



Australian Government
Productivity Commission

National Agreement for Skills and Workforce Development Review

Productivity Commission
Interim Report
Overview

May 2020

This interim report has been prepared for further public consultation and input. The Commission will finalise its report after these processes have taken place.

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An appropriate reference for this publication is:

Productivity Commission 2020, *National Agreement for Skills and Workforce Development Review*, Interim Report, Canberra.

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The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website (www.pc.gov.au).

Opportunity for further comment

You are invited to examine this review and comment on it by written submission to the Productivity Commission, preferably in electronic format, by 17 July 2020.

Further information on how to provide a submission is included on the study website: <https://www.pc.gov.au/inquiries/current/skills-workforce-agreement>.

The Commission will prepare the final report after further submissions have been received and it will hold further discussions with stakeholders. The Commission is to provide the final report to the Government in November 2020.

Commissioners

For the purposes of this study the Commissioners are:

Jonathan Coppel

Malcolm Roberts

Terms of reference

I, the Hon Josh Frydenberg MP, Treasurer, pursuant to Parts 2 and 4 of the of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission undertake a review of the National Agreement for Skills and Workforce Development (NASWD).

Background

The NASWD is a high-level agreement that identifies the ‘long term objectives of the Commonwealth and State and Territory Governments in the areas of skills and workforce development, and recognises the interest of all governments in ensuring the skills of the Australian people are developed and utilised in the economy’. Parties to the NASWD have agreed to ‘the need for reform of the national training system to ensure it delivers the high quality, responsive, equitable and efficient training and training outcomes needed’.

The NASWD’s objectives are to ensure the vocational education and training (VET) system delivers a productive and highly skilled workforce; enables all working age Australians to develop the skills and qualifications needed to participate effectively in the labour market and contribute to Australia’s economic future; and supports increased rates of workforce participation.

Scope

In the context of the VET system, the review will consider:

1. achievement of the objectives, outcomes, performance indicators, targets, reform directions and roles and responsibilities set out in the NASWD and their ongoing suitability
2. options for governments to coordinate and streamline their support for vocational education in the future
3. options for nationally consistent government funding and pricing arrangements that maximise efficiency, transparency and the supply of trained workers for the economy and promote consistency of incentives
4. options to promote consistency in funding and loan arrangements between the VET and higher education sectors, and on any cross sector impacts that there might be
5. options to ensure government investment in VET encourages increased participation in training by all Australians and is commensurate with the outcomes and benefits derived by individuals, business, industry, the local and national economy and society more generally
6. potential for future funding arrangements to achieve further targeted reforms, including extending Language, Literacy, Numeracy and Digital Literacy (LLND) programs to all

Australians and other relevant recommendations from the Expert Review of Australia's Vocational Educational and Training System (the Joyce review)

7. options for improved performance indicators, data and information sharing arrangements to enable all governments to assess the effectiveness of VET investment and delivery.

In undertaking this review, the Commission should have regard to current and potential funding arrangements, existing skills programs and contemporary policy settings and labour market needs, noting:

- A. the VET and higher education sectors are closely linked with cross system impacts seen through funding arrangements, pathway policies and the skills continuum
- B. responsibility for funding and financing of VET is shared between the Australian Government, state and territory governments, employers and individuals. The Australian government provides funding to the sector through its own programs such as the Australian Apprenticeship Incentives Program, the Skills for Education and Employment program and additional financial support to students through VET Student Loans and Trade Support Loans
- C. the differences in local labour market conditions and economies, and the need to deliver opportunities and outcomes for all Australians regardless of geographic, social or personal circumstances
- D. the National Skills and Workforce Development Specific Purpose Payment (SPP), made under the Intergovernmental Agreement on Federal Financial Relations. These payments are made independently of the NASWD and are not tied to the achievement of outcomes. The only requirement is that the money is spent on skills and workforce development
- E. the Skilling Australians Fund, currently managed through a National Partnership Agreement with signatory state and territory governments, aimed at supporting apprenticeships, traineeships and employment related training
- F. the Joyce Review, commissioned by the Australian Government, recommendations in relation to skills programs and VET funding. For example, the report recommended that the Australian Government and state territory governments agree to a new national agreement where the parties co-fund subsidised qualifications based on nationally consistent subsidy levels
- G. the August 2019 COAG agreement for a shared vision for VET that delivers high quality education and training that helps all Australians, and meets the needs of students and employers and any further decisions taken by COAG and Skills Council during the review
- H. the new measures in the \$525 million Skills Package 'Delivering Skills for Today and Tomorrow' announced as part of the 2019-20 Budget.

Process

The Productivity Commission is to consult broadly including with state and territory governments, provide an interim report in March 2020 that has particular regard to points two, three and five above, and final report within 12 months of receipt of the terms of reference.

The Hon Josh Frydenberg MP

Treasurer

[Received 15 November 2019]

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The full report is available at www.pc.gov.au

OVERVIEW

Key points

- The *National Agreement for Skills and Workforce Development* is overdue for replacement.
 - It reflects the consensus in 2012 about how Australian, State and Territory governments should boost participation in training — including creating a national training entitlement, promoting ‘user choice’ led competition, and expanding access to income contingent loans.
 - However, governments have stepped back from some of its policy aspirations. Targets have not been met and the performance indicators have proved to be deficient.
- There is a manifest capacity to better allocate the \$6.1 billion in governments’ spending on VET to improve outcomes.
- Governments should consider reforms to make the 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.
- This goal should be pursued through a new principles-based agreement. This study proposes a set of principles for such an agreement.
- Based on these principles, some reform directions are clear, including:
 - supporting effective competition in service delivery by establishing clear, contestable community service obligations
 - better data collection and transparent, comprehensive reporting of the allocation of public funds to support regular assessment of governments’ policies
 - better curated information for students and employers about career opportunities, the performance of registered training organisations (RTOs), course quality and prices
 - reform of course pricing
 - a single national regulator.
- There are various options for reforms to VET funding, which will require further consultation and assessment. Reform options include:
 - expanding access to VET Student Loans by relaxing loan caps and course and qualification restrictions, underpinned by strong risk management. This may be a preferred option to any additional subsidies
 - simpler subsidy arrangements, such as:
 - ... binding arrangements on all governments to apply a nationally-consistent set of course subsidies, based on the efficient cost of delivery, with loadings to address higher delivery costs in some locations and to some student groups, or
 - ... replacing the proliferation of granular subsidy rates for courses with a limited range of subsidy rates, but otherwise leaving jurisdictions to set their own subsidy levels and allocation
 - using student vouchers instead of subsidy payments to RTOs to facilitate user choice
 - moving away from, or complementing, incentives to employers to train apprentices by using other approaches to support apprentices, including mentoring and pastoral care.
- Regardless of the extent to which State and Territory governments adopt a common national approach to subsidies, there are strong grounds for them to use common methods to measure costs and determine loadings.

An efficient, accessible vocational education and training (VET) system is critical to skill acquisition for new entrants to the labour market and for employees who need to update or broaden their skills. Millions of Australians have obtained or honed their workplace skills through Australia's formal VET system. In 2018, registered training organisations (RTOs) served over 4 million students and offered over 1400 types of qualifications as well as short courses and single subjects.

The *National Agreement for Skills and Workforce Development* (NASWD) — commencing in 2009 and updated in 2012 — sets out governments' roles, policy aspirations, performance measures, and reform directions for the formal VET system. Some \$6.1 billion is spent by governments on VET delivery each year — shared between the Australian, State and Territory governments. The Australian Government helps to manage and fund apprenticeships and contributes funding of \$1.7 billion to the States and Territories for the delivery of other VET services. The States and Territories are free to decide how to allocate funds to the VET system, are responsible for the day-to-day delivery of training in their local markets, and provide services through publicly-owned TAFEs. Both levels of government share regulatory responsibilities for qualification standards and the quality of RTOs, data collection, and agreed reform directions.

The Australian Government has asked the Commission to review progress against the targets, outcomes and performance indicators in the NASWD and to assess whether the NASWD is still an effective long-term framework for intergovernmental cooperation on VET policy. Intertwined with that assessment, the Commission has also been asked to consider options to streamline government support and promote more national consistency in VET funding and pricing.

This review of the NASWD is timely. The Joyce Review recommended significant changes to aspects of the VET system, in particular the setting of course subsidies and the process to update training packages. The Australian Government has announced the establishment of a National Skills Commission and a National Careers Institute to support these changes. The COAG Skills Council is considering the development of a new intergovernmental agreement to replace the NASWD; a draft *VET Reform Roadmap* has been released for consultation to inform the new agreement.

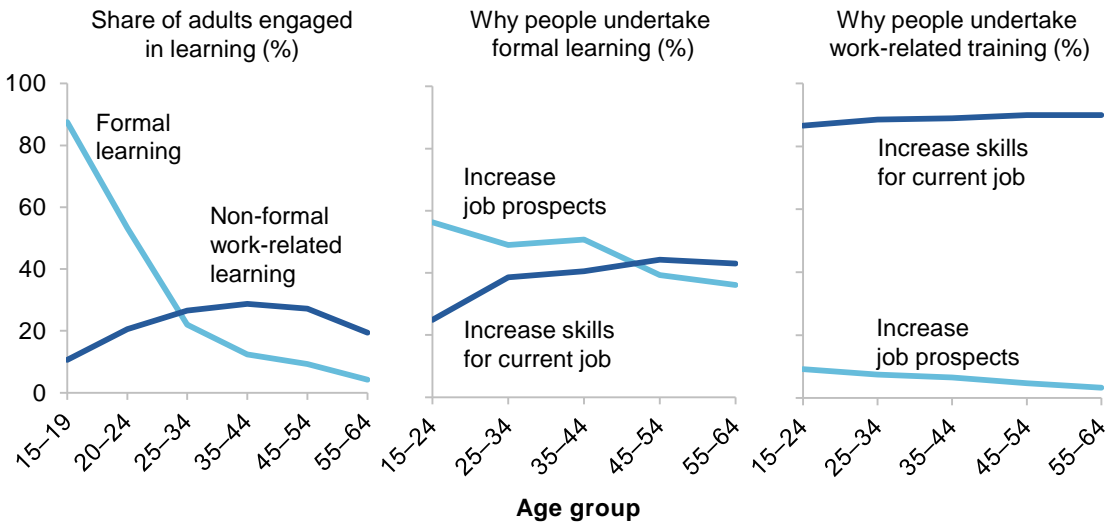
In undertaking the review, the Commission has been conscious that the formal VET system includes a large fee-for-service market where private and public providers deliver recognised training without the support of government subsidies. The Commission also recognises that there are avenues outside the formal VET system for Australians to develop skills, including through informal workplace learning or unaccredited training from unregistered providers.

Formal learning — both higher education and VET — is geared more to younger people seeking to acquire skills to obtain a job rather than people who need to upskill or reskill for an existing job (figure 1).

Lifelong learning is mainly non-formal and about 85 per cent is funded by employers. This training is an important contributor to the incremental attainment of skills, sometimes a

substitute for accredited training, and has implications for assessing the effectiveness and direction of the formal VET system. Government policies are largely silent about this part of the VET system, and the information about it is limited. While loans or subsidies of an orthodox type are probably not warranted for non-formal training, governments should nevertheless assess whether any policy changes are needed as part of future VET policy.

Figure 1 Learning approaches vary over the life course



VET is also both an alternative to higher education and a pathway to it. The two sectors are increasingly overlapping, with both offering training in vocational fields such as accounting and nursing. While the overlap — and competitive tension — between the two sectors is widely recognised, there is little over-arching policy linking the sectors.

This review is also being undertaken while COVID-19 has forced short-term lockdowns and is probably driving longer-term changes to the economy. Beyond the immediate disruption for students, employers and VET providers, the pandemic may lead to structural changes in the VET sector and encourage innovative delivery of training.

This interim report differs from the Commission’s usual draft reports. The report is more focused on options than draft recommendations. Given governments’ interest in increasing participation in VET, our prime interest is the effectiveness of measures intended to make training more accessible and affordable (for example, course subsidies, employer incentives for apprenticeships, and student loans) and to improve the byzantine system that governs the determination, allocation, and level of these measures.

1 A snapshot of the formal VET system

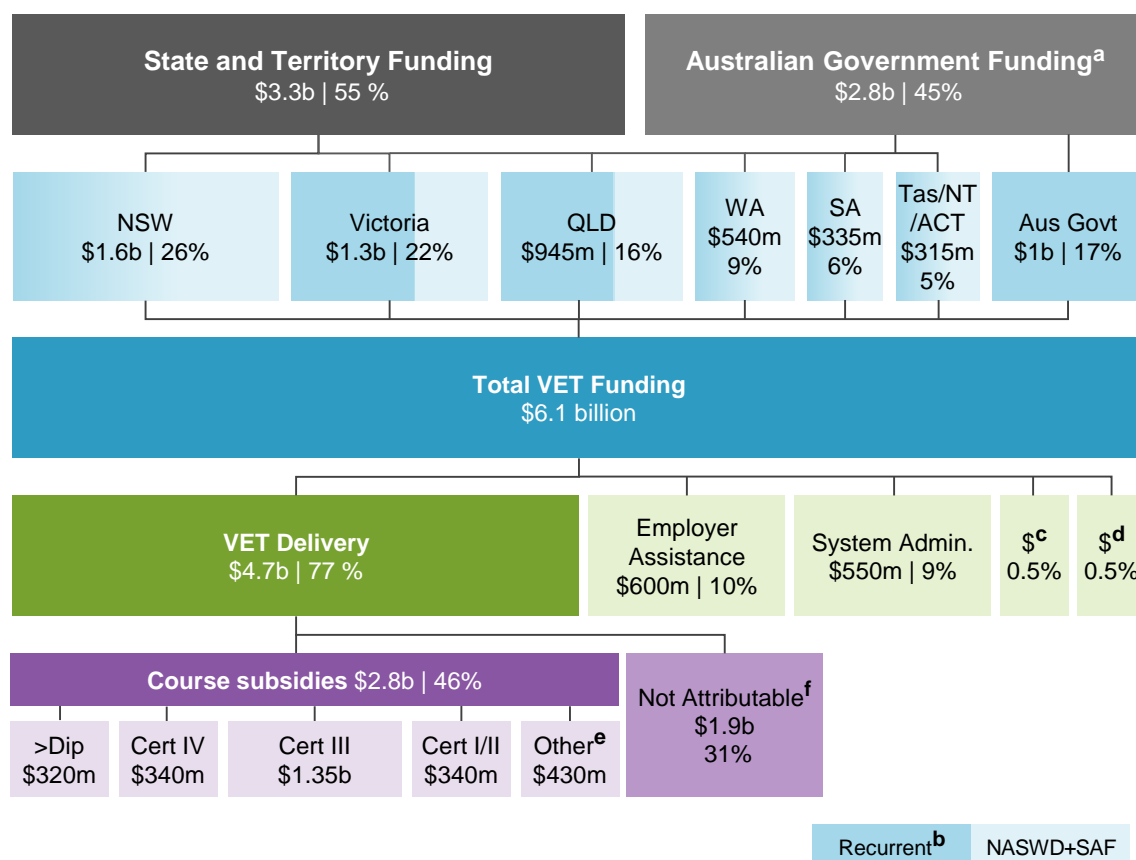
The formal VET system is a highly managed market, with the Australian and State and Territory governments sharing responsibilities for its architecture, funding and performance. Governments collectively provided direct funding of about \$6.1 billion in 2018; about \$3.4 billion is provided through course subsidies to training providers and incentives for employers (figure 2). The Australian Government provides additional funding of about \$500 million through VET student and trade support loans. However, the formal VET system is more than just government-funded training. Only about half of domestic students (1 102 400) undertaking a nationally recognised training program receive government funding.

Qualifications in the VET system are diverse in difficulty and duration, ranging from building foundation skills (principally language, literacy, numeracy and basic digital skills) to delivering formal qualifications up to Advanced Diplomas.

Half of the 4.1 million VET student enrolments and 85 per cent of training hours are under nationally recognised programs (figure 3). RTOs teach pre-approved training packages, which specify the skills and knowledge ('competencies') required to perform effectively in particular occupations. These formal credentials (qualifications and statements of attainment) are developed in consultation with industry and educational institutions. Only RTOs can deliver nationally recognised training, undertake assessments, and issue qualifications. RTOs must comply with national standards for training and assessment.

Training in nationally recognised programs has been declining in recent years, while use of stand-alone short courses or individual subjects (such as first aid and OH&S courses) has been growing. There are many reasons for this trend. Universities are offering more courses which directly compete with traditional VET courses; many students are now choosing university-based alternatives to VET. Employers are attracted to the greater flexibility and lower costs of short courses. Regulatory changes have increased the demand for short courses such as responsible service of alcohol and cardiopulmonary resuscitation. Students are also increasingly assembling their own mix of qualifications from a blend of short courses and micro-credentials in a world of more frequent career changes.

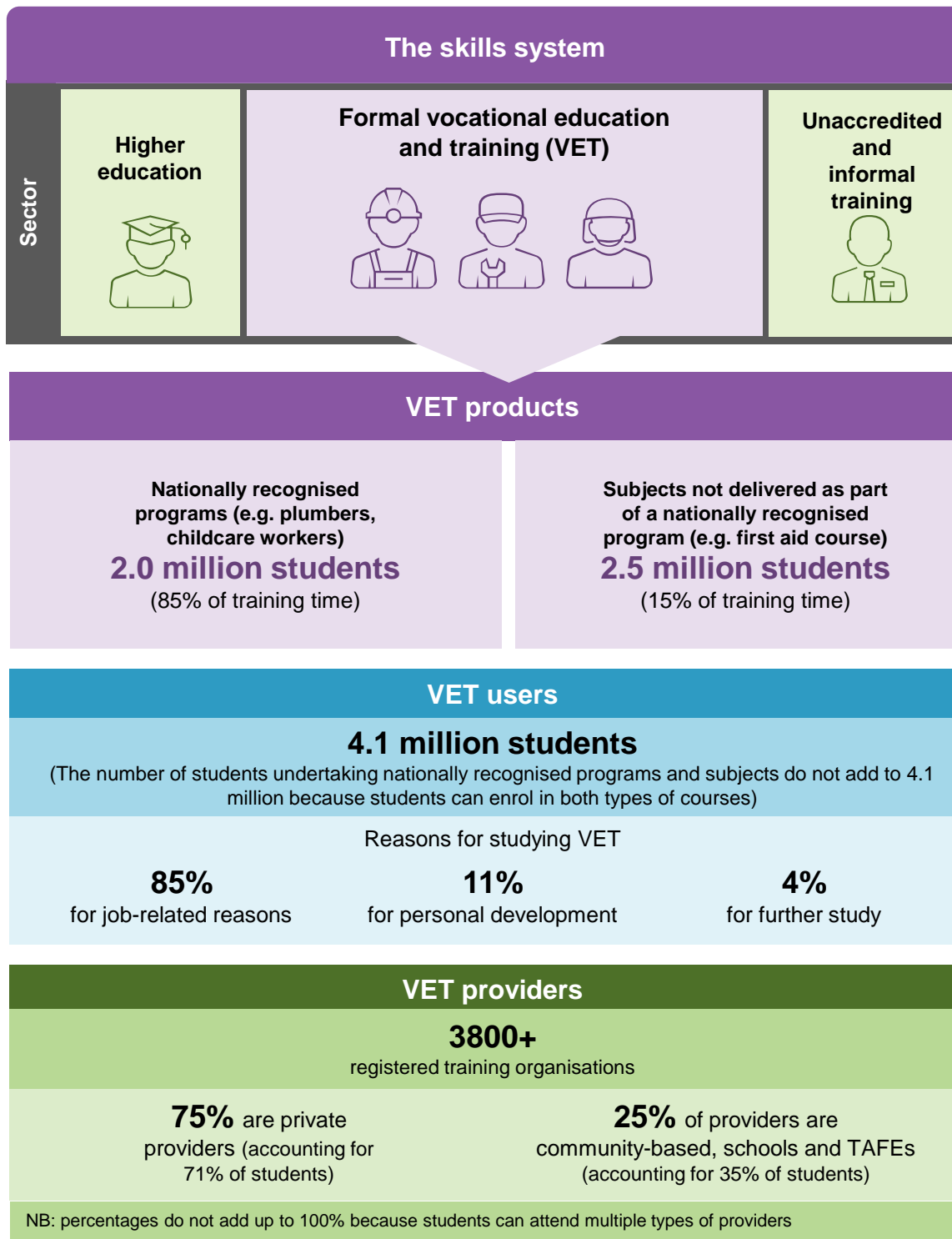
Figure 2 Funding of VET, 2018



^a Government provisions for VET loans are not included. ^b On the second row, the darker shades relates to recurrent funding for each jurisdiction. ^c Capital funding accounts for approximately \$135 million. ^d Student assistance accounts for approximately \$125 million. ^e Other programs include non-award programs, skill sets, bridging or enabling courses not identifiable by level. ^f Funding not attributable by level of education captures funding costs associated with training delivery, support, administration and operational base funding.

Since the 1990s, VET has become a more market-oriented system, with more government-funded teaching delivered by private VET providers under contestable funding arrangements. This shift was confirmed in the NASWD, which sought to promote a more responsive training market through competition led by ‘user choice’. Universities, schools, enterprise providers and community education providers can also register to supply accredited VET courses, giving students greater choice. The prominent role of public providers in VET provision presents challenges for States and Territories, that set and distribute course subsidies and other public funds to competing (public and private) providers.

Figure 3 Key features of the formal VET system



2 Targets in the NASWD have not been met

The NASWD was intended to significantly lift the skills of the workforce and improve participation in training, especially by students facing disadvantage. Several targets, performance indicators and outcomes were agreed (figure 4).

Taken together, these performance measures provide only a partial picture, which is sometimes further qualified by data gaps. Changes in employment status (if cyclically-adjusted), the satisfaction of employers, and post-training outcomes are useful measures. However, the extent of literacy and numeracy in the adult population is a poor indicator; changes cannot be solely attributed to the formal VET sector and relevant data are only collected every 10 years. The focus on Certificate IIIs as a threshold for skills acquisition is open to argument as other qualifications, on-the-job training, work experience, and unaccredited training also contribute to skills formation. Similarly, many students do not complete a course but say that they ‘got what they wanted from training’.

These caveats aside, the NASWD’s performance measures (along with other, complementary statistical measures) suggest mixed results from the VET sector:

- employer satisfaction with nationally recognised training has decreased steadily over the past 10 years, from about 86 per cent in 2009 to 79 per cent in 2019. In contrast, while it has fluctuated, student satisfaction (which is not a NASWD measure) is high
- the proportion of government-funded VET graduates who have ‘improved their employment status’ after graduating — by becoming employed, becoming employed at a higher skill level, or receiving a job-related benefit — fell from 65 per cent in 2009 to 58.6 per cent in 2018 (The 2019 figure, which is higher, has not been used as it is not comparable with historical estimates.)
- while good results were achieved for Aboriginal and Torres Strait Islander people and people with disabilities — with about a 40 per cent increase in government-funded qualification completions from 2009 to 2018 — completions for people living in remote or very remote areas fell by 28 per cent from 2009 to 2018.

Governments will not meet the two 2020 targets in the NASWD to increase skill levels (figure 5). The proportion of people without qualifications at Certificate III level or above decreased from 47.1 per cent in 2009 to 37.5 per cent in 2019; this will not be enough to meet the 2020 target of 23.6 per cent. This result reflects, in part, that the target was overly aspirational. Those aged 25 years or over — a large proportion of the workforce — are more likely to engage in informal work-related training (to increase skills for their current occupation), rather than undertake formal training (often associated with increasing the prospects of getting a job). Moreover, most of the increase is due to more graduates from higher education rather than VET.

Figure 4 **NASWD's performance reporting framework**



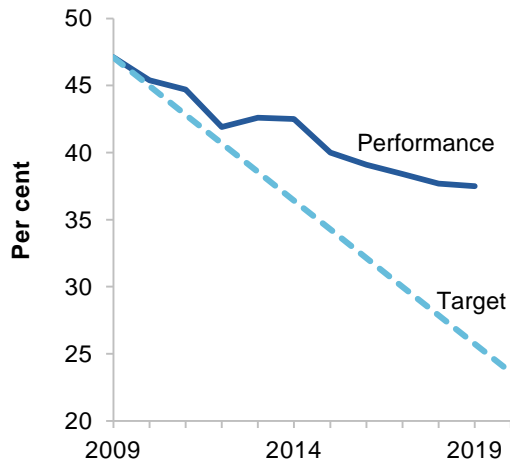
The number of higher-level qualifications (Diplomas and Advanced Diplomas) sharply increased between 2009 and 2012 but has since fallen to its 2009 level. The initial increase was likely to have been driven by funding associated with the Productivity Places Program in 2009 and the introduction by Victoria of its entitlement scheme. The fall in completions after 2012 was likely due to a tightening of funding following the VET FEE-HELP experience and changes to Victoria's entitlement scheme, and possible substitution away from VET towards higher education.

The failure to meet targets does not necessarily mean that the NASWD failed. The targets were arbitrary and too ambitious. If targets are unattainable, they quickly become irrelevant

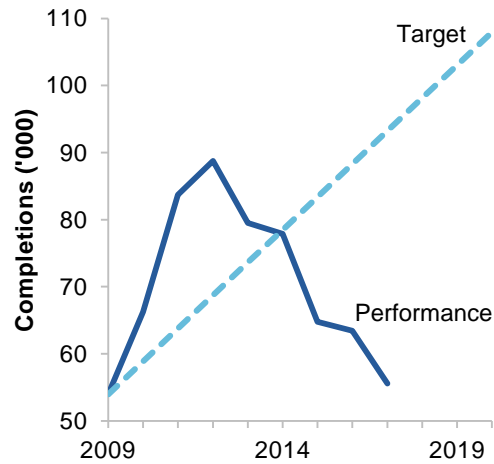
for policymakers. The NASWD’s performance indicators were reasonable *general* measures but needed to be linked to specific policies to allow governments to monitor progress.

Figure 5 The NASWD’s targets will not be met

Target A: Halve the proportion of Australians without qualifications at Certificate III and above



Target B: Double the number of higher level qualification completions^a



^a Higher-level qualifications are defined as Diplomas and Advanced Diplomas. Includes government-funded VET and domestic and international fee-for-service activity of government VET providers only.

3 How well have governments implemented the agreed reform directions of the NASWD?

The NASWD set ten reform directions to make training more accessible, ensure services are of high quality and the formal VET system operates efficiently (box 1). Governments made two key commitments to achieve these ambitions — the introduction of a national entitlement to training and expanding the availability of student loans. These reforms were intended to lead to a more open and competitive market, driven by user choice.

The NASWD was also intended to reform intergovernmental relations. In a departure from previous funding arrangements, States and Territories were afforded greater flexibility in the use of Commonwealth grants. At the same time, the NASWD was intended to ensure clear accountability for outcomes and provide a long-term framework for collaborative reform of the VET system.

The outcomes from the national training entitlement

Under the national training entitlement, governments guaranteed a subsidised place for students undertaking their first Certificate III. Foundation skills or courses within a Certificate III were also supported. The entitlement was available at all registered (public and private) providers.

Box 1 Reform directions in the NASWD

The NASWD outlined ten policy reform directions:

- improving training accessibility, affordability and depth of skills, including through the introduction of a national training entitlement and increased availability of student loans
- improving training participation and qualification completions, including at higher levels and by those who may be experiencing disengagement or disadvantage
- encouraging responsiveness in training arrangements by facilitating a more open and competitive training market
- enabling public providers to operate effectively in an environment of greater competition
- strengthening the capacity of public and private providers and businesses to deliver training and support people in training
- assuring the quality of training delivery and outcomes, with an emphasis on measures that give industry more confidence in training delivery and assessment
- providing greater transparency through better information for users, policymakers and regulators
- increasing industry's engagement with the VET sector to ensure training outcomes are high quality and relevant to the needs of employers
- facilitating more interconnected tertiary and training sectors, with better links between employment services and training provision
- streamlining the Australian Apprenticeships System.

Victoria and South Australia were the first States to implement the entitlement. Their schemes were 'demand-led', with no restrictions on choice of course or the number of supported places. In both States, the introduction of entitlements saw a sharp increase in enrolments in government-funded training. (For example, in Victoria, VET commencement rates increased by 66 per cent among those of working age.) The exact increase in overall student enrolments is uncertain as some students may have otherwise undertaken training in the fee-for-service market.

However, concerns emerged about the value of some subsidised training, higher than expected budget costs, and unscrupulous conduct by some providers. Both Victoria and South Australia tightened their subsidy programs and entitlements. In light of these issues, other jurisdictions designed their entitlement programs to be less demand-driven and more 'demand-managed', capping subsidised places and limiting the number of eligible courses.

Governments shifted from promoting competition through user choice to a more managed market, which saw providers (public and private) compete for contestable government contracts. More recently, some jurisdictions have further shifted support to public providers, offering a broad range of free courses.

Reputational damage from VET FEE-HELP

The expansion of the VET FEE-HELP loans scheme, the other major reform, saw a surge in the uptake of loans from about 54 000 students in 2012 to over 272 000 in 2015. The scheme's expansion also saw average course fees more than triple from \$4060 in 2009 to about \$14 000 in 2015. However, many of these higher-cost courses were offered by a small number of opportunistic providers delivering poor quality training and are no longer operating.

The problems associated with VET FEE-HELP stemmed from flaws in the design and implementation of the program. With the Australian Skills Quality Authority (ASQA) only established in 2011, regulatory oversight was also inadequate at a time of rapid change. The scheme was replaced at the end of 2016 with the far more restrictive VET Student Loans program. The commitment in the NASWD towards expanding the availability of income contingent loans has largely been abandoned.

The VET FEE-HELP experience significantly damaged the reputation of the VET sector, and, following its failure, governments have recognised the priority of improving regulation — particularly the supervision of training providers.

Commitment to a competitive training market has waned

As noted, the NASWD was intended to promote greater competition in the delivery of training. The combination of student entitlements and wider use of income contingent loans was expected to give students genuine choice and leverage in the market. Governments expected that public providers would adjust to a more open and competitive market.

These expectations have not been realised. With hindsight, some essential pre-conditions for a robust competitive market were not in place. Students lacked accessible information to make effective choices of courses and providers. Regulation of RTOs was inadequate, leaving students exposed to misconduct.

States and Territories have turned to a limited form of contestability rather than user choice to support competition. Each State and Territory decides how much of the pool of public funding is open to bids from private RTOs and the allocation of funds to those providers. Public providers continue to deliver the majority of government-funded training in all jurisdictions, except Queensland. In 2018, 50 per cent of government funding was open to competitive tendering, with non-TAFE RTOs securing 41 per cent of that pool.

Besides capital works, States and Territories support public providers to deliver community service obligations. Governments — and the NASWD — have not clearly defined the nature or scope of these obligations. One example is servicing thin markets (that is, markets where there is insufficient demand for commercial delivery of VET). However, thin markets could be contestable for servicing by private and public providers.

Reforms to quality assurance are underway

The NASWD recognised the importance of strengthening industry engagement in the formal VET system to improve the quality and relevance of training and endorsed reforms to ‘give industry more confidence in the standards of training delivery and assessment’. The establishment in 2011 of the national regulator — ASQA — was intended to achieve national consistency in the way providers were registered, courses accredited and the quality of the system monitored. ASQA replaced State or Territory regulators in all but two jurisdictions (Victoria and Western Australia).

Establishing a new national regulator as governments introduced major policy changes involved under-appreciated risks. Flawed program design compounded the problem. The Braithwaite and Joyce reviews identified concerns with regulatory standards, including RTO registration, course accreditation and engagement with industry. But change is in train. ASQA is moving to a cost-recovery funding model and more engagement with RTOs as part of its compliance strategy. In 2020, the Australian Government accepted all 24 recommendations of a ‘rapid review’ about operating arrangements, which are expected to improve ASQA’s effectiveness.

Objective quantitative measures of quality are challenging, with reliance on high-level indicators such as employer satisfaction providing only some insights. Short courses may force high-quality providers to lower their standards to compete. Teacher quality remains a persistent concern. Some participants believe that the current minimum requirement for teachers — the Certificate IV in Training and Assessment — is too restrictive while others believe it is too lax. Perceptions of problems in quality may also partly stem from the existence of a few low-quality providers rather than systemic problems in the formal VET system.

New assessment models involving independent assessment of competency have been foreshadowed by the COAG Skills Council’s draft VET Reform Roadmap, which may reduce the risks associated with assessment undertaken by RTOs. Unbundling of assessment from teaching has a wider potential to disrupt the current model of VET supply (as discussed in section 11).

User choice is illusory without salient information

The NASWD recognised that students need practical information on courses, careers and training providers, and curated and presented in a way that is more likely to be used in making decisions about training.

However, as noted by many commentators, information for students is still fragmented and duplicated across multiple government and private sector websites. Students need better information about training providers — the courses offered (in what mode and contact hours), the prices charged, the quality of services — and in-demand careers and salaries, and job outcomes. For example, many courses do not have pricing information uploaded to the My Skills platform, although My Skills was intended to be the main source of information for VET students. As noted by the Business Council of Australia, information gaps have ‘stymied a learner-centric approach and contributed to poor decisions on the part of learners’.

Unclear pathways to jobs through the education and training system

The VET system serves a range of student needs. People may use VET once to acquire a skill, return multiple times over their working lives to upskill, or use it as a stepping stone to higher education. While the NASWD recognised that VET should be an integrated part of a wider post-school education system, various factors have worked against this goal.

The reliability and usefulness of career information and advice (especially for school students) is questionable, as is the effectiveness of VET in Schools as a pathway to employment. Previous reviews have found that schools and their advisors often have little experience with VET, favour universities and mistakenly see VET as only offering trade qualifications. Participants argued that students who complete VET subjects in secondary school often do not know how to apply the skills they have learned, and their qualifications are of uneven quality and relevance to the labour market.

There is also a need for improved information about credit pathways — which encompasses credit transfer, recognition of prior learning and articulation — to allow students to move from VET to higher education, taking into account the skills they have acquired already. According to tertiary admission agencies, most students are unaware of these processes and are deterred by the complex paperwork.

Coordinating and streamlining services

While the NASWD’s reform aspiration centred on streamlining the Australian Apprenticeships System, jurisdictions’ efforts for streamlining have extended further. Governments have made progress to streamline and coordinate their policy and regulatory activities by harmonising apprenticeship systems, streamlining training packages and developing national standards for regulating training quality.

Further streamlining is likely. The COAG Skills Council’s draft VET Reform Roadmap foreshadows more initiatives to streamline training packages, reduce red tape in apprenticeship supports and better coordinate consumer information.

4 Where to for a new agreement?

Overall, while some progress has been made, many of the reform directions of the NASWD have not been met. The context for intergovernmental co-operation has also evolved. The COAG Reform Council was intended to be an independent body monitoring progress under the various national agreements but was disbanded in 2014. The COAG Skills Council has now emerged as the main forum for co-operation on VET policy and delivery. The Council is expected to negotiate a new national funding agreement for VET by 2021. The draft VET Reform Roadmap, which will inform this new agreement, incorporates some of the key goals ('reform directions') in the original NASWD, such as better information for students, improved quality assurance, a more interconnected education and training system, enhanced data and accountability, and (as noted above) greater streamlining.

However, the draft VET Reform Roadmap misses some important aspects of the NASWD, particularly the goals of contestability and the establishment of a workably competitive market. While the policies intended to achieve these goals were flawed, the fundamental directions are not. This highlights the danger that a new intergovernmental agreement may result in an ad hoc reform agenda.

A principles-based approach to the design of the VET system would provide coherence and give governments flexibility about their policy choices, and could be the best option for a new agreement. The policies that would give effect to those principles could be in a different intergovernmental agreement or pursued bilaterally or unilaterally. A principles-based approach would, for example, leave contestability and market delivery of services on the table, but leave it up to governments to determine how to design the market and the strategies to mitigate risk.

Principles would be the core of a new agreement

The existing NASWD included many (sound) principles that were intended to shape the actions of governments, including:

- *efficiency*
- *equitable access* (particularly in respect of access for students facing disadvantage and promotion of foundational skills as a stepping stone to further training)
- *quality training delivery and teaching*
- *system design that enhances economywide economic participation and productivity*
- *responsiveness and resilience to changes in the economy and technological change*
- *provision of information for informed student and employer choice*
- *publicly available data and information to support analysis of programs, system performance and accountability for government funding*

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- *coherent linkages* with other parts of the education and training system (schools and higher education), and with employers
 - *stability* in funding arrangements to provide greater certainty for jurisdictions making investments.

However, important principles are missing, while some others fail to give much guidance on their implications for policy.

The principle that government services should be centred on ‘customers’ (students and employers in the case of VET) rather than suppliers is now widely recognised in disability care and Indigenous services, but much less so in VET. The supplier-centric focus has meant that certain segments of the VET sector are favoured through selective subsidies, that competence is the basis for assessment even if students might want to signal their proficiency, and that governments do not give students the option of acquiring their knowledge in a way that suits them and having these independently certified. A student-centric approach would resolve these problems (box 2). The latter means that the supply of services for nationally recognised training is restricted to RTOs. (Quality assurance is essential, but there may be alternative ways of achieving that — section 11.)

The principle of *subsidiarity* — implicit in federation — suggests that responsibility for a function should, where practical, be devolved to the extent possible, so that government is accessible and accountable to those affected by its decisions. Given the vertical fiscal imbalance, the Australian Government must fund many of the activities for which State and Territory governments have key responsibility. However, the Australian Government’s revenue raising capacity does not give it any intrinsic superiority in judging how to allocate funding or regulate. The untied nature of funding in the NASWD recognises this. The principle of subsidiarity does not preclude the desirability of a national role for the Australian Government if there are sufficient benefits. Moreover, other jurisdictions will often consent to that role if the vehicle for achieving it is well-designed and serves their purpose. (For example, the benefits of a national regulator have been accepted by most governments.)

Efficiency is a desirable principle, but the imperative for it in the NASWD is too imprecise to strongly guide policy. Breaking the principle into seven important components would help make it more tangible — efficient delivery, efficient pricing and subsidies, the importance that any subsidies need to elicit additional training to have economic impacts, the trade-off between quality and cost, incentives for innovation, competitive neutrality, and recognition that (even if guided), students have the best overall understanding of their preferences and life goals.

But even efficient pricing (and underpinning it, cost estimation) is not a simple concept to apply, given the complexity and resource costs of setting multiple tiers of prices for courses delivered in different settings, for example, by student type and region. And for governments that determine efficient pricing rules, there is the added challenge of uncertainty about costs, which governments only incompletely observe. Genuinely efficient prices have to take

account of such transaction costs (and uncertainty), and use robust rules that generally work. Subsidy setting (discussed further below) has arguably lost sight of this reality.

Box 2 **A student-centred approach**

Giving students as much consumer sovereignty and flexibility as possible requires several important supports:

- choice and power — students should be able to choose between RTOs and courses based on the degree to which they meet their needs and their pricing and quality. An element of this is the desirability of avoiding obstacles to (virtuous) product variety, because some subsidy and pricing approaches risk undermining training organisations' capacity to provide differentiated services and to innovate
- good information and navigation of services provided in a meaningful way. Informed choice must be underpinned by disclosure of prices, the quality of the providers, and their course offerings, among other factors
- provision of gateway services to improve matching efficiency, such as appropriate career advice. Students come with varying preferences and capabilities, and the value of their investments may often only be realised if these are well-matched to courses. Poor matching limits students' attainment of competencies and retention rates
- the availability of support services — mentoring and pastoral care — recognising that effective training requires more than standard tuition
- high quality regulation and consumer protection, accompanied by efficient compliance. VET FEE-HELP served many students very poorly due to poor regulatory oversight
- value for money — which largely comes down to ensuring workable competition, such that costs are minimised and margins are not excessive or permanent
- credible qualifications — the value of training is not just about the acquisition of skills, but proof to employers that they have been genuinely acquired.

The NASWD did not include the principle of *fiscal sustainability*, notwithstanding the risk posed by its initial liberal approach to training entitlements. Future policies would benefit from rigorous tests of the long-run fiscal sustainability of any policy.

Equally, it is desirable to have *neutral, but not equivalent treatment* of higher education (VET and universities), with policy settings that minimise distortions in students' choice between sectors, given the connected, but bifurcated post-secondary school education system.

An expanded suite of principles within a new agreement would guide the design of policies for achieving an efficient and effective VET system and help define appropriate roles of governments.

5 What are the key reform options for VET policy?

While linked to the desirable direction of a new agreement, the Australian Government also requested the Commission to consider reform options for funding, pricing and streamlining VET services. In doing so, the Commission has also examined some policies that would support more efficient funding (such as data and empowering students and employers with information) and taken into account that economic and technological changes may require reconfiguration of the VET system (table 1). The principles set out above have guided the Commission's views about such options.

While some of the options are alternatives to each other, others are complements. And although the Commission has generally avoided making recommendations in this interim report, some of the options have a sufficient in-principle or factual basis to justify an interim recommendation.

6 What degree of nationally consistent funding?

There are large variations in jurisdictions' course funding

Jurisdictions' goals vary

In re-considering the role, design, and effectiveness of subsidies paid to RTOs for the delivery of training, and the potential for greater national consistency, it is important to understand how jurisdictions set them.

Governments' subsidy choices primarily reflect the varying priorities they give to increasing the uptake of different courses for economic or social reasons and improving access to VET for students facing disadvantage. There are credible reasons for governments to subsidise parts of the VET system (box 3), although translating these general points into specific subsidy rates is challenging.

Jurisdictions use different methods to calculate subsidies ...

At a high level, all governments take the same steps in determining subsidies. The key steps in funding and pricing VET courses are:

1. determining which courses will receive government subsidies
2. setting course subsidies by estimating costs and assigning subsidy rates. Subsidies comprise three components — base subsidies, which are a proportion of estimated course costs, loadings to reflect the higher costs of supplying services in different regions and to some students, and concessions intended to attract students facing disadvantage (such as Aboriginal and Torres Strait Islanders, people with disability and the long-term unemployed)
3. managing course subsidies through contractual arrangements with RTOs.

However, governments undertake these steps in different ways (box 4).

Table 1 There is a large suite of policy issues and reform options

<i>Area of policy</i>	<i>Options/recommendations</i>	<i>Key relevance</i>
Course funding and a nationally-oriented system	<ul style="list-style-type: none"> • Common methods • Simpler subsidies • Nationally determined, binding subsidies • Student vouchers • A bigger role for loans • Pricing reforms • Data 	<ul style="list-style-type: none"> • Eliminating unjustified national variations • Better matching of funding to student needs • Addressing perverse incentives • Fiscal sustainability • Desirable roles of governments within the federation • Loans make training more affordable
Streamlining training packages and regulation	<ul style="list-style-type: none"> • Quicker adaption to changing skill needs • A single regulator 	<ul style="list-style-type: none"> • A responsive VET system • Administrative efficiency
Apprenticeship funding and design	<ul style="list-style-type: none"> • Adjust employer incentives • Industry levies • Student support 	<ul style="list-style-type: none"> • Higher retention rates • Greater effectiveness in inducing additional apprentice numbers
Student supports	<ul style="list-style-type: none"> • Pastoral and mentoring services • Upfront assessment 	<ul style="list-style-type: none"> • Addressing non-completion and wasted subsidies • Better matching of students to courses
Public provision and contestability	<ul style="list-style-type: none"> • Competitive neutrality • Transparency 	<ul style="list-style-type: none"> • Efficient markets responsive to student needs
Better information for students and employers	<ul style="list-style-type: none"> • Disclosure of RTO performance and pricing • Testing of disclosure methods 	<ul style="list-style-type: none"> • Consistency with a customer-centred approach • Underpins an efficient market • Supports centring the VET system on customers
Better data for assessing VET system performance	<ul style="list-style-type: none"> • Requirements for transparency • Collection of information on a consistent basis 	<ul style="list-style-type: none"> • Accountability for spending • Testing the effectiveness of VET policy and achievement of goals • Guides subsidy determination
Adaptability and resilience to new economic developments	<ul style="list-style-type: none"> • Greater online provision • Cross-border course subsidies • Unbundling of training from assessment 	<ul style="list-style-type: none"> • Centres the VET system on customers • Increases competition for supply of training • Encourages innovative delivery

Box 3 Rationales for subsidies

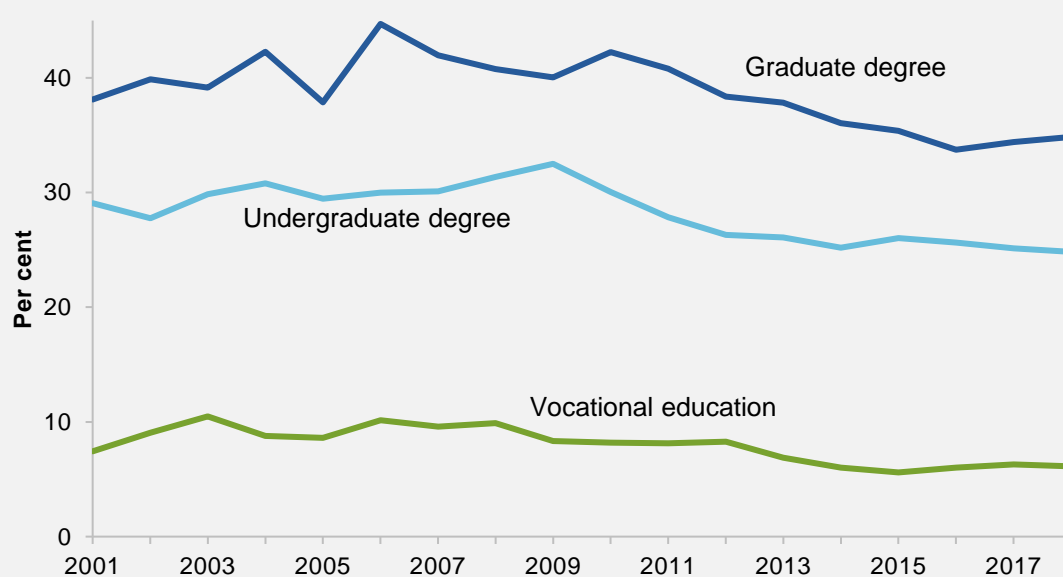
There is compelling evidence that completing a VET qualification typically raises productivity and leads to higher labour income (see figure below). However, this general link is not a sufficient argument for government interventions to increase vocational skill formation. Private parties, such as students and employers, have strong incentives to invest in education so public investment may not always be necessary. The key issue is the public value of such policies.

Some forms of governments' investment in VET — quality regulation, consumer protection, careers information, and support for students facing disadvantage — have well accepted public interest reasons for interventions.

The public value of other policy measures that subsidise or otherwise encourage the uptake of VET courses and apprenticeships are more open to debate and depend in turn on their rationale and effectiveness.

- Subsidies directed at addressing skill shortages have some in-principle validity as, notwithstanding expectations that markets will respond, some skill shortages have been surprisingly persistent.
- Private incentives to invest do not take account of broader public benefits, leading to underinvestment.
- Even where private incentives are sufficient to motivate training, if there are also public benefits there is an equity argument for requiring contributions from all the parties who benefit. This is a societal choice exercised by governments, shaped by social norms about what is fair.
- Some degree of parity is required between higher education and the VET sector as current arrangements can inefficiently encourage students to choose a sector less suited to them, while also being inequitable. This means that subsidy and loan settings in the VET system cannot be considered in isolation from those in higher education.

Education wage premium, 20–64 year olds



Box 4 Each to its own — how jurisdictions determine costs and subsidies

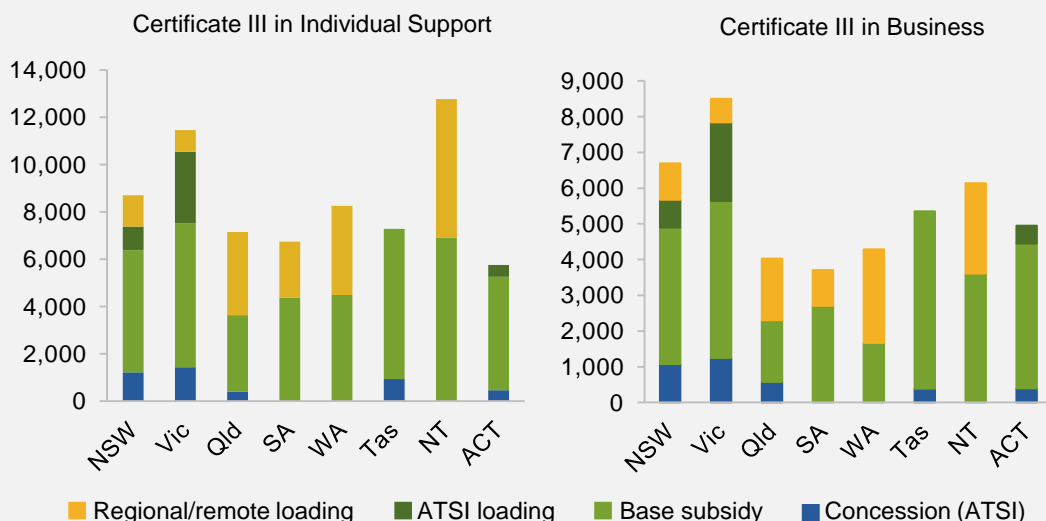
There is no general approach to estimating course costs, calculating subsidy rates or in setting loadings/concessions, with methods varying significantly within and across jurisdictions. For example, within each jurisdiction, location loadings take into account the higher costs of training in regional and remote areas. However, large differences exist across jurisdictions. New South Wales has a flat 10 or 20 per cent regional loading (Tasmania has none) — between 5 and 7 times lower than Queensland and Western Australia — despite large parts of the State being classified as remote or very remote. Similarly, equity loadings vary markedly. As an illustration, the loading for Aboriginal and Torres Strait Islander students is 15 per cent of course costs in New South Wales, 50 per cent in Victoria and a flat \$500 in the ACT.

Many jurisdictions' estimates of the cost of delivery are based on historical average course costs whose original methodologies are unclear. In New South Wales, where the methodology is known, subsidy rates are based on 2012 data, and on the cost profile of TAFEs (which do not have cost structures typical of the broader market). While definitive information was unavailable, our analysis of two popular VET courses suggests that estimates of costs can have a significant impact on the subsidies on offer (see figure below).

The methods jurisdictions use to apply subsidies to courses vary, including in their complexity. New South Wales, for example, determines average course subsidies by field of education. In contrast, Victoria determines average course subsidies using an industry classification.

Jurisdictions also have different ways of grouping subsidised courses for the purposes of signalling their priority. For example, Queensland has three groups (with subsidy rates ranging from 50 to 100 per cent of course costs) and Western Australia has five groups (for example, Priority Industry Qualifications, Diploma and above and Targeted fee relief).

Subsidy schedules for two Certificates (\$) ^{a,b}



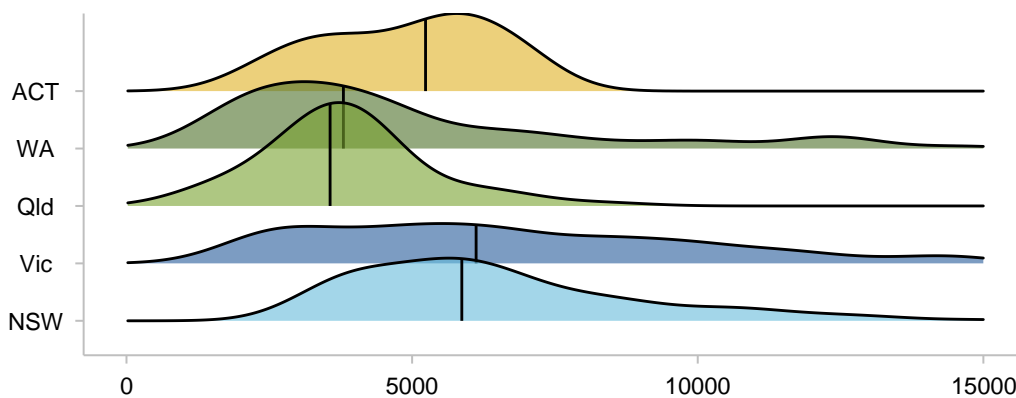
^a These comparisons are for illustration. Due to the varied nature of information on subsidies some jurisdictions' data have been supplemented with TAFE data and amounts may not be directly comparable. ^b These comparisons are for an Aboriginal or Torres Strait Islander Student living in a regional or remote location.

... leading to large variations in subsidy levels within and between jurisdictions

Consequently, each jurisdiction has both a very wide distribution of subsidy amounts across courses and, given variations in priorities and methods for calculating subsidies, these distributions also vary between jurisdictions (figure 6). For example, very few Diploma/Advanced Diploma courses obtain subsidies above \$5000 in Western Australia or Queensland, while more than 50 per cent do so in the ACT, Victoria and New South Wales.

Against the background of these wide variations, some of the Joyce Review's recommendations for greater national consistency are worthwhile.

Figure 6 The distribution of subsidy rates by jurisdiction varies widely^a
Subsidy for Diploma/Advanced Diploma qualifications (\$)



^a Non-apprenticeship students without a loading or concession. Vertical lines represent the median subsidy.

Options for greater national funding consistency and coherence

The Joyce Review's critique of complex subsidies is well justified. Much of the complexity and variation in subsidy settings is unlikely to be necessary. Governments have several options for addressing the wide dispersion of subsidy rates and they are not necessarily mutually exclusive.

(1) Common methods and greater transparency

A minimalist option would be the adoption of common methodologies, underpinned by greater transparency in information about costs and methods. A common approach to estimating course costs and setting subsidy rates would help States and Territories adopt better practice and promote transparency in methods. Any such approach would require regular updating of cost bases with reference to the market as a whole — a significant

departure from current practice. Common approaches do not mean common outcomes, as cost-reflective base costs and loadings may vary between jurisdictions. Similarly, there are good grounds for using consistent methods to determine skills shortages, which are a major determinant of the eligibility of courses for subsidies. These would still take into account the regional dimensions of shortages. A prime function of the Australian Government's National Skills Commission (due to be formally established in July 2020) will be to develop these more consistent methods.

An advantage of this minimalist approach is that it would leave jurisdictions to make their own policy judgments about subsidy settings and the courses and student groups they wish to support, while addressing the methodological quirks that lead to unjustified variations.

(2) Streamlining subsidies

As finely calibrated subsidy rates are unlikely to sway student choices or reflect real differences in the public/private returns from different courses, there are strong grounds for simplifying subsidies.

Simplification could take various forms, including:

- (a) a single subsidy rate for all courses on a skills/priorities list, set as a constant percentage of course costs. This approach would not affect relative prices between courses
- (b) a flat dollar subsidy for all courses on the skills/priority list. While very simple, this would mean that students would pay a higher share of the costs for high-cost courses, which may be seen as inequitable. It could also mean that the subsidy could exceed the cost of a course. Unless the student was able to pocket the difference, this would discourage students from seeking value for money
- (c) a small set of subsidies whose values would be a share of the average (or efficient) cost of delivering groups of similar courses.

In each case, States and Territories would (in line with the subsidiarity principle) still decide on the rates for their own jurisdictions and the eligibility criteria for subsidised courses. Loadings for the higher costs of teaching some groups of students would still apply, as would concessions.

(3) National determination of subsidy rates?

As recommended by Joyce, a more significant change would be to apply the approach (c) above, but using the same subsidy rate for all jurisdictions and with the costs of each group of courses based on the average national cost of delivery. Loadings would provide additional funding for the costs of provision in regional Australia and for some groups of students. State and Territory governments would be bound by these nationally consistent subsidy levels, but would be free to decide how many subsidised places to offer.

This recommendation would have the virtue of simplifying subsidy rates and making their derivation transparent. In a workably competitive market, it would create strong incentives for RTOs to minimise costs.

However, national consistency per se is not always a virtue. State and Territory governments would lose the capacity to vary subsidy rates to meet the needs of their local labour market or their social policy objectives. Governments would not have the option of changing subsidy rates (including loadings) to fund more student places (possibly at lower unit cost), or to determine the levels of support and eligibility for concessions for students facing disadvantage.

Regardless of whether there is a national agreement that binds parties to consistent subsidy levels, the analytical work by the National Skills Commission on a common national approach to determine costs (as discussed under option 1 above) will be useful to the States and Territories.

(4) Vouchers?

State and Territory governments provide subsidies to RTOs. An alternative would be to allocate the funding to students as a voucher-style entitlement. Vouchers would support user choice and should make providers more responsive to their customers. The value of the voucher would be equivalent to some or all of the subsidy that would otherwise have been provided to RTOs.

In some jurisdictions, like New South Wales, student places for subsidised courses are capped. Where places are capped, introducing vouchers would be more complex as their numbers would have to be limited to replicate the outcome of direct rationed funding of RTOs. Vouchers could be allocated to students satisfying eligibility criteria (such as some measure of likely success in the occupation), but would be unlike universally available vouchers.

While capping may be justified because of budget constraints or the desire to limit enrolments in occupations, it also raises an equity issue. Capping means that students studying the same subject could face different net fees, depending on whether they had access to the subsidy before caps were exceeded. The materiality of this issue is unclear, and, in any case, the same problem already applies to students who must pay full fees if they fail to secure a capped place.

(5) Pricing and student fee regulations can have unintended adverse impacts

Governments differ in how stringently they control student fees and prices paid to RTOs for subsidised courses, reflecting different views on quality and service delivery risks. New South Wales and Western Australia regulate most heavily by fixing student fees for all qualifications (allowing neither lower or higher fees). In that case, the payment to the RTO

— the ‘price’ of the service — is entirely regulated as the subsidy level is also set. (Queensland sets some student fees, but only for apprenticeship courses).

Other jurisdictions do not set student fees for most courses, although RTOs in Queensland, South Australia, Tasmania and the ACT must charge a (modest) minimum student fee so that students have ‘skin in the game’. This sensibly aims to reduce the risk of fraudulent conduct by RTOs (for example, giving inducements to students to undertake training while supplying low-quality services, so maximising the value of the subsidy) and encourages students to choose their training carefully.

However, beyond a requirement to have a student fee, regulated prices and student fees can have perverse impacts because they reduce the ability of RTOs to differentiate based on quality and mode of delivery. For example, price regulations do not prevent RTOs from reducing quality, but they can prevent them from delivering higher-quality training at a higher price or delivering high-quality courses at lower than capped prices, as is the case in New South Wales.

Consequently, there are good grounds for the New South Wales and Western Australian Governments to remove price regulations (and for the Queensland Government, its price control of apprenticeship courses). The risks of excessive student fees would be mitigated through the provision of information to students and possibly some initial price monitoring.

(6) A bigger role for loans?

Course subsidies have overly elaborate designs, do not apply for many courses, have only partial effectiveness in increasing overall VET enrolments and changing students’ course choices, and involve large government outlays. By contrast, income contingent loans have promising features that suggest they could play — if robustly designed with effective integrity safeguards — a larger role in government funding of the VET system:

- loans address the difficulty many students face in paying upfront for VET (upfront payments are still required for many courses)
- loans directly target the market failure that credit is not available for uncertain investment in human capital
- students receive a signal that training is a long-term investment
- the contingent nature of loans means they do not have adverse equity effects if training does not deliver its expected dividends
- the long-term fiscal costs of loans should be less than subsidies
- loans give students a portable entitlement that promotes user choice
- clearly disclosed loans require ‘skin in the game’ from students who will have stronger incentives to choose efficient, lower priced RTOs and to choose suitable qualifications and courses

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- loans allow students to choose based on their preferences and on the likely benefits of courses and careers.

The widespread rorting of VET FEE-HELP has obscured these intrinsic advantages, but these failures were a symptom of poor policy design and implementation, rather than a failure in the concept.

Current income contingent VET Student Loans (VSL) provided by the Australian Government have many strong (and justified) protections against rorting, but the focus on preventing malfeasance and reducing fiscal risks may have undermined the key role of loans in providing affordable access to training. 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. It may push students into the higher education system or from more costly VET courses to cheaper ones, although neither of these destinations may suit their preferences and capabilities. VSL may also affect the behaviour of VET providers. Some do not apply for access to VSL as arrangements are too compliance heavy. Others may change the quality and type of courses they deliver so that VSL caps do not bind (or not by much).

There are four broad policy options that could enable VSL to better meet its objectives.

Regardless of more significant reform directions for VSL, there are reasonable grounds to streamline administrative and compliance arrangements so that they are less burdensome for low-risk RTOs.

The VSL program's significant restrictions on eligible courses appear arbitrary and lack a clear rationale, which suggests the scope for ending them. A course is only eligible for VSL if it is subsidised by at least two States and Territories, or is a science, technology, engineering or mathematics course, or is tied to licensing requirements for a particular occupation. The consequence is that about one third of the total number of accredited courses at the Diploma or higher level are ineligible for VSL (while the more general restrictions on lower-level qualifications mean that none of these are eligible).

The current restriction that the VSL program is only available to students studying some Diploma or higher-level qualifications could be relaxed to extend income contingent loans (ICLs) to lower level qualifications, particularly Certificates III and IV. Many students studying lower-level qualifications face fees of thousands of dollars without recourse to a loan — an obstacle to training for some, and out of kilter with the loans available in the higher education sector.

While loan caps may be an effective measure to counter the risk of misconduct by, and lack of competition between, RTOs, their levels may not be justified. In particular, the lower the cap, the more it undermines the purpose of loans to provide finance for students finding student fees unaffordable, especially for students who might have to train in the fee-for-service market and who are disadvantaged. Given the other measures now in place that can address

misconduct and excessive pricing, an option is to raise what appear to be excessively stringent caps. Such an option could still require a student to pay something upfront.

A reform agenda for VSL could choose any combination of the above possible changes to the current framework. Table 2 presents one such spectrum. A conservative option would be to relax course restrictions, which would make all Diplomas/Advanced Diplomas eligible for loans, increasing access to loans and reducing students' upfront costs. A further step would be to widen eligibility to students studying Certificate III/IVs. The most far-reaching initiative would be to allow access to VSL for all students in nationally recognised training programs. In that instance, the quid pro quo for the Australian Government's exposure to greater loan liabilities would be its withdrawal from (or reduction in its) funding through its agreement with the States and Territories.

Moreover, any expansion of governments' funding of the VET system may be best undertaken through a greater reorientation to loans rather than more subsidies.

The benefits of reforms could be significant. Extending loans to new groups of students would help make training more affordable, increasing the uptake of qualifications and diversity of choice.

A challenge in redesigning VSL is the shadow cast by the scarring experiences of the widespread rorting of VET FEE-HELP, with its costly impacts on thousands of students, the Australian Government and the reputation of the entire sector. Accordingly, any expansion of loans in the VET sector would have to be accompanied by effective regulation of course quality and the market conduct of RTOs — many of which are already a feature of the existing VSL — and accessible and relevant information on courses for students.

To the extent that the Australian Government is concerned to further moderate risks, it could include some course restrictions where the risks were deemed high. For example, the Business Council of Australia and the Australian Industry Group recommended a black list approach (that is, the Government would nominate ineligible course loans), leaving remaining courses eligible for loans. Similarly, the Australian Government could set a transition path to a less restrictive system, testing risk as caps and qualification restrictions are lifted.

Table 2 One possible spectrum of options for reform of VET Student Loans^a

<i>Option</i>	<i>Main features</i>	<i>Key issues to consider</i>
VET Student Loans (VSL) available for more/all Diplomas and advanced Diplomas (by relaxing or removing loan eligibility to priority skill lists)	<ul style="list-style-type: none"> • <u>More</u> students eligible for assistance • More consistent VSL eligibility for students studying Diplomas • Reduced upfront private contribution to course costs for more students 	<ul style="list-style-type: none"> • Decide which, if any, qualifications will not be eligible (a black list?) • What degree of alignment with higher education courses (for example, subsidy rates, repayment threshold?) • Impact on enrolments for other qualifications? • Impact on course fees? • What if any changes to subsidies for RTOs?
VSL available for all students undertaking selected qualifications (including Certificates III and IV)	<ul style="list-style-type: none"> • <u>Many more</u> students eligible for assistance • More consistent VSL eligibility for students studying above Certificate II • Reduced upfront private contribution to course costs for more students 	<ul style="list-style-type: none"> • Decide which, if any, qualifications will not be eligible (a black list? not on priority lists?) • What degree of alignment with higher education courses (for example, subsidy rates, repayment threshold?) • Impact on enrolments for other qualifications? • What if any changes to subsidies for RTOs?
VSL replace/reduce Commonwealth subsidies for all students in nationally recognised training programs	<ul style="list-style-type: none"> • <u>All</u> students can access loans (including in fee-for-service market) • Consistent VSL treatment for all students • Broad user choice for students • State and Territories primarily or entirely responsible for subsidies • Broad alignment with higher education 	<ul style="list-style-type: none"> • Roles and responsibilities between Australian, States and Territory governments, including the division of funding • Australian Government loan liabilities? • Change to repayment threshold?

^a All options would consider simpler more targeted scheme administration, and key issues for all would be changes to loans caps, possible impacts of liberalised loan access on student fees, and risk management.

An expansion of loan availability will also increase fiscal risks given their income contingent nature. Fiscal risks could be reduced by re-considering the threshold for loan re-payment to limit unrecovered loans, especially if restrictions are relaxed to include qualifications where expected earnings are below the current threshold, which may often occur for the lowest-level qualifications. The collection of unpaid student loan debts from deceased estates would also significantly reduce fiscal impacts, while bringing student loans into line with the treatment of other public and private debts.

The Commission recognises that some of these options, notably expanding access to VSL, would represent a radical shift in approach and potentially a significant change in the roles and responsibilities of governments. The Commission is hoping to elicit an open discussion on their relative merits and is seeking feedback on the most attractive options.

Links between funding options

Some of the above options are substitutes for each other, while others are not mutually exclusive and could be pursued simultaneously. Regardless of whether governments streamline subsidies (option 2) or develop a nationally consistent approach to subsidies (option 3), governments should use common methodologies (option 1) and address pricing distortions (option 5). Vouchers (option 4) could be a feature of any subsidy system, regardless of the choices between options 1 to 3. Similarly, while there would be grounds for reducing the weight given to course subsidies, changes to loans (option 6) could coexist with any subsidy arrangement.

7 Other measures to improve national consistency

Streamlining of training packages

While the streamlining ambitions of the COAG Skill Council’s draft VET Reform Roadmap are good, they should be widened, particularly in relation to the timeliness of training package updates.

The process of developing, updating and endorsing training packages is cumbersome and rigid, as it requires vetting by multiple parties. To change a training package, each industry board (called Industry Reference Committees) must obtain the approval of the Australian Skills Industry Committee before new training package contents can be developed. Once training package changes are developed, the Industry Reference Committees need the Australian Skills Industry Committee’s approval for every change before the training packages are endorsed by the COAG Skills Council. This approval process ensures that governments have oversight of all training package changes but adds months to the timeline to update training packages.

These problems could be addressed by devolving approval processes to the Industry Reference Committees — which can act more quickly — where changes are minor and uncontroversial.

Completing the shift to a single regulator

Stakeholders in this and other reviews have stressed that regulatory arrangements do not work seamlessly where there are multiple potential regulators. For instance, there is often confusion among training organisations about whether they need to report to ASQA or the Victorian regulator and whether ASQA and the other regulators interpret the standards in the same way. Other stakeholders pointed to difficulties students have in knowing where to lodge complaints about providers.

Many of the concerns about moving Victoria and Western Australia to a single regulator can be managed. States and Territories would still be able to respond to local training needs.

ASQA accredits courses where there are demonstrated needs that are not serviced by existing training products, and States and Territories use other mechanisms such as funding to address local needs.

The Commission supports the recommendations of previous VET reviews, including those by Joyce and Braithwaite, that Victoria and Western Australia move their regulatory responsibilities to ASQA to reduce confusion and ensure all RTOs are held to the same standard.

8 Changes to government support for apprenticeships

While there has been considerable streamlining of Australia's apprenticeship system, there is room for more far reaching reform, particularly to re-assess the merits of current government incentives to employers to train apprenticeships. There is little evidence that incentive payments to employers to train *trade* apprentices have been effective in increasing enrolments. These payments offset only a small share of the total costs to employers of taking on a trade apprentice. The Commission estimates that the Australian Government's employer incentives (which have remained fixed in nominal terms for many years) account for less than 2 per cent of the full costs of hiring, remunerating and training a trade apprentice. In contrast, financial incentives initially boosted *non-trade* apprenticeships (trainees), although with questionable benefits, if any, for genuine skill formation as much of the upturn was in areas deemed to be low priority and was associated with roting. Policies have now tightened access to traineeships.

This experience implies that large incentive payments to employers would be needed to significantly increase the number of trade apprentices, suggesting that alternative options could be pursued.

One option — which could be combined with all others — is to address barriers to hiring apprentices, including their foundational skills, work readiness, and the minimum wages or other award conditions set by the Fair Work Commission. For instance, the business sector often expresses concern that many young people do not have sufficient numeracy or literacy skills to undertake an apprenticeship.

The evidence, supported by research here and overseas, also suggests that a more cost-effective alternative to employer-based incentive payments, or a complement to them, would be support services for employers and apprentices, such as mentoring and pastoral care for apprentices.

In principle, industry training levies could also play a larger role in funding apprenticeships — as widely used in State and Territory schemes in the construction industry. Levies overcome the problem that a non-training employer can free-ride on the training efforts of others ('poaching'). The overall empirical evidence about the materiality of poaching as a problem demanding a policy solution is mixed, as is evidence about the effectiveness of

levies. We are seeking feedback on where levies or other incentives might play a greater role in funding apprenticeships, if at all, and their appropriate design and implementation.

To the extent that employer incentives continue, they should be subject to further coordination and simplification given the confusing array of measures and eligibility conditions. Better navigation services provided through the Australian Government's Apprenticeship Support Network would be an option.

Complex eligibility criteria for Australian Government support for apprentices could be eliminated by providing incentives to all trade apprentices regardless of their tenure in the business and removing the requirement that a skill be on the National Skills Needs List. This would recognise the trade-offs between targeting and administrative simplicity. Current targeted arrangements for trainees, where incentives for existing workers relate only to caring occupations, should be retained to avoid subsidising training activities that have little effect on skill augmentation.

9 Subsidising public providers may violate competitive neutrality principles

Public providers receive payments besides course subsidies. States and Territories do not fully disclose the value or use of these payments; nevertheless, these payments may be distorting competition between public and private providers. Funding higher-cost public providers outside competitive processes will diminish returns from the public funds invested in training.

Some participants have raised several rationales for preferential funding for public providers, including servicing thin markets, maintaining certainty of supply, servicing particular student cohorts, and general community service activities. However, existing course subsidies already provide additional payments for particular student groups and allow for regional variation in costs. Moreover, if there are additional community service obligations, public provision is not necessarily the only or best option. At face value, governments should fund public providers based on explicit, transparent community service obligations (which should be subject to market testing and contestability rather than simply earmarked for TAFEs).

10 The power of information

Better information for better choices

The Australian Government created the National Careers Institute in 2019 to improve the quality of career development services and provide more useful information to students. The outstanding task is to fill information gaps on course prices, career opportunities, the availability of government financial support and the performance of individual RTOs. Information should be tested with students and employers to ensure that it is salient, trusted

and interpreted correctly. To be even more useful for students, all governments should work together to ensure the Institute becomes a central information hub.

Data and analysis for assessing the impact of VET policies

The assessment of the effectiveness and public value of VET policies is central to accountability and improving system design. As noted above, the performance metrics used in the NASWD have generally been deficient.

Any performance indicators should be valid, reliable, easily collected, and timely. Nevertheless, while such indicators can provide useful diagnostics and benchmarks to monitor the system, they do not shed light on causality. Systematic policy evaluation — beyond the measurement of system performance — is required to assess what works, including how policy actions have contributed to outcomes.

A strong evidence base is essential to support evaluation, which is hampered by deficiencies in the collection and publication of information on VET funding, including where funding for VET delivery is spent, whether funding programs are meeting their objectives, and the broader impacts of spending on system outcomes. This is a major deficiency and addressing it is critical to support governments' and other parties' assessments of the effectiveness of governments' stewardship of the VET system. The Commission has experienced first-hand a reluctance by many jurisdictions to provide the information that would allow a comprehensive review of the NASWD. There is an immediate imperative for improved disclosure of information as well as its collection in the first place.

11 New agendas and frameworks

The disruption of COVID-19 has thrown into sharper relief the potential for new platforms for learning, including the possibility for entirely online acquisition of some skills. That raises questions about arrangements that might facilitate subsidy payments by one jurisdiction to an RTO in another, or indeed, in a more radical re-working of the system, to reputable providers internationally. A new agreement and other VET policies might therefore need to support new national delivery models (and associated quality assurance and funding arrangements).

For example, massive open online courses (MOOCs) are seen as the province of the higher education sector, a preconception that should be open to challenge. MOOCs (and gamification) have the advantage that it becomes economic to make large upfront investments in high quality and engaging ways of transmitting skills, with very low incremental access costs for students.

This feature of online delivery has several implications for delivery and pricing. For example, subsidies could be paid to meet the fixed costs of such online approaches, with

near zero pricing given that use of such courses by any one student does not limit its use by another. Such provision is time agnostic and so can suit people of older ages already in jobs, for whom time away from work is an impediment to further training. In 2016-17, the two main obstacles to undertaking work-related training was too much work/not enough time (45 per cent of people who want to do more training) and financial reasons (26 per cent) — which are partially alleviated by this new model for provision. Moreover, this model also increases the scope for variety. In a traditional model of training, variety is costly because the number of students who might access training through a local training provider becomes smaller with higher degrees of specificity of a course or unit of competency — a problem that does not exist where costs can be spread across large numbers of students across a nation (or globally).

The seeming Achilles heel of such models of training is accreditation. However, accreditation and knowledge provision could be unbundled — as is the case for drivers' licenses. Governments' role would be to develop reputable certification models where these were not already available. (Businesses sometimes already provide quality certification, as in Microsoft's exams for certifying IT skills relevant to its platforms.) There may be potential to introduce independent accreditation for non-online courses too. This would have the added advantage of providing greater certainty about training standards to employers and students, increasing the incentives for training providers to supply high quality services, spurring competition and reducing the demands on ASQA.

The degree to which new platforms for learning are practical is only partly tested. For example, online delivery is not suitable for many courses (such as when competency in using equipment is an essential part of skills acquisition). Many students may prefer face-to-face contact.

Similarly, independent accreditation may be too administratively costly for many courses. The Commission is seeking feedback on new ways in which people could acquire skills and their policy implications.

Interim findings, reform directions and information requests

Progress against the NASWD

Performance framework

INTERIM FINDING 2.1 — NASWD PERFORMANCE FRAMEWORK

Governments' targets on skills formation will not be met. Progress against other performance measures, such as employer satisfaction and improvements in employment and education status, is mixed.

Assessing the NASWD's reform directions

INTERIM FINDING 2.2 — GOVERNMENT-FUNDED VET PARTICIPATION

Key reforms under the NASWD — the national training entitlement and expansion of student loans (VET FEE-HELP) — initially increased participation but incentives were later wound back because of escalating costs and roting. Overall participation rates are now at or below pre-NASWD levels.

INTERIM FINDING 2.3 — VET MARKET COMPETITION AND EFFICIENT TRAINING DELIVERY

Early efforts to promote a 'more open and competitive training market' have stalled. Improving the efficiency of training markets is no longer an explicit priority for most governments.

Further work is required by governments on the policy settings that best facilitate a responsive and efficient training market. This includes a more clearly defined role for public providers.

INFORMATION REQUEST — ROLE OF COMPETITION IN THE VET MARKET

- *What role should competition play in meeting users' needs, including the quantity, type and quality, and regional accessibility of VET services?*
 - *How should the efficiency of the VET market be measured?*
 - *What is the appropriate (and exclusive) role of public providers, and why?*
 - *Are additional consumer protection arrangements required to support a well-functioning VET market? What are the costs and benefits of different models of consumer protection established by governments, including ombudsmans' offices?*
-

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.
-

INFORMATION REQUEST – CAREER GUIDANCE FOR STUDENTS

What changes could be made to ensure school students have appropriate career information and advice?

A new agreement to guide policy

INTERIM FINDING 2.4 — THE NASWD NEEDS REPLACEMENT

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

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

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

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.

INFORMATION REQUEST — DESIGNING A NEW INTERGOVERNMENTAL AGREEMENT

If a new principles-based agreement was negotiated in line with interim recommendation 2.2:

- how should it consider other educational sectors, informal training and non-government funded training?*
 - what other mechanisms to facilitate reform and improve accountability would best complement an agreement?*
-

Governments' funding of VET

Rationales for investment

INTERIM FINDING 3.1 — PUBLIC AND PRIVATE RETURNS TO VET

There are significant private and public economic returns to VET, with returns larger for Diploma and Advanced Diploma VET courses.

There are also indirect benefits — such as reduced crime and intergenerational economic mobility — which may be greatest for lower-level VET qualifications.

INTERIM FINDING 3.2 — ALIGNED TREATMENT OF VET AND HIGHER EDUCATION

The use of subsidies in the university system provides a robust efficiency and equity rationale for subsidies in the VET system.

However, given the public benefits and aims of the VET and higher education systems differ, subsidy rates do not need to be identical in the two sectors for all occupations and fields.

INFORMATION REQUEST — IDENTIFYING AND ACTING ON SKILLS SHORTAGES

- What are useful ways of defining and measuring the skills shortages (and surpluses) relevant to the VET sector?*
 - What factors are causing an apparently persistent shortage of skilled workers in some occupations, despite these occupations being a priority for government support?*
 - To what extent are skills forecasts based on future industry growth a useful and reliable basis for providing course subsidies?*
 - In what circumstances do skills shortages justify course and employer subsidies and at what level of granularity?*
-

The mechanics of subsidising VET courses

INTERIM FINDING 4.3 — JURISDICTIONS' APPROACHES TO SUBSIDISING COURSES

State and Territory governments share the same goal that subsidies should increase participation in training, particularly by students facing disadvantage and in skill areas in short supply or with other public benefits. All take the same key steps in setting subsidies and managing subsidised services.

However, there is significant variation in policy priorities and the approaches used to determine which courses receive subsidies, and in overseeing course costs and student fees. Consequently, subsidies and student fees for the same courses can vary widely across Australia.

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

INTERIM FINDING 4.1 — DATA UNDERPINNING SUBSIDY RATES

Data used to estimate course costs (which inform subsidy rates) are dated in most States and Territories and are not a sound basis for setting subsidies.

INTERIM FINDING 4.4 — LACK OF TRANSPARENCY IN SUBSIDY SETTING

There is a general lack of transparency on subsidy- setting processes and the rationales for subsidies. There is also a lack of transparency on course costs faced by students.

This transparency deficit adversely affects the ability of students and training providers to make informed decisions on investment in training.

INTERIM FINDING 4.2 — PRICE CONTROLS ARE INEFFICIENT

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

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

Options for funding and pricing reform for course subsidies

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.

INFORMATION REQUEST — SIMPLIFICATION OF SUBSIDY GROUPINGS

In judging the relative merits of alternatives in option 6.1:

- *how should subsidy groupings be simplified?*
- *what criteria should be used to bundle courses and set subsidy rates?*
- *what are the trade-offs between the greater simplicity of adopting nationally consistent subsidies and the reduced discretion for jurisdictions?*

INTERIM RECOMMENDATION 6.1 — COMMON METHODS FOR COSTING

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

OPTION 6.2 — CONSISTENT METHODS FOR ASSESSING SKILLS SHORTAGES

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 undertaken by the National Skills Commission.

OPTION 6.3 — SWITCHING FROM SUPPLIER TO CUSTOMER SUBSIDIES

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

INFORMATION REQUEST — IMPACTS OF VOUCHERS

In judging option 6.3:

- *how would vouchers be provided for courses with capped places?*
 - *what impacts would vouchers have on effective competition?*
 - *what are the risks of vouchers?*
-

INTERIM FINDING 6.1 — WELL-DESIGNED VET STUDENT LOANS IMPROVE AFFORDABILITY

Poor design, rather than poor policy justification, was the source of the rorting of VET FEE-HELP. A well-designed VET student loan scheme can improve affordability and access to VET courses with few fiscal risks to government.

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.

INFORMATION REQUEST — IMPLEMENTING AN EXPANDED LOANS SCHEME

If VET Student Loans (VSL) were expanded in line with option 6.4:

- *to what degree and where should restrictions on the VSL scheme be eased?*
- *what would be the costs and benefits (to governments and students) of:*
 - *removing course list restrictions?*
 - *expanding the VSL scheme to Certificate-level qualifications?*
 - *re-orienting the role of the Australian Government from a direct funder of the VET system to an issuer of income contingent loans to all students in nationally recognised training programs?*
 - *changing the loan caps?*
- *what would be the appropriate roles and responsibilities of Australian, State and Territory governments in the VET system if the prime responsibility of the Australian Government was to extend VSL rather than provide subsidies?*
- *which parts of the VSL administration and reporting requirements are most burdensome?*
- *what aspects of a system architecture and settings may need to be in place to reduce risks, assure quality and support the operation of a well-functioning market, including consideration of 'black lists', repayment thresholds, and recovery of unpaid debt from deceased estates?*

INTERIM RECOMMENDATION 6.2 — PRICE CONTROLS SHOULD BE REMOVED

Governments should not cap the prices of VET courses.

Trade apprenticeship and traineeship incentives

OPTION 6.5 — SUPPORTING TRADE APPRENTICESHIPS

Given the apparently poor effectiveness of employer incentives, the Australian and State and Territory governments could consider:

- 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
- reintroducing (better-designed) industry levies.

Consideration of these options should take into account the effectiveness of any measures to strengthen pastoral, mentoring and other support services for VET students in general (options 6.6 and 7.3).

INFORMATION REQUEST — IMPLEMENTING NEW SUPPORT ARRANGEMENTS FOR TRADE APPRENTICESHIPS

In assessing the merits of option 6.5:

- *does the nature and size of the ‘apprenticeship problem’ merit new policy measures?*
- *how significant is ‘poaching’ as a problem that would justify industry levies?*
- *how effective are levies in increasing apprenticeships?*
- *are there other reasons for using industry levies?*
- *how would the problems of administrative complexity for some existing levies be addressed?*

INTERIM FINDING 7.1 — STREAMLINING APPRENTICESHIPS

Governments have made progress in harmonising and streamlining the apprenticeship system but there is scope to further simplify arrangements for student support and system administration.

OPTION 7.1 — BETTER COORDINATING AND STREAMLINING INFORMATION ON APPRENTICESHIP INCENTIVES

To better coordinate and streamline information on their multiple apprenticeship incentives, Australian, State and Territory governments could implement one or more of the following options:

- task the Australian Apprenticeship Support Network to assist employers in determining their eligibility for benefits offered by both the Australian and relevant State or Territory governments
- publish clearer information on all incentive payments that employers in each jurisdiction may be eligible for
- strictly delineate the roles and responsibilities for managing apprenticeship supports.

INFORMATION REQUEST — ASSESSING STREAMLINING OPTIONS

In assessing the policy alternatives in option 7.1:

- *what are their relative costs and benefits?*
 - *are there alternative ways to encourage governments to coordinate or streamline their employer incentive programs?*
-

OPTION 7.2 — STREAMLINING TRADE APPRENTICESHIP INCENTIVES

In considering how to streamline trade apprenticeship incentives, the Australian Government could consider extending eligibility for trade apprenticeship incentives to all workers, regardless of their tenure with the employer.

INFORMATION REQUEST — EMPLOYER INCENTIVES TARGETING DISADVANTAGED GROUPS

What are the benefits and costs of targeting disadvantaged groups for additional incentives at the Certificate II, and Certificate III and above qualification levels?

OPTION 7.3 — IMPROVING THE AUSTRALIAN APPRENTICESHIP SUPPORT NETWORK

The Australian Government could improve apprenticeship support services by:

- publishing more information on the scope of services that Australian Apprenticeship Support Network (AASN) providers are contracted to deliver
- evaluating the AASN contracts to assess how recently-revised arrangements have affected the efficiency of service provision and outcomes for users
- cooperating with State and Territory governments to jointly contract AASN providers to better align services with local needs, as is the practice in the Northern Territory.

INFORMATION REQUEST — APPRENTICESHIP SUPPORT NETWORK SERVICE DELIVERY

In assessing the three options in option 7.3:

- *what types of information could the Australian Government provide to help State and Territory governments plan their service delivery?*
 - *what is the effectiveness of the joint contracting model in the Northern Territory and the feasibility of extending this model to other jurisdictions?*
-

Training package development

INTERIM RECOMMENDATION 7.1 — TRAINING PACKAGE UPDATE AND APPROVAL PROCESSES

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.

INFORMATION REQUEST — FLEXIBILITY ALLOWED BY TRAINING PACKAGES

How could the approach to developing training packages more effectively manage the trade-offs between consistency and flexibility?

Completing the shift to a single regulator

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.

Supporting students

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.

INFORMATION REQUEST — PATHWAYS AND TRANSITIONS

The Commission seeks evidence on:

- *the usefulness of VET in schools in developing work-ready skills*
 - *what can be done to improve students' awareness of credit entitlements between the VET and higher education sectors*
 - *the extent to which time-consuming processes for credit and recognition of prior learning are a barrier to students applying for credit*
 - *the effectiveness of programs and services aimed at assisting groups to move from education to employment (such as Jobs PaTH, Transitions to Work and jobactive)*
 - *whether there are gaps in government initiatives aimed at improving students' workplace-ready skills and, more broadly, transitions from education to employment.*
-

OPTION 6.6 — PASTORAL, MENTORING AND UPFRONT ASSESSMENT SERVICES

Australian State and Territory governments could expand mentoring and pastoral services for VET students, including those undertaking apprenticeships.

Governments should also consider the wider uptake of tools for the upfront assessment of student needs — as used by the South Australian Government — to determine students' suitability for their chosen course and their need for any supports.

INFORMATION REQUEST — EVIDENCE ABOUT MENTORING AND PASTORAL SUPPORTS

- *How should pastoral and mentoring services be funded, delivered and designed, taking into account the continuity of funding, scale, and effectiveness in improving outcomes for students?*
 - *What should be their priority target groups?*
-

Investment in public provision

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.

INFORMATION REQUEST — INVESTMENT IN PUBLIC PROVISION

In feedback on interim recommendation 6.3, the Commission requests information on:

- *the funding, monitoring and outcomes delivered under community service obligations*
 - *any changes to funding models, or other actions, that governments should undertake to address any potential breach of competitive neutrality principles in relation to VET services*
 - *the funding mechanism (for example, training subsidies or block funding) best suited to efficient and effective service delivery in 'thin markets'*
 - *how future funding arrangements to promote national consistency should incorporate any additional (non-subsidy) funding to public providers, if at all.*
-

New developments in the VET sector

INFORMATION REQUEST — THE CHALLENGES OF ONLINE DELIVERY

- *What is the scope to increase the use of fully online delivery of VET, with what advantages, risks and policy challenges?*
 - *How should subsidy arrangements be configured for payments across jurisdictions for online delivery of services?*
 - *What subsidy, pricing and costing approaches are appropriate for services that have high fixed costs and low incremental costs?*
 - *To what degree could accreditation be separated from training?*
 - *What types of training are most suited to innovative models of training?*
 - *What actions would governments need to take to maximise the potential for the adoption of innovative delivery of training or new types of training?*
-

INFORMATION REQUEST — IMPACTS OF COVID-19

- *What, if any, are the likely medium and long-term impacts of the COVID-19 pandemic on skill formation and the market in the VET sector?*
 - *To the extent that some cohorts face enduring displacement from the labour market, particularly younger Australians, what role beyond current arrangements should VET play in augmenting their skills and employability?*
-