for a combination of block and activity based funding, with jurisdictions retaining primary responsibility for service delivery.

The new national agreement must be underpinned by accountability and transparency in the allocation of funding and the measurement of outcomes which draws on nationally consistent, readily available data.