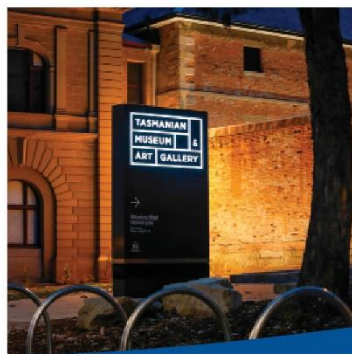
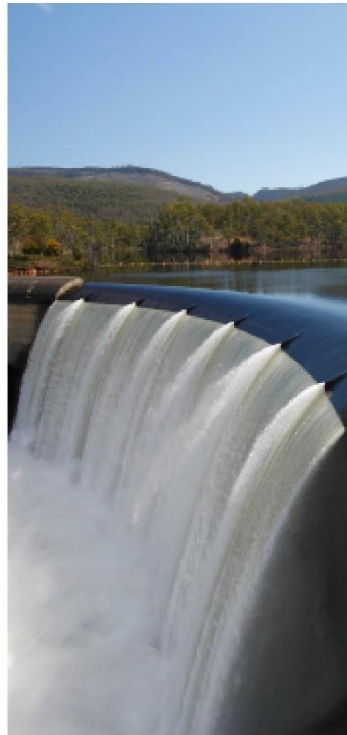
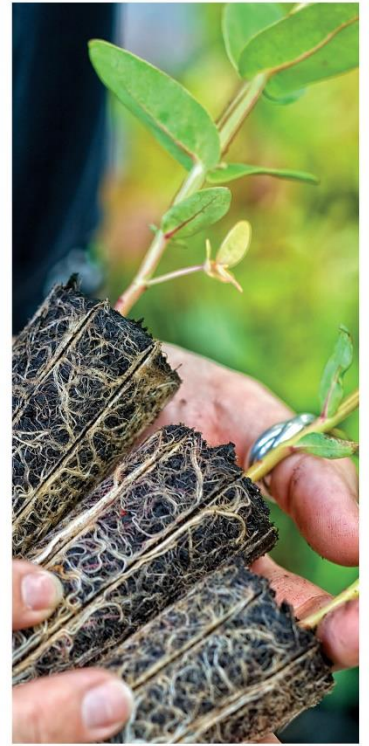
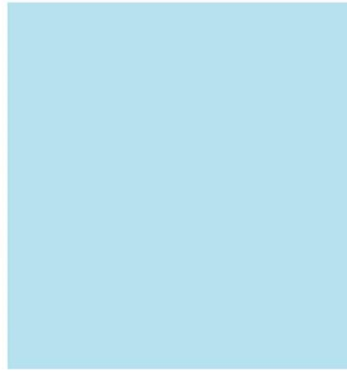


Tasmanian Government Submission
to the Productivity Commission
Interim Review of the National
Agreement on Skills and Workforce
Development

Tasmanian Government Submission



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Introduction

The Productivity Commission's (PC) Interim Report of its review of the National Agreement for Skills and Workforce Development (NASWD) is extensive in its scope and ambition. The PC has ably synthesised and presented information and its analysis of the workings of the VET system in Australia as well as reviewing progress against the targets, outcomes and performance indicators in the NASWD. However, the PC acknowledges in this Interim Report by its wide ranging 'Information Requests' of States and Territories that it has significant further research and analysis to complete before presenting a final report in November this year.

In reviewing the NASWD, the PC understates the significance of the NASWD and the Intergovernmental Agreement on Federal Financial Relations (IGA FFR) signed by all States, Territories and the Australian Governments in 2009. Signing the National Agreements and the IGA FFR marked the end of three yearly cycles of negotiations and onerous reporting on over approximately 100 Specific Purpose Payments. Negotiations that involved significant administrative transaction costs at both levels of government and often, disputes between governments. The three year cycle of funding through those agreements also made it impossible for States and Territories to plan the long term training needs given apprenticeships typically run 3-4 years.

Importantly, signing the National Agreements explicitly recognised that the Specific Purpose Payments, owing to the Australian Federation's extreme Vertical Fiscal Imbalance (VFI), funded core State and Territory services.

The NASWD confirmed the flexibility in funding arrangements for States and Territories and at the same time provided a shared framework for collaboration and long term reform of the VET system. The Interim Report finds that 'while some progress has been made, many of the reform directions (in the NASWD) have not been met' (P18).

The Tasmanian Government strongly supports the need for sensible reform of the VET sector as a key enabler of economic recovery and considers that the COAG agreed principles of relevance, quality and accessibility should continue to guide reforms. The Tasmanian Government's major concern with the Interim Report, is that there is an over-reliance on the efficacy of a market based approach for VET. With the over-reliance on the efficacy of a market based approach, the PC Interim Report does not adequately address the principles of relevance, quality and accessibility for VET, particularly in regional settings such as Tasmania.

There are a number of VET reform processes currently underway through the Education Council, Skills Council, National Cabinet and Council on Federal Financial Relations. A number of these processes are progressing at pace and are not aligned which inhibits meaningful analysis. Given the scope of reform proposed by the PC's Final Report, the Tasmanian Government would welcome greater clarity on how it links to related work underway, including work on VET in Schools and the Senior Secondary Pathways Review. In the absence of clarity on these linkages, the feedback provided in this submission is also likely to be relevant to the delivery of VET in Tasmanian schools.

The Interim Report makes: 12 Interim Findings; 8 Interim Recommendations; presents 9 Options; and, a further extensive list of Information Requests. Owing to the tight timeframe for submissions to be received by the PC and the limited resources available to respond to the complex, extensive and detailed matters raised in the Interim Report, this submission will respond to two of the Options and the Interim Recommendations.

The Context of VET in Tasmania

The Interim Report does not adequately take account of the substantial diversity in labour markets, industry structures, population demographics and economic conditions in each jurisdiction and how this diversity influences VET policy development and service delivery.

It is imperative that VET remains primarily responsive to local circumstances including industry and business skill requirements, student preferences, skills training capacity, demographic factors, population skills needs and micro-economic trends.

VET policy development and service delivery including allocating budget resources is a core responsibility of State and Territory Governments for which Tasmanians hold the State Government politically accountable.

Signing the NASWD and the IGA FFR by the Australian, State and Territory Governments was an explicit acknowledgement by all Governments that the former VET SPP, through which previous Australian Governments tied funding to prescriptive and onerous conditions renegotiated every three years, was pointless because it effectively funded ongoing State and Territory core VET services.

This, reflected the Australian Federation's Vertical Fiscal Imbalance (VFI) where State Governments raised insufficient revenue from their own source to finance their spending responsibilities while the Australian Government raised more own source revenue than its expenditure responsibilities.

That continues to remain the case and the untied Australian Government SPP funding allows Tasmania to focus on base level skills priorities as well as respond to the immediate demands of Industry.

Tasmania is the majority funder of VET in Tasmania. In 2019-20 Tasmanian Government recurrent funding for VET accounted for 69 per cent of total VET expenditure. The remaining funding consisted of the Australian Government Specific Purpose Payment (26 per cent) and time limited National Partnership funding (5 per cent).

The combined impacts of Tasmania's island status, a small and dispersed population (533 300 people), ageing workforce, significant disadvantage, the lowest labour force participation, the highest underutilisation of labour in the nation, lower income levels, and relatively low levels of literacy and numeracy continue to present challenges for employers and businesses seeking to meet their current and emerging workforce skill needs.

These unique demographic factors shape the Tasmanian Government’s VET policy and service delivery and mean that the VET system has a core role in raising education and skill levels and linking foundational skills and training to local economies.

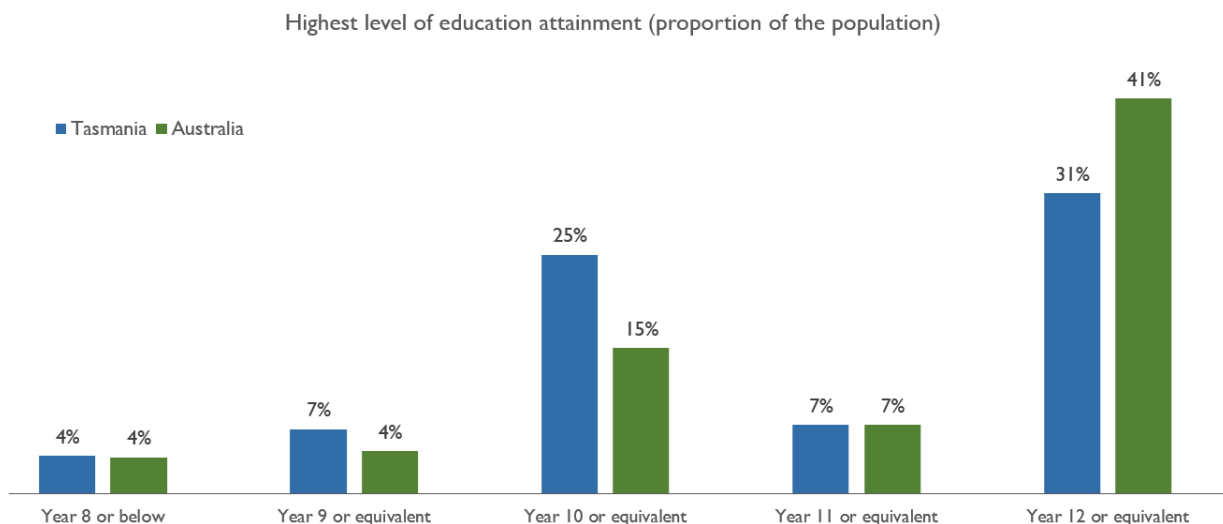


FIGURE 1- Highest level of education Attainment (proportion of population) (Source: Treasury Document: CGC State Visit Sept 2018. Lower income levels - p.17. Educational Attainment p. 8.

Prior to the impact of the COVID-19 Pandemic, Tasmania’s economy was experiencing a period of significant growth. Gross State Product (averages) increased by 3.6 per cent in 2018-19 (the strongest growth in the country) with private sector investment expenditure increasing by 1.4 per cent over the same period.

The majority of Tasmania’s industry sectors have a large proportion of small to medium sized employers and source their workforces from their local population. Even where an industry sector may be of major importance in the context of the Tasmanian economy, such as Aquaculture, its contribution to the national accounts is small. Therefore national priorities will not reflect regional economies.

The differences between Tasmania’s industry structure and the national industry structure is illustrated by the comparison of the contribution of industry to the Australian National Account

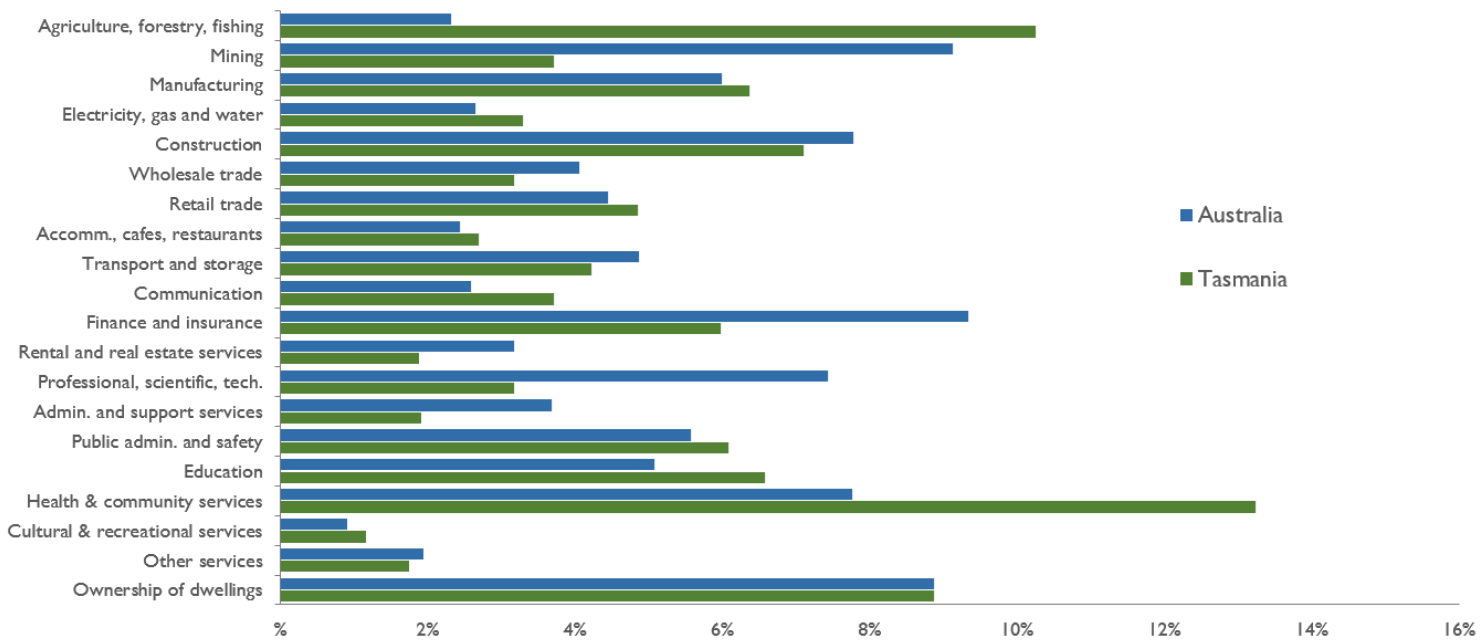


FIGURE 2 National and State Industry Structure (Source: Australian National Accounts: State Accounts. ABS Cat No 5222.0. Table 7.)

Tasmania engages effectively with industry groups through its Strategic Community and Industry Partners consultation framework. Recent experience with the impact of COVID-19 on the Tasmania training system has demonstrated both the flaws with relying on national data for local decisions as well as the importance of local responsiveness in rapidly responding to the changing needs of industry.

Tasmania’s industry sectors are comprised primarily of small and micro businesses making adequate representation and participation in training product design, development and review difficult. In this circumstance, relying on national representative bodies to accurately represent Tasmanian experience compounds the problem. This inevitably leads to further discounting of regional and local factors in favour of a ‘one size fits all’ national approach.

In 2019 there were 99 Registered Training Organisations (RTOs) in Tasmania delivering government subsidised vocational educational services. Private VET providers operating in Tasmania are often small businesses employing a few staff. Operating margins are usually tight and private RTOs are sensitive to additional costs caused by system changes and regulatory burdens.

Substantial capacity constraints exist in the Tasmanian VET system. The characteristics and small size of Tasmania’s population, industry sectors and the VET system create an inconsistent demand for and supply of trainers and assessors. Retaining quality trainers within a private RTO and quality private RTOs within the VET system, particularly those that can deliver training in niche qualification areas, is becoming more difficult and more costly.

The VET system is a ‘managed’ or ‘regulated’ market in Tasmania. Market failure exists in Tasmania – at best there is a ‘thin market’ – with comparatively low student numbers spread over multiple qualifications and multiple

regions. References in the PC Interim Report to 'market workability' do not apply to Tasmania and will likewise not apply to other regional VET settings.

Tasmanians are reliant on TasTAFE– it provides stability and certainty of VET training. TasTAFE is at the centre of the Tasmanian training system – delivering the majority of subsidised training and serving students and communities in rural, remote and outer regional areas. As a public provider it partners with industry and Government to respond to key economic priorities, ensuring Tasmania's workforce is provided with the skills it needs now and in the future.

TasTAFE provides equitable access to training, playing a critical role in serving disadvantaged students and their communities. TasTAFE is expected to meet a range of community services obligations by providing a broad range of general and tailored support programs and pathways for a large number of diverse students and communities.

Productivity Commission Options

PC Option 6.1 Scope for More Nationally Consistent Course Subsidies

Australian, State and Territory governments should consider:

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

Comment

Tasmania's system for VET pricing and setting course subsidies is responsive to, local industry and business, and current and forecast skill demand, and is managed within the State budget's priority setting process. Consideration of other approaches will require research and analysis of any potential adverse financial impact on; the State's Budget; Tasmania's training effort; and, access to training by learners. It is essential that Tasmania continues to respond to local skills shortages and in order to do that, has the autonomy, authority and flexibility to set course pricing, subsidies and their allocation.

Uniform subsidies fail to take into account State based priorities, as well as differences in economies of scale and regional delivery costs of the different States.

PC Option 6.4 - A Larger Role for Income Contingent Loans

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

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

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

Comment

Significantly more research and analysis is necessary before the questions asked by the PC can be answered. Importantly, research that examines the potential impact on learner behaviour such as the take up of VET courses with the expansion of 'student loans' to cover courses at a lower Australian Qualifications Framework level and the possible regressive impact on learners who become employed in low paying work post qualification. The Interim Report acknowledges that the former VET FEE-HELP scheme failure was the result of poor policy design and implementation. It was also the result of a failure to understand VET learners, who are often vulnerable and do not typically seek information in the way the market approach suggests.

The States and Territories currently share the costs of unpaid loans so the funding arrangements of any decision to extend Student loans will necessarily require agreement. Further, diverting Australian Government VET funding from States through Student Loans will further diminish the ability for States to ensure that VET meets the needs of local economies.

Productivity Commission Interim Recommendations

Interim Recommendation 2.1 — Information on VET System Performance

Australian, State and Territory governments should develop improved performance measures to provide a more complete picture of system performance. Any future sector wide performance framework should better measure:

- *total VET activity*
- *the contribution of VET to developing the foundation skills of Australians*
- *skills obtained through the VET system when students do not complete a course*
- *students' longer term labour market outcomes.*

Comment

The COAG Skills Council was tasked by COAG to develop a VET Reform Roadmap. An important element of this Roadmap is to develop improved transparency and accountability by:

- public monitoring and reporting on the VET system performance outcomes and investment; and,
- further availability of data and information on VET system performance by reforming student and employer surveys, creating enduring data linkages, better market information and streamlining VET data.

This PC Interim Recommendation relating to sector wide performance measurement framework can be considered as part of this proposed VET data improvement work program. Of course, a balance will have to be struck between the benefits to come from any new data collection and reporting; the potential increased administrative burden on RTOs; and, the cost to governments in designing, collecting and maintaining the data.

Interim Recommendation 2.2 — A New Principles Based Agreement

Australian, State and Territory governments should negotiate a new, principles based intergovernmental agreement. Such an agreement should commit governments to developing an efficient, competitive market driven by the informed choices of students and employers. The agreement's principles should 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*
- *neutral, but not equivalent, treatment of the VET and higher education sectors.*

Comment

For the Tasmanian Government, the VET system and qualifications must meet the skill needs of Tasmania's economy so as to drive productivity, strategic growth and support social cohesion through foundation literacy, numeracy and digital education. Learners undertake VET qualifications to gain skills, reskill and improve their employability, or meet their needs and aspirations.

This is the VET outcome that the Tasmanian Government is responsible for delivering for Tasmanian businesses and Tasmanian learners.

The Tasmanian Government has no objection to the principle of 'effective and efficient pricing and delivery' where this describes a jurisdictional specific approach focused on value for money, high quality and affordable training services. There is currently insufficient research, modelling and understanding of the impact of a national efficient price to come to any firm conclusion about the cost impact on individual jurisdictions. Tasmania suffers a number of 'disabilities' or disadvantages that increase its cost of providing VET to learners in Tasmania. It also conceivably benefits from advantages such as lower wage costs. What this means in terms of a national efficient price and its

budget impact on Tasmania must be assessed and considered before the Tasmanian Government can agree to this principle.

A national methodology for determining price and or subsidy also requires careful consideration, would need to be co-designed with States and Territories and would only be supported by the Tasmanian Government where it is designed to reflect the full range of local circumstances, supports ongoing growth and viability in the sector and benefits Tasmanian learners.

The NASWD at clause 27 (a) states that States and Territories will determine resource allocation within their State/Territory. Tasmania requires the policy and budget flexibility to set prices and subsidies for VET qualification courses consistent with the principle of “subsidiarity”. This principle locates responsibility with the lowest level of government possible allowing flexible approaches to delivering programs and services.

Tasmania will continue to implement flexible approaches to service delivery to ensure that VET is responsive to our economic, social and demographic circumstances as outlined in the earlier section headed *The Tasmanian Context for VET*.

Tasmania, as with all other jurisdictions, is a signatory to the National Competition Principles (NCP) and this is binding on all government owned and delivered services. It is unnecessary (and not a first order priority) to reference the NCP as a ‘principle’ in an agreement between jurisdictions at both levels of government about skills and workforce development.

No further comment is provided in relation to the remaining six recommended principles in Interim Recommendation 2.2 noting that, in this regard, no commentary should not be taken as support for these recommendations.

There is some overlap between the PC’s recommended principles and those already agreed by governments.

More generally, principles, reform areas or statements of intent are referenced throughout the NASWD as exemplified at:

- Clause 2: high quality, responsive, equitable, and efficient training...;
- Clause 10: accessible to all working age Australians..., a responsive, agile and equitable national training system..., a high quality training system, a sustainable national training system with a stable funding base..., access to transparent information about training products, services and outcomes...

At the 9 August 2019 COAG meeting, First Ministers agreed to a Vision for Vocational Education and Training (VET) (The Vision). This Vision also refers within the document at (a) – (g) to statements that embody principles underlying VET provision in Australia.

In 2019 COAG tasked Skills Council to develop a VET Reform Roadmap in consultation with Education Ministers. A draft Roadmap was approved by the COAG Skills Council in May 2020 with its actions underpinned by the three priorities of relevance, quality and accessibility of the VET sector.

The Tasmanian Government has broadly supported the direction of the reforms set out in the draft Roadmap whilst consistently advocating for:

- No net reduction in current levels of Australian Government funding for VET

- Funding arrangements that allow flexibility to tailor state based training subsidies and respond rapidly to local training priorities
- Reduced administrative burden
- Additional funding to support RTO's to build capacity and deliver on the ambitious reform agenda through the COAG Roadmap

The Tasmanian Government strongly supports the need for sensible reform of the VET sector as a key enabler of economic recovery and considers that the principles of relevance, quality and accessibility should continue to guide reforms and be addressed more explicitly by the PC in the final report on the review of the NASWD.

Interim Recommendation 6.1 — Common Methods for Costing

State and Territory Governments should use common methods to measure costs and determine loadings.

Comment

The PC's statement that a common approach to estimating course costs and setting subsidy rates would help States and Territories adopt better practice and promote transparency in methods is a limited benefit in exchange for State and Territories having limits placed on their ability to influence budget, economic and social policy priorities through VET.

It may be true, as the PC asserts, that common approaches do not mean common outcomes, as cost reflective base costs and loadings may vary between jurisdictions. However, at the least the definitional scope of 'base costs', 'loadings' and subsidies would be defined and fixed, constraining State and territories' policy and budget autonomy.

Tasmania's budget and policy flexibility in relation to course subsidies and training incentives enables it to tailor its training effort to meet skills shortages and student training demands specific to our industry structure and business requirements.

State Government consultation with Tasmanian industry sectors and employers at Ministerial and officer level feeds directly into training funding priorities aligning with Tasmania's economic development policy and state government regional priorities; This is the principle of 'subsidiarity' in action.

Further, the caveat that this approach 'would require regular updating of cost bases with reference to the market as a whole' prima facie, is a potential risk for small jurisdictions and regional economies such as Tasmania.

Tasmania, in principle, is willing to share information and data about its course costs estimation and subsidy setting process with other States and Territories and, in return, learn from other jurisdictional approaches.

Tasmania already cooperates with the National Centre for Vocational Education Research (NCVER) and the Australian Skills Quality Authority (ASQA). Further and more demanding shared responsibilities impact heavily

on the resources of a small jurisdiction such as Tasmania. Who pays for this work, and Tasmania's budget capacity will be matters to be considered.

Interim Recommendation 6.2 - Price Controls Should be Removed

Governments should not cap the prices of VET courses.

Comment

Whilst Tasmania does not currently regulate or cap student fees, in principle it does not support a limitation on future policy decisions regarding student fees or their regulation.

Interim Recommendation 7.1 - Training Package Update and Approval Process

Reforms planned or underway to streamline the development and updating of training content should address most stakeholder concerns. To further improve the timeliness of the process, the COAG Skills Council should consider delegating to Industry Reference Committees the power to:

- *commission updates to training packages where there is an industry-agreed change to work standards or a new technology*
- *approve straightforward, non-controversial or minor changes to training packages.*

Comment

Tasmania supports COAG Skills Council consideration of streamlining options for Training Package Updates and Approvals Processes noting that this should not come at the expense of meaningful engagement with affected industries. Tasmanian employers often lack the scale and capacity to meaningfully engage with the training package update and approvals process. The Tasmanian Government would welcome consideration of a tailored engagement approach that boosts capacity in the sector for regional economies to engage in Training Package design, including Tasmania.

Interim Recommendation 7.2 — Quality Regulation

The Victorian and Western Australian Governments should ultimately follow other State and Territory governments in referring regulation of training organisations to the Australian Skills Quality Authority (ASQA).

In the first instance, ASQA, the Victorian Registration and Qualification Authority and the Training Accreditation Council in Western Australia should seek to address stakeholders' concerns about inconsistencies and overlap in requirements between regulators, including different interpretations of regulatory standards.

Comment

This is a decision for the Victorian and Western Australian Governments.

Interim Recommendation 7.3 — Improving the Provision of VET Information

The National Careers Institute should extend its work on information provision to fill significant information gaps in course prices, subsidies and RTO quality, and test that information is salient to students, trusted, used and interpreted correctly. Australian, State and Territory governments should work together to establish the Institute as a central information hub.

Comment

This is a matter that the COAG Skills Council can consider. Tasmania's first priority is to ensure that there is relevant information available to prospective learners in Tasmania to help them in their local choice of course, qualifications and RTO. Information that is aggregated at a National Scale will in most cases be of limited relevance in Tasmania.

Interim Recommendation 6.3 — Improving Investment in Public Provision

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

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

Comment

In response to the rationale in the Interim Report that payments to public providers are 'likely to distort competition between public and private providers, breaching competitive neutrality principles' the Tasmanian Government notes that in Tasmania, the primary public provider, TasTAFE, provides a critical foundational role in the Tasmanian VET system.

TasTAFE has a presence in rural, remote and outer regional areas, delivers to disadvantaged cohorts and is supported to deliver training where the private market simply cannot.

Clause 25 (d) of the NASWD acknowledges the continuing role of TasTAFE as the public provider. TasTAFE is central to the Tasmanian Government's capital and recurrent investment in, and the delivery of, VET throughout Tasmania.

The Tasmanian Government passed legislation in 2013 establishing TasTAFE's role and functions. These are:

Tasmanian Government Submission to the Productivity Commission Interim Review of the National Agreement on Skills and Workforce Development

- 1. (a) to provide to persons vocational education and training that –*
- (i) benefits the Tasmanian economy and builds the productivity of the Tasmanian workforce; and*
 - (ii) is of a high quality; and*
 - (iii) results in those persons obtaining nationally recognised skills and qualifications;*
- (b) to provide to persons foundation skills training that when successfully completed may lead, or may lead when so completed in conjunction with other training, to those persons obtaining a qualification;*
- (c) to develop, in consultation with relevant industry associations, models for the provision of vocational education and training to employed persons for the purposes of developing skills, including developing skills needed to alleviate or prevent skill shortages in the Tasmanian workforce;*
- (d) to collaborate with employers in relation to the development of the skills of their employees;*
- (e) to provide vocational education and training in accordance with the Minister's priorities in relation to training and workforce development for communities in Tasmania, including –*
- (i) rural and isolated communities; and*
 - (ii) other communities where other providers of vocational education and training cannot, or are not, effectively meeting the demand for it;*
- (f) to provide, for the purposes of developing skills in the current and future Tasmanian workforces, services to TasTAFE students, and employers and their employees, in relation to the provision of vocational education and training and other education or training;*
- (g) to consult with and, where practicable and appropriate, enter into partnerships with other education providers in relation to vocational education and training or other education or training;*
- (h) to collaborate with the principals of schools, within the meaning of the Education Act 1994, other providers of vocational education and training, providers of higher education and employers in relation to the support of persons as they move through school, vocational education and training, higher education and other education or training and into the Tasmanian workforce;*
- (i) to advise the Minister on significant developments relating to the provision of vocational education and training;*
- (j) other functions imposed on TasTAFE by this or any other Act.*

These functions are wide ranging in scope and responsibility and require TasTAFE to deliver considerable and stable Community Service Obligations to the Tasmanian community, including learners, employers, rural communities and other educational providers.

These functions will become more demanding as the government responds to the Tasmanian economy's post COVID-19 priorities moving from emergency response and into economic recovery mode.

Tasmania acknowledges and is a party to the 'National Competition Principles' (NCP) and its broad intent to provide a 'level playing field between public and private services'. It established the Office of the Tasmanian

Economic Regulator to (amongst other functions) receive and investigate complaints alleging unfair competitive practices by public entities. This ensures that a private RTO is able to raise allegations of a breach of the NCP by the public provider.

It is the Government's objective that all publicly funded services are efficient and effective in achieving their performance targets. TasTAFE is no exception and is subject to a range of annual budget development, reporting and audit processes (including performance reviews) and Parliamentary Budget Estimates scrutiny to ensure transparency, efficiency and effectiveness in the cost and delivery of its training services, including its community service obligations.

Tasmania is not a 'contestable market' for training services. It is a 'thin market' lacking the critical scale required to attract private providers in many areas of training delivery. Therefore, TasTAFE is required to provide training and education in identified skills to support Tasmanian industry needs. While opportunities to allow some greater contestability may be supported, the extent of market testing should be appropriate to Tasmania's circumstances.

Conclusion

The current national funding mechanism for Skills acknowledges that Skills and Workforce Development is an area for which the States have primary responsibility. The federated model of shared responsibility delivers skills that are consistent and transferable at a national level in a way that is flexible and responsive to local needs.

In contrast to most other States, the Tasmanian Government investment in VET over the past decade has kept pace with population growth.

The Tasmanian Government cautions against an over-reliance on the efficacy of a market based approach in regional VET settings such as those that exist in Tasmania and would welcome increased focus on relevance, quality and accessibility in the PC's final report on the review of the NASWD.

Tasmania has a small and dispersed population, an ageing workforce, significant disadvantage, the lowest labour force participation and relatively low levels of literacy and numeracy. Tasmania's industry sectors are comprised primarily of small and micro businesses, with diverse needs and perspectives and limited capacity to effectively participate in the current model of training product design, development and review.

Despite these challenges, Tasmania currently performs higher than the national average on all measures of student satisfaction and employment outcomes.

National reforms currently underway must continue to acknowledge the Tasmanian Government's role as the majority investor in VET in Tasmania.



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