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Productivity Commission

National Agreement for
Skills and Workforce
Development Review

Productivity Commission
Study Report

December 2020

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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).

Foreword

Vocational education and training — ‘VET’ — is a pillar of our life-long education system. Millions of Australians, of different ages, interests and backgrounds, have obtained or honed their workplace skills through VET training delivered by schools, TAFEs, private and community training organisations, and dual-sector universities.

The Australian and State and Territory governments share responsibility for VET. This review is timely as governments grapple with new policy arrangements to drive cooperation and improvement in the sector. The challenges posed by COVID-19 only add to the importance of getting VET policy and programs right.

The Commission has benefited from engaging with training providers, educators, industry groups, unions, academics and officials from Australian, State and Territory governments, regulatory bodies and the National Centre for Vocational Education Research, as well as individuals from a variety of backgrounds. We particularly thank everyone who provided written submissions and comments, who met or ‘zoomed in’ with us or attended roundtables, at what has been a trying time.

We would also like to recognise the efforts of Angela Woo, Ralph Lattimore and Jane Melanie, who led the review at different times, and to the staff who contributed: Ishita Acharyya, Roland Allen, Stoja Andric, Lawson Ashburner, Meredith Baker, Natalie Baker, Brent Carney, Joshua Craig, Jared Dent, Suzana Hardy, Nicholas Harvey, Roger Hassan, Matthew Maltman, Tom Nankivell, Jeremy Nott, Hudan Nuch, Ingrid Ottaway and Anthony Shomos.

Jonathan Coppel
Presiding Commissioner

Malcolm Roberts
Commissioner

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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Abbreviations

AASN	Australian Apprenticeship Support Network
ACARA	Australian Curriculum, Assessment and Reporting Authority
ACDEVEG	Australian Council of Deans of Education Vocational Education Group
ACE	Adult continuing education
ACFE	Adult continuing and further education
ACSF	Australian Core Skills Framework
AGA	Australian Government Actuary
AISC	Australian Industry and Skills Committee
AISS	Additional Identified Skills Shortage
AMEP	Adult Migrant English Program
AQF	Australian Qualifications Framework
ASCED	Australian Standard Classification of Education
ASQA	Australian Skills Quality Authority
ATAR	Australian Tertiary Admission Rank
AVETMISS	Australian Vocational Education and Training Management Information Statistical Standard
AVETRA	Australasian Vocational Education and Training Research Association
CBP	Competency-based progression
CBWP	Competency-based wage progression
COAG	Council of Australian Governments
CSASAW	Commonwealth-State Agreement for Skilling Australia's Workforce
CSOs	Community service obligations
CSP	Commonwealth Supported Place
DESE	Department of Education, Skills and Employment
DNER	Debts not expected to be repaid
EFTSL	Equivalent full-time student load
FWC	Fair Work Commission

FYTE	Full year training equivalent
GTO	Group training organisation
HELP	Higher Education Loan Program
HoASR	Heads of Agreement for Skills Reform
IA	Independent assessment
ICL	Income contingent loan
IGA FFR	Intergovernmental Agreement on Federal Financial Relations
INIP	International Network on Innovative Apprenticeship
IRC	Industry Reference Committee
IRTO	Indigenous registered training organisation
ISMAA	Industry Specialist Mentoring for Australian Apprentices
LLND	Language, literacy, numeracy and digital literacy
MOOCs	Massive open online courses
NAEN	National Apprenticeship Employment Network
NAPLAN	National Assessment Program – Literacy and Numeracy
NASWD	National Agreement on Skills and Workforce Development
NCI	National Careers Institute
NCVER	National Centre for Vocational Education Research
NPA	National Partnership Agreement
NPASR	National Partnership Agreement on Skills Reform
NPP	National Partnership Payment
NSC	National Skills Commission
NSNL	National Skills Needs List
NTG	National Training Guarantee
OECD	Organisation for Economic Co-operation and Development
OSSTC	Occupation Standards, Skills Testing and Certification
PIAAC	Programme for the International Assessment of Adult Competencies
PISA	Programme for International Student Assessment
QILT	Quality Indicators for Learning and Teaching
RPL	Recognition of prior learning
RTO	Registered training organisation
SEE	Skills for Education and Employment

SO	Skills Organisation
SPP	Specific Purpose Payment
SSON	Skills Senior Officials Network
SSO	Skill Service Organisation
STA	State training authority
STEM	Science, technology, engineering and mathematics
TACWA	Training Accreditation Council Western Australia
TAE	Certificate IV in Training and Assessment
TAFE	Technical and Further Education institute
TEQSA	Tertiary Education Quality and Standards Agency
ToR	Terms of reference
TSL	Trade Support Loans
UAN	Upfront Assessment of Need
USI	Unique Student Identifier
VET	Vocational education and training
VFH	VET FEE-HELP
VRQA	Victorian Registration and Qualifications Authority
VSL	VET Student Loans
WELL	Workplace English Language and Literacy

OVERVIEW

Key points

- This review has not found evidence of a vocational education and training (VET) system in crisis. Our recommendations address some of the system's acknowledged weaknesses and should build on its strengths to lift participation and improve the quality of training.
- The *National Agreement for Skills and Workforce Development* is overdue for replacement.
 - Governments have stepped back from some of its policy aspirations. Targets have not been met and the performance framework has not held governments to account.
- A new intergovernmental agreement should be principles-based, modular (to retain flexibility and currency) and reviewed every five years.
 - Australian Government funding should remain largely untied for base funding but subject to much greater accountability and transparency.
- Governments should continue to support the development of a more efficient and competitive VET market through informed user choice and a focus on quality.
 - Students need better curated information on career opportunities, the performance of training providers, course quality and prices.
 - Efforts to improve quality should be ramped up through faster changes to training packages, developing an evidence-based VET workforce strategy, and a phased introduction of independent assessment.
- There is a manifest capacity for governments to achieve a better return on the \$6.4 billion spent on VET by:
 - using the efficient costs and loadings currently being estimated by the National Skills Commission as a common basis for setting and simplifying course subsidies
 - introducing modest minimum student fees for Certificate III and above courses with exemptions for disadvantaged students
 - applying more contestability and transparency to public funding of TAFEs and enhancing the operational autonomy of public providers
 - enabling State and Territory funding to follow students enrolled with an interstate provider.
- To scale up workforce skills, governments should expand VET Student Loans (VSL) to more Diploma and above courses and to most Certificate IV courses.
 - Loan caps should better reflect course costs, and loan fees should be paid by all students.
- Reforms to the trade apprenticeship system are best focused on:
 - improving completion rates by better screening and matching of prospective apprentices
 - making pathways more flexible and providing the same subsidy for non-apprenticeship pathways as for traditional pathways
 - adjusting the timing of employer incentives to provide more support when the risk of cancellation is greatest.
- There should be a coordinated national strategy to improve school education, 'second-chance' learning in the VET sector and other adult education services to reduce the large number of Australians with low language, literacy, numeracy and digital literacy skills.
- To address some of the key obstacles to lifelong learning, this report proposes improvements in foundation skills, better credit pathways, an expansion of VSL and a trial of a new financing instrument for mature-age Australians reskilling and upskilling.

About this review

A skilled workforce is fundamental to Australia's future. As a pillar of our post-school education system, the vocational education and training (VET) system enables people to develop and maintain the skills needed to participate effectively in society and the economy. Millions of Australians with diverse educational needs, capabilities and aspirations have obtained or honed their workplace skills through Australia's formal (nationally accredited) VET system.

VET is a shared area of responsibility between the Australian and State and Territory governments. The *National Agreement for Skills and Workforce Development* (NASWD) — which commenced in 2009 and was updated in 2012 — defines the framework for intergovernmental collaboration in VET. It sets out governments' roles, policy aspirations, performance measures, and reform directions for the formal VET system.

The Australian Government has asked the Commission to review progress against the targets, outcomes and performance indicators in the NASWD and to assess whether it 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 coordinate and streamline government support
- for national consistency in VET funding and pricing that maximise efficiency, transparency and the supply of trained workers
- to promote consistency in funding and loan arrangements between the VET and higher education sectors
- to ensure government investment in VET encourages increased participation in training that is commensurate with the benefits.

During this review there have been major skills policy developments. In November 2019, the COAG Skills Council released a *Draft VET Reform Roadmap* which set out three priority areas for improvement — the relevance, quality and accessibility of the VET system. In response to the 2019 Joyce Review, the Australian Government established a National Skills Commission (NSC) and a National Careers Institute (NCI). And in August 2020, all governments signed a *Heads of Agreement for Skills Reform* setting out high-level directions for a new National Skills Agreement to replace the NASWD. The Commission has taken this evolving policy landscape into account in its assessment and recommendations.

The review has also coincided with the COVID-19 pandemic. Beyond the immediate disruption for students, employers and VET providers, the pandemic may lead to substantial structural changes in the VET sector. VET policy announcements have been at the centre of government responses to the pandemic and, where possible, the Commission has incorporated these announcements in its assessments. The pandemic has highlighted the importance of VET and why 'getting the system right' is critical to meeting Australia's changing skills needs.

A snapshot of the VET system

Australia's VET system is a pillar of our post-school education system. Over 4 million students from diverse backgrounds participated in VET in 2019 (figure 1, panel a), and close to one third of working-age Australians hold a VET-level qualification as their highest qualification. Most students enrol in VET to obtain a job, gain extra skills for their current job, or as a step towards a new career. VET also provides a 'second-chance' learning opportunity for many people with low foundation skills.

More than 4000 registered training organisations (RTOs) deliver VET. Most training hours are delivered by private RTOs and TAFEs (figure 1, panel b). Half of VET student enrolments and 85 per cent of training hours are in nationally recognised programs. Most programs are pre-approved training packages, which specify the skills and knowledge ('competencies') required to work in particular occupations. These formal credentials (qualifications and statements of attainment) are developed in consultation with industry and educational institutions. Some employers hire students while they undertake a VET course (through an apprenticeship).

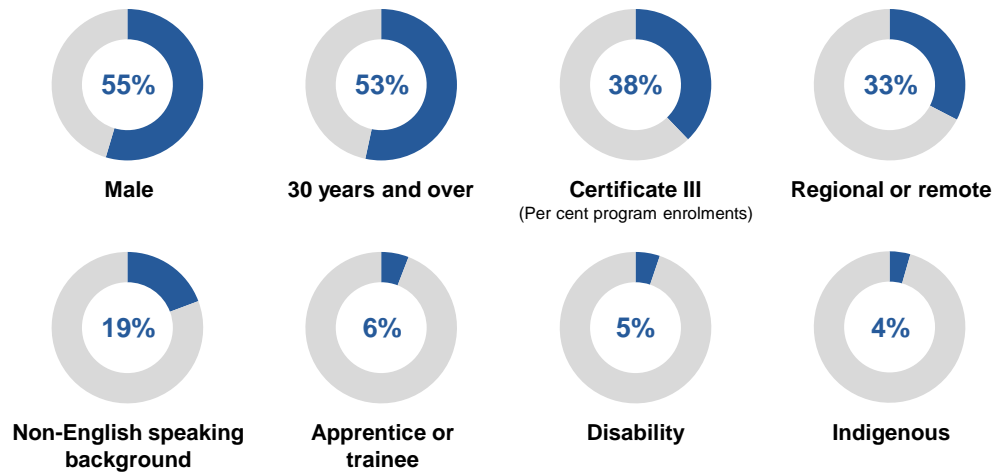
Australian, State and Territory governments share responsibility for the regulation, funding and performance of the system. In 2019, governments spent about \$6.4 billion on VET. In addition, the Australian Government provided about \$500 million in VET Student Loans and Trade Support Loans. While total real funding has remained stable in recent years, this largely coincided with lower training activity, such that funding per student has increased (figure 1, panel c) and is broadly comparable to funding per student in both higher education and schools. Funding trends across jurisdictions have been mixed (figure 1, panel d).

Since the 1990s, VET has become a more market-oriented system, with much government-funded training now delivered by private RTOs 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'. However, governments continue to tightly manage VET markets, with a large portion of government funding still provided to public RTOs to deliver training.

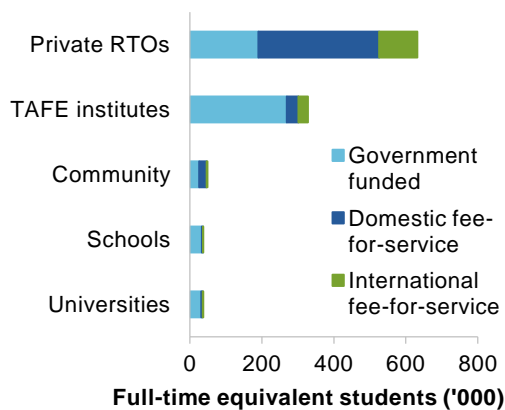
Notwithstanding the high degree of market management, the VET system is competitive on some measures. Most students (87 per cent) have a choice of provider for their program of study. About 30 per cent of students train in what can be described as highly-competitive markets, and an additional 20 per cent in moderately-competitive markets. While the remaining 50 per cent of students train in markets concentrated among a few providers, these tend to be 'thin markets' with few students, often in regional and remote areas. Nevertheless, these markets tend to have low barriers to entry and are generally 'contestable'.

Figure 1 **A snapshot of the VET system**

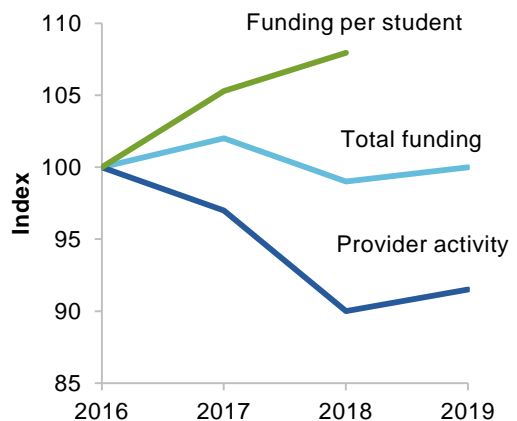
a. Profile of VET students



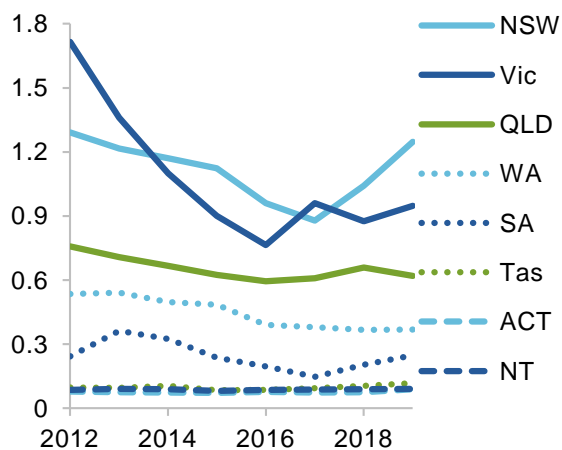
b. Most training is delivered at private RTOs



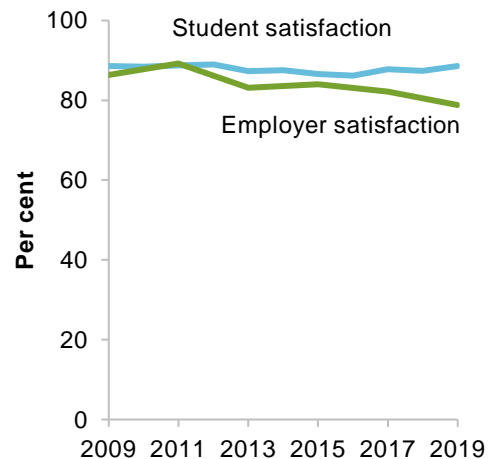
c. Funding per student has increased recently



d. Funding trends are mixed (\$ billion)



e. Students and employers are largely satisfied



The degree of competition in VET markets is affected by governments' use of subsidies and income contingent loans, which reduce or eliminate the upfront fee paid by students. For these courses, students are unlikely to make their decisions solely or primarily on the basis of price. Competition is also impaired by a general lack of information to allow students to compare competing RTOs in terms of price, quality or other non-price criteria.

Competition is further weakened by governments reserving a large share of public funding for TAFEs. On average, State and Territory governments allocate about half of total VET funding to public RTOs without market testing. The remaining funds are contestable for both public and private providers. Altogether public providers receive about 70 per cent of public funding — the government-funded VET market is still largely a market of direct government provision. Recent years and the COVID-19 pandemic have seen a greater reliance on TAFEs for the creation of additional VET places and an increase in free-TAFE programs. While these programs may increase training overall, they come at the cost of reduced contestability in some markets.

Students remain broadly satisfied with the VET system (figure 1, panel e) and student completion rates are improving. Employer satisfaction is also high but has trended down over the past decade (figure 1, panel e). Fewer employers are using the formal VET system.

While some claim that the quality of training is superior at TAFEs, the evidence suggests that at least some outcomes (satisfaction and labour force outcomes) are similar across provider types.

The NASWD: lessons and a way forward

Lessons from the NASWD

The NASWD was intended to reform intergovernmental relations and facilitate collaboration in VET. Established as one of six national agreements under the *Intergovernmental Agreement for Federal Financial Relations* (IGA FFR), the NASWD emphasised jurisdictional flexibility for service delivery, with the intention of greater transparency of, and accountability for, outcomes. However, the agreement has not realised these aims.

Lack of accountability

The NASWD was intended to lift workforce skills and improve participation in training. The NASWD's performance framework was meant to measure if governments' efforts in VET were achieving results, with annual public reporting as the main accountability mechanism. Overall, progress against the performance indicators is mixed (figure 2). The two targets will not be met — a disheartening legacy common to many of the targets set under other national agreements.

Figure 2 Mixed progress against the NASWD performance framework

Outcome		Description of measure	2009	Trend	2019	Result
Skill levels are increased to meet the changing needs of the economy	1a	Working-age population with Cert III and above	53%		62%	Improved
	1b	Employers satisfied that training meets their needs	86%		79%	Worsened
All Australians have the opportunity to develop skills	2a	Working-age population with adequate foundation skills	—	56% in 2012	—	Unclear, but likely worsened
	2b	Working-age population with or working toward a non-school qualification	65%		73%	Improved
Training delivers the skills and capabilities for improved economic participation	3a	Graduates with improved employment status after training	65%		64%	Roughly equal
	3b	Graduates with improved education/training status after training	53%		59% ^a	Improved
National targets	A	Halve the proportion of Australians aged 20–64 without at least a Cert III	47%		38%	Not met
	B	Double the number of higher-level qualification completions nationally	~43k		~38k ^a	Not met

^a The latest year for which data were available was 2018.

The NASWD's performance framework is not sufficient to hold governments to account on their reform commitments, nor on the performance of their VET system. There are several reasons for this failure.

First, the targets were arbitrary and too ambitious, and quickly became irrelevant for policymakers. While most of the performance indicators are reasonable *general* measures, they are not well linked to policy specifically in VET and were influenced by developments outside the VET system. For example, NASWD performance indicator 1a (working-age population with a Certificate III and above) also captures the impacts of policy changes in higher education.

Second, the performance framework measures outcomes, as distinct from program inputs or outputs. While outcomes generally provide the most desirable basis for assessing policy effectiveness, what constitutes a 'good' outcome in skills acquisition is difficult to define and measure, given the diverse capabilities of students. It is also difficult to identify the extent to which governments' policies contribute to such outcomes, given that other factors such as economic cycles will also affect outcomes. Outcomes are therefore insufficient as a sole mechanism to hold governments to account.

Third, the performance framework does not provide for review and evaluation. That role could have been performed by the COAG Reform Council but it was disbanded in 2014.

Flexibility without strong commitment

Under the NASWD, governments endorsed ‘a shared vision of reform’ based on 10 high-level reform directions to increase the quality of the VET system and to make it more accessible, efficient, and relevant. Governments made two main commitments to achieve these ambitions — introducing a national entitlement to training and expanding the availability of student loans. The NASWD does not prescribe how governments are to pursue the reform directions, in keeping with the ethos of jurisdictional responsibility under the IGA FFR.

The NASWD reform directions are flexible as they allow governments to tailor policy responses to local and emerging issues. However, they have lost relevance over time as the national reform consensus frayed.

- Two key national commitments — 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.
- Similarly, 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.
- While student-focussed indicators of quality remained stable over the past decade, employers are less satisfied with vocational education than they were when the NASWD was signed and they use the VET system less.
- Governments’ efforts have improved national data collection, particularly on VET activity. Yet, critical data on VET quality, prices, funding, and cost of delivery remain inadequate, contrary to prior commitments.

This experience demonstrates the limited efficacy of ‘reform directions’ as a tool to link tangible policy commitments to desired outcomes in an intergovernmental agreement.

The agreement is overdue for replacement

Overall, while the NASWD has served some useful functions, it is overdue for replacement. The experience with the agreement provides important lessons for governments negotiating a future intergovernmental agreement.

The context for intergovernmental cooperation has also evolved. The Skills National Cabinet Reform Committee and the Skills Ministers’ Meeting (formerly the COAG Skills Council) are now the main forums for cooperation on VET policy and delivery. The allocation of some roles has blurred over time, especially in areas of shared responsibility, such as support for apprentices. Moreover, the roles of some government bodies, such as the VET regulators, are not included in the NASWD, and other bodies have since been created.

Notwithstanding the agreement’s flaws, the objective articulated in the NASWD — to improve labour market participation and productivity — remains a relevant policy goal and

was widely supported by review participants. Even so, it could be improved by recognising the VET system as a major, but not the only, contributor to skills and workforce development, alongside higher education, non-nationally recognised VET and workplace training. Better measurement against an objective revised in this way would assist with identifying governments' contributions in VET.

Where to for a new agreement?

The *purpose* of an intergovernmental agreement such as the NASWD is to promote and facilitate government cooperation through: agreed shared objectives; coordination of national policy reforms; improved transparency and accountability; clarified roles and responsibilities; and, in some cases, funding arrangements. Government cooperation through these channels can improve outcomes for users (students and employers) and for the community more broadly. This purpose remains relevant for a new agreement, which should build on the lessons from the NASWD (table 1).

Striking the right balance between flexibility and accountability

As priorities and circumstances are likely to change over time, agreements need to be flexible to retain currency. One way to provide that flexibility is through a modular agreement. Like the Commission's proposal for a new National Disability Agreement, a modular agreement can include a concise statement of key principles and commitments with the more detailed content (that is likely to change) placed in schedules. A modular structure allows governments to revise aspects of the agreement (for example, targets or benchmarks) without wholesale renegotiation. In maintaining relevance, a modular agreement would also support ongoing accountability.

The Australian, State and Territory governments, as parties to a new agreement, should commit to mechanisms to improve accountability for outcomes, including:

- a revised performance reporting framework, with a broader set of performance indicators that better capture the contribution of government activity in the VET system to skills and workforce development. Measures under the framework should reflect desired outcomes for different parts of the VET system (including foundation skills and 'second-chance' learning, VET in Schools, and apprenticeships)
- additional reporting arrangements for *all* governments, with monitoring by an independent body and regular public reporting by a national body such as the NSC
- more defined roles and responsibilities of governments in the VET system, with existing roles reaffirmed. Governments should clarify roles in areas of shared responsibility (such as apprenticeships and information provision) and include the roles of recently created government bodies, such as the NSC, the NCI, and the Skills National Cabinet Reform Committee.

Table 1 A future agreement that builds on experience

<i>Purpose</i>	<i>Lessons from the NASWD</i>	<i>Implications for a new agreement</i>
Agree shared objective(s)	<ul style="list-style-type: none"> • Lack of clarity on whether the focus is on VET or skills and workforce development. 	<ul style="list-style-type: none"> • VET as one major, but not the only, avenue for skills acquisition.
Coordinate national policy reforms	<ul style="list-style-type: none"> • Flexibility of reform directions permits tailored policy responses to local and other emerging issues. • Early progress on pursuing reform directions was made, but the NASWD failed to maintain jurisdictional buy in. 	<ul style="list-style-type: none"> • Include reform principles to guide a renewed national VET reform agenda. • A 'modular' agreement structure, with agreed reforms in a schedule (for example, the <i>Draft VET Reform Roadmap</i>).
Improve transparency and accountability (for example, through a performance monitoring and evaluation framework)	<ul style="list-style-type: none"> • Does not capture the breadth of VET offerings and different parts of the system. • Deficiencies in performance framework do not support improved transparency, partly due to poor indicators and target setting. • Improved data sharing arrangements and development of VET activity data, but limited availability and/or transparency of quality, cost, price and funding data. • Performance framework is not a sufficient mechanism for funding assurance and accountability. 	<ul style="list-style-type: none"> • New framework with improved performance indicators to better measure the contribution of governments across VET's varied parts (for example, foundation skills) and links to evaluation. • New governance arrangements, such as an intergovernmental data working group and national VET data strategy. • National Skills Commission (NSC) or other national body to coordinate annual public reporting on funding and reform progress by the Australian, State and Territory governments.
Clarify roles and responsibilities	<ul style="list-style-type: none"> • Role of the Australian Government as funder, and jurisdictions both as funders and determining funding allocation. • Broad definition of roles works relatively well, but not always kept to. Blurring of responsibility has occurred over time, particularly in areas of shared responsibility. • References to COAG governance arrangements are outdated. 	<ul style="list-style-type: none"> • Retain existing roles, particularly for funding, consistent with the IGA FFR. • Clearer fundamental roles and responsibilities in the agreement, with more detail defined in schedules that can be updated over time and/or in bilateral agreements. • Updated governance arrangements to reflect VET regulators, NSC, and the National Careers Institute.
Facilitate funding arrangements	<ul style="list-style-type: none"> • Untied funding improved flexibility to align resources to local priorities, in line with subsidiarity principle. 	<ul style="list-style-type: none"> • Retain mostly untied funding, but as above, with annual public reporting by jurisdictions on how funds are used.

Funding is not a 'silver bullet' for long-term cooperation

Intergovernmental financial transfers are a necessary feature of a federated system with decentralised responsibility for service delivery and high vertical fiscal imbalance. Financial arrangements can strongly influence behaviour but cannot, in isolation, ensure meaningful intergovernmental cooperation.

Governments should negotiate funding arrangements that keep largely untied base funding (like a Specific Purpose Payment), thereby retaining State and Territory government responsibility for achieving agreed outcomes. Within or alongside a new agreement, governments could consider funding arrangements that promote greater accountability, based on the tools under the IGA FFR, or the precedent of recently negotiated agreements.

The IGA FFR provides for tied funding arrangements through National Partnership Payments that include conditions for reforms of national significance, with funding conditional on reform implementation. Recently negotiated agreements have also included additional conditions to improve accountability, including legal enforceability, bonus payments for outcomes and matched funding arrangements. Such arrangements should be among those considered for new funding agreements.

Principles should be the core of a new agreement

A principles-based approach to reform directions in a new agreement would ensure coherence and give governments flexibility about their policy choices. The policies that would give effect to those principles could then sit separately to a new agreement and could be pursued collaboratively or unilaterally. A principles-based approach would, for example, leave contestability and efficient delivery of services on the table, but defer to governments to determine how to design such policy.

For the national agreement, the Commission has identified 11 principles to guide governments' VET reform agenda:

- centring policy on the users — students and employers — with a focus on informed choice, quality safeguards and measured outcomes
- accessibility, with a focus on meeting the needs of diverse user cohorts
- continuous improvement in VET quality
- fiscal sustainability and stability of funding
- transparency and accountability about VET investment and outcomes
- efficient pricing and delivery of quality training at least cost
- designing incentives to increase participation in VET commensurate with the benefits
- contestability in VET markets, with a provider-agnostic approach to training delivery
- alignment with other parts of the education system, so that the treatment of VET and higher education for similar training does not distort student incentives
- evidence-based policy, informed by quality data and evaluation
- responsiveness to the changing needs of users and the economy.

Supporting the VET system

Irrespective of the form of a new agreement, maximising the benefits from more training will depend on some preconditions being met. Students and employers need relevant and accessible information to make informed choices about courses and providers. Users also need to have trust and confidence in the quality of services offered and protection from the risks of misconduct by RTOs. In this context, the scope and quality of regulation matter.

Informed choice in VET

Informed choice is illusory without salient information

The VET system offers an intimidating range of training options — more than 1400 qualifications across almost 4000 RTOs. Faced with this array of options, students and employers need quality, accessible information to choose suitable courses and training providers. But there are also limits to the value of information. Those limits are framed by the costs of collecting and disseminating information, and by those incurred by students in processing the information.

Informed choice is not, therefore, simply about providing ever more information. It requires an assessment of where the material information gaps lie, and effort to determine how available information is curated and disseminated to students to best facilitate informed choices. Websites, portals and data are likely to be more useful when supported by career advice and screening to help better match students to VET courses, providers, and support services. There is also a role for minimum regulatory standards to remove poor providers and low-quality courses from the market.

There are gaps in information and career advice

VET students are not always well placed to navigate the information maze. Many study participants noted how information for students is fragmented and duplicated across multiple government and private sector websites. Others lamented the limited information on student fees and RTO quality; only around one-in-five training providers upload student fee information to the My Skills platform — the main source of information for VET students.

The Business Council of Australia noted how these information gaps ‘stymied a learner-centric approach and contributed to poor decisions on the part of learners’. Students need better information about training providers — especially the fees charged and the quality of RTO services — and graduate employment outcomes.

Qualitative information on tertiary education, training and career options also has weaknesses. It is split along VET and higher education lines, and information on credit pathways is often unclear. According to tertiary admission agencies, most students are unaware of credit pathways or are deterred by the complex and lengthy process.

More alarmingly, the reliability and usefulness of career information and advice (especially for school students) is questionable. Previous reviews have found that schools and their advisers often have little experience with VET and favour universities.

There are gaps in low-cost career advice for people not in post-school educational institutions and/or government programs. These gaps disproportionately affect disadvantaged groups.

Some of these gaps are being addressed but more could be done

The NCI's charter includes informing prospective VET students, and, with My Skills recently added to its responsibilities, the NCI is well placed to address many information gaps. My Skills should publish better information on student fees, RTO quality (including labour market outcomes), and credit pathways. Ideally, the information should be tailored to different cohorts, such as school leavers and mature-age students.

Given the importance of prices in decision making, reporting student fees on My Skills should be mandatory. A good starting point would be to publish the average fees paid by subsidised and non-subsidised students in the past year. Summary indicators on the quality of an RTO should also be made available on My Skills, covering metrics such as student experiences, employer satisfaction, and graduate outcomes.

While some gaps in career advice are being addressed (for example, through the NCI's Career Partnership Grants Program), the Shergold Review (2020) has recommended further changes including the creation of 'career hubs'. This has some merit. Hubs could lead to better use of resources (especially in regional areas) by linking industry, schools, and the NCI. Career hubs should be focused on assisting school students, older people at high risk of unemployment and disadvantaged groups.

Ensuring quality training

Quality in VET has multiple dimensions: course content, course delivery (including teaching and assessment), and the broader student experience. Each contributes to the credibility of VET qualifications in the labour market, as well as the trust that students and employers alike have in the system.

VET services are generally of a high standard. Survey results point to over 85 per cent of students satisfied with the quality of teaching and assessment, as well as the overall quality of training. Feedback from participants to this review accorded with commentary from Joyce (2019) that poor quality was an issue for a minority of RTOs. However, there is scope to improve the quality of training.

Employers' satisfaction and use of the VET system, while still relatively high, has trended downwards over the past decade. Among those employers dissatisfied, many claimed programs do not teach relevant skills (52 per cent), are not sufficiently focussed on practical skills (29 per cent), are out of date (17 per cent) or generally deliver poor quality training (36 per cent). Some also felt that instructors did not have sufficient industry experience (19 per cent).

There is no single policy lever to ensure quality standards are met while promoting a culture of continuous improvement in RTOs. The Commission has identified options to further improve the regulatory approach, the processes for developing and updating course content (training packages), the capability of the VET workforce and how students are assessed.

Taken together, it is expected these will bolster the quality of training in areas of weakness and build on the existing strengths of the system.

Upholding RTO standards — a shared responsibility

The national regulator — the Australian Skills Quality Authority (ASQA) — was established in 2011 to achieve national consistency in the way providers are registered, courses are accredited and the quality of the system is monitored. ASQA replaced State or Territory regulators in all jurisdictions except Victoria and Western Australia. The goal of national consistency had, and still has, merit.

The establishment of a new national regulator coincided with major policy changes that involved under-appreciated risks. In the case of VET FEE-HELP, flawed program design added further risks, especially when set against the sudden increase in the number of VFH providers and loans. It was a prelude to a perfect storm and, in the subsequent deluge, weaknesses with the regulatory standards, particularly those relating to RTO registration and course accreditation, and an enforcement mantra that eschewed engagement with industry exposed flaws in the regulatory framework.

But change is in train following the Braithwaite and Joyce Reviews, and in 2020 the Australian Government accepted all 24 recommendations of a ‘rapid review’ of ASQA’s operations. The new direction for ASQA will balance its compliance-based approach to (minimum) standards regulation with RTOs’ use of self-assurance processes to critically examine their performance on an ongoing basis.

It is too early to judge the impact of these changes, but there is a broad sense that progress is being made and ASQA’s engagement with RTOs to improve quality is welcomed. The latter could be improved with better administration and use of survey data, including providing better data to RTOs for benchmarking purposes.

Governments have other avenues than regulation to promote quality. State and Territory governments can influence quality through the terms of their funding contracts. Current approaches vary across jurisdictions, but typically involve additional requirements, audit regimes, and sanctions. In New South Wales, for example, subsidised RTOs are required to comply with additional obligations for teachers’ professional development. There is room to improve the use of contract management to target key aspects of quality.

Funding contracts can affect VET quality in other ways. Where funding contracts are subject to annual renewal, RTOs have only short-term certainty over funding. This limits their capacity to make investments that would improve quality (such as equipment purchases, extended employment contracts, or investments in professional development). Governments should increase the length of their contract terms with RTOs.

Regardless of the level of minimum standards set by the regulator and in government contract management processes, there will always be instances when individual students are

failed by shoddy training. And with training essentially an ‘experience good’ (where quality becomes more evident to students after the initial purchase), the risk will still remain, highlighting the need for robust consumer protection. This will, in its own right, deter poor quality service as well as provide remedies to students.

The avenues for students’ complaints differ according to jurisdiction, type of complaint, type of student, provider ownership, and type of funding. Many complaints about VET quality are initially received by ASQA, which may lead to ASQA’s involvement (and often resolution) or referral to other avenues. ASQA does not have responsibility for consumer affairs and does not see its role as an ombudsman. Increasingly, ASQA will seek to focus only on resolving those cases ‘at risk of causing greatest harm’, ceasing the previous process that sought to substantiate or resolve individual complaints.

Notwithstanding many complaints being resolved without mediation or legal action, the limited avenues of redress for consumer complaints remains an important gap in the consumer protection framework in VET. ASQA’s public complaints portal received 921 complaints about VET providers in 2019-20. Joyce (2019), Braithwaite (2018) and the Commonwealth Ombudsman have all identified the potential to improve the handling of complaints.

State and Territory governments should address this gap by establishing complaints-handling authorities (ombudsmen) with coverage of all RTOs providing VET services within their jurisdiction, as in Queensland and South Australia.

Keeping course content relevant

A key challenge for the VET system is ensuring that vocational pathways keep pace with the rapidly changing needs of students, employers and the economy. Inevitably, there is some tension between the value that employers place on specific skills and the incentives for students to invest in more generic and transferrable skills. But there is scope to improve the responsiveness of training content and course materials to changing needs and circumstances (for example, new technology).

Some of that scope is being taken up or piloted in efforts to shorten the time frames needed to develop and update training packages. For instance, procedural changes have facilitated more timely amendments — changes to the Australian Meat Processing training package that commenced in 2017 took 23 months on average to complete, while those commencing in 2018 took 17 months. In addition, the Australian Government is piloting Skills Organisations in selected industries, in line with the Joyce Review’s recommendation. It is too early to assess the effectiveness of these initiatives.

To further improve the timeliness of the process, the Commission recommended in its interim report that the COAG Skills Council (now the Skills National Cabinet Reform Committee) consider delegating responsibility for approving straightforward, non-controversial or minor changes to training packages to Industry Reference Committees (IRCs). Feedback from review participants was generally positive, with the caveat that there

would need to be consultation with industry and appropriate safeguards. Clear guidelines would be required from governments to define the scope and use of the IRCs' new decision-making powers.

Improving the capability of the VET workforce

The capability of the VET workforce is a key driver of quality. The hallmarks of capable VET teachers are pedagogical skills and contemporary industry expertise in their field of training. There is also a growing expectation that VET teachers have the digital skills to provide an engaging learning experience for students.

Views differ about the relative importance of these teaching attributes and whether the current minimum pedagogical credential required for teaching in VET — the Certificate IV in Training and Assessment (TAE) — is at the right level. Some review participants argued it is unduly restrictive while others believe a higher qualification with more emphasis on pedagogical skills should be required.

Despite some new research on this issue since the Commission's 2011 *VET Workforce* report, many aspects of the relationship between teaching qualifications and teacher performance remain poorly understood. More generally, the increase in the proportion of VET teachers holding the TAE has *not* been associated with greater satisfaction with VET teaching. On balance, there is insufficient evidence to justify increasing the minimum qualification for VET teachers.

Governments have outlined in the recent *Heads of Agreement for Skills Reform* their intention to develop a VET workforce quality strategy. This is an opportunity to identify steps that would lift the quality of VET teaching. To inform the strategy, the National Centre for Vocational Education Research (NCVER) should first undertake a census of the VET workforce focusing broadly on the characteristics of teachers at the RTO level. The census should include pedagogical and occupational qualifications, as well as industry experience.

Transitioning to independent assessment

How students are assessed also bears on the quality of training. The *Draft VET Reform Roadmap* foreshadowed new assessment models involving independent assessment of competency. The unbundling of assessment from teaching could boost confidence in the value of VET qualifications. Independent assessment also raises new concerns about cost and effectiveness, which will depend on careful design and application of programs. Despite several trials in the past decade, there has been no systematic expansion of independent assessment. Nor has the effectiveness of different models been appraised.

Independent assessment can be used widely or narrowly. It would be possible, but costly, to test the competency of random samples of VET graduates from each RTO. Independent assessment could be used by industry as an additional voluntary marker of quality (such as

Canada's Red Seal). Regulators could use independent assessment to audit RTOs' performance, either at regular intervals (for example, renewal of registration or after a change in scope) or in cases of high risk.

Further progress towards independent assessment could be achieved through a process of phased implementation, which should include:

- identifying suitable qualifications and occupations — which involves consultation between, and leadership from, governments, industry, and occupational governing bodies
- determining the design of an independent assessment program and its objectives, including examining the merits of:
 - undertaking national trials for the chosen qualifications, with the specific purpose of assessing the usefulness and cost-effectiveness of independent assessment
 - developing an institutional framework, which would allocate responsibilities for assessment, accreditation of assessors, and funding.

It would be particularly valuable to explore the use of independent assessment where there is strong industry support, or where there are widespread concerns about uneven quality of graduates' skills — particularly where minimum training standards contribute directly to public benefit. One example of the latter is the aged care sector, which is in the process of establishing stronger minimum standards for its workforce. Changes to training packages and units of competency are underway. Once new course content and any additional mandatory requirements are established, some form of independent assessment could provide an additional quality assurance.

Funding and pricing

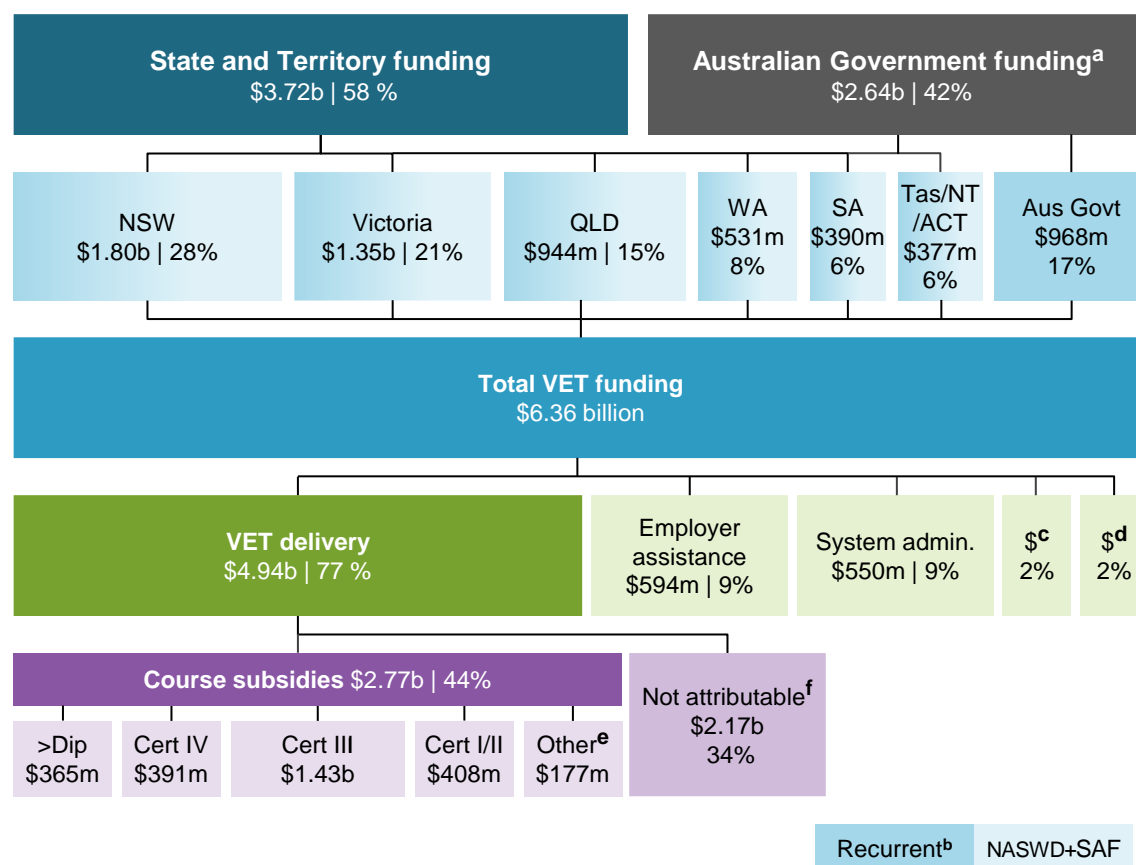
There are compelling reasons for governments to invest in VET. These are that:

- private incentives for investment in VET do not take account of broader public benefits from VET, leading to under-investment
- there is an equity argument for requiring contributions from all the parties (including taxpayers) who benefit from those public benefits
- disparity between higher education and VET sector funding arrangements can distort students' choices in favour of those less suited to them.

Governments spent close to \$6.4 billion on VET delivery in 2019 — shared between the Australian, State and Territory governments (figure 3). The Australian Government contributed about \$1.7 billion to the States and Territories for the delivery of VET services.

State and Territory governments decide how to allocate these funds and are responsible for the day-to-day delivery of training in their jurisdictions, including through publicly-owned TAFEs. About 44 per cent of the funding was allocated to course subsidies.

Figure 3 VET funding, 2019



^a Excludes Government provisions for VET loans. ^b On the second row, the darker shades relate to recurrent funding for each jurisdiction. ^c Capital funding accounts for approximately \$181 million. ^d Student assistance accounts for about \$149 million. ^e Other programs include non-award programs, skill sets, bridging courses and enabling courses not identifiable by level. ^f Funding not attributable by level of education captures costs associated with training delivery, support and administration, and operational base funding. SAF stands for Skilling Australians Fund.

Large differences in jurisdictions' course funding

Broadly, governments use subsidies to encourage training in priority areas and to improve access to VET for students facing disadvantage.

The key steps that all governments take in funding and pricing VET courses are:

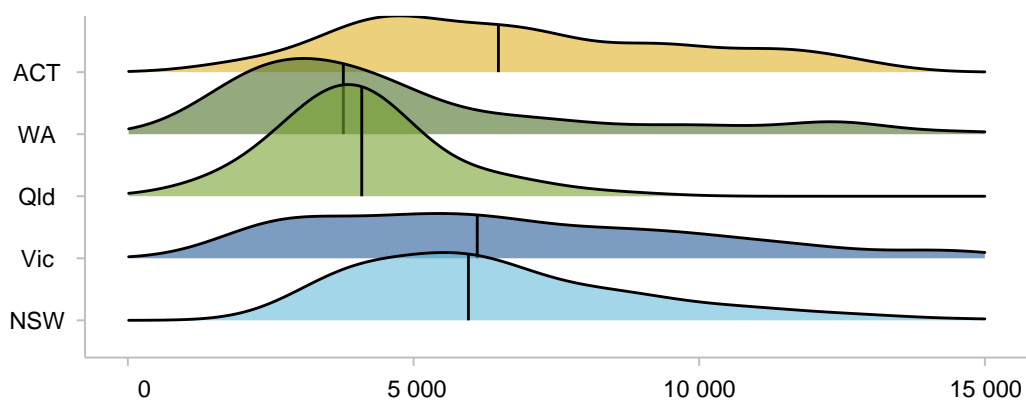
1. determining which courses will receive government subsidies
2. setting course subsidies by estimating costs and assigning subsidy rates. Subsidies comprise three components — base subsidies, which are a proportion of estimated course costs, loadings to reflect the higher costs of supplying services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

3. managing course subsidies through contractual arrangements with RTOs.

However, governments use different methods to undertake these steps (box 1). As a result, each jurisdiction has a very wide distribution of subsidy amounts across courses and, given differences in priorities and methods for calculating subsidies, these distributions also differ across jurisdictions (figure 4). For example, very few Diploma/Advanced Diploma courses obtain subsidies above \$5000 in Western Australia or Queensland, while more than half do so in the ACT, Victoria and New South Wales.

The combination of a diverse VET sector and each State and Territory government using their own method to set subsidies raises the potential for a complex array of subsidy settings. With many courses on offer, different course types (for example apprenticeships and non-apprenticeships) and various loadings and concessions, there is a bewildering number of possible subsidy settings. Against this background, the Joyce Review's critique of complex subsidies is well justified.

Figure 4 The distribution of subsidies 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.

Box 1 **Each to its own — how jurisdictions determine course costs and subsidies**

Methods for estimating course costs, calculating subsidy rates and setting loadings/concessions vary significantly across jurisdictions.

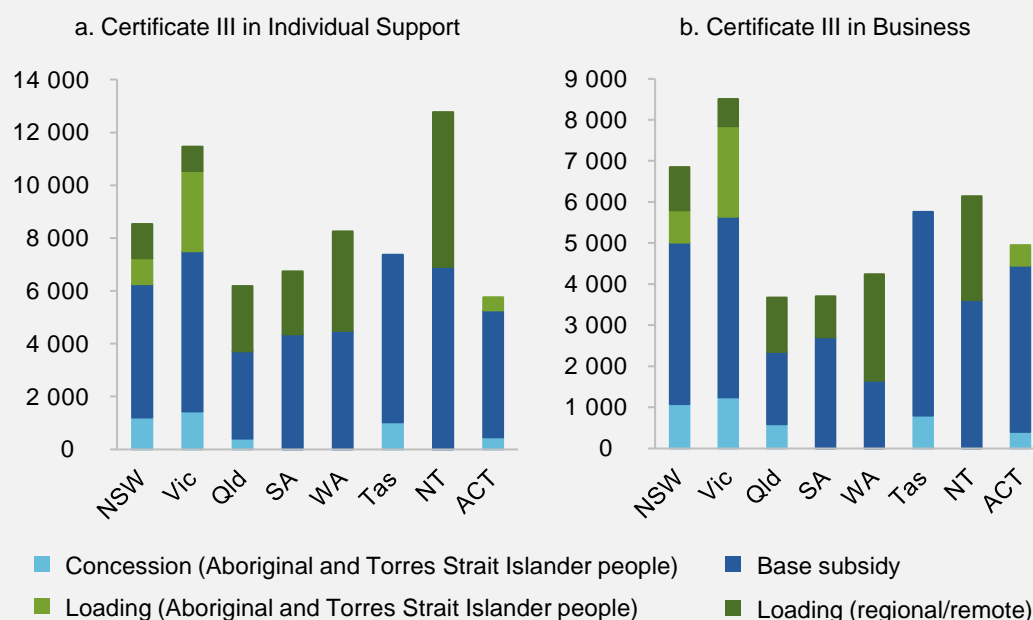
Many jurisdictions' estimates of the cost of delivery are based on historical averages of course costs, whose original methodologies are unclear. In New South Wales, subsidy rates are based on 2012 data and on the cost profile of TAFEs (which do not have cost structures typical of the broader market). The Commission's analysis of two popular VET courses suggests that estimates of costs can significantly affect the subsidies on offer (see figure below).

The methods jurisdictions use to apply subsidies to courses also differ. New South Wales, for example, determines average course subsidies by field of education, whereas in Victoria they are determined using an industry classification.

Jurisdictions have different ways of grouping subsidised courses for the purpose 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.

There are also large differences in the approaches used to calculate location loadings to take account of the higher costs of training in regional and remote areas. For example, New South Wales has a flat 10 or 20 per cent regional loading, which is between five and seven 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.

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 and Torres Strait Islander student living in a regional or remote location.

Is there a better way?

The Commission has been tasked with providing ‘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’.

The proposed way forward focusses on a common approach for estimating course costs (and loadings), streamlining subsidies, and removing fixed student fees. These allow governments to improve accountability, while leaving jurisdictions with the ability to set their subsidies and concessions to reflect differences in, among other things, priorities, demographics and geography.

A common method for determining course costs — a major step forward

Since the interim report’s release, the NSC has been established (in July 2020) and tasked with developing a methodology to estimate the efficient cost of delivery in each jurisdiction by October 2020, and to produce estimates for common VET qualifications by 1 July 2021 and all VET qualifications by 1 July 2022.

Notwithstanding the challenges inherent in estimating efficient costs, State and Territory governments should use the NSC’s estimates of efficient costs as a common basis for setting their subsidy rates. This would still leave jurisdictions the flexibility to determine their subsidy rates according to their own priorities for courses and student cohorts.

The work being undertaken by the NSC will also address the lack of transparency about course costs and enhance the information available for students and training providers.

A strong case for streamlining subsidies

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

There is merit in the NSC working with the Australian, State and Territory governments to simplify subsidy rates. The NSC is well placed to undertake this work as it has greater insight into the efficient cost of delivery. Input from State and Territory governments will ensure that any proposed simplification of subsidies reflects the priorities of each government.

States and Territories would still decide on the rates for their own jurisdiction and the eligibility criteria for subsidised courses, as well as policies for lower level qualifications and priority student groups.

Good grounds for removing fixed student fees

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 stringently by ‘fixing’ student fees for all qualifications (allowing neither lower nor higher fees). Effectively, the payment to the RTO — the ‘price’ of the service — is fixed as the subsidy amount is also set. (Queensland sets student fees for apprenticeship courses.)

Other jurisdictions do not set student fees for most courses, although RTOs in Victoria, Queensland, South Australia, Tasmania, the Northern Territory 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) and encourages students to choose their training carefully.

However, regulated prices and student fees can have perverse impacts because they reduce the ability of RTOs to differentiate their offerings based on quality and mode of delivery. Price regulations do not prevent RTOs reducing quality but can prevent RTOs delivering higher-quality training at a higher price or delivering high-quality courses at lower than capped prices.

Consequently, there are good in-principle grounds for the New South Wales and Western Australian Governments to shift away from fixing fees.

Scope to increase market testing

TAFEs receive payments besides course subsidies, yet State and Territory governments do not fully disclose the value or use of these payments. Such payments may distort competition between public and private providers, and funding higher-cost public providers outside competitive processes diminishes the returns from the public funds invested in training.

Some review participants put forward arguments for preferential funding for public providers, including servicing thin markets, maintaining certainty of supply, servicing particular student cohorts, and community service activities. Yet, 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. Governments should subject community service obligations to competitive tendering, rather than simply earmarking additional payments for TAFEs.

Income contingent 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 (ICLs), when robustly designed with effective integrity safeguards, can improve access to training and expand participation in VET.

VET Student Loans (VSL) — the Australian Government’s VET ICL program — has proven effective at expanding participation in VET. About half of eligible students took out a VSL in 2018, and 94 per cent of these students reported that they could not have afforded to pay their course fees without that loan. This implies that enrolments in eligible courses delivered by approved providers are almost twice as high as they would be in the absence of VSL.

ICLs also have desirable efficiency and equity properties. They:

- provide a signal that training is a long-term investment to be repaid
- entail lower per-student fiscal costs than large course subsidies, allowing more students to access VET with a given budget
- are highly progressive in that the effective subsidies resulting from loans not repaid accrue only to people earning low post-VET incomes.

The sorting that occurred under the previous VET FEE–HELP ICL program (box 2) has obscured these strengths (and damaged the reputation of VET). But the failures were a symptom of poor program design, implementation and regulatory oversight, rather than a flawed concept. VSL has rectified these shortcomings.

The Commission’s interim report flagged options for expanding VSL. While review participants had concerns, they generally supported cautiously expanding VSL to more courses.

Box 2 The lessons from VET FEE–HELP

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

The sorting associated with VET FEE–HELP stemmed from flaws in the design and implementation of the program. For example, providers received all their funding when a student commenced, with no requirement for students to confirm ongoing engagement with the course. Regulatory oversight was also inadequate at a time of rapid change and a newly established national regulator in 2011.

The scheme was replaced at the end of 2016 with the VET Student Loans program. In recognition of the shortcomings of VET FEE–HELP, it includes substantially strengthened integrity measures and tighter provider eligibility criteria.

Expanding VET Student Loans

In its current form, VSL is available for only 43 per cent of courses at the Diploma and above level, although those courses account for 87 per cent of Diploma and above enrolments. A course is eligible for VSL if it is subsidised by at least two States and Territories, is a science, technology, engineering or mathematics course, or is tied to occupational licensing requirements. No courses at the Certificate IV level or below are eligible for VSL.

The restrictions on the eligible Diploma and above courses are poorly targeted — eligible and ineligible courses for VSL yield similar post-training improvements to employment outcomes. The restrictions have also substantially reduced participation in VSL-ineligible courses. Some of the prospective students of these courses have been discouraged from tertiary education entirely, while others have been diverted into the more expensive higher education system or into VSL-eligible VET courses that may be less suited to their preferences and capabilities.

The Australian Government, in consultation with State and Territory governments, should extend VSL to more courses at the Diploma and above level, with restrictions used sparingly. This should be done by replacing the existing course restrictions with a ‘blacklist’ of restricted courses comprising ‘leisure courses’ and courses that yield poor employment outcomes.

Prospective students of Certificate IV courses could also benefit from access to VSL. About 40 per cent of Certificate IV students are enrolled in courses that cost, on average, over \$8000 to deliver. This suggests that some prospective students face fees of many 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. Governments should therefore extend VSL to Certificate IV courses.

While many of the necessary integrity measures are already in place, the risks associated with extending VSL to a new student cohort warrants a conservative approach. A Certificate IV ‘blacklist’ should be established (following the same process used for Diploma and above courses) and suitable loans caps determined to reduce the risks of price gouging. As the rollout proceeds, data on student employment outcomes should be monitored carefully and any adverse developments promptly addressed.

Governments could subsequently consider further extending ICLs to selected Certificate III courses, provided the extension to Certificate IVs is successful (if it yields higher enrolments relative to loan uptake with no significant decline in student outcomes). Fiscal sustainability may dictate relatively stricter repayment terms for Certificate III courses given graduates’ lower earning potential and reduced prospects of loan repayment.

Recalibrating VET Student Loans settings

Regardless of whether VSL is expanded to additional courses, there are strong grounds to update loan caps and loan fees.

VSL loan caps limit how much a student can borrow on a per-course basis and have helped to constrain course prices and manage governments' fiscal risk. However, the loan caps are poorly calibrated.

There are four caps — \$5264, \$10 528, \$15 793, and \$78 967. Caps are based on the average course cost across broad fields of education, covering a wide spectrum of costs. The weak relationship between individual course cost and the applicable loan cap reduces the caps' effectiveness in constraining course prices, potentially distorts student and provider decisions, and results in some students paying large upfront contributions.

There is scope to refine caps by adopting a more granular, but still limited (around 10), number of caps, set on the basis of the ongoing work of the NSC to estimate the efficient cost of delivering courses. As these estimates become available (expected in 2021-22), the Australian Government should group courses that have similar estimated costs and set the loan cap somewhat above the highest estimated efficient delivery cost among courses in each group (a 'cost plus' model) to allow for an error margin and to avoid locking higher quality providers out of the market.

There is also merit in reviewing the application of loan fees. Loans for fee-for-service courses are subject to a fee of 20 per cent of the loan value (which can be added to the loan), whereas loans for subsidised courses are fee-free. There is no justification for this differential treatment. Indeed, once the impact of the loan fees is considered, the Commission's best estimate is that the share of course-fee-related debts not expected to be repaid is at least 6 percentage points *lower* for fee-for-service students than it is for subsidised students.

Loan fees should be levied on both fee-for-service and subsidised courses at the same proportion of the loan value.

There should be a minimum student contribution (paid upfront) to the cost of the course for government-funded programs at the Certificate III level and above. This is to encourage the student to conduct due diligence into the value of the course and to avoid the perception that their loan amounts to 'free money'. Under VSL, the student contribution would be in the form of an 'upfront loan charge'. The level of the upfront loan charge should be aligned with the minimum student fee for subsidised courses. Disadvantaged students should be exempt from the minimum student contribution and the upfront loan charge.

In adjusting the settings for VSL, the Australian Government could also revisit debt collection arrangements. The collection of unpaid student loan debts from estates would reduce the fiscal cost of VSL without inhibiting access to VET or reducing post-VET student incomes. It would also bring student loans into line with the treatment of other debts. Cases of financial hardship could be managed via exemptions for small estates and discretionary powers for the Australian Taxation Office to waive debts in extenuating circumstances. The same changes would need to be applied to higher education loan programs.

Apprenticeships

About 14 per cent of students studying a training package qualification are apprentices — a much higher proportion of students training as apprentices than most OECD member countries.

Improving the attractiveness of apprenticeships was a key goal of the COAG Skills Council's *Draft VET Reform Roadmap*. More recently, as part of its economic response to the COVID-19 pandemic, the Australian Government established temporary programs to support employers to recruit new apprentices and retain existing ones. While the economic downturn caused by the pandemic is disrupting the apprenticeship system, many of the issues of concern predate the pandemic.

There have been persistent skill shortages in many occupations that rely on apprenticeships as the main training pathway. Apprenticeship commencements have declined significantly over the past decade — commencements of trade apprentices peaked at about 100 000 in 2012 but fell almost 30 per cent by 2019. And apprenticeship completion rates remain low in many occupations — only 57 per cent of apprentices commencing in 2015 completed their apprenticeship. There are significant costs to non-completion, including time, resources and wasted government funding.

Preparing and supporting apprentices

There is scope to better prepare apprentices before they begin their apprenticeship. Governments should consider screening apprentices to gauge whether their apprenticeship matches their career goals and identify any support needs (such as foundation skills and mentoring). For example, in South Australia, all prospective VET students undergo screening.

While pre-apprenticeship programs show promise in increasing apprentice productivity and completion rates, more research is needed to determine their effects in different occupations. The effectiveness of such research relies on intergovernmental cooperation to develop a nationally-consistent definition of pre-apprenticeships.

There is also scope to support students through their apprenticeship. Support services, such as mentoring and pastoral care, can help apprentices overcome workplace or personal challenges to completing their apprenticeship. Governments could better coordinate apprenticeship support services through co-operative contracting arrangements with the Australian Apprenticeship Support Network. Further, there is merit in expanding these services to more apprentices likely to benefit, increasing completion rates in the process.

Reducing barriers to apprenticeship and non-apprenticeship pathways

Apprenticeships are the main training pathway for trade occupations, many of which are in persistent skills shortage. The apprenticeship pathway can be time consuming and act

as a major barrier, particularly for mature-age workers — trade apprenticeships can take up to four years to complete.

Competency-based wage progression allows apprentices to progress through their apprenticeship faster, and receive higher wages sooner, if they can demonstrate competency of skills earlier than the nominal time-based progression. While modern awards in some occupations allow for this type of progression, this should be extended to all modern awards covering trade apprentices.

Alternatively, students can take non-apprenticeship pathways to trade occupations. This can overcome key problems with the apprenticeship pathway: apprentices can only begin training once they have found work and job-related issues tend to be the main cause of non-completion. Non-apprenticeship pathways exist, but several barriers contribute to them being rarely used.

- Industry-specific rules may block entry. For example, in New South Wales, students below 21 years old can only undertake a Certificate III in Air-conditioning and Refrigeration as an apprenticeship and, if they are older, can only undertake a non-apprenticeship pathway if they are already employed in the industry.
- Governments provide less financial support for students of a non-apprenticeship pathway — when undertaking the same course, an apprentice receives higher subsidies and is eligible for income contingent Trade Support Loans to assist with everyday living expenses.

Governments should reduce these barriers and equalise the treatment of apprentices and non-apprentices studying the same course.

Reorienting employer incentives

Support from employers is essential to sustain the apprenticeship model. Apprenticeships are the only area of the VET system where employers determine the number of people in training. Employers are generally satisfied with the apprenticeship system and report many reasons for hiring apprentices, including obtaining skilled staff, upskilling existing staff, filling a specific role, or training to their own requirements.

Governments mostly rely on financial incentives for employers to boost their demand for apprentices. In 2019, employer incentives made up 9 per cent (almost \$600 million) of total government expenditure on the VET system, with the main incentive program providing a median payment of \$2500 per apprentice. Employer incentives accounted for about 2 per cent of the employer costs of hiring a trade apprentice.

However, employer incentives are unlikely to provide a strong return on investment. Incentives are provided to all employers, but are only likely to change the behaviour of a few. Many employers will train apprentices without an incentive, with governments often paying businesses for training that would have occurred anyway. This is a costly approach.

The Australian Government should consider reorienting funding for employer incentives toward other measures that evidence suggests are more effective and provide a greater return on investment, such as apprenticeship support services and screening.

If the Australian Government retains employer incentives or delays reorienting funding, there are several ways to improve the return on investment on public funds including by:

- reviewing the return on investment of recently introduced payments or trials and acting on any learnings for future programs
- reorienting funding for completion payments (which are unlikely to have much impact) to other services for employers (such as screening) or making payments earlier in the apprenticeship (where the risk of cancellation is greatest)
- streamlining incentives to reduce their complexity for employers (such as simplifying some payments and extending incentives to existing worker trade apprentices)
- having better coordination across governments to ensure that clear information on the incentives is published.

In response to weak employer demand triggered by the COVID-19 pandemic, the Australian Government budgeted \$4 billion to provide a 50 per cent wage subsidy for up to one year for new and existing apprenticeships. The subsidy is many times greater than the current level of employer incentives and for this reason alone is likely to have a major impact on employers' behaviour. However, it is a temporary measure in response to extraordinary circumstances and not a cost-effective way to sustainably increase apprenticeships. The impact of the subsidy should be monitored.

Foundation skills and other targeted reforms

For many Australians, their participation in society and the economy is limited by poor 'foundation skills' — language, literacy, numeracy and digital literacy (LLND) skills.

According to the OECD's *Programme for the International Assessment of Adult Competencies Survey* — which was last undertaken in 2012 — two to three million Australians lacked the literacy and numeracy skills for the basic needs of modern life. Eighty per cent of people with below level 2 standards in literacy (which is broadly equivalent to the minimum national benchmark for NAPLAN year 9) came from a household where English is spoken at home. About 500 000 (20 per cent) came from households where English was not spoken.

People lacking LLND skills are less likely to be employed and, if employed, are more likely to be in jobs with lower wages. Studies have also shown that LLND skills are important for civic participation.

Many individuals and society would benefit substantially if LLND skill levels could be improved. Although Australian governments have a wide range of LLND programs, they

roughly just keep pace with the flow of school leavers and new migrants who lack adequate LLND skills and will not greatly cut the share of the broader population that lacks these skills.

The Joyce Review recommended that governments commit, over time, to support fee-free foundation level education for all Australians who need training to achieve the benchmarks of level 2 literacy and numeracy in the Australian Core Skills Framework. And under the *Heads of Agreement for Skills Reform*, governments have made improving basic LLND skills a priority. This review suggests the first steps governments could take towards the aspirational goal of universal access to LLND skills.

What are the barriers to higher skill levels?

Fees are not the only barrier to foundation skills training and are unlikely to be the most important barrier for many prospective students. For high-need groups, fees are already low or zero. For others, government subsidies to reduce fee levels may not be the most effective way to encourage them to undertake training. Issues such as low confidence and stigma reduce some adults' willingness to engage in LLND training. A variety of solutions — both in terms of outreach and course design — may be necessary to meet the needs of different types of learners.

Evaluations and academic research provide little guidance on how governments can best invest in LLND skills acquisition. There is no compelling case for any particular program, nor clear estimates of the cost of achieving better LLND outcomes. Longitudinal studies show that students need to be tracked for an extended period (up to 6 years) to determine whether there has been a significant improvement in skill levels.

These considerations imply that determining the best path towards higher LLND skill levels will require a gradualist approach, building the knowledge base over time.

Developing a national strategy

A national LLND skills strategy would bring together measures to improve school education, 'second-chance' learning in the VET sector and the other adult education services delivered by public and private providers. It should draw on the recently announced scoping study into foundation skills and be coordinated across the Australian, State and Territory governments, given they are all involved in service provision and funding. The strategy would sit above the NASWD and other education-related agreements, which would house the details of how the national strategy would be delivered in specific sectors.

Schools and the VET system will remain core elements of efforts to lift basic skill levels — schools because they will always be the best way of building foundation skills, and VET because it represents a well-structured, regulated, delivery mechanism to offer 'second-chance' learning designed for adults. Other training methods such as adult education, workplace training or job seeker courses will also be important if the strategy is

to reach students who would not otherwise undertake training. Programs to provide English language skills to migrants should be maintained.

The current training options are more likely to reach people who have a strong incentive to undertake training — those who are in the job market, have newly arrived in Australia or need to improve their foundation skills to gain a qualification.

People not in the labour market, with poor experiences at school, who are homeless or facing other challenges will need well-designed outreach. The *Foundation Skills for Your Future* program offers a model to explore more tailored delivery as well as increased delivery in workplaces.

Evaluations of current delivery and new programs need to be improved and consolidated as part of the new strategy. These evaluations will also be more valuable if they include a longitudinal component in different settings.

High-level objectives and outcomes relating to LLND for the VET sector would be set out in the body of the new skills agreement. A detailed schedule to that agreement would elaborate on how to operationalise the agreement. The schedule would specify governments' roles and responsibilities in relation to the programs covered by the schedule. The schedule would also cover how LLND training is funded, through both the skills Specific Purpose Payment and National Partnership Payments, with per-student funding retained for most activity delivered through the VET system, but block funding considered for organisations tackling more difficult-to-reach students.

Indigenous RTOs and students

The Joyce Review proposed additional funding for Indigenous RTOs. Language barriers and the remote location of many Aboriginal and Torres Strait Islander students can be significant impediments to participation in VET. Dedicated data are scant, but NAPLAN data show that year 9 Aboriginal and Torres Strait Islander students are on average around three to four years behind their non-Indigenous peers in numeracy, reading, and writing.

Many Aboriginal and Torres Strait Islander students who live in metropolitan areas can readily access TAFE, other VET providers and additional supports as part of the VET system, but it is more difficult for Aboriginal and Torres Strait Islander students in remote areas. The provision and choice of training in those areas is limited and often requires significant travel (for RTO staff as well as students).

One specific (and a broader) issue raised with the Commission is restricted support for Aboriginal and Torres Strait Islander students who move interstate temporarily to train. More generally, State and Territory governments limit access to the courses they subsidise to students residing in their jurisdiction. The Commission is recommending that State and Territory governments should develop reciprocal agreements for (existing) funding to follow

students who enrol in subsidised courses interstate. This would be of particular benefit to Aboriginal and Torres Strait Islander students living in remote areas.

A second issue is that per-student funding models do not always adequately cover the costs of delivering VET to disadvantaged students who may require additional support services, such as assistance with basic LLND skills. This also applies particularly to Aboriginal and Torres Strait Islander students in remote communities. Governments should consider block funding to supplement the per-student funding for RTOs that are best placed to provide VET support services to remote Aboriginal and Torres Strait Islander students.

Supporting lifelong learning

Knowledge obtained when young can often become obsolescent, may not meet contemporary social and economic needs, and may be unsuited to new career paths. Lifelong learning — the ongoing acquisition of knowledge, skills and capabilities as people age — is critical for people's capacity to participate in a changing economy and society.

VET financing for mature-age Australians

The VET system is weighted to funding the acquisition of entry-level qualifications for young people. Yet, there is likely to be a group of mature-age Australians who would like to undertake more flexible training but are stymied by financial and time constraints. Letting older adults flexibly assemble packages of micro-credentials by combining short VET courses and modules from different VET qualifications across multiple providers would provide bespoke solutions for skill gaps while addressing the time constraints. A new income contingent loan scheme targeted at this form of training would address the financial constraints.

Given its novelty and uncertainty about the level of unmet need, a trial would be appropriate. The trial could include a variety of features — loan caps and loan fees, the eligibility of training providers, and student screening — to protect its integrity and target the groups most likely to benefit.

The balance between these design features would require consultation and modelling. One of the purposes of a trial would be to test these features and, subject to the wider adoption of the program, finesse them. A trial would also identify the need for a new instrument, the types of users, the benefits of involvement to them and the community at large, the degree of crowding out of private sources of finance, any administrative burdens for government and providers, and financial and reputational risks for government.

Credit pathways

Credit pathways allow students to receive credit for previous relevant training or experience, reducing the time taken to complete training, or enabling them to avoid repeating it. Credit

pathways are an important enabler of lifelong learning and reduce barriers to students reskilling or upskilling from a previous qualification or occupation. There are three main components to credit pathways: credit transfer, articulation and recognition of prior learning (RPL).

Credit transfer requires RTOs to provide credit to students for previously completed units of competency or modules from nationally recognised training. This process is relatively straightforward. Articulation involves the recognition of completed qualifications, with defined pathways for automatic admission or credit for future courses, such as from Diplomas to Bachelor Degrees. Individual training providers (such as RTOs and universities) negotiate articulation agreements with other providers on an ad hoc basis. This can be time consuming and inconsistent across providers. More consistency in arrangements may help, but requires policy reform in both the VET and higher education systems. Improving pathways between these systems is a key action area under the *Draft VET Reform Roadmap*.

RPL involves an *assessment* of students' competency — acquired through formal non-nationally accredited training or other learning or work experience — to determine if they meet the requirements for a unit of study.

Several barriers to RPL exist for both RTOs and students. RTOs are legislatively required to offer RPL but each RTO is responsible for developing its own policies and practices for granting RPL, creating little consistency across RTOs. RTOs can also face disincentives to granting RPL, such as receiving less funding for subjects completed by RPL. Administering the RPL process can also be burdensome, increasing the cost of granting RPL. Students can also find the process of applying for RPL onerous, complex and costly. These barriers act to:

- limit study paths for people who wish to upskill or reskill
- reduce the attractiveness of further study
- duplicate students' investments of time and effort
- duplicate financial investments (by both governments and students)
- undermine the process underway to operationalise standalone, short-duration micro-credentials which rely on RPL.

There is likely to be scope to overcome some of these barriers to RPL but the solutions are not necessarily straightforward. It requires careful consideration of the balance between consistency and flexibility, funding models and incentives of RTOs, the costs to RTOs and students, and the risk of rorting. Governments should develop options to reduce these barriers. To the extent that low RPL uptake reflects poorly-informed students, this could be addressed by the NCI.

Summing-up

Australia's VET system has many strengths. It plays a central role in facilitating workforce participation, productivity, and the nation's economic prosperity. It services a diverse group

of users who are broadly satisfied with the training received and it strikes a balance between national and local priorities, alongside educational and industry outcomes. Most students have a choice of provider and many pay low or no upfront costs to obtain their first qualification. While this review has not found evidence of a system in crisis, there is considerable room to improve.

The Commission has identified reforms that address the weaknesses and build on the solid foundations, focussing on three key themes:

- improving how governments work together
- supporting the development of a more efficient and competitive VET market
- better targeting government investment to increase participation in training (figure 5).

Together, these reforms will deliver a more accessible, responsive, reputable, and efficient system to give effect to governments' collective vision for VET (table 2).

Figure 5 **A VET reform agenda**

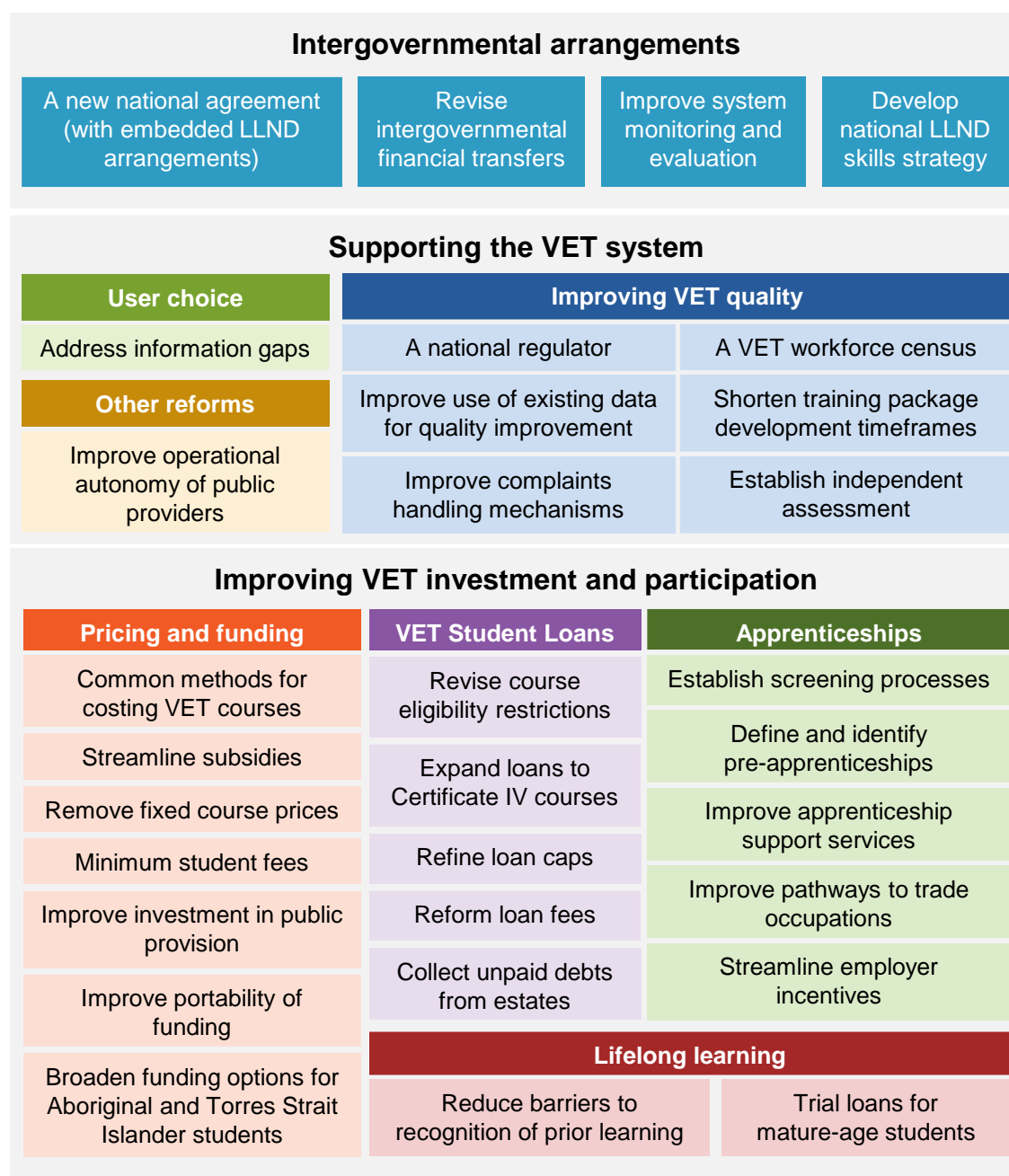


Table 2 Towards an accessible, relevant, reputable and efficient VET system

<i>Recommendation</i>	<i>Key potential benefits</i>
Intergovernmental arrangements — a renewed framework for intergovernmental cooperation	
<ul style="list-style-type: none"> • An intergovernmental agreement (5.1), with embedded arrangements for LLND skills (12.1) • Refine government financial transfers (5.2) • Improve monitoring and evaluation of system performance (5.3) • National strategy to improve LLND skills (12.2) 	<ul style="list-style-type: none"> • Renewed commitment to government cooperation • Improved accountability for spending by all governments • New evidence to test effectiveness of VET policies and governments' achievement of goals • Broad-ranging, gradual and cost-effective expansion of access to LLND training
Supporting the VET system — reforms to support informed user choice and improved VET quality	
<ul style="list-style-type: none"> • Address information gaps, including fees and RTO quality measures (6.1) • Progress towards a national regulator (7.1) • Improve the use of existing data for continuous quality improvement (7.2) • Improve complaints handling mechanisms (7.3) • Speed up training package development (7.4) • Conduct a VET workforce census (7.5) • Establish independent assessment in VET (7.6) • Improve operational autonomy of public providers (3.1) 	<ul style="list-style-type: none"> • Centres the VET system on users and their needs • More efficient VET market operation • Greater consumer protection • Improved system responsiveness to industry needs • Better incentives for quality teaching, delivery and assessment • Supports continuous improvement through evidence on what works to deliver quality training • Improved flexibility and efficiency of public provision
Improving investment and participation in VET — better investment to increase VET participation	
<i>Funding, subsidies and fees</i>	
<ul style="list-style-type: none"> • Jurisdictions to adopt consistent costs and loadings (9.1) and streamline subsidies (9.2) • Remove fixed course prices (9.3) • Ensure students have a stake in training (9.4) • Improve investment in public provision (9.5) • Improve portability of funding (12.3) and broaden funding options for the Aboriginal and Torres Strait Islander students (12.4) 	<ul style="list-style-type: none"> • Removal of unjustified national variations • Removal of perverse incentives and improved efficiency of VET markets • Greater accountability for spending • Better match of funding to student preferences • Better targeting of gaps in remote provision and address inflexibility of funding arrangements
<i>Income contingent loans</i>	
<ul style="list-style-type: none"> • Revise VSL course eligibility restrictions (10.1) • Expand VSL to Cert IV courses (10.2) • Reform VSL administration, including loan caps (10.3), loan fees (10.4) and collection of unpaid debts from estates (10.5) 	<ul style="list-style-type: none"> • Alignment to industry and labour market demand • More affordable access to training for students • Fiscal sustainability and administrative efficiency for governments
<i>Apprenticeships</i>	
<ul style="list-style-type: none"> • Establish apprentice screening (11.1) • Define and identify pre-apprenticeships (11.2) • Improve apprenticeship support services (11.3) • Develop pathways to trade occupations (11.4) • Streamline employer incentives (11.5) 	<ul style="list-style-type: none"> • Higher uptake and completion rates • Greater effectiveness in inducing additional apprentice numbers • Increased responsiveness to industry needs
<i>Lifelong learning</i>	
<ul style="list-style-type: none"> • Improve recognition of prior learning (13.1) • Trial an income contingent loan scheme for mature-age Australians (13.2) 	<ul style="list-style-type: none"> • Improve flexibility and responsiveness of training • Expand access for those requiring training to reskill or upskill

Findings and recommendations

The VET system

FINDING 2.1 — COMPETITION IN THE VET SYSTEM

There is a reasonable degree of competition in the VET system.

- Most students (87 per cent) have a choice of registered training organisation (RTO).
- About 30 per cent of students study in highly-competitive markets and 20 per cent in moderately-competitive markets.

However, 50 per cent of students train in highly-concentrated markets with less potential for competition. These are often ‘thin markets’ with limited local demand for particular courses. Nevertheless, some of these markets have low barriers to entry and are generally contestable.

FINDING 2.2 — FREE TAFE AND MARKET DISTORTIONS

Some State governments have introduced policies to increase VET enrolments by offering more places in free or low-cost courses at public RTOs. While these policies increase training at public RTOs, some of this growth may simply reflect a switch from private RTOs, crowding these providers out of some markets and ultimately reducing contestability and student choice.

FINDING 2.3 — STUDENT OUTCOMES BY PROVIDER TYPE

There is no evidence that public RTOs deliver consistently better student outcomes than private RTOs, or vice versa. Employer satisfaction is higher with private RTOs than public RTOs but students experiencing disadvantage report higher satisfaction at public RTOs.

FINDING 3.1 — PUBLIC AND PRIVATE RETURNS TO VET

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

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

FINDING 3.2 — SKILLS SHORTAGES

Skills shortages lists used to prioritise funding are often outdated and not rigorously measured, reflecting problematic conceptual frameworks and poor data. There is merit in adopting a consistent methodology for measuring skills shortages that allows for variations in local labour markets.

FINDING 3.3 — FUNDING OF VET AND HIGHER EDUCATION

The use of subsidies in the university system provides an 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 the same in the two sectors.

RECOMMENDATION 3.1 — IMPROVING THE OPERATIONAL AUTONOMY OF PUBLIC PROVIDERS

Many public training providers have been established as statutory authorities, yet there are ongoing concerns about their lack of independence from State and Territory governments.

State and Territory governments should give greater operational autonomy to public training providers, with control over their assets, industrial relations arrangements and financial performance.

The NASWD and a new agreement

FINDING 4.1 — THE *NATIONAL AGREEMENT FOR SKILLS AND WORKFORCE DEVELOPMENT* (NASWD) OBJECTIVE

The NASWD objective remains a relevant policy goal for governments. However, it could be improved by acknowledging nationally recognised VET as a major, but not the only, contributor to skills and workforce development, alongside higher education, non-nationally recognised VET, and workplace training.

FINDING 4.2 — THE NASWD PERFORMANCE FRAMEWORK

Governments' targets on skills formation will not be met. Progress against performance indicators, such as employer satisfaction and employment outcomes, is mixed.

The NASWD's performance framework is not sufficient to hold governments to account on their reform commitments, nor system performance.

- The targets are unrealistic, and some performance indicators are of limited value or relevance.
- The framework has no provisions to review the performance indicators and targets, nor for requiring evaluations of policy performance.

Revised reporting arrangements and more meaningful performance indicators are required to improve transparency and accountability.

FINDING 4.3 — THE NASWD REFORM DIRECTIONS

The NASWD reform directions allow governments the flexibility to tailor policy responses to local and emerging issues. However, they have lost relevance over time as the national reform consensus frayed.

- Two key national commitments — the national training entitlement and expansion of income contingent loans (VET FEE-HELP) — initially increased participation but governments later wound back incentives because of escalating costs and roting.
- Similarly, 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.
- While student-focussed indicators of quality were stable over the past decade, employers are less satisfied with VET than they were when the NASWD was signed and are using the VET system less.
- Governments have improved national data collection, particularly on total VET activity. However, public data and information on VET quality, prices, funding, and cost of delivery remain inadequate.

This experience demonstrates the limited efficacy of 'reform directions' as a tool to link tangible policy commitments to desired outcomes in an intergovernmental agreement.

FINDING 4.4 — ROLES AND RESPONSIBILITIES OF GOVERNMENTS UNDER THE NASWD

The NASWD affords State and Territory governments greater flexibility to exercise their roles and responsibilities in the VET system, consistent with the *Intergovernmental Agreement on Federal Financial Relations* and the principle of subsidiarity.

Over time, the allocation of some responsibilities has become blurred. Moreover, some important government bodies (such as the VET regulators) are not included or have since been established (such as the National Skills Commission and the National Careers Institute).

FINDING 4.5 — THE NASWD NEEDS REPLACEMENT

The NASWD is overdue for replacement. Governments have stepped back from some of its policy aspirations. Targets have not been met and the performance framework does not hold governments to account.

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 a new agreement.

RECOMMENDATION 5.1 — ESTABLISHING A NEW PRINCIPLES-BASED INTERGOVERNMENTAL AGREEMENT

The Australian, State and Territory governments should negotiate a new, principles-based intergovernmental agreement. To retain flexibility and currency, this agreement should be modular (using schedules) and reviewed every five years. It should include:

- an updated objective that recognises VET as a major, but not the only, avenue for skills and workforce development
- principles to guide a renewed national VET reform agenda centred on meeting the needs of students and employers
- a revised performance reporting framework, with a broader set of performance indicators that better capture the contribution of government activity in the VET system to skills and workforce development
- governance arrangements to improve data sharing and collection, such as an intergovernmental data working group and a revised national VET data strategy
- regular public reporting by all governments and monitoring by an independent body to improve accountability for outcomes
- fundamental roles and responsibilities of governments in the VET system, with existing roles reaffirmed. Governments should clarify roles in areas of shared responsibility and include the roles of recently created bodies (the National Skills Commission, the National Careers Institute, and the Skills National Cabinet Reform Committee).

RECOMMENDATION 5.2 — RENEWING INTERGOVERNMENTAL FINANCIAL TRANSFERS

The Australian, State and Territory governments should negotiate funding arrangements that retain untied base funding transfers.

This should be conditional on stronger accountability for funding and the intended economic and social outcomes. All jurisdictions should transparently report on how public money is spent.

Within or alongside a new agreement, governments should consider arrangements that promote greater accountability, based on the tools available under the *Intergovernmental Agreement on Federal Financial Relations*, or the precedent of recently negotiated agreements.

RECOMMENDATION 5.3 — MONITORING AND EVALUATING SYSTEM PERFORMANCE

The Australian, State and Territory governments should commit to:

- new governance arrangements to improve data sharing and collection (recommendation 5.1). As part of these arrangements, governments should instruct:
 - the National Centre for Vocational Education Research to collect and publish more information on the attribution of funding to course subsidies (by qualification level and provider type), capital expenditure and community service obligations (as part of the National Funding Collection)
 - the National Skills Commission to establish a national database of efficient course costs
- enhanced data analytics capability to evaluate VET outcomes and investments. This should include a commitment to improve understanding of VET students' longer-term labour market outcomes, for example.

These arrangements would be a welcome feature of a new intergovernmental agreement but could be implemented before the new agreement is settled.

Supporting VET through informed choice and quality

FINDING 6.1 — INFORMED CHOICE

Providing well-curated VET and career information, career guidance, screening prospective students before commencement, and regulatory safeguards are the main levers governments can use to support informed choice.

Use of these levers should be commensurate with their benefits.

FINDING 6.2 — VET INFORMATION GAPS

Despite a plethora of information sources on courses and careers, public information is either missing or deficient in four areas:

- student fees
- RTO quality
- ready comparisons between VET and higher education training options
- credit pathways.

There is evidence that these deficiencies lead to students making poor educational choices.

RECOMMENDATION 6.1 — ADDRESSING INFORMATION GAPS

The National Careers Institute (NCI) should extend its work on information provision to fill significant information gaps in My Skills for each RTO, including by publishing information about:

- student fees — commencing with the average fee paid by subsidised and non-subsidised students in the past year
- the quality of the RTO — including indicators of learning and teaching quality, and student and employer satisfaction
- the expected graduate employment outcomes from course completion
- credit pathways.

The NCI should also test that information is salient, trusted and easily understood.

The Australian, State and Territory governments should:

- continue to work together to establish the NCI as a central information hub
- require all RTOs to provide up-to-date student fee information to enable publication on My Skills
- task the National Centre for Vocational Education Research to develop a set of summary indicators on RTO quality and expected student outcomes, with the NCI publishing those indicators (subject to statistical validity) for each RTO on My Skills.

FINDING 6.3 — CAREER ADVICE GAPS

This and other recent reviews have identified room to improve career advice. Career guidance given to students tends to be skewed toward university education, of inconsistent quality, and is sometimes difficult to obtain for people who have left school.

RECOMMENDATION 7.1 — PROGRESSING TOWARDS A NATIONAL REGULATOR

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

In the first instance, ASQA should:

- proceed with its reform agenda to improve its regulatory approach and operations
- continue to work with the Victorian Registration and Qualification Authority and the Western Australian Training Accreditation Council to address any inconsistencies and overlap in their requirements, including in their interpretations of regulatory standards.

RECOMMENDATION 7.2 — IMPROVING THE USE OF EXISTING DATA FOR CONTINUOUS QUALITY IMPROVEMENT

The *Data Provision Requirements 2012*, under the *National Vocational Education and Training Regulator Act (2011) (Cth)*, should be amended such that:

- RTOs continue to administer the *Employer Questionnaire*, with data to be collected by the NCVER
- RTOs be no longer required to administer the *Learner Questionnaire* or provide the Australian Skills and Quality Authority (ASQA) with an annual summary report of their performance against quality indicators.

The National Centre for Vocational Education Research (NCVER) should use its survey data to:

- report benchmarking data to each RTO, enabling RTOs to compare their performance with aggregate results across similar courses of study
- supplement the VET national data collection by developing the summary RTO quality indicators proposed in recommendation 6.1
- publish summary statistics aggregated across all RTOs.

ASQA should be given access to the survey data held by NCVER to inform its risk-based compliance strategy.

RECOMMENDATION 7.3 — IMPROVING COMPLAINT-HANDLING MECHANISMS

State and Territory governments should establish VET ombudsmen (where they do not already exist) to receive, assess, and resolve complaints from VET students in their jurisdictions. The ombudsmen should mediate complaints about the quality of services delivered by all RTOs operating in their jurisdiction.

State and Territory ombudsmen should work cooperatively alongside the Commonwealth Ombudsman, which should continue its responsibilities for VET Student Loans and international students.

RECOMMENDATION 7.4 — SHORTENING TRAINING PACKAGE DEVELOPMENT TIMEFRAMES

The Skills National Cabinet Reform Committee should delegate to Industry Reference Committees the power to:

- commission updates to training packages
- approve non-controversial and minor changes to training packages.

FINDING 7.1 — TEACHER QUALITY AND OUTCOMES

There is little information on the VET workforce and scant evidence to judge the effectiveness of teachers' qualifications, attributes, or industry experience in improving students' outcomes.

Further research would help inform the development of the VET workforce quality strategy foreshadowed in the *Heads of Agreement on Skills Reform*.

RECOMMENDATION 7.5 — INFORMING THE VET WORKFORCE QUALITY STRATEGY

The Skills National Cabinet Reform Committee should task the National Centre for Vocational Education Research to conduct a census of the VET workforce. Using this information, governments should investigate:

- the relationship between teacher characteristics and student outcomes, focusing on pedagogical skills and contemporary industry experience
- whether there are barriers (for example, minimum credentials, teaching conditions) preventing professionals with industry experience from teaching in VET
- other issues relevant to developing a VET workforce strategy.

FINDING 7.2 — INDEPENDENT ASSESSMENT

The unbundling of assessment from teaching would help allay concerns associated with uneven quality standards among VET graduates and provide employers with greater certainty about graduates' competencies.

Over the past decade, governments have explored how independent assessment could be used more widely in VET. To date the pilots and trials have done little to progress the use of independent assessment.

RECOMMENDATION 7.6 — ESTABLISHING INDEPENDENT ASSESSMENT IN VET

The Australian, State and Territory governments should undertake a process of phased implementation of independent assessment (IA), which should include:

- determining the objectives and model of IA
- identifying suitable qualifications and occupations through consultation between governments, industry, and occupational governing bodies
- undertaking national trials for qualifications identified as suitable, to assess the usefulness and cost-effectiveness of IA
- developing an institutional framework, which would assign responsibilities including for undertaking assessment, accreditation of assessors, and funding.

It would be particularly valuable to explore the use of IA in areas where minimum training standards contribute to public benefit, such as the aged care sector.

Expanding participation in VET

Funding, subsidies and fees

FINDING 8.1 — DATA UNDERPINNING SUBSIDY RATES

The 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.

FINDING 8.2 — JURISDICTIONS' APPROACHES TO SUBSIDISING COURSES

State and Territory governments share the same goal for subsidies to increase participation in training, particularly for students facing disadvantage and in skill areas in short supply or with other public benefits. All take the same general steps when setting subsidies. However, as governments have different policy priorities, the courses receiving subsidies and the subsidy rates for courses vary widely across Australia.

In most jurisdictions, there is little transparency about subsidy setting. Subsidies are not set using a consistent methodology.

RECOMMENDATION 9.1 — ESTABLISHING A COMMON METHOD FOR COSTING COURSES

State and Territory governments should adopt the efficient costs and loadings currently being estimated by the National Skills Commission for setting their subsidies.

RECOMMENDATION 9.2 — STREAMLINING SUBSIDIES

The National Skills Commission should work with the Australian, State and Territory governments to produce a method for simplifying the large number of course subsidies.

FINDING 9.1 — PRICE CONTROLS

Fixing student fees can stifle competition, inhibit the allocation of resources and blunt incentives to improve the quality of training.

RECOMMENDATION 9.3 — REMOVING FIXED COURSE PRICES

The New South Wales and Western Australian Governments should cease fixing prices and student fees for VET courses. The Queensland Government should cease fixing student fees for apprenticeship courses.

RECOMMENDATION 9.4 — ENSURING STUDENTS HAVE A STAKE IN THEIR TRAINING

Where they do not charge them, State and Territory governments should introduce modest minimum student fees for subsidised training in Certificate III and above courses, including for courses delivered as traineeships or apprenticeships, to encourage students to make sound investment choices. Minimum student fees should not apply to students eligible for concessional fees.

RECOMMENDATION 9.5 — IMPROVING INVESTMENT IN PUBLIC PROVISION

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

- improve reporting on how funding is spent (as per recommendation 5.3)
- ensure compliance with competitive neutrality principles
- undertake market testing to increase the contestability of existing community service obligations.

These changes should include transition arrangements to support market stability.

Income contingent loans

FINDING 10.1 — VET STUDENT LOANS' REGULATORY FRAMEWORK

Poor program design, implementation and regulatory oversight allowed the rorting of VET FEE-HELP. The strict eligibility requirements for VET Student Loans and an improved regulatory framework have addressed the many deficiencies of VET FEE-HELP.

RECOMMENDATION 10.1 — REVISING VET STUDENT LOANS' ELIGIBILITY RESTRICTIONS

The Australian Government, in consultation with State and Territory governments, should replace the existing VET Student Loans course eligibility criteria with a 'blacklist' of ineligible Diploma and above courses. The blacklist should comprise only courses demonstrated, with evidence, to be leisure-related courses or courses with poor employment outcomes.

Providers should be able to apply for an exemption to allow their students access to VET Student Loans for a blacklisted course where it can be demonstrated that the course leads to employment outcomes at least similar to most non-blacklisted courses.

RECOMMENDATION 10.2 — EXTENDING VET STUDENT LOANS TO CERTIFICATE IV COURSES

The Australian Government, in consultation with State and Territory governments, should extend the VET Student Loans program to all Certificate IV courses, excepting those courses meeting the 'blacklist' criteria as recommended for Diploma and above courses (recommendation 10.1). Students eligible for the Trade Support Loans program should not be eligible for the expanded VET Student Loans program.

Certificate IV students should be issued VET Student Loans with the same repayment terms as those issued to students undertaking Diploma and above courses.

RECOMMENDATION 10.3 — REFINING LOAN CAPS FOR VET STUDENT LOANS

The Australian Government should increase the number of caps applicable to VET Student Loans and refine its methodology for allocating courses to loan caps by drawing on the National Skills Commission's estimates of efficient course costs.

RECOMMENDATION 10.4 — REFORMING LOAN FEES FOR VET STUDENT LOANS

The Australian Government should reform the loan fees charged for VET Student Loans. Loan fees set as a proportion of the loan value should apply to all loans, not just loans issued to fee-for-service students.

A small upfront loan charge should also apply to all loans (with exemptions for disadvantaged students), with its value aligned with the Commission's recommended minimum student fee for subsidised students (recommendation 9.3).

RECOMMENDATION 10.5 — COLLECTING UNPAID VET STUDENT LOANS DEBTS FROM DECEASED ESTATES

The Australian Government should collect unpaid VET Student Loans debts from deceased estates, with exemptions for small estates and discretionary powers for the Australian Taxation Office to waive debts in cases of financial hardship. (There are also strong grounds to pursue this reform for Higher Education Loan Program debts.)

Apprenticeships

FINDING 11.1 — ISSUES FACING THE APPRENTICESHIP SYSTEM

There are both recent and longstanding policy issues in the apprenticeship system.

- There are persistent skills shortages in occupations for which apprenticeships are the main pathway.
- Commencements have declined significantly in recent years.
- Completion rates remain stubbornly low, particularly in some occupations (such as hospitality and food trades).
- The COVID-19 pandemic has significantly affected employer demand for apprentices.

FINDING 11.2 — BARRIERS TO APPRENTICESHIPS

There are barriers to both the supply and demand of apprentices, affecting both commencements and completions.

On the supply side, apprentices often cite job-related problems as key reasons for dissatisfaction and non-completion. Lack of information, negative community and individual attitudes about the end occupation, and rigid training structures can also act as barriers.

On the demand side, employers cite poor-quality and irrelevant training as the key reason for their dissatisfaction. The risk of non-completion, and its associated costs, can reduce employers' appetite to hire apprentices.

Beyond these barriers, other factors may influence an apprentice's and employer's weighing up of the benefits and costs of undertaking an apprenticeship, such as training wages and the productive contribution of the apprentice.

RECOMMENDATION 11.1 — SCREENING APPRENTICES

Screening can improve completion rates by ensuring better matching of prospective apprentices and employers, as well as by identifying any need for support services. State and Territory governments should consider screening candidates before their apprenticeships commence (where this does not already occur). Screening could be extended to other VET students if found to be cost effective.

RECOMMENDATION 11.2 — DEFINING AND IDENTIFYING PRE-APPRENTICESHIPS

The Australian, State and Territory governments should task the National Centre for Vocational Education Research with conducting further research into pre-apprenticeship programs. This may require developing a nationally consistent definition of pre-apprenticeships and establishing a pre-apprenticeships identifier in its data collections.

RECOMMENDATION 11.3 — IMPROVING APPRENTICESHIP SUPPORT SERVICES

The Australian, State and Territory governments should improve the coordination and delivery of apprenticeship support services through more co-operative contracting arrangements. This should involve either:

- the Australian Government and individual State and Territory governments jointly contracting Australian Apprenticeship Support Network (AASN) providers to deliver these services; or
- State and Territory governments setting up an additional contract with AASN providers to deliver these services.

The Australian Government should also assess the level of unmet need for apprenticeship support services and consider expanding these services to increase completion rates.

RECOMMENDATION 11.4 — IMPROVING PATHWAYS TO TRADE OCCUPATIONS

The Fair Work Commission should make apprenticeship pathways to trade occupations more flexible, particularly for existing and adult workers, by ensuring that all modern awards covering trade apprentices provide competency-based wage progression.

Non-apprenticeship pathways should also be supported as a legitimate alternative to traditional apprenticeships.

- State and Territory governments should ensure that students receive the same level of course subsidy whether they undertake an apprenticeship or a non-apprenticeship pathway to trade occupations.
- The Australian Government should consider extending Trade Support Loans to students undertaking non-apprenticeship pathways to trade occupations if adequate safeguards can be developed to avoid the potential for rorting.
- The Australian, State and Territory governments should examine ways to reduce industry-specific barriers to students training through non-apprenticeship pathways (such as rules that students must already be employed in the industry).

RECOMMENDATION 11.5 — IMPROVING EMPLOYER INCENTIVES

The Australian Government should consider reorienting funding for employer apprenticeship incentives to other measures that achieve a greater return on investment, such as apprenticeship support services and screening.

If some employer incentives are retained (not including recent temporary wage subsidies), the Australian Government should refine the system in the following ways.

- Review options for better targeting incentives to increase apprenticeship commencements and completions (including by evaluating the effectiveness of recent measures).
- Cancel completion payments and reorient this funding toward apprenticeship support services, screening, or progress payments to be paid at 12 and 24 months (when the risk of cancellation is highest).
- Streamline and better coordinate incentives by:
 - simplifying incentives to target groups (such as paying one rate for disadvantaged apprentices undertaking a Certificate II and removing the rarely-used Mature-Age Worker incentive)
 - extending incentives to existing worker trade apprenticeships (by removing the National Skills Needs List as a criterion)
 - coordinating incentive information across levels of government (by tasking Australian Apprenticeship Support Network providers with publishing this information, and developing a shared platform to collate this information).

Foundation skills and other targeted reforms

FINDING 12.1 — SOCIAL AND ECONOMIC BENEFITS OF IMPROVED FOUNDATION SKILLS

Two to three million adult Australians lack the literacy and numeracy skills for the basic needs of modern life. Without adequate language, literacy, numeracy and digital literacy (LLND) skills (equivalent to level 2 and above in the Australian Core Skills Framework), people cannot participate fully in society and the economy. Developing the LLND skills of these disadvantaged Australians would yield considerable public and private benefits.

RECOMMENDATION 12.1 — DEVELOPING A NATIONAL STRATEGY TO IMPROVE FOUNDATION SKILLS

The Australian, State and Territory governments should jointly develop a strategy to reduce the number of people with low language, literacy, numeracy and digital literacy (LLND) skills (below level 2 in the Australian Core Skills Framework). The LLND strategy should:

- recognise the varied circumstances of people with low LLND skills
- cover the range of LLND training programs across schools, the VET system, workplace programs and community adult education providers
- guide and coordinate policies in these areas to improve LLND outcomes
- facilitate a staged approach to expanding access to LLND training, using evaluations to inform where the greatest improvements can be achieved at lowest cost.

The strategy should draw on the scoping study into foundation skills commissioned by Skills and Training Ministers in November 2020.

RECOMMENDATION 12.2 — EMBEDDING LLND IN THE NEW INTERGOVERNMENTAL AGREEMENT

As part of the new LLND strategy, governments should identify the VET-specific, high-level objectives and outcomes relating to LLND skills for inclusion in the new intergovernmental agreement on skills. A schedule to the new agreement should contain the following key elements:

- governments' roles and responsibilities, in relation to the different programs
- the relationship between jointly-funded programs and programs funded by a single level of government
- LLND funding arrangements through both the skills Specific Purpose Payment and any National Partnership Payments with per-student funding retained as the main funding mechanism for most activity delivered through the VET system, but block funding considered for organisations tackling more difficult-to-reach students
- reporting and accountability arrangements with respect to these programs, including a performance reporting framework.

FINDING 12.2 — THE JOYCE AND SHERGOLD SCHOOL-BASED VET RECOMMENDATIONS

The Joyce and Shergold Reviews offer complementary recommendations to improve the quality of school-based VET. The Commission sees merit in these recommendations and supports reform of VET in Schools as an early priority for governments.

FINDING 12.3 — NON PORTABILITY OF FUNDING FOR STUDENTS

State and Territory governments generally restrict access to subsidised courses to students residing in their jurisdiction. This can act as a barrier for students considering undertaking training outside their home jurisdiction. This is likely to be a bigger issue for Aboriginal and Torres Strait Islander students in remote areas wishing to study at an Indigenous RTO.

RECOMMENDATION 12.3 — IMPROVING PORTABILITY OF FUNDING FOR STUDENTS

State and Territory governments should develop reciprocal agreements for (existing) funding to follow students who enrol in subsidised courses interstate.

FINDING 12.4 — EFFECTIVENESS OF PER-STUDENT FUNDING FOR ABORIGINAL AND TORRES STRAIT ISLANDER STUDENTS

Per-student funding models do not always adequately cover the costs of delivering VET to student cohorts with diverse and specific needs. This applies particularly to Aboriginal and Torres Strait Islander students in remote areas.

RECOMMENDATION 12.4 — IMPROVING FUNDING FOR REMOTE ABORIGINAL AND TORRES STRAIT ISLANDER STUDENTS

Governments should consider block funding to supplement per-student funding for the additional support services that some RTOs are uniquely placed to provide to remote Aboriginal and Torres Strait Islander students.

Supporting lifelong learning

RECOMMENDATION 13.1 — TRIALLING A LIFELONG LEARNING LOAN SCHEME FOR MATURE-AGE AUSTRALIANS

The Australian Government should undertake a trial of an income contingent loan scheme for mature-age Australians to allow them to tailor training to their needs, drawing on units from different VET courses and, possibly, different providers. The trial could include a range of features to protect its integrity and target the groups most likely to benefit, including:

- caps on the loan amount to relatively low levels
- limits on eligibility to pre-approved providers and courses
- loan fees that are set to minimise the net fiscal costs of the program, while not being so high as to deter uptake
- the screening of students for the likelihood of benefits to them and their capacity to repay their loans.

RECOMMENDATION 13.2 — REDUCING BARRIERS TO CREDIT PATHWAYS

The Australian, State and Territory governments should improve the system of credit pathways by developing options to reduce barriers to recognition of prior learning (RPL). The options should carefully consider the balance between consistency and flexibility of RPL across providers, funding models and incentives of RTOs, the costs to RTOs and students, and the risk of rorting.

PART A — THE REVIEW

1 About this review

Key points

- The *National Agreement for Skills and Workforce Development* (NASWD) was intended to be a long-term framework for governments' collaboration on skills and workforce development, focused on vocational education and training (VET).
- This review of the NASWD is to inform future intergovernmental arrangements to replace it. The review has also examined options to:
 - streamline and coordinate government support for VET
 - make VET pricing and funding arrangements more nationally consistent
 - promote consistency in funding and loan arrangements between VET and higher education
 - ensure government investment in VET encourages increased participation in training, and is commensurate with the benefits for students, employers and other beneficiaries.
- Whereas the interim report was directed to focus on three terms of reference, this final report addresses them all. It draws on feedback on the interim report, and further evidence, analysis and consultation with participants.
- The review took place over a period of significant change and disruption.
 - In July–August, the Australian, State and Territory governments agreed to high-level directions for an agreement to replace the NASWD in 2021. The Commission has taken this *Heads of Agreement for Skills Reform* — and the earlier *Draft VET Reform Roadmap* — into account in this final report.
 - The COVID-19 pandemic interrupted students, particularly apprentices, and put the financial viability of some training organisations into doubt. VET policy announcements have been at the centre of several government responses to the pandemic. Where possible, these announcements have been part of the Commission's assessment.

In November 2019, the Australian Government announced this review of the *National Agreement for Skills and Workforce Development* (NASWD) — an agreement intended to provide a long-term framework for governments' collaboration on skills and workforce development with a particular focus on vocational education and training (VET).

This introductory chapter covers:

- the historical background to the review (section 1.1)
- the review's scope and its relationship to other recent reviews of VET (section 1.2)
- the changing context for this review, in light of the COVID-19 pandemic and recent VET policy announcements (section 1.3)
- how the Commission has approached the task (section 1.4).

1.1 The historical background¹

From its colonial origins to the 1970s, VET in Australia — or ‘Technical Education’ as it was known — was the province of each colony or State. There was little consistency of training or portability of qualifications across borders.

Three major waves of reform over the past fifty years have reshaped the VET system. These reforms have imbued the system with a more national character while also increasing contestability and user choice.

The first wave, prompted by the Kangan report (1974), yielded a national system of TAFEs, operated by State and Territory governments and supported with Commonwealth funding. The private training sector operated in complete isolation from governments.

The second wave, during the 1990s, involved:

- creating a national training ‘market’ in which private training organisations could tender alongside TAFEs for some public funding
- the national qualification framework with the mutual recognition of professional licenses
- establishing the Australian National Training Authority to coordinate the system (although it was abolished in 2005, with most of its functions absorbed by the Australian Government education department).

The NASWD ushered in the third wave of reforms. Commencing in 2009 and updated in 2012, the agreement provided for: expanding income contingent loans to VET students; creating a national training entitlement; and increasing contestable funding. A national training regulator, the Australian Skills Quality Authority, was also established (albeit separately to the NASWD).

The NASWD was and remains a schedule to the *Intergovernmental Agreement on Federal Financial Relations* (IGA FFR). The IGA FFR promised a ‘new era’ for intergovernmental cooperation in areas of national importance and shared responsibility, including health, schools, skills and workforce development, affordable housing, Indigenous reform and disability services (COAG 2009). National Agreements under the IGA FFR established long-term objectives for the sectors. They also sought to improve services, by giving the State and Territory governments more freedom in how they use Commonwealth grants, by clarifying the roles and responsibilities of each level of government, and by enhancing governments’ reporting on their performance.

In its 2017-18 Budget, the Australian Government funded the Productivity Commission to ‘undertake independent reviews of nationally significant sector-wide agreements with the States and Territories’ (Australian Government 2017). This review of the NASWD is the second such review.

¹ For further discussion of the history of VET in Australia, see: Bowman and McKenna (2016b); Kangan (1974); NCVER (2012, 2018d).

1.2 The review's scope

In broad terms, this review is an opportunity to:

- consider how the VET system has developed and performed over the past 10 years
- see whether governments have adhered to, and achieved, the reform ambitions set out in the NASWD
- assess whether the ambitious goal of a more collaborative national approach to VET — embodied in the NASWD — has been realised and to what extent it should remain the model for the future.

Terms of reference in detail

The first term of reference (ToR 1) directs the Commission to consider the achievement and ongoing suitability of 'the objectives, outcomes, performance indicators, targets, reform directions, and roles and responsibilities set out in the NASWD'.

However, the ToR are broader than just a review of the NASWD. The Commission must also consider options to:

- streamline and coordinate government support for VET (ToR 2)
- promote nationally-consistent funding and pricing arrangements for government-subsidised VET courses (ToR 3)
- promote consistency in funding and student loan arrangements between the VET and higher education sectors (ToR 4)
- ensure government investment in VET encourages increased participation in training, and that the level of public investment is commensurate with the outcomes and benefits for students, employers and other beneficiaries (ToR 5)
- achieve further reforms through funding arrangements, including extending language, literacy, numeracy and digital literacy learning programs and other recommendations made in the Joyce Review of the VET system (ToR 6)
- improve performance indicators, data and information sharing arrangements to enable all governments to assess the effectiveness of VET investment and delivery (ToR 7).

In addressing these ToR, the Commission was asked to consider myriad other matters including current and potential VET funding arrangements, existing skills programs, contemporary policy settings and labour market needs, and differences in local economies and the need to deliver opportunities and outcomes for all Australians. The full ToR are reproduced at the front of this report.

The ToR asked the Commission to provide an interim report, focusing on ToR 2, 3 and 5, as well as this final report.

Relationship to other recent reviews

The Commission’s review follows or is running in parallel with many other reviews into the VET system (box 1.1).

Box 1.1 **Recent reviews of aspects of the VET system**

Relevant recent reviews are the:

- 2018 review of the *National Vocational Education and Training Regulation Act 2011* (Braithwaite 2018)
- 2019 review of the Australian Qualifications Framework (Noonan et al. 2019)
- 2019 Joyce Review of the VET system (Joyce 2019)
- 2020 rapid review of the regulatory practices, governance and culture of the Australian Skills Quality Authority (mpconsulting 2020)
- 2020 review of post-senior secondary school pathways (Shergold Review 2020).

Other reviews underway or with government include reviews of:

- student loans by the COAG Skills Council (COAG 2019b)
- the Australian Apprenticeships National Skills Needs List (the review is on hold due to the COVID-19 pandemic)
- VET policies and administration by State and Territory governments.

These reviews and associated reform agendas (see below) cover virtually every aspect of VET. They include development and accreditation of training courses, the quality of regulation, the delivery of VET in Schools, funding approaches, reform of pathways between education sectors, reform of information for users of VET, and reform of governance arrangements.

Compared to most of the reviews listed in box 1.1, the Commission’s review is broader, raising questions about the direction of VET policy and how governments can best cooperate to improve the performance of the VET system.

1.3 **The changing context for this review**

There have been several developments since this review commenced and, in some cases, since the interim report was released, that have markedly altered the context for the review. Two key developments follow. (Section 1.4 discusses how the review has adjusted to these developments.)

The COVID-19 pandemic is reshaping VET

The COVID-19 pandemic that began in the first quarter of 2020 remains a major global health challenge. Policy responses have varied around the world, but have generally involved strict controls on travel, social distancing, and limits to business activity. These policies have reshaped the global economy in 2020 through their debilitating effects on business operation, employment, consumer demand, and international supply chains. Many countries, including Australia, have incurred massive public debts to fund business support and welfare measures to help mitigate the economic impacts of the crisis.

The economic fallout from COVID-19 and associated government responses have already disrupted the VET sector in Australia. As discussed in chapter 2, although data remains patchy, it appears that:

- many courses have been disrupted or cancelled, particularly where face-to-face teaching is required
- there has been a significant shift towards online teaching and learning
- some international students enrolled in VET have been unable to travel to Australia (although VET has to date been less affected than higher education in this regard)
- there has been a dramatic decline in the number of apprenticeships being undertaken
- training organisations have faced reduced income, with some at risk of closing.

Beyond the immediate impacts, broader questions remain as to whether — and in what ways — the pandemic will cause fundamental or ongoing changes to the VET sector, including on the demand for and supply of skills, the structure of the VET sector and the nature of VET delivery.

High-level VET reform agendas

Several changes to VET policy have been announced recently, some as anticipated responses to the reviews listed in box 1.1 and some in response to COVID-19.

Draft VET Reform Roadmap (November 2019)

On 19 November 2019, the COAG Skills Council² released a *Draft VET Reform Roadmap* (SSON 2020b). It set out three priority areas — improving the relevance, quality and accessibility of VET — and medium-term policy actions to achieve them (box 1.2).

² On 29 May 2020, the Prime Minister announced that the National Federation Reform Council (NFRC) would replace the Council of Australian Governments (COAG). The NFRC comprises the newly established National Cabinet (First Ministers), the Council on Federal Financial Relations (all Treasurers) and the Australian Local Government Association (ALGA). On 12 June 2020, the National Cabinet announced the formation of the Skills National Cabinet Reform Committee to replace the former COAG Skills Council (Conran 2020). The Committee supports reforms outlined in the Heads of Agreement (discussed below). In addition, a new Skills Ministers' Meeting was established to manage the VET system.

Box 1.2 Key components of the COAG Skills Council's *Draft VET Reform Roadmap*

Reforms foreshadowed in the *Draft VET Reform Roadmap* included:

- a new approach to qualification design and rationalisation of qualifications
- a new quality framework and standards, and new assessment arrangements
- new models for employment-based training
- improved design of government and industry support for apprentices and trainees
- improvements to VET delivered in schools
- modern qualification frameworks to support parity between VET and higher education
- improved skills demand forecasting and new frameworks for public and private investment
- improved governance architecture.

Source: Skills Senior Officials Network (2020b).

Heads of Agreement for Skills Reform (July – August 2020)

Building on the progress made to develop the Roadmap, in July 2020 the Australian Government announced a *Heads of Agreement for Skills Reform* (HoASR) between it and each State and Territory government (DPM&C 2020b).

The HoASR is the basis for negotiating the next national skills agreement, which will replace the current NASWD. Negotiations are already underway with the new agreement to be finalised by August 2021, and with a transition to take effect from January 2022 (or when the Australian Government and one other party agree to it). The HoASR stipulates that the next agreement is to run for five years.

One of the priorities for the next agreement is a new funding model to improve national consistency for students. To this end, under the HoASR, governments committed to work with the National Skills Commission (NSC) to develop an approach to estimating the costs of delivering training (by October 2020), and to share data to enable the NSC to release estimates of efficient prices (for common VET qualifications by July 2021, and for all VET qualifications by July 2022).

Other nominated priorities are micro-credentials, foundations skills, apprenticeships, VET pathways for school students, career information, transparency and accountability, contestability in VET markets, and investment in VET (box 1.3).

The HoASR also entailed some immediate reforms in response to the COVID-19 pandemic, including establishing a JobTrainer fund to expand places in VET (box 1.3).

Box 1.3 **The Heads of Agreement for Skills Reform**

The HoASR sets out the following priorities for a National Skills Agreement to replace the NASWD.

- Adopting a new funding model that improves national consistency for students, integrates subsidies and loans and is linked with efficient pricing and the skills needed by employers.
- Developing and funding nationally accredited micro-credentials and individual skill sets, in addition to full qualifications, and supporting lifelong learning through an integrated tertiary education system.
- Providing stronger support for foundation skills and ensuring access for all Australians with low levels of language, literacy, numeracy and digital literacy.
- Promoting apprenticeships and other employment-based training, including pre-apprenticeships, and undertaking reforms to boost geographic mobility and labour supply.
- Strengthening VET pathways for secondary school students and improving the quality and vocational relevance of VET in schools.
- Working with the National Careers Institute, to reduce the proliferation of career information available, and supporting the Institute to provide access to career information that best enables people to make decisions about their learning, training and employment pathways.
- Enhancing transparency and accountability, through clear roles and responsibilities for governments and industry, and increasing data collection and analysis that is shared publicly to support regular assessment of governments' policies and performance.
- Supporting a viable and robust system of public, private and not-for-profit providers, with contestability in VET markets, to ensure high quality training and student choice.
- Increasing real investment in VET, while undertaking agreed reforms needed to ensure this investment will improve outcomes for Australians and the economy.

The HoASR also committed to some immediate reforms to strengthen the training system to support Australian's economic recovery:

- simplifying, rationalising and streamlining national VET qualifications across industry occupation clusters and the Australian Qualifications Framework, and introducing improved industry engagement arrangements
- strengthening quality standards, building the capacity and capability of registered training organisations and developing a VET workforce quality strategy
- establishing the JobTrainer Fund, with total funding of \$1 billion jointly between the Commonwealth and States and Territories. It provides for low fee, or no fee, training to support about 340 000 additional places from September 2020.

Source: PM&C (2020b).

1.4 The Commission's approach

While the ToR have several facets, the Commission's overarching task has been to evaluate the NASWD as a model for a future skills agreement and to provide advice on options for further reform of the VET system. (For the purpose of this review, the Commission has interpreted VET to mean 'nationally recognised' VET, as opposed to other forms of unaccredited vocational training, unless otherwise indicated.)

In tackling this task, the Commission has applied an 'economy-wide' public policy framework to consider the role that the system and different elements of it should play. At its most fundamental level, VET is about helping equip people to participate effectively in the workforce and society. More than four million students a year use VET, mainly to gain skills and qualifications to enter the workforce, upskill in their current job or reskill for a change of career.

The Commission's approach recognises that VET is a human service supplied within a managed market. Its framework enables consideration of the advantages and limitations of private, public and not-for-profit provision; user choice, competition and contestability; and government regulation and incentives in allocating resources and ensuring quality in the VET sector.

The Commission has also drawn on principles of good government within Australia's federal system. Governments have the role of system stewards to help to ensure service provision is effective. A particular question for this review is whether the division of roles and responsibilities between the different levels of government was or remains appropriate. In considering this, the Commission has weighed the balance between the principles of subsidiarity, nationhood, and accountability, and other governance considerations.

This review has drawn on information from a wide range of sources, including academic research, past reviews, data held by governments where available, consultations with participants and the review team's own research. In accordance with the *Productivity Commission Act 1998 (Cth)*, the Commission has sought to maximise the transparency of this review and provide as much opportunity as possible for interested parties to have input, within the timeframe provided for reporting to government and in the context of the COVID-19 pandemic. Box 1.4 outlines the conduct of the review. The Commission thanks all those people and bodies who have contributed to this review during a difficult time for many.

Box 1.4 **Conduct of the review**

In conducting this review, the Commission:

- upon receipt of the reference, advertised the review on its website, in newspapers and in an initial circular, which was distributed to potentially interested parties
- released an issues paper on 22 November 2019, which expanded on the terms of reference (ToR) and invited participants to lodge written submissions by 20 December 2019
- held face-to-face meetings (before March 2020) and phone discussions with each State and Territory government department responsible for managing its VET system, the Australian Government's Department of Education, Skills and Employment, other government agencies including the National Centre for Vocational Education Research, VET providers, educators, academics, unions, and a range of employer and industry associations, to gain a better understanding of the VET sector (appendix A lists these visits and discussions)
- released an interim report on 5 June 2020, which focussed on ToR 2, 3 and 5 as required by the Australia Government, and invited further submissions
- convened roundtables in July 2020 with a range of stakeholders, and formed focus groups to discuss apprenticeships, foundation skills and user-centred models. A roundtable with representatives of RTOs was also held, to discuss fees and subsidies, quality management and user choice
- held further one-to-one meetings with stakeholders, including governments, education policy experts and industry representatives, to elicit further feedback on the interim report.

In total, the Commission met or held discussions with more than 500 people. Some 158 submissions were received, including 63 before the interim report and 95 for the final report. Participants also made 18 brief comments on the review's website. Appendix A lists the people and bodies who engaged with the Commission during the review.

The ToR stipulated that the Commission should provide an interim report by March 2020 and the final report by mid-November 2020. Disruptions associated with COVID-19 contributed to extensions to the timeframe for both the interim report and this final report.

Relationship between the interim and final report

As requested by the Australian Government, the Commission released an interim report in June 2020, focussing on three particular terms of reference — streamlining and coordination options, the funding and pricing of VET courses, and government investment in VET (ToR 2, 3 and 5).

In relation to those ToR, this final report includes recommendations for reform, based on further evidence, analysis and feedback from participants on the options and analysis in the interim report.

However, for some of the other ToR, the Commission has not had the benefit of receiving feedback on its views in the form of responses to a draft or interim report. While the Commission has undertaken extensive consultation on those ToR to reduce this information gap, inevitably its views on these matters are less well tested.

Dealing with other challenges

The review has faced further challenges.

Chief among these has been the pandemic. On the one hand, as the South Australian Government noted, the need for updating and clarifying reform priorities ‘has intensified as a result of the COVID-19 crisis which is having significant short-term disruption and long-lasting impacts on the sector and economy’ (sub. IR139, p. 3). On the other hand, the uncertainty created by the pandemic makes this harder to do. To the extent possible, the Commission has considered the potential implications of COVID-19 on the policy options assessed in this report.

Another challenge has been the reluctance of governments to furnish this review with some relevant data they hold. Several State and Territory governments have not disclosed price and student fee data, some have withheld data that could shed light on the performance of TAFEs in their jurisdiction, and the Commonwealth did not provide data on the VET Student Loans program. In these circumstances, the Commission has generally recommended that the jurisdictions themselves undertake (and publish) the relevant analysis, or supply third parties with the data to enable them to do so, and indicated how the results could inform future VET policy.

The shifting VET policy environment has posed questions for the review. The Commission has had regard to recent policy announcements, including the high-level reform directions and timing set out in the HoASR. In some instances, the analysis in this final report may help governments to ‘flesh out’ the details of announced reform directions.

PART B — THE VET SYSTEM

2 The VET system

Key points

- Australia's vocational education and training (VET) system delivers nationally recognised training to more than 4 million students a year. Students use VET to gain skills and qualifications to enter the workforce, upskill in their current job and reskill for a change of career.
- Undertaking VET is one option to acquire skills — other options include higher education and unaccredited learning (including informal workplace learning).
- Most training involves nationally recognised programs which can lead to a Certificate or Diploma-level qualification. Many students also study standalone subjects, often to satisfy regulatory requirements.
- In 2019, the Australian, State and Territory governments invested about \$6.4 billion in VET. Most of this funding is spent subsidising the delivery of training by registered training organisations (RTOs).
 - Total real government funding for VET has fallen over the past decade (largely due to reduced State and Territory spending) but funding per full-time student has been stable and is comparable to funding for school and university students.
 - Although private RTOs delivered 60 per cent of training hours, public RTOs receive over 70 per cent of public funding to deliver training.
- The VET system is highly-managed by governments.
 - Governments seek to steer students into priority courses by using subsidies to lower student fees. RTOs are primarily regulated through national product and quality regulation.
- There is a reasonable degree of competition in the VET system. Most students (87 per cent) have a choice of RTO. Further, about 30 per cent of students study in highly competitive markets and 20 per cent in moderately competitive markets, based on the level of market concentration.
 - However, 50 per cent of students train in high-concentration markets with less potential for competition. These are often 'thin markets' with limited local demand for particular courses. Nevertheless, some of these markets have low barriers to entry and are therefore contestable.
- Some State governments have introduced policies (such as Free TAFE) to increase VET enrolments at public RTOs. While these policies increase training at public RTOs, some of this growth may simply reflect a switch from private RTOs, crowding these RTOs out of some markets and ultimately reducing contestability and student choice.
- Most VET graduates remain satisfied with the quality of their training. In contrast, employer satisfaction fell over the past decade and fewer employers are using the VET system.
 - Despite claims to the contrary, student outcomes tend to be similar between public and private RTOs.

Australia's vocational education and training (VET) system is a pillar of Australia's post-school education system. Nearly one quarter of Australians aged 15–64 years participated in VET in 2019 (NCVER 2020h).

VET offers a diverse range of training, from foundation skills to Advanced Diplomas, from highly-technical classroom training to on-the-job experience. The system provides the core skills and formal qualifications required for many occupations as well as courses to meet regulatory requirements. There are many parties involved in the VET system (figure 2.1).

Figure 2.1 Overview of the VET system



^a Includes the national regulator (Australian Skills Quality Authority) and two State-based regulators (Victorian Registration and Qualifications Authority and Training Accreditation Council Western Australia). ^b Includes the Australian Industry and Skills Committee, Industry Reference Committees and Skills Service Organisations. ^c Includes the National Centre for Vocational Education and Research and VET Student Loans Ombudsman.

Source: Based on Joyce (2019, figure 1.5).

This chapter describes:

- the training options offered by the VET system (section 2.1)
- the student cohorts and employers who use VET (section 2.2)
- the types of providers that deliver VET (section 2.3)
- the system's funding arrangements (section 2.4)
- how governments manage VET markets (section 2.5)
- the trends in outcomes for students and employers (section 2.6)
- recent developments affecting VET, including the impacts of COVID-19 (section 2.7).³

2.1 What does the VET system offer?

VET students may undertake different types of nationally recognised training (box 2.1).

- ‘Nationally recognised programs’ (programs) — training that meets the approved course descriptions (including the competencies to be achieved), course and provider standards and accreditation arrangements that have been developed for VET. Most programs are full training package qualifications which award a student a Certificate or a Diploma on completion. Fifty per cent of VET students were enrolled in programs in 2019, making up 85 per cent of training hours (NCVER 2020h).
- ‘Subjects not delivered as part of nationally recognised training programs’ (subjects) — usually individual units to learn a particular skill, short courses (for example, first aid), or required by regulation for particular jobs. In 2018 about 35 per cent of VET students were enrolled in first aid/CPR subjects and about 4 per cent were enrolled in responsible service of alcohol subjects (Commission analysis of NCVER (2019b)). Sixty three per cent⁴ of students were enrolled in programs in 2019, making up 15 per cent of training hours.

³ While the COVID-19 pandemic has not (yet) affected the structure of the VET system, there is significant uncertainty as to how it is affecting, and will affect, activity within the system. Most data used in this chapter do not yet reflect the impacts of the pandemic, but early data on trends are used where possible.

⁴ Enrolments in programs and subjects add up to more than 100 per cent as students can enrol in multiple programs and subjects.

Box 2.1 **Types of nationally recognised training**

Programs

- **Training package qualifications** — built up of units of competency and skill sets specified in a national training package. For example: Certificate III in Business Services; Diploma in Graphic Design.
- **Training package skill sets** — based on groupings of units of competency that are combined to meet industry needs or a licensing or regulatory requirement. For example: assist clients with medication; work zone traffic control; food safety supervision. Skill sets can also be used to build toward a full training package qualification.
- **Accredited qualifications** — courses that lead to a qualification but are not specified in a national training package. For example: Diploma of Business (Public Relations); Certificate II in Small Business (Operations/Innovation).
- **Accredited courses** — courses accredited by VET regulators that sit outside the training package process. For example: Aboriginal hospital liaison officer; basic earthmoving.

Subjects

- **VET subjects** — stand-alone subjects or nationally recognised subjects delivered as part of a non-nationally recognised program. For example: responsible service of alcohol; first aid; resuscitation.

Sources: NCVER (2019k, 2020h).

VET is an important option for acquiring skills

VET is part of the tertiary education system, along with higher education. VET courses occupy the first six qualification levels in the Australian Qualifications Framework (AQF), ranging from a Certificate I (level 1 of the AQF) to an Advanced Diploma (level 6). In contrast, higher education generally offers courses from levels 7 through to 10.

In 2019, six in ten school leavers were enrolled in VET or higher education (ABS 2019). Almost one third of working-age Australians hold a VET-level qualification as their highest level of qualification (figure 2.2). The proportion of Australians with higher education qualifications increased steadily over the past decade and may soon overtake VET.

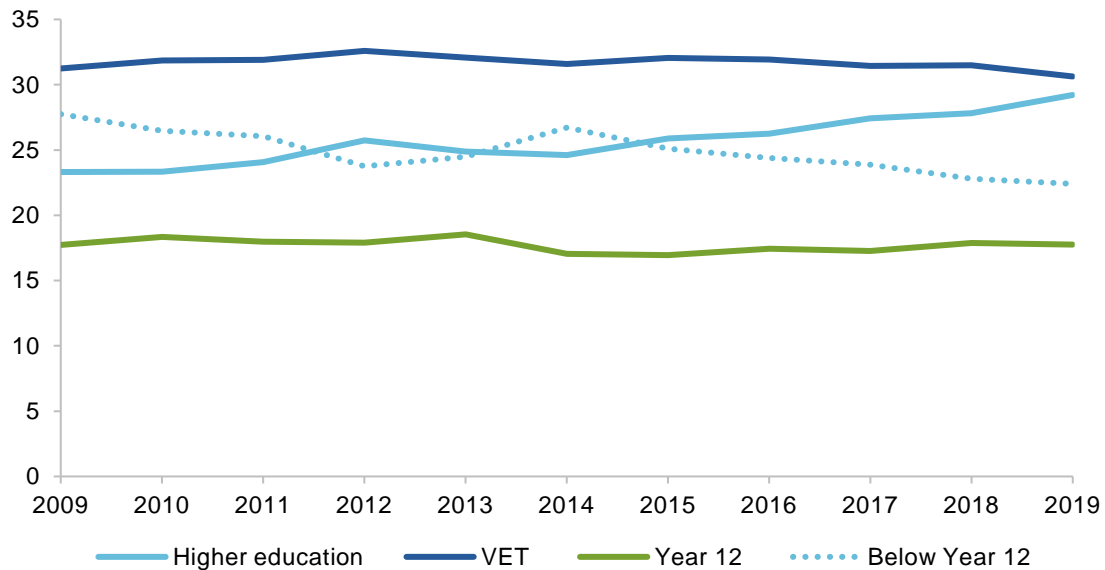
The Australian Government is primarily responsible for higher education while responsibilities for VET are shared with State and Territory governments (chapters 4 and 5). Policies in one sector often affect the other, such as the shift to demand-driven university policy earlier in the decade, which led to many students undertaking higher education when VET study would likely be more appropriate (box 2.2).

The VET system also sits alongside unaccredited learning, such as learning on-the-job from peers or training that does not lead to a formal qualification. A recent OECD study estimated that about 60 per cent of Australian workers engaged in unaccredited learning over a 12-month period, compared with just 15 per cent who trained toward a formal qualification

(Fialho, Quintini and Vandeweyer 2019). In Australia, employers are more than twice as likely to train their employees through unaccredited learning than VET (NCVER 2019b, table 5), and tend to be more satisfied with unaccredited learning (NCVER 2019b, table 7).

Figure 2.2 Many Australians have VET qualifications

Per cent of working-age Australians by their highest level of qualification



Source: ABS (*Education and Work, Australia, May 2019, cat. no. 6227.0*).

Box 2.2 University is not for everyone

From 2010 to 2017, the Australian Government expanded access to higher education by increasing government-funded places and extending support for most domestic undergraduate students. These reforms saw the number of students studying Bachelor Degrees increase by a third.

Many of these ‘additional’ students were less likely to succeed. Two thirds had an Australian Tertiary Admission Rank (ATAR) below 70 or received no ATAR at all. Students with an ATAR below 60 were about half as likely to complete an undergraduate degree within four years as those with an ATAR of 90 or above. About one fifth of additional students dropped out by age 23.

In its 2019 research paper on the demand-driven university system, the Commission noted that many students may have pursued a university education due to the deep-seated problems in the VET system. This was despite VET students having very good, and sometimes better, labour market outcomes than university students, at least by age 25.

Source: PC (2019b).

2.2 Who uses the VET system?

Students

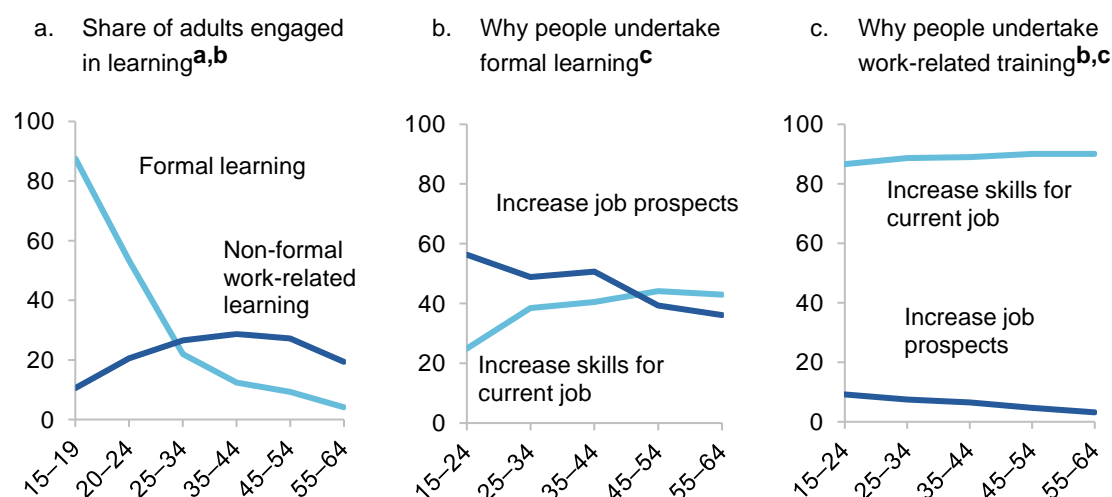
In 2019, 4.2 million students were enrolled in VET (NCVER 2020h).

Most students undertake VET to obtain a job, gain extra skills for their current job, or as a step toward a new career (chapter 6). VET also offers foundation level skills, such as literacy and numeracy (chapter 12). About 15 per cent of students undertake VET for other reasons, such as improving their general education, as a pathway to higher education or further study, or for a hobby (NCVER 2019m).

Students of all ages use the VET system to develop their skills (figure 2.3), with many accessing VET at different periods during their life. Two thirds of VET students are aged 24–64 years — a far flatter age distribution than higher education, where two thirds are aged 15–24 years (DESE 2020s; NCVER 2020o).

In 2019, about 900 000 students aged 35–55 years were studying VET to upskill or reskill for a job-related reason. About 70 per cent of these students were already employed and about 20 per cent held at least a Bachelor Degree (Commission analysis of NCVER 2020b).

Figure 2.3 Learning approaches vary over the life course
Per cent of relevant survey population by age group, 2016–17

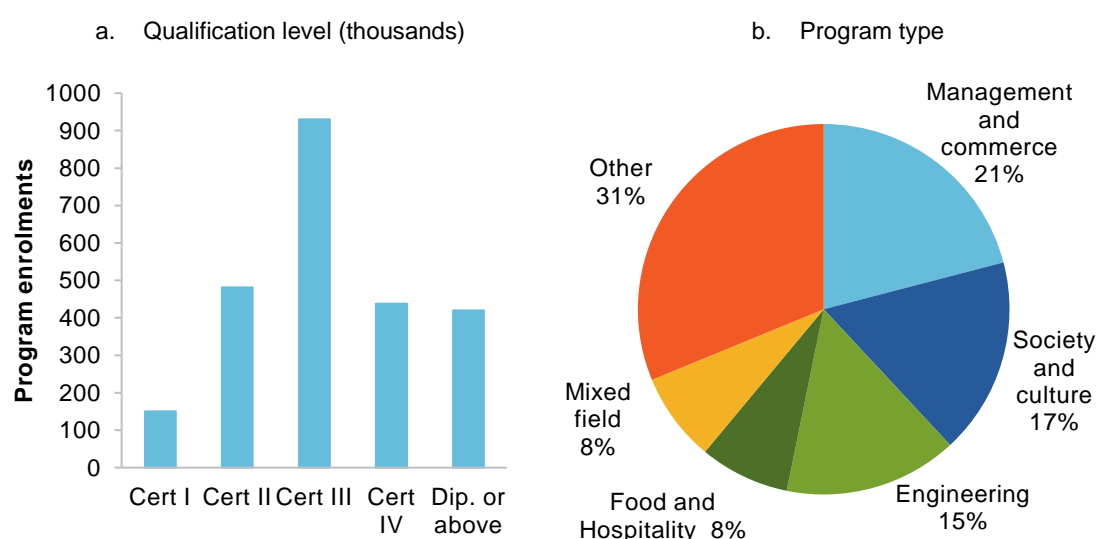


^a For panel a, the relevant population is all people aged 15–74 years. ^b In the *Survey of Work-Related Training and Adult Learning*, the ABS defines work-related training as non-formal learning undertaken to obtain, maintain or improve employment-related skills and/or to improve employment opportunities. Work-related training courses have a structured format but do not lead to a qualification. ^c For panels b and c, the relevant populations are those undertaking the specified type of learning.

Source: ABS (*Work-Related Training and Adult Learning, Australia, December 2017 Cat. no.4234.0*).

Most qualifications are completed at the Certificate III level (figure 2.4, panel a), partly reflecting that a significant number of language, literacy, numeracy, and digital literacy courses and apprenticeships are offered at this level. Management and commerce are the most common area of study (figure 2.4, panel b). The top 10 VET qualifications account for about 18 per cent of enrolments (NCVER 2020o).

Figure 2.4 Enrolments in VET programs
2019



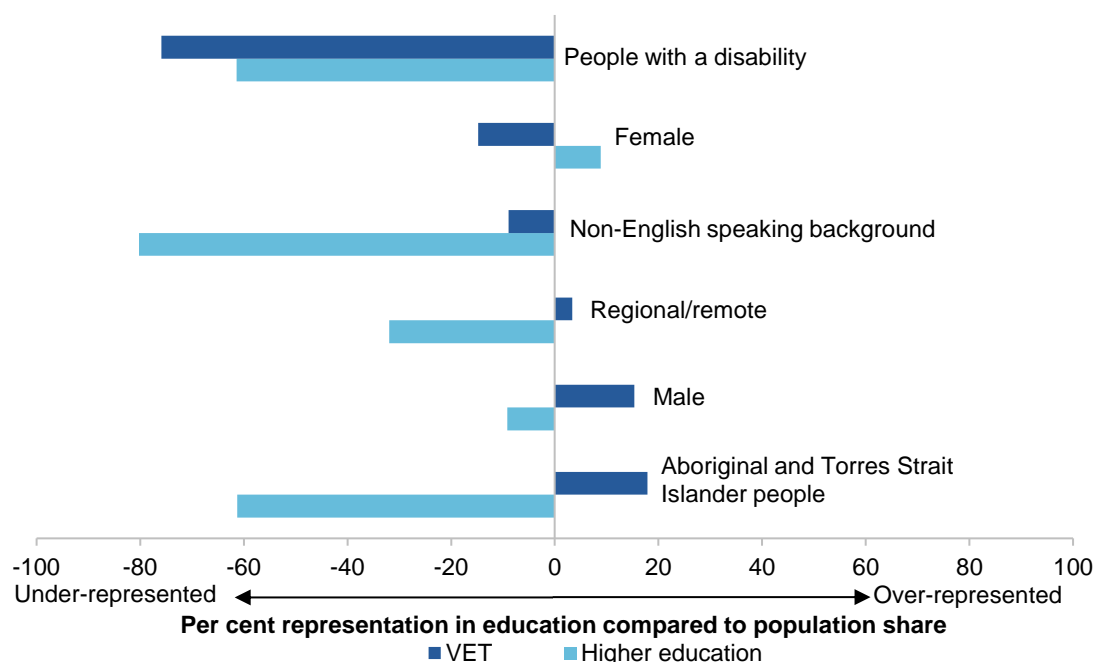
Source: NCVER (2020o).

The number of university graduates studying VET is increasing. Nine per cent of VET students had a Bachelor Degree or higher in 2015, which increased to more than 14 per cent in 2019 (NCVER 2020o).⁵

Different cohorts of students use the parts of the tertiary education sector at varying rates (figure 2.5). Aboriginal and Torres Strait Islander students and students from a non-English speaking background use the VET system at far higher rates than they use higher education. There are also gender differences; women are over-represented in higher education and under-represented in VET, whereas for men the pattern is reversed. However, women are over-represented in some VET fields, including personal services (94 per cent of students), nursing (85 per cent) and accountancy (74 per cent), while being under-represented in others, such as building (7 per cent) and electrical and electronic engineering (4 per cent) (NCVER 2020o).

⁵ Part of this increase may have been due to the recent change to VET teacher qualifications, which required about 27 000 VET teachers with higher education backgrounds to complete subjects within a Certificate IV in Training and Assessment in order to teach in the VET system (NCVER 2020o).

Figure 2.5 VET Students by background
Per cent of students in tertiary education relative to their population share^{a,b}



^a 2019. ^b The horizontal axis is the proportion of the group in the education sector divided by their overall population share. A value of 0 implies that the group is represented equally in the sector and as a share of the population.

Sources: AIHW (2018, 2019); DESE (2020s); NCVER (2020o); PHIDU (2017).

Employers

Employers use the VET system in three main ways:

- their jobs require VET qualifications (34 per cent of employers in 2019)
- to train apprentices (23 per cent)
- to provide employees with nationally recognised training (20 per cent) (figure 2.6, panel a).

The main reason why employers provide employees with nationally recognised training is to meet legislative, regulatory or licensing requirements, or to provide their workers with skills for their job (figure 2.6, panel b).

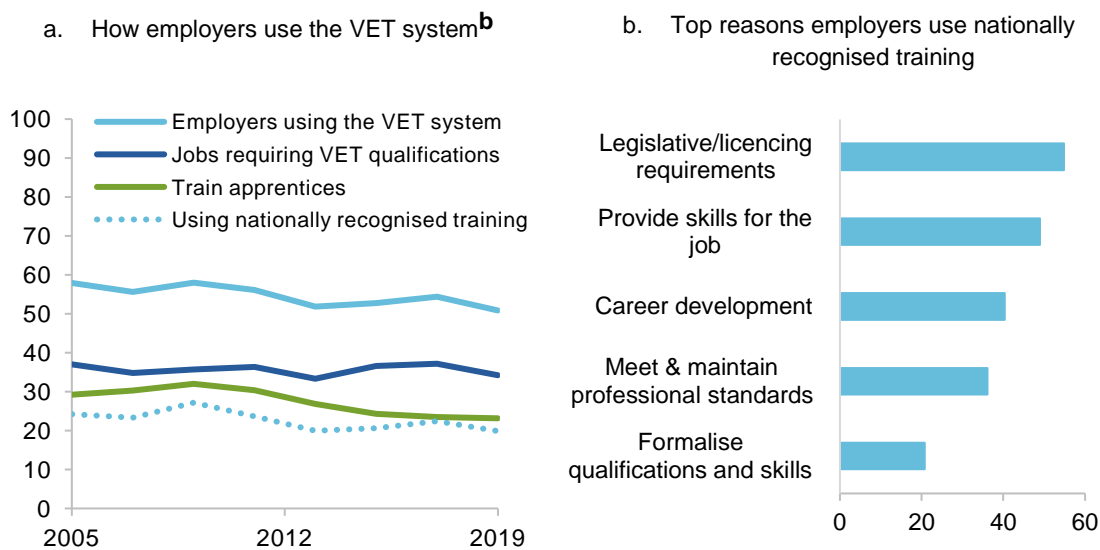
However, employer use of VET has declined over time (figure 2.6, panel a).

VET is used more by some employers than others. More than 40 per cent of the construction, mining and manufacturing workforces have VET qualifications (figure 2.7). Large employers are also more likely to use the VET system — in 2019, 82 per cent of large

employers used VET, compared with 66 per cent of medium employers and 45 per cent of small employers (NCVER 2019c).⁶

The connection between the employer and the VET system is strongest in the apprenticeship system, where employers provide on-the-job training to complement institution-based training (chapter 11).

Figure 2.6 How and why employers use the VET system
Per cent of employers^a

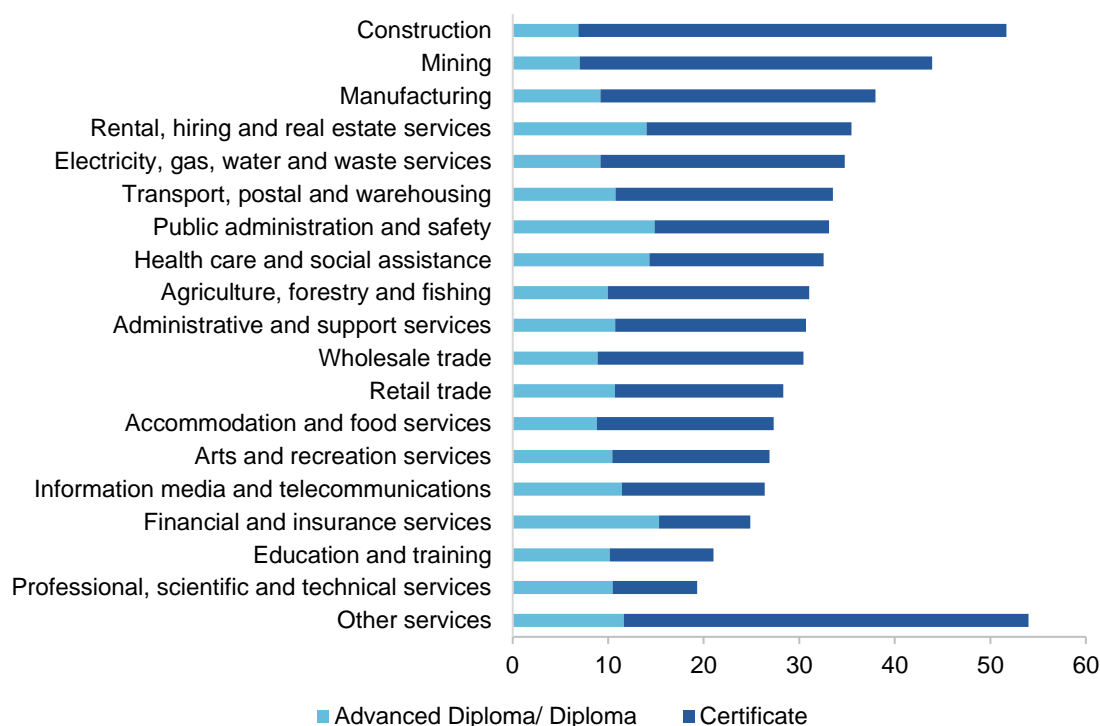


^a Numbers do not add up to 100 per cent as employers can report for more than one category. ^b 'Employers using the VET system' refers to the proportion of employers who meet any one of the three categories.

Source: NCVER (2019c).

⁶ Employer size defined as: large (over 100 employees); medium (10–99 employees); small (1–9 employees).

Figure 2.7 Proportion of workers in different industries with VET as their highest qualification
By industry, 2018



Source: ABS (*Education and Work, Australia, May, cat. no. 6227.0 2019*).

2.3 Who provides VET?

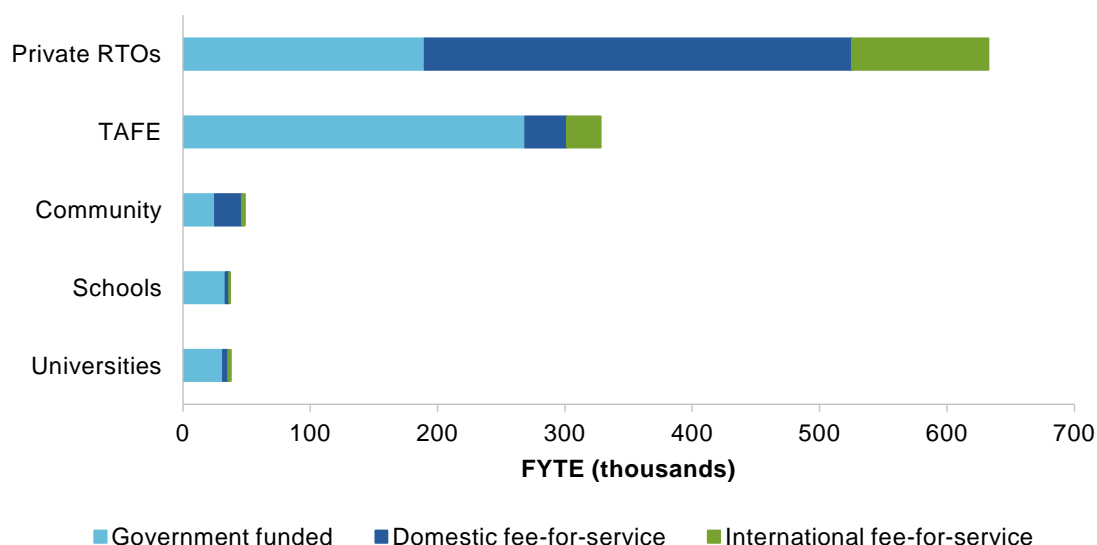
Registered training organisations (RTOs) deliver VET. There are more than 4000 active RTOs (Australian Government 2019d). RTOs may be public (TAFEs, universities, and schools), private (including enterprise providers or private businesses) or community organisations.

Most training hours are delivered by private RTOs (59 per cent) and TAFEs (30 per cent) (figure 2.8). Nearly three quarters of students attend private RTOs. Enrolments and training loads have declined for both groups since 2015, although private RTOs made up some of the loss of domestic students by increasing the number of international students (at least before the COVID-19 pandemic in 2020) (NCVER 2020o).

TAFEs provide a highly diversified set of training programs. Trudzik (2015) found that a typical TAFE offered between 100 and 500 qualifications, compared with more than 3500 RTOs that offered only 15 or fewer accredited qualifications. The number of TAFEs decreased from 98 in 1996 to 35 in 2018, largely due to administrative amalgamations and consolidations (not necessarily campuses) particularly in New South Wales, Victoria, South Australia and Western

Australia (Korbel and Misko 2016; SCRGSP 2020b, table 5A.7). The number of TAFEs further declined in 2019 when New South Wales consolidated all 11 of its TAFEs into one (table 2.1; TAFE NSW nd). The consolidation of TAFEs has occurred at the same time as private RTOs have become more specialised (Schubert and Goedegebuure 2017).

Figure 2.8 Private RTOs deliver most training



^a Full year training equivalent (FYTE) refers to a yearly full-time load of VET study, or 720 hours.

Source: NCVER (2020h).

Table 2.1 TAFEs by jurisdiction

<i>Jurisdiction</i>	<i>Number of TAFEs (2019)</i>	<i>Public RTO funding^a (per cent, 2019)</i>	<i>Program enrolments (per cent, 2019)</i>	<i>Name of the largest TAFE</i>
NSW	1	80	38	TAFE NSW
Vic	12	67	29	Chisolm Institute
Qld	2	58	18	TAFE QLD
SA	1	65	44	TAFE SA
WA	5	83	35	North Metropolitan TAFE
Tas	1	84	40	TASTAFE
NT	2	77	10	Batchelor Institute
ACT	1	80	40	Canberra Institute of Technology (CIT)

^a VET delivery and capital funding.

Sources: NCVER (2020o, 2020f); SCRCSP (2020b).

Private RTOs are generally smaller than TAFEs — in 2017 almost 90 per cent of non-school RTOs that had fewer than 100 students were private. Students at private RTOs tend to be older and from a higher socio-economic background than students attending TAFEs.

While large RTOs can offer a wider range of courses, small RTOs may offer a more personalised learning experience. Small RTOs tend to offer more specialised programs (such as performing arts, theology, religious ministry, and yoga) and have a higher proportion of students studying Diplomas and Advanced Diplomas (Korbel and Osborne 2019).

Some participants argued that private RTOs primarily deliver low-cost, high-volume subjects, whereas public RTOs serve as ‘providers of last resort’, delivering subjects that would otherwise not be offered in the VET system on a for-profit basis. For example, Feldman (sub. 83, p. 2) stated:

... private RTOs ‘cherry-picked’ courses that were in high demand, required minimal capital expenditure and infrastructure to deliver, and that could be taught by minimally qualified instructors. This is apart from the problem of rogue RTOs delivering substandard education and in some thousands of instances entirely worthless qualifications.

The Commission has found evidence that private RTOs deliver, on average, low-cost courses. About 72 per cent of high-cost subjects are delivered by public RTOs, which is about three-times their market share (Commission estimates based on IPART 2013). High-cost subjects make up about 2 per cent of all TAFE activity, compared with about 0.4 per cent at private RTOs. The Commission estimates that the average variable cost of TAFEs is about 20 per cent higher than private RTOs.⁷

It is difficult to determine the cause of these differences in costs. One possibility is that it is driven by regulatory constraints or course restrictions which prevent private RTOs from competing with TAFEs for the delivery of these courses.

2.4 How is VET funded?

Governments, students, and employers fund VET. Most training hours are delivered in the government-funded training market, where governments subsidise student fees (sometimes entirely). Alternatively, students or their employer may pay for some or all their training, with no government subsidy, in the fee-for-service market.

Employers often pay for some or all of their employees’ expenditure on VET, such as paying an apprentice for part of their off-the-job training (chapter 11). In 2001-02, the last period that data were recorded, employers spent \$3.7 billion on formal and informal training (ABS 2003).⁸ This figure is large enough to suggest that employer contributions to training

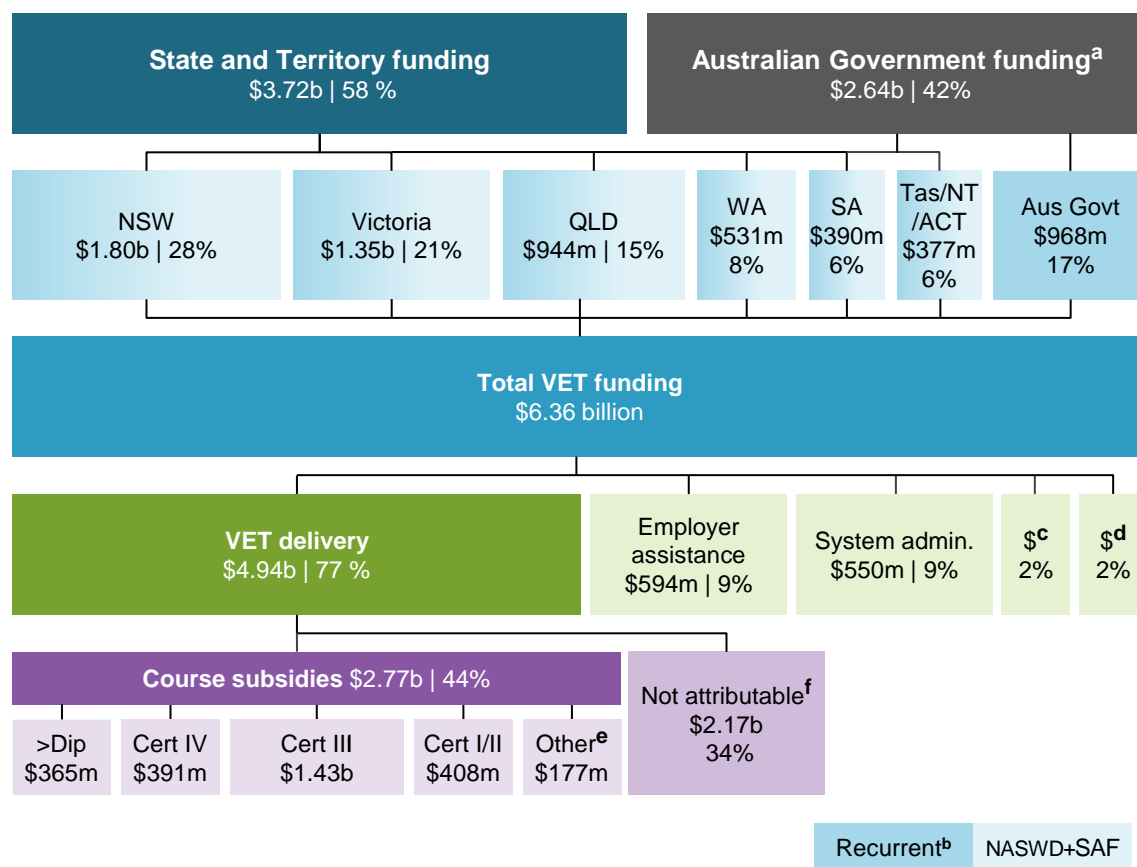
⁷ The Commission’s estimates of whether a subject is ‘high cost’ are based on a binary classification in IPART (2013) data, which estimated the variable cost per hour of delivering about 24 000 VET subjects (covering about one-third of subjects delivered in 2018).

⁸ The ABS *Survey of Employer Training Expenditure and Practices in Australia* was discontinued in 2003.

may outweigh contributions by governments. Today, however, little is known about the overall value of private contributions to training from employers or students.

Governments fund VET for many reasons, such as alleviating skills shortages, public benefits that are not captured by private returns (such as reduced crime and higher taxation) and creating a more productive workforce and cohesive community (chapter 3). In 2019, Australian, State and Territory governments provided about \$6.4 billion to the VET system (figure 2.9). The majority of government funding subsidises the cost of VET delivery.

Figure 2.9 Funding of VET, 2019



^a Excludes Government provisions for VET loans. ^b On the second row, the darker shades relate to recurrent funding for each jurisdiction. ^c Capital funding accounts for approximately \$181 million. ^d Student assistance accounts for about \$149 million. ^e Other programs include non-award programs, skill sets, bridging courses and enabling courses not identifiable by level. ^f Funding not attributable by level of education captures costs associated with training delivery, support and administration, and operational base funding. SAF stands for Skilling Australians Fund

Source: NCVER (2020f).

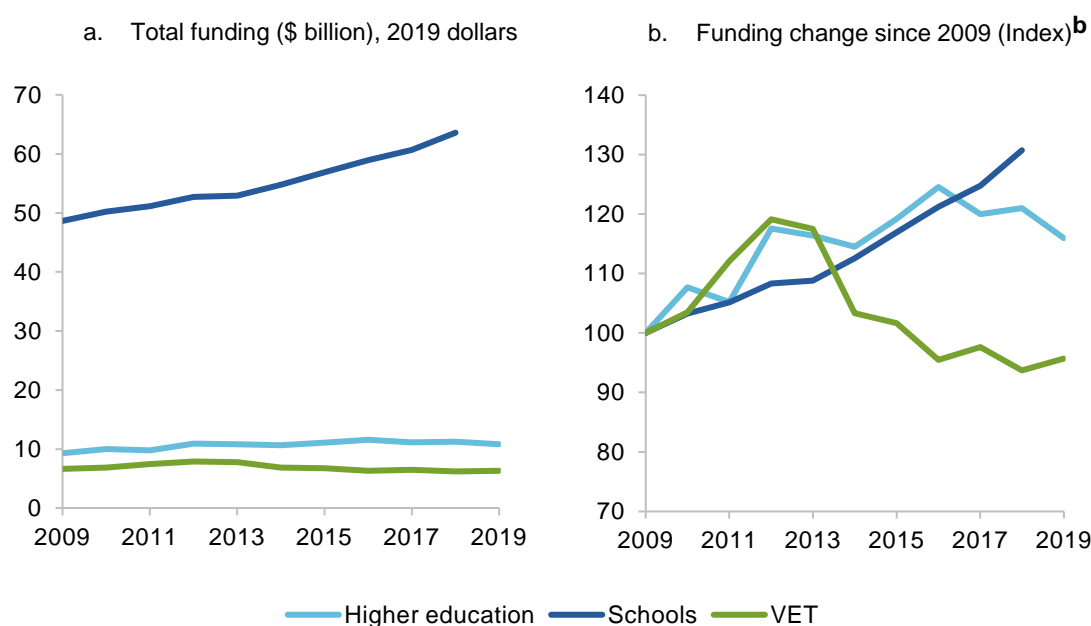
In the same year, the Australian Government also provided about \$500 million in VET Student Loans and Trade Support Loans. Although loans are not technically funding — as they are mostly repaid by the student — they do represent some cost to government in two respects. First, some portion of loans is not expected to be repaid, creating an implicit subsidy

to the student. Second, there is an opportunity cost to these loans — as the funds could be spent or invested elsewhere — particularly as the real interest rate on government student loans in Australia is zero. These issues are discussed further in chapter 10.

Some review participants expressed concern about the decline in funding provided to the VET system (for example, AEU, sub. IR104; MBA, sub. IR147; Zoellner, sub. 4). Some argued that the recent trend in VET funding was not in line with higher education (for example, ACCI, sub. 33). While both make up the tertiary education sector, the two systems have structural differences. For example, higher education receives funding for reasons unrelated to education provision, such as research, and is almost entirely funded by the Australian Government. Furthermore, loan arrangements are more generous for higher education (chapter 10).

Figure 2.10 compares recent trends in total real funding across education sectors.⁹

Figure 2.10 Total funding in VET, higher education and schools^a



^a VET and higher education funding are reported in annual years, schools funding is reported in financial years. Does not include the value of loans. ^b Index where 2009 = 100.

Sources: Commission estimates based on SCRGSP (2020a) and unpublished DESE data.

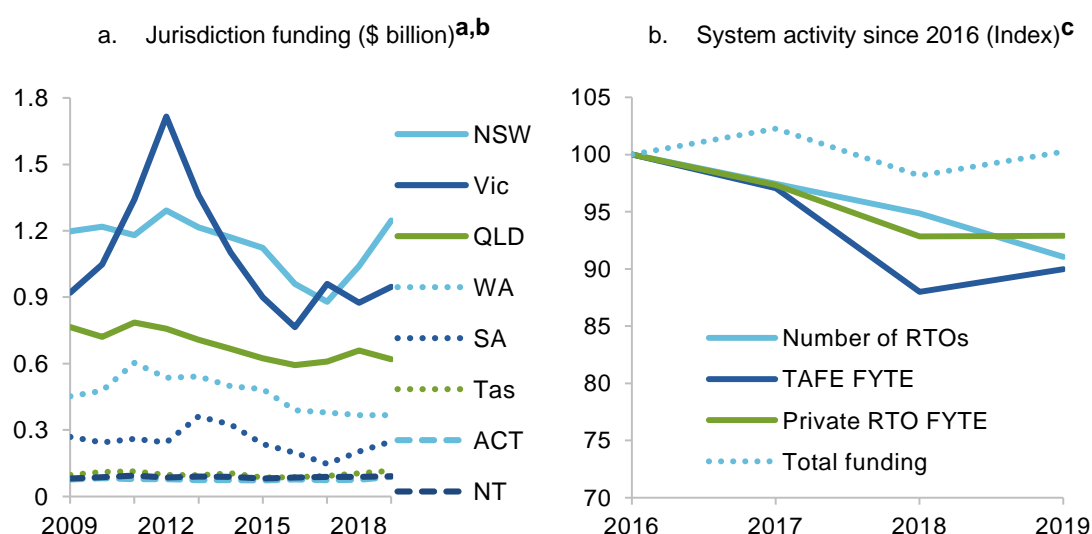
VET funding surged at the start of the decade at a rate faster than schools and higher education funding, likely due to governments implementing reforms to VET such as a training entitlement, after the signing of the *National Agreement for Skills and Workforce Development* (NASWD) (chapter 4). However, funding declined from 2012 to 2016 (figure 2.10, panel b) due to a rolling back of the training entitlement (due to budget blowouts) and the experience

⁹ Real funding is calculated by inflating each year's funding value to 2019 dollars using the gross domestic product chain price deflator (index) as recorded in the ABS system of national accounts.

of VET FEE-HELP (chapters 4 and 10) — leading to a reduction in State and Territory government funding (figure 2.11, panel a). Since 2016, total funding has stabilised — reflecting a reversal of the downward trend in some jurisdictions (figure 2.11, panel a), largely offset by a decline in Australian Government funding (NCVER 2020f).¹⁰

In parallel, there has been a decline in both the number of students and RTOs in the VET system (figure 2.11, panel b).

Figure 2.11 Funding and training activity



a Real recurrent funding in 2019 dollars. **b** Since 2017, there has been a change in how data are recorded. Some caution should be used when comparing figures before and after this period. Victoria's recurrent funding in 2012 was above usual levels due to the Victorian Training Guarantee. **c** Index where 2016 = 100. Full year training equivalent (FYTE) refers to a yearly full-time load of VET study, or 720 hours.

Sources: Commission estimates based on NCVER (2019j, 2020f) and SCRGSP (2018, 2020a).

VET funding per full year training equivalent (FYTE) is similar to what it was at the start of the decade (figure 2.12).¹¹ Further, a full-time VET student receives broadly comparable public funding to a full-time higher education or school student.¹²

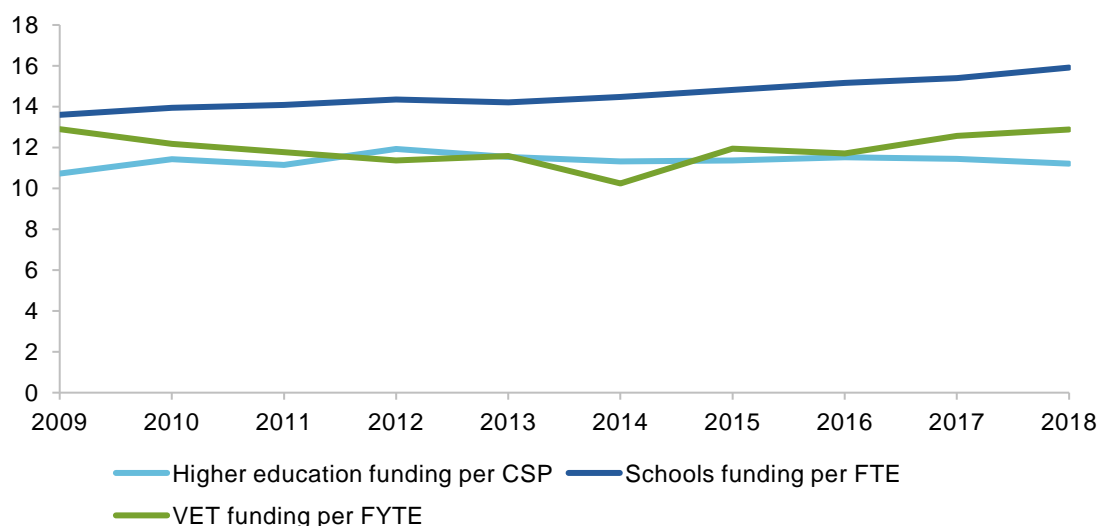
¹⁰ Australian Government funding increased year-on-year for most of the decade until 2017 (NCVER 2019d; SCRGSP 2018, 2020b).

¹¹ The dip in VET funding per FYTE in the middle of the decade appears largely attributable to an increase in the overall enrolment numbers, partially due to VET FEE-HELP.

¹² This comparison of funding levels per student is based on each sector's method of calculating funding to full-time, government supported students. These methods are: FYTE funding for VET students, equal to 720 hours of annual study; Australian Government Contribution per Commonwealth Supported Place Funding for higher education students; and FTE funding for school students.

Figure 2.12 Real funding per student for VET is broadly comparable to university and school students^a

2018 dollars (thousands)



^a CSP refers to Australian Government contribution per Commonwealth Supported Place. Full year training equivalent (FYTE) refers to a yearly full-time load of VET study, or 720 hours. FTE is full time equivalent study for school students. As governments' methods of funding differs across sectors, caution is needed in making direct cross-sector comparisons.

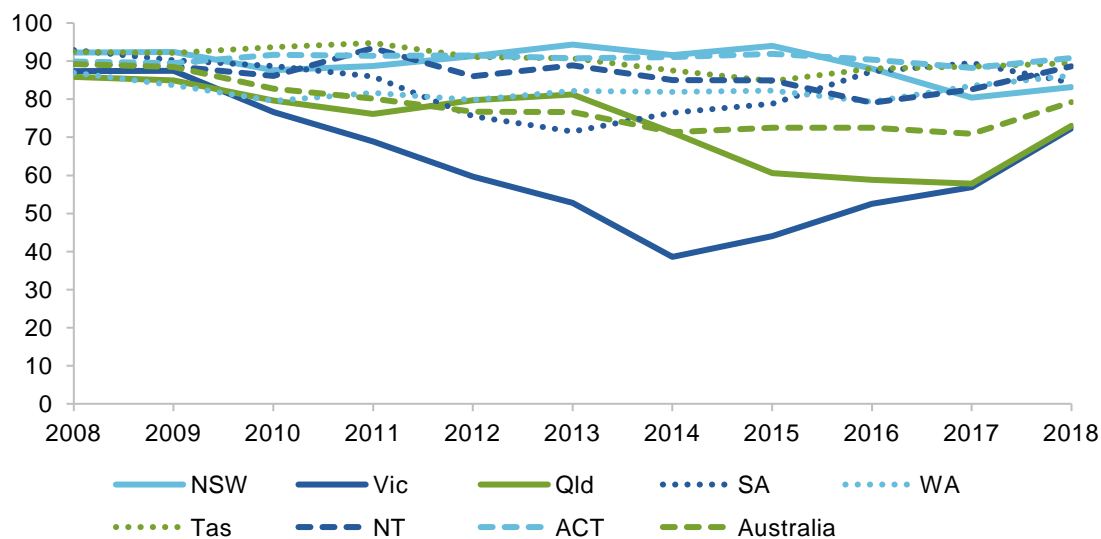
Sources: Commission estimates based on SCRGSP (2018, 2020b) and Universities Australia (2020).

Some participants are particularly concerned with the amount of funding received by public RTOs. Several expressed a belief that TAFEs provide better quality training and student outcomes, are the backbone of the VET system, and should therefore receive a minimum of 70 per cent of all government VET funding (AEU, sub. IR104; Buchanan, sub. IR151; ETU, sub. IR118). However, some evidence suggests that TAFEs produce similar outcomes to private RTOs (section 2.6). Further, in 2018, TAFEs in all jurisdictions already received over 70 per cent of government appropriations and program funding,¹³ and in all but two jurisdictions (Victoria and Queensland) their funding has not fallen below this level over the past decade (figure 2.13).

¹³ In 2019, public providers also received 72 per cent of delivery and capital funding (NCVER 2020f).

Figure 2.13 TAFEs continue to receive most funding

Payments to TAFEs as a percentage of government appropriations and program funding



Sources: SCRGSP (2018, 2020a).

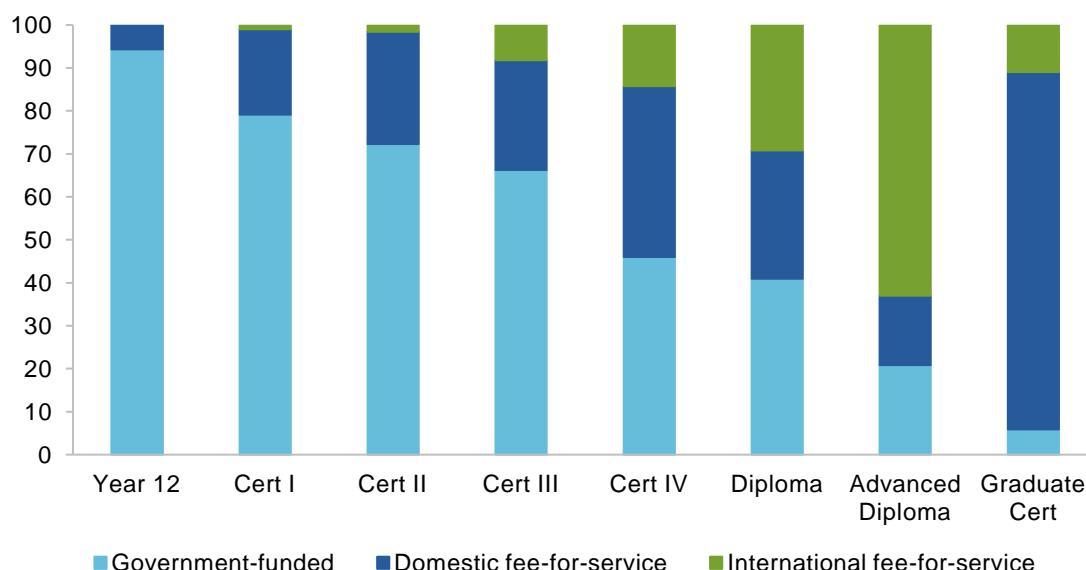
Fee-for-service training

Many students undertake fee-for-service training in the VET system. This may be because a subsidy is not offered for their preferred RTO or course, or because government-funded places in their course may be limited.

In 2019 about 3.1 million domestic VET students (about three quarters of all VET students) accessed at least one fee-for-service course (NCVER 2020h). The proportion of fee-for-service training is greater for higher-level qualifications (figure 2.14).

Figure 2.14 The proportion of fee-for-service training is greater for higher-level qualifications

Per cent of students in training by AQF level and funding source, 2019



Source: Commission estimates based on NCVER (2020b).

Fee-for-service training differs from government-funded training in several ways — it:

- is mainly provided by private RTOs. In 2019 private RTOs delivered 79 per cent of fee-for-service subjects compared with only 33 per cent of government-funded subjects
- caters to, on average, older students (median age 30 compared with 23)
- has a lower proportion of Aboriginal and Torres Strait Islander students (Commission analysis of NCVER 2020b).

Despite these differences, in many parts of the system, fee-for-service and government-funded training are substitutes. Most RTOs deliver both fee-for-service and government-funded training, often for the same course. For example, in the most popular VET qualification — Certificate III in Individual Support — about 62 per cent of RTOs had both fee-for-service and government-funded students in 2019. Students also undertake many of the same courses in both markets — for example, nine qualifications are in the top 20 courses (by enrolment) for both the fee-for-service and the government-funded sectors.

There is also a significant international fee-for-service market in VET. In 2019, there were just over 2.7 million international VET subject enrolments. About three quarters of international students studied at private RTOs (NCVER 2020o).

2.5 How VET markets function

VET markets are highly managed by governments

The VET system has evolved over time (chapter 1). Since the mid-1990s, governments have moved to using contestable markets to increase competition between RTOs to improve outcomes for students (chapter 3).

Governments heavily influence demand, primarily through subsidies to RTOs (77 per cent of total government funding) and incentives for employers to hire apprentices (9 per cent) (NCVER 2020f). Government funding is concentrated in courses that governments consider provide greater public benefits (such as in areas of persistent skills shortages) and to support social policy objectives (such as targeting students experiencing disadvantage or at risk of exclusion from the labour market). State and Territory governments also manage demand through priority skills or occupations lists, as well as caps on the number of subsidised places offered for particular courses or RTOs. The Australian Government similarly limits its provision of loans depending on qualification level, RTO and course type.

Supply is regulated through national product and quality regulation which involves ‘three pillars’ of quality assurance.

- The *Australian Qualifications Framework*, which regulates VET qualifications (Certificate levels I to IV, Diplomas, Advanced Diplomas, Graduate Certificates and Graduate Diplomas)
- The *VET Quality Framework*, which sets minimum requirements for RTOs and promotes national consistency in the way RTOs are registered and monitored, as well as the enforcement of standards in the VET system.
 - The Australian Skills Quality Authority (ASQA) regulates RTOs in Australia across jurisdictions. The exceptions are Victoria and Western Australia who use the Victorian Registration and Qualifications Authority, and the Training Accreditation Council Western Australia, respectively. Nevertheless, all regulators operate under the same framework for regulating RTOs and accrediting courses.
 - ASQA is solely responsible for regulating RTOs operating across jurisdictions and training international students.
- *National structures and processes* to manage the development and approval of nationally recognised training packages, comprising:
 - the Skills National Cabinet Reform Committee (previously the COAG Skills Council)
 - Australian Industry and Skills Committee
 - Industry Reference Committees
 - Skills Service Organisations and Skills Organisations
 - various other industry, government, and sector representatives (chapter 7).

State and Territory governments use funding contracts to impose additional requirements on RTOs receiving government funding.¹⁴ For example, the New South Wales and Western Australian Governments fix the price and student fee charged for government-funded training (chapter 9). RTOs that provide fee-for-service training are not subject to these requirements, giving them greater flexibility in delivering courses and setting fees. Funding is contestable at varying rates across jurisdictions (chapter 4).

The roles of governments in VET markets are examined in chapter 3.

Competition in the VET system

The Commission analysed levels of concentration in VET markets to understand competition across the system. VET markets were defined by the substitutability between types of study programs offered within ABS-defined geographic boundaries (box 2.3).

However, in reality, the lines between markets are blurred. On the one hand, some students may be more willing to substitute one program for another, travel across geographic boundaries or make use of online programs. This may understate the level of competition in VET markets. On the other hand, some regional areas may be so large that many RTOs do not realistically compete with one another, thus overstating competition.

The Commission's analysis shows that:

- about 30 per cent of students train in low-concentration markets (which are highly competitive with many RTOs and no one RTO having a dominant market share)
- about 20 per cent train in moderate-concentration markets
- the remaining 50 per cent of students train in high-concentration markets, typically dominated by one or two large RTOs (which may or may not be competitive depending on other factors).

Most high-concentrated VET markets tend to have a very small number of students. The median high-concentrated market had just 39 students, compared with 1219 students in the median low-concentrated market (figure 2.15). Private RTOs and TAFEs have a similar market share of concentrated markets (41 per cent and 40 per cent).

¹⁴ Contracts typically specify measures to ensure the delivery and quality of services, and expectations on the charging of fees. State and Territory governments differ significantly in their approaches to subsidising courses and controlling their prices (chapter 8 and appendix C).

Box 2.3 Defining a VET market and assessing its concentration

Defining a VET market

There are two dimensions to defining a market.

- The **product dimension** — the basket of products or services that people consider close substitutes. The Commission has defined this as a unique pairing of level of education (for example, Certificate III) and field of education, reasoning that programs within the same level and field are reasonable substitutes. This resulted in 349 distinct product markets.
- The **geographic dimension** — the extent that people are willing to travel for the product. The Commission has defined this as ABS Statistical Area 4 (SA4s) with major metropolitan cities counted as a single market. This resulted in 57 distinct geographic markets.

Commission analysis estimated that there are 7874 unique VET markets in Australia given some geographic areas do not offer all products.

Calculating concentration

Some markets involve competition among many RTOs. Others are concentrated around a few RTOs. Low concentration is a necessary but insufficient indicator of competition in a market. Other factors, such as low barriers to entry, may mean a market is competitive even if it is concentrated.

Concentration within a market can be measured by the Herfindahl-Hirschman Index (HHI). Following the US Department of Justice merger guidelines, a market with an HHI of:

- less than 1500 is considered to have low concentration
- 1500 to 2499 is considered to have moderate concentration
- 2500 or greater is considered to have high concentration.

The following table provides examples of markets that are perfectly or highly concentrated around one provider, and a market that has little concentration of providers.

Examples of market concentration

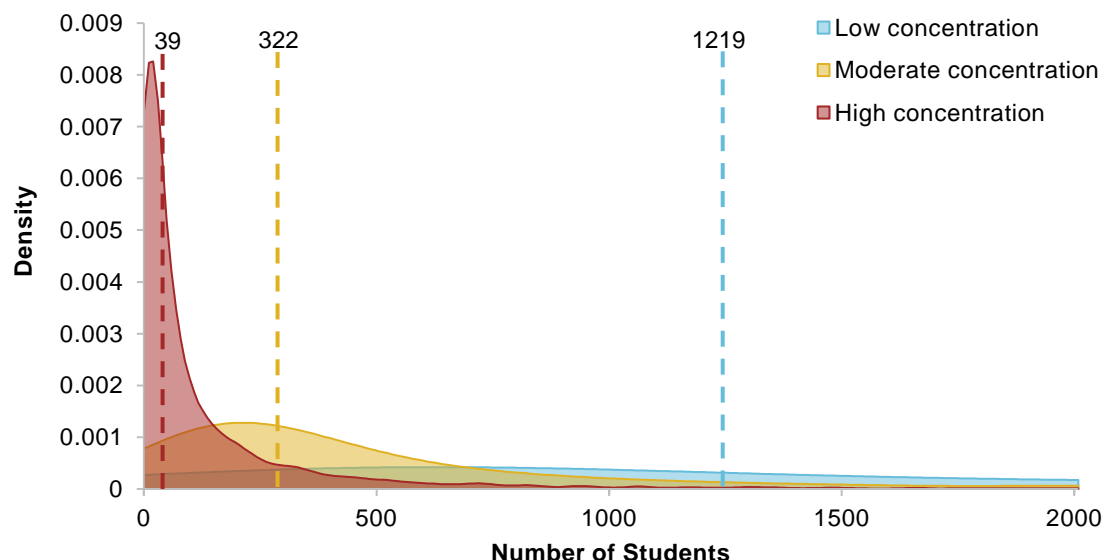
Largest market in each category (by student numbers), 2018

Geographic market ^a	Product market ^b	Market size (no. students)	Largest Provider	Market share of largest provider (per cent)
Perfect concentration (one RTO)				
Toowoomba (Qld)	Certificate I in Banking Finance and Related Fields	3 250	Private RTO	100
High concentration				
Melbourne	Certificate III in Field of Human Welfare Studies and Services	32 070	Private RTO	32
Low concentration				
Sydney	Diploma in Business and Management	36 194	TAFE	9

^a ABS SA4s, with major metropolitan cities as single markets. ^b Pairing of level and field of education.

Source: Commission estimates based on NCVER (2020b).

Figure 2.15 Most high-concentrated markets have very few students
Number of students in VET markets, across levels of market concentration^a



^a The low concentration category has been truncated. Dashed lines indicate the median.

Source: Commission estimates based on NCVER (2020b).

Although markets may be highly concentrated, the Commission found that most students still have a choice of RTOs offering the same program in their location: nearly 60 per cent of students could choose from at least six RTOs and about 27 per cent could choose from two to five RTOs. Just 13 per cent of all students could only study the same program at a single RTO in their location, but students have more choice if they see other programs as substitutes (table 2.2).

Table 2.2 A minority of students have a choice of two or fewer RTOs
Per cent of students by number of RTOs operating in the market, 2019

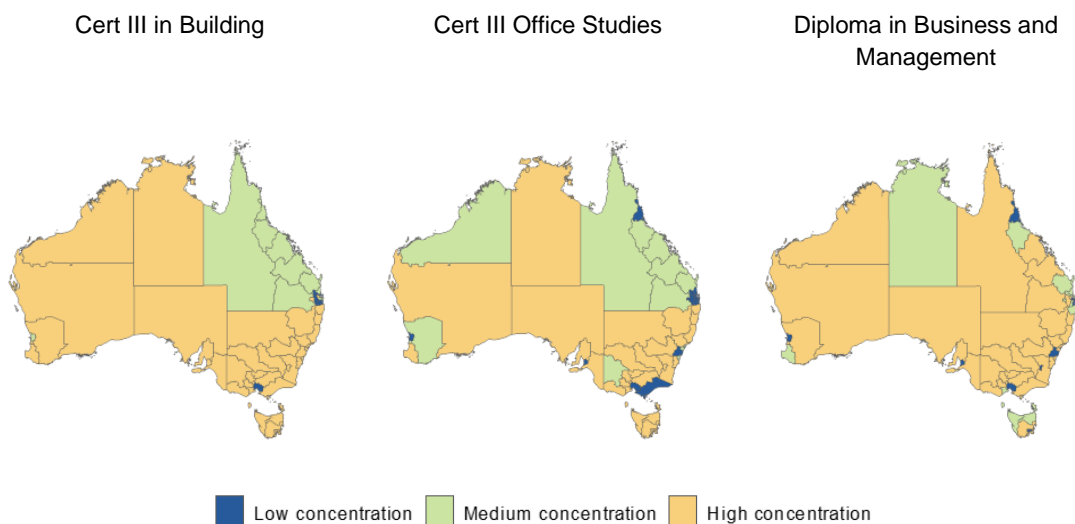
<i>RTOs operating in the market (no.)</i>	<i>Narrow definition: exact program of study^a (per cent)</i>	<i>Broad definition: close substitutes^a (per cent)</i>
1	13	4
2	9	5
3	7	4
4–5	12	8
6–10	18	18
10+	41	61

^a The narrow definition involves the exact program of study; whereas the broad definition involves products within the same field and level of education.

Source: Commission estimates based on NCVER (2020b).

Markets with few students and RTOs are called ‘thin markets’. Thin markets tend to be highly concentrated as multiple RTOs cannot recoup significant fixed costs from their share of a small pool of students. An obvious example is regional and remote markets, which tend to have fewer students accessing training across large distances. Indeed, the analysis found that a greater proportion of students in remote and regional areas were in high-concentrated markets, compared with students in major cities (figure 2.16). Thin markets can also occur where there is little demand for specialist courses, even in major cities.

Figure 2.16 Concentration is highest in regional and remote areas
2019



Source: Commission estimates based on NCVER (2020b).

Even though thin markets are more likely to be highly concentrated, this does not necessarily mean they lead to uncompetitive outcomes. If barriers to entry are low or the threat of new entry is plausible, these markets may still be contestable (box 2.4).

Evidence suggests that barriers to entry are low in most high-concentrated markets. From 2018 to 2019, an average of 1.5 RTOs entered high-concentrated markets — this is considerable given most high-concentrated markets have few RTOs. Further, just 29 per cent of high-concentrated markets had no new RTOs enter in 2019, and just 8 per cent had no new entrants with a single surviving incumbent.

Box 2.4 **What are contestable markets?**

A ‘contestable’ market may have similar outcomes to a competitive market, even if it does not exhibit active competition. This would occur if incumbent firms believe they can be challenged or contested by rival firms looking to enter the market. In a contestable market firms may compete for the right to service a significant portion of the market, or even the market itself.

There are four conditions that need to be met for a market to be considered contestable:

- there are no barriers to entry and exit
- all firms, incumbent and potential entrants, have access to the same production technology
- there is perfect information on prices, available to all consumers and firms
- entrants can enter and exit before incumbents can adjust prices.

In reality, a perfectly contestable market does not exist, rather markets can be described on a spectrum as more or less contestable. The more contestable a market is, the more it can be reasonably assumed the market is acting efficiently.

Sources: Baumol (1982); OECD (2002).

FINDING 2.1 — COMPETITION IN THE VET SYSTEM

There is a reasonable degree of competition in the VET system.

- Most students (87 per cent) have a choice of registered training organisation (RTO).
- About 30 per cent of students study in highly-competitive markets and 20 per cent in moderately-competitive markets.

However, 50 per cent of students train in highly-concentrated markets with less potential for competition. These are often ‘thin markets’ with limited local demand for particular courses. Nevertheless, some of these markets have low barriers to entry and are generally contestable.

The impact of Free TAFE on competition

In recent years, and in response to the COVID-19 pandemic, several States have introduced free-TAFE-type policies to encourage more people to undertake VET (box 2.5). These policies typically feature a combination of reducing fees and increasing places at TAFEs to encourage students to choose courses deemed to be ‘in demand’ and are part of a recent trend of favouring public provision (chapter 4). There is evidence that significant changes in subsidies can create *additional* demand for training (chapter 8). However, generous subsidies for TAFE courses are likely to encourage students to *substitute* away from private RTOs to public RTOs. Therefore, in some cases, these policies may reduce contestability and diminish competition.

To assess the effects of these policies, the Commission analysed the effects of Victoria’s Free TAFE program in its 50 eligible courses (box 2.5). Enrolments in Victoria increased for all types of RTOs, but at a faster rate in public RTOs (figure 2.17, panel a). This rate of growth in public RTOs was faster than in other jurisdictions (figure 2.17, panel b) and led to

increased market share for public RTOs in Victoria, whereas public RTO market share was generally steady in other jurisdictions (figure 2.17, panels c and d). There are several aspects to the Free TAFE program that may have increased enrolments:

- a decrease in student course fees (to zero)
- increasing the number of subsidised places at TAFEs may have accommodated excess demand
- increased advertising or ‘signalling’ from government that these courses are of value.

The Commission was not able to determine the extent of the effects of each of these aspects.

Box 2.5 **Some States have introduced free or cheap TAFE policies**

Four States have recently implemented programs to increase training.

Victoria introduced a Free TAFE for Priority Courses program in 2019 to give ‘more Victorians the chance to study at TAFE’ (Victorian Government 2019). The program involved making 50 courses (20 apprenticeship, 30 non-apprenticeship) free for students upgrading their qualification level and for those aged under 20 years. The number of places available was also increased. Only some TAFEs and universities were eligible to offer Free TAFE courses. This program was expanded in 2020 as part of Victoria’s COVID-19 recovery plan, increasing places and expanding eligibility (Carey 2020).

Western Australia is offering free and cheaper TAFE courses as part of its Lower Fees Local Skills initiative. The program also allows for training at selected private providers. Fees in these courses are capped and are reduced to half price or below (DTWD (WA) 2020c). According to some media reporting, Western Australian TAFEs have seen a 6.4 per cent increase in enrolments year-on-year, 2019 to 2020 (Keenan 2020). In addition, free skill sets are being offered as a response to COVID-19.

New South Wales has offered free online TAFE short courses in response to COVID-19, which have had over 100 000 enrolments (Patty 2020).

Queensland has offered free TAFE to year 12 leavers for several years. They have also begun offering fee-free skill sets and micro-credentials as part of their response to COVID-19. (TAFE Queensland 2020a, 2020b).

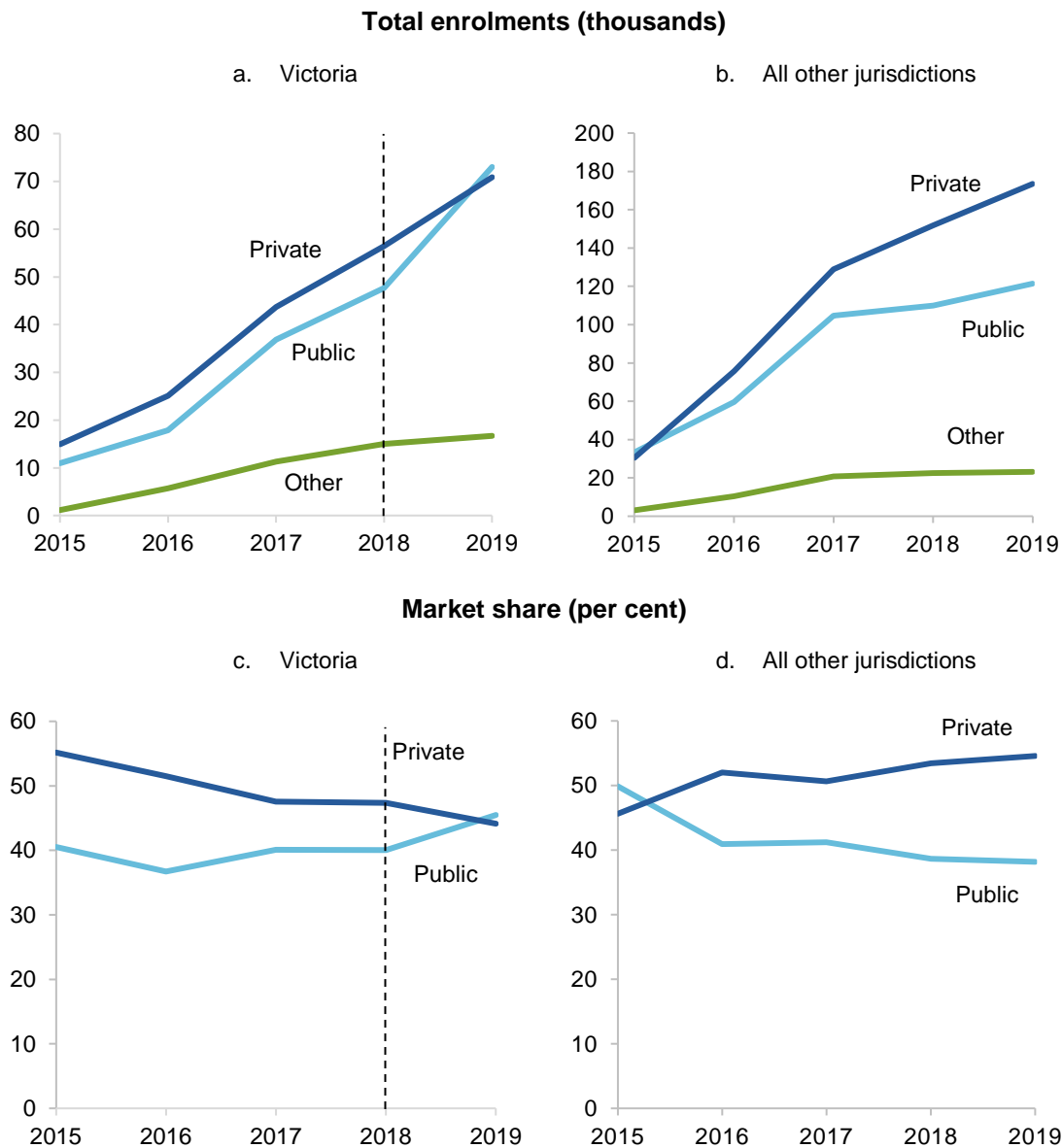
While overall enrolments increased, there is evidence to suggest some substitution may have occurred. First, there was an increase in the market share of public RTOs in Victoria, but not in other jurisdictions. Second, while some markets were largely unchanged, such as the Certificate III in Individual Support (figure 2.18, panel a), other markets experienced strong enrolment growth at Free TAFE-providers compared with other providers. One example of this is the Diploma of Nursing for which enrolments increased significantly at Free TAFE-providers, but declined at other providers (figure 2.18, panel b). The Australian Catholic University (2019, p. 3) mentioned this very experience, in their submission to the Joyce Review:

Until the new Victorian Government policy, ACU College had been a leader in education and training in the Diploma of Nursing in Victoria, with more than 500 students enrolled. Nursing applications per year exceed 800, highlighting very strong demand for ACU nursing places.

Against this backdrop, the effect of the Free TAFE policy has been immediate, and highly detrimental to ACU College. In the locations where we offer the Diploma of Nursing – Ballarat,

Ararat and Melbourne – applications for 2019 have dropped markedly, with students instead choosing to enrol at TAFE. Even where ACU College has longstanding, effective partnerships with hospitals, they now feel financial pressure to switch to TAFE as a provider.

Figure 2.17 Enrolments in Victoria differed from the national trend^{a,b}

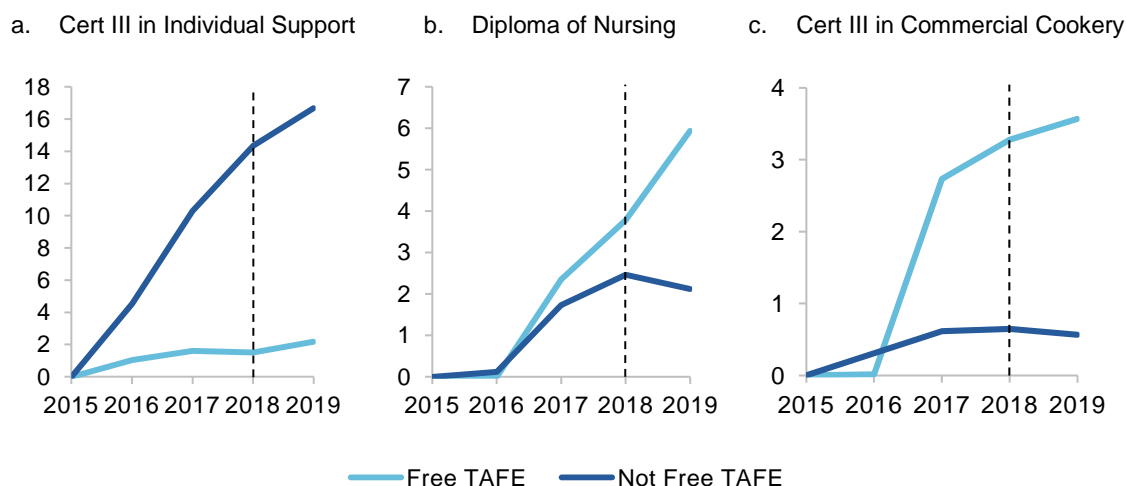


^a This figure refers only to the 50 courses eligible for Victoria's 2019 Free TAFE program. ^b Dashed lines indicate Free TAFE's implementation in Victoria.

Source: Commission estimates based on NCVER (2020o).

Figure 2.18 Enrolments varied across Free TAFE eligible courses^a

Enrolments in Victoria (thousands), 2015–19



^a Black dashed lines indicate Free TAFE's implementation in Victoria.

Source: Commission estimates based on NCVET (2020o).

In principle, there is also a risk that, for some courses already dominated by public RTOs, Free TAFE policies will limit contestability by other providers. One possible example is the Certificate III in Commercial Cookery in which public RTOs increased their already dominant market share (figure 2.18, panel c).

As Victoria's Free TAFE policy, and similar policies in other jurisdictions, are relatively new, it is difficult to assess the longer-term effects on competition and contestability. However, it is important that governments recognise that these policies may erect barriers for competition, particularly if they are sustained over a longer period.

FINDING 2.2 — FREE TAFE AND MARKET DISTORTIONS

Some State governments have introduced policies to increase VET enrolments by offering more places in free or low-cost courses at public RTOs. While these policies increase training at public RTOs, some of this growth may simply reflect a switch from private RTOs, crowding these providers out of some markets and ultimately reducing contestability and student choice.

2.6 What are the outcomes of VET?

Participants have differing views on how effective the VET system is at achieving economic and social outcomes. Some are of the view that the system is in ‘crisis’, while others see it in a more positive light (box 2.6). The performance framework outlined in the NASWD at the start of the decade suggests that the system’s performance is mixed relative to governments’ expectations (chapter 3).

Box 2.6 Participant views on the state of the VET system

Many participants expressed concern about the current state of the VET system and have doubts about its efficacy. Quiggin (2018, p. 2) argued that ‘vocational education and training in Australia is in a state of crisis’, a sentiment that was referenced in some submissions (AEU, sub. 21; NTEU, sub. IR106).

Many participants framed the system as one that used to be strong before recently becoming ineffectual after a series of ‘marketisation’ policies. Palmer (sub. IR67, p. 4) claimed ‘the system, as strong as it once was, is now broken’, while the Australian Manufacturing Workers Union (sub. IR121, p. 4) stated ‘... the system is failing to produce workers with the skills the economy needs’. According to the Mackenzie Research Institute (sub. IR69, p. 2):

... the past ten years have been arguably the blackest and most dismal decade in the history of Australian education, especially for vocational education ... In ‘economic terms’, VET is in a deep recession.

In contrast, some industry participants painted the system in a more positive light. Many participants to the Joyce Review (2019, p. 26) claimed that, although there were issues in the system, they ‘did not add up to a need for a wholesale rebuild’ and urged future reform to not ‘throw the baby out with the bathwater’. Further, Master Builders Australia (sub. IR147, p. 3) claimed:

... the VET sector is not as damaged as some portray it to be. In building and construction, satisfaction with VET, employment outcomes and graduate starting wages are comparable if not better than for university undergraduate completers.

While few large-scale reforms are without risks, there were major and highly-publicised problems in the VET system after the adoption of the NASWD — most notably the problems associated with VET FEE-HELP (chapters 4 and 10). This and some other high profile problems within the system have since been addressed, but other less obvious issues remain, such as a lack of high-quality information and concerns around quality regulation.

These issues, and potential policy responses to them, are considered in later chapters; this section looks at high-level indicators of system performance as it has evolved over the past decade.

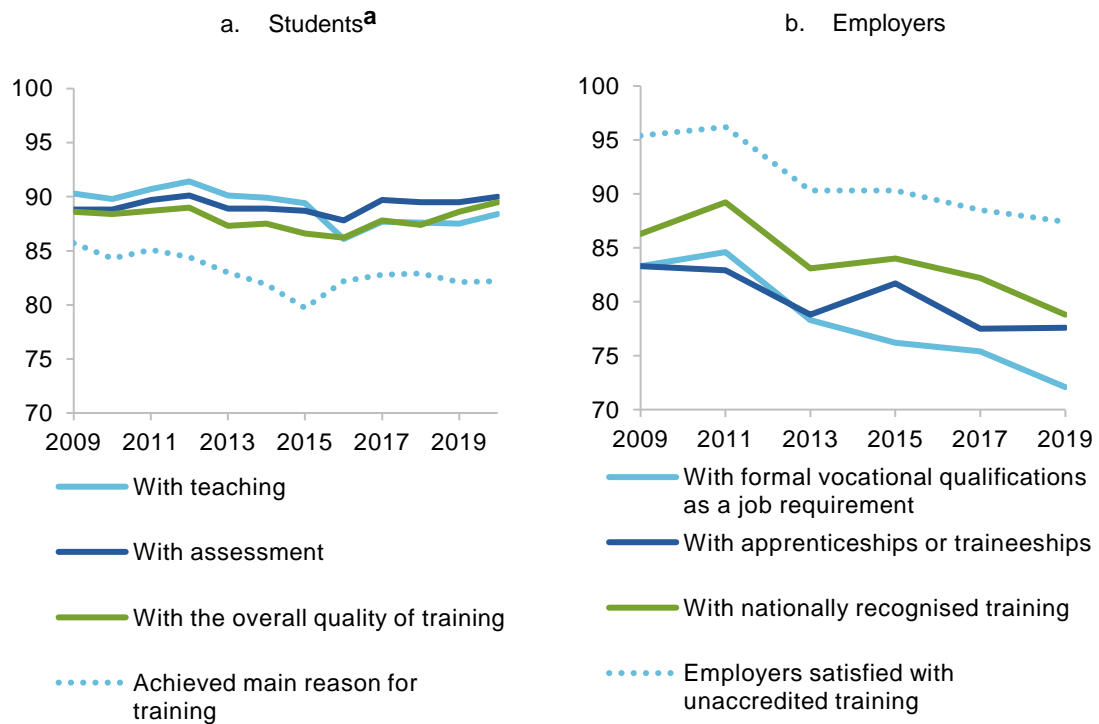
Students and employers have different views

Students and employers have different perspectives on the performance of the VET system. Students remain broadly as satisfied with the government-funded VET system as they were

a decade ago (figure 2.19, panel a). In contrast, employer satisfaction with VET qualifications has been steadily falling, but still remains high (figure 2.19, panel b).¹⁵

Figure 2.19 VET satisfaction rates: a tale of two users

Government-funded VET only, 2009–19



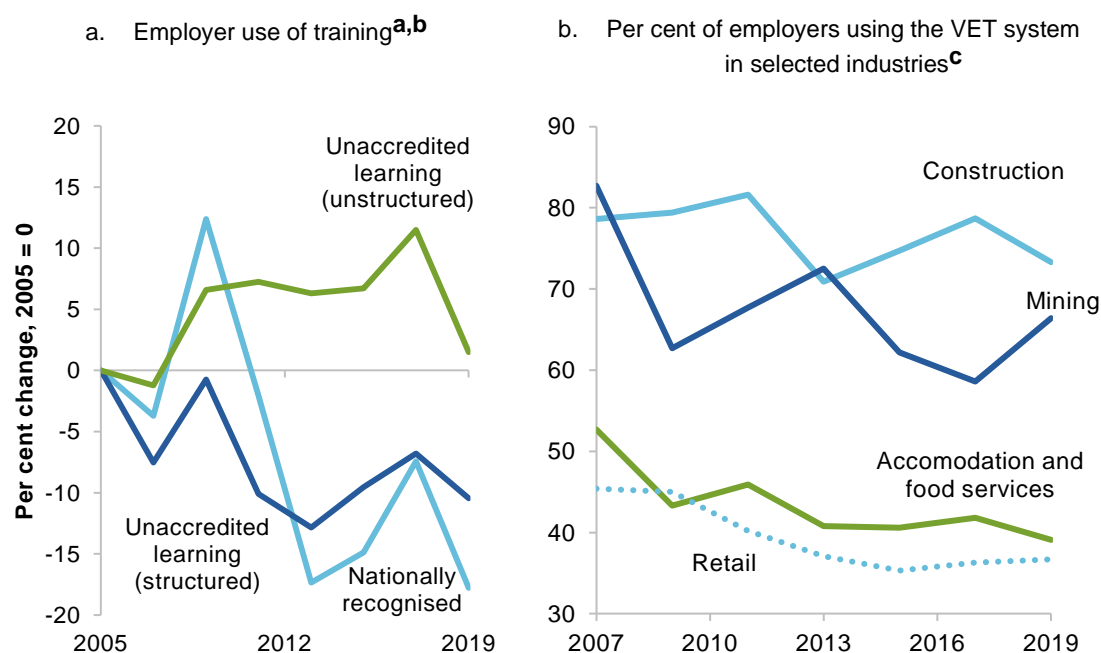
^a There were changes in the wording of questions relating to teaching, assessment, and overall quality of training in 2019. Student satisfaction years refer to the year the survey was undertaken, which relates to training from the previous year.

Sources: NCVER (2019c, 2021).

Not only are employers less satisfied with VET, they are also using it less. In 2019, just 20 per cent of employers used nationally recognised training (figure 2.6, panel a), a 20 per cent decline from 2005 (figure 2.20, panel a). This may have been offset by growth in the use of unstructured unaccredited learning such as learning on the job from peers. The drop in the use of the VET system is particularly pronounced in some industries such as mining where employer use dropped by about 16 percentage points (figure 2.20, panel b).

¹⁵ Caution is needed when interpreting satisfaction surveys because they measure a student or employer's subjective response to their training. Nevertheless, it is possible to compare changes in satisfaction over time and differences between groups.

Figure 2.20 Employers are using nationally recognised training less



^a Employers using nationally recognised training do not include apprenticeships. ^b Unaccredited learning (structured) means formal learning that does not lead to a qualification. Unaccredited learning (unstructured) means informal learning such as learning on the job. ^c Includes hiring individuals with VET qualifications, taking on an apprentice, and training their employees with VET.

Source: NCVER (2019c).

Over the past decade, completion rates in government-funded VET have increased, including for various groups of students experiencing disadvantage (figure 2.21). This may reflect that training packages have become more targeted or the quality of delivery has improved. There is also limited evidence suggesting that completion rates are higher in the government-funded sector than in the fee-for-service sector of the VET system (NCVER 2020j).

At face value, completion rates for VET appear lower than for higher education — the 2017 VET cohort had a completion rate of 46 per cent compared with 62 per cent for the 2014 higher education cohort.¹⁶ However, these rates are not directly comparable due to methodological and potential cohort differences.¹⁷

¹⁶ Figure reported is for the 2014 cohort, for a three-year Bachelor Degree, six years after commencement.

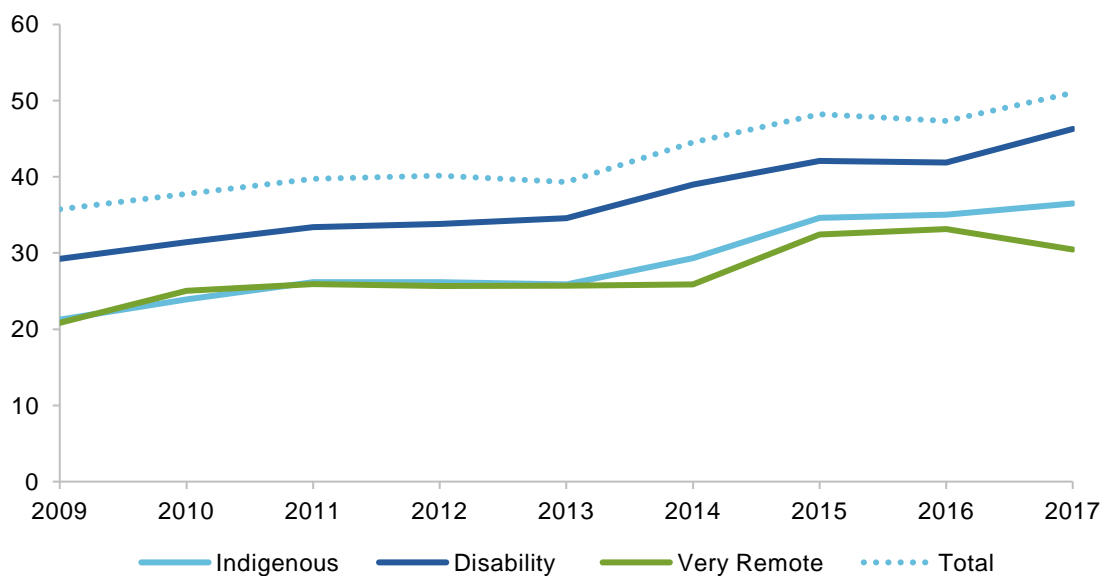
¹⁷ VET and higher education completion rates are calculated using different methodologies and thus the latest data address different cohort years. The National Centre for Vocational Education Research estimates VET completion rates using a Markov-transition analysis whereas the Department of Education, Skills and Employment waits a suitable amount of time for a cohort to graduate. Further, student cohorts that attend VET and higher education likely have different characteristics, including demographics, length of study and different objectives.

Other indicators of student outcomes have remained steady over the past decade. Among government-funded graduates surveyed in 2019:

- 81 per cent found the training relevant to their job (compared with 81 per cent in 2011)
- 84 per cent were employed or in further study after training (88 per cent in 2011)
- 82 per cent achieved their main reason for training (85 per cent in 2011)
- 46 per cent of students not employed, found employment after training (48 per cent in 2011) (NCVER 2021).¹⁸

However, recent data suggest that some outcomes have declined as a result of the COVID-19 pandemic. For example, only 36 per cent of graduates surveyed in 2020 found employment after training — a 22 per cent decrease from the previous year.

Figure 2.21 Completion rates have improved significantly
Per cent of government-funded qualifications that are completed by type of student



Source: Commission estimates based on unpublished NCVER data.

Few VET students go onto further study in higher education. In 2019, just under 5 per cent of all VET graduates pursued further study at university, down from about 7.5 per cent in 2016. Furthermore, half of VET students who went on to study at university did not complete a full VET qualification, suggesting that few students use full qualifications as a pathway to higher education (NCVER 2020o).

¹⁸ Employment outcomes are reported within six months of training, reflecting only short-term outcomes.

Outcomes by provider type

The type of provider may affect student outcomes. Some participants suggested that the increased use of private RTOs has decreased the quality of the VET system over time (box 2.7). However, most available evidence suggests that student outcomes are broadly similar regardless of the type of provider.

Box 2.7 Participant views on different provider types

Some participants argued that quality issues in VET are due to private, for-profit providers and that the allocation of public funds to private organisations results in poor-quality delivery and rorting of the system (Buchanan, sub. IR151; CCA, sub. IR96; Unions WA, sub. IR112; Victorian Trades Hall Council, sub. IR87). Some made strong claims about the continued use of private providers in VET:

It is plainly evident that quality cannot possibly be maintained at a system level when that system is populated by thousands of tiny individual private providers, some of whom have participated in recruitment and enrolment practices that can best be described as skirting the edge of legality. (AEU, sub. IR104, p. 3)

... the use of private businesses to provide training has proved a disaster to the detriment of students. (O'Connell, sub. IR72, p. 1)

These concerns have led some participants to suggest that TAFEs, and public provision generally, need to sit at the centre of the VET system, as the standard bearers of quality (NTEU, sub. IR106; TAFE Community Alliance, sub. IR76).

However, others, suggested that private providers may not be the cause of quality issues. For example, the BCA (sub. IR145, p. 8) submitted that:

... within the VET sector, there is a tendency to blame failures that have occurred on the existence of non-public providers and competition. It is important to be clear that contestability is not, and was not, the problem in the failure of VET FEE-HELP. It was the poor design of the program and the paucity of regulation or contract management that allowed rogue providers to enter the market and flourish.

Broadly, students are equally satisfied with public and private RTOs — about 88 per cent of students at both provider types report being satisfied with their training (figure 2.22, panel a). This is largely the same across most student cohorts¹⁹ with a few exceptions amongst students experiencing disadvantage. Aboriginal and Torres Strait Islander graduates are slightly more satisfied with public RTOs (93 per cent) than with private RTOs (88 per cent), as are students who completed a language, literacy, numeracy, and digital literacy package.

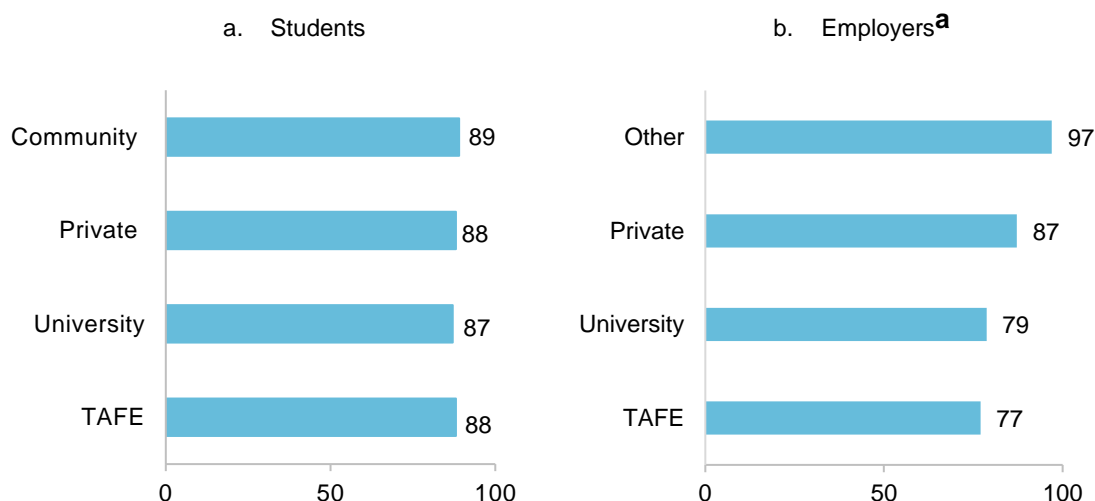
In contrast, employer satisfaction is significantly higher among those who use private RTOs (figure 2.22, panel b). These differences persist after controlling for the employers' industry.²⁰

¹⁹ This equivalence holds when controlling for different graduate cohorts, including by remoteness, age, disability status, gender, the Socio-Economic Indexes for Areas (SEIFA), and apprenticeship status.

²⁰ They are statistically significant at the 1 per cent level.

Figure 2.22 Satisfaction by RTO type

Per cent satisfied, 2019



^a 'Other' includes: no external RTO used, professional or industry association.

Sources: Commission estimates based on NCVER (2019c, 2020a).

While there is some high-level evidence that private RTOs are associated with better labour force outcomes for students, this dissipates once controlling for demographic and student characteristics. Students are about 5 percentage points more likely to be employed after training at a private RTO (after controlling for demographic factors), but once previous employment status is controlled for, the difference is no longer statistically significant.

FINDING 2.3 — STUDENT OUTCOMES BY PROVIDER TYPE

There is no evidence that public RTOs deliver consistently better student outcomes than private RTOs, or vice versa. Employer satisfaction is higher with private RTOs than public RTOs but students experiencing disadvantage report higher satisfaction at public RTOs.

2.7 Effects of COVID-19 on the VET system

The COVID-19 pandemic has triggered a global recession and remains a major health challenge. It has affected the VET system in many ways. However, the time lag in data collection means that these impacts are not yet fully understood.

A disruption of in-person and workplace training, and a move to online learning

As a service typically delivered in-person, VET has been affected by lockdowns and social distancing measures. Many students have been unable to attend classes or workplace training in person, disrupting their training and in some cases delaying completion. The broader economic downturn, work-from-home requirements and restrictions on businesses has hit apprenticeships particularly hard. Early data indicate that between March and July 2020, over 25 000 apprenticeships had been suspended or cancelled (NAAA 2020).

The Australian, State and Territory governments have implemented several policies to support the VET system during the economic downturn. For example, they have committed to establishing a \$1 billion JobTrainer Fund which is expected to provide about 320 000 additional free or low-fee training places in areas of ‘identified skill needs’ (such as healthcare and trades) (DESE 2020l). The Australian Government has also budgeted \$4 billion to provide wage subsidies for new and existing apprenticeships (chapter 11). And State and Territory governments have focused on offering reduced-fee courses, particularly at public RTOs (section 2.5).

Beyond the immediate disruption for students, employers and RTOs, the pandemic may lead to structural, long-lasting changes to the delivery of VET. Before the pandemic, most training was delivered in person at the RTO or in the workplace. In Australia, the work-based training component accounted for more than 60 per cent of total learning time, about the OECD average (OECD 2020b). And according to ASQA (sub. IR132) about 8 per cent of units of competency have some requirement to access a workplace, either for training delivery or assessment, affecting more than 450 qualifications. Further, online learning was rarely used. Just 13 per cent of VET delivered in 2017 was through online learning (ASQA, sub. IR132).

However, in response to lockdowns and social distancing measures, many RTOs were quick to pivot to deliver courses online. For example, by June 2020, TAFE South Australia had moved 94 per cent of its courses to online delivery, with some rescheduling of theoretical and practical components (TAFE SA 2020). And more than 1000 RTOs delivered some or all of their courses online as a direct result of COVID-19 (ASQA, sub. IR132). COVID-19 may end up becoming a catalyst for innovation in VET as RTOs invest in online infrastructure and online learning becomes mainstream.

The type of training being undertaken is being affected

COVID-19 has affected the type of training undertaken in the VET system. Early data for the March quarter in 2020 indicate that *program* enrolments for government-funded training increased by 5 per cent (about 30 000 enrolments) compared with the same period in 2019. In contrast, *subject* enrolments declined by 1.5 per cent (about 70 000 enrolments) (NCVER 2020o). In the same quarter, apprenticeship commencements were 11 per cent

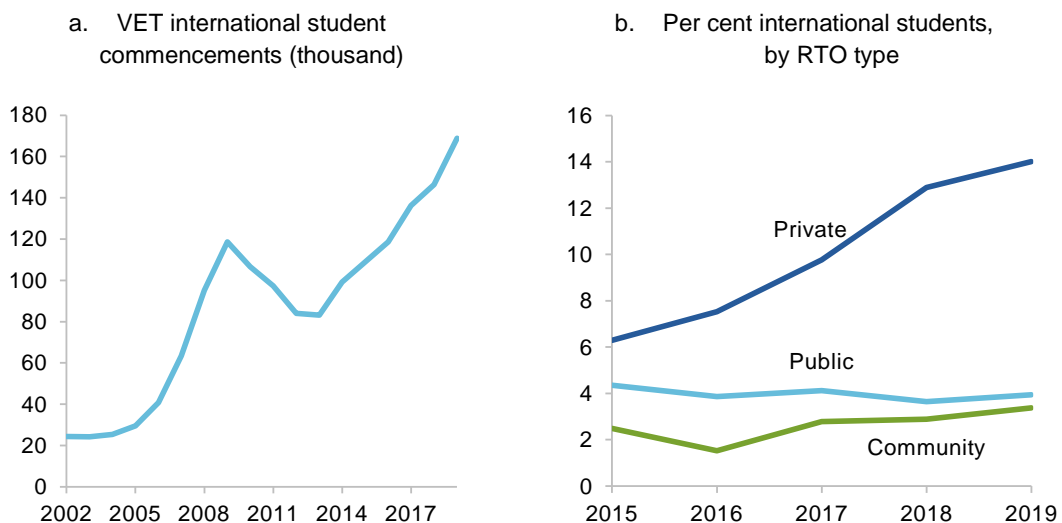
lower (about 6000 commencements) and there are early indications that the drop in the June quarter was even more severe (chapter 11).

An increase in program enrolments can be expected because education is known to be counter-cyclical — high levels of unemployment will lead to more people upskilling and reskilling (Bishop 2019). The youth unemployment rate reached 15.6 per cent in October 2020 — an increase of 3.1 percentage points from the previous year (ABS 2020b). However, if economic weakness is protracted it may crimp potential growth, decreasing employers' training needs, resulting in a larger pool of unemployed skilled workers and lower returns to investment in training.

The impacts on international students presents a challenge

Border closures and restrictions on international travel arising from the COVID-19 pandemic present a challenge for Australia's education service exports. Education is Australia's fourth largest export and has grown by an average of 15 per cent annually since 2015 (DFAT 2020). The VET system has shared in this expansion with strong growth in international students (figure 2.23, panel a). This growth, coupled with declining domestic enrolments at private RTOs, has meant that the VET system has become more dependent on international students since 2015 (figure 2.23, panel b).

Figure 2.23 VET has become more reliant on international students



Sources: Commission estimates based on (NCVER 2020o); DESE (2020k).

Despite travel restrictions, 91 per cent of VET international students made it onshore in time to study in 2020, more than in higher education (Lehmann and Aasha 2020). If current restrictions persist, the number of international students studying in Australia in the coming years could decline as these students shift to other education and training markets.

3 The role of government in VET

Key points

- Governments invest in vocational education and training (VET) to develop and maintain the skills people need to participate effectively in society and the economy.
 - Policies aim to realise public benefits, prevent skill shortages, support equity goals, and ensure some consistency in funding and loan arrangements between higher education and the VET sector.
- These rationales are generally valid but:
 - there are sizeable private benefits from higher-level VET qualifications, providing a strong incentive for students to invest without government support, regardless of whether there are also public benefits
 - notwithstanding good evidence of public returns to education, it is not apparent that subsidy policies are designed to best realise those returns
 - skill shortages are not rigorously measured, reflecting problematic conceptual frameworks and poor data.
- The different rationales for public investment have different implications for policy:
 - public benefits suggest that course subsidies should be more widely available, consistent with the desire to align course subsidies in higher education and VET
 - persistent skill shortages imply that caps on subsidised places are justified
 - private benefits from higher-level qualifications suggest that subsidies and loans can be substitutes in overcoming financial barriers to training.
- Governments hold responsibility for the stewardship of the VET system.
 - Governments must decide when and how to harness market mechanisms (such as user choice and contestability) and implement complementary policies to support informed user choice, safeguard quality, and monitor and review system outcomes.
 - Ultimately, market mechanisms are only useful to the extent that they deliver on governments' objectives and improve system outcomes.
- State and Territory governments should separate their responsibilities for policy and service delivery by granting greater operational autonomy to public providers.

The overarching purpose of vocational education and training (VET) is to provide the skills people need to participate effectively in society and the economy. While the purpose of VET remains steadfast, how governments have sought to achieve this purpose has changed in recent decades. Since the introduction of competition reforms in the 1990s, governments have sought to harness the market as an allocative mechanism to improve VET sector productivity and responsiveness, better meet user needs, and deliver economy-wide benefits. Today,

governments hold responsibility for the market as a ‘steward’, while government-owned providers continue to deliver the majority of government-funded training.

Ultimately, the different approaches to VET policy should be assessed on their outcomes — the extent to which students, employers, and society are better served as a result. However, to inform future policy development, it is also important to assess policy objectives and their underlying rationales. This chapter outlines the Commission’s conceptual framework for assessing the role of governments in the VET system. It has a particular focus on the rationales for governments to increase skill formation, and the use of skill formation as a means of achieving wider policy objectives. The chapter examines:

- the rationales for a government role in VET (section 3.1)
- desirable characteristics of a stewardship model for VET (section 3.2)
- the multiple roles of governments in relation to public providers (section 3.3).

3.1 Rationales for a government role in VET

The link between vocational training and prosperity is sound: there is compelling evidence that completing a VET qualification typically raises productivity and labour income and can have wider benefits (Sianesi and van Reenen 2003; Vu, Hammes and Im 2012). However, the existence of benefits of skill formation is not, per se, a sufficient argument for government interventions to increase vocational skill formation. Private parties, such as students and employers, also have strong personal incentives to invest in education and training.

As such, governments must consider the public value of policy interventions. There are many in-principle rationales for government investments in skill formation, of varying validity and materiality, and justifying different policies. The main rationales are:

1. the expected private returns to students may be insufficient to deliver all socially valuable investments in VET
2. that labour markets may not always resolve skill shortages quickly
3. averting the risk that students’ choice of post-school education could be distorted by different funding for VET and higher education
4. concerns about course affordability, accentuated by the difficulty that students have in accessing commercial loans
5. even when there are sufficient private incentives for training, it may be equitable for the public to share some of the costs of training if it results in substantial public benefits
6. assuring quality and overcoming information gaps that could discourage investment in skill formation
7. concerns that employers have inadequate incentives to train employees given the costs involved and the risk that other employers may poach their staff

-
8. removing the barriers to participation for students facing disadvantage and groups affected by structural change in the economy
 9. the ambition to promote high-growth industries by expanding the supply of specialist workers
 10. the concern that, without governments' interventions, registered training organisations (RTOs) would not provide sufficient mentoring and support services for students, and upfront assessment of needs.

While these rationales can justify government interventions in the VET market, the interventions need to take different forms to address different problems. Governments can use a wide array of interventions — subsidies for courses and apprenticeships, information provision, loans, the tax treatment of education and training costs, changes to labour market regulations, and the development of a more competitive market to put downward pressure on fees. All of these interventions may be important elements of a government strategy to support an effective VET system.

This section focuses on the rationales central to the design of government financial incentives for skill formation (rationales 1, 2, 3 and 4). Other rationales are explored in subsequent policy chapters, such as the roles of governments in information provision and quality regulation (discussed in chapters 6 and 7, respectively).

Public and private returns

There is sound evidence of both public and private returns to education and training, although the literature on the private returns is much more extensive. The nature of the public and private returns — and the split between them — is relevant to the rationale for subsidising VET.

Private returns vary but are usually large

A substantial body of Australian evidence generally finds high private lifetime benefits of VET (compared with outcomes of people with lower qualifications), reflecting a range of beneficial labour market outcomes (box 3.1). Estimates of the returns to VET depend partly on the level of granularity of the VET classifications used in the modelling and on the benchmark group.²¹ There are also less-tangible private returns that cannot be measured easily in dollars but still influence students' choices. These returns include greater status, job satisfaction, autonomy, sense of accomplishment and health benefits (DOE 2019b; Oreopoulos and Salvanes 2011; Stromback and Dockery 2005).

²¹ In general, if the benchmark group are people who did not complete year 12, then Certificate III/IVs and Diploma/Advanced Diplomas produce good returns (with equivocal results for Certificate I/Is). If the reference group are people who have completed year 12, only Diploma/Advanced Diplomas generate significant positive returns (Lee and Coelli 2010; Leigh 2008).

However, not all empirical analyses demonstrate private financial benefits from VET courses. Results depend on students' choice of course and their personal circumstances. Some evidence shows negative private returns from completing some non-trade apprenticeships, particularly for sales workers, male community and personal service workers, and female labourers (Nelms et al. 2017, p. 33). Another study found the returns to VET depend on whether students undertook courses while also working, or were relinquishing employment to train (Ryan 2002). While not definitive, these findings raise questions about whether students are always able to make training investment decisions in their financial interest.

Box 3.1 Private benefits from VET

The academic literature generally finds high private lifetime benefits from VET. The studies use different methods, control variables, benchmark groups and datasets, but nevertheless reach general agreement about the effects. The evidence suggests that VET completion:

- raises the probability of employment and lowers the probability of unemployment (DOE 2019a; Wilkins 2015, p. 72; Wilkins and Lass 2018, p. 109)
- increases the likelihood of full time work (Wilkins 2015, p. 72; Wilkins and Lass 2018, p. 109)
- increases the returns to work experience for males but not females (Wilkins 2016, p. 50)
- reduces the length of a spell in poverty (Wilkins 2016, p. 33)
- increases wage rates (Sinning 2014, p. 27; Wei 2010, pp. 16–17; Wilkins 2015, p. 72; Wilkins and Lass 2018, p. 109) or overall income (DOE 2019c; Karmel and Fieger 2012; Long and Shah 2008).

These are backward-looking results. The shift from routine to non-routine manual and cognitive tasks could lead to a change in the private returns to VET over time. This shift is likely to favour those parts of the vocational education system that develop interpersonal skills, as in caring (Heath 2020), or where the training gives an employee a greater capacity to adapt their skills. This implies that, in the future, private returns may vary less by the level of the qualification and more by the type of skills they impart.

Given structural changes in the economy, VET may become an increasingly important avenue for lifelong adaptation to changing demands for skills. As such, the private benefits of training may also depend on whether they relate to first-time students or already trained workers. If the alternative to upskilling is unemployment, acquiring vocational skills to suit changing job tasks in later life may have very high returns.

There is also good evidence of public returns

There is sound evidence of public returns to education. These benefits are typically measured as increased taxation revenue (Chapman and Lounkaew 2015; Deloitte 2016; Lomax-Smith,

Watson and Webster 2011; McMahon 2004, 2009), and draw on an extensive theoretical and empirical literature spanning decades (Lawson 2017).²²

As income is taxed, increases in earnings due to education generate government revenue. The tax revenue gain will be larger when people earn higher incomes (above the tax-free threshold). This suggests that the tax revenue gains are greatest for Diplomas and Advanced Diplomas and are much less for Certificates I and II (usually undertaken by students on lower wages who often do not enjoy a significant uplift in future wages). Tax revenue gains will also be smaller for part-time workers for the same reason.

The tax revenue gains can be substantial. For instance, one study estimated the returns to training for skilled labour, and found that the pre- and post-tax rates of return differed by 7 percentage points (Wei 2010, pp. 16–17). This premium can be interpreted as part of the public return from training, over and above the private return to the student.

Education and training can also have fiscal benefits through reduced government outlays. For example, the estimated reliance on the Age Pension is 87 per cent for people whose highest level of educational attainment is a Certificate III or IV, while it is 77 per cent for Diploma qualifications and less again for higher education qualifications (DOE 2019c).

There are also less-tangible public benefits of education and training, such as reductions in crime. For instance, an Australian study estimated that the increase in VET participation in Victoria under the Victorian Training Guarantee was associated with reductions in person, property and drug crime rates (Jha and Polidano 2016).²³ Given the costs of crime, the study estimated that every dollar of additional VET spending saved 18 cents. A meta-analysis of the international research on the impact of additional years of education overwhelmingly shows a relationship between reduced crime and education (Hjalmarsson and Lochner 2012).²⁴

Participation in post-school VET may also have intergenerational benefits, as a greater duration of parental education is generally associated with better outcomes for children (Oreopoulos and Salvanes 2011). In addition, a parent's years of education tends to be associated with increased duration of their children's investment in schooling — although

²² Some jurisdictions have also estimated the wider benefits of their VET investments. The NSW Government found that the total benefits from the Smart and Skilled program to students, employers, RTOs and government were more than 40 per cent higher than the cost of the government's contributions. The majority of the benefits accrued to industry and employers, with students receiving a smaller share (sub. 48, p. 17).

²³ Jha and Polidano (2016) estimated that the 75 per cent increase in VET participation in Victoria under the Victorian Training Guarantee was associated with 4.5 per cent, 11.3 per cent and 12.8 per cent reductions in person, property and drug crime rates respectively. The relationship between VET participation and crime rates was further established by comparing results with New South Wales where no such policy stimulus to VET took place. Analysis was at the postcode level rather than for individuals — which can result in less robust results.

²⁴ However, rigorous studies (all United States) of the effects of VET on recidivism show no robust results (Newton et al. 2018). If this also applies in Australia, it implies that VET reduces the probability of first offences.

not by much (Holmlund, Lindahl and Plug 2010). These intergenerational effects include both private and public benefits as parents and society have a stake in children's welfare.

Links between social capital and training — such as improved civic engagement and social participation — are often claimed and supported by qualitative evidence (for example, Allison, Gorringer and Lacey 2006; Priest 2009). However, while there are associations between VET and social capital, the magnitude of the *causal* effect is harder to establish (Sabates, Salter and Obolenskaya 2012). This is important because causality may be bi-directional, such that social embeddedness may be both a cause and an effect of the take up of vocational education. This means that a policy that stimulated VET may have weaker impacts on social capital than the statistical associations and qualitative evidence might suggest.

Unlike the evidence on the private economic returns to education, there is less complete evidence about the effects of different certificate levels on social benefits. As noted earlier, the tax benefits are likely to be greater for higher-level vocational qualifications. On the other hand, the less-tangible social benefits may be higher for lower-level vocational qualifications. This reflects that reduced crime and intergenerational benefits are likely to be higher for students facing disadvantage, who are overrepresented among Certificate I and II qualifications (Karmel and Lim 2013, p. 18; Myconos, Dommers and Clarke 2018, p. 4).

FINDING 3.1 — PUBLIC AND PRIVATE RETURNS TO VET

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

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

Why do public and private returns matter?

The main implication of high private returns (tangible and non-tangible) is that, *if* well-informed, many students will have a strong motive to undertake VET without the need for government incentives. In effect, society may be able to free-ride on the private incentives for students to undertake study.

There are several caveats to this conclusion.

First, by their nature, the public benefits to education cannot be appropriated by the student and therefore will not influence the decision to undertake training. At the margin, there could be underinvestment by students whose private rate of return is insufficient to motivate undertaking study. This may justify some level of government support, although the amount is difficult to determine.²⁵ As a heuristic, some argue that subsidy levels should be based on

²⁵ The optimum subsidy level depends on the nature of the marginal public and private benefits and costs, as well as the cost of raising funds for subsidies — which are empirical issues.

the share of the total social value of education that is public (as raised by Lomax-Smith, Watson and Webster 2011, p. 108).

Second, regardless of whether private benefits are enough to drive investment in VET, there is an equity argument for requiring contributions from all the parties (society at large, employers and students) who benefit. This is a societal choice exercised by government, shaped by social norms about what is fair.

Third, students may inaccurately estimate returns that are distant in time and inherently uncertain. Under these circumstances, students may fail to undertake training even if it would benefit them (Damgaard and Nielsen 2018). Complicating matters further, given that returns to education vary across students, it seems even more heroic to assume that students can reliably make the most advantageous decisions about their training. For instance, job mismatch should be low if people can accurately assess the relevance of their training to future labour market needs. However, while overskilling is relatively uncommon for more highly trained VET graduates, with 62 per cent of people with Certificate III, IV or Diplomas well matched to their jobs, only 45 per cent of people with Certificate I or II and below are well matched (Mavromaras, McGuinness and Fok 2010, p. 14).

Overall, the public returns to VET justify some level of government support across vocational training, not solely where skills are in short supply.

Persistent skills shortages

Many review participants pointed to the central role of VET — and therefore governments' investments — in addressing industry skills shortages. Yet, what constitutes a skills shortage is understood differently (box 3.2). The term skill shortage has been described as 'a slippery concept with many meanings' (Richardson 2007, p. 7).

Skill shortages are of concern where they persist

Australian Government data suggest highly persistent skill shortages in a range of occupations. For example, automotive electricians, panel beaters and arborists have been in shortage for each of the 10 years to 2018 and hairdressers and sheet metalworkers for nine out of the past 10 years (DESE 2019c). A decade long or more shortage seems difficult to explain for some occupations that rely on traineeships taking one to two years to complete.

Box 3.2 **What are skill shortages?**

Skill shortages typically occur when employers struggle to fill vacancies for a given occupation at 'current levels of remuneration and conditions of employment and in reasonably accessible locations' (DOE 2017, p. 5). The skill (or priority) lists used by Australian, State and Territory governments to determine course priorities and skilled immigration draw on qualitative information from employers about their perceptions of occupations in short supply and measures of the share of vacancies filled in a given time by qualified applicants. Some jurisdictions also use other factors to place courses on their priority lists.

There are two crucial aspects of this approach to defining and measuring shortages:

- first, a shortage may occur if employers cannot find candidates with enough experience or with the appropriate general skills (such as communication skills). For instance, in considering child care occupations in 2018, the Department of Jobs and Small Business found that two thirds of qualified applicants were unsuitable because of insufficient experience in child care or a specific aspect of the job, they submitted a poor application, or lacked communications skills or other general employability skills (DJSB 2019). This problem will not be remedied by increasing the number of graduates with the relevant qualifications
- second, the shortage is defined as the inability to recruit a worker at the going wage (including any bonuses). From the employees' perspective, this notion of shortage could be re-framed as a job that does not pay enough to encourage applications by skilled candidates (or to train for that job).

The above approach to framing shortages varies from standard labour market models. These accept that labour shortages can exist as economies change but *presupposes* that such shortages will be transient. There have been instances, such as during the resources boom, where wages and labour supply were highly responsive to significant shortages.

Many factors contribute to persistent shortages. Skill mismatch is the most important. It occurs when the skills of the workforce do not match the skills demanded by employers. One example of mismatch is when employers want more than a qualification; they are seeking employees with experience, soft and non-technical skills (DESE 2020o). These attributes cannot be created quickly, or at all, through training, especially if there is significant job turnover. The same problem arises when employers look for more specialist skills within an occupational class, which may require additional years of training. Skill mismatches may also occur geographically, where skilled workers are available in the labour market but not in the region where employers need them (DESSFB 2019a).

In other instances, the training market may not be sufficiently responsive to shortages. For instance, a niche occupation that requires specialist training for a handful of students is unlikely to be an attractive investment for training organisations. An illustration is stonemason positions, which are hard to fill because training is not provided in all States and Territories (DESE 2018a).

Finally, the usual role of wages in attracting people to acquire skills in short supply can be affected by wage frictions. For example, employers may be unable to raise wages when a budget-constrained government funds health and social services — the National Disability

Insurance Scheme being an illustration. In that instance, workforce requirements have been highly managed by government.

The persistence of long-term unfilled vacancies in some occupations not only indicates issues in labour and training markets, but also raises doubts about the effectiveness of government interventions intended to overcome them.

The derivation and use of skill lists is challenging

Notwithstanding the prominence given by the Australian, State and Territory governments to skill lists (chapter 8), their usefulness is hampered by data issues, methodological challenges and their application. As observed recently:

There remains relatively little empirical research on ... causes of skill shortages and, particularly, on their consequences for firm behaviour and for firm performance. (Healy, Mavromaras and Sloane 2015, p. 2)

Some jurisdictions have also acknowledged the difficulties in producing useful forecasts, not least the challenges of filling data gaps. For instance, in its submission to this study, the New South Wales Government (sub. 48, p. 12) noted:

To ensure the quality and effectiveness of skills needs assessments, the NSW Government supports increasing and improving the use of robust, data-driven processes, including data collection, integration and analysis at the national level to identify and respond to skills needs in national, regional and local labour markets.

A further difficulty in producing skill lists is the plethora of methods (or combinations thereof) for forecasting skill shortages. Some qualitative methods rely on consultation with employers. Statistical methods often take past trends and project them into the future, or use other techniques to consider the factors driving shortages (such as wage adjustment and shifts in the demand for goods and services). Each method faces problems in providing accurate assessments of skill needs. A summary of their difficulties — identified in a review that is now nearly 20 years old — remains relevant (Shah and Burke 2003).

- Employer judgments about shortages need to take account of why an employer may perceive a shortage, and therefore the imperative for training. For example, a lack of experience in an occupation is not a factor that training can resolve.
- Using vacancy measures tend to exaggerate skills needs because they do not fully consider job-to-job turnover within and across occupations, which may resolve shortages more quickly than additional training.
- Time series approaches assume that past patterns of demand will persist, whereas more sophisticated and rigorous ‘structural’ models, such as the MONASH model (Meagher and Pang 2011) embody many assumptions about the way labour markets behave.

A major hurdle for all approaches to forming skill lists is taking into account employers’ and students’ behavioural responses to shortages. For example, predicting the retirement

behaviour of Australians can be critical for areas where shortages are acute, but forecasts have tended to severely over-estimate retirement rates (as in the Australian Government’s early intergenerational reports). For their part, employers may raise wages to attract workers in short supply or they may adapt their business models so they are less reliant on labour.

Skill lists formulated at the national level may have little relevance to the needs of employers in particular regions, States, or Territories. For instance, the Chamber of Commerce and Industry of Western Australia (CCIWA 2019, p. 3) noted that the 10 occupations eligible for the Australian Government’s Additional Identified Skills Shortage payments are not in short supply in Western Australia. Developing regional skill lists face the same challenges as for national skill lists.

Quite apart from the difficulties in forecasting skill shortages, the value of skill lists also depends on whether they are up-to-date. The occupations on the Australian Government’s National Skills Needs List, the basis for apprenticeship employer incentives, have not changed since 2011 and now only one third of the occupations on that list meet the definition of a shortage (DESSFB 2019b).

For these reasons, skill lists can be a flawed basis to allocate subsidies (an observation the Commission makes in chapter 11 in relation to some apprenticeships). Furthermore, given the above problems, highly granular forecasts of skills shortages as the basis for variations in subsidy rates is likely to be asking too much of skill forecasts.

FINDING 3.2 — SKILLS SHORTAGES

Skills shortages lists used to prioritise funding are often outdated and not rigorously measured, reflecting problematic conceptual frameworks and poor data. There is merit in adopting a consistent methodology for measuring skills shortages that allows for variations in local labour markets.

Consistency with higher education

People’s transitions to work and education are influenced by policy measures that favour some pathways over others. For instance, the advent of the demand-driven university system saw a surge in the uptake of higher education (and a shift away from VET), as have other past policy initiatives (like income contingent loans) that have made universities more accessible to a broader range of students (PC 2019b).

Most Australians who want to go to university can do so and attract a subsidy. In contrast, the VET system is aptly described as a ‘demand-managed system’ (Fowler 2017, p. 7). In this context, subsidies for VET are justified to avert the risk that students will be otherwise encouraged to enter the subsidised higher education sector even if the VET sector better meets their and society’s needs.

This comes into sharp relief for:

- occupations where there are regulatory requirements (such as occupational licensing) that require completion of VET. In these cases, governments would risk shortages of high-value vocational occupations if funding were to overly favour higher education
- occupations that are close substitutes, but where different sectors provide the training — a more neutral treatment of government funding between the two sectors is likely to be efficient for qualifications that embody overlapping skills
- sections of the Australian Qualifications Framework (AQF) where the boundary between higher education and VET at the AQF 5/6 level is blurred (with both sectors offering qualifications at that level, but with differential treatment of financing and funding). For instance, access to VET Student Loans is limited to qualifications on skill lists, with no such provision in higher education (Fowler 2018)
- students whose expected returns to training would be greater from VET than higher education. For instance, male students with low Australian Tertiary Admission Ranks (ATARs) undertaking VET courses often get better wage outcomes than students with the same ATARs pursuing university bachelor's degrees (Norton, Cherastidham and Mackey 2019)
- students whose best career path commences in VET and then continues in the higher education system.

Given the public benefits and aims of the VET and higher education system differ, subsidy rates do not need to be identical in the two sectors for all occupations and fields. However, they should be sufficiently aligned to avoid significant distortions in students' training choices between the two sectors.

There are also equity arguments for treating higher education and VET on a more similar footing. While there are some exceptions, most VET students have lower lifetime earnings than higher education graduates, so transfers that favour the latter over the former may be inequitable even after taking account of progressive tax rates — a matter for political judgment.

FINDING 3.3 — FUNDING OF VET AND HIGHER EDUCATION

The use of subsidies in the university system provides an 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 the same in the two sectors.

Overcoming financial barriers to access

Despite evidence of clear private benefits from VET, there is uncertainty about future payoffs for individual training investments. There are many reasons students may not

achieve their expected future income. For example, students may not complete training, or may change occupation shortly after completion. Alternatively, wages within an occupation may rise or fall according to labour market conditions.

The uncertainty of students' future incomes means that private lenders are generally unwilling to provide credit for investment in training. Unlike investments in physical capital, lenders would be unable to recoup losses through the sale of collateral if a student's future income does not meet expectations and they default on the debt.

The difficulty accessing finance for investments in human capital may mean that students who are unable to fund training by other means will not be able to train. Ultimately this means that only students who can afford to fund their training upfront will be able to participate, presenting concerns for both the equity and efficiency of the VET system.

There are many approaches that governments can take to overcome credit constraints: they may choose to fully subsidise qualifications; they may act as a guarantor on student loans from private lenders; or they may implement income contingent loans (chapter 10).

3.2 Governments' role in managing VET markets

Until the 1990s, VET was delivered by public providers, with other training providers operating outside of the defined VET system (for example, to deliver unaccredited workplace training). The opening of government-funded VET markets to greater competition over the past three decades was driven by governments seeking to harness market mechanisms to improve resource allocation and market outcomes.

This gradual change has altered the role of governments in the VET system. Today, governments hold responsibility for the market as a 'steward', an important and ongoing role that includes interventions throughout the cycle of service design, delivery and improvement. Since governments still deliver the majority of training in government-funded markets, their traditional role of provision in VET markets continues.

This section considers how VET markets can be harnessed to improve outcomes, and governments' role as stewards in managing VET markets.

Harnessing market disciplines

Well-functioning markets depend on price signals to allocate resources to where they are of the greatest value to users — thereby improving outcomes for consumers, governments and the community. When markets function well:

- users have increased choice, and are able to choose the type, quality, location, price and other service features that best meet their needs

-
- providers are encouraged to be responsive to the needs of users, and to innovate to improve the efficiency and quality of services
 - productivity improvements in the sector can reduce the cost of delivery, to the benefit of users and funders of training.

Improvements to user choice and diversity of supply are likely to be particularly relevant for VET, given the diversity of students' needs. For example, in foundation skills training, targeted training and tailored programs are required to overcome barriers to skill acquisition such as learning disengagement or cultural differences (chapter 12).

Market mechanisms are a means to an end

Harnessing the discipline of markets is useful to the extent it delivers on governments' objectives and improves system outcomes — a view held by many review participants and academics. For example, Bowman and McKenna (2016a, p. 11) found that:

A few interviewees mentioned the development of a training market as another key end goal of the national training system, although for most, the training market was seen as an operational element, a means to the end goal of having nationally portable VET qualifications that have currency with industry.

In other words, market mechanisms should be a means to an end, and not an end in itself.

There are often significant challenges in harnessing the allocative power of markets. Indeed, market mechanisms are not always suitable, notably where there are market failures. Efforts to harness market mechanisms should focus on areas where competition is most likely to deliver net benefits to the community. They should involve careful design and implementation of interventions, as well as monitoring of performance.

Many participants disagreed with the premise that competition could help ensure the delivery of quality education services (box 3.3). They pointed to the failure of policies that sought to increase competition in VET — including the national entitlement and expanded VET FEE-HELP under the *National Agreement for Skills and Workforce Development* (chapter 4).

Box 3.3 Participant views on the role of competition in VET

Many review participants questioned the role of competition in VET. Some identified an 'ideological' stance by governments. Bowden (sub. IR111, p. 1) stated that governments:

... are actively agitating for VET to be treated as a market opportunity. Is it that there are stakeholders who would like to see other sectors similarly treated as a market? Alternatively, are there some characteristics of this sector that suggest it should be treated as a marketable commodity?

Some took issue specifically with for-profit providers. The Australian Council of Trade Unions (sub. IR109, p. 2) stated:

It is our view that the profit-motive, central to the current conception of competition within the VET market, is utterly corrupting to the true purpose of the VET system — the creation of skilled workers.

Zoellner (sub. IR107, pp. 7–8) similarly noted that while a more open market encouraged training delivery suited to groups who had previously been marginalised, it also resulted in significant growth of for-profit provision, displacing community and 'mission driven' organisations.

The introduction of more open and competitive VET markets corresponded with a significant number of previously profitable social enterprises leaving the education and training trading area. Rather than expanding the participation in the education and training industry, the creation of the VET market coincided with a very significant shift in the mission and operations of many social enterprises ...

Market-based mechanisms are not by default suitable to achieve all government objectives, as noted by the TAFE Directors Australia (TDA, sub. 59, p. 10):

The capacity of the VET market to meet all efficiency and public policy objectives is questionable. ... TDA contends that a simplistic application of market principles to VET risks mis-guided delivery and failure to deliver some key areas of vocational education ...

Nor should competition and market mechanisms be pursued in their own right. The Business Council of Australia (sub. IR145, p. 8) for example noted that:

While the Business Council supports competition, we also recognise that there are inherent challenges for the public provider in a contestable model. Contestability in and of itself should not be a reform objective. The improved outcomes that contestability can deliver should be the reform objective.

Among participants who supported a role for market mechanisms in VET, a common view was the emphasis on quality regulation. The Queensland Nurses and Midwives' Union (sub. IR85, p. 5) for example noted that:

... competition in the VET market must be subject to government regulation and oversight to ensure that providers and employers are held accountable, transparent and responsive to users' needs.

Similarly, the Motor Trades Association of Queensland (sub. IR101, p. 2) emphasised the importance of measures to support quality training to facilitate a competitive market:

Public funds are allocated through competitive processes which requires the provider to deliver recognised quality training to meet users' needs (apprentices, students and employers). To ensure best practice, operations could be benchmarked and audited placing obligations on the provider ...

Others, such as the Civil Contractors Federation (sub. IR94, p. 2) saw a role for more collaborative (rather than competitive) practices for training infrastructure:

It is an inefficient use of public funds to replicate major infrastructure and resources investments. Establishing collaborative resource sharing between all VET providers should create quality outcomes for the user, cost effective use of public resources and lessen the complexities and confusion ...

These experiences resulted in compromised student outcomes, large fiscal costs and damaged the reputation of the VET sector. However, several reviews concluded that the problems associated with VET FEE–HELP were the direct result of poor policy design and implementation (ANAO 2017; DOE 2016; SEERC 2015), rather than resulting from competition itself (chapter 4).

An ongoing stewardship role for government

A fundamental role of governments in a market-oriented VET system is the stewardship of VET markets. As previously noted by the Commission (2017a, p. 63) in the context of human services more broadly:

The stewardship role is broader than overseeing the market and includes understanding the population and its service needs, policy design, regulation, oversight of service delivery, monitoring of provider performance, and developing ways for the system to learn and continuously improve. Stewardship also includes developing institutional and regulatory arrangements to underpin service provision that is responsive to users, accountable to those who fund the services, equitable, efficient and high quality.

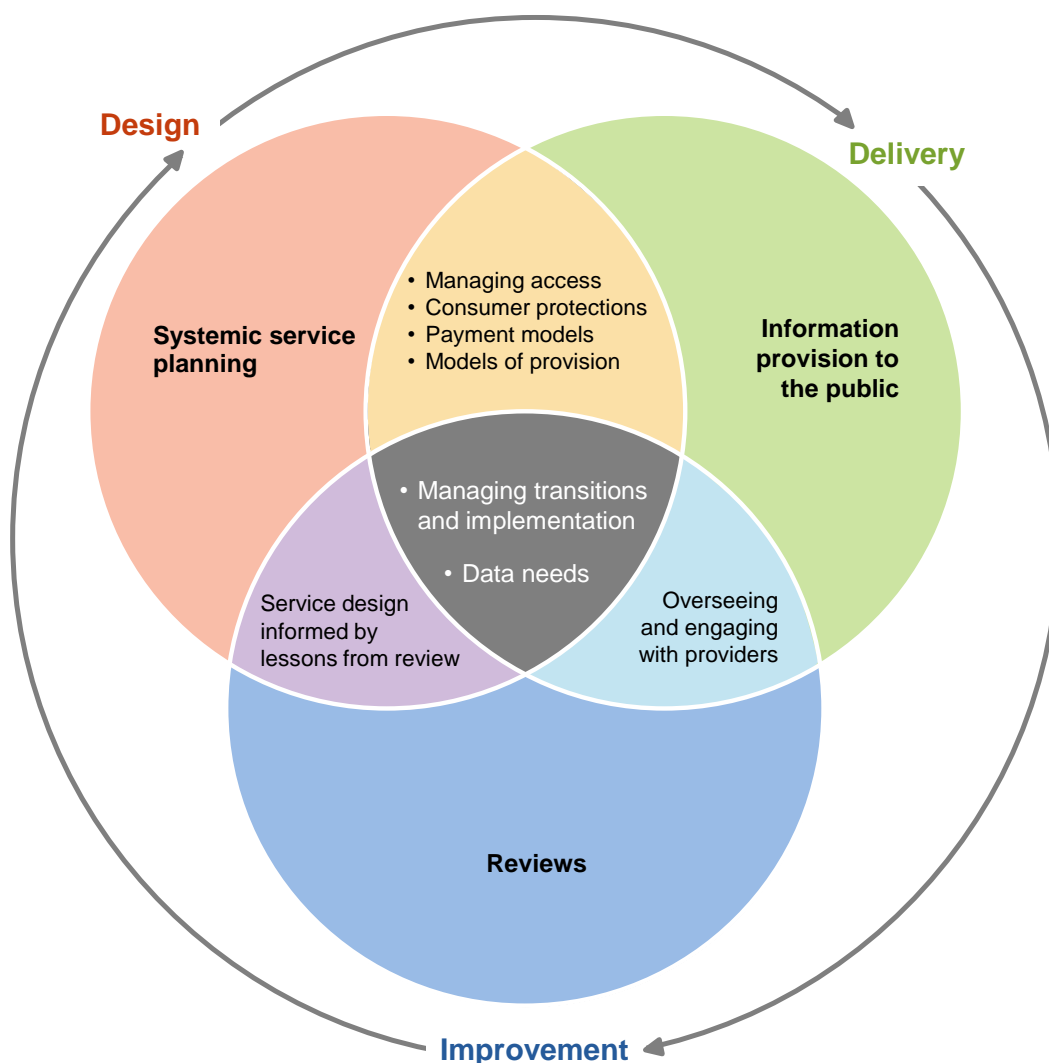
A prominent example is the National Disability Insurance Agency, which acts as a steward in the disability services market (including managing the provision of services in thin markets) (PC 2017b).

Several participants articulated the value of stewardship in VET, although there was little detail or consensus on what this entails in practice (BSL, sub. IR140; CCA, sub. IR96, p. 12; TDA, sub. IR146, p. 2). The New South Wales Government (sub. IR122, p. 5) for example, noted a role for governments that involves:

... improving the operation of the market through better understanding of costs, consumer information, moving to provider allocations based on outcomes, making funding responsive to users, and improving market diversity to foster a more efficient, competitive and high performing VET market.

Critically, the stewardship role is ongoing, and requires supporting policy interventions that are adapted through the cycle of service design, delivery and improvement (figure 3.1). The application of this stewardship model in VET has informed the Commission’s findings and recommendations outlined in subsequent chapters.

Figure 3.1 The stewardship cycle



Source: PC (2017a).

Design

Given that competition has been a feature of the VET system since the 1990s, VET markets are now well established. Notwithstanding, several aspects of the design of the VET system warrant further consideration.

- *Improved use of skills demand forecasts for VET service planning and access* — there is a sound rationale for governments' involvement in service planning. Given their access to labour market information, governments are relatively well-placed to estimate current and future training needs as derived from industries' skill needs. However, the use of skills shortage lists to manage access to government-funded training could be improved (section 3.1).

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- *Better incorporating user needs* — a user-centric model (as distinct from a supplier-centric model) can empower students to have greater control over their lives and enable them to choose a course of study that suits their preferences, interests, values, innate abilities, and appetite for risk. A system based on user choice can also give RTOs incentives to tailor services to user needs, which can support innovation and efficiency of service delivery. There are, however, limits to user choice. Governments must balance the need to ensure the efficiency and effectiveness of governments' investments based on broader public benefit tests and the risk of oversupply of some skills.
 - *Consumer protection* — avenues for consumer protection and redress are shared across multiple Australian, State and Territory government authorities. Students' complaints about RTOs are handled by different parties depending on jurisdiction, type of student, type of RTO, or area of complaint. Several reviews have noted opportunities to improve complaints-handling mechanisms (chapter 7).
 - *Funding models to improve VET investment* — the design of funding models can affect the incentives of parties to improve service delivery or affect the certainty of supply. The Commission has identified several areas where VET funding models could be improved, including between governments (chapter 5), for public providers (chapter 9), to support apprenticeships (chapter 11), for foundation skills (chapter 12) and for students undertaking training away from their place of residence (chapter 12).
 - *Models of provision* — there are three broad options: direct government provision, opening a market to competition, and using contestable processes to select providers (PC 2017a, p. 96). Governments utilise these models in VET, which can provide flexibility to support service delivery in different market conditions (figure 3.2). However, State and Territory governments' direct role in provision — and how they manage their public providers — affect the contestability of VET markets. Some participants have argued for an ongoing (or larger) role for TAFEs to fulfill community service obligations, such as servicing thin markets (for higher cost courses or student cohorts), providing general community service activities, or acting as a 'provider of last resort' (Tasmanian Government, sub. 32; Victorian Government, sub. 58; Victorian TAFE Association, sub. 27; Western Australian Government, sub. 20). Many community service obligations could be met through contestable public funding, irrespective of provider type, and could be addressed through existing course subsidy arrangements (chapter 9).

Figure 3.2 Different models require different government supports

	User choice	Contestable funding
Defined	A demand-side approach where users are able to choose the provider and/or service that best meets their preferences.	A supply-side approach where the supply of a market is open to all providers.
Example	<ul style="list-style-type: none"> The national training entitlement (such as the Victorian Training Guarantee). Income contingent loans (such as VET Student Loans). 	<ul style="list-style-type: none"> Foundation skills training programs, such as the Australian Migrant English Program (AMEP) and Skills for Education and Employment (SEE).
More likely to have benefits when	<ul style="list-style-type: none"> Users have information, time and capability to make decisions. Users are able to assess service quality. Users are motivated because the decision is important. Services are used fairly often and users can learn from experience. Providers can respond to user needs and users are able to switch providers at low cost. 	<ul style="list-style-type: none"> Alternative providers are willing to provide the service, even if they do not currently do so. Governments are able to assess service quality and contracts can be specified such that service provision will be effective. User preferences are taken into account when governments determine which services should be provided and by whom.
Supporting stewardship arrangements	<ul style="list-style-type: none"> User-oriented information on the service, quality and/or price. Payments to providers that reflect the efficient cost of provision and can follow the user. Mechanisms for managing excess demand where the user does not face the full cost of provision. Safeguards to protect service users. 	<ul style="list-style-type: none"> Needs-based assessment of services. Credible threat of replacement of provider if there is underperformance. Contracts with terms that incentivise performance and mechanisms to address underperformance. Ongoing performance monitoring and evaluation. Safeguards to protect service users.

Source: Adapted from PC (2017a).

Delivery

Under a stewardship model, key aspects of managing delivery include:

- information provision — governments are uniquely placed to help limit information asymmetries in VET (box 3.4). This is central to governments' role as market stewards
- overseeing and engaging with providers — notwithstanding improvements to information provision, student choice is unlikely on its own to provide a sufficiently strong discipline to ensure the quality of VET services. For this reason, governments play a critical role in maintaining minimum standards and supporting the continuous improvement of VET quality (chapter 7). This occurs through governments' oversight of course content and delivery, provider registration, price and fee controls and minimum

training workforce credentials. A key lever for governments' oversight of RTOs is through contract management.

Box 3.4 Information asymmetries in VET

Consumers of VET services face an information asymmetry about their choice of course and provider.

One reason is that the quality of VET training outcomes is difficult to assess. The success of a student depends on measurable and unmeasurable inputs from providers as well as a student's own effort. While students are more able to assess their own effort, they may find it difficult to assess the quality of a provider. This is compounded by the difficulty of determining quality even after the completion of training. While students can determine whether they were satisfied with the training received, they will not easily be able to assess whether they would have been better off choosing another provider or course.

Without easy access to high-quality information (for example, about the price, quality and mode of delivery of different providers), students will struggle to make informed decisions. A lack of information can also reduce competition between providers because students cannot readily compare providers.

Information asymmetries can be partially offset by the provision of information to decision-makers. The Australian, State and Territory governments play a role in information provision (chapter 6) and they also uphold regulatory requirements for the consistent collection and reporting of information (chapter 7).

Improvement

Stewardship requires a continuous improvement approach. Service design and delivery should be refined over time based on lessons from experience, drawing on effective monitoring and evaluation at the national, State and Territory, and provider level. The stewardship role therefore includes:

- managing policy transitions and implementation — this could involve staged roll outs and policy trials that provide continuity of service delivery or the testing of ideas. For example, the Commission has proposed a trial of income contingent loans for mature-age students (chapter 13)
- ongoing monitoring — State and Territory governments are primarily responsible for market oversight in their jurisdictions, and as administrators of subsidy programs have contract management responsibilities, which provide a key avenue for monitoring providers, as well as a lever for improving their performance
- evaluation and review — periodic review is required to ensure systems continue to deliver on their intended outcomes while providing the incentives for these outcomes to improve over time. Policy evaluation in VET remains underdone, and greater program-level and system-wide evaluation is required to support ongoing improvement

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- fulfilling data needs — effective monitoring and evaluation of VET is hampered by deficiencies in the evidence base, such as data on funding allocation and quality. Addressing these data gaps is integral to support the effectiveness of governments' stewardship of the VET system (chapter 5).

3.3 Multiple roles of governments in public provision

In principle, incentive compatibility problems can arise when governments hold multiple roles in funding, regulation, policy and provision of training. There are several concerns relating to the relationships between public providers of VET and their State and Territory government owners, including:

- incentives for preferential allocation of funding to public providers — some participants, such as the Alliance of First Nations Independent Education and Training Providers (sub. IR127, p. 2) described a '... clear conflict of interest with State Government funding and TAFE courses'. Where State and Territory governments directly determine course and provider subsidy allocations — in effect, allocating training places to providers — it is possible for them to allocate places foremost to publicly-owned TAFEs. For example, the Commission identified preferential funding allocations to public providers in some jurisdictions through 'Free TAFE' initiatives (chapter 2), alongside a lack of transparency for the allocation and use of funding provided to public providers, which has impeded an assessment of any broader preferential funding arrangements (chapter 9)
- a risk of moral hazard — links between funding and public provision can pose risks of moral hazard. For example, TAFE operators may have less incentive to maintain financial sustainability if they can fall back on government funding as a last resort
- additional requirements can affect efficiency — public providers can be required to fulfil both financial and non-financial requirements, such as government-wide efficiency dividends or the maintenance of a broad scope of qualifications. For example, in describing the relationship between TAFEs and their State and Territory government owners, JCSF Consulting (sub. IR78, p. 3) noted that:

TAFE's are owned (at differing levels of 'arms-length' under statutory corporations) by Governments and operate much dependant on local political will (e.g. Free TAFE places), general government policy on VET funding contestability (most evident in Qld), or, more protected access to State funds. As last resort TAFE's rely on State Treasuries to provide liquidity to guarantee them as a 'going concern' (despite on the other hand Treasuries also imposing simultaneous efficiency dividends on TAFE's).

Improving the autonomy of public providers

The autonomy of public providers has long been a point of concern in VET. In 2011, for example, the Commission recommended governance reforms to improve the flexibility of public providers and their workforce:

A move towards greater managerial independence for TAFE Institutes is likely to better enable them to respond to the more competitive environment they now typically face. The adoption of a statutory authority governance model for public-sector Registered Training Organisations is appropriate, given the desire for governments to retain both ownership and control, while promoting flexibility and competitive neutrality at the individual provider level. (PC 2011, p. 86)

Since then, some jurisdictions have made efforts to improve the institutional autonomy of public providers, for example through changes to governance and legislative structures, and clearer articulation of expectations in ministerial statements or charters (ACIL Allen Consulting 2015c). However, nearly 10 years on from the Commission's recommendation, reforms to the governance arrangements of TAFEs — which have varying models of statutory independence across jurisdictions — do not appear to have resulted in the autonomy required to support their efficient operation. This experience suggests that reforms to governance structures alone are unlikely to result in the autonomy required if operational matters remain at the direct discretion of Ministerial authority.

Several participants to this review argued that the operation of public providers remains at the discretion of Ministerial control. These participants pointed to examples where the major cost drivers of TAFE operations were outside the control of TAFE management, including industrial relations arrangements and control of assets. For example, Shreeve (sub. IR70, p. 1) noted that industrial relations arrangements limited TAFE efficiency:

VET systems as managed by States can be remarkably close to political processes. ... Political interference has, in my view, hampered efforts at industrial relations reform and achieving greater efficiency. The big issue here is not teacher salaries, as the system needs good salaries to attract people with relevant expertise, but rather archaic conditions.

A report by the Queensland Audit Office (2019, p. 11) similarly identified that:

The Queensland Government's current award and industrial relations agreements mean that TAFEQ is not able to significantly reduce its costs due to an employee-cost structure that it cannot fully control. It, therefore, cannot compete directly on cost with the private sector.

On asset management, Feldman (sub. IR83, p. 3) noted that TAFEs can bear the ongoing costs of holding assets without holding full decision-making authority:

In Victoria at least, most TAFEs are burdened with maintaining more premises and property than they can efficiently use for teaching purposes, but without government approval they are unable to take full commercial advantage of their surplus assets as a private business would — for example by sale, subdivision, leasing or even borrowing against assets.

In this vein, participants also saw the potential for greater autonomy of public providers with respect to course content and accreditation, with greater flexibility to meet changes in local labour market needs. For example, Heys (sub. 50, p. 1) noted that:

There needs to be some level of autonomy or license given to established public providers to create courses that are responsive to local need or in response to government determinations.

Full delegation of operational matters would assist

Governance arrangements in higher education could provide a useful model for improving TAFEs (and other public providers). For example, Karmel (sub. IR134, p. 2) noted that universities are afforded greater independence than TAFEs:

The universities are independent of government (although there are legislative constraints and, of course, universities are constrained by the very substantial government funding they receive), and have a higher degree of independence. ... The TAFEs, unlike universities, have little independence from the State government departments responsible for them and have very limited autonomy. They have very little political clout.

Shreeve (sub. IR70, p. 1) similarly noted that universities' governing bodies support their 'arm's length' operations compared with TAFEs:

Unlike Universities that report to governing bodies such as Senates, TAFE systems report directly to State Ministers. If they have a board, like the NSW TAFE Commission, it is usually only advisory. In the early 1990s following the Scott review, TAFE NSW was to become a statutory authority with an accountable, managerial board so it could become more 'commercial' in its operations and be at 'arm's length' from government. This was never implemented.

Revised governance arrangements could assist if they provide genuine delegation of responsibility to the provider and lessen the influence of Ministerial discretion. This could include, for example, the delegation of commercial responsibilities to governing boards in instances where their role is primarily advisory in nature.

Ultimately, irrespective of their governance structure, governments should delegate full operational responsibilities to public providers, particularly with respect to industrial relations arrangements, ownership and control of assets, and responsibility for financial performance. This would assist TAFEs to improve their commercial standing and be more responsive to changing industry and student needs. Efforts to improve operational autonomy are ongoing in some jurisdictions, for example in South Australia:

Ownership of key TAFE SA properties (valued at \$601 million) will be transferred from Renewal SA to TAFE SA in 2019-20. Currently, these properties are leased by TAFE SA and owned by Renewal SA. The transfer of properties to TAFE SA will provide the entity with greater control over the use of these properties going forward. This is consistent with ensuring that TAFE SA is appropriately structured in the future to operate in a contestable training market. (Government of South Australia 2019, p. 74)

Reforms should be accompanied by revised funding arrangements to address any preferential funding allocation and to support competition in VET markets. For example, market testing the delivery of community service obligations and reforms to course subsidies would assist (chapter 9).

RECOMMENDATION 3.1 — IMPROVING THE OPERATIONAL AUTONOMY OF PUBLIC PROVIDERS

Many public training providers have been established as statutory authorities, yet there are ongoing concerns about their independence from State and Territory governments.

State and Territory governments should give greater *operational* autonomy to public training providers, with control over their assets, industrial relations arrangements and financial performance.

PART C — THE NASWD

4 Performance of the NASWD

Key points

- The *National Agreement for Skills and Workforce Development* (NASWD) is an intergovernmental framework for collaboration in vocational education and training (VET). It sets out an agreed objective, reform directions, performance reporting framework, and roles and responsibilities.
 - Established under the *Intergovernmental Agreement on Federal Financial Relations* (IGA FFR), the NASWD marked a shift to untied Commonwealth funding, with State and Territory governments having discretion as to how agreed reform directions were implemented.
- The NASWD's objective remains a relevant policy goal for governments.
- The NASWD's targets have not been met, and some of its performance indicators are flawed.
- High-level reform directions allow State and Territory governments to tailor policy to local and emerging issues. However, they have lost relevance over time as new priorities emerged and the national reform consensus frayed.
 - The NASWD reflected the consensus in 2012 about how governments should improve VET participation — including by creating a national training entitlement, promoting 'user choice'-led competition, and expanding access to income contingent loans.
 - Reforms increased participation in VET but were later wound back because of escalating costs and roting. Overall participation rates are now at or below pre-NASWD levels.
 - Governments endorsed a 'more open and competitive training market', but early reforms have stalled. Improving the efficiency of training markets is no longer an explicit priority for most governments.
- While the NASWD roles and responsibilities afford State and Territory governments flexibility in allocating resources and implementing reforms, this is not accompanied by sufficient accountability and transparency, particularly for funding and its results.
- Roles in areas of joint responsibility are blurred and some governance arrangements are outdated.
 - Some important government bodies (such as the VET regulators) were not included in the NASWD or have since been established (such as the National Skills Commission and the National Careers Institute).
- Consequently, the NASWD has lost relevance as an intergovernmental framework for VET. It is overdue for replacement.

This chapter provides a backward-looking assessment of governments' progress in implementing the *National Agreement for Skills and Workforce Development* (NASWD), an agreement intended to provide a long-term framework for governments' collaboration on

skills and workforce development. The assessment informs recommendations for future intergovernmental arrangements (chapter 5).

4.1 Purpose of the NASWD

The NASWD is an agreement of the Australian, State and Territory governments under the auspices of the *Intergovernmental Agreement on Federal Financial Relations* (IGA FFR). The NASWD commenced in 2009 and was updated in 2012.²⁶ Governments intended the NASWD to provide a long-term framework for governments' collaborative efforts in the vocational education and training (VET) system, a key area of service delivery where both levels of government hold individual and shared roles and responsibilities.

The NASWD sits within a broader framework for intergovernmental cooperation

In 2008, governments established a framework to facilitate intergovernmental financial arrangements and policy collaboration: the IGA FFR,²⁷ described as '... the most significant reform of Australia's federal financial relations in decades' (Council on Federal Financial Relations nd). While governments are generally able to act independently of each other, some policy areas require intergovernmental cooperation. The IGA FFR sought to address two key features of Australia's federated system that require cooperation, namely:

- vertical fiscal imbalance (the disparity between revenue generation capacity across levels of government), where State and Territory governments have large expenditure responsibilities relative to their revenue-raising capacities, and therefore rely on financial transfers from the Australian Government
- shared interests and overlap in the roles and responsibilities for service delivery across the Australian, State and Territory governments (O'Loughlin 2010, p. 248).

The new framework was intended to provide a foundation for cooperation on policy and service delivery, and to facilitate the implementation of reforms in areas of national importance. In addressing these two key features, the IGA FFR was a departure from previous intergovernmental arrangements, emphasising flexibility for jurisdictions in service delivery coupled with accountability for — and transparency of — outcomes. The centrepiece of this arrangement was the establishment of six National Agreements, one of which was the NASWD (the other five cover disability, education, health, housing, and Indigenous reform).

²⁶ The NASWD was revised in 2012 following changes in economic conditions including the global financial crisis and industry restructuring.

²⁷ The NASWD and IGA FFR can be found at <http://www.federalfinancialrelations.gov.au/>.

As acknowledged in the NASWD, many areas of skills policy — particularly VET — need national cooperation and consistency, including regulation and standards, training package design, data, and research. Many aspects of VET regulation are nationally consistent, including the national minimum standards, a national regulator (except for Western Australia and Victoria), training package processes, and the qualifications framework. The transition to these national arrangements has placed greater emphasis on the national characteristics of VET over the past 40 years (DPM&C 2014b). As a result, the Australian Government now plays a greater role in supporting the development of a national skilled workforce.

The NASWD intended to promote subsidiarity and flexibility

The NASWD was agreed to support effective government cooperation in a key area of shared responsibility between the Australian, State and Territory governments. In line with the IGA FFR, State and Territory governments remain responsible for VET in their jurisdictions — a central premise of the NASWD (box 4.1).

Box 4.1 What is different about the NASWD?

The NASWD is the most recent intergovernmental agreement aiming to ensure effective governance and development of the vocational education and skills system. Such intergovernmental arrangements date back to the 1970s when the Australian Government first identified education as a national priority.

Before the IGA FFR, Australian federal financial relations involved many payments to State and Territory governments with a high degree of prescription on service delivery. The IGA FFR framework sought to rationalise these funding arrangements (90 payments were rolled into five) to provide flexibility in the use of funding and service delivery. It also sought increased accountability through a focus on achieving outcomes, more clearly specified roles and responsibilities, and enhanced performance reporting.

The NASWD and the broader IGA FFR framework was therefore a departure from previous arrangements. The agreement immediately preceding the NASWD, the *Commonwealth-State Agreement for Skilling Australia's Workforce*, required greater accountability for Commonwealth investment in VET and required State and Territory governments to submit plans to the Commonwealth Minister setting out how the funds would be spent and what would be achieved. In contrast, the NASWD does not require jurisdictions to take specific actions, nor were general Commonwealth grants tied to conditions.

Sources: DPM&C (2014b); O'Loughlin (2010).

Unlike previous agreements, the NASWD and the IGA FFR recognised State and Territory governments as having primary responsibility for service delivery, and provided funding from the Australian Government that was no longer tied to conditions on how that money was to be spent. While the former reflects constitutional divisions of power, it also places weight on the principle of 'subsidiarity' — that powers and responsibilities should be devolved to the lowest tier of government practicable. In practice, that has meant that State and Territory governments have primary responsibility for expenditure and the quality of

services they deliver to their own communities. Such a philosophy predicated that, given vertical fiscal imbalance, the Australian Government should fund many of the activities for which State and Territory governments have key responsibility. It reflected that the Australian Government's revenue-raising capacity does not give it intrinsic superiority in judging how to allocate funding or regulate.

However, subsidiarity does not preclude a role for the Australian Government in service delivery. Jurisdictions consent to a national role if the vehicle for achieving it is well designed and serves their purpose — for example, the benefits of a national VET regulator have been accepted by most governments. Similarly, there are economies of scope arising from national programs such as VET Student Loans, given the Australian Government's role in tax collection.

Jurisdictions were also meant to be held accountable for outcomes through greater transparency, both between governments and to the public. Under the IGA FFR, simpler, standard and more transparent reporting against performance indicators and targets were intended to provide accountability for objectives, with 'a rigorous focus on the achievement of outcomes' (COAG 2009). A new body, the COAG Reform Council, was created to assess and report on the performance of governments under National Agreements (it has since been disbanded).

The NASWD is supported by other agreements

A key feature of the IGA FFR is that it provides for other funding agreements to support national reform or service delivery improvement in areas of State and Territory responsibility and to complement National Agreements. There have been several National Partnership Agreements under the NASWD (box 4.2).²⁸

²⁸ In August 2020, Australian Government payments to jurisdictions previously made through National Partnerships and Project Agreements were consolidated under the overarching Federation Funding Agreement for Education and Skills (Australian Government 2020a, p. 6).

Box 4.2 Other agreements complement the NASWD

The NASWD has had three underlying National Partnership Agreements.

- The **National Partnership Agreement on Productivity Places Program** (2009–2012) — aimed to reduce skills shortages and increase productivity of industry and enterprises through an increase in the number of people with qualifications at Certificate III and above for employed workers and Certificate II and above for jobseekers.
- The **National Partnership Agreement on Skills Reform** (2012–2017) provided for an entitlement to a training place for everyone of working age for qualifications at Certificate III and above and the extension of income contingent loans.
- The **National Partnership on the Skilling Australians Fund** (2017–2022) aiming to increase the uptake of apprenticeships and traineeships, pre-apprenticeships, pre-traineeships, higher apprenticeships, and other relevant employment-related training. The Skilling Australians Fund (\$1.5 billion) was established in the 2017-18 Budget and ends on 22 June 2022.

	2009	2012	2020
Intergovernmental framework	IGA FFR		
National Agreement	2009 NASWD	2012 NASWD	
National Partnership Agreement	Productivity Places Program	NPA on Skills Reform	Skilling Australia Fund

Key provisions of the NASWD

This chapter is structured to assess the key provisions of the NASWD as per the review's terms of reference 1, including:

- an *objective* for the agreement (section 4.2) that embodies governments' shared goal for what the VET system should deliver. The objective is broad in nature, emphasising the contribution of the VET system to skills and workforce development more broadly
- a *performance framework* (section 4.3) for measuring the success of governments against the objective, consisting of: three stated outcomes, six performance indicators, and two aspirational targets. Methods for national data collection were also agreed. The performance framework was intended to serve as an accountability mechanism, with greater transparency of performance both to the public and between governments, to ensure governments delivered on their commitments. In keeping with the IGA FFR, the NASWD performance framework focuses on measuring the outcomes to be delivered, with flexibility for jurisdictions in how these are achieved
- ten stated *reform directions* (section 4.4) aimed at 'delivering a productive and highly skilled workforce' (COAG 2012b). While the NASWD aims to improve skills and workforce development more broadly, the reform directions are specific to VET. The inclusion of 'directions' sought to avoid prescription in how jurisdictions were to implement reform, while maintaining a link between the agreed national outcomes and jurisdiction-specific policy commitments. Outside of commitments to introduce a national training entitlement and expand the availability of student loans, governments did not

specify in the NASWD how reform directions were to be achieved. This flexibility was critical to the political acceptability of a national reform agenda across jurisdictions with different circumstances, but also likely further reinforced jurisdictional differences

- a clearer allocation of *roles and responsibilities* (section 4.5) for parts of the VET sector between levels of government, to improve the governance of and accountability for the VET system. The NASWD specifies roles and responsibilities for the two levels of government, consistent with the philosophy of the IGA FFR.

This chapter concludes by considering the ongoing suitability of the NASWD (section 4.6) to inform recommendations for future intergovernmental arrangements (chapter 5).

4.2 The NASWD objective

Under the NASWD, governments endorsed a broad objective of ensuring that the VET system:

... delivers a productive and highly skilled workforce and which 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 the achievement of increased rates of workforce participation. (COAG 2012b, clause 18)

Many review participants supported this objective, as well as the accompanying statements of aspiration and intent in the NASWD (ACCI, sub. 33; ALA, sub. 12; CCIWA, sub. 54; MTA SA/NT, sub. 18; TDA, sub. 59). The New South Wales Government (sub. 48, p. 3) stated:

The NASWD has been effective in setting an aspiration for the skills levels required for Australians and a reform direction for the VET system in Australia, agreed by all jurisdictions.

Other participants were comfortable that the objective covers more than just the VET system. According to the BCA (sub. 16, p. 5), the NASWD objective:

... capture[s] the key priorities you would expect from governments investing in human capital development, such as delivering a productive and highly skilled workforce, increased workforce participation ... While the labour market is changing and there is a general expectation of continued disruption, the objectives of governments are unlikely to change. In the face of a transforming economy, the key will be how to create a system that can deliver on the objectives, rather than changing the objectives.

The endorsement of the NASWD objective by review participants suggests that it remains a relevant policy goal for governments.

However, a sound policy objective for governments must also consider how their performance should be defined and measured. Review participants noted that the formal VET system is just one avenue to 'deliver' a productive and highly skilled workforce (ALA and NHVic, sub. 12; BCA, sub. 16; Skills Impact, sub. 28). Skills can be gained through higher education, and vocational skills can be obtained outside the VET system through unaccredited training and informal workplace training. Skills Impact (sub. 28, pp. 4–5) noted

that measures of workforce participation alone do not sufficiently capture the performance of the VET system, nor adequately account for these other avenues for skills acquisition:

The broad objective of the NASWD makes it difficult to define what evidence might look like to describe how well objectives have been met. It starts by setting a broad objective of the [VET] System and then defining the success of that system, by references to skills, workforce, participation in the economy and participation in the labour market, melding the notion of skills and qualifications. ...

The VET system plays a limited, though critical role in this system, yet the broad objective and the subsidiary objectives seem to place the future of Australia's skills performance on one element of the system, the VET sector.

As discussed in section 4.3 below, a key challenge for governments is identifying their *contribution*, and that of the VET system, toward improving skills and workforce development. Some review participants proposed that measuring such an economy-wide objective requires measurement of the respective contributions of different sectors — and accounting for governments' actions within these sectors — toward shared aims. For example, the Victorian Government (sub. 58, p. 12) noted that, while the NASWD acknowledges that higher education, employment policy and other external factors affect how well the NASWD objective is achieved, '... it is silent on and doesn't effectively consider how these interactions can best be governed or measured'. Other participants held different views on how, and the extent to which, the contribution of other sectors to skills and workforce development should be captured in an intergovernmental agreement. This is discussed further in chapter 5.

FINDING 4.1 — THE NATIONAL AGREEMENT FOR SKILLS AND WORKFORCE DEVELOPMENT (NASWD) OBJECTIVE

The NASWD objective remains a relevant policy goal for governments. However, it could be improved by acknowledging nationally recognised VET as a major, but not the only, contributor to skills and workforce development, alongside higher education, non-nationally recognised VET, and workplace training.

4.3 The performance framework

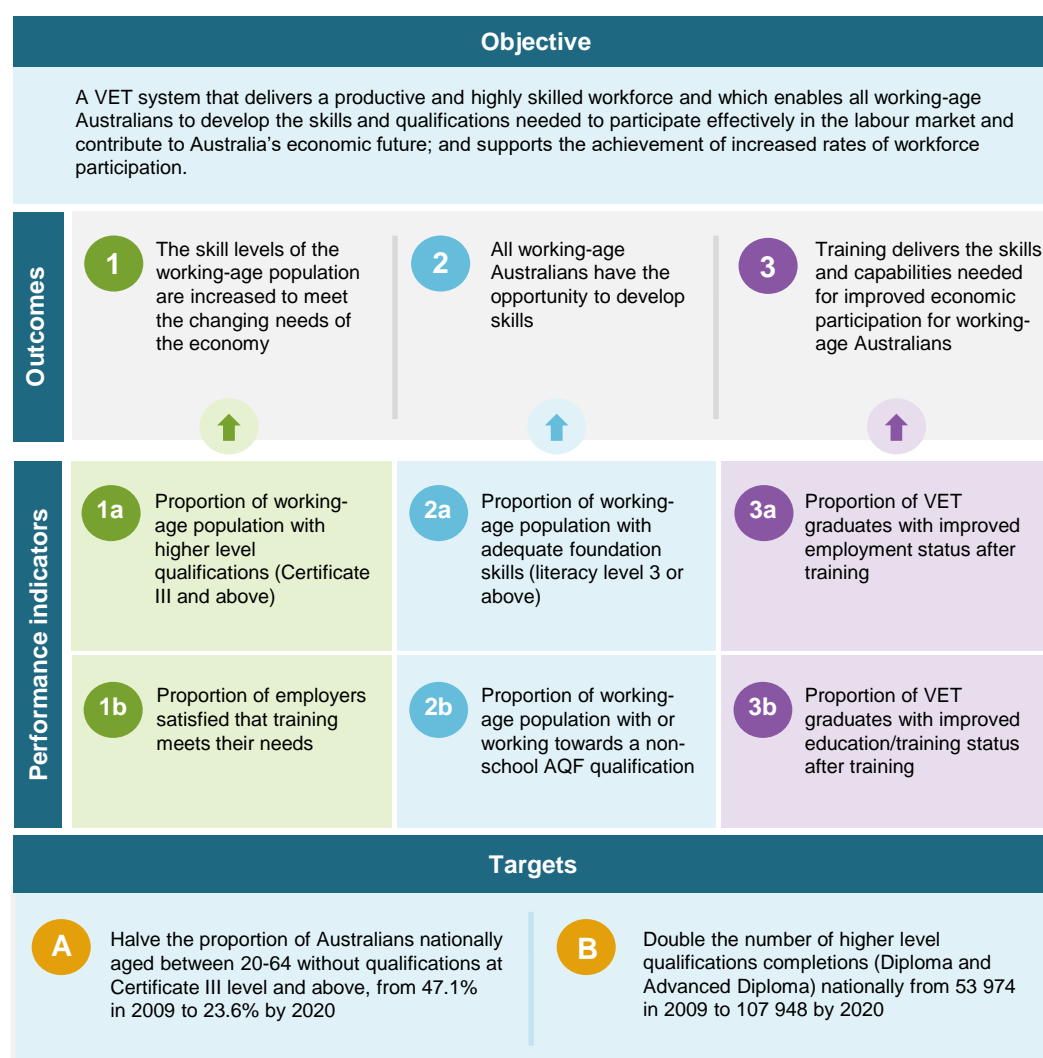
Design features of the performance framework

Performance frameworks are intended to hold governments to account for their stated objective(s) by providing relevant information to the public. The process of designing a performance framework can also help clarify government objectives and be a spur to action (PC 2019a). However, it is often difficult to empirically assess the magnitude of these effects on government behaviour. Constructing a performance framework is also not an exact

science as outcomes, indicators, and targets can often only serve as proxies for determining whether a high-level, aspirational objective has been achieved.

The NASWD performance framework provides a basis to measure whether governments were delivering on the outcomes committed to under the NASWD. To realise their objective, governments agreed to three broad ‘outcomes’ and two ‘long term, national and aspirational’ targets for 2020 (COAG 2012b, p. 5). Each outcome is measured by two performance indicators (figure 4.1). This approach was rather minimalist; in total the NASWD included six performance indicators, the least of all the National Agreements under the IGA FFR.²⁹

Figure 4.1 The NASWD performance framework



Source: COAG (2012b).

²⁹ The Disability Agreement had nine, Healthcare 33 (with disaggregation for various groups experiencing disadvantage), Housing and Homelessness with 14, Indigenous with 15. The National Schools Agreement did not have performance indicators.

Moreover, the choice of targets and performance indicators reflects assumptions about Australia's skills needs. For example, the NASWD equates minimum workplace skills with nationally recognised (or accredited) qualifications at the Certificate III level. Governments regard these qualifications as a benchmark for working-aged people, given their positive impact on employment and earnings (Stanwick 2005) and status as a minimum qualification for many entry-level jobs (Bowman, McKenna and Griffin 2016, p. 7).

Progress against the performance framework

Progress against the NASWD's performance framework has been mixed, as summarised in figure 4.2, with a full assessment documented in appendix B. While progress has been made against some indicators, other measures suggest a deterioration in the performance of the VET system. Against the six indicators, governments have improved performance on half (1a, 2b and 3b), seen performance deteriorate on one (1b) and had no statistically significant difference in performance on one (3a). There is insufficient direct data to judge performance on indicator 2a, although supporting evidence suggests that performance likely worsened (appendix B). Further, both targets will not be met by 2020.

Figure 4.2 Mixed progress against the NASWD performance framework

Outcome		Description of measure	2009	Trend	2019	Result
Skill levels are increased to meet the changing needs of the economy	1a	Working-age population with Cert III and above	53%		62%	Improved
	1b	Employers satisfied that training meets their needs	86%		79%	Worsened
All Australians have the opportunity to develop skills	2a	Working-age population with adequate foundation skills	—	56% in 2012	—	Unclear, but likely worsened
	2b	Working-age population with or working toward a non-school qualification	65%		73%	Improved
Training delivers the skills and capabilities for improved economic participation	3a	Graduates with improved employment status after training	65%		64%	Roughly equal
	3b	Graduates with improved education/training status after training	53%		59% ^a	Improved
National targets	A	Halve the proportion of Australians aged 20–64 without at least a Cert III	47%		38%	Not met
	B	Double the number of higher-level qualification completions nationally	~43k		~38k ^a	Not met

Detail on governments' performance against the performance framework can be found in appendix B.

^a The latest year of data available was 2018.

Assessing the performance framework

If well designed, the NASWD's performance indicators — taken holistically — should measure governments' progress in improving the performance of the VET system and its contribution to workforce development. Yet, this is not an easy task and experience under the NASWD provides ample lessons for future performance reporting.

A performance framework with deficiencies

Several aspects of the performance framework meant that it was unsuitable to improving transparency of, and accountability for, government activity and performance.

Selecting targets and performance indicators

The poor selection and design of targets and performance indicators limited the value of performance reporting. This is evident in the NASWD targets. That the two NASWD targets were not met by governments is partly due to their overly aspirational design — they were unlikely to have been met irrespective of governments' performance. The setting of ambitious, perhaps even impossible, targets has been a feature of the National Agreements under the IGA FFR. Across the six agreements, the majority of the benchmarks and targets were not met or were not 'on track to be met' (PC 2020a).³⁰ Some performance indicators were also of limited value and were only compiled periodically given limited data availability. This was particularly the case for indicator 2a, which is based on data from the OECD PISA³¹ survey, which is only undertaken every 10 years. This meant that the framework was unable to regularly assess the acquisition of foundation skills.

Measuring the contribution of governments and the VET system

As noted in section 4.2, the performance framework was not well-targeted to measuring the *contribution* of governments, and that of the VET system, toward improving skills and workforce development — a core rationale for including a performance framework in the NASWD. Nor was it suited to measuring governments' contribution to, or achievement of, the reform directions. Two aspects of the framework demonstrate this.

- *Measures focused solely on government-funded training* — data on the whole market (including fee-for-service training and the activity of private registered training organisations (RTOs)) were only comprehensively collected from 2015. This meant that the performance measures cannot sufficiently capture where governments' efforts led to greater uptake in fee-for-service training at private RTOs. This is a substantial omission

³⁰ The National Agreements originally included as schedules to the IGA FFR are the *National Healthcare Agreement*, *National Education Agreement*, *National Disability Agreement*, *National Affordable Housing Agreement*, and the *National Indigenous Reform Agreement*.

³¹ Programme for International Student Assessment.

— the number of fee-for-service qualification completions at private RTOs since 2015 has been about equal to that of all government-funded qualification completions (NCVER 2019o, 2019q). Moreover, the limited measurement of fee-for-service training means that it is difficult to ascertain the quantum of *additional* government-funded places that resulted from reforms. For example, it is plausible that the increase in government-funded enrolments after the implementation of the national training entitlement included students who would have otherwise undertaken training in the fee-for-service market in the absence of the policy, but the limited scope of data at this time means this cannot be verified (section 4.4).

- *There was no measurement of training outside the formal VET system* — the contributions of migration, higher education, workplace training, and unaccredited training were not included. Performance indicators that capture other avenues of skills and workforce development can be useful where they can provide evidence to infer the contribution of governments and the VET system, either in a relative or benchmark capacity, or to isolate the effects of governments' contributions in the VET system within a broader system of skills acquisition.

A focus on measuring outcomes

The NASWD performance framework was an improvement from earlier agreements, replacing prescriptive reporting on program delivery and inputs to focus on measuring outcomes. However, in many areas of education and social policy, quantitative measures — particularly *outcome* measures — provide only partial insights into system performance.

What constitutes a 'good' outcome in skills acquisition is difficult to define and measure, given the diverse capabilities of students and the extent employment outcomes are contingent on economic conditions. Using the data available, the NASWD targets were focused on aggregate measures of educational attainment. While easily quantifiable, this approach reduced skills acquisition to the number of people holding qualifications. This conflation of skills with qualifications may have accorded with the policy intentions of the time, but did not assess whether the qualifications aligned with labour market needs. It therefore presents a challenge for assessing whether the contribution of governments is well targeted to needs.

The focus on aggregate measures of qualification attainment to measure progress against the NASWD objective was criticised by the Victorian Government (sub. 58, p. 11), who stated that this prioritised 'volume over quality and relevance'. An emphasis on growing the overall *stock* of skills may also be misaligned with the dynamics of the labour market and does not consider the consequences of overskilling relative to job needs. The performance framework contained no indicators relating to overskilling or skills mismatch — indicators used in other countries for assessing skills and workforce development (for example, the European skills index (CEDEFOP 2020)).

Supporting institutional arrangements and review mechanisms

The limitations of quantitative measures highlight that even well-designed performance frameworks cannot, in isolation, infer the effect of government policy on outcomes. The independent COAG Reform Council was established to strengthen the monitoring and reporting aspects of the framework as well as to undertake periodic evaluation to make independent judgements about governments' progress.

However, the COAG Reform Council did not report on VET and was disbanded in 2014. The Productivity Commission subsequently became responsible for publishing all reporting data against National Agreements.

Other arrangements meant to facilitate transparency also fell by the wayside. The NASWD outlines that the Australian Government coordinate the development and publication of an Annual National Report but this has not been undertaken since 2012. Further, there has been little pressure on governments to account for progress on, or departures from, reform directions, with only one formal review (by ACIL Allen Consulting 2015c) of commitments since 2009.

After 2012, performance measures were not reviewed, despite a commitment to their ongoing improvement. This lack of interest in evaluating and improving the NASWD performance framework meant the NASWD became less and less relevant. For example, governments could have updated performance indicators in line with changing data collection, by incorporating the data on the fee-for-service market which became available from 2015. The relevance of performance framework as a vehicle for improving transparency and accountability diminished accordingly.

Ultimately, the NASWD's performance framework is not sufficient to hold governments to account on their contributions in the VET system. Part of the explanation is that the NASWD targets are not realistic, and that some performance indicators are of limited value. More meaningful indicators of system performance and of reform progress would assist (for example, if governments aim to improve connections between VET and higher education, appropriate indicators will be needed to measure progress). The Commission's recommendations for how governments should more transparently report on reform implementation and system performance (as well as on program spending, discussed in section 4.5), are outlined in chapter 5.

Revised institutional arrangements and other tools are required to improve accountability. Together, a robust performance reporting framework and supporting institutional arrangements can facilitate — but are no substitute for — a genuine commitment to cooperation and system improvement.

FINDING 4.2 — THE NASWD PERFORMANCE FRAMEWORK

Governments' targets on skills formation will not be met. Progress against performance indicators, such as employer satisfaction and employment outcomes, is mixed.

The NASWD's performance framework is not sufficient to hold governments to account on their reform commitments, nor system performance.

- The targets are unrealistic, and some performance indicators are of limited value or relevance.
- The framework has no provisions to review the performance indicators and targets, nor for requiring evaluations of policy performance.

Revised reporting arrangements and more meaningful performance indicators are required to improve transparency and accountability.

4.4 The reform directions

Design features of the reform directions

Under the 2012 NASWD, governments endorsed 'a shared vision of reform' based on reform directions to help achieve their objectives. The inclusion of reform directions sought to promote national coordination of skills policy reform; a requirement envisaged by governments to achieve their objectives. To this end, governments committed to 'policy and reform directions' in the original 2009 NASWD, which were subsequently revised in the 2012 agreement. These established high-level 'directions' as a critical link between the desired outcomes of the agreement and governments' policy actions and were intended to guide the implementation of jurisdictions' reform commitments. Detailed policy actions were then documented in agreements such as the *National Partnership Agreement on Skills Reform* (NPASR), in accordance with provisions under the IGA FFR.

In this way, the reform directions reflect the extent of prescription at a national level that governments saw fit to support the achievement of stated outcomes. Besides commitments to introduce a national training entitlement and expand the availability of student loans, the NASWD did not prescribe how governments were to achieve the reform directions. State and Territory governments had flexibility to determine which reform directions were prioritised, in keeping with the ethos of jurisdictional responsibility under the IGA FFR.

The 2012 commitments formed one part of a broader reform effort that, in effect, comprised a shift in what elements of the VET system were required to be nationally consistent to improve training outcomes. This included access to training under the national entitlement, access to financing for Diploma and above courses, and a national regulator to enforce national minimum standards, for example (although the latter was agreed separately to the NASWD). Most other policy areas were left to the discretion of State and Territory governments, and the reform directions provided significant flexibility for how reforms were

to be implemented — they permitted tailored policy responses to jurisdiction-specific and other emerging issues.

Progress against the reform directions

The NASWD outlined ten policy reform directions, which can be grouped under four broad themes: improving access to VET; facilitating a more responsive and efficient market; enhancing training quality and industry engagement; and improving VET system pathways and information. The Commission has assessed governments' performance against these reform directions, summarised in table 4.1 and explored in greater detail below.

Table 4.1 Assessing the reform directions in the NASWD

<i>Reform directions</i>	<i>Assessment of governments' performance</i>
Improving access to VET <ul style="list-style-type: none"> Improving training accessibility, affordability and depth of skills, including through the introduction of a national training entitlement and increased availability of student loans (clause 25 a). Improving training participation and qualification completions, including at higher levels and by those who may be experiencing disengagement or disadvantage (clause 25 b). 	<ul style="list-style-type: none"> Two key national reforms — 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.
A responsive and efficient market <ul style="list-style-type: none"> Encouraging responsiveness in training arrangements by facilitating the operation of a more open and competitive training market (clause 25 c). Enabling public providers to operate effectively in an environment of greater competition (clause 25 d). Strengthening the capacity of public and private providers and businesses (clause 25 e). 	<ul style="list-style-type: none"> Governments moved toward a 'more open and competitive training market', but early efforts have stalled. Improving the efficiency of training markets is no longer an explicit priority for most governments.
Training quality and industry engagement <ul style="list-style-type: none"> Assuring the quality of training delivery and outcomes, with an emphasis on measures that give industry more confidence in the standards of training delivery and assessment (clause 25 g). Increasing industry's engagement with the VET sector to ensure training outcomes are high quality and relevant to the needs of employers (clause 25 i). 	<ul style="list-style-type: none"> Employers are less satisfied with vocational education than they were when the NASWD was signed and use the VET system less. Student-focussed indicators of quality remained stable over the past decade. Governments did not sufficiently focus on quality initiatives, which ultimately undermined reforms to increase access.
System information and pathways <ul style="list-style-type: none"> Greater transparency through better information (clause 25 h). Strengthen, streamline and harmonise the Australian Apprenticeships system (clause 25 f). Facilitating more interconnected tertiary and training sectors, with better links between employment services and training provision (clause 25 j). 	<ul style="list-style-type: none"> Governments improved national data collection, particularly on VET activity. Despite governments' commitments, data and information on VET quality, prices, funding, and cost of delivery remain inadequate. Improving system pathways remains a challenge for governments.

Source: COAG (2012b).

Governments' progress against the reform directions is considered below in detail, followed by an assessment of their suitability in supporting a national approach to skills policy.

Improving access to VET (clauses 25 a and b)

Governments sought to improve access, especially for students facing disadvantage, by introducing a national training entitlement — a guaranteed subsidised training place for all working-age Australians undertaking their first Certificate III or above qualification — and extending the availability of income contingent student loans (box 4.3).

Box 4.3 National reforms to improve VET access and participation

A national, but not uniform, training entitlement

COAG agreed in the 2012 *National Partnership Agreement on Skills Reform* that jurisdictions would introduce or strengthen entitlement schemes based on the following conditions:

- the entitlement was to be available as a minimum to all working-age Australians without a Certificate III or higher qualification subject to meeting any State (or Territory) eligibility criteria
- schemes should cover foundation skills or lower qualifications contained within a Certificate III
- schemes should be open to any registered training organisation, public or private, provided they meet State criteria for provision of subsidised services (COAG 2012c).

Beyond these requirements, the design and implementation of entitlement schemes were left to each State and Territory government.

Expansion of VET FEE-HELP

The expanded VET FEE-HELP (VFH) scheme operated between 2013 and 2016. VFH was tightened in 2015 and replaced in January 2017 by VET Student Loans following egregious and unscrupulous conduct by a number of RTOs. Governments intended that this initiative would work with any offer of entitlements above the minimum Certificate III level to promote competition in the market (Saccaro and Wright 2018).

Several reviews have documented significant design flaws with VFH, including that RTOs received upfront the full fee per enrolment, while self-reporting enrolment numbers. This created incentives to maximise enrolments, with few checks and balances to ensure students were genuinely enrolled and undertaking their courses (ANAO 2017; DOE 2016; SEERC 2015).

Participants widely regard VFH as having damaged the standing of the VET sector (ACCI, sub. 33; BCA, sub. 16; JCSF Consulting, sub. 3; NTEU, sub. IR106; NSW Government, sub. IR122; Tasmanian Government, sub. 32; University of Melbourne, sub. 55). The ACCC has since acted against seven large RTOs and a marketer of VFH courses. More than \$725 million in VFH debt has been cancelled under a redress scheme (DESE 2020u).

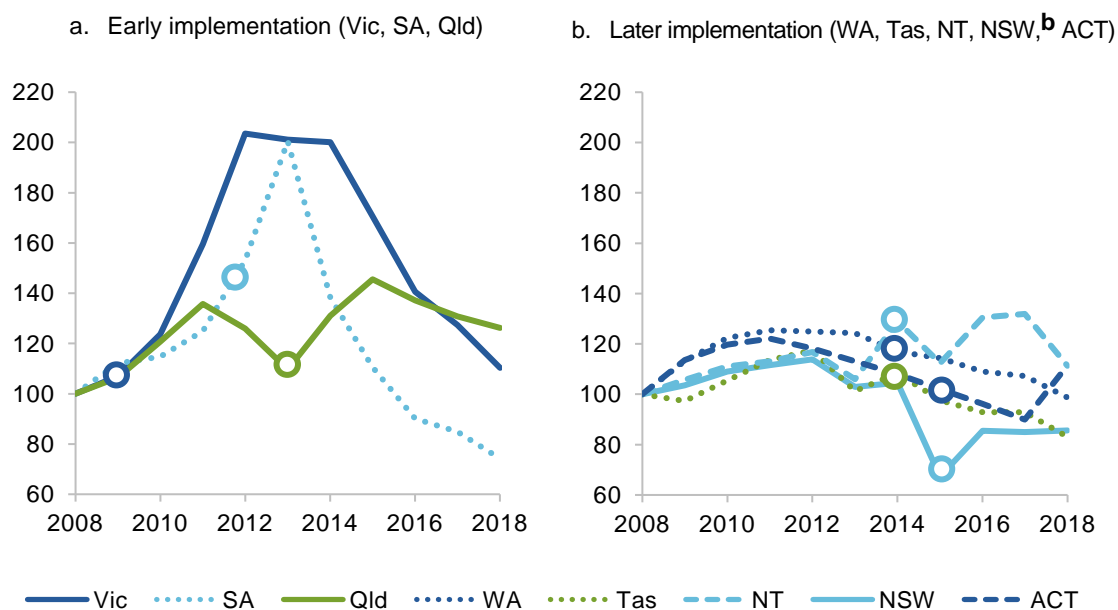
Impact of an entitlement on training participation

Jurisdictions implemented the national entitlement in different ways and at different times. Victoria and South Australia, the first States to introduce entitlements, had schemes most closely aligned to the idea of demand-led services, and at first did not restrict course selection or cap the number of government-funded places.

While many factors influence enrolments in VET courses, it is clear that the introduction of the national training entitlement in Victoria and South Australia — and subsequent changes — was accompanied by a surge, then a decline, in training (figure 4.3). After introduction of the Victorian Training Guarantee, government-funded enrolments in Victoria increased by an estimated 35 percentage points between 2008 and 2011 and participation in VET increased from 6.3 to 11.3 per cent among those of working age (Leung et al. 2014; Polidano, van de Ven and Voitchovsky 2017a). The scheme also delivered positive outcomes for students (chapter 9).

Figure 4.3 Government-funded training increased after the entitlement in some jurisdictions

Indexed hours of training delivery, 2008–2018^a



^a Circles represent the introduction of the entitlement scheme. Hours of training delivery indexed with 2008 as base year. ^b While reflective of overall training activity delivered, the decline in training activity in New South Wales between 2014 and 2015 may also reflect changes in the year training activity was counted.

Source: NCVER (2019o).

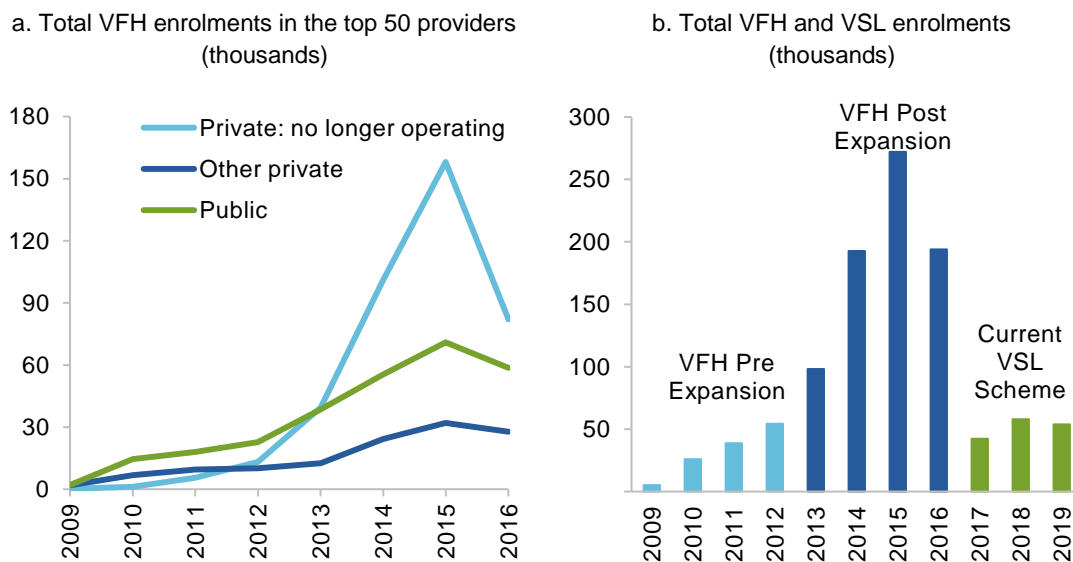
These early effects suggest that the entitlement helped improve the accessibility and affordability of VET in the short term. However, later implementation in other jurisdictions involved less generous entitlements and saw smaller increases, or even declines, in participation.

Victoria and South Australia tightened their schemes in 2011 and 2013, respectively, due to concerns about the public value of some subsidised training, higher than expected costs, and unscrupulous conduct by a few RTOs (ACIL Allen Consulting 2015b; DEECD (Vic) 2012; Hetherington and Rust 2013). Victoria and South Australia's experience influenced the design of subsidy schemes elsewhere. Notably, governments shifted from supporting competition through greater user choice to a more managed approach with governments contracting providers to deliver places (chapter 8).

Impact of VET FEE-HELP on training participation and affordability

The expansion of VET FEE-HELP (VFH) saw a significant increase in student loans from 54 216 in 2012 to over 272 000 in 2015. However, most of this growth was concentrated in a small number of now defunct private providers (figure 4.4). Enrolments in just 10 RTOs accounted for more than half of all VFH loans in 2015 (DOE 2016) and 16 per cent of RTOs relied on VFH for over 90 per cent of their revenue (DET 2016a). Moreover, as VFH grew, unit-of-study completion rates fell from about 75 per cent in 2012 to just under 50 per cent in 2015 (KPMG 2019). VFH-assisted students were less likely to complete their course than eligible non-assisted students (NCVER 2015).

Figure 4.4 Enrolment growth under VET FEE-HELP was concentrated in providers no longer operating

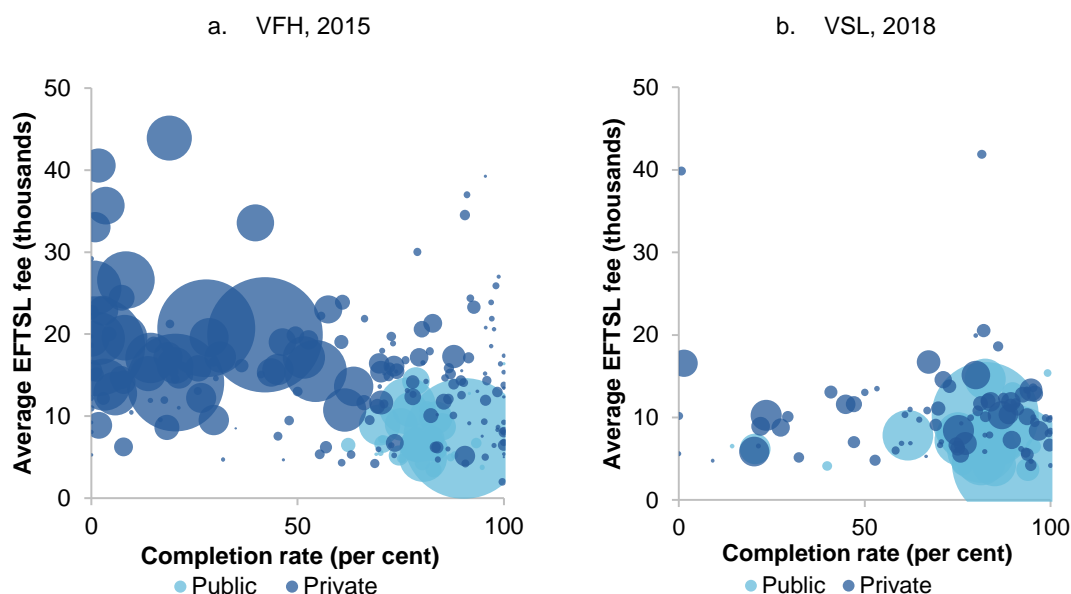


Sources: Productivity Commission estimates based on DESE (2017, 2018b, 2019g).

Under VFH, average course fees increased from \$4060 in 2009 to about \$14 000 in 2015 — equivalent to yearly growth of 23 per cent — and the average loan size doubled to over \$10 000 over the same period (DOE 2016). RTOs with lower unit-of-study completion rates, or completion rates near zero, were more likely to charge high course fees (figure 4.5).

Figure 4.5 Under VET FEE–HELP some providers with low completions charged higher fees

Providers by average fees per equivalent full-time student load (EFTSL) and unit of study completion rates



a Each bubble represents a provider, and its size relates to its number of VFH enrolments in 2015. **b** Excludes providers with less than 10 enrolments, providers offering predominantly aviation courses, and providers where data on either unit completion rates or average EFTSL fee were not available. **c** Bubble size is relative to each year, and is therefore not directly comparable across charts.

Sources: DESE (2016, 2019g).

These program design flaws were eventually addressed in the scaled down VET Student Loans (VSL) program, but not before they had shifted more of the cost of training provision to students and ultimately to taxpayers. Under VSL, course fees per equivalent full-time student load (EFTSL) and average loan values fell to \$8247 and \$7624 respectively in 2018. This reduction in fees after VFH is likely to be due to the exit of unscrupulous RTOs who charged inflated fees (KPMG 2019).

In contrast to governments' intentions under the NPASR, the expansion of loan availability was not accompanied by an adequate quality framework for training, supervision of RTOs and courses, information for students to enable them to make informed choices between RTOs, or monitoring of the cost of tuition fees. There were also inadequate complaint mechanisms. Following the failure of VFH, governments recognised the priority of improving the quality of regulation and the effectiveness of the national regulator, the Australian Skills Quality Authority (ASQA) (DET 2018b; SSON 2020b) (discussed further in chapters 7 and 10).

A responsive and efficient market (clauses 25 c, d and e)

The NASWD recognised a ‘more open and competitive training market’ would improve access to training, affordability, responsiveness and course quality (COAG 2012b). Greater user choice — through the national entitlement and income contingent loans — was expected to drive this change in the market. These initiatives built on a series of competition reforms since the 1990s (Ryan 2011). Anticipating a more competitive market, governments agreed to implement reforms to help public RTOs (TAFEs, skills institutes, polytechnic and dual-sector government universities) adjust to the new conditions (COAG 2012a, 2012b).

Governments moved toward a ‘more open and competitive training market’ ...

As discussed in chapter 2, there is significant competition in some markets, with about 30 per cent of VET students studying in highly competitive markets. Other markets — such as ‘thin markets’ with low demand — are more likely to be highly concentrated. However, this does not necessarily imply uncompetitive outcomes, and these markets may still be contestable if barriers to entry are low, or new entry is plausible.

Other indicators provide some insight into how the VET system has changed, including the proportion of government funding that is contestable and the market share of RTOs.

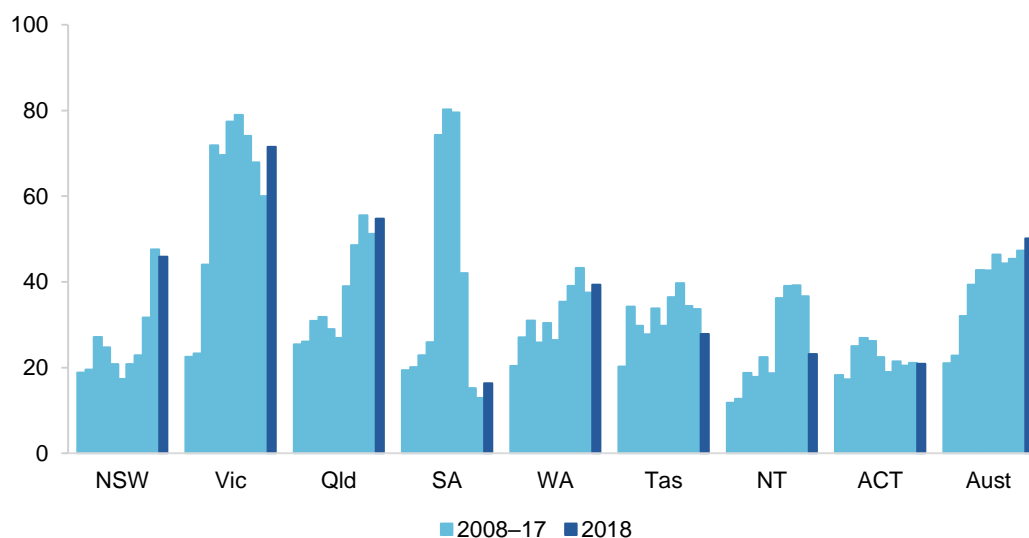
The proportion of government funding that is contestable has increased since the introduction of the NASWD from 21 per cent to about 50 per cent of total funding in 2018 (figure 4.6, panel a), with non-TAFE RTOs securing two-fifths of that pool (SCRGSP 2020b). In 2019, public RTOs received more than 70 per cent of government funding for VET delivery and capital projects (NCVER 2020f). The situation varies between jurisdictions, with Victoria and South Australia cutting contestable funding between 2014 and 2017, albeit from relatively high levels.

Despite the increase in contestable funding, and a decline in their share of that funding, public RTOs have retained the majority of government-funded training hours in all jurisdictions except for Queensland (figure 4.6, panel b).

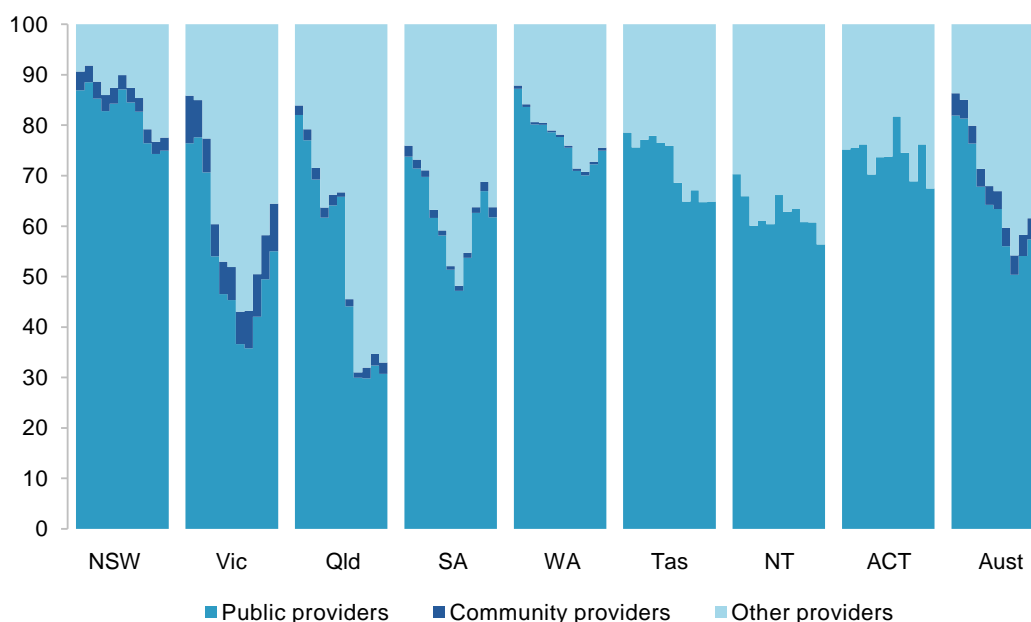
Notwithstanding this trend, public RTOs on average have increased their revenue from students by about 20 per cent over the decade (NCVER 2011a, 2018c). For example, in Queensland, public RTOs have doubled their revenue from training sources, despite the proportion of funding that is contestable more than doubling over the same period. However, in other jurisdictions, such as South Australia, public provider revenue from students remains roughly the same as it was in 2008 (NCVER 2011a, 2018c).

Figure 4.6 Funding flows and VET activity indicate variation across jurisdictions in the adoption of greater competition

a. Share of total VET funding that is contestable,^a per cent 2008–2018^b



b. Share of government-funded hours of training delivery, per cent 2008–2018



^a Contestable funding has been estimated on the basis of all funding allocated to open competitive tendering, limited competitive tendering (tendering processes restricted to training providers that meet set criteria), user choice and entitlement funding. ^b A change in how government appropriations and funding were calculated in 2018 means that caution is advised in direct comparisons between 2018 and previous years.

Sources: NCVET (2019f); SCRGSP (2014, 2017, 2020b).

... but this has stalled in recent years

Although a meaningful proportion of VET markets remain competitive, in recent years some jurisdictions have begun to move away from user-choice driven competition, instead favouring public provision to achieve accessibility and affordability objectives. Governments have introduced programs for free or reduced fees for selected courses at public RTOs, such as Queensland's TAFE Priority Training Program in 2018 and Victoria's Free TAFE for Priority Courses in 2019 (chapter 2).

This trend has accelerated with the economic downturn triggered by the COVID-19 pandemic, as governments have preferred to use public RTOs to meet an increased demand for training. For example, the New South Wales Government announced 21 fee-free TAFE short courses to 'assist job seekers and workers looking to diversify their skills' (NSW Government 2020). The Victorian Government (sub. IR150, p. 3) stated that:

... public providers have a distinct role in the Victorian training system ... TAFEs and other public providers also promote stability of the VET system, particularly during times of crisis, including bushfires and the COVID-19 pandemic ... TAFEs have been at the centre of the COVID-19 response initiatives such as Working for Victoria, through the rapid development of an online training platform to give Victorian job seekers the skills to quickly redeploy into jobs to support the COVID-19 response.

Today, supporting public provision is a central objective of governments. The New South Wales Government (sub. 48, p. 12), for example, seeks to 'support TAFE NSW so it remains a strong and viable public provider'. The Victorian Government's Skills First program (the subsidy program delivering the national training entitlement) is intended to build 'TAFE sustainability', with 'funding to rescue and stabilise TAFEs, placing them at the centre of the training system' (Victoria State Government 2019). State and Territory government participants in this review have emphasised the need to support the distinct role of public RTOs in the VET system, including in a new agreement.

How governments promote competition has also changed over time, with greater focus on contestable contracts for subsidised services rather than user choice. Since 2015, all jurisdictions have restricted entitlements to courses deemed to meet industry skills needs. Students can still choose providers, but not all providers or all courses are approved for government subsidies. In addition, income contingent loans have also been restricted to courses intended to be relevant for employment goals and skills needs (chapter 10). This may be attributed to concerns about quality and the failure of VET FEE-HELP.

Early efforts to promote a 'more open and competitive training market' have stalled and, in some jurisdictions, appear to have been reversed. Notwithstanding, many VET markets remain highly competitive, and the recent *Heads of Agreement for Skills Reform* signalled increasing contestability in VET markets as a priority for a new agreement (chapter 5).

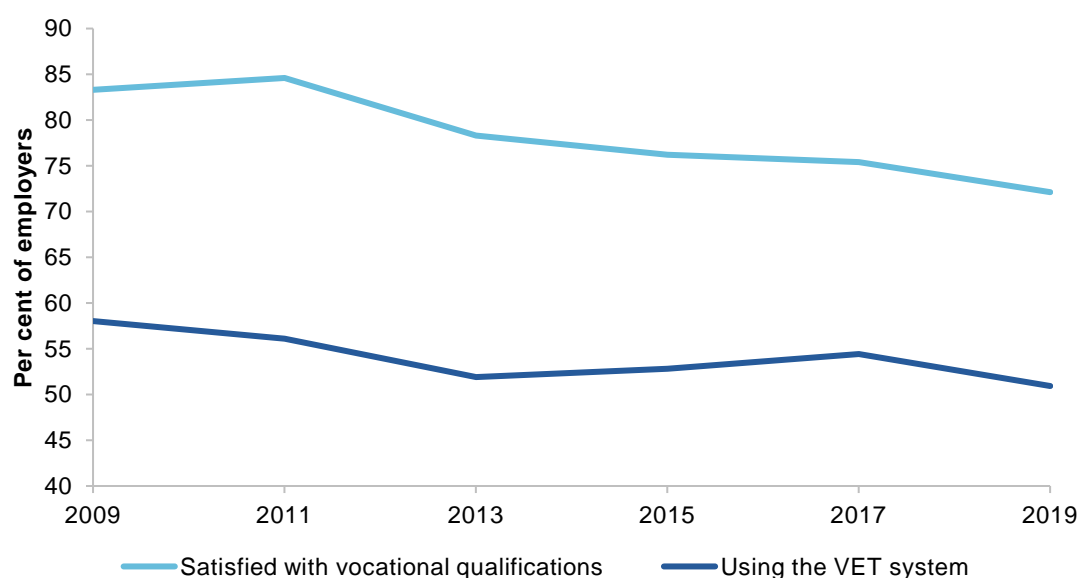
Training quality and industry engagement (clauses 25 g and i)

The NASWD recognised the importance of strengthening industry engagement in VET to improve the quality and relevance of training and supported reforms to ‘give industry more confidence in the standards of training delivery and assessment’ (COAG 2012b). Improving the quality of training and industry engagement was identified as a shared responsibility for all governments.

To measure progress, the NASWD included one direct measure for training quality (employers’ satisfaction) and an indirect measure (VET graduates with improved employment status after training). As noted in section 4.2, performance appears mixed against these indicators. In addition, despite governments’ aims to improve quality and industry confidence in VET, employers are less satisfied with vocational education than they were when the NASWD was signed and are using the VET system less (figure 4.7).

Yet, other indicators of VET quality are more positive. As discussed in chapter 2, student-focused (rather than employer-focused) quality indicators, such as student satisfaction and completion rates, remain high or have improved over the past decade.

Figure 4.7 Employers’ satisfaction with VET has decreased since the NASWD was signed^a



^a Employers satisfied with vocational qualifications is a proportion of employers that require VET qualifications. Employers using the VET system is a proportion of all employers.

Source: NCVER (2019c).

The most significant change to managing training quality in the past decade — the establishment of the ASQA in 2011 — was implemented separately to the NASWD.³² ASQA has since replaced regulators in all jurisdictions except Western Australia and Victoria. ASQA accredits courses and ensures compliance by RTOs with national training standards. Many participants raised concerns about ASQA’s approach to overseeing RTOs, including:

- the burden and cost of compliance (MTA SA/NT, sub. 18; NSW Water Directorate, sub. 45; Queensland Water Directorate, sub. 30)
- inconsistency in audit requirements (MBA, sub. 41)
- what some considered to be too much focus on minor issues not affecting training quality (University of Wollongong, sub. 19).

Following a recent ‘rapid review’ (mpconsulting 2020), ASQA is undergoing significant reform. The future role for ASQA within the VET system, broader issues affecting quality in the VET sector, and potential quality reforms are considered further in chapter 7.³³

In reflecting on the priorities for a new intergovernmental agreement, many review participants emphasised the importance of quality training as a central principle (chapter 5).

System information and pathways (clauses f, h and j)

Governments intended that the NASWD would prompt the development and use of better information to support accountability, assist their decision making, and help users of the VET system make more informed choices. The NASWD also committed governments to enhance the apprenticeships system, as well as connections between school, vocational and higher education, and to improve links to the labour market (clause 25 j).

Improved national collection, but gaps remain for analytical use of data

In the past decade, governments have improved data collection to enhance the transparency of activity in the VET system, primarily through establishing the Total VET Activity dataset from 2015. Aside from data collection on foundation (or language, literacy, numeracy and digital literacy) skills, where definitional and other issues have impeded progress (chapter 12), VET activity data are now relatively well developed. Governments have fulfilled their commitments in respect of better measuring VET activity, including the incorporation and use of the USI (Unique Student Identifier) in the VET sector (ACIL Allen Consulting 2015c; COAG 2012c).

³² ASQA was established in July 2011 to deliver consistent, national regulation of RTOs. It oversees the registration and market entry of RTOs, accredits courses, and manages compliance through audits and penalties, such as deregistration.

³³ Governments also committed to improving quality through other initiatives under the NPASR, however there is limited information about the implementation and outcomes of these initiatives, including some jurisdictions that committed to trials of independent assessment. Other means of improving industry engagement were also undertaken, such as reforms to industry engagement in the training package development process. These topics are discussed further in chapter 7.

Under the NPASR, jurisdictions committed to improving consumer information through both the central My Skills platform and RTOs' websites. This included data on quality of providers, prices, government support including subsidies, and labour market information (COAG 2012c).

Yet, data and information on VET quality, funding, prices, and cost of delivery remain inadequate.

- *Quality indicators* — despite the intentions of governments under the NASWD, publicly available quality indicators on provider performance, student outcomes and satisfaction are not consistently available at the RTO level (chapter 6).
- *Funding* — despite the establishment of the National Funding Collection, funding data are not collected or attributed at a sufficient level of detail, meaning that portions of government funding remain unattributed to VET activity. This has led to an ongoing lack of transparency, particularly at the State and Territory level, about where public money is spent. For example, Field (sub. IR116, p. 10) noted:

The problem is that none of this activity is transparent. Furthermore the data which is available to monitor how funding is being spent (and how many additional training places are being delivered in each jurisdiction) is delayed in both its collection and reporting (as well as being reviewed and approved by some jurisdictions before its reporting to the NCVER). In addition there is a lack of publicly available data on individual VET providers. All of this means that although VET data is now timelier than it was, there can still be delays and challenges in terms of understanding where and what training is being funded.

- *Prices* — there remains a lack of public information on student fees on both centralised and RTO websites, which makes it difficult for students to compare prices across providers (chapter 6). The My Skills platform, intended to be the main source of pricing information, does not have accurate or complete information. There is no requirement for RTOs to publish pricing information unless they offer VET Student Loans and, even then, there is no mechanism to ensure prices are up-to-date. Only about one-in-five RTOs provide price information on My Skills for some courses (chapter 6). This means, to give one example, that there is no easy method to assess how funding policies affect student affordability.
- *Cost of delivery* — throughout this review, State and Territory governments have been reluctant to share data, especially data related to VET costs. As discussed in chapter 8, these data are critical for efficient and effective subsidy setting.

Governments have already committed to improving national collection of VET cost and price data. The newly formed National Skills Commission (NSC) has been tasked with developing national data on VET cost of delivery and prices, and State and Territory governments have committed in the July 2020 *Heads of Agreement for Skills Reform* to work with the NSC (chapter 1).

Further work is required by governments to improve data collection and use at a national level. Improved national data collection, coupled with greater analytical use of these data to inform future policy making, would both fulfill the intentions of governments under the NASWD, and enable improved monitoring and evaluation of the VET system. Institutional arrangements to support national data arrangements are discussed in chapter 5.

Improving system pathways remains a challenge for governments

Under the NASWD, governments sought to promote greater harmonisation across jurisdictions for apprenticeship management, and improved linkages between VET and other educational and work pathways, including schooling, higher education, employment services and workplaces more generally.

The Commission received limited evidence about how governments have performed against their commitments. For example, under the NPASR, governments committed to ‘national harmonisation principles’ and identified ‘areas for improving harmonisation’ (COAG 2012c). Feedback from review participants did not highlight jurisdictional differences in apprenticeships as an ongoing problem. While aspects of the system remain complex, national initiatives and support delivered through the Australian Apprenticeship Support Network do assist employers and apprentices to navigate VET and overcome some barriers to training participation and completion (chapter 11). Notwithstanding, the Commission has identified areas to reduce duplication in apprenticeship support services in chapter 11.

Similarly, some review participants identified ongoing and longstanding concerns related to the links between VET, other educational sectors and employment. In particular, participants expressed concern about VET in Schools and links to employment (for example, Ai Group, sub. IR97, p. 18), and connections between VET and higher education, including recognition of prior learning (for example, QCEC, sub. IR98, p. 5). The Commission has examined these issues in greater detail in chapters 12 and 13, respectively.

Assessing the reform directions

Progress against the reform directions was pursued by all governments, albeit at different times and at varying paces. Early adherence to the NASWD’s reform directions demonstrated governments’ shared commitment to coordinated national reform. Jurisdictions elected to undertake specific reforms through the NPASR, and this arrangement provided flexibility for governments to respond to emerging risks. Governments learnt from each other’s approaches and experiences (for example, toward implementing the national training entitlement, and following the market reaction to VET FEE-HELP) — demonstrating a key benefit of co-operative federalism.

However, early progress on the reform directions waned as governments’ priorities shifted and the NPASR expired. While review participants generally supported the initial intent of governments in agreeing the reform directions, many also acknowledged that they have little bearing on VET policy today.

This is partly due to their design, as the NASWD reform directions serve as a collection of statements of intent that do not sufficiently document what is required to support a coherent national approach to skills policy. For example, the NASWD reform directions include commitments to:

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- policy reform *actions*, such as a national entitlement and an increase in the availability of income contingent loans
 - measurable *outputs*, for example, improve training participation and completions
 - general *outcomes* to be achieved, for example, to ‘improve training accessibility, affordability and depth of skills’
 - other *general policy statements*, such as ‘assure the quality of training delivery and outcomes’ and ‘facilitate more interconnected tertiary and training sectors that cross boundaries between school, adult, vocational and higher education’.

It may also be partly because the reform directions lack focus on what specific areas of reform were to be agreed between governments as part of a national approach to skills policy. Moreover, while governments could respond flexibly to emerging issues, the reform directions provide no framework to re-commit governments to a new round of reforms without the negotiation of a new national agreement. Clauses intended to favour continual reform were included in the 2009 NASWD, but not retained in the 2012 amendments. For example, in the 2009 NASWD the reform directions included a clause that stated: ‘... directions will be reviewed regularly to incorporate evaluations of existing interventions and provide the opportunity to respond to emerging evidence or challenges’. No such clause was included on the document’s update in 2012.

More generalised reform ‘principles’ are likely to better retain the benefits of flexibility afforded by reform directions. The value of principles in a national agreement is discussed further in chapter 5.

FINDING 4.3 — THE NASWD REFORM DIRECTIONS

The NASWD reform directions allow governments the flexibility to tailor policy responses to local and emerging issues. However, they have lost relevance over time as the national reform consensus frayed.

- Two key national commitments — the national training entitlement and expansion of income contingent loans (VET FEE-HELP) — initially increased participation but governments later wound back incentives because of escalating costs and rorting.
- Similarly, 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.
- While student-focussed indicators of quality were stable over the past decade, employers are less satisfied with VET than they were when the NASWD was signed and are using the VET system less.
- Governments have improved national data collection, particularly on total VET activity. However, public data and information on VET quality, prices, funding, and cost of delivery remain inadequate.

This experience demonstrates the limited efficacy of ‘reform directions’ as a tool to link tangible policy commitments to desired outcomes in an intergovernmental agreement.

4.5 Governments' roles and responsibilities

Under the NASWD, governments sought to improve the governance and accountability of the VET system by clarifying the roles and responsibilities of the Australian, State and Territory governments (figure 4.8).

Figure 4.8 **Governments' roles and responsibilities under the NASWD**

	Australian Government	State and Territory governments
Policy direction	Support and implement reform directions Establish priorities and initiatives to deliver NASWD goals Raise the status of VET and Australian Apprenticeships	
Funding	Provide funding contributions to State and Territory governments to support their training systems	Determine resource allocation and oversee the expenditure of public funds for training
System operation	Provide specific interventions, such as for apprenticeships; literacy and numeracy	Ensure the efficient operation of the training market in each jurisdiction
	Share data and foster RTO compliance with data requirements	
	Support industry engagement with RTOs	
	Maintain a system of national regulation of RTOs and of qualification standards	

Source: COAG (2012b).

The NASWD affords State and Territory governments greater flexibility to exercise their roles and responsibilities in the VET system compared with its predecessor. Commonwealth funding is provided on an untied basis, in recognition of State and Territory governments as primarily responsible for delivering training and managing their training markets. This is consistent with the promotion of subsidiarity under the IGA FFR: outlining *what* should be achieved in the sector rather than *how*. Such an arrangement embodies several key principles of intergovernmental relations in a federation (box 4.4).

A decade later, the NASWD's high-level allocation of roles and responsibilities broadly remains in place. As part of its broader analysis of VET policy, the Commission has considered the respective roles of governments in areas of shared responsibility, including: information (chapter 6), quality (chapter 7), funding arrangements (chapter 9), income contingent loans (chapter 10), apprenticeships (chapter 11), and language, literacy, numeracy and digital literacy skills (chapter 12). Across these policy areas, there remain clear rationales for the Australian, State and Territory governments to work together to fulfill important functions.

Box 4.4 **Guiding principles for intergovernmental cooperation**

How governments should work together and deciding where to draw the lines of responsibility between the tiers of government has been a perennial issue since federation. Premiers and Chief Ministers have previously articulated several guiding principles for cooperation that remain relevant, including the following.

- **Australian nation principle:** all governments in Australia recognise the social, political and economic imperatives of nationhood and will work co-operatively to ensure that national issues are solved in the interests of Australia as a whole.
- **Subsidiarity principle:** responsibilities for regulation and for allocation of public goods and services should be devolved to the maximum extent possible consistent with the national interest, so that government is accessible and accountable to those affected by its decisions.
- **Accountability principle:** the structure of intergovernmental arrangements should promote democratic accountability and the transparency of government to the electorate.

How these principles are balanced should be responsive to the specific policy issues and sector under consideration, and the inherent trade-offs between principles should inform how governments allocate roles and responsibilities. For example, the subsidiarity principle suggests that responsibility for a function should be devolved where possible, so that government is accessible and accountable to those affected by its decisions. However, subsidiarity does not preclude a national role for the Australian Government where there are sufficient benefits, such as where:

- there are significant interjurisdictional spillovers associated with the provision of goods or services at the sub-national level
- there are sizeable economies of scale and scope arising from central provision or organisation or readily identifiable areas of shared or common interest (for example, defence, international or external affairs and social welfare support)
- different rules or regulations are likely to give rise to high transaction costs with insufficient offsetting benefits (for example, regulation of companies, transport, the financial sector and trading provisions covering weights and measures).

Source: PC (2017c).

The benefits of jurisdictional flexibility

For this review, State and Territory governments emphasised the benefits of subsidiarity afforded under the NASWD and the need to maintain flexibility in funding and market operation to meet local labour market needs and policy priorities (box 4.5).

While subsidiarity and untied funding allow jurisdictions to be responsive to their local economic conditions and provide flexibility to respond to emerging trends, they must be accompanied by sufficient transparency and accountability, as was acknowledged in the IGA FFR. Constituents need to know who is responsible for the provision of public services, what policy actions are being undertaken to improve those services, and where funding is being spent (in line with the accountability principle).

Box 4.5 Participants' views on the benefits of subsidiarity under the NASWD

New South Wales Government (sub. 48, p. 3):

The Commonwealth Government has provided consistent funding through the VET Specific Purpose Payment (SPP) to State and Territory governments to support their training markets. ... These arrangements have provided the stability, autonomy and flexibility needed by State and Territory governments to address skills needs in their jurisdictions, and design initiatives to suit their own economic contexts.

Tasmanian Government (sub. IR80, p. 2):

The untied Australian Government SPP funding allows Tasmania to focus on base level skills priorities as well as respond to the immediate demands of Industry.

Victorian Government (sub. 58, p. 10):

The NASWD has provided State and Territory governments with flexibility to manage their VET systems and respond to local skills needs.

Western Australian Government (sub. 20, p. 7):

The NASWD has generally been an effective and efficient mechanism to distribute funding to States to run their respective systems within a national framework. The continuity and certainty of this funding stream has been fundamental to the operation of a robust and resilient VET system in WA and has underpinned the subsidisation of nationally recognised training to support skills attainment in occupations that are consistent with the needs of the State's economy.

Chamber of Commerce and Industry Western Australia (CCI WA, sub. 54, p. 9):

... it is CCIWA's view that the States, not the Commonwealth, should be the primary decision makers when it comes to Australia's VET system. While there are definite advantages of having some elements of the system managed centrally at a national level, the heavy lifting is done by the States. This makes sense as the State's primarily fund the delivery of public VET within their respective jurisdictions and are better placed to make policy and resourcing decisions that are aligned with local needs.

The need to improve accountability and transparency remains

The shortcomings present in the performance framework (section 4.3) meant that it provided limited transparency on funding and coordinated government action in the sector. While the shift to more untied Commonwealth funding was important for achieving the benefits of flexibility and subsidiarity, it also placed much greater importance on the performance framework to provide assurance on the use of Commonwealth grants. Arguably, this expectation of the NASWD (and the IGA FFR) was naïve. More generally, there was reliance on the performance framework to provide assurance on the progress of *all* governments against their agreed goals for the VET sector, and thereby facilitate ongoing collaboration on reform. As discussed in section 4.3, other arrangements to facilitate transparency also fell by the wayside.

There remains a need for meaningful reporting of progress against governments' agreed goals for VET and for assurance from State and Territory governments on the use of Commonwealth funding. The latter is a practical matter, as accountability for use of funds must be acquitted by at least one level of government. In this case, it is sensible for State and

Territory governments, as the spending governments, to provide assurance, although this need not be through (or solely through) a national performance framework. As the IGA FFR recognises, State and Territory governments have a responsibility to report to their own communities on the efficiency of expenditure, the quality of services and outcomes.

Some areas of responsibility are unclear and need updating

Some participants are concerned that roles and responsibilities are not clear in areas of shared responsibility, particularly related to the achievement of policy objectives (ACCI sub. 33; CCIWA sub. 54; HIA sub. 24). Master Builders Australia (sub. 41, p. 10) argued that the ‘lack of clarity between parties is a contributing factor to why the NASWD objectives have not been achieved’.

Even where roles were initially clear in the NASWD — such as the Australian Government’s role in apprenticeship assistance — policy changes over time and jurisdictions’ funding of apprenticeship support have caused confusion and affected governments’ ability to achieve policy goals (chapter 11). Some State and Territory governments also pointed to challenges with the interaction of interventions from both levels of government, such as the South Australian Government (sub. 11, pp. 3–4):

During the period of the NASWD, the Commonwealth has changed its role and relationship with the VET system through significant changes both in the structure and level of its funding supports and incentives, and involvement in service delivery, primarily through specific interventions and assistance. These interventions impact on the performance of the system at the local level but are not subject to the same planning and accountability requirements required of States and Territories. The impacts of Commonwealth changes are far reaching, cause confusion, can undermine state priorities, and can result in significant cost increases for States and Territories.

Absent from the NASWD was a recognition of how governments’ actions in other sectors interact with their roles and responsibilities for the VET system. For example, the Australian Government is responsible for higher education and migration, which can affect the performance of the VET sector, but the NASWD does not mention how responsibilities across these sectors should be balanced.

Moreover, shared responsibilities between levels of government, coupled with a lack of funding transparency, can result in cost shifting.³⁴ Some participants have claimed that the lack of obligation for, and transparency of, funding under the NASWD has led to cost-shifting and a decline in investment in the sector (ACCI, sub. IR143, p. 14; BCA, sub. 145, p. 19; JCSF Consulting, sub. IR78; Mitchell Institute for Education and Health Policy, sub. IR149, p. 6). Tightly defined roles and responsibilities between levels of

³⁴ The Commission has identified a significant lack of funding transparency which has hampered an assessment of total investment levels and the efficacy of existing investments. While in aggregate State and Territory governments have pulled back their real funding contribution to VET in recent years, the lack of funding data has made it difficult to discern whether there is ‘cost-shifting’ in the sector, particularly as funding has remained broadly stable relative to training activity (chapter 2).

government, governance arrangements, and strong funding transparency can ameliorate this risk.

In addition, some important sector roles and responsibilities are documented separately, rather than under the NASWD — for example, those relating to VET quality regulation (where ASQA, the Victorian Registration and Qualifications Authority and the Training Accreditation Council Weare jointly responsible).

Irrespective of these concerns, future allocations of roles and responsibilities will need to account for new bodies and agencies: COAG has recently been replaced by National Cabinet, and the NSC and National Careers Institute will play a meaningful role in the VET sector.

FINDING 4.4 — ROLES AND RESPONSIBILITIES OF GOVERNMENTS UNDER THE NASWD

The NASWD affords State and Territory governments greater flexibility to exercise their roles and responsibilities in the VET system, consistent with the *Intergovernmental Agreement on Federal Financial Relations* and the principle of subsidiarity.

Over time, the allocation of some responsibilities has become blurred. Moreover, some important government bodies (such as the VET regulators) are not included or have since been established (such as the National Skills Commission and the National Careers Institute).

4.6 Ongoing suitability of the NASWD

As part of a new intergovernmental approach to support Australia's skills system, the NASWD was intended to promote cooperation between governments, facilitate a coordinated national approach to reform, improve accountability and transparency, and set a new framework for financial transfers from the Australian Government to State and Territory governments.

While the NASWD has served some useful functions, it is overdue for replacement. Governments have stepped back from much of its policy aspirations embodied in the reform directions. The NASWD's targets have not been met and some of its performance indicators are flawed. In addition, some of the roles and responsibilities under the NASWD are out of date and incomplete.

The COVID-19 pandemic and its damaging economic impact represent a meaningful opportunity to reset and improve governance of Australia's skills system. Indeed, in July 2020, governments began negotiating the next round of intergovernmental arrangements through a new *Heads of Agreement for Skills Reform*, negotiated through the

newly established National Cabinet.³⁵ This was committed to as part of the establishment of JobTrainer, a central component of governments' collective response to the economic downturn that resulted from COVID-19.

The lessons drawn from the NASWD provide a useful basis for informing the future round of intergovernmental arrangements, which are explored in greater detail in the next chapter.

FINDING 4.5 — THE NASWD NEEDS REPLACEMENT

The NASWD is overdue for replacement. Governments have stepped back from some of its policy aspirations. Targets have not been met and the performance framework does not hold governments to account.

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 a new agreement.

³⁵ The *Heads of Agreement for Skills Reform* provides a starting point for a new intergovernmental agreement, as well as notional parameters for its scope and the timing of renegotiation. It commits governments to immediate reforms for the VET sector (based on those included in the *Draft VET Reform Roadmap*) and to negotiate a National Skills Agreement by August 2021.

5 Future intergovernmental arrangements

Key points

- The Australian, State and Territory governments should negotiate a new, principles-based intergovernmental agreement. To retain flexibility and currency, this agreement should be modular (using schedules) and reviewed every five years. It should include:
 - an updated objective that captures the contribution of vocational education and training (VET) as a major, but not the only, avenue for skills and workforce development
 - principles to guide a renewed national VET reform agenda centred on meeting the needs of students and employers
 - a revised performance reporting framework, with a broader set of performance indicators that better capture the contribution of government activity in the VET system to skills and workforce development
 - governance arrangements to improve data sharing and collection, such as an intergovernmental data working group and a revised national VET data strategy
 - regular public reporting by all governments and monitoring by an independent body to improve accountability for outcomes
 - fundamental roles and responsibilities of governments in the VET system, with existing roles reaffirmed. Governments should clarify roles in areas of shared responsibility and include the roles of recently created bodies (the National Skills Commission, the National Careers Institute, and the Skills National Cabinet Reform Committee).
- Governments should also commit to funding arrangements that retain State and Territory government responsibility for how funds are spent to achieve agreed outcomes, coupled with improved accountability mechanisms that should improve transparency on how *all* public money is spent in VET.
- Enhanced data analytics capability would also assist to evaluate system outcomes and investments.

The experience of the *National Agreement for Skills and Workforce Development* (NASWD) provides lessons for governments to inform future intergovernmental arrangements (chapter 4). This chapter takes account of these lessons to propose a new framework for intergovernmental cooperation in vocational education and training (VET), embodying a renewed commitment by governments to improving the VET system, and therefore skills and workforce development in Australia. This includes a future intergovernmental agreement (section 5.1), as well as intergovernmental arrangements for funding transfers (section 5.2) and to improve data, monitoring and evaluation (section 5.3).

5.1 A future intergovernmental agreement

The *purpose* of an intergovernmental agreement such as the NASWD (distinct from the *objective* of VET policy) is to promote government cooperation through: shared objectives; coordination of national policy reforms; improved transparency and accountability; clarified roles and responsibilities; and, in some cases, funding arrangements. Government cooperation through these efforts can improve outcomes for users (students and employers) and the community more broadly, given VET's economy-wide importance. This purpose remains relevant for a new agreement, which should cover these matters, building on lessons from the NASWD. These are summarised in table 5.1 and discussed below.

Table 5.1 A future agreement that builds on experience

<i>Purpose</i>	<i>Lessons from the NASWD (chapter 4)</i>	<i>Implications for a new agreement</i>
Agree shared objective(s)	<ul style="list-style-type: none"> • Lack of clarity on whether the focus is on VET or skills and workforce development. 	<ul style="list-style-type: none"> • VET as one major, but not the only, avenue for skills acquisition.
Coordinate national policy reforms	<ul style="list-style-type: none"> • Flexibility of reform directions permits tailored policy responses to local and other emerging issues. • Early progress on pursuing reform directions was made, but the NASWD failed to maintain jurisdictional buy in. 	<ul style="list-style-type: none"> • Include reform principles to guide a renewed national VET reform agenda. • A 'modular' agreement structure, with agreed reforms in a schedule (for example, the <i>Draft VET Reform Roadmap</i>).
Improve transparency and accountability (for example, through a performance monitoring and evaluation framework)	<ul style="list-style-type: none"> • Does not capture the breadth of VET offerings and different parts of the system. • Deficiencies in performance framework do not support improved transparency, partly due to poor indicators and target setting. • Improved data sharing arrangements and development of VET activity data, but limited availability and/or transparency of quality, cost, price and funding data. • Performance framework is not a sufficient mechanism for funding assurance and accountability. 	<ul style="list-style-type: none"> • New framework with improved performance indicators to better measure the contribution of governments across VET's varied parts (for example, foundation skills) and links to evaluation. • New governance arrangements, such as an intergovernmental data working group and national VET data strategy. • National Skills Commission (NSC) or other national body to coordinate annual public reporting on funding and reform progress by the Australian, State and Territory governments.
Clarify roles and responsibilities	<ul style="list-style-type: none"> • Role of the Australian Government as funder and jurisdictions both as funders and determining funding allocation. • Broad definition of roles works relatively well, but not always kept to with a blurring of responsibility over time, particularly in areas of shared responsibility. • References to Council of Australian Governments (COAG) governance arrangements are outdated. 	<ul style="list-style-type: none"> • Retain existing roles including for funding, consistent with the <i>Intergovernmental Agreement on Federal Financial Relations</i> (IGA FFR). • Clearer fundamental roles and responsibilities in the agreement, with more detail defined in schedules that can be updated over time and/or in bilateral agreements. • Updated governance arrangements to reflect VET regulators, NSC, and National Careers Institute.
Facilitate funding arrangements	<ul style="list-style-type: none"> • Untied funding improved flexibility to align resources to local priorities, in line with subsidiarity principle. 	<ul style="list-style-type: none"> • Retain mostly untied funding, but as above, with annual public reporting by jurisdictions on how funds are used.

The Commission's consultations indicated that review participants supported a new intergovernmental agreement. For example, the South Australian Government (sub. 11, p. 3) noted that:

A well-designed and governed National Agreement with clearly articulated outcomes is the appropriate mechanism to support intergovernmental cooperation in this sector.

Other parties have similarly echoed the value of a new agreement (ACT Government, sub. IR133; IHEA, sub. IR115; NSW Government, sub. IR122; NTEU, sub. IR106; Queensland Water Directorate, sub. IR90; QCEC, sub. IR98; Queensland Government, sub. IR141; Skills Impact, sub. 102; South Australian Government, sub. IR139; Zoellner, sub. IR107). However, designing an agreement to align incentives and balance the needs of parties is no easy task. Master Builders Australia (sub. IR147, p. 3), for example, noted that:

There is no singular reason for the failure of the NASWD, just as there is no silver bullet to fix the situation. We recognise that the Commonwealth, state and territory governments are well intentioned when it comes to VET and operate in environments of budget constraints and competing priorities.

Scope and objective of a new agreement

The NASWD has been the main mechanism for the Australian, State and Territory governments to establish shared goals for the VET system, although it has not been updated in response to changing circumstances and has lost currency in recent years (chapter 4). Review participants have diverged on whether a new agreement should cover broad policy areas that contribute to skills and workforce development or focus on the VET system.

A primary focus on VET and its contribution to skills and workforce development

As VET remains an area of shared responsibility between governments, the justification for an agreement to guide intergovernmental cooperation remains valid.

While some participants suggested that a new agreement should incorporate both VET and higher education, the Australian Government holds primary responsibility for higher education, lessening the imperative for intergovernmental cooperation (box 5.1). Accordingly, the Commission considers that a new agreement should retain the NASWD's primary focus on the VET system.

Though VET should be its primary focus, a new agreement should still encompass a broad policy framework that recognises all types of training that contribute to skills and workforce development, including higher education, non-nationally recognised training and workplace skills acquisition. It should also recognise the policy areas for which government decisions can affect VET, and therefore skills and workforce development. This includes key policy areas under Australian Government responsibility, such as higher education, employment services and migration, as well as other policy areas that remain the remit of State and Territory governments, such as schooling.

Box 5.1 **A new agreement for both VET and higher education?**

Some review participants proposed that a new agreement should encompass VET and higher education. For example, the Business Council of Australia (sub. 16, p. 3) proposed that, to meet the NASWD's objective of a more productive and highly skilled workforce, a new agreement should:

... be broader than just the vocational education and training (VET) sector. This review is an opportunity to expand the scope of the NASWD to cover VET and higher education (HE). This expansion will allow governments to create a genuinely joined up postsecondary system that will be able to support Australian learners, businesses and industry, and build a culture of lifelong learning.

The Commission notes the importance of an integrated post-secondary school system, in keeping with the Council of Australian Government's (2019a) 'Vision for VET', which articulated that: 'VET and higher education are equal and integral parts of a joined up and accessible post-secondary education system'.

However, higher education remains the primary responsibility of the Australian Government. Under the *Intergovernmental Agreement on Federal Financial Relations* (IGA FFR), governments committed to National Agreements such as the NASWD in key policy areas of *shared* responsibility. While governments often work together to support outcomes in higher education, direct responsibilities are not shared as in VET.

As discussed in chapter 4, a new agreement should involve consideration of how governments' and VET performance is defined and measured. The NASWD's aspirational targets (relating to post-secondary study and qualifications) did not provide effective accountability for the VET system, as the contribution of VET was not easily isolated from that of higher education. A performance framework should be designed to account for the different sectors that contribute to skills and workforce development, for example, through performance indicators that disaggregate the contribution of VET and higher education.

Retain the NASWD objective as a broad goal for VET

The NASWD has one overarching objective — for the agreement and the VET system — that emphasises the *vocational* essence of VET and its critical role in developing 'a productive and highly skilled workforce' (COAG 2012b). As identified in chapter 4, this remains a relevant policy goal for governments and many participants supported the retention of such an objective. The objective also aligns with what the Joyce Review (2019, p. 29) considered is the primary function of the VET sector, that is, placing '... work-based learning at the forefront of Australian skills development'. In defining the VET system, the Joyce Review (2019, p. 32) also proposed that qualification-based training should be '... elevated as the primary stream of VET to re-establish the clear link between vocational education and employment'.

However, several participants argued that the NASWD objective requires updating in a new agreement to guide further reform and improve the functioning of the VET system (box 5.2). There were also differing views on what the objective should be. Some questioned the primary emphasis on job outcomes. For example, the TAFE Directors Association (sub. 59, p. 11) argued that the focus should be broader than addressing employers' needs. Others suggested that objectives could be reoriented to better recognise lifelong learning (chapter 13).

Box 5.2 Views on objectives for skills and workforce development

Several review participants identified the need for clearer objectives in a new intergovernmental agreement. The Australian Chamber of Commerce and Industry (sub. 33) for example, recommended that '... should there be another national agreement, the objectives of the agreement need to be clearer' (p. 12), and advocated for '... objectives that embrace the key elements of the VET system' (p. 22).

Some participants proposed that greater flexibility of objectives would better meet industry and students' needs. For, example, the Motor Trade Association SA/NT (sub. 18, p. 5) stated that:

... while the stated objectives of the National Agreement are commendable in principle they ... have failed to be flexible enough for the needs of emerging industries and rapid enough with policy change or development to cater for emerging and current industry needs ...

Similarly, the Shop, Distributive and Allied Employees' Association (sub. 51, p. 9) recommended:

That the NASWD objectives include transferability of skills between employers and units of study between providers.

That the objectives of the NASWD highlight the need to meet students' needs especially as those needs are changing and training should not tie workers to specific employers across a career.

Others considered that a different emphasis would assist, proposing greater recognition of governments' social policy objectives and a focus on students' educational outcomes. Reflecting on the NASWD, the TAFE Directors Association (sub. 59, p. 11) noted that:

In the main the objectives appear reasonable, although the focus on addressing industry need, measured through job outcomes, is too unidimensional.

Several of the sub-objectives of the NASWD outline key social policy outcomes, such as equity impacts, but the focus of policy in these areas seem hit and miss. ...

The core objective for the NASWD should be the educational achievement of students, with a focus on the rate of progress.

Some participants proposed that incorporating the concept of lifelong learning would better capture both social and economic objectives, while providing flexibility to meet students' and employers' needs. For example, Adult Learning Australia and Neighbourhood Houses Victoria (sub. 12, p. 8) noted that:

... the NASWD would benefit from a re-orientation towards the concept lifelong learning, with a much stronger emphasis on the role of VET in social inclusion, and in reducing the barriers to successful participation in the system by disadvantaged cohorts.

A key strength of the NASWD objective is that it links the VET system to broader notions of skills and workforce development. It could be improved by more explicitly recognising the VET system as an important, but not the only, contributor to skills and workforce development.

However, emphasis on the vocational relevance of VET for workforce participation and productivity does not imply that governments' efforts in the VET system relate only to economic objectives. Governments pursue multiple objectives through their investments in VET and it continues to play an important role in promoting social participation (box 5.3).

Box 5.3 **Governments' multiple objectives in the VET system**

Governments balance multiple objectives in VET, particularly in catering to different user groups. At the system level, governments balance economic and social objectives.

- Economic policy objectives are central to the NASWD. State and Territory governments are similarly explicit about the role of VET in generating economic benefits. The New South Wales Government noted that their programs should 'contribute significantly to the State's output' (sub. 48, p. 1). The Queensland Government noted VET policy would 'support us in creating jobs for a strong economy' (DESBT (Qld) 2018a, p. 1). The Western Australian Government noted VET was central to 'plans to grow and diversify the economy' (sub. 20, p. 1).
- Governments also pursue social policy objectives through the VET system, for example, by subsidising particular student cohorts to ensure equity of access, or through the provision of 'second-chance' learning for students who did not complete secondary schooling.

The pursuit of multiple objectives in VET can cause confusion, and greater clarity and prioritisation of government objectives would assist. Setting out explicit policy objectives and their relative importance helps to clarify the roles of all parties, establish accountability, and provide direction to reforms. Clear objectives can also help to explicitly manage tensions that arise, such as between economic and social policy objectives, or across policy portfolios.

A modular agreement to support continual improvement

Intergovernmental agreements are intended to support coordinated action by governments to achieve shared policy goals. As priorities and circumstances are likely to change over time, agreements need to be flexible to retain their currency. One way to provide that flexibility is by structuring the agreement in a modular form. Like the Commission's 2019 proposal for a new National Disability Agreement, a modular agreement can include a concise statement of key principles and commitments with the more detailed content that is likely to change found in schedules (PC 2019a).

A modular structure helps to maintain the currency of an agreement as it allows governments to revise aspects of the agreement (for example, targets or benchmarks) without wholesale renegotiation. In the case of the next VET agreement, the Skills National Cabinet Reform Committee (previously the COAG Skills Council) could have the authority to amend schedules without the approval of the National Cabinet.

An agreement that is a 'living document' would not need to be time limited. Under the *Heads of Agreement for Skills Reform*, governments have committed to a new National Skills Agreement that will 'cover the five-year period to 2026-27' (DPM&C 2020b, p. 2). A new intergovernmental agreement could cover this period, with a clause to commit governments to conduct five-yearly reviews by an independent body.

In maintaining relevance and currency, a modular agreement could also support ongoing accountability.

An agreement to coordinate, but not prescribe, national policy reforms

A new agreement would have to sustain commitment to shared policy objectives while maintaining flexibility for State and Territory governments to implement policy. The NASWD demonstrates how poor policy design and implementation can weaken governments' collective commitment to agreed objectives (even when these goals are still valid).

A principles-based intergovernmental agreement could be a practical way to foster cooperative reform by governments, by balancing policy coherence across jurisdictions with a pragmatic recognition that governments wish to retain flexibility about their policy choices. The agreement itself would therefore not prescribe particular reforms — it would instead provide a set of principles to guide governments in implementing reforms (discussed below). A schedule could detail governments' shared reform agenda, building on the *Draft VET Reform Roadmap* (SSON 2020b) and the reforms identified in parts D and E of this report. A principles-based approach would also complement the funding arrangements outlined in section 5.2, including the ongoing use of Skills and Workforce Development Specific Purpose Payments (SPPs).

This is not to downplay the importance of governments' collective commitments to the reforms required to improve VET system performance, such as those outlined in the *Draft VET Reform Roadmap*. It remains that governments' commitments to policy reform actions are required to improve transparency and sustain reform efforts — although these need not be documented in a National Agreement. The policies to give effect to agreed principles can be pursued in different ways, discussed further below.

Principles to guide governments' reform agenda

As noted in chapter 4, the NASWD reform directions are a collection of general statements of intent. A set of reform principles would better support government policy making and collaboration by promoting jurisdictional flexibility and retaining currency when priorities change. Feedback on the interim report indicated broad consensus on a new principles-based agreement, and the Commission has refined the proposed reform principles following that feedback (box 5.4). Proposed principles are outlined in table 5.2.

Box 5.4 Participant feedback informed proposed reform principles

Participants have generally been supportive of the proposed principles. For example:

The ACT would welcome a principles-based agreement, including equitable access, a learner-centred approach, stable funding, more effective use of incentives, and greater parity in the treatment of the VET and higher education sectors. (ACT Government, sub. IR133, p. 5)

The Tasmanian Government has no objection to the principle of 'effective and efficient pricing and delivery' where this describes a jurisdictional specific approach focused on value for money, high quality and affordable training services. (Tasmanian Government, sub. IR80, p. 7)

Participants were particularly supportive of the emphasis on a student-centric system:

South Australia supports the Productivity Commission's focus on a 'student-centred' VET system. This is best achieved through the provision of good information and navigation of services, choice of course and RTO, access to gateway and learner support services and the availability of a well-designed and accessible student loan scheme that supports the attainment of credible qualifications and lifelong learning pathways. (South Australian Government, sub. IR139, p. 7)

The central pillar of the Commission's proposed principles-based agreement is the *student-centred* or user choice approach — a principle AMES Australia agrees with and has argued for consistently. However, our message is less about choice in price and quality, and more about a variety of learning environments and modes of learning. (AMES Australia, sub. IR108, p. 2)

Other participants emphasised the need to reflect quality and student outcomes in the principles:

... there is limited focus on learner outcomes and quality of VET provision in the proposed principles of a new intergovernmental agreement. (ACT Government, sub. IR133, p. 3)

... the proposed principles need to acknowledge the roles of all governments in VET, and have a greater focus on quality and outcomes. (NSW Government, sub. IR122, p. 2)

[The principles] fail to recognise and acknowledge the importance of quality and the distinct role of public providers in providing access to training across Victoria. (Victorian Government, sub. IR150, p. 3)

The principles could be strengthened by acknowledging the importance of VET as a vehicle for transforming people's lives and achieving social justice outcomes. While equitable access to training is suggested as a principle, it is swamped by other proposed principles dealing with economic matters. The principles also do not mention product quality ... (Western Australian Government, sub. IR152, p. 3)

... only two of the eight principles loosely related to outcomes, and with no mention of quality. Any new funding agreement should reflect the broader role of VET, current reform processes underway and build on the agreed vision for Australia's VET system. (Queensland Government, sub. IR141, p. 4)

... we would suggest that the principles governing the agreement are crucial. It is essential that these be expressed in terms of the quality of education and training provided, through mandatory reporting of percentages of students who complete training and progress to work and/or further study. (IEUA-QNT, sub. IR82, p. 2)

Participants had more mixed views on the emphasis on efficiency and competitive neutrality principles, which some argued was at odds with the unique role of the public provider.

Both public and high-quality private providers make valuable contributions to the training system, however public providers have a distinct role in the Victorian training system. ... Victorians have the right to a well-funded, high quality public training system. (Victorian Government, sub. IR150, p. 3)

... the rationale for inclusion of some of the proposed principles is less clear. For example, it is questionable that competitive neutrality is possible in some locations or markets, and it is unclear how this will drive improved outcomes for learners. (ACT Government, sub. IR133, p. 5)

IHEA is supportive of the principles ... including competitive neutrality, being a sound basis for a new intergovernmental agreement. IHEA also recommends that any changes to funding of the sector be compliant with competitive neutrality principles so that student choice is respected and drives the system. (Independent Higher Education Australia, sub. IR115, pp. 1–2)

Table 5.2 Proposed principles for a new agreement

<i>Proposed principle</i>	<i>Implications for policy reforms</i>
Centring policy on the user (students and employers) with focus on informed choice, quality safeguards and outcomes	<ul style="list-style-type: none"> • A user-centred system recognises that students have the best understanding of their preferences, and that both students and employers are better served by a system focused on students' educational outcomes, rather than on training providers. It also requires supports to enable users' choices to drive system outcomes, and quality safeguards to protect users.^a
Accessibility, with a focus on meeting the needs of diverse user cohorts	<ul style="list-style-type: none"> • As embodied in the NASWD, improving access to VET is central to improving skills acquisition, and is of particular importance for specific groups, including those facing disadvantage.
Continuous improvement in quality of VET delivery	<ul style="list-style-type: none"> • Policy design and implementation is geared to continuously improving provider performance, student experience, course content, teaching, training and assessment, and measurement of quality.
Fiscal sustainability and stability of funding	<ul style="list-style-type: none"> • Future policies would benefit from rigorous tests of long-run fiscal sustainability, given the eventual financial cost of poorly designed entitlement and loan programs under the NASWD. • Funding stability for providers supports continuity of provision.
Transparency and accountability about VET investment and outcomes	<ul style="list-style-type: none"> • Funding transparency includes course subsidies, costs and the size and nature of funding to all providers. Clearly defined community service obligations would also assist. • Public accountability with reporting on activity, investment and outcomes.
Efficient pricing and delivery of quality training at least cost	<ul style="list-style-type: none"> • Efficient delivery and incentives for innovation, to ensure quality training is delivered in an effective manner and at an efficient cost, noting that efficiency improvements are likely to come from providers themselves. • Efficient pricing and subsidies, with a common basis of price-setting methodologies for different courses, regions, and students, including a recognition of potential trade-offs between quality and cost.
Designing incentives to increase participation in VET commensurate with the benefits	<ul style="list-style-type: none"> • Return on investment noting that benefits primarily accrue to the user, and incentive design should reflect this. • Additionality, where the economic impact of VET funding should be judged according to its ability to elicit additional training (chapter 9).
Contestability in VET markets, with a provider-agnostic approach to training delivery	<ul style="list-style-type: none"> • Clarity on the role of public providers, including any service obligations distinct from those of other providers. • Contestability implies that funding is open to all providers, but that allocation remains at the discretion of governments and students. • Competitive neutrality, to improve competition and remove distortions to resource allocation that arise from public ownership. In VET, public providers should not have competitive advantages due to their ownership.
Alignment with other parts of the education system	<ul style="list-style-type: none"> • Neutral treatment of VET and higher education for similar training, where policy settings should minimise distortions in students' choice between sectors, given the connected but bifurcated tertiary system.
Evidence-based policy, informed by quality data and evaluation	<ul style="list-style-type: none"> • National data collection, sharing and use, coupled with evaluation of policy settings that directly informs policy decision making and system design. • Evaluations are rigorous and consider short and longer-term outcomes.
Responsiveness to the changing needs of user and the economy	<ul style="list-style-type: none"> • Given the role of VET in responding to changing economic conditions, VET policy should account for the changing skill needs of both users throughout their careers, and of industries in an increasingly dynamic environment.

^a For example, the *National Disability Insurance Scheme Act 2013* (Cth) states that one of the objects of the Scheme is to enable people with disability to exercise choice and control in the pursuit of their goals and the planning and delivery of their supports (section 3(1)(e)). The Commission previously identified areas of human services that would benefit from increased 'informed user choice' (PC 2017a).

A revised performance framework to promote transparency and accountability

In chapter 4, the Commission found that the NASWD performance framework measures were insufficient to hold governments to account for policy reform actions (or to provide assurance for untied funding — discussed in section 5.2). To improve public accountability, a new intergovernmental agreement should include a revised performance framework as well as supporting mechanisms for additional oversight.

An updated performance framework that reflects the diversity of the VET system

A new performance framework should be made more specific to the different parts of the VET system, with clearly mapped indicators. Measurement of the NASWD objective could be improved through greater acknowledgement of the diversity of VET service offerings (which reflect the different needs of its users) within the VET system. The Joyce Review (2019, p. 32), which advocated a clearer definition of the VET system, recommended that governments should agree ‘... descriptions for each part of the vocational education sector, to be used to measure the performance of each distinct stream of provision ...’, including foundation skills, ‘second-chance’ learning, VET in Schools, and short courses such as first aid courses.

The Commission has reached a similar conclusion. Governments should agree defined outcomes and supporting indicators that reflect the varying nature of governments’ goals across different parts of the VET system.

Improved performance indicators to monitor governments’ contributions in VET

The NASWD performance framework was not well-targeted to measuring the *contribution* of governments, and that of the VET system, toward improving skills and workforce development (chapter 4). A new performance framework should include performance indicators that can better capture the contribution of governments’ activities in VET. These indicators should be able to be influenced by (and attributed to) government actions, with supporting documentation that articulates how government reform activities will contribute to an improvement on a particular indicator. As noted in section 4.3, this requires careful selection and presentation of indicators and targets based on good quality data (box 5.5).

A performance framework included in a new agreement need not provide a comprehensive picture of system performance. Jurisdictions already collect and monitor indicators to assess the performance of their VET systems. And the contribution of the National Centre for Vocational Education Research (NCVER) reporting and the Commission’s annual Report on Government Services provide additional sources of national performance monitoring for the VET system. Irrespective of a new agreement, governments should develop and improve the national measures available through these sources to provide a more complete picture of VET system performance (discussed further in section 5.3).

Box 5.5 Selecting measures for performance reporting frameworks

Under the IGA FFR, governments agreed a set of principles that remain pertinent for selecting performance indicators and targets as part of a robust performance reporting framework:

- (a) meaningful — to improve public accountability, data must be reported in a way that is meaningful to a broad audience, many of whom will not have technical or statistical expertise, and validly measures what it claims to measure;
- (b) understandable — the data will be accessible, clear and unambiguous so that the community can come to its own judgements on the performance of governments in delivering services;
- (c) timely — to be relevant and enhance accountability, the data published will be the most recent possible — incremental reporting when data becomes available, and then updating all relevant data over recent years, is preferable to waiting until all data are available;
- (d) comparable — data must be comparable across jurisdictions and over time — where there are no comparable data for a particular performance indicator, the Parties will work together with assistance from technical experts to develop common definitions, counting rules and measurement standards so that data can be provided on a comparable basis;
- (e) administratively simple and cost effective — the costs involved in collecting data will be proportionate to the benefits to be gained from the resulting information;
- (f) accurate — data published will be of sufficient accuracy so that the community has confidence in the information on which to draw their analysis; and
- (g) hierarchical — high-level performance indicators should be underpinned by lower level (more detailed but consistent) performance data where a greater level of sector specific detail is required for other purposes.

Source: COAG (2009, pp. C2–C3).

In the context of a new intergovernmental agreement, the application of the principles in box 5.5 demonstrates several requirements for a new performance reporting framework. In recognition of the costs of collecting data in a consistent manner across jurisdictions, a new agreement should include improved performance indicators that:

- balance simplicity and coverage — a framework should include as few indicators as required to capture the essence of performance for a particular area, as well as sufficient indicators to capture the intended outcomes and objectives, as defined in the performance framework
- are included where timely data are available or where the benefits of developing a new indicator outweigh the cost of doing so. Some examples of where data are already available to improve on NASWD performance indicators are in box 5.6
- include relevant disaggregation where available, for example for priority cohorts, provider type or by training type
- leverage indicators that are already commonly compiled across jurisdictions, such as those included in the annual Report on Government Services. Over time, additional indicators could be compiled nationally, drawing on existing performance indicators used by States and Territories that would align with their own priorities for system monitoring and performance, and would be more likely to have historical data to generate a baseline.

Box 5.6 **NASWD performance indicators could be improved**

The Commission has identified several prospective areas where performance indicators under the NASWD could be improved, based on data already available. These include performance measures that capture:

- all fee-for-service activity as well as government-funded activity. Several of the NASWD indicators should be updated to include data on both government-funded and fee-for-service students (as data was only made available for the latter group from 2015)
- the contribution of VET to improving foundation skills — the number of students undertaking foundation skills courses and individuals' outcomes after studying (such as the proportion employed or in further study) would usefully supplement the current foundation skills indicator, which is based on a 10-yearly survey and therefore is unsuitable for timely comparisons. An agreed definition of what courses are counted as foundation skills would also be required
- other measures of skills attainment — the current performance indicators focus primarily on course completions. While completing a VET course will be a measure of success for many students, some may obtain what they need from training without completing. The National Centre for Vocational Education Research's *National Student Outcomes Survey* records the reasons for not continuing with training. A new indicator could capture students who obtained skills through the VET system and reported that they 'got what they wanted from training' as a supplementary indicator of success to completions
- better measures of training outcomes and quality — nationally consistent data for the measurement of student satisfaction and completion rates are available, and would prompt greater emphasis on governments' contributions to improving student outcomes (chapter 2).

Governance changes could also improve the design of a new performance reporting framework. As a first step, an intergovernmental data working group could develop the set of performance indicators and benchmarks suitable for inclusion in a new agreement. Ongoing refinement will be central to maintaining the relevance of such a framework, and this group should provide ongoing advice about how to update the framework over time as more national data become available. A national data strategy could be a useful vehicle to prompt momentum in areas where further data development is required (discussed further in section 5.3).

A role for targets?

As identified in chapter 4, the NASWD targets set by governments will not be met, partly because they were beyond aspirational. This is not unique to the NASWD. For the benchmarks and targets in the other National Agreements,³⁶ the majority were not met (where the Agreement was operational at the time of the target end date) or were not on track to be met (where the Agreement ceased before the target end date) (PC 2020a). Notwithstanding, well-designed targets can support greater accountability and transparency

³⁶ The National Agreements originally included as schedules to the IGA FFR are the *National Healthcare Agreement*, *National Education Agreement*, *National Disability Agreement*, *National Affordable Housing Agreement*, and the *National Indigenous Reform Agreement*.

of performance, by keeping multiple parties accountable and providing focus on priority areas. To this end, jurisdictions could agree:

- national targets in national priority areas (as was established under the NASWD), or areas of shared responsibility. For example, if improving foundation skills is a priority across all jurisdictions, a national target could be set based on commitments from the Australian, State and Territory governments to an agreed benchmark, based on their committed reforms. While national targets signal the collective effort of governments toward a shared goal, they can also obscure jurisdictions' individual contributions (chapter 4). Should national targets continue, disaggregation by jurisdiction is required to isolate and assess the contribution of specific governments toward shared aims
- State or Territory-specific targets or benchmarks that align to agreed national priorities but are proposed by jurisdictions based on local priorities and reform areas. For example, a jurisdiction with identified concerns regarding foundation skills could commit to a target or benchmark to improve outcomes in this area (chapter 12).

However, targets will not be effective or credible unless governments' policies are clearly designed and implemented to achieve the targets. Targets and policies must be linked, for example, through a theory of change that demonstrates how policy reforms will contribute to the achievement of any targets set. Ultimately, targets should also be accompanied by other measures to promote oversight, as they are only one way to galvanise performance and improve transparency.

Supplementing targets and performance indicators with regular evaluation

A new performance reporting framework could also incorporate broader measures of progress and assessment of outcomes. Performance indicators can provide useful diagnostics and benchmarks to monitor the system but do not shed light on causality. Systematic policy evaluation — beyond indicators of system performance — is required to assess what works. This typically requires richer data as well as judgments about how to interpret the evidence to evaluate the effectiveness of interventions (PC 2019a). A more comprehensive evaluation program undertaken by bodies like the NCVER, the Mitchell Institute for Education and Health Policy and others — potentially in partnership with the National Skills Commission (NSC) — could provide insights on performance.

Other institutional arrangements to promote accountability

As noted in chapter 4, the NASWD performance framework did not significantly improve accountability and transparency, either between governments on their shared reform commitments or to the public.³⁷ Moreover, other institutional arrangements — established

³⁷ As discussed in chapter 4, the intrinsic benefit of public accountability is captured in the accountability principle, which states that the structure of intergovernmental arrangements should promote democratic accountability and the transparency of government to the electorate.

under the NASWD and the broader IGA FFR — intended to hold governments to account were diluted or lost currency over time.

The following considers supporting institutional arrangements that would strengthen oversight of governments' progress against their goals and reform commitments. Institutional arrangements that promote transparency and accountability can help support a long-term commitment to improving VET system performance. Such arrangements could be included in a new agreement, as a public signal of governments' collective commitment. Ultimately, however, institutional arrangements and other tools to improve accountability can facilitate — but not substitute for — a genuine commitment to cooperation and improvement (PC 2017c; Rimmer 2010).

An independent body to monitor progress

Under the intergovernmental arrangements of the IGA FFR (that led to the NASWD), the COAG Reform Council was established to oversee reform implementation and performance monitoring across the National Agreements, but was abolished in 2014. An independent body should again be tasked with monitoring progress. The NSC could undertake this role, although it may require a national governance structure to foster genuine long-term engagement from jurisdictions. Such a body should be independent of service delivery and, ideally, at arm's length from governments. Other independent bodies may also be suited to this role.

As these functions could be fulfilled by existing bodies, there is unlikely to be the need to establish a new body, particularly one specific to VET. Where similar accountability issues exist across other sectors, particularly those with National Agreements expected to be reviewed by the Productivity Commission, the opportunity for an independent body to undertake reporting across all National Agreements could be considered.

Public reporting by all governments

The independent body monitoring progress could prepare an annual report on VET system performance (drawing on evidence from a revised performance framework), reform implementation progress, and findings from a broader evaluation program. A public report on national performance, similar to the *Closing the Gap Report 2020* (DPM&C 2020a), or the National Disability Report proposed in the Commission's *Review of the National Disability Agreement* (PC 2019a), could improve accountability and transparency. An annual report for VET was previously published, and the NASWD included such a commitment by governments, which was abandoned after 2012 (chapter 4).

Intergovernmental reporting on reform milestones, with the onus on *all* parties — the Australian, State and Territory governments — to demonstrate compliance with commitments under a new agreement could enhance accountability and better link reform actions to the stated objectives and outcomes. Recently negotiated national agreements (such as the *National School Reform Agreement* and the *National Housing and Homelessness Agreement* (COAG 2018a, 2018b)) have included similar requirements for jurisdictions.

Such requirements could be conditional on the allocation of *additional* (but not base) funding if there are concerns about the adherence of governments to their commitments (section 5.2).

Other tools to improve accountability and cooperation are available

Mechanisms such as bilateral agreements (between the Australian Government and a State or Territory government) or other funding agreements could complement National Agreements to provide greater accountability. The New South Wales Government (sub. 48, p. 7) suggested that bilateral agreements could be used to set out implementation strategies and performance indicators for specific initiatives and may reduce the scope of unilateral policy changes that could affect other governments achieving their goals.

It is expected that the Commonwealth would become a partner in achieving targets and executing objectives, as critical levers to address skill shortages such as skilled migration are managed by the Commonwealth Government. The bilateral arrangements would also cover financial contributions of the Commonwealth to the VET system.

Under the IGA FFR, implementation plans can also be agreed where there are jurisdictional differences in context or approach, or where additional information is required to increase accountability and transparency. As discussed in section 5.2, governments can also negotiate funding agreements with additional tied funding for specific reforms of national significance, as a supplement to largely untied funding arrangements.

Recommit to fundamental roles and responsibilities

Central to a new agreement is the governance and institutional arrangements to sustain effective working relationships between governments. As noted in chapter 4, there remains a need for effective intergovernmental cooperation both in areas of shared responsibility and, more generally, to coordinate across VET and related systems (for example, higher education). As with other policy areas with National Agreements in place, the VET system remains a shared responsibility. This is unlikely to change, given the genuine policy and efficiency rationales for the involvement of both levels of government in quality regulation and foundation skills, for example (discussed in chapters 7 and 12, respectively).

Broadly, governments' respective roles remain similar to those articulated in the NASWD (chapter 4). Participants have, however, raised concerns that roles and responsibilities are not clear, and that this can hinder the achievement of policy objectives and risk cost shifting. Review participants have also raised concerns about governments unilaterally making changes that are not coherent across levels of government, for example in the balance of migration and training policies used to address skills shortages.

A new agreement presents an opportunity to restate roles and responsibilities — and this is a fundamental purpose of intergovernmental agreements. As noted in chapter 4, the expanding role of the Australian Government in VET has been the result of a trend toward greater national consistency across jurisdictions, in recognition of the benefits of cooperation

and standardisation. Subsequent chapters of this report consider the allocations of roles between levels of government for specific parts of the VET system, but do not find a case for substantial changes to those under the NASWD. There is, however, a need for clearer delineation in areas of shared responsibility where roles have become blurred.

Governments' respective roles and responsibilities should be documented in more detail, particularly where they relate to shared responsibilities such as apprenticeships, data collection and analysis, and information provision. As proposed in chapter 12, the responsibilities of the Australian, State and Territory governments in relation to language, literacy, numeracy, and digital literacy skills should be documented in a schedule to a new agreement.

Some of governments' VET roles and responsibilities are documented separately, and should be brought under one agreement, for example, those relating to VET quality regulation (where the Australian Skills Quality Authority, and Victorian and Western Australian regulators are jointly responsible). Governance arrangements should be updated to reflect these roles, as well as the NSC and National Careers Institute, as national bodies intended to support the functioning of the VET system. A schedule could detail responsibilities for government bodies, as in the *National Health Reform Agreement* (COAG 2011).

RECOMMENDATION 5.1 — ESTABLISHING A NEW PRINCIPLES-BASED INTERGOVERNMENTAL AGREEMENT

The Australian, State and Territory governments should negotiate a new, principles-based intergovernmental agreement. To retain flexibility and currency, this agreement should be modular (using schedules) and reviewed every five years. It should include:

- an updated objective that recognises VET as a major, but not the only, avenue for skills and workforce development
- principles to guide a renewed national VET reform agenda centred on meeting the needs of students and employers
- a revised performance reporting framework, with a broader set of performance indicators that better capture the contribution of government activity in the VET system to skills and workforce development
- governance arrangements to improve data sharing and collection, such as an intergovernmental data working group and a revised national VET data strategy
- regular public reporting by all governments and monitoring by an independent body to improve accountability for outcomes
- fundamental roles and responsibilities of governments in the VET system, with existing roles reaffirmed. Governments should clarify roles in areas of shared responsibility and include the roles of recently created bodies (the National Skills Commission, the National Careers Institute, and the Skills National Cabinet Reform Committee).

5.2 Intergovernmental funding arrangements

Intergovernmental financial transfers for VET are set separately to the NASWD, through the Skills and Workforce Development SPP and, to a lesser extent, National Partnership Payments for specific reforms. Funding transfers from the Australian Government to State and Territory governments are therefore established under the IGA FFR, as provisions for SPPs and National Partnership Payments are defined in general terms in the schedules to this broader agreement.

The Skills and Workforce Development SPP is the last of its kind. Since the introduction of the IGA FFR, other SPPs established in key areas of shared policy and service delivery responsibility have been replaced by more conditional funding arrangements. (SPPs were originally established in tandem with National Agreements, including for disability, housing and homelessness, health and education.)

Funding is not a ‘silver bullet’ to achieve long-term cooperation

Unlike the NASWD, more recently negotiated National Agreements have integrated funding arrangements in the negotiation of a new agreement.³⁸ One consequence of such an approach is that the negotiation process becomes primarily focused on funding, indeed many review participants have emphasised funding as the main priority for negotiating a new agreement.

Intergovernmental financial transfers are essential to facilitate service delivery in a federated system with vertical fiscal imbalance. Yet, funding discussions can also distract from other levers available to governments to pursue cooperation. In pursuit of a more productive public sector, the Commission has previously examined approaches to improve intergovernmental relations and national reform, cautioning against an over-reliance on financial payments (sometimes referred to as ‘reward payments’) to incentivise reform within a federated system (PC 2017c, p. 178).

Over-reliance on financial incentives to facilitate reform can ‘crowd out’ or override jurisdictions’ intrinsic incentives to undertake reform, given the benefits of improved outcomes for their constituents. Moreover, it can blur the lines of responsibility between levels of government and result in a loss of trust between parties, hampering future reform opportunities and collaboration, especially when reform efforts prove ineffective.

Recently negotiated agreements have used different funding mechanisms that balance varying degrees of subsidiarity and accountability. Such funding arrangements each have their own advantages and disadvantages (table 5.3). Ultimately, the funding mechanism should reflect the level of government with service delivery responsibility, and support effective service provision. Financial arrangements can be a key driver of, or detractor from,

³⁸ Recently negotiated National Agreements have tended to include funding arrangements, such as the *National Housing and Homelessness Agreement* and the *National Health Reform Agreement*.

effective intergovernmental cooperation. They cannot, in isolation, ensure meaningful intergovernmental cooperation.

Table 5.3 Different payment models have different strengths

<i>Funding model^a</i>	<i>Example</i>	<i>Advantages</i>	<i>Disadvantages</i>
Block / untied funding	Skills and Workforce Development SPP (largely untied)	<ul style="list-style-type: none"> • Funding certainty • Simple to administer • Flexibility in how funds can be used 	<ul style="list-style-type: none"> • No explicit incentive to improve performance • Limited accountability in how funds are spent
Activity-based funding	Hospitals funding	<ul style="list-style-type: none"> • Can support user choice • Incentive to provide more services 	<ul style="list-style-type: none"> • Incentive to increase activity, and potentially over provide • Funder bears risk of increased demand
Matched funding (or pooled funding)	Homelessness funding	<ul style="list-style-type: none"> • Lowers risk of cost-shifting • Supports shared responsibility 	<ul style="list-style-type: none"> • Limited individual accountability in how funds are spent
Outcomes or performance-based funding	Higher education growth funding	<ul style="list-style-type: none"> • Can aid consistency in meeting quality standards • Incentive to provide services that improve outcomes, that may not otherwise be provided (e.g. support services) 	<ul style="list-style-type: none"> • Significant monitoring effort required and can result in high compliance costs • Indicators can be hard to define, not linked to outcomes or affected by external factors • Risk of unintended consequences like ‘cherry picking’

^a The design of funding arrangements may utilise or include aspects of multiple funding arrangements.

Sources: adapted from PC (2015a, 2017a).

Improve assurance for funding, but retain jurisdictional responsibility for achieving agreed outcomes

Chapter 4 noted the importance of subsidiarity as a principle for intergovernmental funding arrangements in VET. It particularly noted the merit of the NASWD in its recognition of both the responsibilities of the Australian Government in providing funding contributions to jurisdictions, and the corresponding responsibility of State and Territory governments to oversee the expenditure of public funds for training delivery. This implies the continuation of largely untied funding for VET, which is currently distributed to State and Territory governments through the Skills and Workforce Development SPP.

While this suggests that wholesale change to intergovernmental funding arrangements may not be warranted, there does remain a need for greater transparency and public accountability for funding (chapter 4). All jurisdictions (including the Australian Government) should be responsible for providing clear and disaggregated public information on how funding is spent and the outcomes achieved. These could be documented in a VET annual report and in

intergovernmental reporting on reform milestones (section 5.1). Given the service delivery responsibilities of both levels of government, there is an accountability on *all* governments to document how money is spent to achieve agreed outcomes. Greater transparency would not, however, imply conditions on how untied base funding (such as an SPP) is spent.

Conditions for additional, not base, funding

The IGA FFR provides for tied funding arrangements through National Partnership Payments, with funding conditional on implementing reform. This was the case with the *National Partnership Agreement on Skills Reform*, agreed concurrently to the revised NASWD in 2012. Similar conditional payments, now facilitated through Federation Funding Agreements,³⁹ could be used to promote accountability, as a supplement to largely untied base funding arrangements.

Recently negotiated agreements have included additional conditions to improve accountability that should be among those considered for new funding agreements, including:

- *legal enforceability*, as is included in the *National Housing and Homelessness Agreement*, where Australian government funding is conditional on State and Territory governments meeting reporting requirements as required under the *Federal Financial Relations Act 2009* (Cth). Under this agreement, State and Territory governments are required to contribute to the development and collection of nationally consistent data, maintain housing and homelessness strategies, as well as publish reporting on funding contributions, progress against performance measures and implementation of reform commitments (COAG 2018a), similar to the reporting arrangements proposed above. Adopting this approach for a new agreement would likely improve accountability as reporting would become mandatory
- *bonus payments for outcomes*, while the IGA FFR framework generally precludes financial penalties for jurisdictional poor performance or where a target is not met, governments can (and do) negotiate funding agreements that include conditions for reforms of national significance. Under Federation Funding Agreements (previously National Partnership Agreements), conditional funding for reform implementation is provided in addition to base funding, and can, for example, include a percentage of the National Partnership Payment that is made on completion of a reform milestone. Though there are risks with over-relying on financial incentives to promote reform
- *matched funding arrangements*, as agreed by governments as part of JobTrainer, and in relation to homelessness funding, where jurisdictions are required to match Australian government funding on a dollar for dollar basis, based on the quantum set out in the agreement (COAG 2018a; DESE 2020l). The use of matched funding arrangements should be targeted to a specific policy problem, such as where the risk of cost shifting is identified.

³⁹ In August 2020, Australian Government payments to jurisdictions previously made through National Partnerships and Project Agreements were consolidated under the overarching Federation Funding Agreement for Education and Skills (Australian Government 2020a, p. 6).

RECOMMENDATION 5.2 — RENEWING INTERGOVERNMENTAL FINANCIAL TRANSFERS

The Australian, State and Territory governments should negotiate funding arrangements that retain untied base funding transfers.

This should be conditional on stronger accountability for funding and the intended economic and social outcomes. All jurisdictions should transparently report on how public money is spent.

Within or alongside a new agreement, governments should consider arrangements that promote greater accountability, based on the tools available under the *Intergovernmental Agreement on Federal Financial Relations*, or the precedent of recently negotiated agreements.

5.3 Improved data, monitoring and evaluation

Improving national data collection and publication

While the NASWD facilitated improved national data collection and availability (chapter 4), further work is required. A commitment to improving the evidence base required to evaluate system outcomes and investment should feature in (or alongside) a new agreement. Throughout this review, the Commission has encountered first-hand a significant reluctance of jurisdictions to share any data related to VET funding and costs (box 5.7). Price data have been equally difficult to obtain, although this is also likely because the data are not adequately collected by jurisdictions (bar New South Wales and Western Australia where prices are regulated). Where collected, data are not often publicly available (Field, sub. IR116, p. 10; JCSF Consulting, sub. IR158, p. 8).

The availability of indicators of VET quality as well as cost, price and funding data for training delivery is a critical step to assessing the performance of the system and the cost-effectiveness of government interventions — activity data alone are insufficient. The newly formed NSC has already been tasked with developing national data on VET cost of delivery and prices, and governments have committed to work with the NSC on this issue as part of the *Heads of Agreement for Skills Reform*.⁴⁰ Chapter 6 examines the quality indicators required.

⁴⁰ The Australian Government has outlined a role for the NSC to examine VET pricing and performance, skills demand forecasting, and other labour market and workforce analysis. The *Heads of Agreement for Skills Reform* commits governments to ‘... work with the NSC to develop an approach to estimating the costs of delivering training by October 2020 and to share data that will enable the NSC to release efficient prices for common VET qualifications by 1 July 2021 and all VET qualifications by 1 July 2022. This includes sharing data on costs of delivery, student outcomes and provider performance’ (DPM&C 2020b).

Box 5.7 Limited data availability hinders transparency

The Commission's analysis has been constrained by poor information. As jurisdictions collect funding data to different degrees, a comprehensive national picture on the proportion of funding going to different purposes is unavailable (funding to public providers being an exemplar). Jurisdictions also do not publish information on the fee-for-service market, which limits insight into how course subsidies affect the behaviour of funded and non-funded providers.

This lack of transparency, particularly at the State and Territory level, limits public accountability for where public money is spent. It has been difficult to confirm spending data with jurisdictions; where data have been made available, there has been a reluctance to allow analysis to be published. While funding data are collected in a nationally consistent manner by the NCVER, it is not made public with breakdowns that can adequately attribute this funding to VET activity. For example, funding remains unattributed when allocating funding amounts by qualification levels — this means that it is not possible to accurately measure how much funding is provided as subsidies for different course types. Similarly, data on funding by provider type are only available as totals, limiting estimates of funding to public providers that is additional to activity-based course subsidies. There are limited additional costs (and significant benefits) associated with making more granular funding data already collected by NCVER publicly available, and the inclusion of more detailed and nationally consistent information on funding attribution in future collections.

There is a lack of information and transparency about the course cost estimation process including on inputs, methodologies, rationales and assessments of their effectiveness. Information can be years out of date, such that important decisions about costs are ill-informed. There are marked differences across jurisdictions — as shown in chapter 8 — but a forensic analysis of costs and subsidies is not possible with limited data. The NSC's role in calculating efficient costs is a step in the right direction, and these estimates should be published.

On request by the Commission, some, but not all, States and Territories provided more information on their subsidy arrangements and their impacts. Most of the information provided to the Commission was given on a confidential basis. *Prima facie*, the degree of secrecy is concerning given that the starting point should be transparency in the allocation and use of public funds. The Commission understands that State and Territory governments are working toward making more detailed information on allocations of funding routinely available in the future.

Supporting governance arrangements would likely improve cooperation between governments, such as an intergovernmental data working group and a revised national data strategy. The purpose of such arrangements would be to establish the working protocols required between governments to address gaps in national data collection and advise on the design of a new performance reporting framework (section 5.1). They could also promote sharing of better practice examples across jurisdictions on enhancing data collection methods, and subsequent analytical use, such as the New South Wales Government's longitudinal Pathways for the Future project (box 5.8) or approaches to collect data for measuring students' improvements in foundation skills as a result of training (chapter 12).

Better evaluation of system performance and investment

The deficiencies in publicly available VET funding information inhibits assessment of where and how funding for VET delivery is spent, whether funding programs are meeting their

objectives, and the broader impacts of spending on system outcomes. Addressing this is critical to support governments' and other parties' assessments of the effectiveness of governments' stewardship of the VET system.

Governments have recognised this issue in the *Heads of Agreement for Skills Reform*, which signals governments' intentions to enhance transparency and accountability through improved data collection and analysis, to be shared publicly to support regular assessment of governments' policies and performance (DPM&C 2020b).

Lessons from evaluation should inform future policy decisions

Improved data access, sharing and linkage opportunities is critical to improving the evaluation of system performance and the effectiveness of interventions, which ultimately deliver better training and outcomes for users and the broader community. A strong evidence base is essential to support evaluation, and efforts by governments to develop more complete datasets, for example, through the Total VET Activity collection and the Performance Information for VET project will assist future evaluation (DET 2018b). Publicly available data would also aid any interested party, such as academics, State and Territory governments and research bodies such as the Mitchell Institute for Education and Health Policy, to undertake evaluations.

Greater use should also be made of data analysis to inform policy and system design (PC 2016). With additional quality, cost, pricing and funding data, evaluation capability could be developed over time. It would enable an examination of the use and effectiveness of different investment instruments across jurisdictions, for example, student responsiveness to loan or subsidy settings, as well as any effects on longer-term student outcomes. As discussed in section 5.1, a more comprehensive agenda of program and system evaluation is warranted, and arrangements could be established under a new intergovernmental agreement to encourage rigorous analysis on the effects of VET policies and programs.

Measuring longer-term outcomes

Improved data sharing arrangements could provide a more complete picture of the success or otherwise of VET in improving the longer-term outcomes of students (box 5.8). Current indicators in the *National Student Outcomes Survey* only measure student employment (or further study or looking for work) six months after completion of training, and do not provide evidence about graduates who take longer to secure work or other longer-term employment outcomes. More longitudinal evaluation would provide deeper insights on student outcomes, and a more sophisticated understanding of the returns to VET.

Box 5.8 Richer data can shed light on longer-term outcomes

More complete datasets, achieved through data linkage and integration, would allow the longer-term employment benefits of VET to be assessed. Some work is already underway.

Using the Unique Student Identifier (USI) as a linkage key to combine various data sources can shed light on students' educational pathways after VET, such as tracking the extent to which lower-level VET qualifications are used as a stepping stone to higher-level VET qualifications. In 2019, the Department of Education, Skills and Employment undertook a pilot project to statistically identify and link students with both a USI and its higher education equivalent, the Commonwealth Higher Education Student Support Number (DESE 2019b). This linkage formed an experimental dataset to analyse the flows between the two sectors.

The New South Wales Government's Pathways for the Future project brings together secondary school, tertiary education and employment data with New South Wales and national data to better understand the range of educational pathways and outcomes (NSW Government, sub. 48, pp. 26–27; Training Services NSW 2019). The New South Wales Government has also partnered with the Australian Taxation Office, linking student data with their Tax File Numbers, to enable a high-level analysis of student employment and income outcomes. Student data could also be linked with data from other government agencies, such as the Department of Social Services, to monitor outcomes.

Some legislative and regulatory changes may assist the expansion of this work. The New South Wales Government (sub. 48, p. 27) noted that 'connecting this wide scope of data across multiple jurisdictions and privacy regimes has been extremely complex', and supported measures to 'simplify and align the legislative and regulatory frameworks governing the use of data'.

RECOMMENDATION 5.3 — MONITORING AND EVALUATING SYSTEM PERFORMANCE

The Australian, State and Territory governments should commit to:

- new governance arrangements to improve data sharing and collection (recommendation 5.1). As part of these arrangements, governments should instruct:
 - the National Centre for Vocational Education Research to collect and publish more information on the attribution of funding to course subsidies (by qualification level and provider type), capital expenditure and community service obligations (as part of the National Funding Collection)
 - the National Skills Commission to establish a national database of efficient course costs
- enhanced data analytics capability to evaluate VET outcomes and investments. This should include a commitment to improve understanding of VET students' longer-term labour market outcomes, for example.

These arrangements would be a welcome feature of a new intergovernmental agreement but could be implemented before the new agreement is settled.

PART D — SUPPORTING THE VET SYSTEM

6 Informed choice in VET

Key points

- The vocational education and training (VET) system offers an intimidating array of options — more than 1400 qualifications and about 4000 registered training organisations (RTOs).
- To choose suitable courses and RTOs, students and employers need good quality, accessible information. But there is a limit to what can be gained from better use of information. This is due to the cost of collecting and disseminating information, and the costs to students of processing it.
- Enabling informed choice requires action on several fronts through governments:
 - supporting well-curated information and career guidance to prospective students
 - implementing screening strategies to help better match students and VET courses
 - using regulation to remove sub-standard providers and courses from the market.
- Despite past commitments, the suite of information is poor.
 - Prospective VET students struggle to navigate through a maze of information sources.
 - Students usually cannot obtain basic information on: student fees and the quality of RTOs, including likely labour market outcomes after graduation.
 - Much information on tertiary education, training and career options is split along VET and higher education lines, and information on credit pathways is often unclear.
- The recently established National Careers Institute (NCI) is an opportunity to create a trusted, independent source of career and VET-related information for all users.
 - The NCI should publish on My Skills RTO-level information on: student fees; indicators of RTO quality; labour market outcomes; and credit pathways. Ideally, the information should be tailored to different cohorts, such as school leavers and mature-age students.
 - The National Centre for Vocational Education Research should develop summary indicators on the quality of an RTO and, subject to statistical validity, publish these indicators for each RTO on My Skills.
- Schools-based career guidance services are seen by many as too focused on higher education. There are gaps in low-cost services for people not in post-school educational institutions and/or government programs. These gaps disproportionately affect many disadvantaged groups.
- The Shergold Review recommended several changes to career guidance services, including the creation of ‘career hubs’. This has some merit. Career hubs should be focused on assisting school students, older people at risk of unemployment and disadvantaged groups.

This review recommends a new principles-based intergovernmental agreement centred on meeting the needs of students and employers (chapter 5).

A user-centred system recognises that both students and employers are best served by a system that responds to their needs. However, to realise this potential, choices need to be informed by good information on course offerings, career options and pathways and course prices and quality. Access to information and how it is presented also matter.

The Commission's interim report did not examine these issues in depth.

This chapter, therefore, deepens and extends the Commission's analysis on ways to improve information provision and career guidance. It covers:

- the importance of informed choice in vocational education and training (VET), the factors that can influence it, and actions that governments can take to support informed choice (section 6.1)
- the diverse reasons for choosing vocational training and consequently the information and career guidance needs of prospective students (section 6.2)
- VET information gaps, the efforts being made to address them and what more can be done (section 6.3)
- career guidance services and the proposals seeking to address their deficiencies (section 6.4).

6.1 Informed choice

With 4043 registered training organisations (RTOs) delivering 56 training packages, 681 accredited courses, 1340 qualifications, 1445 skill sets and 16 460 units of competency (Australian Government 2019d), the range of options in VET is intimidating. Faced with this array of options, students and employers need good quality, accessible information to inform their choices.

Governments — who invest close to \$6.4 billion a year in VET — also have a vital interest in seeing students matched with training that aligns with their interests, skills and career aspirations. Poor information leads to poor decisions, which are costly for all concerned. The costs include meagre returns for students' investments in training, lower completion rates, and a wasteful churn of students through the system. And without the discipline of informed choice, providers have little incentive to improve the quality and suitability of their offerings (beyond any regulatory requirements).

Many review participants saw informed student choice as important for an effective VET system (Australia's Dual Sector Universities, sub. IR155; ASQA, sub. IR132; BCA, sub. IR145; CCIWA, sub. 54; Cho, sub. IR123; CSQ, sub. IR124; Palmer, sub. IR67; TDA, sub. 59; South Australian Government, sub. IR139). For example, TAFE Directors Australia (sub. IR146, p. 10) stated that 'many of the proposed policies outlined by the Productivity Commission rely on robust and trustworthy information to support students in making choices about courses and providers'.

Informed choice can be difficult to achieve

Students exercise ‘informed choice’ if they understand the available options sufficiently well to make a decision likely to meet their needs. While straightforward in principle, in practice the extent to which informed choice can be realised is constrained by the complexity of VET decisions, limits to the power of information provision, and characteristics of VET markets.

VET study decisions are complex ...

Students’ VET decisions are complex. Typically, the first step is to decide on a career or occupation, followed by the level of qualification, and the choice of course and/or provider. In turn, the latter is based on an assessment of price, which often varies with an individual’s circumstances, and quality, which is difficult to measure and interpret. Different quality measures may be more suitable for some people than others.

Further complicating matters, VET is an ‘experience good’, meaning it is difficult for prospective students to know in advance whether a specific training option will meet their needs and provide value for money. Similarly, judging the quality of career advice *a priori* is likely to be difficult. Buchanan (sub. IR151, p. 19), drawing on the work of Quiggin (2016), argued:

... students, by definition, cannot know in advance what they are going to learn, or make an informed judgement about what they are learning. They have to rely, to a substantial extent, on their teachers to select the right topics of study and to teach them appropriately. Moreover, any specific course of education is a once-only experience in most cases. Students may judge, in retrospect, that particular teachers, courses or institutions were good or bad, but in either case they are unlikely to return, so that there is no direct market return to high quality performance.

‘Information asymmetries’ also feature prominently in the VET system — providers know more about the quality of their service than a prospective student.

Decisions about VET involve trade-offs between present and future benefits, when the latter may only be realised long after decisions on what and where to study are taken (ASIC and AFM 2019, p. 10). Students’ life circumstances may evolve unpredictably, and these circumstances may affect their returns on investing in VET. Decisions also involve some risk — for example, the risk of labour market scarring from not completing a course.

... and there are limits to what information provision can achieve

The complexity of VET decisions mean that prospective VET students need a good understanding of career, training and course options to make reasonable choices.

However, providing information on these matters will not be sufficient to ensure that all students have a good understanding of the options available to them. This is because there are several constraints on people’s capacity to process information.

One challenge is the ‘curse of choice’. In general, consumers can struggle to identify good or bad deals when faced with more than two or three different factors in their decision (Lunn et al. 2016, p. xii).

A second is the time required to gather and process information. In a world overloaded with information and choices, most people cannot take all salient factors into account — they have ‘rational inattention’ (Cheremukhin, Popova and Tutino 2011; Dean and Neligh 2019; Krajbich and Dean 2015; Martin 2016). Consequently, people tend to make intuitive judgements and be guided by attributes such as social affinity, or a trusted brand (ASIC and AFM 2019; Shergold Review 2020). These shortcuts are most pronounced in adolescents, whose outlooks tend to be more short-term and affected by their peers and immediate family, compared with students with more life experience (Hofer, Zhivkovikj and Smyth 2020). However, as adolescents are generally more comfortable with uncertainty and exploring possibilities, prompting them to acquire greater awareness of alternatives may help them understand their options.

Third, when people are in stressful situations, their decision-making capacities are hampered (Shields, Sazma and Yonelinas 2016). Based on its *Career Journey Survey*, the National Careers Institute (NCI 2020b) reported that 30 per cent of people thinking about their career before their first job were stressed or anxious. People in long-term disadvantage and facing the brunt of COVID-19 employment disruptions are likely to be among the most affected.

TAFE Directors Australia (sub. IR146, p. 10) echoed these concerns:

We must deal with the limits of consumer information. ... Apart from the limits in being able to develop reliable and comparable information about providers and performance, ... the actual behaviour of prospective students and the acuity they need to make decisions in these areas is a critical success factor.

In addition to cognitive limitations, there are other factors that can diminish the benefits of informed choice. These include thin markets, where choice itself is limited.

Another factor relates to subsidies and income contingent loans. They can weaken price signals, dulling the power of informed choice in stimulating competition on price. Many State and Territory governments subsidise courses to lower the student fee and to try to steer students into courses deemed to be a priority (chapter 8). Reducing fees may discourage students from treating their choice of a course as an investment decision requiring due diligence. By deferring the cost of a course, income contingent loans have the same effect.

Informed choice is also powerless in situations when incentives for providers (or students) do not align with good outcomes for students (or the system) (ANAO 2017; Polidano, van de Ven and Voitchovsky 2017b; and the Victorian Government, sub. IR150, p. 9).

Student choice requires support

The constraints on informed choice justify a role for governments in supporting prospective students' decision making (Lunn et al. 2016; Musset and Kurekova 2018; OECD 2004). Providing curated information and targeted career guidance, screening prospective students and regulatory safeguards are the main levers governments use to support informed participation in VET.

Curated information and career counselling services

Relevant, accessible and easily understood information is key to enabling informed choice.

However, as noted earlier, these are not sufficient conditions; students must also invest their own time in processing information and in broader due diligence, which are not costless.

These costs can be limited by understanding what information students use and how. This knowledge enables information to be curated and tools that help students process information, such as comparator websites, to be developed. Comparator websites need to:

- curate information to suit students with differing circumstances — effective use of information depends on people's inherent skills and knowledge to navigate, access and interpret information (Brown 2017)
- incorporate ongoing review processes to draw on advances in neuroscience on what causes errors when people confront the 'curse of choice' (Tymula 2014) and minimise unintentionally misleading consumers (Johnson et al. 2012, p. 488)
- avoid the temptation to over-simplify (ASIC and AFM 2019, pp. 13–14).

While comparator websites are important, people process, interpret and engage with digital information differently to information provided in hard copy format. Hence, hard copies of information may be a better option in some circumstances or for some types of students (ASIC and AFM 2019).

Career counselling, particularly in schools, can also help people to filter options and reduce complexity by identifying the set of occupations and careers that matches their interests, values and aptitudes. For career advice to be trusted, it must be impartial. Prospective students regard impartiality as a relative strength of external career advice, as compared with other sources (such as parents) (CICA 2020).

Screening

Screening typically involves assessing a student's suitability for the course (such as their related skills and interests), identifying their support needs (for example, poor foundation skills) and, in the case of apprentices, assessing their match with the employer (such as the expectations of both parties). A screening process can reduce the risk of poor student choices and identify challenges to course completion. It can be particularly useful for apprenticeships,

given the commitment made by employers, the potential costs of non-completion and the significant level of public funding.

In 2016, the South Australian Government developed an Upfront Assessment of Need (UAN) tool to assess the ability of prospective VET students to complete any subsidised qualification (SSA 2019). It examines the student's suitability for the intended qualification, their literacy and numeracy skills and their likely support needs. The South Australian Government (sub. IR139) noted that its screening process allows support services to be directed to individuals most at risk of dropping out and pointed to evidence that students receiving support services have completion rates more than double the average for students facing complex barriers. A formal review of the UAN is expected to be completed in early 2021 (South Australian Government, pers. comm., 19 October 2020).

Chapters 11 and 12, respectively, provide further discussion on the benefits of applying the UAN in apprenticeships and assessment tools more broadly and in acquiring language, literacy, numeracy and digital literacy (LLND) skills.

Regulatory safeguards

The provision of curated information, career guidance services and better screening will not prevent every student from making poor decisions, and nor should this be the goal. The provision of student supports entails costs that need to be weighed against their benefits. Moreover, the costs are not solely fiscal in nature — government provision of career advice, for example, may crowd out private provision of such services.

With diminishing returns to the provision of student supports and cognitive limits to how much information students can process, the Commission's approach to informed choice is framed around providing curated information, career guidance and screening of students that is commensurate with the benefits. At the same time, minimum regulatory standards — to remove poor providers and low quality courses from the market — limit the risk of students making very poor decisions.

FINDING 6.1 — INFORMED CHOICE

Providing well-curated VET and career information, career guidance, screening prospective students before commencement, and regulatory safeguards are the main levers governments can use to support informed choice.

Use of these levers should be commensurate with their benefits.

6.2 Prospective students' information needs

The VET student cohort is diverse, and different groups have different motives for undertaking VET.⁴¹

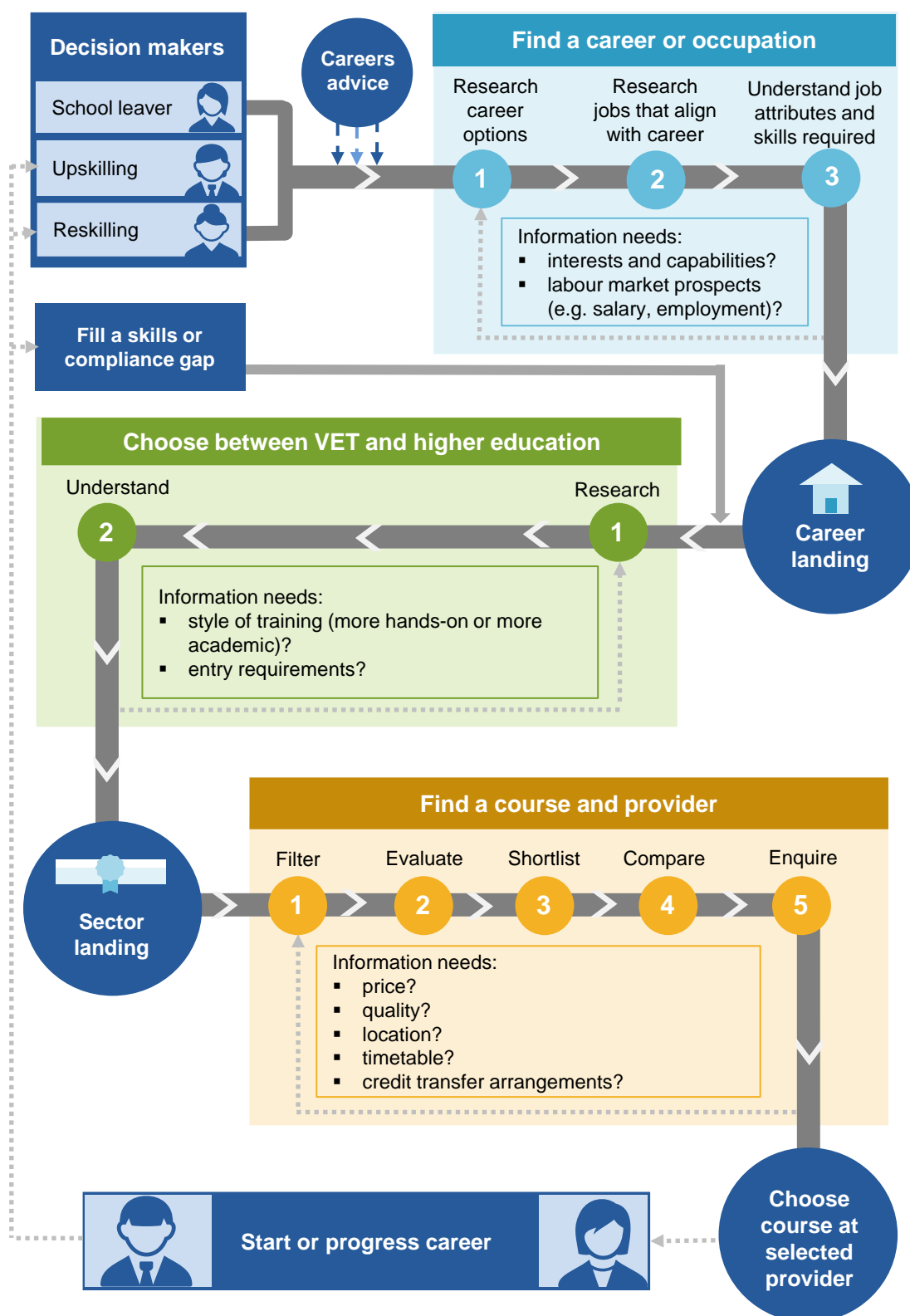
- School leavers focusing on employment represent a large portion of the VET cohort — in 2017, 25 per cent of all VET enrolments were from students who had left school in the preceding three years (NCVER 2020o).
- Many people use VET to upskill or reskill — to gain extra skills for their current job (14 per cent of VET graduates in 2019); get a better job or promotion (6 per cent); to satisfy the requirements of their job (14 per cent); or pursue a new career ('reskilling') (10 per cent) (NCVER 2021).
- Some people undertake VET to improve their general education skills (9 per cent of VET graduates in 2019). In particular, many use VET to improve their LLND skills (chapter 12) — the skills taught in primary and secondary school (NCVER 2021).
- A small fraction (2 per cent) of VET students use VET primarily as a stepping-stone to further study (in VET or higher education) (NCVER 2021).
- 5 per cent of VET enrolments in 2019 were from students in VET in Schools programs (NCVER 2020o).

Notwithstanding the varied pathways associated with VET, there are some common information needs across the different decision-making stages (figure 6.1). These revolve around the choice of:

- career — career advice can help people to narrow the set of occupations and careers that match their interests, values and aptitude. By helping individuals to better understand themselves and their potential choices, careers advisers help 'nudge' people and improve their overall ability to make informed decisions (Hooley and Dodd 2015). Careers counsellors are a common source of such advice for school students, as are career expos, parents and teachers, and the internet (Qualtrics 2019; Shipley and Stubley 2018)
- VET or higher education — some careers, such as those in the fields of business and marketing, can be pursued with qualifications from either sector. In general, VET courses focus on teaching more hands-on skills, while higher education courses have a more academic focus. Students also need to consider any difference in entry requirements across the two sectors
- course and provider — for those who have decided to undertake a VET qualification, choice is driven by factors such as course details (location, timetables and course duration); the perceived quality of the training provider; and course fees (EY Sweeney 2017; Hargreaves and Osborne 2017).

⁴¹ The following percentages are not intended to sum to 100, as they exclude students undertaking VET for recreational reasons and are drawn from different data sources.

Figure 6.1 Information needs at different stages in VET decision making



Some prospective students need extra information and advice

While a core set of information benefits all prospective students, different cohorts have distinct needs.

School leavers need different career advice from people reskilling or upskilling. School leavers lack the life and career experience of people who are mid-career, tend to be influenced by their peers in different ways, and are more tolerant of uncertainty and ambiguity when compared with adults (Hartley and Somerville 2015). They may not have a robust awareness of their own strengths and interests and may benefit from being ‘challenged’ to consider why they like or dislike a particular option (PwC 2017, p. 27). School leavers will therefore stand to gain more from the ‘personal’ component of career advice.

Additionally, school leavers may benefit from advice that develops financial literacy, such as education about the workings of income contingent loans (as many students will be taking on debt for the first time in their life) (Hofer, Zhivkovikj and Smyth 2020).

People reskilling will benefit from information about careers which would allow them to leverage their existing skills (PwC 2017, p. 28).

Students who intend to use VET as a stepping-stone to higher education require information about credit transfers between institutions. They may also benefit from information about the different expectations of independent study and the different assessment requirements that they will face in the higher education sector (Curtis 2009).

Despite evidence that people from disadvantaged groups tend to choose wisely (McVicar and Polidano 2018; Polidano, van de Ven and Voitchovsky 2017b), other evidence suggests that some disadvantaged groups are likely to require more tailored information and career guidance.

- Some students who relocate from regional and remote areas feel overwhelmed when they go to study in metropolitan areas (Halsey 2018). These groups would benefit from information on support networks that can ease their transition into study and life away from home.
- Rothman and Hillman (2008, p. vi) concluded that career advice is particularly beneficial for ‘young people in communities that may be disadvantaged by location, social standing or economic situation’. Further, Seet and Jones (sub. IR100, p. 1) stated that Australian youth from disadvantaged backgrounds are 6 per cent more likely to select jobs at risk of more automation than their advantaged counterparts.
- The NSW Adult Literacy & Numeracy Council (sub. IR92) argued for more access to individualised advice to help those at risk of disengaging from school. Those who do disengage may have inadequate literacy as a result which, in turn, is a main barrier for participation in VET.
- Review participants noted that people looking to improve their LLND skills may find it challenging to navigate regular sources of information (such as online sources) to

find a suitable course or program. Additionally, many feel a stigma associated with having low skills.

- Apis Group (2020) considered that career information could be better targeted for those returning to work, career changers, mature age and redundant workers, parents and other influencers engaged in informal advice, and refugees and migrants.

6.3 Closing VET information gaps

Information — too much and yet not enough

While it is difficult to get the detail and balance of information right, there is room for improvement. The large array of information from government and private websites makes it difficult to navigate and discern what is reliable. And despite a plethora of sources, participants and past reviews have indicated that many websites do not contain the type of information needed by prospective students (box 6.1).

Information on student fees is missing, or difficult to find

Reliable information on prices is a key feature of most well-functioning markets. However, in the VET system information on student fees is mostly missing or, if provided, can be difficult to interpret.

The My Skills platform — established in 2012 as a main source of information for VET students (Karmel et al. 2013) — has incomplete and inaccurate information on student fees.

There is no requirement for RTOs to publish student fee information on My Skills unless they offer VET Student Loans, and even then, there is no mechanism to ensure they are up-to-date. As at November 2020 only about one-in-five RTOs provided any student fee information on My Skills.⁴²

A look at a page from My Skills shows how poorly price information is reported for a Diploma of Nursing (figure 6.2, panel a). In contrast, TAFE Queensland (which does not report student fee information on My Skills for a Diploma of Nursing) presents detailed student fee information on its own website (figure 6.3, panel b).

⁴² Based on unpublished data from DESE drawn from My Skills on 16 November 2020. Data is provided voluntarily by providers and may be incomplete or out of date. Providers can display a student fee at none, some or all of their locations. Aggregates excluded data from providers that requested their profile not be viewed on My Skills.

Box 6.1 Websites are difficult to navigate and lack key information**Too many information sources — reliable and unreliable — confuse students ...**

- The Joyce Review (2019) drew attention to the myriad sources of VET information (pp. 83–4), and noted that ‘although a great deal of information is published, it is fragmented across different websites, is not always complete and is difficult to navigate’ (p. 84). It also regarded the information available for adults as inadequate and unlikely to support older workers to overcome the additional barriers they often face, such as age and disability discrimination (p. 82).
- The Business Council of Australia (sub. 16) stated that there is a great deal of information, ‘but it is scattered across a range of websites’ (p. 8) and poor information has ‘stymied a learner-centric approach and contributed to poor decisions on the part of learners’ (p. 6).
- The New South Wales (NSW) Utilities and Electrotechnology Industry Training Advisory Body asserted that it ‘would take a mathematical genius to navigate the myriad of initiatives ... to find the actual and authoritative information required’ (sub. 31, p. 7).
- Hargreaves and Osborne (2017, p. 6) in their review of Gore et al. (2017) and Brown (2017) concluded that ‘prospective students feel they lack reliable, trustworthy and independent information on VET providers’.

... and students are missing key information to make training decisions

- Zoellner (sub. IR107, p. 13) noted that providing more information has been an enduring pursuit since 1954, ‘but like so many areas of VET little has changed’.
- ‘Students currently lack the information they needed to make informed choices’ (Field, sub. IR116, p. 20).
- Both students and employers ‘... often face a complex choice between a plethora of qualifications and numerous providers. The connection with employment opportunities, whether there is a return on out of pocket costs and the quality of training on offer is often unclear’ (South Australian Government, sub. 11, p. 5).
- The NSW Productivity Commission (2020, p. 65) stated that VET students ‘lack the information needed to make informed training decisions that lead to good employment outcomes’. It also concluded that it is less clear how to access certain VET programs (such as apprenticeships) than for higher education, discouraging or excluding many school leavers who would be strong candidates for VET careers, leading to poorer outcomes for some (p. 66).
- The absence of a reliable, government-recognised information hub leads early childhood education students to rely on information provided by RTOs, which is partial and does not enable students to make informed decisions about courses and providers (Australian Childcare Alliance, sub. 46, p. 14).
- In a small study conducted as part of the Review of Senior Secondary Pathways into Work, 63 per cent of young people ‘felt they did not have enough information about post-school options’ (Shergold Review 2020, p. 67).

Figure 6.2 **My Skills provides limited information**

a. Selected Diploma of Nursing information on My Skills

61 Training providers found offering Diploma of Nursing [How do I choose a Training Provider?](#)

Applied filters: Course Code: HLT54115 [X](#)

Course fee: \$28,463 Course duration: 2 Year(s)

Subsidies [VSL VET Student Loans](#) [Online options](#)

Wodonga Institute of TAFE [+](#)

Course fee: \$20,956 Course duration: 24 Month(s)

Subsidies [VSL VET Student Loans](#) [Online options](#)

Canberra Institute of Technology (CIT) [+](#)

Course fee: \$9,130 Course duration: Not provided

Subsidies [VSL VET Student Loans](#) [Online options](#)

CHARLES DARWIN UNIVERSITY [+](#) Campuses remain open. Students are offered online delivery if preferred.

Course fee: Not provided Course duration: 24 Month(s)

Subsidies [VSL VET Student Loans](#) [Online options](#)

EmployEase [+](#)

Map Satellite [Clear Map](#)

Select the marker icon on each search result to toggle the visibility of training providers on the map.

[+](#)

Legend

[Head Office](#)

[Campus](#)

Map data ©2020 Google, INEGI [Terms of Use](#)

b. Student fee information for a Diploma of Nursing at TAFE Queensland

WAYS TO STUDY		COST	
By location	✓	TAFE at School Full fee	\$4,270 - \$7,575
Online	✓	Subsidised	\$11,600 - \$13,915
TAFE at School	✓	Concession	\$9,800 - \$12,100
International	✓	Full fee	\$19,975 - \$22,280
		International	\$24,000
		VET STUDENT LOAN ✓	

Sources: My Skills (nd); TAFE Queensland (nd).

Even when student fees are displayed on My Skills, they can be inaccurate.

- For example, for a Diploma in Nursing, while 40 out of 61 providers on My Skills reported a student fee, it is unclear in some instances whether the fee accounts for any subsidy. For example, a subsidised Diploma of Nursing course at TAFE Gippsland displayed a student fee of \$30 102, while the same (subsidised) course at South West TAFE displayed a student fee of \$9925. In contrast, the same course without a subsidy at South Regional TAFE displayed a student fee of \$1920.
- The student fees reported on My Skills do not align with the regulated student fees in Western Australia and New South Wales. For example, the regulated student fee for a Diploma of Nursing in New South Wales is \$4420 (Training Services NSW 2020a). In September 2020, on the My Skills website there were eight RTOs reporting subsidised places (therefore subject to price regulation), but none reported the regulated student fee (DESE 2020ad).

In addition, non-government websites offering information on courses and careers tend not to publish student fee details because of the complexities involved. For example, SEEK (sub. IR156, p. 2) stated:

Our research suggests that price is a significant consideration for many, particularly VET pricing, and that transparency about price details helps build trust. Over 30% of users come to our site looking for price [student fee] details. Pricing of VET courses is complex, differs across jurisdictions and eligibility for subsidies can be dependent on individual circumstances. Particularly for the growing number who are attracted to the flexibility of online learning, these differences do not make sense. We are not confident that we can provide accurate and personalised information given this complexity and do not publish pricing on SEEK Career Advice or SEEK Learning.

Closely related to information on pricing is transparency on financing. SEEK (sub. IR156) pointed out that the *VET Student Loans Act 2016* (Cth) (clause 49 (1) (b) and (c)) limits its ability to mention, on its website, the availability of loans for VET courses at the Diploma level and above. While clause 49 is designed to prevent VET providers using brokers or agents, it is preventing non-government entities from providing ‘passive’ information on VET Student Loans (VSL). This is a blunt way to address the risks of roting and the Australian Government should consider modifying the legislation to allow publication of basic information on eligibility for VSL by non-government entities. In contrast, My Skills (a government-run platform) indicates whether a VET course is eligible for a VSL (and its student fee).

Information on quality at the RTO level is also lacking

On the My Skills platform, indicators of RTO quality are limited to warnings on a provider's regulatory and registration status, and the availability of support services on an RTO's page (My Skills nd).⁴³

The main quality indicator on My Skills is centred at the level of the qualification (for example, Diploma of Nursing). It is the proportion of graduates employed or in further study — based on the National Centre for Vocational and Educational Research's (NCVER) *National Student Outcomes Survey* — and is averaged across *all* students and providers.

While that measure is useful, users cannot drill down on the performance of an individual RTO. While the NCVER has collected much RTO-level data on a large range of quality indicators to help regulators' risk profiling activities, these data have largely 'remained confidential to regulators, and have not been published' (Karmel et al. 2013, p. 19). By convention, NCVER works with government stakeholders on the public release of data by identified training providers. For example, NCVER provides governments with data to inform VET consumers on websites such as My Skills. The *National VET Data Policy* (DET 2018c) does not authorise NCVER to publish statistics on student satisfaction or outcomes by identified training providers (NCVER, pers. comm., 27 November 2020). Nonetheless, NCVER is able to provide data (free of charge) to individual RTOs summarising the results of the *National Student Outcomes Survey* on their students' outcomes and satisfaction, alongside national benchmarks.

Some State and Territory governments undertake separate surveys to help RTOs benchmark their quality and performance. RTOs may publish the above-mentioned NCVER reports or these State-based reports on their own websites to make them visible to prospective students.

- A Victorian-based RTO provided an example of this approach. FYI Training's *2019 RTO Performance Summary Report* (sub. IR154, att.) sets out the information issued by the Victorian Department of Education and Training (DET (Vic)) to RTOs in its jurisdiction. That department's analysis is based on responses to two Victorian-based censuses: a *Student Satisfaction Survey*, which comprises all government-funded VET students in the year after they graduate; and an *Employer Satisfaction Survey*, which surveys all employers who hired apprentices and trainees in the prior calendar year (DET (Vic) 2020b). The reports allow RTOs to compare their own results grouped in three areas — student outcomes, student experiences and employer feedback — across 11 performance measures with the average for all Victorian RTOs and their own previous years' results.

⁴³ My Skills also notes when a regulatory decision has been made about a particular provider and invites users to visit the National VET Register for more information. In comparison, the quality performance of New Zealand's non-university tertiary education organisations is published on the New Zealand Qualifications Authority's website. Each non-university tertiary education organisation is subject to an external evaluation and review periodically (typically every four years but more frequently if problems have been identified).

Comparing VET and higher education options is difficult ...

Prospective students cannot readily compare VET and higher education courses and providers. As the Business Council of Australia (sub. 16, p. 8) noted:

... information is generally not across VET and [higher education]. For example, if someone was interested in engineering, they would need to move between My Skills and [Quality Indicators for Learning and Teaching], or the newer site [ComparED], to look at the differences between the VET and [higher education] qualifications, and they would then have to go to each provider's website to get additional information.

Similarly, in their analysis of career information, PwC (2017, p. 4) concluded that the 'information needed at various parts of the career journey is disjointed, requiring individuals to navigate a variety of websites and other sources, then 'join the dots''.

Gore et al. (2017) concluded that these difficulties contributed to poor student decision making and a misalignment between students' educational and occupational aspirations.

... and information about credit pathways is often unclear

There is also a need for improved information about credit pathways — which encompass credit transfer, recognition of prior learning (RPL) and articulation — to allow students to move within the VET system and from VET to higher education and vice versa, by receiving credit for previous training or experience. Many students are unaware of credit pathways or are deterred by the complex and lengthy process (Curtis 2009; Ithaca Group 2018; chapter 13), especially students from regional and remote communities (Naphine Review 2019, p. 22).

Independent Higher Education Australia (IHEA, sub. IR115, p. 6) noted providers and institutions approach RPL and credit transfer inconsistently. IHEA argued that, while it was not a simple problem to address, providing students with more information and clear options about RPL and credit transfer would assist students — especially students seeking retraining or upskilling following the disruption triggered by the COVID-19 pandemic. Further discussion on reducing the barriers to RPL is in chapter 13.

Some information gaps are being addressed ...

Efforts are underway to improve information for prospective VET students.

A key initiative is the Australian Government's recently established NCI (box 6.2) and its work programs to provide VET career information, including responsibility for hosting My Skills. The NCVER has also recently expanded the scope of information collected in its *National Student Outcomes Survey*, which the Commission understands will be used to enhance the information available for students on My Skills (NCI pers. comm., 26 November 2020).

Box 6.2 **National Careers Institute work to improve information on vocational and career pathways**

The National Careers Institute (NCI) was established on 1 July 2019 to enable Australians to access accurate and up-to-date career information and support, regardless of their age and stage of life. It aims to provide a single, independent and impartial government source of career information, with a particular focus on marketing and promoting vocational careers and pathways.

During its first year, the NCI has: consulted with people around Australia to find out what kind of career information people want; commenced designing a digital platform to help people find quality career and study information; established a grants program to help develop better career services for people at all stages of their career; and worked with the National Careers Ambassador to promote apprenticeships and the VET sector.

The NCI also administers the: Australian Training Awards (DESE nd), which celebrate best practice in apprenticeships and the VET sector; VET Information Strategy (DET nd), which aims to elevate the status of VET as a career pathway; and Australian VET Alumni program (NCI nd), which promotes the VET sector.

The NCI also works with the National Skills Commission to provide Australians with information about the labour market, workforce changes and emerging skills needs.

Your Career

Launched in September 2020, the NCI's 'Your Career' website is its 'front door', connecting people of all ages and stages to information about: learning and training; getting job ready; getting career ideas; and resources designed to help individuals, employers and those that advise on careers.

Your Career is sector-neutral, providing information on careers accessed through both VET and higher education.

Sources: NCI (2020a); Cash and Irons (2020).

Some progress also appears to be in train towards developing an RTO performance dashboard on My Skills (Joyce 2019, p. 21), following the *National VET Data Policy*. However, to achieve the dashboard, My Skills (and its associated RTO portal) requires a major overhaul. A revamped My Skills website is expected to go live in late 2021, drawing data from the National Skills Commission, NCVER and the Australian Bureau of Statistics (NCI, pers. comm., 26 November 2020).

In addition, ASQA (sub. IR132, p. 5) noted that one of its longer-term aspirations is to use data from its audits to calculate and publish metrics on providers' quality and performance (the metrics are yet to be identified).

Participants generally welcomed the establishment of the NCI. For example, the Independent Tertiary Education Council Australia (ITECA, sub. IR144, p. 10) anticipated that the planned improvements to student information available through the NCI would increase the power of students to 'leverage that information in making choices relating to the qualifications and training providers that best suit them and their circumstances'.

Most recently, the *Heads of Agreement for Skills Reform* (DPM&C 2020b) committed the Australian and State and Territory governments to work with the NCI to reduce the proliferation of career information and to help people access information about learning, training and employment pathways. Soon after, the NCI released its ‘Your Career’ website (box 6.2).

... but more is needed

Overall, the VET sector has been disappointingly slow in catching up to the advances in information provision for consumers that have occurred in the higher education and school sectors. In those sectors, university-level indicators have been published since the early 1990s and school-level indicators have been published since 2009. While the launch of the My Skills website (in October 2012) was intended to bridge this gap, progress has been tardy and (as noted above) will continue until late 2021.

Evidence presented by JCSF Consulting (sub. IR158) suggests that Australia is also a long way behind the arrangements in countries such as the UK and the US. As a remedy, they suggested clause 11.5 in the *National VET Data Policy* (DET 2018c)⁴⁴ be reversed from one of non-disclosure of RTO-level information to one of public disclosure. This suggestion has considerable appeal. The costs of providing this information on My Skills are likely to be low given that much of the data is already collected by RTOs and the NCVER, yet the benefits are potentially significant.

However, any disclosure should be subject to statistical validity and relevant to indicators of system and RTO performance. Greater disclosure could also be supported by an arrangement that allows for non-publication in exceptional circumstances and by placing the onus on RTOs to make a compelling case for non-publication.

Mandatory publication of student fees

While many RTOs have had the opportunity to publish student fees on My Skills since 2015, a large proportion appear to do so only as a requirement of VSL. Although making it easier for providers to upload student fee information onto My Skills would likely result in some improvement, this is unlikely to be enough to ensure that all, or even most, do so.

⁴⁴ Clause 11.5 states that the publication of any outcome or funding data that identifies the RTO requires agreement from all senior officials of Australian, State and Territory governments, and that the ‘... publishing jurisdiction is responsible for ensuring adequate consultation with VET stakeholders, ensuring compliance with data use and legislative requirements, and deciding in what form to publish the data’ (DET 2018c, p. 13). This latter requirement suggests that every RTO must be contacted to agree to the publication of their data.

At a minimum, publishing up-to-date student fee information on My Skills should be required for all RTOs. This could be done through amendments to the *Data Provision Requirement 2012* (DIICCS RTE 2013),⁴⁵ and by mandating RTOs to either:

1. publish and maintain a list of all their courses along with the student fee on their websites, potentially on a standardised template (JCSF Consulting, sub. IR158). My Skills could then ‘scrape’ student fee data from RTOs’ websites, or
2. provide student fee data to NCVER’s existing Australian Vocational Education and Training Management Information Statistical Standard (AVETMISS) collection. As AVETMISS is routinely used by all RTOs to provide a range of administrative data, adding student fee data would improve the interrogation of that data for risk and accountability purposes. The resulting student fee data for each course at an RTO would then be transferred to My Skills for publication.

Either option would require resources to monitor compliance with the *Data Provision Requirement 2012*, including the accuracy of the student fee data provided. Given the existing compliance monitoring regime for the *Data Provision Requirement 2012* and AVETMISS, it would seem sensible to leverage off this arrangement.

The fact that student fees will vary depending on each student’s subsidy (and loadings) eligibility poses a challenge for reporting purposes. A useful starting point would be to publish, for each course within an RTO, the *average* student fee paid by subsidised and non-subsidised students in the past year. If the student fee (for subsidised and non-subsidised students) for each course at each RTO were added to the AVETMISS collection (as outlined above), the NCVER would be in a position to calculate these two statistics for publication at the RTO-level on My Skills.

For these reasons, the Commission favours the second option.

RTO-level quality indicators

Capturing the quality of providers is inherently challenging in particular, because many aspects of quality are subjective. Nonetheless, a quality rating system of VET providers is one way of incorporating several types of quality-related information to help inform students and employers.

While a single measure of RTO quality is problematic (box 6.3), there is value in creating several summary RTO-level quality indicators of student experiences, graduate outcomes and employer feedback. This would allow information to be presented in a more digestible form, without unduly obscuring different aspects of quality. (If the underlying metrics were also made available, this would aid in transparency and minimise the effect of subjective weightings.)

⁴⁵ The *Data Provision Requirement 2012* requires RTOs to collect and submit compliant data.

Box 6.3 **Would a single quality indicator be helpful?**

Given the range of potential quality indicators, there is a question as to whether publishing them for each RTO would help or further complicate students' choice.

One possibility is to condense the metrics into a single comprehensive indicator.

However, a single 'star-rating' poses several design challenges centring on validity and reliability, including that:

- students may have different priorities (for example, they may value student outcomes more or less than the quality of student experience)
- it could be less informative, particularly if it is the culmination of very disparate factors that should be considered separately.

These challenges may explain why other countries have tended to provide multiple summary indicators in place of a single rating in VET systems, and the Australian higher education sector has developed the Quality Indicators for Learning and Teaching system.

One option could be to develop a new national data collection, based on the Quality Indicators of Learning and Teaching system (QILT nd). The QILT system is built on data from four surveys: the *Student Experience Survey*, the *Graduate Outcomes Survey*, the *Graduate Outcomes Survey – Longitudinal*, and the *Employer Satisfaction Survey*. To help prospective higher education students compare different aspects of the quality of higher education providers (including dual sector providers), key indicators are published in a user-friendly format on the ComparED website.⁴⁶

However, rather than create a new collection, the Commission's preferred option is to harness (and streamline) several existing VET data collections (chapter 7) to develop RTO-level indicators on RTO quality.

Subject to statistical validity, these indicators should be published *for each RTO* on My Skills. This would require the following.

- The NCVER — working on behalf of the Australian, State and Territory governments, and with regulators and the NCI — to lead the development of summary indicators at the RTO level.
 - To enable the NCVER to pursue this task, the Commission is proposing (recommendation 7.2) that RTOs would continue to administer the *Employer Questionnaire*, with responses to be collected by the NCVER, but the *Learner Questionnaire* would be abolished.⁴⁷ Data from the *Learner Questionnaire* would be replaced by data collected from the NCVER's *National Student Outcomes Survey*

⁴⁶ The use of QILT as the basis for developing summary indicators of RTO quality would also make it easier for students contemplating courses in either the VET or higher education sectors.

⁴⁷ Under the *Data Provision Requirement 2012*, all RTOs must distribute these questionnaires and analyse the responses to help encourage continuous improvement (chapter 7).

and, once fully rolled out, the *In-training Survey*.⁴⁸ Data from all these instruments would then be harvested to develop relevant RTO-level indicators of employer and student satisfaction, and graduate outcomes.

- The NCI to then be tasked with publishing and presenting these summary indicators on My Skills in a user-friendly format.
 - To enable publication of these summary RTO-level indicators, amendments to the *National VET Data Policy* (DET 2018c) are required.

While the NCI and its websites are welcome developments, the Shergold Review (2020, p. 67) argued that ‘putting up yet another government website, without providing people with the proper assistance to use it effectively, will not be sufficient’. During the NCI’s co-design consultations, stakeholders expressed similar views (DESE 2020w, pp. 3–4). In addition to assisting students, the NCI will need to deliver support to teachers, parents and careers advisers about how to best use its likely considerable information resources. (Such support was identified by Hofer et al. (2020) as best practice in the provision of career information.) The NCI could support and encourage prospective students to access its information through ‘career hubs’ proposed by the Shergold Review (discussed below).

FINDING 6.2 — VET INFORMATION GAPS

Despite a plethora of information sources on courses and careers, public information is either missing or deficient in four areas:

- student fees
- RTO quality
- ready comparisons between VET and higher education training options
- credit pathways.

There is evidence that these deficiencies lead to students making poor educational choices.

⁴⁸ The *In-training Survey* is currently in pilot testing stage. It will comprise two parts: a ‘VET Starter Module’ (designed to capture early experiences of students who have recently commenced) and the ‘VET Progress Module’ (designed to capture relevant information from students further into their training). (NCVER, pers. comm., 25 November 2020) .

RECOMMENDATION 6.1 — ADDRESSING INFORMATION GAPS

The National Careers Institute (NCI) should extend its work on information provision to fill significant information gaps in My Skills for each RTO, including by publishing information about:

- student fees — commencing with the average fee paid by subsidised and non-subsidised students in the past year
- the quality of the RTO — including indicators of learning and teaching quality, and student and employer satisfaction
- the expected graduate employment outcomes from course completion
- credit pathways.

The NCI should also test that information is salient, trusted and easily understood.

The Australian, State and Territory governments should:

- continue to work together to establish the NCI as a central information hub
- require all RTOs to provide up-to-date student fee information to enable publication on My Skills
- task the National Centre for Vocational Education Research to develop a set of summary indicators on RTO quality and expected student outcomes, with the NCI publishing those indicators (subject to statistical validity) for each RTO on My Skills.

6.4 Addressing deficiencies in career guidance

Recent reviews by PwC Consulting (PwC 2017), the Parliament of Victoria’s Economic, Education, Jobs and Skills Committee (EEJSC 2018), the House of Representatives Standing Committee on Employment, Education and Training (HRSCEET 2018), Joyce (2019), Naphthine (2019), Shergold et al. (2020), and the Department of Education, Skills and Employment (DESE 2020w) found room for improvement in career guidance services.

Participants to this review reiterated two main concerns. The first concern is a longstanding view that career guidance for students is skewed towards university education. The second relates to inconsistent quality and uneven access to career advice for people who have left school.

Career guidance in schools needs rebalancing

The Joyce Review (2019, p. 82) reported that many stakeholders believed VET is not promoted sufficiently in schools:

Industry groups in particular were concerned that school teachers and careers counsellors rarely had personal experience of the VET sector and tended to push all capable students towards higher education. It was suggested that many schools treat VET as a ‘second-rate option’ for low-performing students, rather than as a viable alternative pathway.

Similarly, the Australian Education Union (sub. IR104, p. 13) stated:

Experience has shown that much career guidance received through years 10–12 leans strongly towards university education and often schools refer disengaged or academically struggling students into VET pathways.

The perceived higher education bias of key influencers (such as family, friends and advisers) leads many secondary students to rule out apprenticeships as an option.

- Based on their research, Year13 (sub. 8, att. pp. 1, 3) noted that 75 per cent of school leavers do not even look at apprenticeships as a potential pathway, and that many school students lack a basic understanding of VET and particularly of apprenticeships and traineeships.
- The Skillsroad survey of young people (aged 15–24) found that 48 per cent felt that they did not have ‘meaningful’ career conversations while at school (Buckley 2018). About half of this group reported that they felt this way because they were encouraged to pursue an unsuitable pathway.

However, in comments to this review, the Commission heard from several careers advisers who noted their efforts to provide balanced advice to their secondary school students (brief comments, nos. 5, 6, 7, 8, 10, 11, 12, 14, 15, and 16).

Post-school access to career guidance is uneven

Face-to-face career guidance and advice tends to be offered to people in educational institutions or through government employment programs. While the Australian Government provides a range of targeted career guidance services and tools (box 6.4), State and Territory governments mainly provide these services through their TAFEs.

This leaves a gap in low-cost offerings for people not in training and/or not in government programs. For the most part, these people rely on informal channels — such as friends, partners and colleagues — for advice, with a small minority engaging career guidance and advice practitioners on a fee-for-service basis (PwC 2017).

This gap tends to affect disadvantaged groups more than others. As PwC (2017, p. ii) concluded:

... the issues with the current system disadvantage the cohorts that need it the most, including (but not limited to) mature workers, youth not in education, employment and training (NEETs), persons with disability or disadvantage, skilled migrants and refugees, and culturally and linguistically diverse persons.

Box 6.4 Publicly-provided (or funded) career services

There are several Australian Government programs that provide career guidance services.

- Employment service providers offer free career advice to unemployed persons through the jobactive program.
- The Mid-Career Checkpoint Program pilot offers free advice and assistance to people in New South Wales and Queensland who have spent more than two years out of the workforce undertaking caring responsibilities and are now looking to return to paid employment.
- The Career Transitions Assistance program provides career advice and assistance for eligible job seekers aged over 45.
- The online Skills Match tool on Job Outlook helps individuals to identify skills they have gained in past jobs and presents ideas for new jobs into which they may be able to transfer these skills.

Many States and Territories also provide career guidance services, including through TAFEs.

Sources: Australian Government (2020c); CIT (nd); DESE (2020e, 2020i, 2020t); gotafe (nd); PwC (2017); South Metropolitan TAFE WA (2020); TAFE NSW (nd); TAFE Queensland (nd); TAFE SA (nd); TasTAFE (nd).

Proposals to address these deficiencies

The NCI's Career Partnership Grants Program (NCI nd) is working to close some of the identified gaps in career advice in school and post-school settings. However, the program is small and over-subscribed, suggesting that many gaps are likely to remain for the foreseeable future, especially given the disruption caused by the COVID-19 pandemic.

Various government reviews have called for improved career advice — for example, the Naphthine Review (2019), the Joyce Review (2019) and the New South Wales Productivity Commission (NSW PC 2020, p. 71) — with the latest and most detailed recommendations made in the Shergold Review (2020).

Corresponding with its view that 'access to workplace-oriented career advice for senior secondary students needs to become the rule, not the exception' (p. 69), and building on the proposals in the Naphthine Review, the Shergold Review recommended several actions to improve career guidance in school and post-school settings (box 6.5).

At the time of writing, governments had not yet fully responded to the Shergold Review (2020) but had agreed to do so by December 2020. That said, in September 2020, COAG's Education Council (2020) identified improving career guidance as one of five potential priority policy actions arising from the Review.

In this context, while generally supportive of the Shergold Review's recommendation 6, the Commission offers comments on two aspects: career hubs and minimum qualifications for careers counsellors.

Box 6.5 **The Shergold Review’s recommendation on career guidance**

Career guidance within and outside of schools should be strengthened significantly and accorded higher status.

- a) The newly established National Careers Institute should provide a free and comprehensive digital platform for career information for students and their teachers, with a focus on making its considerable data sources easy to navigate.
- b) Schools should be supported by a network of career hubs that provide a connected system of individualised career guidance that schools, students and their parents can access, with an initial focus on regional and remote areas.
- c) Schools should be encouraged to provide wide-ranging career guidance as the basis of pathway planning.
- d) Those students who choose to leave school before the end of Year 12 need to be given greater advice and support.
- e) All of those who provide career guidance both in and outside of schools should be expected to have certificated professional qualifications. (recommendation 6, Shergold Review 2020, p. 72)

Career hubs

The Shergold Review recommended the introduction of ‘career hubs’, which would provide a connected system of individualised career guidance that schools, students and their parents can access, with an initial focus on regional and remote areas. The Commission sees merit in the Review’s notion of career hubs as they would help make better use of resources (especially in regional areas) by linking industry, schools, and the NCI rather than just providing more career guidance in schools.

Given the uneven access to career guidance services among those who have left school, the Review (p. 72) also proposed that career hub services be extended beyond year 12 to support younger people after they leave school as well as older people needing such assistance. However, as the case for extending subsidised career advice services is limited in the post-school setting, the extension of career hub services to people no longer at school should be targeted. Target groups include: people at risk of unemployment, for example as a result of structural economic changes, and people in disadvantaged groups who may not be able to access current supports and who lack the means to privately fund career advice.

The Review (p. 71) also noted that career hubs could be delivered in a range of flexible ways. Jurisdictions could leverage existing regional facilities such as TAFE colleges or the newly established Regional University Centres. However, this flexibility comes with several risks. For example, as Regional University Centres focus on supporting students studying higher education via distance, accessing career advice services within this domain may be off-putting to people more suited to studying VET.

Minimum qualifications

The Review also proposed that all careers advisers (in schools or elsewhere) should have certified professional qualifications; that is, be qualified and meet minimum professional standards as set out by the Career Industry Council of Australia (CICA).⁴⁹

Setting standards may have harmful side-effects, such as creating a barrier to entry which reduces supply and increases costs. While there is some evidence of poor-quality career advice in schools, the Shergold Review did not consider the costs of establishing a minimum qualifications for careers counsellors. Accordingly, it is unclear that establishing them would produce a material net benefit.

FINDING 6.3 — CAREER ADVICE GAPS

This and other recent reviews have identified room to improve career advice. Career guidance given to students tends to be skewed toward university education, of inconsistent quality, and is sometimes difficult to obtain for people who have left school.

⁴⁹ CICA has three registration categories: affiliate (a non-professional category), professional and leading professional. The entry level qualifications for professional registration are either a CICA-endorsed Graduate Certificate or higher or an alternative pathway that is approved on a case by case basis by the CICA member association. Entry level qualifications for the affiliate are similar but require lower-level qualifications — a CICA-endorsed Certificate IV in Career Development (CICA 2019).

7 Ensuring quality training

Key points

- The quality of vocational education and training (VET) services is generally high, yet the system is often seen as offering training of uncertain quality.
 - Rorting under the VET FEE–HELP program has tarnished the reputation of VET.
- Over the past decade, there has been a gradual decline in employers' satisfaction and use of the VET system. Many employers complain that programs do not teach relevant skills and can be out of date.
- In part to arrest this worrying trend, governments have committed to significant reforms to enhance VET quality.
- Quality in VET has many dimensions: the student experience, course content, and course delivery. Each contributes to the credibility of VET qualifications in the labour market, as well as the trust that students and employers alike have in the system.
- To improve the 'student experience':
 - the national regulator, the Australian Skills Quality Authority (ASQA), should continue with its reform agenda to improve its operations and regulatory approach. ASQA should also be granted greater access to relevant data. Ultimately ASQA should be the single VET regulator
 - governments should make better use of data and leverage their funding contracts with registered training organisations (RTOs) to encourage continuous quality improvement
 - State and Territory governments should establish a VET Ombudsman (where they do not exist) to receive, assess and resolve complaints from VET students.
- To improve course content:
 - the Skills National Cabinet Reform Committee should delegate to Industry Reference Committees the power to commission updates to training packages and to approve non-controversial and minor changes to training packages.
- To improve course delivery:
 - governments' intention to develop a VET workforce quality strategy should be evidence-based and informed by the results of a census of the VET workforce
 - the Australian, State and Territory governments should undertake a process of establishing independent assessment in VET. It would be particularly valuable to explore the use of independent assessment in areas where minimum training standards contribute to public benefit, such as the aged care sector.

An enduring challenge for governments is to ensure that the vocational education and training (VET) system provides quality training valued by end-users: students and employers. While review participants cautioned that 'quality' can be nebulous and subjective (AEU, sub. 21; BCA, sub. IR145), there is consensus that governments need to ensure trust

in the VET system, with adequate safeguards for students, and that relevant skills are taught, training is effective, and qualifications are credible.

The quality of VET services is generally high. As chapter 2 noted, more than 85 per cent of graduates say they are satisfied with the quality of teaching and assessment, as well as the overall quality of training. And almost 80 per cent of employers who used nationally recognised training for their employees said they were satisfied (NCVER 2019c). Yet, the VET system is often perceived as offering training of uncertain quality.

There is little doubt the roting that occurred under the VET FEE–HELP program damaged the reputation of VET. And worryingly, over the past decade, there has been a gradual decline in employers’ satisfaction and use of the VET system. Among those employers dissatisfied, many claimed programs do not teach relevant skills, are not sufficiently focussed on practical skills and are out of date.⁵⁰ In part to arrest this trend, governments have stated in the *Heads of Agreement for Skills Reform* that:

... Australia’s VET system needs reform so that Australians can access high quality and relevant training, to ensure they have the skills to take on the jobs that emerge through the next decade and beyond. (DPM&C 2020b, p. 1)

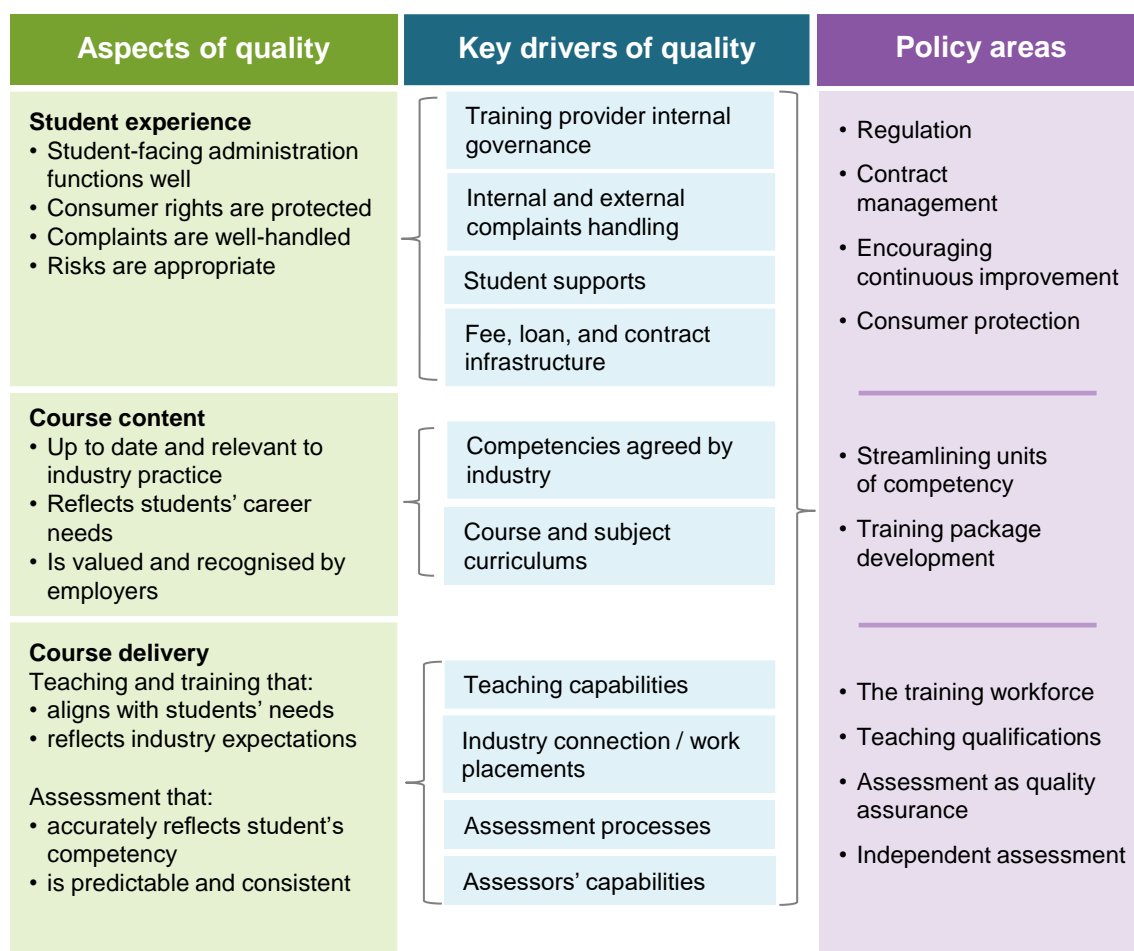
This chapter assesses the scope to improve the quality of VET, as viewed through the prism of improving: the student experience (section 7.1); course content (section 7.2); and course delivery (section 7.3). There is no single policy lever that will ensure standards are met for all these dimensions of quality. Figure 7.1 shows the range of policies and the key drivers that can affect quality. The Commission’s approach has been to ensure that both minimum standards are observed and incentives are in place to encourage continuous improvement.

7.1 The student experience

The ‘student experience’ covers the lifecycle of a VET course from the student’s perspective (ASQA 2020b). It encompasses the interactions between students and training providers, including advertising, contracting, the delivery of training, and administration. The Braithwaite Review (2018, p. 6) noted that the concept helped to provide ‘the prism for viewing the current regulatory framework and recommendations for improvements’. The quality of the student experience depends largely on the performance of providers, which is driven by their capabilities and incentives.

⁵⁰ Around 20 per cent of surveyed employers used nationally recognised training, with around 79 per cent stating that they were satisfied with the training (NCVER 2019c). Among those employers dissatisfied, many claimed programs do not teach relevant skills (52 per cent), are not sufficiently focussed on practical skills (29 per cent), are out of date (17 per cent) or generally deliver poor quality training (36 per cent). Some also felt that instructors did not have sufficient industry experience (19 per cent).

Figure 7.1 Aspects of VET quality



Given the difficulties VET students face when choosing and undertaking training (chapter 6), there is a clear role for regulation to safeguard the student experience. Indeed, much of the VET regulatory framework centres on the interactions between providers and students: regulators aim to maintain standards for registered training organisations (RTOs); State and Territory governments ensure probity of publicly-funded VET; and consumer redress measures are available for individual students when needed.

The role of regulation

Regulatory mechanisms are used to maintain quality standards for vocational training, although not all mechanisms apply to each provider and course.

- General consumer protections, such as fair trading laws and the Australian Consumer Law, set minimum standards for business practices. These include requiring that services are delivered as advertised and are 'fit for purpose'. These protections apply to all commercial entities, including nationally recognised VET and unaccredited training.

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- Some regulatory tools apply exclusively to nationally recognised VET:
 - course content is subject to the Australian Qualifications Framework (AQF) (section 7.2)
 - providers are subject to registration and regulation by the Australian Skills Quality Authority (ASQA), the Training Accreditation Council Western Australia (TACWA), or the Victorian Registration and Qualifications Authority (VRQA). The vast majority are regulated under the *VET Quality Framework* by ASQA (box 7.1).
 - Contractual arrangements with State and Territory governments provide further quality assurances, although only for RTOs receiving subsidies.

For some qualifications, additional regulation is applied through external licensing and accreditation, undertaken by industry governing bodies or government agencies.

The levers for assuring quality standards therefore differ across informal learning, fee-for-service VET, publicly-funded VET, and qualifications subject to external licensing. While other areas of VET policy often focus on the government-funded market (for example, with regard to the effectiveness of public investment), concerns about VET quality extend to all RTOs.

There is increasing recognition that improving quality in VET requires the maintenance of minimum standards and aligning incentives to encourage RTOs to continuously improve. The Braithwaite Review (2018, p. 58) noted that setting standards:

... is an essential part of the regulator's role. These are the basic signposts ... of what an RTO should do and should not do. They are fundamental to safeguarding students, employers and society more broadly in the teaching and training environment. While standards are necessary, they are not sufficient to ensure quality. The other part of the regulator's role ... is motivating RTOs and others in the sector to build commitment to continuous improvement around better training, greater professionalism and stronger ethics.

To this end, several reforms have been foreshadowed or are in train. The COAG *Draft VET Reform Roadmap* noted plans to develop 'new RTO standards that encourage excellence in VET training delivery' as well as plans to 'implement changes to ASQA's governance, regulatory approach and practice' (DESE 2020aa, pp. 3–6). The *Heads of Agreement for Skills Reform* committed governments to 'strengthening quality standards' and 'building [RTO] capacity and capability for continuous improvement' (DPM&C 2020b, p. 1). These broad reforms move in the right direction.

Changes to ASQA's regulatory approach

ASQA's approach to regulatory oversight is changing, following the Braithwaite and Joyce Reviews, and the Australian Government's acceptance in 2020 of all 24 recommendations of a 'rapid review' about ASQA's operation. The new direction for ASQA will balance its compliance-based approach to (minimum) standards regulation with RTOs' use of self-assurance processes to critically examine their performance on an ongoing basis.

Box 7.1 **The VET Quality Framework**

The aim of the *VET Quality Framework* is to achieve national consistency by registering and monitoring RTOs, and through the enforcement of standards. It is comprised of the:

- *Standards for Registered Training Organisations 2015* — standards to ensure nationally consistent, high-quality training and assessment across Australia's VET system
- *Fit and Proper Person Requirements 2011* — specify the suitability requirements of individuals involved in operating a registered training organisation
- *Financial Viability Risk Assessment Requirements 2011* — relate to training organisations' ability to maintain financial viability
- *Data Provision Requirements 2012* — set out the requirement for providers to supply ASQA with data upon request, and to submit quality indicator data annually
- *Australian Qualifications Framework* — the national policy for regulated qualifications in Australian education and training.

The majority of standards with which RTOs must comply are included in the *Standards for Registered Training Organisations 2015*:

- Standard 1. The RTO's training and assessment strategies and practices are responsive to industry and learner needs and meet the requirements of training packages and VET accredited courses
- Standard 2. The operations of the RTO are quality assured
- Standard 3. The RTO issues, maintains and accepts AQF certification documentation in accordance with these Standards and provides access to learner records
- Standard 4. Accurate and accessible information about an RTO, its services and performance is available to inform prospective and current learners and clients
- Standard 5. Each learner is properly informed and protected
- Standard 6. Complaints and appeals are recorded, acknowledged and dealt with fairly, efficiently and effectively
- Standard 7. The RTO has effective governance and administration arrangements in place
- Standard 8. The RTO cooperates with the VET Regulator and is legally compliant at all times.

Source: ASQA (nd).

ASQA will need a well-informed risk-based approach to fulfil these roles. While ASQA already uses risk ratings to guide compliance activities, it aims to further reduce its regulatory oversight of providers that demonstrate effective self-assurance (mpconsulting 2020, p. 20; ASQA, sub. IR132, p. 5). A crucial element of ASQA's reforms will be to ensure that regulation for each RTO is proportional to risk.

This will require ASQA having timely and accurate data to inform its risk ratings — seen by some as the 'single biggest impediment' to more proportionate and effective regulation (mpconsulting 2020, p. 46). ASQA is reportedly taking steps to improve how it gathers information (ASQA, sub. IR132, pp. 9–10). The changes underway to ASQA's operations and regulatory approach should be progressed as a matter of priority, along with complementary reforms that will improve ASQA's access to data.

Coordination between regulators will remain key

While ASQA regulates most RTOs, some RTOs operating solely in Victoria and Western Australia are regulated by VRQA and TACWA, respectively.⁵¹

Participants had varied views on the extent to which multiple regulators are problematic. Some observed that coordination between regulators is not seamless, thus creating problems for students and RTOs. For example, the Independent Tertiary Education Council Australia (ITECA, sub. 53, p. 8) submitted:

Training providers operating across multiple jurisdictions face enormous complexity in the design, administration, quality assurance and delivery of qualifications that are intended to hold national portability and recognition.

A few RTOs also noted confusion and inconsistency in the reporting requirements. For example, the Victorian TAFE Association (2017, p. 5) asserted ASQA and the Victorian regulator interpret regulatory standards differently, adding that RTOs seeking clarification from regulators are often ‘pushed [from one regulator] on to another, only to be pushed back again’.

On the other hand, participants from Western Australia considered that having a local regulator made it easier to align course accreditation with local needs. For example, the Chamber of Commerce and Industry of Western Australia (sub. 54, p. 8) submitted:

While a single regulator for the system could be considered to provide a national public benefit, this would have risks. A single national regulator would be detrimental for Western Australia, given the recent under-performance of the Commonwealth regulator ... ASQA, and the practical disadvantage faced by Western Australia in not being in close physical proximity to the regulatory body. Furthermore, the ability for State-based regulators to accredit certain types of qualifications based on specialised local needs provides distinct advantages for States with unique skills requirements such as Western Australia.

These issues with multiple regulators are manageable. To limit duplication and inconsistency, the three regulators meet regularly to streamline their operations and discuss common issues. In its submission to this review, ASQA (sub. IR132, p. 13) argued that:

... all three VET regulators have effective engagement and regularly share information and practices to good effect, which has enabled each regulator to continuously improve its approaches and practices.

... [T]he VRQA Guidelines do largely map to the Standards for RTOs. Wherever possible, all regulators apply a common lens to the interpretation and application of standards, which are applied to their distinct regulated communities.

Similarly, the advantages of a local regulator are overplayed. There is nothing to preclude ASQA from accrediting local courses if there is a demonstrated need. Concerns about

⁵¹ ASQA has jurisdiction of all RTOs in New South Wales, Queensland, South Australia and Tasmania, the Northern Territory and the ACT, as well as RTOs in Victoria and Western Australia that offer courses to students in other jurisdictions, or to overseas students.

physical proximity can be overcome with adequate design of ASQA's industry engagement processes — an area where significant reform is underway.

Nevertheless, there is little justification for maintaining three VET regulators. In the case of Victoria, few RTOs are still regulated by the VRQA (2019b).⁵² While the Victorian Government (sub. 58, p. 5) has expressed a lack of confidence in ASQA, ASQA is maturing as a regulator and has embarked on a promising reform agenda. A truly national regulator would provide national consistency in regulation for RTOs. The goal of nationally consistent regulatory oversight is still important.

The Victorian and Western Australian Governments should ultimately follow other State and Territory governments in referring regulation of training organisations to ASQA. However, the immediate priority for ASQA is to continue with its reform agenda to improve its regulatory approach and operations. At the same time, cooperation among the VET regulators to address any inconsistencies and overlap in their requirements should continue.

RECOMMENDATION 7.1 — PROGRESSING TOWARDS A NATIONAL REGULATOR

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

In the first instance, ASQA should:

- proceed with its reform agenda to improve its regulatory approach and operations
- continue to work with the Victorian Registration and Qualification Authority and the Western Australian Training Accreditation Council to address any inconsistencies and overlap in their requirements, including in their interpretations of regulatory standards.

Using contract management more effectively

State and Territory governments can also influence quality through the terms of their funding contracts. These typically involve additional requirements, such as the provision of data,⁵³ audit regimes, and sanctions (box 7.2). A similar approach is adopted in the Childcare and Early Childhood Learning sector.⁵⁴ Contract management enables government departments

⁵² The proportion of Victorian RTOs regulated by the VRQA has fallen from around 50 per cent in 2011 to 21 per cent in 2019.

⁵³ In some cases, this includes agreements for the data to be shared by government agencies. For example, the Western Australian Government (2019, p. 4) requires that RTOs provide permission for the State or Territory training authority, the relevant regulator, and the National Centre for Vocational Education Research (NCVER) to release data related to the RTO.

⁵⁴ Childhood education and care services are subject to the National Quality Framework, administered jointly by an independent national authority (the Australian Education and Care Quality Authority) and State and Territory governments. State and Territory authorities are responsible for granting service and provider approvals, carrying out quality assessments, and ensuring that services meet the requirements of the National Law and National Regulations (Victoria State Government 2020).

to engage directly with providers, monitor their performance and establish incentives to ensure compliance.

Current approaches to contract management vary across jurisdictions. In New South Wales, for example, subsidised RTOs are required to comply with additional obligations for teachers' professional development. In Western Australia, RTOs' performance is judged partly on regulators' audits and students' complaints (DTWD (WA) 2019, p. 4). And sometimes proxies for quality are used — in Queensland, RTOs must provide evidence of '12 months delivery of training and assessment and outcomes', as well as 'employer and industry support for training quality and industry connections in Queensland' (Queensland Government 2020a).

While a uniform approach is not required, there is room for State and Territory governments to improve their use of contract management to improve key aspects of quality. Governments should see contract management as a means not only to safeguard public investments, but also to contribute to ongoing improvement in the quality of VET.

Box 7.2 Management of funding contracts

State and Territory training authorities generally conduct audits on publicly-funded training providers. In Western Australia, for example, publicly-funded RTOs are subject to a compliance program that involves desktop, on-site, and spot audits (DTWD (WA) 2019). During these audits training providers must provide any information necessary to conduct the audit.

If contractual breaches are identified, State and Territory authorities may place immediate sanctions on the training provider, which range from altering contract terms to ending the contract. For example, the Western Australian Government listed its sanctions as including:

- withhold the service payment to the RTO;
- place the RTO on an action plan;
- restrict or change the number of student places allocated to the RTO;
- amend or remove the RTO's eligible delivery from designated preferred provider panels;
- suspend variations in all or some programs;
- not offer a contract extension; and
- terminate the contract of the RTO. (DTWD (WA) 2019, p. 11)

Sanctions against providers are relatively new additions to contracts. For example, the Queensland Government added contract terms that allow it to terminate contracts for noncompliance with policy and contract terms in 2016 (Qld Auditor-General 2019, p. 38). Similarly, the Victorian Government (sub. 58, p. 5) strengthened sanctions on RTOs in 2015, following repeated instances of poor RTO behaviour and a perception of the limited effectiveness of national regulator.

State and Territory departments have removed several providers from contracted training. In Queensland, the number of private RTOs receiving subsidies has dropped from 720 to 460 in the past four years, with 60 funding agreements ending in 2019 alone (Queensland Government 2020b). Victoria has removed 45 contracted providers through the Skills First audit and review strategy since 2015 (DET (Vic) 2020d). The New South Wales Government removed around 100 RTOs from the Smart and Skilled program since 2015 (NSW Government 2020a).

Funding contracts can affect VET quality in other ways. Where funding contracts are subject to annual renewal, RTOs have only short-term certainty over their funding. This limits their ability to make investments that would improve quality (such as in equipment, extended employment contracts, or professional development). At the same time, frequent contract renewal arguably sharpens the incentive for RTOs' to comply with contract terms.

On balance, proactive contract management is likely to permit longer funding terms without undue quality risks — Western Australia recently moved to a three-year contract period (DTWD (WA) 2020a). Governments should increase the length of their contract terms with RTOs to more than one year, while relying on contract management to safeguard quality standards and encourage continuous improvement.

Encouraging continuous improvement

As noted, ongoing improvement in VET quality depends in part on the ability for training providers to innovate. The regulatory framework can facilitate this through the provision of information and by aligning RTO incentives with the goal.

The *VET Quality Framework* gives RTOs feedback on consumer satisfaction — among recent graduates and employers who have purchased VET services directly. The information is collected under the *Data Provision Requirements 2012* (DIICCS RTE 2013), which require RTOs to administer prescribed surveys to students and employers (box 7.3). The RTO then sends to the regulator an annual summary report of survey response rates, feedback received, and any actions taken as a result. The process is intended to encourage RTOs to drive their own quality improvement, rather than as a regulatory exercise. As such, RTOs have responsibility for the data processes and ownership of the survey data.

Box 7.3 Informing RTOs' improvement processes

Under the *Data Provision Requirements 2012* (DIICCS RTE 2013), RTOs must seek feedback from students and employers using the *Learner Engagement Survey* and the *Employer Satisfaction Survey*. The surveys contain over 30 questions about the effectiveness of service delivery, the relevance of the training content, and perceptions of the RTO.

RTOs must then submit an annual report to the regulator (ASQA, VRQA, or TACWA) as evidence of continual improvement. Summary information on response rates are included, as well as answers to the following questions.

- What were the expected or unexpected findings from the survey feedback?
- What does the survey feedback tell you about your organisation's performance?
- What preventative or corrective actions have you implemented in response to the feedback?
- How will/do you monitor the effectiveness of these actions?

Similarly, aside from information on response rates and non-reporting, VRQA and TACWA require RTOs to indicate how the survey results have been used for continuous improvement.

Sources: ASQA (2020f), VRQA (2020), TACWA (2019).

There are downsides in having RTOs administer their own surveys. The Logistics Training Council noted the administrative burden borne by RTOs:

RTOs have reported onerous numbers of surveys from ASQA to former students, and ASQA is reliant on the RTO to follow up students if the response rate received is low. This creates an additional workload for the RTO. (Braithwaite 2018, p. 117)

There is also the potential for RTOs to selectively survey their students and employers, biasing the results.

More generally, the effectiveness of the process is questionable. ASQA (sub. 38, p. 3) has noted that the annual summary report is ‘of limited value to VET Regulators and should not continue in their current form’. Rather, ASQA has stated it would be more effective if they received the survey responses, as it would help them to risk-rate individual RTOs, and compare satisfaction rates between RTOs’ and over time (Braithwaite 2018, p. 18). In this regard, some progress is being made, with the development of an *In-training Survey* to be administered to students attending RTOs already identified as being at higher risk of non-compliance.⁵⁵

Notwithstanding issues with how student feedback is collected and used, RTOs are generally well-placed to administer surveys to their customers, given their direct and active lines of communication. In addition, it is not unreasonable to expect that every RTO should check whether their customers were satisfied with their training services. There is merit in retaining a regulatory requirement to ensure that RTOs undertake such activities.

Improving data availability for RTOs

Providing RTOs with information that benchmarks their performance against others is another way to encourage continuous improvement.

The Victorian Government, for example, gives their publicly-funded RTOs a benchmarking report compiled from its *Student Satisfaction Survey* and *Employer Satisfaction Survey* (DET (Vic) 2020b). The reports are sent directly to RTOs and remain confidential (unless released by the RTO). They show how an RTO compares to the Victorian average across multiple dimensions, covering:

- the student experience (satisfaction with training overall, teaching, assessment, and the learning of generic skills)
- student outcomes (proportion of students who achieved their main reason for training, improved their employment status, pursued further study, and those who would recommend the RTO to others)

⁵⁵ The *In-training Survey* is in pilot. It will comprise two parts: a VET Starter Module (designed to capture early experiences of students who have recently commenced) and the VET Progress Module (designed to capture relevant information from students further into their training). (NCVER, pers. comm., 25 November 2020).

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- employer feedback (overall satisfaction, whether employers would recommend the RTO to others, and whether employers saw improvements in their employees' generic skills).

The National Centre for Vocational Education Research (NCVER) has long provided RTOs with access to benchmarking data from its datasets. The *National Student Outcomes Survey* (NSOS) provides data on student satisfaction, although in less detail than the surveys administered by RTOs. However, NCVER's *Survey of Employer Use and Views of the VET System* (SEUVVS) is unable to report RTO-specific results.

The provision of benchmarking information to RTOs could be improved by expanding the NCVER surveys, or by having all governments adopt the Victorian approach of administering separate surveys. The latter would fail to leverage the work already undertaken by RTOs, whereas, if the *Data Provision Requirements 2012* were replaced with centrally administered surveys, it would reduce the administrative burden on RTOs, but also reduce expectations on RTOs to take responsibility for investing in their own continuous improvement.

Another, more promising approach would be for RTOs to continue to administer two surveys (outlined in ASQA 2020f) under the *Data Provision Requirements 2012*, and to provide survey responses to an independent external body, such as the NCVER. The body could then collate and aggregate the results, providing each RTO with summary statistics for benchmarking purposes. RTOs would then be able to compare their satisfaction rates with the broader sector. This would provide RTOs with more useful information, without an additional compliance burden.

On balance, there is merit in a model that has the NCVER hold and manage survey data, while RTOs are involved in the administration of some surveys.

- Given the NCVER SEUVVS is not designed to provide RTO-specific results, RTOs remain best placed to contact employers who have purchased training services directly from them. This should continue under the *Data Provision Requirements 2012*, with responses to the *Employer Questionnaire* sent directly to NCVER.
- Given the NCVER has continued to refine the NSOS (including an expansion of questions on student satisfaction), there would be merit in removing the *Learner Questionnaire* from RTOs' obligations under the *Data Provision Requirements 2012*.

There is also scope to improve the *Employer Questionnaire*, and to better coordinate its administration between RTOs and the NCVER (for example, using the NCVER's existing online survey tools). Providing the NCVER with more detailed data at the RTO level would enable the development of RTO-specific quality indicators (recommendation 6.1) and data analyses that expand the evidence base.

While the *Data Provision Requirements 2012* should continue to focus on RTOs own continuous improvement, the associated survey data held by the NCVER could also be used to inform ASQA's risk-ratings. ASQA would need access to sufficiently disaggregated data, so as to gauge trends in satisfaction rates across courses, jurisdictions, types of providers, or

RTOs. Such a process would provide more useful information to the regulator than the current annual summary reports and would reduce compliance burdens for RTOs.

RECOMMENDATION 7.2 — IMPROVING THE USE OF EXISTING DATA FOR CONTINUOUS QUALITY IMPROVEMENT

The *Data Provision Requirements 2012*, under the *National Vocational Education and Training Regulator Act (2011)* (Cth), should be amended such that:

- RTOs continue to administer the Employer Questionnaire, with data to be collected by the NCVER
- RTOs be no longer required to administer the Learner Questionnaire or provide the Australian Skills and Quality Authority (ASQA) with an annual summary report of their performance against quality indicators.

The National Centre for Vocational Education Research (NCVER) should use its survey data to:

- report benchmarking data to each RTO, enabling RTOs to compare their performance with aggregate results across similar courses of study
- supplement the VET national data collection by developing the summary RTO quality indicators proposed in recommendation 6.1
- publish summary statistics aggregated across all RTOs.

ASQA should be given access to the survey data held by NCVER to inform its risk based compliance strategy.

Consumer redress

Regardless of the level of minimum standards set by the regulator and in government contract management processes, there will always be instances when individual students are failed by shoddy training. And with training essentially an ‘experience good’ (where quality becomes more evident to students after the initial purchase) (chapter 6) the risk will remain, highlighting the need for robust consumer protection.

The Commonwealth Ombudsman (2019, p. 7) noted that its most egregious complaints concerned minimum standards of service delivery, including the lack of basic equipment and facilities.⁵⁶ The Queensland Training Ombudsman (2020, p. 5) reported that among the complaints received since 2015, the main issues were:

- RTO behaviour, including poor communication
- fees and refunds
- training package implementation

⁵⁶ Such complaints are typically forwarded to ASQA, as they fall outside the scope of the Commonwealth Ombudsman.

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- short duration of courses
 - the link between the attainment of a qualification and the issuing of a licence.⁵⁷

Complaint-handling mechanisms in VET

Complaint-handling mechanisms deter poor-quality service and enable VET students to resolve conflicts with RTOs and/or seek redress. They can also serve other purposes — for example, they inform regulators’ consideration of risks, and provide a form of accountability for RTOs.

The *Standards for Registered Training Organisations 2015* require that providers have internal processes to handle students’ complaints, as well as to:

... provide for review by an appropriate party independent of the RTO and the complainant or appellant, at the request of the individual making the complaint or appeal, if the processes fail to resolve the complaint or appeal. (s. 6.3(e))

The arrangements for VET consumer protection are fragmented. The avenues for review of complaints differ by jurisdiction,⁵⁸ type of complaint, type of student, provider ownership, and type of funding (figure 7.2). While ombudsmen and VET-specific bodies handle most complaints, other agencies have responsibility for managing complaints not specific to VET (box 7.4). For example, complaints against publicly-owned RTOs are generally handled by State and Territory authorities that have coverage of government services more broadly.

Concerns about the fragmented nature of complaints-handling have been raised by the Commonwealth Ombudsman (2019, pp. 3–9), Braithwaite (2018, pp. 92–93) and Joyce (2019, p. 52), as well as others.⁵⁹

⁵⁷ Given the scope of the Queensland Training Ombudsman to handle complaints from apprentices and trainees, it noted a further key issue arising from complaints related to ‘apprentices not having access to appropriate supervision or the full range of work’. However, these complaints relate to the employment aspect of apprenticeships, rather than the VET aspect.

⁵⁸ When the national regulator was established, consumer protection was not included in the referral of powers for VET regulation.

⁵⁹ A review commissioned by the Department of Education and Training (Victoria) found that consumer complaint and redress mechanisms were fragmented and difficult to access and navigate (Deloitte Touche Tohmatsu 2015, p. 8). The Consumer Action Law Centre concluded that the VET sector had a ‘significant access to justice problem’, and an Ombudsman scheme would be appropriate (Consumer Action 2018, pp. 6–7).

Figure 7.2 Complaint-handling mechanisms for VET students^a

Category of complainant	Responsible body
Domestic VET student with a complaint about student loans	VET Student Loans Ombudsman
Domestic VET student with a complaint about publicly owned RTO	State or Territory Ombudsman (for all government services) VET-specific complaints authority in some jurisdictions
VET student with a consumer, fee, or contract dispute about a training provider	State or Territory Fair Trading Body VET-specific complaints authority in some jurisdictions
Domestic VET student with a complaint about private RTO	VET-specific complaints authority in some jurisdictions ASQA ^b (without individual resolution)
International VET student with a complaint about publicly owned RTO	State or Territory Ombudsman (for all government services) VET-specific complaints authority in some jurisdictions
International VET student with a complaint about private RTO	Overseas Students Ombudsman
VET student with a complaint about education quality	VET-specific complaints authority in some jurisdictions ASQA ^b (without individual resolution)
Apprentice / trainee with a complaint about work conditions:	Fair Work Ombudsman
VET student with a complaint relating to discrimination:	Australian Human Rights Commission

^a Complaints must proceed through the RTO's internal complaint-handling processes. ^b For the minority of RTOs not registered with ASQA, complaints may be handled by VRQA or TACWA.

Source: adapted from Commonwealth Ombudsman (2019).

Box 7.4 **Agencies involved in handling VET student complaints**

A number of national, State, and Territory bodies are involved in consumer redress for VET students.

- Complaints against publicly-owned RTOs are generally handled by State and Territory authorities that have coverage of government services more broadly.
- Issues related to refunds and contracting are handled by consumer affairs and fair trading agencies in each jurisdiction.
- The Queensland Training Ombudsman has coverage of complaints from all VET students in Queensland, including apprentices and trainees (as well as their employers). The South Australian Training Advocate provides advice and advocacy for South Australian students in VET and higher education. Both bodies can act as intermediaries with other complaints mechanisms (such as consumer affairs or government services ombudsmen).
- The Victorian Government operates a TAFE and Training Line which provides advice and referrals but cannot contact training providers or make a complaint on a student's behalf.
- The New South Wales Government operates a complaints authority specifically for RTOs funded under Smart and Skilled.
- The Commonwealth Ombudsman handles complaints from domestic students related to VET Student Loans, or from international students regarding private training providers (although any complaints about the quality of VET courses or RTOs are directed to ASQA).
- Regulators (ASQA, VRQA and TACWA) have complaints processes relating to RTOs under their registration. They are able to investigate and resolve issues that relate to breaches of regulatory compliance.
- In order to help students navigate the fragmented complaints-handling landscape in VET, the Australian, State and Territory governments established a National Training Complaints Hotline in 2015, which acts as a referral service.^a

^a The National Training Complaints Hotline received 298 contacts (including complaints and inquiries) in 2019-20, which has reduced from a peak of 1171 contacts in 2016-17 (DESE, pers. comm., 20 October 2020).

Sources: ASQA (2020e); Commonwealth Ombudsman (2020a,b); DESE (2020p); NSW Government (2017a); Queensland Training Ombudsman (2020a); South Australian Training Advocate (2020b); TACWA (2020); Victorian Government (2020); VRQA (2019a).

Gaps in complaints handling

Notwithstanding the multitude of bodies, the Joyce and Braithwaite Reviews and the Commonwealth Ombudsman (2019) all identified complaints-handling as a gap in the consumer protection framework for VET. Even though ASQA does not have responsibility for consumer affairs, students' complaints are often directed its way. ASQA's (2020a, p. 43) public complaints portal received 921 complaints about VET providers in 2019-20.

Looking ahead, while many complaints about VET quality may still fall to ASQA, they are less likely to be individually resolved. In its 2019-20 annual report, ASQA (2020a, p. 43) noted that it had:

... changed the way it managed complaints or reports alleging provider noncompliance, to ensure it was focusing its resources on providers at risk of causing the greatest harm. As a result, ASQA ceased the previous process which sought to substantiate and/or resolve individual complaints.

ASQA does not have responsibility for consumer affairs and it is not the role of ASQA to act as an ombudsman. ASQA notifies providers of complaints it receives about their operations (reminding them of their obligations) and provides advice to complainants about alternative complaints handling bodies. The change to ASQA's complaints management means that it no longer expends regulatory resources seeking to substantiate all individual complaints and corresponding with providers and complainants in relation to these matters.

It is appropriate that ASQA avoid taking on a de facto ombudsman role. However, given that ASQA will no longer 'substantiate and/or resolve individual complaints', there may be more students with negative experiences in VET seeking redress. Yet, it is difficult to estimate that demand.

Both the Joyce and Braithwaite Reviews advocated a national ombudsman. While this could be accomplished by expanding the existing Commonwealth Ombudsman, it would require the State and Territory governments to refer their consumer protection powers. Moreover, a national body may not be necessary, given that students typically choose between providers within their State or Territory.

A more direct path to improving complaints-handling mechanisms would leverage existing institutions. As noted, some jurisdictions have prominent, VET-specific authorities to assist students with their complaints. In some cases, such as the Smart and Skilled program in New South Wales, the complaints mechanism is accessible and well-publicised, but applies only to publicly-funded VET.

There is merit in having similar public provision of complaints handling across VET, regardless of the RTO's funding or ownership. Useful examples exist in some jurisdictions. Both the Queensland Training Ombudsman and South Australian Training Advocate are able to receive complaints from VET students regardless of whether they attend public or private RTOs, or whether they are in government-funded or fee-for-service courses.

State and Territory governments should establish a VET ombudsman (where they do not already exist) to receive, assess, and resolve complaints from VET students in their jurisdictions from any RTO operating in their jurisdiction. State and Territory ombudsmen should work cooperatively alongside the Commonwealth Ombudsman, which should continue to have responsibility for VET Student Loans and international students.

RECOMMENDATION 7.3 — IMPROVING COMPLAINT-HANDLING MECHANISMS

State and Territory governments should establish a VET ombudsman (where they do not already exist) to receive, assess, and resolve complaints from VET students in their jurisdictions. The ombudsmen should mediate complaints about the quality of services delivered by all RTOs operating in their jurisdiction.

State and Territory ombudsmen should work cooperatively alongside the Commonwealth Ombudsman, which should continue its responsibilities for VET Student Loans and international students.

7.2 Course content

Course content in the VET system is highly standardised to ensure national consistency in qualifications and quality assurance. RTOs develop their own course material based on training products that are nationally recognised under the AQF.⁶⁰ This facilitates the portability of skilled labour and the matching of skills needed by industry and others from a bigger pool of workers.

As such, the value of VET to both students and employers depends heavily on the quality of the content being taught. For VET skills to be valued in the labour market, course content must be relevant to current industry practice and meet industry standards. Inevitably, there is some tension between the value that employers place on specific skills and the incentives for students to invest in more generic and transferrable skills.

While surveys suggest that most employers are satisfied with nationally recognised training, significant quality issues have been identified in some training products. For example, ASQA's (2016) review of the Security Operations training package identified systemic poor practice, raising public health and safety concerns. In some cases, changes to address these issues have had implications for other qualifications (such as measures to avoid unduly short courses). In other cases, the problematic training products have been reviewed by Industry Reference Committees to determine appropriate amendments.

More generally, the continuous improvement of course content occurs through regular development, review, and amendment. Training packages are subject to scheduled reviews, with changes reflected by RTOs in updated course material. These processes aim to align training products with industry needs, by ensuring that the skills taught are up-to-date and relevant. Accordingly, the quality of VET course content is heavily influenced by the effectiveness of these processes.

Ensuring skills are relevant to industry needs

Determining whether training products meet industry needs is not straightforward. Some participants suggested that course content is too tailored to employers' immediate needs, as this may reduce the transferability of skills across industries or across a person's career (Karmel, sub. IR134, p. 1; Mackenzie Research Institute, sub. IR69, p. 7; QNMU, sub. IR85, p. 10). However, other participants highlighted the need for specific skills to fill skill shortages (QCEC, sub. IR98, p. 2).

⁶⁰ Nationally recognised qualifications consist of 'units of competency' (individual subjects) which may be grouped into 'skillsets', both of which are included in 'training packages' (which define the scope of the qualification). The development of training packages allows industry representatives to agree on what competencies are necessary for a given occupation. RTOs then develop educational material to meet the competencies contained in training packages.

The Australian Industry and Skills Committee (AISC) and the Skills Senior Officials Network (SSON) recently adopted reform priorities that include promoting generic training products where industry-specific content is not needed, and reducing overly-specific content in training products (AISC 2020). Further, the *Draft VET Reform Roadmap* (SSON 2020b) noted an intention to reduce the number of training products—this was echoed in the *Heads of Agreement for Skills Reform* (DPM&C 2020b, p. 1), which committed to rationalising qualifications ‘across industry occupation clusters and the AQF’.

Governments’ commitments to reduce the number of training products build on earlier efforts. Between 2016 and 2019 the number of training packages decreased from 77 to 59, while the number of nationally recognised qualifications fell from 1611 to 1458 (Joyce 2019, p. 56). These reforms move in the right direction, and are likely to be of most benefit where units of competency involve less technical skills (such as providing customer service).

More broadly, the task remains to ensure training products are up to date. Course content needs to be responsive to changing demands and circumstances (for example, new technology). This requires more efficient processes to develop, revise and update training products.

Ensuring training products are up to date

The process for developing training packages involves many parties and layers of supervision, including oversight by the Skills Ministers Meeting (figure 7.3). The process is time-consuming, delaying delivery to market. The Joyce Review found that, on average, it takes a year to develop a training package and its endorsement can take years more. Participants acknowledged these tensions and raised concerns about the timeliness of the training package development process and the need for consultation (box 7.5).

Figure 7.3 The process to develop and update training packages



Sources: Australian Industry and Skills Committee (2017); Joyce Review (2019).

Box 7.5 **Participants' views on training package development processes**

Concerns about the delays in updating qualifications are widespread.

... the process of defining and agreeing all these elements against the tasks of today's jobs means, at best, an approved qualification could only ever meet the skills needs of today's jobs but is often out of date once it has gone through the development and endorsement process. (TDA, sub. 59, p. 14)

Industry groups, RTOs, employer organisations and governments all voiced concerns that training packages are very cumbersome and complex and too hard to change. As a result, qualifications quickly fall out of date, and in some cases have been out of date for a long time. RTOs described the frustration and futility of being required to train people for a set of competencies in a qualification when some of the competencies are obsolete in the industry. (Joyce 2019, p. 53)

Of all Tier 2 and 3 issues 'speeding up qualification development' is the most challenging. There is overwhelming agreement it needs fixing. (Fowler 2019)

Some participants noted that expedited processes should not sacrifice consultation:

Tasmania supports COAG Skills Council consideration of streamlining options for Training Package Updates and Approvals Processes noting that this should not come at the expense of meaningful engagement with affected industries. Tasmanian employers often lack the scale and capacity to meaningfully engage with the training package update and approvals process. The Tasmanian Government would welcome consideration of a tailored engagement approach that boosts capacity in the sector for regional economies to engage in Training Package design, including Tasmania. of having industry engagement processes that extend to regional areas (Tasmanian Government, sub. IR80, p. 10).

The Joyce Review recommended a major shake-up of the process for developing and updating training packages (box 7.6). In essence, Skills Organisations would replace and subsume the roles of the AISC, Industry Reference Committees (IRCs) and Skills Service Organisations (SSOs) and would be responsible for developing training packages for ASQA's approval. The Australian Government is piloting Skills Organisations in selected industries, in line with the Joyce Review's recommendation.⁶¹

Some participants questioned whether implementing the Joyce Review's recommendations would speed up training package development and approval. Some peak bodies noted that the success of any new arrangements would depend on appropriate governance and the expertise of the agencies involved (NSW UE ITAB, sub. 31; Master Electricians Australia, sub. IR89). Fowler anticipated unintended consequences if a wider remit is given to Skills Organisations:

Given the very wide remit designed for SOs, it is untested why they, with ASQA, will dramatically speed up qualifications accreditation. It risks funders and educators having insufficient input and, at worst, risks design practice of 'inserting more, deleting less and expecting someone else to pay'. ASQA has to adjudicate any inter SOs 'turf disputes' and will need far greater expertise and resources as a lone agent for course accreditation. (Fowler 2019)

⁶¹ The pilots have not yet extended to having SOs subsume any responsibilities for training package development, nor have they involved ASQA in the approval of training packages (DESE 2020a; Minerals Council of Australia 2020; The Digital Skills Organisation 2020).

Box 7.6 Joyce Review recommendations on Skills Organisations

The Joyce Review outlined how Skills Organisations (SOs) could form the basis of a simplified process for creating and approving qualifications.

SOs would be responsible for contracting the drafting of their training packages and qualifications and running their own consultation processes. Drafting could be done by an RTO or another organisation with the requisite knowledge base, but the resulting qualification and its parent training package would be 'owned' by the Skills Organisation on behalf of the relevant industry.

The final qualification would be approved by ASQA for listing on the national register, training.gov.au. This is a similar but expanded role to the one ASQA currently performs for accredited courses. ASQA would need to be suitably assured by the SO that the new or amended training package, qualification, competency, or skillset is supported by the relevant industry such that it meets the definition of a national qualification. ...

Skills Organisations will therefore replace the AISC, IRC and SSO structure, and internalise the qualifications development process to each industry or group of industries. The AISC, IRCs and SSOs would be discontinued. ASQA's role would be as the gatekeeper to the AQF, and to provide quality assurance to the National Training Package Framework. One single funnel for national training package development and amendment would be replaced by a number of parallel processes under the control of individual industries or groups of industries. (Joyce 2019, p. 59)

The Review also made recommendations about the structure and governance of SOs, as well as their responsibilities outside of course content development.

The Review proposes that each SO be part-funded by the Commonwealth to perform its role based on the number of trainees and apprentices that train each year using the training package or packages it is responsible for. This will help ensure that SOs develop and maintain true industry-relevant qualifications and are encouraged to remove obsolete qualifications. It will also ensure that similar industries are encouraged to collaborate to obtain scale to perform their role.

There are currently 59 training packages in Australia. It is expected there would be no more than 25 to 30 SOs nationally. Related industries should form a single SO. For example, the primary industry bodies — responsible for the animal care and management, horse racing and agriculture, horticulture and conservation and land management training packages — would likely perform well together as one single SO. (Joyce 2019, p. 60)

It is not clear that completely replacing the existing institutional architecture is necessary. Some participants argued that recently established governance arrangements (which have been in operation for three years) needed time to settle in and, if given the chance, would deliver palpable benefits (DESE 2020x; Fowler 2019). Others suggested that while there were issues to resolve within the existing architecture, it operated well in their industry (CCF, sub. IR94, p. 6), and operated much faster than the previous system:

... under the current IRC/SSO model, units of competency and qualifications are being reviewed and updated more regularly. As a result, many of the speed to market concerns have already been addressed but are not yet recognised as being addressed. Nor has the IRC/SSO system been in place long enough to develop a body of evidence to support this, and the organic improvement of speed to market is only just starting to make an impact as the system settles into its rhythm. (Skills Impact, sub. 28, pp. 17–18)

There is some evidence to support claims that the timeliness of training package updates is improving following the adoption of the existing arrangements in 2016. For example, changes to the Australian Meat Processing training package that commenced in 2017 took

23 months on average to complete, while those commencing in 2018 took 17 months (Skills Impact, pers. comm., 28 February 2020).

Further, it is not clear whether the Joyce Review’s recommendations would address the key causes of delay. Some participants suggested the approval and endorsement processes were as problematic, if not more so, than other parts of the development process (AMWU, sub. IR121, p. 7; DESE 2020x; NSW UE ITAB, sub. 31, attachment 1, p. 4; Skills Impact, sub. 28, p. 18). This is indicative of the scope to do more to streamline and accelerate the development and updating of training packages within the existing institutional framework.

To this end, the Commission’s interim report recommended that responsibility for approving straightforward, non-controversial or minor changes to training packages be devolved from the AISC and COAG to IRCs. Examples where this approach could apply include changes to those skill sets or units of competency that have well-established industry support.

Several participants offered qualified support for the Commission’s interim recommendation (CCF WA, sub. IR73; Master Electricians Australia, sub. IR89; NSW Government, sub. IR122; Tasmanian Government, sub. IR80). The Tasmanian Government (sub. IR80, p. 10) stressed the need to ensure that any expedited processes would maintain sufficient consultation with industry, particularly in regional areas. The New South Wales Government (sub. IR122, p. 26) supported a pilot of the reform, subject to safeguards being built in to allow the escalation of any issues to the AISC, and allowing it to intervene if required. Other participants had concerns. The Queensland Nursing and Midwifery Union (sub. IR85, p. 5), for example, noted the need to clarify:

... what constitutes ‘non-controversial or minor change’ to the proposed Training Package approval process change, clarification of which regulatory body will determine whether a matter is defined as such and how this will be determined, and clarification of how oversight will be maintained regarding such changes.

What constitutes a ‘straightforward’ or ‘minor change’ would vary between qualifications and should be the subject of detailed guidelines provided by governments to IRCs.

Giving more power to IRCs to approve changes would reduce ministerial oversight of all training package changes but could shorten by months the time taken to update training packages. While there should always be scope for judgement, the extent of control and supervision should be commensurate with risk.

RECOMMENDATION 7.4 — SHORTENING TRAINING PACKAGE DEVELOPMENT TIMEFRAMES

The Skills National Cabinet Reform Committee should delegate to Industry Reference Committees the power to:

- commission updates to training packages
- approve non-controversial and minor changes to training packages.

7.3 Course delivery

Course delivery covers teaching and student assessment and has an influence on the level of competency that VET graduates achieve. As such, teaching and assessment bear on the credibility of VET qualifications and establish the pre-conditions for the portability of skilled labour in licensed occupations.

Effective teaching and training

The capability of the VET workforce is a key driver of quality. Indeed, some would rank the quality of teaching as the most important input for educational quality (Rivkin, Hanushek and Kain 2005). The hallmarks of capable VET teachers⁶² are pedagogical skills and contemporary industry expertise in their field of training. There is also a growing expectation that VET teachers have the digital skills to provide an engaging learning experience for students.

The many dimensions of quality teaching have been a focus of the *Draft VET Reform Roadmap*, as well as the *Heads of Agreement for Skills Reform*. Both documents point to a VET ‘workforce quality strategy’, defined in the *Roadmap* as:

... including consideration of practice standards, capability frameworks, current pre-service requirements (TAE), continuing professional development and attracting industry experts to VET. (DPM&C 2020b, p. 6)

Such a strategy is overdue. In its development, governments should consider both whether the baseline level of teaching quality is adequate, and how teacher quality can be continually improved. One size is unlikely to fit all — some courses (for example, language, literacy, numeracy, and digital literacy (LLND)) may benefit from specialist qualifications. The following subsections provide policy guidance on minimum teaching credentials, attracting industry experts to VET, some broader VET workforce issues and then sets out a path forward to a VET workforce quality strategy to improve teaching quality.

Teaching qualifications

Prima facie, the quality of VET teaching is considered by students to be high. Close to 88 per cent of VET graduates said they were satisfied with the quality of instruction they received, slightly lower than a decade ago (90.7 per cent).⁶³ Most employers were also satisfied with VET training, however some cited that instructors lacked sufficient industry experience (NCVER 2020o).

There has been a longstanding and ongoing discussion on the need or otherwise for setting minimum teaching credentials. At present, the minimum qualification for a teacher without

⁶² The term ‘teachers’ in this chapter is used as a catch-all term for trainers, assessors, and instructors.

⁶³ Government-funded students only, as total VET data have only existed since 2016. Total VET data suggest a modest increase in student satisfaction with teaching since then (by around 1 percentage point).

supervision is the Certificate IV in Training and Assessment TAE40116 (TAE) — the second most enrolled VET program in 2019 (behind the Certificate III in Individual Support) (NCVER 2020o).⁶⁴ Views differ on whether the TAE is set at the right level or provides the right content: some participants argued it is too restrictive while others believe it should be a higher qualification with more emphasis on pedagogical skills (box 7.7).

Minimum teaching credentials for VET teachers can have countervailing effects on quality. On one hand, it ‘cuts off the tail’ of poor quality teaching. On the other hand, minimum standards for teaching qualifications may discourage people with high subject matter expertise and/or industry knowledge from entering the profession — a point emphasised by the Joyce Review (2019, p. 49).

There are reports that the TAE is one of the major VET qualifications subject to a ‘race to the bottom’ in terms of course length and quality. According to the My Skills website, the course should be completed over six months to two years, at an average fee of \$3400. However, ASQA (2017), in its review of unduly short courses, found that 47 per cent of approved providers advertised the course as taking less than 17 weeks — below the minimum of six months for Certificate IV courses.

Despite some new research on this issue since the Commission’s 2011 *VET Workforce* research report, many aspects of the relationship between teaching qualifications and teacher performance remain poorly understood. Some studies pointed to possible benefits where teachers obtain teaching qualifications at higher levels than the TAE (for example, Seddon, Penna and Dart 2004, p. 8) and others suggested that higher-level pedagogical qualifications improve teaching approaches, confidence and ability, and lead to the greater pursuit of professional development (for example, Smith et al. 2017).

However, these studies do not establish clear causal relationships,⁶⁵ and do not attempt to measure the effect of teacher attributes on student outcomes. Nevertheless, their findings add some support to the view that higher level qualifications bring benefits, even if not directly linked to improved student outcomes. That said, it is also noteworthy that the increase in the proportion of VET teachers holding the TAE over the past decade has not been associated with greater satisfaction with VET teaching.

⁶⁴ Other non-credential requirements in the *Standards for Registered Training Organisations 2015* include having vocational competencies at least to the level being delivered (s. 1.13(a)), current industry skills directly relevant to the training being provided (s. 1.13(b)), current knowledge and skills (s. 1.13(c)), and undertaking professional development in ‘knowledge and practice of vocational training’ and ‘learning and assessment’ (s. 1.16).

⁶⁵ The studies often do not control for important empirical issues including reverse causality, omitted variable bias, and measurement error.

Box 7.7 **Participants' views on the TAE**

Review participants had disparate views on the current minimum standard for VET teaching, the Certificate IV in Training in Assessment (TAE).

Some believed that the current standard is too onerous: Supply Chain Sustainability School (sub. IR91, p. 6), for example, argued 'the requirement for trainers to complete [a TAE] is a barrier for experts to share their experience in a micro and nano course'. Similarly, the Victorian TAFE Organisation (sub. 27) claimed that the TAE minimum standard makes it difficult to attract skilled and qualified trade people to work in VET, due to the time commitment and cost of obtaining a TAE.

Others pointed to gaps in the course content of the TAE. The NSW Adult Literacy and Numeracy Council (sub. IR92) argued that the TAE is not fit-for-purpose for LLND teachers. And one participant said:

The TAE training package should be updated to include teaching and learning strategies. At the moment it only includes VET skills and knowledge which misses the most important aspect of teaching — the teaching! (Green, sub. IR65, p. 2)

Some participants argued that a Certificate IV level qualification is fundamentally inadequate for VET teachers. The Australian Council of Deans of Education Vocational Education Group (sub. IR120, pp. 2–3) stated:

It is well-known that the Certificate IV TAE is particularly prone to poor quality delivery and insufficient volume of learning, although considerable efforts have been made at a national level to rectify this situation. The fact remains, however, that even a good quality Certificate IV is not enough to equip people for the complex and demanding role of VET teaching.

ASQA (sub. IR132, p. 8) noted that divergent views on the TAE were also evident in their stakeholder consultations, with some querying whether more reliance could be put on ongoing professional development.

Internationally, studies of secondary education are more conclusive, and largely show no significant relationship between teacher qualifications and student outcomes. A meta-analysis by Hanushek and Rivkin (2006), which compiled over 170 studies on teaching quality, found that 91 per cent of studies suggested either no statistically significant relationship, or a negative relationship, between teaching qualifications and student outcomes.⁶⁶ The authors noted in another paper that:

Though it is tempting to tighten standards for teachers in an effort to raise quality, the results in this paper and elsewhere raise serious doubts that more restrictive certification standards, education levels, etc. will succeed in raising the quality of instruction. (Rivkin, Hanushek and Kain 2005, p. 450)

On balance, there is insufficient evidence to justify increasing the minimum qualification for VET teachers.

⁶⁶ Other meta-analyses find similar results (see, for example, Burroughs et al. 2019). A panel analysis by Collier (2013, p. 4) also concluded that 'forcing teachers to obtain certain degrees will not, in itself, increase student achievement'. The Rivkin et. al meta-analysis also found no statistically significant relationship between teacher experience and student outcomes.

Attracting industry experts to VET

The *Draft VET Reform Roadmap* noted the challenge of ‘attracting industry experts to VET’. Several review participants said the sector is struggling to attract teachers, particularly those with subject-matter expertise and industry currency (Tasmanian Government, sub. 32; Victorian TAFE Association, sub. 27). The Joyce Review (2019, p. 49) stated:

... many providers told us it is very difficult now to recruit experienced trainers with relevant industry experience, especially in regional and remote areas, and in particular specialties.

The barriers to attracting and retaining industry experts to VET relate to rigid work arrangements and the high administrative demands placed on teachers, especially those engaged part-time or on casual contracts.

Flexibility of work arrangements and use of casual contracts

The VET workforce is highly flexible. NCVER estimated that around a third of VET teachers are employed on a casual basis, and a further 14 per cent are on contracts or temporary employment (Knight, White and Granfield 2020). Workforce flexibility can have two countervailing effects on the supply of high-quality teachers.

- On one hand, a high reliance on casual teachers may prevent teaching being seen as a ‘career’, and with uncertain working arrangements discourage individuals from entering the field. Some educators argued that teacher quality is flagging, in part, due to ‘an over-reliance on casual and short term contracts of employment for trainers and assessors, which makes it difficult for them to deliver high quality education and training programs’ (IEUA-QNT, sub. IR82, p. 1).
- On the other hand, the use of casual or short-term contracts may allow RTOs to attract teachers with current industry skills and experience. For example, casual contracts enable individuals to temporarily move from industry into teaching, or to work part time in both. For this reason, the Commission (PC 2011, p. xxxv) supported a flexible VET workforce in its VET workforce study:

Flexible forms of employment also enhance the ability of the VET sector to respond quickly and adequately to new or varying skills requirements, over time and in different regions. The Commission supports this flexibility and considers that caps on the engagement or deployment of casuals are likely to be, in most circumstances, detrimental to the responsiveness of the VET sector.

These countervailing effects suggest that while flexibility presents challenges in terms of professional development, overall, it is likely to be beneficial to attracting and maintaining a quality VET workforce.

One risk of short-term or casual contracts is that they may reduce RTO incentives to invest in the professional development of staff. This is a perennial challenge in VET, given the dual nature of the VET teaching profession. Even so, governments could improve the capacity for RTOs to invest in professional development, including through longer durations of funding

contracts (section 7.2). Moreover, consideration should be given to whether teaching qualifications could be attained through ongoing professional development. For example, the Northern Territory is piloting a TAE trainee program which allows prospective teachers to begin teaching without supervision while still undertaking their TAE (Misko 2020).

A way forward on improving teaching quality

Governments have outlined in the recent *Heads of Agreement for Skills Reform* their intention to develop a VET workforce quality strategy. This is an opportunity to identify steps that would lift the quality of VET teaching. A first step is establishing a better evidence base on the nexus between teaching quality and students' outcomes. The same point was made in the Commission's *VET Workforce* research report, recommending:

The [NCVER] should ensure that it collects all the information required to allow the critical determinants of quality training and assessment to be investigated quantitatively. Once that information is available, the [NCVER] should conduct quantitative analysis of the relationship between trainers' and assessors' characteristics and student outcomes, including by level of qualification delivered. (PC 2011, p. 224)

Regrettably, little information has been acquired on the VET workforce over the past decade. Only one survey of the VET workforce has been undertaken, and that was earlier this year by the NCVER (Knight, White and Granfield 2020, p. 1). The survey was not designed to investigate the characteristics of VET teachers and was restricted in scope, limiting its usefulness to researchers.⁶⁷

To inform the VET workforce quality strategy, the NCVER should first undertake a census of the VET workforce focusing broadly on the characteristics of teachers at the RTO level. The census should include pedagogical and occupational qualifications, as well as industry experience. This census could be conducted in conjunction with other existing data collections to manage reporting burdens for RTOs.

The information collected would allow governments and others to investigate the relationship between teacher characteristics and student outcomes, focusing on pedagogical skills and contemporary industry experience, and to examine whether there are barriers (for example, minimum credentials or teaching conditions) preventing professionals with industry experience from teaching in VET. And more broadly, it would be a valuable resource for investigating other issues relevant to developing the VET workforce quality strategy.

⁶⁷ For example, the survey did not allow comparison between a teacher's highest pedagogical qualification and their highest qualification within their industry. Further, the survey did not ask about teacher's industry currency or experience, nor allow for any disaggregation by subject area or industry.

FINDING 7.1 — TEACHER QUALITY AND OUTCOMES

There is little information on the VET workforce and scant evidence to judge the effectiveness of teachers' qualifications, attributes, or industry experience in improving students' outcomes.

Further research would help inform the development of the VET workforce quality strategy foreshadowed in the *Heads of Agreement on Skills Reform*.

RECOMMENDATION 7.5 — INFORMING THE VET WORKFORCE QUALITY STRATEGY

The Skills National Cabinet Reform Committee should task the National Centre for Vocational Education Research to conduct a census of the VET workforce. Using this information, governments should investigate:

- the relationship between teacher characteristics and student outcomes, focusing on pedagogical skills and contemporary industry experience
- whether there are barriers (for example, minimum credentials, teaching conditions) preventing professionals with industry experience from teaching in VET
- other issues relevant to developing a VET workforce strategy.

Assessment as a form of quality assurance

How students are assessed also bears on the quality of training. Students need to have confidence that their training will be recognised and valued, and employers need to be confident that a qualification is an accurate indication of skill attainment. The process of assessing students' competency — and awarding qualifications — can be thought of as a form of 'quality assurance' for the output of the VET system.

RTOs and students have strong incentives to provide and seek out robust assessment practices — RTOs to protect their reputation and students to establish their career. Nonetheless, there are circumstances where notwithstanding substandard training and underperforming students, accreditation is granted. And inevitably, there will be some variation in how standards are applied across RTOs. Employers often state that the quality of VET graduates is uneven (CCF, sub. IR94, p. 6; Joyce 2019, p. 46 SkillsIQ, sub. IR130, p. 2; VSC 2017, p. 11).

ASQA validates RTOs' assessment tools and processes (ASQA 2015). This involves reviewing a sample of the assessments and recommending improvements to the assessment tool, process (and potentially, outcomes). Drawing from these assessments, ASQA (sub. IR132, p. 7) considered the regulatory standards for assessment to have been an area 'of significant concern for a number of years'. ASQA (2016) has also found evidence of some RTOs offering unduly short courses with 'poor quality assessment practices' in such qualifications as security and the TAE.

Given these and more general concerns, governments are considering ways to improve assessment. The *Draft VET Reform Roadmap* foreshadowed new assessment models involving independent assessment of competency.

Independent assessment has widespread support ...

Independent assessment (IA) refers to processes where students' competencies are assessed by parties independent from those delivering the training. In practice, this typically means that a student trained by one RTO would undergo an assessment from an external body (such as a licensing agency, an occupational governing body, or another RTO).

In VET, one of the key potential benefits of IA would be to boost confidence in the value of VET qualifications. There are likely to be direct public benefits where VET graduates are expected to manage public safety risks (as is the case with for plumbers and electricians, where IA is already in use). More broadly, IA improves the credibility of VET credentials.

Nonetheless, the benefits of IA remain largely theoretical; there is a scant empirical evidence on IA's impact on training. A study of the Canadian model of IA — the Red Seal program — suggested that there were few labour market benefits for students who undertook the assessment, relative to students who did not. However, there is some evidence that the program increased mobility for graduates across Canada's provinces (Crocker et al. nd).

Even so, most review participants supported an expanded role of IA (CCF, sub. IR94; Field, sub. IR116; Karmel sub. IR134). Master Builders Australia (sub. 41, p. 13) argued that IA would provide 'greater assurance of competency and reduces the risk of poor providers gaming the system'.

... but progress has been slow

IA is not a new idea — in the past decade, State and Territory governments have trialled some forms of IA, but efforts to realise the benefits have lacked momentum. The conduct of further trials is a step in the right direction, and their findings will help inform the design of future IA models.

The 2012 *National Partnership Agreement on Skills Reform* included a commitment to the development and piloting of independent validation of assessment systems and processes.⁶⁸ Little information is available on these pilots,⁶⁹ apart from one in South Australia for the Certificate III in Aged Care. It found that employers were generally satisfied with the quality

⁶⁸ These 'independent validation' methods included visits to assessment sites, reviews of assessment, consensus meetings and forums, and student satisfaction surveys (Gillis, Rice and Bateman 2015). Independent validation in this form is less involved than other methods of IA.

⁶⁹ These pilots focused only on the validation of assessment processes and tools by an independent party, and not on the broader decoupling of training and assessment.

of training and competence of staff employed following training. A discussion paper from the Department of Education and Training (2016b, p. 18) noted that:

The outcomes of VET reform consultations and information from the pilot studies suggest there is a strong case for expanding the use of independent validation of assessment methods to high risk qualifications or sectors to support the confidence in the outcomes of training.

The *Draft VET Reform Roadmap* also committed to ‘trial and evaluate alternative assessment models’, including IA. Victoria is leading the way on this process, undertaking a four-year pilot of IA. The focus is on assessing newly graduated apprentices and trainees across eight qualifications.

ASQA (sub. IR132, p. 7) has supported further piloting of IA:

ASQA welcomes consideration of the potential for independent assessment of competency in the VET system, and would support the trialling of such models in the first instance, in line with the VET Reform Roadmap. The results from this trial will assist in establishing the benefits of such an approach, under what circumstances it may be most effective, and how it may be implemented in a cost-effective manner that does not introduce any unintended consequences.

Designing a model of independent assessment

Independent assessment raises new concerns about cost and effectiveness, which will depend on careful design and application of programs. In addition to trials, ideas on the design of IA may also be gleaned from international models of IA (box 7.8). For instance, Canada’s Red Seal program involves a once-off capstone⁷⁰ multiple choice exam and serves as the basis of mutual recognition across provinces.

There are many design and implementation matters that need to be considered in developing a model of IA. They depend on how widely or narrowly IA is applied. IA can be used by industry as an additional voluntary marker of quality (such as Canada’s Red Seal). Or it could be mandatory for all RTOs, or just for RTOs teaching particular courses to ensure consistent quality of graduates. IA could also be used by the regulator to audit RTOs’ performance, either at regular intervals (for example, renewal of registration or after a change in scope) or in cases of high risk. Key questions include the following.

- *Who are the independent assessors?* In the Victorian pilot a private, solely assessment-focused RTO — VETASSESS — does the assessing. However, IA by a separate RTO is only one possibility. Conceivably, an industry body (where one exists) could be the gatekeeper/assessor, as is the case, for example, for Chartered Accountants. A third possibility is ASQA operating an assessment arm that complements their regulation of the sector (by, for example, targeting high-risk or new RTOs).
- *What does the assessment look like?* Where IA is treated as a capstone, it is often a broad but shallow assessment (for example, a multiple-choice test). This is because it is difficult

⁷⁰ A capstone assessment serves as the final, cumulative assessment for students in which they have to synthesise their learning across all of their studies.

to design a standardised comprehensive assessment that will be supported by all parties. Although practical-based assessments are seen as the ‘gold-standard’, particularly in the trades, these assessments can be expensive and difficult to administer. Independent validation of assessment, or sampling of assessment methods, are less resource intensive but may also have a smaller benefit.

- *What is the scope of IA?* If every unit of competency is covered by IA, the assessment could take the form of a capstone exam at the end of a course (as is the case in Canada). Alternatively, assessments could occur during a students’ time of study — at set milestones, or at the completion of important units of competency.
- *Is the assessment optional or mandatory for students?* IA could be set as a mandatory requirement for students to graduate with their degree. Or it could be optional, with students using it to signal the quality of their qualification to boost their labour market prospects.
- *Who pays?* IA is likely to be costly and it is unclear who should carry the costs. On one hand, it might make sense to make students pay as IA should yield them private benefits. On the other, if IA is seen as part-and-parcel of standard quality regulation, there may be a rationale in governments bearing part of the costs (in line with general course costs).
- *Could assessment be completely decoupled from training?* De-coupling training from assessment improves incentives for the assessor. If this separation is taken further, it could allow students to obtain skills for a qualification any way they wish, such as through massive open online courses (MOOCs). This more expansive model of IA could remove impediments to innovation in the VET sector.
- *Should IA be used as a means of regulating training providers?* Assessment results could give governments and regulators an insight into the quality of training across RTOs. Samples of each graduate cohort could be required to participate in IA, either as a condition of training providers’ registration (or renewal), or for RTOs identified as high-risk. If used as a regulatory tool, there is a question of whether IA would replace other assessments done by the RTO (effectively determining whether the student graduates), or whether it is additional to the RTO’s assessment (potentially without repercussions for the student).

Box 7.8 International models of independent assessment

Many countries use independent assessment in their vocational education system.

- **Canada:** the Canadian Red Seal program is an interprovincial capstone assessment for 52 trades that sets common standards for tradespeople across Canada. The 'Red Seal' refers to an extra certification that is affixed to a trade certificate demonstrating that the tradesperson has met the national standard. The assessment is an in person, multiple choice exam with a minimum 70 per cent pass grade: it does not have a practical component.
- **Germany:** when apprentices in Germany complete training they must complete exams set by industry bodies and chambers of commerce before they can be awarded with their certificate.
- **New Zealand:** the New Zealand Quality Authority (NZQA) has an assessment division that undertakes 'external moderation' for providers. Providers must provide the NZQA with an assessment plan for the year, assessment materials and evidence that assessor judgements are fair, valid, and consistent nationally. The processes can be thought of as highly prescriptive external regulation of assessment.
- **Oman:** Oman uses an online, multiple choice exam to certify foreign workers and evaluate the effectiveness of VET courses and providers. This assessment is the Occupation Standards, Skills Testing and Certification.
- **Switzerland:** the Swiss use a standardised final assessment for students across the country. The system is decentralised, with the relevant professional organisations developing a specific assessment for each professional area. The assessments range from traditional pen and paper exams, to oral exams, to theses. Applicants must pass these exams to obtain a nationally recognised qualification.

Sources: Crocker et al. (nd); Gillis, Rice and Bateman (2015); Joyce (2019); NZQA (nd).

A way forward on independent assessment

Progress towards IA could be achieved through a process of phased implementation, which should include:

- identifying suitable qualifications and occupations — which involves consultation between, and leadership from, governments, industry, and occupational governing bodies
- determining the design of an IA program and its objectives, including examining the merits of:
 - undertaking national trials for the chosen qualifications, with the specific purpose of assessing the usefulness and cost effectiveness of IA
 - developing an institutional framework, which would allocate responsibilities for assessment, accreditation of assessors, and funding.

It would be particularly valuable to explore the use of IA where there is strong industry support, or where there are widespread concerns about uneven quality of graduates' skills — particularly where minimum training standards contribute directly to public benefit. One example of the latter is the aged care sector, which is in the process of establishing stronger minimum standards for its workforce. Changes to training packages and units of competency

are underway. Once new course content and any additional mandatory requirements are established, some form of IA could provide an additional quality assurance.

FINDING 7.2 — INDEPENDENT ASSESSMENT

The unbundling of assessment from teaching would help allay concerns associated with uneven quality standards among VET graduates and provide employers with greater certainty about graduates' competencies.

Over the past decade, governments have explored how independent assessment could be used more widely in VET. To date the pilots and trials have done little to progress the use of independent assessment.

RECOMMENDATION 7.6 — ESTABLISHING INDEPENDENT ASSESSMENT IN VET

The Australian, State and Territory governments should undertake a process of phased implementation of independent assessment (IA), which should include:

- determining the objectives and model of IA
- identifying suitable qualifications and occupations through consultation between governments, industry, and occupational governing bodies
- undertaking national trials for qualifications identified as suitable, to assess the usefulness and cost effectiveness of IA
- developing an institutional framework, which would assign responsibilities including for undertaking assessment, accreditation of assessors, and funding.

It would be particularly valuable to explore the use of IA in areas where minimum training standards contribute to public benefit, such as the aged care sector.

PART E — INVESTMENT AND PARTICIPATION IN VET

8 VET funding: the mechanics

Key points

- State and Territory governments use course subsidies primarily to meet skill needs and increase participation in training, particularly by students facing disadvantage.
- State and Territory governments use the same approach to set and manage subsidies.
 - All jurisdictions decide which courses to subsidise using skill lists, estimate course costs and set subsidy rates, and manage course subsidies through contracts with registered training organisations (RTOs).
 - Most jurisdictions set high subsidy rates for lower level qualifications — reflecting State and Territory governments' views that these courses have significant public benefits.
- However, there are differences in how course costs are calculated, the range of subsidy rates, loadings for delivery to higher cost students, and concessional fees for students facing disadvantage.
 - 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.
 - The National Skills Commission's work on efficient costs for vocational education and training (VET) delivery will provide a more accurate basis for subsidy calculations.
- There is also significant variation in policy priorities and the approaches used to determine which courses receive subsidies.
- These differences, along with differences in subsidy settings, has led to wide variations in the number of courses subsidised, the value of subsidies, and the associated student fees across States and Territories.
 - There is a lack of transparency on subsidy settings, and the complexity of subsidy arrangements is likely to affect the capacity of students, employers, RTOs and governments to make informed decisions on VET.

The terms of reference ask the Commission to examine options for future government funding and pricing arrangements for vocational education and training (VET). That analysis is in chapter 9.

To provide context for that analysis, this chapter looks at how VET courses are funded and priced in each State and Territory. It focuses on the government-funded segment of the VET market — an estimated 44 per cent of VET funding (close to \$2.8 billion in total) was spent on course subsidies in 2019. The chapter covers:

- the general approach that each State and Territory uses to subsidise VET (section 8.1)
- how jurisdictions determine which courses to subsidise (section 8.2)

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- how course costs are estimated and subsidies set (section 8.3)
 - the management of subsidies with registered training organisations (RTOs) (section 8.4)
 - a summary of the cumulative impact of different methods and settings across jurisdictions (section 8.5).

However, it has not been possible to comprehensively examine all aspects of VET funding. Publicly-available information on State and Territory governments' policies and methods for setting subsidies is often lacking, and the Commission has not been able to obtain all the relevant information from those governments to analyse course subsidy settings. More information is available on how student fees are set, although it remains difficult to analyse the impact of fees on student choices, the quality and efficiency of training, and the functioning of the VET market. For example, even with robust time series data for course prices (including subsidies) and enrolments, it is difficult to separate the effects of subsidies on demand from external factors, including other policy changes.

8.1 The approach to subsidising VET courses

Governments subsidise courses primarily to encourage the take up of training in priority occupations (based on skill lists) or by students facing disadvantage. Subsidies are paid to RTOs to allow them to deliver training with lower fees for students, including for courses that may not be viable without the subsidy (box 8.1).

There are three key steps involved in funding and pricing VET courses.

1. *Determining which courses to subsidise.* All governments create lists of courses eligible for a subsidy (skill lists). While governments have various reasons for placing courses on their skill lists, the main reason is training workers for industries considered to be facing skills shortages and/or with 'growth potential'. Priority is often given to courses deemed to offer higher economic or social returns (apprentices in the first case, lower-level Australian Qualification Framework (AQF) courses in the second case). A related goal is promoting participation in training by students facing disadvantage (for example, people living outside metropolitan areas, unemployed people, people with disabilities and Aboriginal and Torres Strait Islander people).⁷¹
2. *Setting course subsidies.* Subsidy rates vary according to the priority attached to each course. For example, apprentices are eligible for higher course subsidy rates than non-apprentice students undertaking the same course, as are students studying foundation skill courses (leading to Certificates I and II) compared with students completing Diplomas. For students facing disadvantage, higher subsidies are usually provided through loadings paid to RTOs (reflecting that these students are higher-cost learners) and concessions for eligible students (to increase their participation).

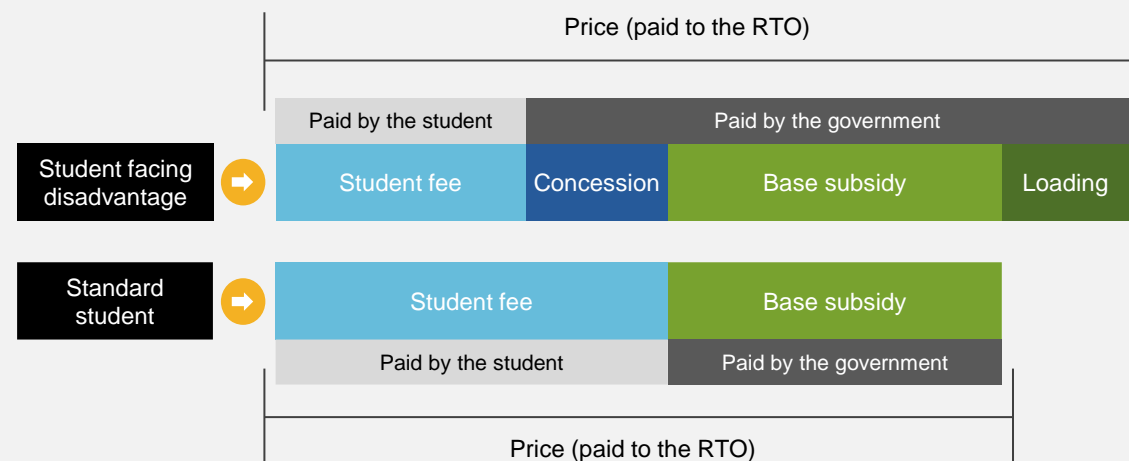
⁷¹ In this chapter, a student facing disadvantage is defined to include all of these groups, unless otherwise stated.

3. *Managing course subsidies.* Government contracts with RTOs dictate how fees for subsidised training are set, a minimum standard for quality of services, and eligibility requirements for the subsidised services.

Box 8.1 Pricing government-funded VET courses — key concepts

The 'price' of a course is the amount that a registered training organisation (RTO) charges to provide training services.

- For government-funded courses, the price paid to RTOs has two parts: a subsidy (paid by the government) and a student fee (paid by the student or an employer).
- For a standard student, there is a base subsidy paid by the government to the RTO.
- For students facing disadvantage there is an additional loading paid to the RTO. This is for the delivery of VET in regional and remote areas and/or for students from an equity background (for example, having a disability). Students facing disadvantage also receive a concession in the form of a discounted fee.



8.2 Determining which courses to subsidise

All State and Territory governments have two broad priorities in VET policy. At a high level, they are to alleviate industry skills shortages and to meet social policy objectives (increase training for students facing disadvantage). This is done while seeking to maintain a sustainable budget position. Objectives often overlap — for example, where a student facing disadvantage is supported to complete training in an area of industry need. At other times, different priorities lead to governments supporting courses that are not always consistent with other objectives.

Each jurisdiction sets priorities for course subsidies based on a combination of quantitative and qualitative assessments (discussed below), and policy judgements about fairness and equity (for example, public and private returns to investment in skills). Although similar in their overarching approach, the calibration of parameters used to set subsidies varies across

jurisdictions. In addition, local economic needs and conditions vary by jurisdiction, as do governments' social policy objectives and their respective budget positions.

When constructing skill lists, almost all jurisdictions rely on some form of quantitative labour market analysis, supplemented with industry consultation, qualitative labour market testing and judgement. Quantitative analysis typically involves modelling a set of predictive indicators for industry skill needs; mapping industries and occupations to VET courses; and linking training and employment outcomes in the labour market.

Using labour demand models to forecast demand for training is methodologically challenging (chapter 3). More generally, assessing the effectiveness or accuracy of skill lists is also challenging. The Commission is not aware of any such analysis.

In addition to skill lists, governments also use training modes, qualification levels and training providers (public and private providers) as criteria for deciding which courses to fund.⁷² There is a lack of transparency about decisions using these other criteria.

All jurisdictions prioritise lower AQF qualifications (for example, a Certificate I qualification is more heavily subsidised than an Advanced Diploma). This reflects the assumption that public returns from skill formation for students facing disadvantage (for example, reduced crime) are relatively large for lower level qualifications, including foundation skill courses. Conversely, the private returns to VET tend to be larger for graduates with high level qualifications (chapter 3).

However, prioritising subsidies based only on assumptions of public and private return (to meet social objectives) is not general practice. Indeed, that could be inconsistent with the aims of skill lists, which are designed to prioritise training in areas that meet industry (private sector) needs.

Rather, State and Territory governments often target high — even the highest — subsidies at courses with strong economic returns. For example, the Queensland Government directs the highest rate of public subsidy at courses 'assessed as highly effective in generating outcomes for graduates' (DESBT (Qld) 2019). Similarly, the Western Australian Government assigns the 'highest priority' to apprenticeships because they are 'employment based' (pers. comm., Western Australian Government, 25 February 2020). The approach of directing large subsidies to apprentices appears to be common practice across many jurisdictions (chapter 11).

This leads to a situation where high public subsidies are directed at courses expected to have high public returns (for example, foundation skill courses) and/or high private returns (for example, apprenticeships). As discussed in chapter 9, directing public subsidies toward courses with high private returns may be inefficient.

⁷² A number of submissions to the Joyce Review (including Navitas (2019)) stated that public providers received preferential treatment by governments — this issue is discussed in chapter 9.

On equity grounds, all jurisdictions provide subsidies for students facing disadvantage (section 8.3), although eligibility criteria differ by jurisdiction. For example, all State and Territory governments except Tasmania and the ACT provide loadings for students in regional areas. New South Wales, Victoria, Western Australia and the ACT also offer loadings for Aboriginal and Torres Strait Islander people.

Likewise, a student's eligibility for concessions varies by jurisdiction, but they tend to be available for students receiving government benefits. New South Wales, Victoria and Queensland have specific concessions for Aboriginal and Torres Strait Islander people and Queensland, South Australia, Western Australia and Tasmania for prisoners (appendix C).

With jurisdictions using different approaches to identify their priorities, and with labour market needs (and budget constraints) varying across each jurisdiction, the number of subsidised courses varies significantly (table 8.1). For example, there were about 100 non-apprenticeship qualifications subsidised in the ACT and Tasmania and more than 800 in New South Wales. Some jurisdictions (South Australia, Tasmania and the ACT) also target the use of their subsidies more heavily toward apprenticeship qualifications. Chapter 11 describes differences in subsidy amounts for apprenticeships and non-apprenticeships.

Table 8.1 The number of subsidised qualifications varies significantly across jurisdictions^a

Number, as at September 2020

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>SA</i>	<i>WA</i>	<i>Tas</i>	<i>NT</i>	<i>ACT</i>
Non-apprenticeship qualifications ^b	893	636	342	199	309	102	na	91
All qualifications ^b	896	833	499	860	699	462	na	591

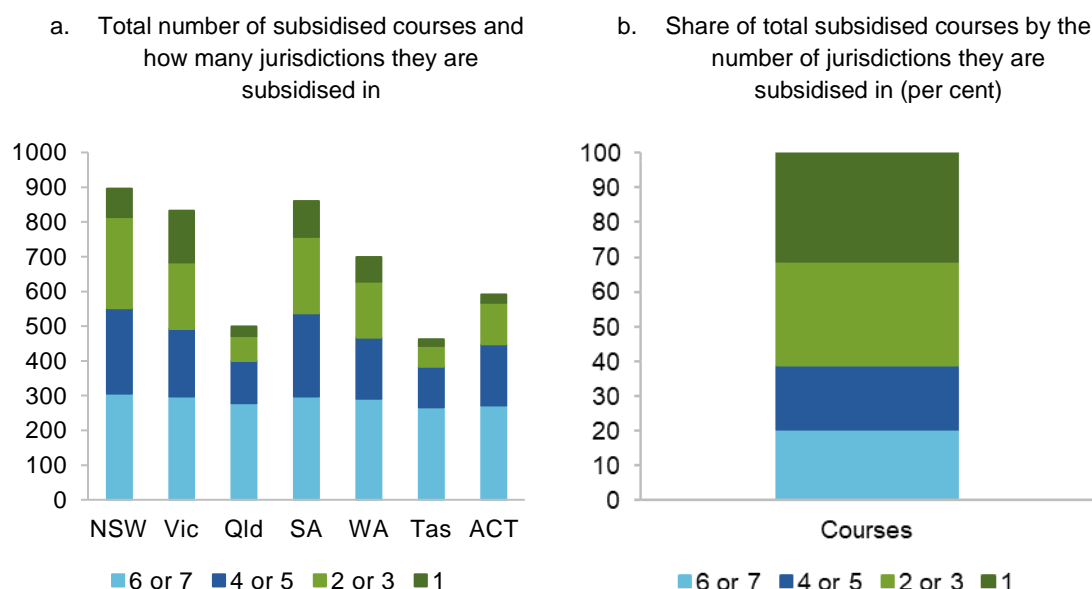
^a State and Territory governments appear to update their skill lists on an annual basis. Some are more frequent. Total excludes skill sets and any qualifications that can only get a subsidy via apprenticeship. ^b Includes all qualifications at Certificate I to Advanced Diploma and not skill sets or other subsidised courses. Non-apprenticeship qualifications exclude any subsidised qualification that is only subsidised via an apprenticeship. **na** not available.

Sources: Commission analysis based on course lists from Training Services NSW (2020b); DET (Vic) (2020c); DESBT (Qld) (nd; 2020b); Government of South Australia (2020); DTWD (WA) (2020b); Tasmanian Government (2020); ACT Government (2020a, 2020b).

That said, jurisdictions often subsidise the same courses. Nearly 70 per cent of all types of subsidised qualifications (whether for an apprenticeship and/or non-apprenticeship) were subsidised in at least two jurisdictions (figure 8.1, panel b).⁷³ There was also variation in the degree of course overlap between each jurisdiction. For instance, only about 4 per cent of all qualifications subsidised in the ACT were not subsidised elsewhere. In contrast, about 150 of the qualifications that Victoria subsidises (18 per cent) are not subsidised in any other jurisdiction (figure 8.1, panel a).

⁷³ The Commission did not have information on which courses are subsidised in the Northern Territory.

Figure 8.1 Most qualifications are subsidised in more than one jurisdiction^a
September 2020



^a Panel a shows total subsidised qualifications (including apprenticeships) in each jurisdiction, and whether they are also subsidised in another jurisdiction. Where a qualification is subsidised in multiple jurisdictions it will appear multiple times (in the relevant part of each column) in this panel. Panel b shows all subsidised courses and in how many jurisdictions they are subsidised. A course appears only once in panel b. Skill sets are excluded from the analysis.

Sources: Commission analysis based on course lists from Training Services NSW (2020b); DET (Vic) (2020c); DESBT (Qld) (nd, 2020b); Government of South Australia (2020); DTWD (WA) (2020b); Tasmanian Government (2020); ACT Government (2020a,b).

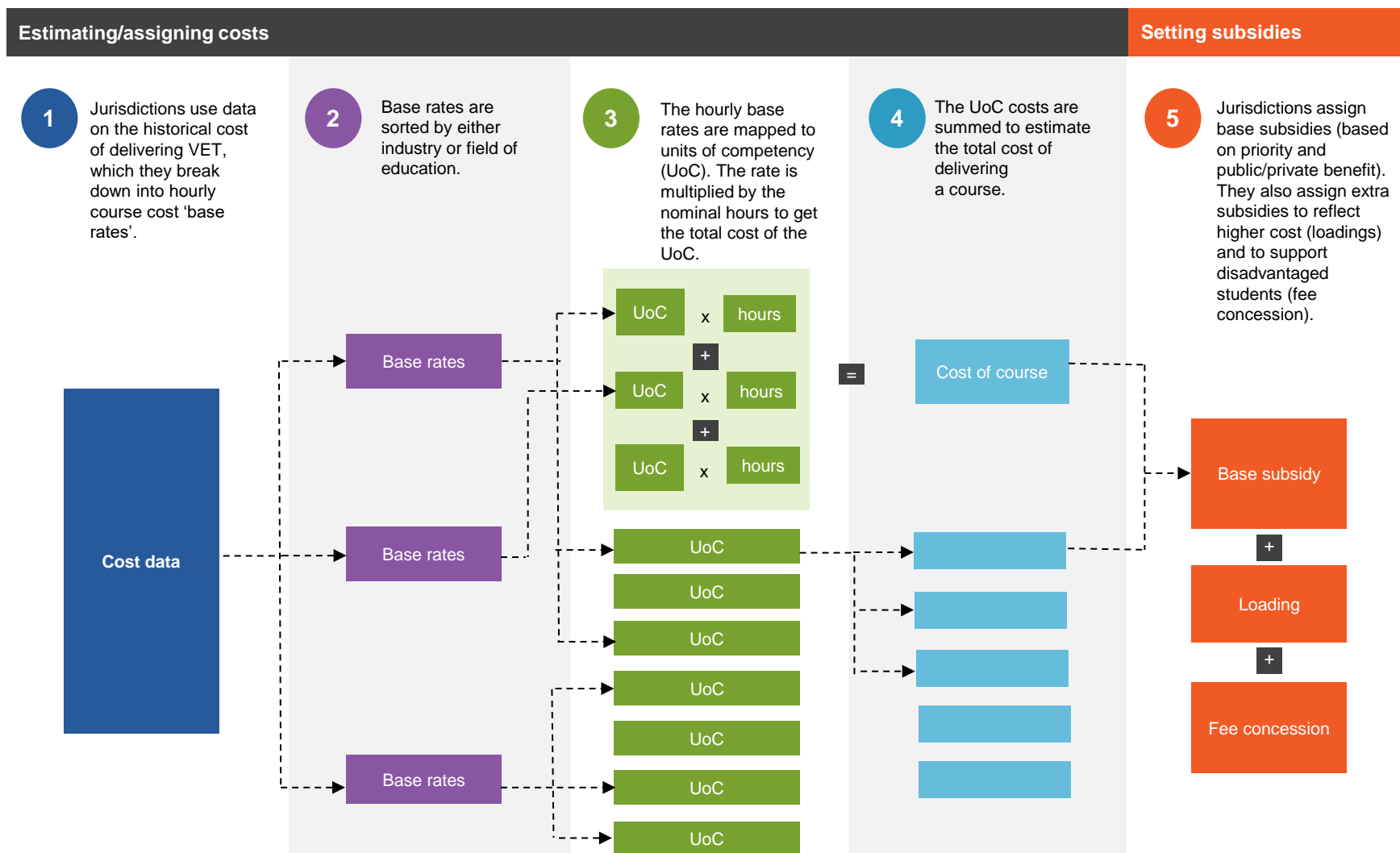
8.3 How VET course subsidies are set

Subsidy setting by jurisdictions has two parts:

- estimating the cost of delivery for each course
- assigning a subsidy rate for each course.

Various ‘building blocks’ are used to estimate the cost of courses before deciding on the subsidy rate. The process is summarised in figure 8.2.

Figure 8.2 How governments estimate costs and determine subsidies



Estimating course costs

As course subsidies are set as a proportion of course costs, accurate estimates of the cost of training is vital — TAFE Directors Australia (sub. 59, p. 11) considered it a ‘first order issue’.

However, estimating costs is not an easy task. Given the large number of VET courses, ways of compiling qualifications and provider operating models, it is not feasible to estimate costs for individual providers. The alternative — sampling cost profiles from a range of providers — must control for variations in teaching methods, student needs, and provider, locational and course characteristics. The Business Council of Australia (sub. 16, p. 30) noted:

... calculating cost in education and training is not a precise science. Costs will differ across qualifications, and will differ within qualifications according to location, and/or learner characteristics ... Cost is also impacted by the environment in which the provider operates ... but, it is also reflective of how a product is delivered. If class sizes are ... small, the latest equipment or technology is made readily available, or industry secondments are offered, the cost of delivery will generally be greater than delivery without those components.

Jurisdictions try to take some of these factors into account (for example, loadings for higher-cost students and delivery into regional areas). The key steps in estimating costs are outlined below, with similarities and differences summarised in table 8.2.

Step 1 — Obtaining cost data and estimating course hourly base rates

Jurisdictions use historical VET data to estimate the hourly cost of delivering VET. Hourly costs are referred to as ‘base’ rates in this chapter, as all subsequent steps in the cost estimation process reference these rates. The Commission understands that jurisdictions allow for a commercial rate of return when determining the cost of delivery.

Cost estimates appear to draw more from TAFE financial data than private RTO data, reflecting that TAFEs are major providers of subsidised training. As there are relatively few TAFEs, it is easier to compile data from TAFEs than from hundreds of private RTOs. However, the starting point for these estimates is often old data. New South Wales, Victoria, South Australia and Tasmania use information from 2012 or earlier. Western Australia uses the most recent data (2017), drawn from private RTOs.

Without more recent data, jurisdictions apply inflation factors, typically using the consumer price index. A better approximation of inflation in the VET sector, that controls for the influence of subsidies, would be a VET-specific producer price index — which does not

exist.⁷⁴ The producer price index for education is only available for higher education. That index has experienced inflation of 28 per cent since 2012 (ABS 2020c).

Table 8.2 How jurisdictions estimate qualification costs

State or Territory	Cost data	Industry or FoE?	Hourly base rate		Qualification cost estimate
			Rates (no. and \$/hr)	Hours	
New South Wales	2012 TAFE NSW and 2011-12 data from competitive tendering processes (contained in 2013 IPART report)	FoE	na	VPG nominal hours	Fixed cost + (hours x base rate)
Victoria	Victorian TAFE data	Industry	na	VPG nominal hours	Hours x base rate
Queensland	na	Industry	3 rates \$5.23, \$7.03, \$9.86	VPG nominal hours (capped at 1100)	Hours x base rate
South Australia	2011 data from private RTOs in SA and TAFE data	FoE	356 FoEs with 44 different rates Range: \$7–20	VPG nominal hours	Hours x base rate
Western Australia	TAFE data and 2017 private RTO data	FoE	na	WA nominal hours	na
Tasmania	2011 methodology using 2005–09 data Base rate calculated from 2018 benchmark	FoE	Base rate adjusted using a multiplier Multiplier range: 0.86 to 1.24	VPG nominal hours	Hours x base rate
Northern Territory	na	Industry	20 groupings with 3 different rates	VPG nominal hours	Hours x base rate
ACT	ACT RTOs and IPART data	FoE	na	VPG nominal hours	Hours x base rate

FoE = field of education. VPG = Victorian Purchasing Guide. **na** not available.

Source: appendix C.

More substantively, the sector has changed in many ways since 2012 (for example, in teaching methods and funding arrangements), which suggest the cost profiles of TAFEs, and the sector as a whole, are different today. Compounding this is that the TAFE sector likely has higher cost structures than private RTOs (discussed below), meaning that cost estimates based on TAFE data might overstate the actual cost of delivery for many private providers.

Since the release of the interim report, the National Skills Commission was established (in July 2020) and tasked to develop a methodology to estimate the efficient cost of delivery in each jurisdiction (by October 2020) and to produce estimates for common VET qualifications by 1 July 2021 and all VET qualifications by 1 July 2022. While this is a

⁷⁴ The education price index includes subsidised prices which can make it difficult to determine whether price changes are caused by changing subsidies or changes in underlying costs. For instance, if a subsidy is reduced, prices will likely increase, meaning that the price index will rise regardless of costs.

challenging task, it is a welcome development that will lead to a better cost base to inform subsidies (chapter 9).

FINDING 8.1 — DATA UNDERPINNING SUBSIDY RATES

The 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.

Step 2 — Classifying hourly base rates

To recognise the different costs of delivering different VET courses, jurisdictions modify or ‘sort’ base rates according to fields of education or industry.

- A field of education is a classification that maps education into different categories under the Australian Standard Classification of Education (ASCED). The ASCED classifies fields of education at different levels of aggregation: broad (12 fields of education); narrow (56); and detailed (356). For example, under the broad field of Health are narrow fields including ‘General Nursing’, ‘Midwifery’ and ‘Mental Health Nursing’.
- Industry classifications are based on the 2006 Australian and New Zealand Standard Industrial Classification (ANZSIC). The ANZSIC groups industries across 19 divisions and 96 subdivisions.

Jurisdictions use the ASCED and ANZSIC to sort hourly base rates in very different ways. Tasmania calculates a single base rate for VET delivery and adjusts it by factors ranging between 0.86 and 1.24, depending on the relevant field of education at the broad level (12 categories in total). South Australia sorts each of the 356 detailed fields of education into 44 hourly base rates, resulting in some common rates across different fields of education. Queensland and the Northern Territory use ANZSIC classifications to group industries into high, medium and low-cost categories and assigns rates to these categories.

There is little transparency on rationales underpinning jurisdictions’ approaches to sorting and grouping hourly base rates.

Step 3 — Assigning units of competency to a base rate and hours of delivery

VET courses are composed of units of competency. Across the VET sector there are more than 17 000 units (DET nd, p. 1). Each unit of competency is mapped to a field of education or industry (depending on the approach used in step 2). The mapping of each unit of competency to a field of education/industry produces a corresponding hourly base rate.

For each unit of competency, the hourly base rate is multiplied by the estimated hours required to deliver the unit to give the total estimated cost for the unit (base rate x hours). New South Wales also incorporates a fixed cost component for its calculation.

There is no national standard for hours of delivery for each unit of competency. However, the approach is similar in most cases. Every jurisdiction except for Western Australia assumes that the number of hours required to complete a unit of competency is the nominal hours listed in the relevant Victorian Purchasing Guide (VPG).⁷⁵ Western Australia uses its own nominal hours. Although Queensland uses the VPG, it caps hours for cost-setting purposes at a maximum of 1100 hours.

The different assumptions on hours to deliver units of competency can lead to very different estimates of course costs.

- Based on a comparison of more than 200 courses subsidised in both Victoria and Western Australia, course hours in Victoria are, on average, about 30 per cent higher than in Western Australia. The Diploma of Agriculture has 1500 course hours under the VPG compared with 495 hours in Western Australia, meaning assumed costs would be about three times higher if the base rates of delivery were the same. (An analysis of base rates for New South Wales and Western Australia is below.)
- Hours data are available for 252 subsidised courses in Queensland. Nearly 20 per cent of these courses require more than 1100 hours of training (according to the VPG), with some requiring as many as 2000 hours. Thus, even if the base rate of delivery for these courses in Queensland was similar to those jurisdictions which use the VPG, the total estimated cost would be lower in Queensland than in those jurisdictions.

The methods outlined in steps 2 and 3 recognise that training costs vary by hours of delivery and field of education/industry, but do not differentiate between cost drivers such as RTO size or training delivery modes. The impact on service providers from using only a single cost of training is unclear.

South Australia's cost estimates are highly disaggregated. Its 44 hourly base rates range from about \$7 to \$20 and, when assigned to the 356 fields of education, can differ by as little as five cents per hour. By comparison, Queensland's approach is coarser and only uses three very different rates (\$5.23, \$7.03 and \$9.86).

There is a trade-off between greater precision in cost estimation (which is likely to have diminishing benefits) and higher levels of administrative complexity. The effectiveness of having small differences in costs, subsidies and student fees is discussed in chapter 9.

Step 4 — Total cost of a course

The costs for each unit of competency required to complete a course are summed to provide an estimated total cost of the course. The number of units of competency can vary significantly, depending on the course. Generally, higher-level courses have more units of

⁷⁵ The VPG provides information to RTOs on the provision of training packages, including stating the nominal hours for each unit of competency and the maximum and minimum hours for each training qualification. These settings are determined by Curriculum Maintenance Managers in Victoria, however the process they use is unclear (ESC 2011).

competency than lower level courses, meaning that higher-level courses usually take longer and are, therefore, more expensive to deliver (box 8.2).

Public providers are often treated differently to private RTOs

Publicly available information on how costs are estimated for RTOs is not always consistent with how TAFEs receive funding. Confidential information provided to the Commission shows that, for example, at least one jurisdiction uses a different cost base for TAFEs and that these can be more than double the estimated cost base for private RTOs. Using a higher cost base produces higher subsidies. In addition, TAFEs sometimes receive funding for delivery in regional areas in block amounts, rather than the stated rates for loadings (these are discussed below). The transparency of TAFE funding is discussed in chapter 9.

Box 8.2 Effect of assumptions on hours and base rates on total cost

Only New South Wales and Western Australia publish estimates of course costs. On average, for courses subsidised by both jurisdictions (for non-apprenticeship courses), estimated total course costs in Western Australia are lower than in New South Wales, across all qualification levels (table below). As noted, total costs are a function of both the hourly base rate and the number of hours of delivery. While hourly base rates in Western Australia are higher than in New South Wales, Western Australia courses have fewer hours of delivery than New South Wales.

Estimated course costs and components (average)

Non-apprenticeship courses subsidised in New South Wales and Western Australia,^a
September 2020

Qualification	New South Wales			Western Australia		
	Base rate (\$/hr)	Hours (no.)	Cost (\$)	Base rate (\$/hr)	Hours (no.)	Cost (\$)
Certificate I/II	10.23	444	4 365	10.51	369	3 901
Certificate III	10.49	762	7 553	10.65	550	5 871
Certificate IV	9.35	968	8 698	10.34	771	8 063
Diploma/Adv. Diploma	9.05	1 331	11 551	10.20	1 011	10 435
All qualifications	9.77	909	8 342	10.43	697	7 297

^a New South Wales (NSW) does not provide hours data. NSW hours were estimated using hours from the same courses in Victoria, where available. NSW and Western Australian datasets were merged, resulting in 155 matching courses. Hourly base rates in NSW were estimated as the total qualification cost divided by hours, therefore the base rate may reflect both fixed and variable costs. In Western Australia, base rates are reported directly.

Sources: Commission analysis based on data from Training Services NSW (2020b) and DTWD (WA) (2020b).

Setting course subsidies

Having described how governments build up their cost estimates, this section describes how subsidies are set.

There are three steps in setting subsidies (figure 8.1). Governments:

- set base subsidies as a proportion of estimated course costs
- add loadings (additional payments to RTOs) to reflect the higher cost of delivery for some students (loadings are either calculated as a proportion of costs, or as a fixed amount)
- decide eligibility for a concession, and rates of concessions, on some course fees.

Base subsidies

There is no general approach to calculating base subsidy rates — methods vary significantly within and across jurisdictions (appendix C). However, governments tend to subsidise certain courses more highly than others, reflecting governments' labour market and social policy priorities (section 8.2).

Based on available information, jurisdictions usually subsidise at least 50 per cent of estimated course costs and subsidise some courses completely. Higher qualifications (Diploma and above) receive lower subsidies compared with foundation skill courses, which are often fully subsidised (subsidy rates are in appendix C). Base subsidies are typically higher for apprenticeships (chapter 11).

Methods to set subsidies do not always align with governments' stated policy. For example, governments generally claim that lower subsidy rates are applied for higher-level qualifications. New South Wales applies this approach, however, the way that they implement it — by setting a single student fee for all courses within an AQF band and industry group — means that courses in higher AQF bands that have high costs can receive a higher subsidy rate than courses on a lower AQF band and vice-versa (box 8.3).

Loadings

In addition to a base subsidy, RTOs may receive loadings to reflect the higher cost of delivering VET to certain students. In most instances, loadings are applied as a proportion of the estimated cost of delivery. One exception is the ACT, which applies a fixed amount for some students (discussed below).

Various types of loadings exist.

- *Location loadings* are paid to RTOs delivering VET outside metropolitan areas. They can vary from as low as 10 per cent in regional Victoria to as high as 115 per cent in Kimberley, Western Australia or 175 per cent in Cape York, Queensland (appendix C). Within each jurisdiction, location loadings are positively correlated with remoteness,

reflecting the higher costs of delivering training in those areas (WA Government, sub. 20 p. 4). However, large differences exist across jurisdictions. Tasmania has no location loading and New South Wales has a flat 10 or 20 per cent loading — between five and seven times lower than in Queensland and Western Australia — despite large parts of the State being classified as remote or very remote (ABS 2018).

- *Equity loadings* are provided in New South Wales, Victoria, and the ACT for various groups, including Aboriginal and Torres Strait Islander people, people with a disability and those who are long-term unemployed. Some of these loadings vary significantly (for Aboriginal and Torres Strait Islander people the loading is 15 and 50 per cent in New South Wales and Victoria, respectively).

The ACT also has a 10 per cent loading for VET in thin markets and for public providers (appendix C).

As loadings are calculated as a percentage of the estimated course cost, the value of the loading is higher for courses that are more costly to deliver. The advantage of this approach is its simplicity and not requiring frequent updates. But it can also lead to large differences in estimates of training costs.

There is no clear rationale for the differences in some loadings (for example, Aboriginal and Torres Strait Islander students in New South Wales and Victoria) and the basis on which rates are determined is not transparent.

Concessions

In addition to subsidy payments to RTOs, eligible students receive fee concessions for some courses. Like subsidies, concessions help to address skills needs (by providing greater incentives for students to undertake training) and improve participation in training by certain groups of people. Governments' rationales appear to focus more on the latter. Eligibility criteria for concessions typically require that a student be either an Aboriginal and Torres Strait Islander person, a person with a disability, or long-term unemployed.

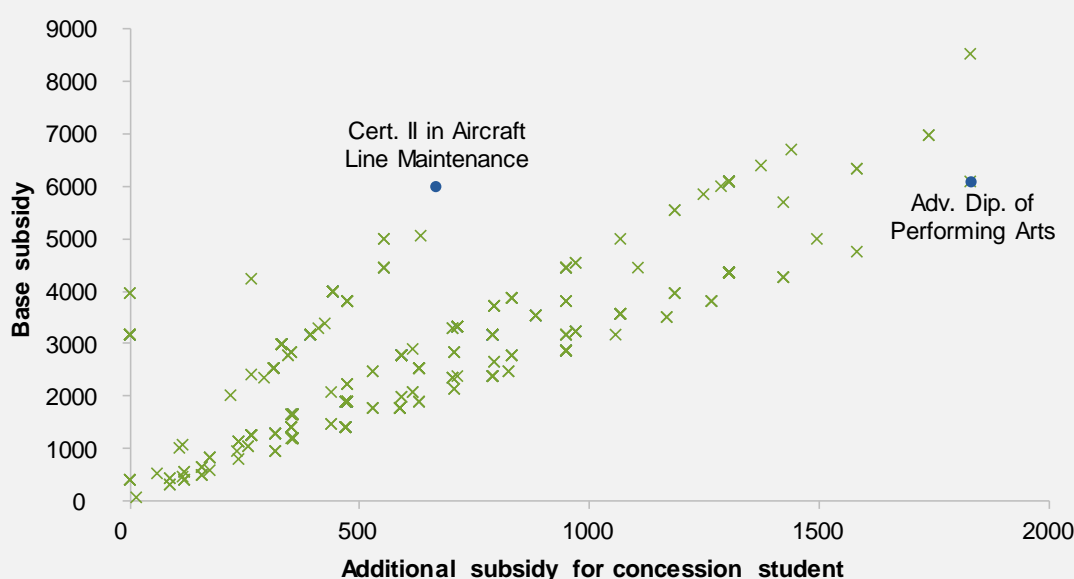
There are few similarities in how jurisdictions determine concessions (appendix C). For example, New South Wales has a fixed concession fee of \$160 for Certificate II and \$240 for Certificate III and IV. Western Australia and South Australia have fixed per hour concessions, meaning that the nominal discount varies with course hours. Victoria offers a fixed percentage discount on the total course fee. Some jurisdictions provide different concessions for apprenticeships. Aboriginal and Torres Strait Islander apprentices in Queensland are exempt from paying student fees.

Concessions can further change fees for eligible students, which raises questions about the intended effect of government support. For example, in Queensland, while there is a positive correlation between base subsidies paid to RTOs and concession subsidies for students facing disadvantage, different concession rates can change the policy intention of priorities set out with base subsidies (box 8.4).

Box 8.4 Student concessions influence the overall subsidy

Base subsidies for non-apprenticeship courses in Queensland are categorised into three priority groups. However, additional subsidies for concession students can shift this ordering. For example, the base subsidy for an Advanced Diploma of Performing Arts is \$6100, and eligible students receive an additional \$1830 concession subsidy. A Certificate II in Aircraft Line Maintenance receives a similar base subsidy of \$5985, however, eligible students will receive a smaller additional concession subsidy of \$665. The difference in base subsidies is only \$115, but the difference in concession subsidies is \$1165.

In Queensland student concessions do not match base subsidies (\$)



Source: Commission analysis based on data from DESBT (Qld) (nd).

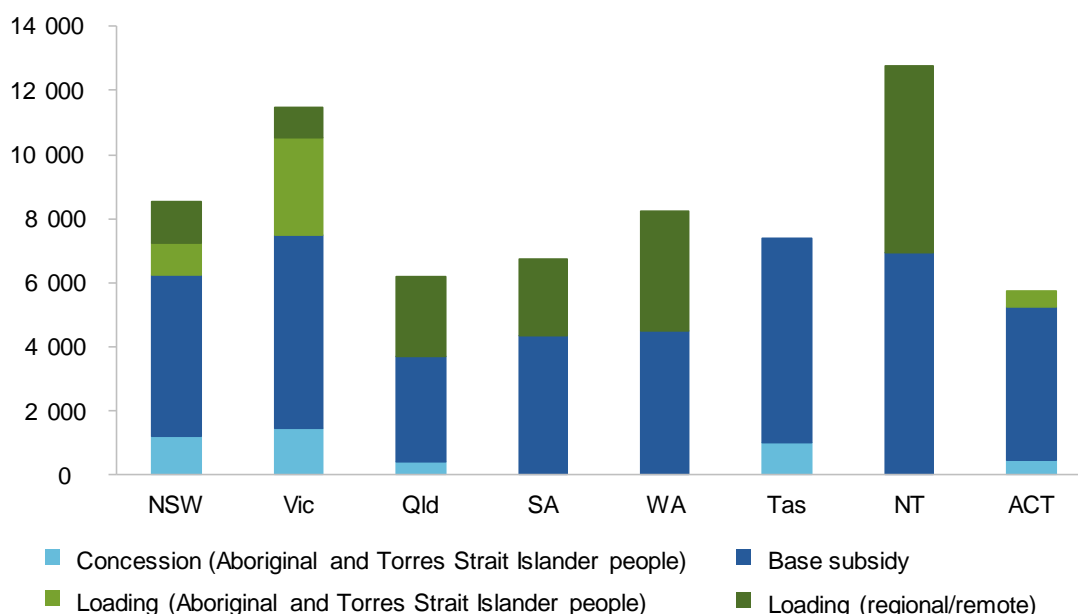
The effect of cost and subsidy settings

There is a bewildering number of possible subsidy settings, reflecting the large number of courses offered in VET, different course types, and various types of loadings and concessions. A further complication is that each jurisdiction has its own settings.

The Commission used a specific course (Certificate III in Individual Support) to highlight the combined effect of subsidies, loadings and concessions, and how they can vary across jurisdictions (figure 8.3). Under this hypothetical example, loadings have a large effect on the final subsidy paid. For example, the total subsidy for the course varies from about \$5750 in the ACT to about \$12 750 in the Northern Territory. Differences in total subsidies are due to large differences in loadings — the remote loading in the Northern Territory exceeds the total subsidy in the ACT. That said, there is significant variation in the base subsidy, ranging from about \$3300 in Queensland to \$7000 in the Northern Territory.

Figure 8.3 The same course receives different subsidies across jurisdictions^{a,b}

Certificate III in Individual Support: subsidy and concessions for non-apprentices (\$), September 2020.



^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 This comparison is for an Aboriginal or Torres Strait Islander student living in a regional or remote location.

Source: Commission estimates based on information from appendix C and available State and Territory subsidised training lists.

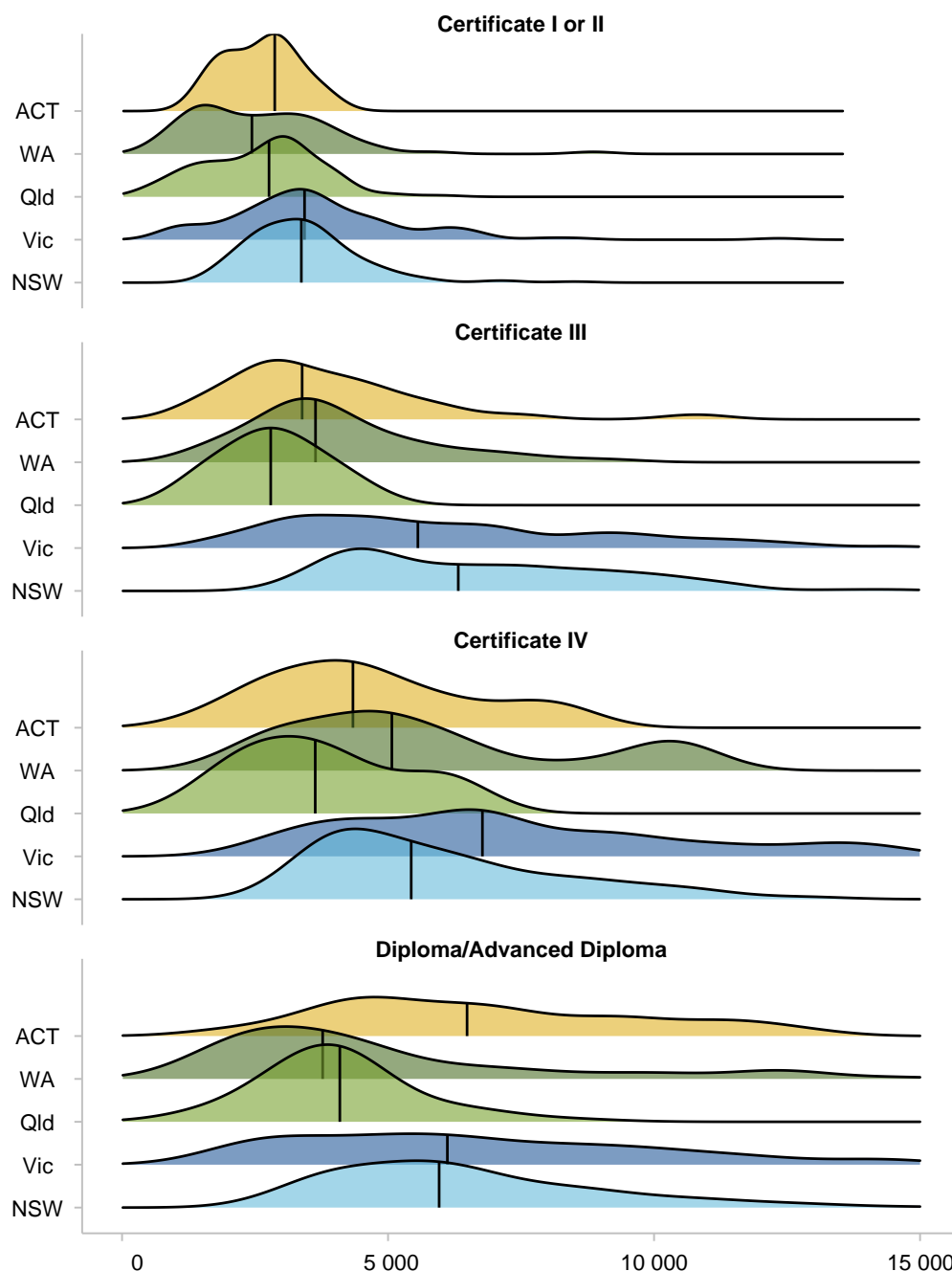
The different contributors to total subsidies mean that, where they are similar (as in the case of Queensland, South Australia and Tasmania), it is due to a combination of differing cost parameters, subsidy rates and loadings (which often vary according to policy priorities), and not necessarily because of consistent policy settings.

The Commission also examined the base subsidy for non-apprenticeship qualifications across jurisdictions to obtain a sense of underlying subsidy distributions.⁷⁶ Subsidy levels are generally highest for higher-level qualifications. For example, in Victoria the average subsidy for non-apprenticeships at the Certificate I level is about \$4590 and about \$7710 for Advanced Diplomas. This largely reflects that higher-level qualifications are more costly to deliver (for example, there are more course hours to complete) and does not necessarily reflect a higher subsidy rate. Subsidies can vary significantly for courses at the same AQF level and across jurisdictions. In general, Queensland tends to have lower subsidies than other jurisdictions and the range of subsidy levels (for a given AQF level) is more limited than elsewhere (New South Wales and particularly Victoria) (figure 8.4).

⁷⁶ Data were not available or not easily accessible for South Australia, Tasmania and the Northern Territory.

Figure 8.4 Subsidies are dispersed and larger for higher qualifications

Distribution of subsidies by qualification type, non-concession student (\$),^a
September 2020



^a Subsidies are the base amount (they exclude any loadings for RTOs or concessions to students), and for non-apprenticeship courses. Vertical lines represent the median subsidy.

Sources: Commission analysis based on course lists from Training Services NSW (2020b); DET (Vic) (2020c); DESBT (Qld) (nd); DTWD (WA) (2020b); ACT Government (2020b).

8.4 How jurisdictions manage VET course subsidies

Jurisdictions impose controls over subsidised services via conditions in contracts with RTOs, including rules on allowable course costs and fees, regulation of the quality of services and course completion milestones. These controls are additional to those imposed by the national regulatory framework. The additional controls on RTOs apply only in the government-funded segment of the VET market. RTOs can provide training in the fee-for-service market without the additional controls imposed through contracts associated with government subsidies.

Price and fee regulation

While all jurisdictions use contracts to manage risks, New South Wales and Western Australia more strictly regulate course prices and student fees through contracts with RTOs. Other jurisdictions allow RTOs more freedom in setting student fees, although Queensland is a partial exception as it regulates student fees for apprenticeships.⁷⁷

The Commission lacks essential information to assess the relative merits of different approaches to regulating prices and fees, including information on: prices and student fees in less regulated jurisdictions;⁷⁸ recent cost data for providers (data are limited to dated TAFE and user choice data); quality indicators that can support comparisons of service quality across jurisdictions; and the VET fee-for-service market before 2015.

Notwithstanding these information gaps, the Commission has outlined the two approaches to price and fee regulation.

Jurisdictions that regulate prices and fees more stringently

New South Wales and Western Australia set the prices RTOs must adopt and specify the fees they can charge in schedules to their contracts.⁷⁹ Both States require that course prices be equal to the estimated costs of courses, as calculated via the steps described in section 8.3 and detailed in appendix C.

New South Wales set its subsidies, prices, and student fees in 2015 (based on a 2013 IPART report). It has updated these amounts only once (in 2016, to reflect general price inflation). The 2016 increase applied only to course prices (not student fees), which means subsidy levels were increased. Western Australia last examined the costs of delivering training for

⁷⁷ Queensland regulates student fees for apprenticeships to \$1.60 per hour for each nominal hour of training. The rationale for this is unclear.

⁷⁸ The My Skills website provides information on student fees. But the Commission's analysis of this site revealed that less than half of RTOs provide price information, and some of the price information is not presented consistently. For example, whether the fee is a subsidy-inclusive price.

⁷⁹ New South Wales applies the same student fees as non-apprenticeship training, however, it applies a maximum student fee of \$2000 for apprenticeship courses.

private RTOs in 2017. It is undertaking a review of TAFE and private providers costs for its current funding model review.

The rationale for New South Wales' and Western Australia's approach to regulating prices is to prevent RTOs delivering poor quality training. New South Wales has also stated that price controls are intended to ensure the viability of TAFEs and assist budget management.

Jurisdictions with minimal price and fee regulation

The other State and Territory governments impose less stringent regulations on student fees and prices.

- Victoria, Queensland, South Australia, Tasmania and the Northern Territory require only that RTOs charge a student fee greater than zero (except for apprenticeships in Queensland — see footnote 77).
- The ACT requires that RTOs charge a minimum course fee, ranging from \$100 to \$380.

These minimum fee requirements are intended to ensure that students contribute financially to the cost of their training, and may help minimise the risk of fraudulent conduct (for example, paying inducements) as occurred with the VET FEE-HELP scheme.

With regards to pricing, while RTOs must publish prices for training on their websites, they often do not provide pricing information in an accessible way (chapter 6).

Subsidy payment arrangements

Governments' arrangements for paying subsidies to RTOs aim to maximise the number of course completions. To this end, payments to RTOs occur in one of three ways across jurisdictions:

- at different milestones throughout the course (for example, enrolment or completion) in New South Wales, Queensland, Western Australia and the ACT
- on completion of each unit of competency in South Australia
- periodically, based on hours of training completed rather than on milestones in Victoria.

Payment structures of this nature have their flaws, including risking:

- large gaps between milestone payments, which could cause cash flow problems for RTOs
- RTOs being disadvantaged by milestone payments (at completion) if students drop out after most of the training is provided
- completion milestone payments encouraging RTOs to simply pass students and receive the subsidy rather than fairly grading them. Quality monitoring will mitigate this risk but may not completely remove it.

The latter tensions may apply more generally to training quality. RTOs are sometimes paid up to 100 per cent of the cost of the course to provide training and students often pay a small or no student fee, thus having limited ‘skin in the game’. In these circumstances, there may be weak incentives for both parties to act in the public interest — the student obtains a course at a low cost and the RTO receives a subsidy for limited effort. Policy measures that could deal with these issues are discussed in chapter 9.

8.5 Summing-up

Jurisdictions share common goals and an overarching approach to funding VET courses. However, the rationale for choosing which courses are subsidised is not always clear, nor is the way subsidies are targeted. In some cases, priority is given to courses with high private returns and, in other cases, to courses deemed to offer high public benefits.

Evidence on the administrative arrangements of subsidies suggest they are not strongly supporting their policy targets, and possibly undermining them. Issues include the outdated information used to calculate base rates for costs, different classes of subsidies can work at cross purposes, and the wide disparities on methodological matters. Furthermore, these different approaches to funding and pricing subsidies can create unnecessary costs and complexity for RTOs and other parties, as noted in the Joyce Review.

While the National Skills Commission’s work on estimating course costs for jurisdictions will address some of these concerns, the efficacy of the complex, disparate and opaque mix of course subsidies and fees is doubtful. This is exacerbated by a lack of transparency surrounding subsidy rates, course costs and course prices (chapter 6), which make it difficult for RTOs, employers and students to make informed decisions. That same lack of transparency (along with the complexity of subsidy settings) makes it difficult for governments to objectively assess the performance of policy and programs. This has knock-on effects to students, training providers and governments’ own abilities to make informed decisions on investment in training.

FINDING 8.2 — JURISDICTIONS’ APPROACHES TO SUBSIDISING COURSES

State and Territory governments share the same goal for subsidies to increase participation in training, particularly for students facing disadvantage and in skill areas in short supply or with other public benefits. All take the same general steps when setting subsidies. However, as governments have different policy priorities, the courses receiving subsidies and the subsidy rates for courses vary widely across Australia.

In most jurisdictions, there is little transparency about subsidy setting. Subsidies are not set using a consistent methodology.

9 VET funding: policy issues

Key points

- Determining which aspects of vocational education and training (VET) funding and pricing should be ‘nationally consistent’ requires weighing the benefits of uniformity against the advantages of flexibility to address differences in State and Territory priorities, geography and demographics.
- The National Skills Commission (NSC) is estimating the efficient costs of delivering training. These estimates are likely to be more accurate than existing jurisdictional estimates, which usually rely on old data.
 - State and Territory governments should adopt the NSC’s efficient costs and loadings as a common basis for setting their subsidy rates. This would still leave jurisdictions the flexibility to determine their subsidy rates according to their own priorities for courses and student cohorts.
- Subsidies are a blunt instrument for steering students into priority courses. High subsidies can make courses cheaper and attractive to students, but at a considerable cost. Varying subsidy rates by small increments is unlikely to change student demand.
 - The NSC should work with the Australian, State and Territory governments to produce a method for simplifying the large number of subsidy rates for courses.
- To ensure students have a stake in their training, governments should introduce modest minimum student fees for subsidised training in Certificate III and above courses, including courses delivered as traineeships or apprenticeships. Minimum student fees should not apply to students eligible for concessional fees.
- To promote competition and innovation, New South Wales and Western Australia should follow other jurisdictions and cease fixing prices and student fees.
- Community service obligations related to VET should be well defined, transparently funded, and subject to market testing. They should not be used as a pretext to support public providers.

The terms of reference (ToR) direct the Commission to consider ‘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’. Funding and pricing arrangements refer to the mechanics of estimating course costs, setting subsidies, and regulating prices and student fees (chapter 8).

In considering reform options for vocational education and training (VET) funding and pricing arrangements, the Commission recognises that the Australian, State and Territory governments have recently agreed to some reform directions for these arrangements through the *Heads of Agreement for Skills Reform* (HoASR) and the *Draft VET Reform Roadmap* (chapter 1).

This chapter focuses on VET course funding and student fees in the government-funded segment of the VET market. Government funding for apprenticeships is discussed in chapter 11. This chapter covers:

- how the concept of ‘national consistency’ should be applied to VET funding and pricing (section 9.1)
- the adoption of the National Skills Commission’s (NSC’s) estimates of efficient costs (section 9.2)
- jurisdictions’ VET subsidy policies (section 9.3)
- jurisdictions’ regulation of VET pricing and student fees (section 9.4)
- applying contestable funding and competitive neutrality to TAFEs (section 9.5).

9.1 How should ‘national consistency’ be applied to VET funding and pricing?

During this review governments have foreshadowed several changes to governance arrangements aimed at national consistency. The HoASR lists, among the governments’ priorities, the adoption of a new funding model that ‘improves national consistency for students’ and is ‘linked to efficient pricing’ (DPM&C 2020b). And the earlier *Draft VET Reform Roadmap* promised ‘national consistency in key areas while maintaining flexibility to meet local needs’ (SSON 2020b).

These documents show governments’ desire to achieve some degree of national consistency in VET funding and pricing but stop short of suggesting that there needs to be uniformity or even that all aspects of the arrangements should be nationally consistent. They also mention other factors — such as efficiency, transparency and flexibility — that are relevant for devising future funding and pricing arrangements. But they do not provide much detail about what elements of VET should be nationally consistent and what that should look like in practice.

The idea that national consistency is not an end in itself and that other considerations are relevant is common to all areas of shared responsibility in our federation. To inform governance decisions, principles can provide useful and important guidance for governments, as seen in the past. The principles communicated by Premiers and Chief Ministers in 1991 (box 9.1) still provide a sound framework for cooperation by governments.

These principles highlight the tensions between the centralising ‘nationhood principle’ and the ‘subsidiarity principle’, which favours devolution to lower levels of government to the maximum extent possible. There can also be tensions with the accountability principle since the Commonwealth collects most tax revenue but most government expenditure occurs at the State and Territory level — ‘vertical fiscal imbalance’.

Box 9.1 **Federation principles — Premiers and Chief Ministers’ conference Adelaide 1991**

In 1991, the Premiers and Chief Ministers communicated guiding principles for cooperation by governments. These principles were used by the Australian Government along with two additional principles, namely durability and fiscal sustainability, in the Reform of the Federation White Paper (DPM&C 2014a, p. 18).

- **Australian nation principle:** all governments in Australia recognise the social, political and economic imperatives of nationhood and will work cooperatively to ensure that national issues are resolved in the interests of Australia as a whole.
- **Subsidiarity principle:** responsibilities for regulation and for allocation of public goods and services should be devolved to the maximum extent possible consistent with the national interest, so that government is accessible and accountable to those affected by its decisions.
- **Structural efficiency principle:** increased competitiveness and flexibility of the Australian economy require structural reform in the public sector to complement private sector reform: inefficient Commonwealth-State division of functions can no longer be tolerated.
- **Accountability principle:** the structure of intergovernmental arrangements should promote democratic accountability and the transparency of government to the electorate.

The *Intergovernmental Agreement on Federal Financial Relations* — under which the *National Agreement for Skills and Workforce Development* (NASWD) was established — sought to improve services in part by giving the States and Territories more freedom in how they use Commonwealth grants (chapters 1 and 4). The question governments have been asking is: what future arrangements are appropriate?

To address that question as it relates to VET funding and pricing, the Commission’s assessment has taken into account the federation principles to ask two subsidiary questions.

1. *The relevant points in the funding and pricing process* — is national consistency sought in processes (for example, in calculating costs and/or setting subsidies and loadings) or in outcomes (for example, consistent fees and prices)?
2. *The relevant party or parties* — is consistency sought or necessary from the perspective of governments, students, training providers or employers? Consistency for governments might mean that all governments pay a consistent level of subsidy to providers, whereas consistency for students might mean common course fees.

What should be consistent?

Drawing on the above principles, this section gives a high-level assessment of how national consistency should apply to the key steps for funding and pricing VET courses (as set out in chapter 8), including calculating efficient course costs, setting subsidies, and price and student fee regulation.

Calculating course costs

Jurisdictions differ widely in demographics and geography, which means that the efficient costs of delivering training will also differ. Requiring jurisdictions to use the same point estimates of efficient costs of training would therefore detract from actual ‘efficiency’.

Accordingly, it is preferable to use efficient cost estimates that take account of cost differences between jurisdictions than to use one set of nationally-uniform efficient cost estimates.

However, having a single national body — the NSC — estimating these efficient costs and locational loadings (as described in section 9.2) has advantages. A single body using a common methodology will ensure that any differences in estimates reflect differences in jurisdictions’ cost bases rather than methodological quirks or non-transparent assumptions in jurisdictions’ approaches. It will also have the advantage of giving the responsibility to a body that will be able to develop the expertise to achieve best practice.

Setting subsidies

The tensions between the principles of nationhood, subsidiarity, accountability and efficiency are stronger when determining course subsidies.

There are arguments for largely uniform subsidy rates for similar courses across the country. These include that labour markets are largely national, registered training organisations’ (RTOs’) costs would be reduced, granular differences in subsidies have little influence on students’ decisions to choose different courses, and uniform subsidies for students across the country would be equitable.

However, there is a strong subsidiarity argument as well. All State and Territory governments wish to retain control over funding and pricing to reflect differences in their priorities (box 9.2). Having this flexibility would allow State and Territory governments to tailor subsidy settings for the purposes of:

- seeking to meet the needs of their local labour markets. For example, some governments might want to provide higher subsidies for training for industries that are more important in their jurisdiction (mining in Western Australia, for instance)
- varying their assistance to students facing disadvantage.

Box 9.2 **State and Territory government views on national consistency**

The New South Wales Government (sub. IR122, p. 3):

... NSW has concerns with proposals that would limit its ability to set prices (or subsidies) to reflect local conditions and NSW policy objectives ...

The Victorian Government (sub. IR150, p. 3):

... new national funding and governance arrangements must ... recognise the role of State and Territory governments in managing their VET systems by maintaining state flexibility in funding settings and allowing jurisdictions to respond to local skills needs and support the delivery of government priorities ...

The Queensland Government (sub. IR141, p. 5):

Regarding subsidy setting and efficient pricing, the Queensland Government supports a statebased system which has regard to the costs of delivery and regional needs across a large geographical area. Attempts to nationally harmonise market and subsidy settings, without an appreciation of regional context and the role of states as the majority funders, creates financial risk and risks disconnecting training from the jobs available locally.

The Western Australian Government (sub. IR152, p. 3):

Currently, WA uses price signals to influence supply in areas of economic or strategic importance. Any future funding and pricing scheme would need to provide sufficient flexibility for the State Government to respond to local demand, industry needs and its strategic priorities.

The South Australian Government (sub. IR139, p. 7):

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

The Tasmanian Government (sub. IR80, p. 8):

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

The ACT Government (sub. IR133, p. 8):

A national efficient price is essentially based on average cost, and will not fund to the ACT's actual expenditure level. While the ACT could not support a nationally consistent set of course subsidies, there could be merit in simplifying subsidy groupings. States and territories need the flexibility to set subsidy rates that provide strong signals about priorities and skills needs specific to the local context.

Requiring the same subsidy for courses or qualifications, across jurisdictions, would deny jurisdictions this flexibility. Instead, the Commission sees merit in governments adopting a common 'best practice' approach to estimate efficient costs and loadings as a basis for setting their own subsidy rates. The Commission's proposal — discussed in section 9.3 — would simplify subsidies while retaining jurisdictional flexibility and enhancing transparency.

Determining prices and student fees

There are good reasons why prices of qualifications might differ across jurisdictions or between providers in a jurisdiction. RTOs could have different cost structures because they provide higher or lower levels of quality training, or because they are in remote or regional locations rather than in major cities.

Similar arguments apply to student fees. Students will have different preferences for training, including quality and mode of delivery (chapter 3). Some students will want to undertake higher quality training and be willing to pay more for it.

Requiring the same prices for qualifications or the same fees for courses, either within or across jurisdictions, while giving the appearance of consistency from the students' viewpoint, would undermine these workings of the market and thereby detract from 'efficiency', 'efficient pricing' and other goals.

Again therefore, the Commission sees merit in consistent approaches to price and fee regulation, without specifying uniform prices or fees (section 9.4).

9.2 A common method for measuring efficient costs

Chapter 8 highlighted problems with the way jurisdictions estimate costs, including that they use different approaches and dated data.

The Australian, State and Territory governments have now agreed in the HoASR that the NSC should estimate the efficient cost of training. State and Territory governments will share data with the NSC so that it can develop an approach to estimate costs. The NSC will release a set of efficient costs for common VET qualifications by 1 July 2021 and for all VET qualifications by 1 July 2022 (DPM&C 2020b). The Commission understands that separate estimates will be provided for courses in each State and Territory to reflect locational cost differences.

The benefits of State and Territory governments adopting the NSC's estimates of efficient cost will include greater transparency about costs and best-practice methodology.

This approach will require regular updating of cost bases across the market as a whole — a significant departure from current practice. The new approach should consider issues with estimating efficient costs (box 9.3) and aim to improve the methodology, desirably building in capacity to review practice and adopt methodological advances.

Box 9.3 **Issues with estimating efficient course costs**

Producing accurate estimates of efficient course costs is challenging. There are several measurement problems in the current system.

- The lack of good performance indicators means that quality and differentiation in services is much harder to measure than for other (physical) goods, and monitoring is difficult. Standard indicators such as graduate outcomes and completion rates are not necessarily good measures of performance in VET (chapter 7).
- State and Territory government policies such as caps on student numbers or minimum training hours confound a cost model. This is because the registered training organisations (RTOs) will not have the ability to control all the inputs and outputs being measured.
- The existence of subsidies makes it difficult to know whether current costs are reflective of what would be expected in a well-functioning market. This is because RTOs may tailor their services to the level of subsidy available (ATA, sub. 17, p. 2).

To ensure that the estimated costs reflect the full range of RTOs, governments will have to collect data from private RTOs. One approach would be to survey RTOs. This would be costly if done on a national scale, but less so were a random sample taken.

The National Skills Commission will need to collect cost data periodically to ensure that estimated costs reflect a reasonably current state of the VET market. Any collection of RTO cost data could usefully include a survey of the fee-for-service market. This would allow cost estimates to account for differences in government settings.

RECOMMENDATION 9.1 — ESTABLISHING A COMMON METHOD FOR COSTING COURSES

State and Territory governments should adopt the efficient costs and loadings currently being estimated by the National Skills Commission for setting their subsidies.

9.3 **The design of course subsidies**

While there are several in-principle rationales for government investment in training (chapter 3), a key practical question is whether policies are inducing additional training in priority courses. This section looks at the question in relation to the nearly \$2.8 billion of course subsidies managed by State and Territory governments (NCVER 2020f).

Governments may have difficulty targeting priorities

In chapter 3, the Commission highlighted the difficulties that governments face forecasting skills needs. They also have difficulty influencing students into areas of skills shortage.

Large changes in subsidies affect demand

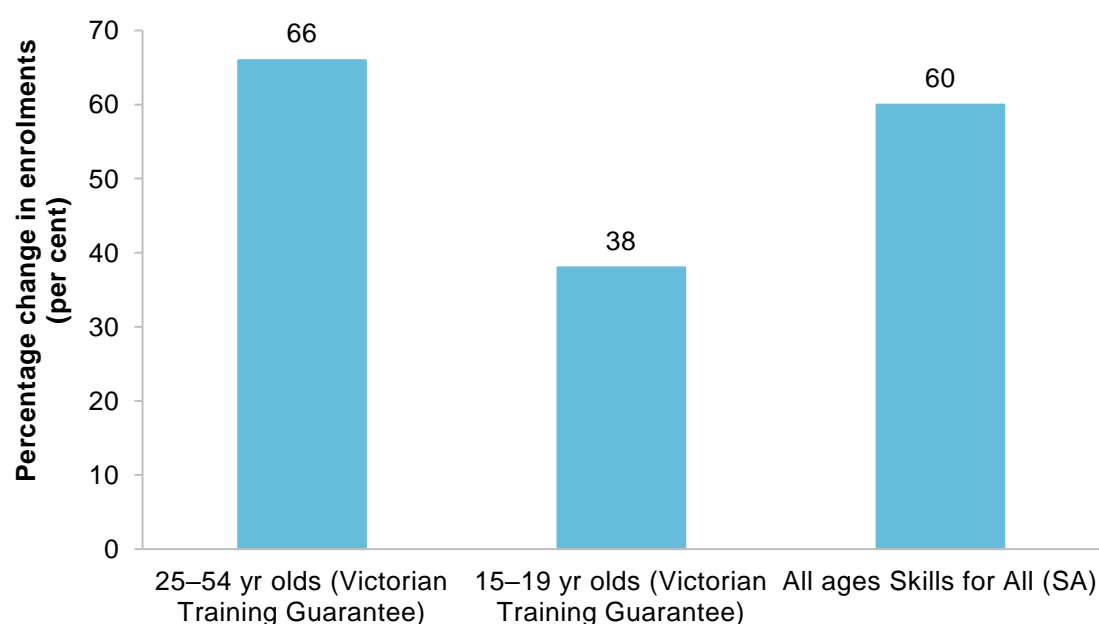
While qualitative evidence indicates that students' decision making is swayed by many factors other than price (like training location, advice from trusted parties, timetables, and the quality of providers), price is still important (Brown 2017; Guthrie et al. 2014, p. 50). The demand response to subsidies depends on their size, the courses and qualifications involved, the types of students eligible for them and any constraints on their take-up.

Large subsidies and uncapped places increase enrolments ...

The entitlement schemes first associated with the NASWD (the original Victorian Training Guarantee and South Australia's Skills for All program) substantially increased access to training. Enrolments in these States surged after the introduction of demand-led VET systems, which had few restrictions on course selection or caps on the number of training places (figure 9.1).

Figure 9.1 Entitlement schemes boosted enrolments

The Victorian Training Guarantee and South Australia's Skills for All^a



^a The relevant period is from 2008 to 2011-12 for Victoria and from 2012 to 2013 for South Australia.

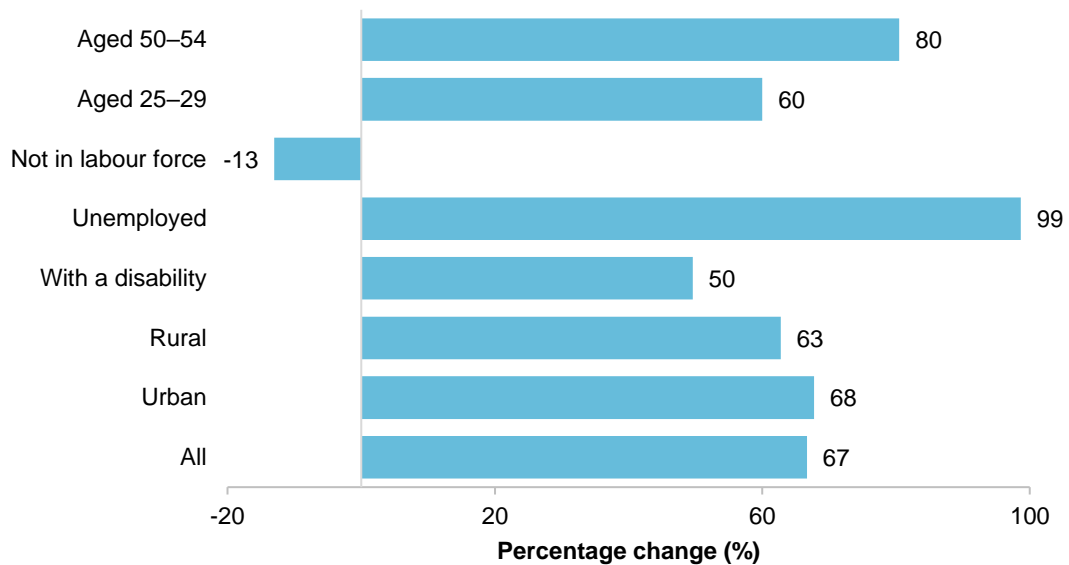
Sources: McVicar and Polidano (2015, p. 9); Polidano, van de Ven & Voitchovsky (2017b, p. 23); ACIL Allen Consulting (2015b, p. 1).

The growth in enrolments reflected the magnitude of the reductions in student fees. Previously, students outside the capped and subsidised VET system were only able to acquire the qualification at full cost in the fee-for-service market. For many students, full fee courses would have been unaffordable. To give an example, the fee for a Diploma of

Business Administration in the subsidised market was \$865 in 2009 while it was about \$8700 in the unsubsidised fee-for-service market.⁸⁰ The high degree of responsiveness may have also reflected the inability of students to access VET FEE-HELP loans in the full cost fee-for-service market for Certificate I–IV qualifications.

The responsiveness of enrolments varied by student type — an important issue when designing student concessions. Victorian students aged 25–29 years, the unemployed and older people were most responsive to the entitlement scheme, although people with a disability were also responsive and there was little material difference in the response between rural and urban areas (figure 9.2). In contrast, the uptake was low for Aboriginal and Torres Strait Islander people (not shown), but this may reflect that they already had highly subsidised and uncapped access to VET.

Figure 9.2 Impact of the Victorian Training Guarantee, 2008–2011
Percentage change in enrolment rates by student sub-groups (per cent)^a



^a The estimates are based on a comparison of changes in enrolment rates in Victoria with those for the rest of Australia (where no reform occurred), as this helps identify the causal effect of the entitlement. The Polidano et al. study presented the causal effect as the difference in the enrolment rates in percentage points. An alternative measure that may better measure the responsiveness of a sub-group to the entitlement, as shown here, is the percentage changes in the enrolment *rates* that are causally-related to the entitlement. For example, taking account of other factors that affect enrolments, the entitlement increased the enrolment rate for people aged 25–29 years from 8.5 per cent to 13.6 per cent — a difference of 5.1 points and a percentage increase of 60 per cent. In comparison, the entitlement increased the enrolment rate for people aged 50–54 years from 4.1 per cent to 7.4 per cent. The difference, at 3.3 points, is lower than those in the younger age group, but nevertheless represents an 80 per cent growth rate in the enrolment rate.

Source: Polidano et al. (2017a, p. 30).

⁸⁰ Based on data provided by the Department of Education, Skills and Employment for effective full-time students in receipt of an income contingent loan.

While entitlement schemes increased enrolments in government-funded courses, some of these new students would have otherwise trained in the fee-for-service market. The scale of this substitution is unknown.

Overall, the evidence on the early Victorian and South Australian entitlement schemes is that they had their intended effect of significantly expanding skill formation, although (as noted below) with large budgetary costs.

... and large reductions in subsidies reduce demand significantly

The Victorian and South Australian Governments wound back their entitlement schemes just several years after their introduction. While this partly reflected concerns about the value of some training and unscrupulous conduct by a few training providers, the main pressure arose from higher than expected budgetary costs. In Victoria, the budget over-run was \$400 million by 2012 (Polidano, van de Ven and Voitchovsky 2017b, p. 2). When the Victorian Government reduced the scheme's generosity, government-funded training fell, especially in courses with large decreases in subsidies (box 9.4).

... however small changes in subsidies are unlikely to affect demand ...

Changes in subsidy rates and student fees for *already* highly-supported courses appear to have little impact on demand. For example, the Independent Pricing and Regulatory Tribunal (IPART) found that, following a 95 per cent increase in student fees in New South Wales in 2004, the number of government-funded VET students fell by only 12 per cent (IPART 2013, p. 189).⁸¹ Student fees were low before this major policy change and remained highly subsidised.

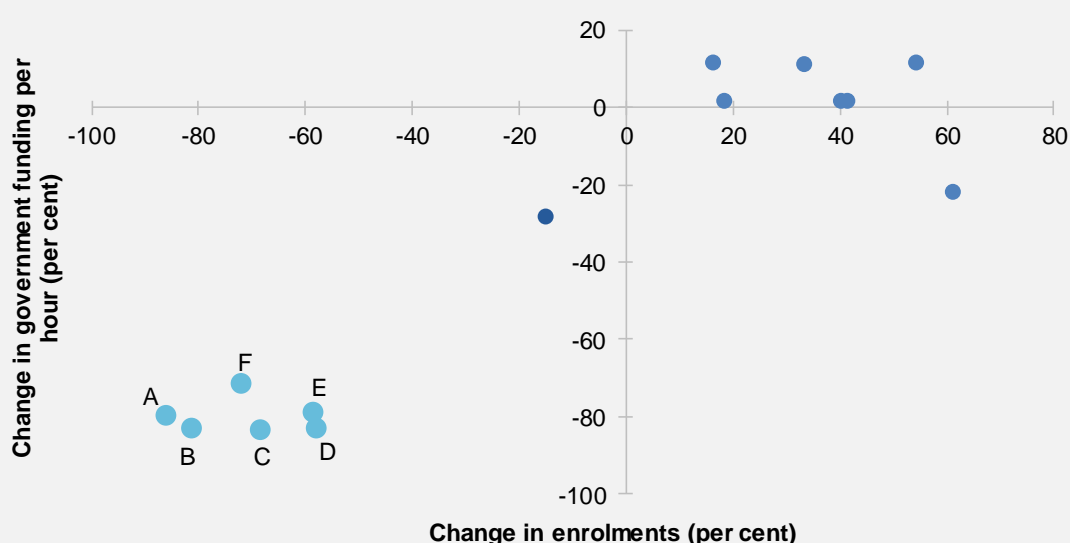
As significant percentage increases in *low* fees mean relatively modest dollar increases in student fees, it is unsurprising that demand changes little. If the dollar increase is low, other factors will be more important to student decision-making. Recent surveys and studies suggest that study mode, location, duration and delivery type are at least as important as price, as is the quality of the training provider (Brown 2017; EY Sweeney 2017; Mentally Friendly 2019).

⁸¹ IPART cited other empirical analysis finding low responsiveness of student demand to fee increases. A National Centre for Social and Economic Modelling (NATSEM) study found that a 10 per cent increase in fees would reduce demand by between 0.1 and 1.7 per cent (IPART 2013, p. 189). An earlier study found that a 10 per cent increase in VET fees would reduce enrolments by 0.6 per cent and decrease student hours of study by 0.8 per cent (Access Economics 2004, p. iii). All these studies relate to periods when fees were low and remained highly subsidised after the fee changes.

Box 9.4 Reductions in subsidies were accompanied by a fall in enrolments in Victoria

In Victoria, subsidy levels fell by close to 85 per cent from 2011 to 2013 for some qualifications, such as the Certificate III in Hospitality. Where subsidy levels fell strongly, so did enrolments. For instance, enrolments in five Certificate II and III qualifications and one Diploma qualification in retailing, hospitality and events fell by an average of 70 per cent from 2011 to 2013 associated with an average reduction of subsidies of 80 per cent (Guthrie et al. 2014, p. 33). The large reductions in enrolments coincided with the tightening of the Australian Government's arrangements for trainees, characterised by Guthrie et al. (2014, p. 6) as a 'double whammy' for the relevant qualifications.

Reduced funding for hospitality, retail and events qualifications led to much lower enrolments



The six qualifications subject to the biggest reductions in subsidies are shaded light blue and are: A — Certificate II in Retail, B — Certificate III in Events, C — Certificate II in Hospitality, D — Certificate III in Hospitality, E — Certificate III in Retail, and F — Diploma of Hospitality.

Source: Commission estimates based on Guthrie et al. (2014).

The implication is that, in capped and subsidised systems now used by all State and Territory governments, even sizeable differences in the subsidy rates for courses on skills/priority lists are unlikely to substantially influence the decisions of students to choose one course over another. This suggests that granular subsidy differences are ineffective.

Simplicity may be better than false precision

The bewildering range of subsidies reflects the differing goals, multiple methods and many assumptions used to derive them (chapter 8). It is unlikely that the complicated process of developing dozens of marginally different subsidy rates for courses captures tangible differences in the economic or social returns from these courses. It is also doubtful that such marginal differences in subsidy rates affect student enrolments. Moreover, the reasons given

by jurisdictions for differentiating subsidy rates are not necessarily reflected in the way rates are calculated (box 8.2, chapter 8).

Subsidies for lower-level courses illustrate the analytical dilemmas facing governments. Such courses typically have high subsidy rates because their lower average private returns mean students are less likely to undertake them without a subsidy. However, these courses also have low public economic returns (chapter 3), so need a sufficient intangible public return (such as intergenerational benefits) to be worth a subsidy on cost-benefit grounds. These benefits cannot be precisely measured and will vary across fields of study, student groups, and other factors. What this means is that not enough is known to set subsidy rates in a ‘scientific’ way.

How should subsidies be streamlined?

If there is no compelling evidence that granular subsidies direct student choice into one course over another, the question then follows — how should governments streamline VET subsidies? In the interim report, the Commission suggested options for simplifying subsidies, including:

- (a) a single subsidy rate for all courses on a skills/priorities list, set as a constant percentage of course costs
- (b) a flat dollar subsidy for all courses on the skills/priority list
- (c) a small set of subsidies whose values would be a share of the efficient cost of delivering groups of similar courses.

While some State and Territory governments agreed with the principle of simplification, few provided feedback on these options and all noted the need to retain flexibility (box 9.2). The Victorian Government noted:

The Victorian Government supports the principle of simplification of subsidy rates, including the Commonwealth funding States and Territories relative to an agreed view of the costs of training, provided that Victoria retains its independence on determining ‘retail’ funding of training in Victoria. (sub. IR150, p. 9)

Other jurisdictions indicated varying support for simplification, however, some supported the NSC calculating efficient costs to aid in identifying subsidy groupings (ACT Government, sub. IR133, p. 8; NSW Government, sub. IR122, p. 7; South Australian Government, sub. IR139, p. 7; Tasmanian Government, sub. IR80, p. 8; Victorian Government, sub. IR150, p. 9).

When considering how to simplify subsidies, the following three principles are useful.

1. Subsidies should have the same relative effect on the prices of different courses of the same priority as determined by governments.
2. Subsidies (for Certificate III and above courses) should be less than the estimated efficient cost of training to ensure students have a stake in their training.

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3. There should be as few subsidy rates or levels as possible — perhaps just two or three (which could be ‘low’ and ‘high’, and perhaps also ‘medium’) — so that the priority of subsidies is clear.

There are two methods for deciding on the amount of subsidy for a priority group, setting the subsidy as a percentage of the estimated efficient cost or setting a flat dollar subsidy for all courses within the priority group. Each option has advantages and disadvantages.

A flat dollar subsidy for all courses in a priority group would be very simple to administer and easy to understand. However, it could also mean that the subsidy could exceed the cost of a course if governments allocate low-cost courses to a high subsidy group. Setting all subsidies as a percentage rate (for example, the ‘high’ priority group at 70 per cent or the ‘low’ priority group at 40 per cent) would be marginally more difficult to administer. However, the subsidy would never exceed the estimated cost.

The NSC should work with the Australian, State and Territory governments to produce a method for simplifying the large number of subsidy rates for courses. The NSC is well placed to lead this work, as it gains greater insight into the efficient costs of delivery. Input from State and Territory governments will ensure that the NSC sees the full range of costs across courses and jurisdictions.

In each case, State and Territory governments would (in line with the subsidiarity principle) decide which courses are assigned to each priority group. They would also decide the eligibility criteria for subsidised courses as well as policies for lower-level qualifications and course concessions for priority groups.

RECOMMENDATION 9.2 — STREAMLINING SUBSIDIES

The National Skills Commission should work with the Australian, State and Territory governments to produce a method for simplifying the large number of course subsidies.

Delivering subsidies

State and Territory governments provide subsidies to RTOs instead of directly to students (chapter 8).

In the interim report the Commission raised an alternative option for delivering subsidies to students as a voucher-style entitlement. There has been strong criticism of this option. Some participants have equated vouchers with past policy failures that expanded user choice without effective safeguards. Others see VET students as vulnerable to unscrupulous RTOs (box 9.5). While properly-designed voucher schemes need not cause or exacerbate such problems, the review did not further consider vouchers as an alternative way of providing subsidies.

Box 9.5 Participant views on vouchers

New South Wales Government (sub. IR122, p. 4):

Previous experiences of voucher like arrangements (e.g. VET FEE–HELP) have shown that in practice users are susceptible to provider behaviour that undermines student choice.

Western Australian Government (sub. IR152, p. 4):

Replacing course subsidies with a student voucher is a risky way to fund students to undertake VET without wrap-around support and career guidance to assist with student choices. The sorting and exploitation of students under the income contingent loans debacle provides sufficient evidence to show that any form of entitlement needs to be operated through a carefully managed market with direct oversight by the level of government responsible for service delivery.

Queensland Government (sub. IR142, p. 4):

Reforms such as the introduction of vouchers ... have the potential to put the learner at risk if there is insufficient information available to enable them to understand the ramifications of their choices.

9.4 Price and student fee controls

States and Territory governments generally do not regulate course prices and allow RTOs freedom to set student fees. The main exceptions are New South Wales and Western Australia, which regulate both course prices and student fees. Queensland also regulates fees for apprenticeships.

The range of approaches — from strict regulation to very little regulation — raises the question of whether stringent controls over prices and fees are warranted.

Should governments fix course prices and student fees?

New South Wales and Western Australia’s primary reasons for regulating prices and student fees in VET are to:

- prevent RTOs from delivering poor quality training
- ensure the viability of TAFEs and assist with budget management.

Regulating prices to prevent low quality training

The two State governments indicate that they regulate prices partly to avoid a ‘race to the bottom’ on quality (WA Government, sub. 20, p. 7; NSW Government, sub. 48).

However, the case for price regulation to assure service quality is not strong. While both State governments regulate course costs, they largely do not specify, for example, inputs to training that might address risks to the quality of service delivery. This means that RTOs can reduce costs and quality and still receive a full subsidy if students complete training — making quality controls through price regulation ineffective.

All jurisdictions mitigate the incentive to reduce quality by using quality management through the contracting process (chapter 7). Both New South Wales and Western Australia monitor quality with a range of indicators and tools, including growth in student numbers, completion rates, student satisfaction, personnel turnover and audit reports.

Supporting TAFEs and budget control

New South Wales regulates prices and student fees partly to ensure that the public provider remains ‘competitive’ with private providers and has stated that a priority for its Smart and Skilled subsidy program is to ensure TAFE viability. Further, New South Wales supports TAFE by guaranteeing its share of training and directly funding its higher cost structure (NSW Auditor-General 2015, p. 15). The merit of additional support provided to TAFEs is addressed below (section 9.5).

Another priority of the Smart and Skilled program is to provide budget certainty (NSW Government, sub. 48, p. 13). This is one of the rationales for regulating prices, as well as student fees and placing financial caps on each RTO. It should be noted that there are other ways to control budgets, including through limits on total subsidies through fixing subsidies and capping student numbers.

Price regulation can weaken RTO incentives to satisfy student needs

Fixing prices and student fees can weaken competition, inhibit the allocation of economic resources, and reduce incentives to improve the quality of training. RTOs have an incentive to lower costs — improvements in efficiency that reduce the costs of training result in higher profits. However, students do not benefit where prices are fixed as RTOs are prevented from converting cost savings into lower student fees. RTOs may instead compete on criteria other than price.

Regulating prices can also prevent RTOs from providing high quality training that costs more to provide than covered by the regulated price and subsidy. This suppresses incentives to improve services. Conversely, some students may prefer to undertake cheaper training (for example, online training) at a lower quality.

Despite the benefits of flexible prices and student fees, there are risks that prices (and student fees) will not be efficient in the absence of price regulation. For example, prices and student fees could exceed the efficient level due to the exercise of market power in thin markets or perhaps as an unforeseen response to a change in other government policies (like VET FEE–HELP). There are also risks that providers may charge extremely low or no fees (discussed below).

Market competition is likely to constrain the risk of some providers charging prices and student fees above efficient costs. Apart from the presence of some thin market segments, the VET market is reasonably competitive (chapter 2). If students can compare student fees

and the quality of different providers, those charging far above others should be disciplined as students will tend to choose the providers with a better price and quality combination. The requirement for all RTOs to publish student fees on My Skills (chapter 6) would improve the functioning of the market and allow for more competition.

Additionally, State and Territory governments with flexible prices and student fees scrutinise VET prices as part of their contract management to mitigate risks associated with flexible prices. For example, the Queensland Government does not currently regulate student fees (for non-apprenticeship courses), instead it has flexible student fees and closely monitors providers that charge high or low fees through the contracts (Field, sub. IR116, p. 16). Similarly, the ACT Government monitors student fees and will intervene if excessive fees are being charged (CMTEDD 2019, pp. 35–36).

New South Wales and Western Australia (and Queensland for apprenticeship courses) should have flexible prices and student fees. When introducing these new settings, they should consider adopting additional contract management indicators — as used in other jurisdictions with flexible prices and student fees — to provide periodic scrutiny of prices and student fees.

FINDING 9.1 — PRICE CONTROLS

Fixing student fees can stifle competition, inhibit the allocation of resources and blunt incentives to improve the quality of training.

RECOMMENDATION 9.3 — REMOVING FIXED COURSE PRICES

The New South Wales and Western Australian Governments should cease fixing prices and student fees for VET courses. The Queensland Government should cease fixing student fees for apprenticeship courses.

Should governments set minimum student fees?

In Victoria, Queensland, South Australia, Tasmania, the Northern Territory and the ACT, RTOs are required to charge a minimum student fee. In the ACT, minimum student fees range between \$100 and \$380. In the other jurisdictions an RTO must charge a student fee of \$0 or above. Some jurisdictions prohibit RTOs providing enticements for students to undertake subsidised training — in effect, a \$0 minimum student fee. These minimum student fees are intended to prevent rorting.

There is some evidence that private RTOs are charging low student fees. Analysis of student fees paid (based on 2017-18 student enrolments) to private RTOs found that 65 per cent of students training with private RTOs were charged less than \$250 in fees per course, while only 8 per cent of students were charged more than \$750. Some private RTOs were charging \$1 for a course (Qld Auditor-General 2019, p. 50). Additionally, many TAFEs have introduced free or low student fee courses (chapter 2).

Low fees in a deregulated training market could suggest a number of things, good or bad. On the one hand, low fees could be a positive sign that reflects the market working well and RTOs competing by reducing student fees to low levels to win more students, or that some private RTOs are offering suitable but lower-quality training and charging appropriately for it. On the other hand, low fees could be an indicator of a market failure and reflect students selecting RTOs with lower student fees when they are uncertain about the quality of RTOs.

Alternatively, it could suggest very high subsidies. If State and Territory governments set high subsidy rates or over-estimate the true cost of training, then it is possible that providers can completely cover the cost of training with subsidies (because subsidies are based on the cost estimates). The response of an RTO could be to charge low or no fees to encourage more students to train with them.

In any case, low or zero student fees can be bad for students. The lack of an upfront student fee could make it more likely that students will not give sufficient consideration to other costs and benefits of training. For example, a student may decide to choose a free course over a more expensive course that has higher private returns, which may also jeopardise access to future subsidised training.

Some participants have highlighted the benefits of upfront fees to ensure that students have a stake in their training. One participant noted:

... insisting that, even in subsidised courses, students have ‘skin in the game’ is an effective way of ensuring that prospective students think seriously before enrolling in a course. Modest up-front fees (say, \$500 to \$1000) are an obvious way of implementing this idea. (Karmel, sub. IR134, p. 3)

On face value, minimum fees seem a sensible approach to counter the perverse incentives associated with high subsidy rates and information asymmetries and for ensuring that students have a stake in their training. Minimum student fees should be meaningful but not so high as to make study unaffordable for students.

In general, minimum student fees need not be differentiated by level of education. However, minimum student fee requirements should not apply to subsidised training in Certificate I or II courses or for students eligible for concessional fees. It is not clear that students studying Certificate I or II courses or students facing disadvantage will behave differently to other students in the presence of low or zero student fee courses. However, these groups are more likely to face affordability constraints from minimum student fee requirements. Minimum student fees could undermine the goal of increasing uptake of training for these groups.

RECOMMENDATION 9.4 — ENSURING STUDENTS HAVE A STAKE IN THEIR TRAINING

Where they do not charge them, State and Territory governments should introduce modest minimum student fees for subsidised training in Certificate III and above courses, including for courses delivered as traineeships or apprenticeships, to encourage students to make sound investment choices. Minimum student fees should not apply to students eligible for concessional fees.

9.5 A greater role for contestable funding

TAFEs and other public providers receive some payments and a share of course subsidies that are not open to competition from private or not-for-profit providers. States and Territories do not fully disclose the value or use of these payments. Funding higher-cost public providers outside competitive processes diminishes the overall returns from the public funds invested in training.

Are there valid arguments for reserving funding for TAFEs?

Several participants raised the need to service thin markets as a rationale for special support for public providers. For example, the Western Australian Government (sub. 20, pp. 4–5) noted that:

Many of the localised markets for VET are not viable for more than one provider, if any. While a common feature of regional and remote markets, it is also true for thin markets in the metropolitan area. ...

The TAFE College infrastructure and overheads to deliver these technical and thin market courses often would not provide a return on investment for any private providers resulting in the State being required to be a sole provider.

The Commission recognises that, in thin markets, improving the efficiency of service delivery by promoting competition can be challenging. However, while TAFEs have the highest share of markets with a single provider, many highly concentrated markets (those with a low number of providers, but greater than one) had government-funded students who attended other providers, including private or not-for-profit providers (chapter 2). This suggests that many ‘thin’ markets are already contestable. Indeed, according to Master Builders Australia (sub. 41, p. 9):

... many jurisdictions preference VET funding to their public institutions (TAFEs) over industry and private training providers. ... it should be acknowledged that for many courses public VET institutes are in direct competition with industry and private training providers.

In any case, the existence of thin markets does not mean that public provision is the only, or the most efficient, means of service delivery. Subsidy models across jurisdictions typically incorporate loadings and concessions to account for the additional costs of service delivery, as may occur in thin markets (chapter 8). Moreover, governments can use various policy options to service thin markets, including facilitating competition *for*, rather than *in*, the market.

Other rationales participants raised for special support for public providers included:

- servicing particular student cohorts, such as students requiring greater support
- maintaining facilities for general community use (Tasmanian Government, sub. 32; Victorian Government, sub. 58; Victorian TAFE Association, sub. 27; Western Australian Government, sub. 20).

Again, public provision is not necessarily the only or best option. A competitively-neutral avenue for delivering community service obligations (CSOs) could involve tenders from private, public and not-for-profit providers. The Alliance of First Nations Independent Education and Training Providers (sub. 63) argued that Indigenous RTOs are more efficient providers of specialised services to Aboriginal and Torres Strait Islander students than TAFEs and universities, as the size and culture of the latter can create difficulties for some Aboriginal and Torres Strait Islander students and achieve poorer outcomes. Contestable funding for a CSO would allow the most capable providers to win this work.

Are there valid arguments for compensatory funding for TAFEs?

Another argument is that additional government funding for public providers is necessary to compensate them for their higher costs.

There is a range of reasons why TAFEs may have higher costs than their competitors, some of which appear to be at least partly a result of their government-ownership.

- *Wage and labour costs.* For public providers, high labour costs may reflect restrictions in State and Territory industrial awards that set wages and conditions. For example, the Queensland Audit Office (2019, p. 11) identified that:

The Queensland Government's current award and industrial relations agreements mean that TAFEQ is not able to significantly reduce its costs due to an employee cost structure that it cannot fully control. It, therefore, cannot compete directly on cost with the private sector.

Analysis of TAFE NSW suggested that the cost per hour taught by a full-time TAFE teacher may be up to double that of 'reputable private competitors' based on 2013 data (BCG 2015). Some public providers also have a significant proportion of non-teaching staff, representing 42 per cent of TAFE NSW's full time-equivalent staff in 2018 (TAFE NSW 2019).

- *Remote operations.* Participants identified regional or remote operations as a major factor explaining why public provider costs may be higher (AEU Federal Office, sub. 21; WA Government, sub. 20). In Western Australia, for example, lecturers are paid remote allowances and country incentives under their agreement. Empirical evidence also suggests that remoteness is an important factor affecting TAFE efficiency (Fieger et al. 2017; Fieger, Karmel and Stanwick 2010).
- *Range of training and services.* Others have also pointed to the expectation that TAFEs will provide an extensive range of training options, along with pastoral care or wrap-around services, as a source of costs incurred by TAFEs that some private RTOs do not face (AEU, sub. IR104, p. 15; JCSF Consulting, sub. IR78, p. 22).
- *Expensive premises.* In the lead-up to the intended introduction of fully-contestable funding for VET, Simpson (2013) argued that TAFEs were required to manage and maintain massive infrastructure across the State in city centres, regional locations and small towns.

‘Competitive neutrality (CN) policy’ (box 9.6) is the main government policy that deals with whether government-owned entities’ finances should be adjusted to compensate for having different costs than their non-government rivals. In essence, CN policy aims to level the playing field between public and private providers. All States and Territories have CN policies, together with a complaints mechanism, which they have said apply to the business activities of TAFEs (NCC 2002, 2003). However, it is not clear that all jurisdictions have been actively applying CN requirements to their TAFEs.

Box 9.6 Competitive neutrality policy

All jurisdictions have competitive neutrality (CN) policies, together with a complaints mechanism.

In broad terms, CN aims to improve resource allocation by ensuring that that government business activities do not enjoy net competitive advantages over their private sector competitors *simply by virtue of public sector ownership*.

The policy focuses on addressing competitive advantages enjoyed by government businesses that are widespread and relatively easy to observe and correct, including: exemptions from various taxes; access to borrowings at concessional interest rates; exemptions from regulatory constraints or costs; and not having to achieve a commercial rate of return on assets.

Under CN, the business can address these advantages by adhering to the requirements or making compensatory payments, equivalent to the value of these advantages, to its owner government. The government business also needs to set its prices in a way to cover all its costs (including the notional costs of addressing the above advantages).

This pricing requirement ensures that, if the government business is competing against other providers, it does so on a level playing field (although the policy still allows ‘loss-leading’ bids by business units provided the government business overall achieves a full rate of return).

However, CN policy does not ignore competitive disadvantages that can also result from government ownership. The policy allows the value of these disadvantages to be offset against any advantages when calculating the level of any tax, debt or regulatory neutrality payments or when determining an appropriate commercial rate of return, and when determining appropriate pricing for services.

CN policy sets out several considerations for determining whether particular costs are due to public sector ownership as distinct from the business simply being a public entity.

In feedback on the interim report, several participants supported applying CN principles in VET (Alphacrucis College, sub. IR125; IHEA, sub. IR115, p. 7; Navitas Pty Ltd, sub. IR153; Queensland Water Directorate, sub. IR90, p. 2). Others were wary of the effects (ACTU, sub. IR109; UnionsWA, sub. IR112, p. 4). The Australian Education Union (sub. IR104, p. 15), for example, contended that:

The reassertion of competitive neutrality will significantly hinder the public good that TAFE can do. By withholding funds from public providers in order to assert competitive neutrality governments are wasting potentially hundreds of millions of dollars a year, and much more in long term economic benefit.

And the NSW Adult Literacy and Numeracy Council (sub. IR92, p. 9) said:

We receive anecdotal evidence of smaller RTOs without necessary professionals to support disadvantaged learners are enrolling VET students and reaching out to RTOs such as TAFE to provide support, often language, literacy and numeracy learner support. If the principle of competitive neutrality is to apply, then the capability of RTOs to provide support for disadvantaged learners must be confirmed before they are even allowed to be part of the ‘competition’.

The comments suggest some misapprehension about what CN policy requires. In particular, under CN policy, it can be appropriate to make funding, pricing or other adjustments to compensate government business activities for the competitive disadvantages of government ownership.

Thus, if TAFEs face higher costs than their competitors by virtue of government ownership, CN policy enables these to be taken into account. This could be the case where government or departmental directives cause TAFEs to provide ‘non-commercial’ services to students (such as some pastoral or wrap-around services) or occupy high-cost ‘legacy’ real estate in city centres (when their competitors are free to use lower-cost premises). It could also be the case in relation to high labour costs incurred by TAFEs, to the extent that these follow from agreements entered by the relevant governments.

That said, the Commission considers that a better option than compensating public providers for the higher costs of government ownership is to provide those providers with greater operational autonomy over their assets, industrial relations arrangements and financial performance (chapter 3). The Commission also notes that, even if it were determined that TAFEs should receive compensatory funding for some of their higher costs, this would not justify reserving a share of total government funding or of the VET market for TAFEs.

At present, several public providers, including TAFE NSW and TAFE Queensland, receive funding specifically to address the ‘competitive disadvantage’ of public provision (Qld Auditor-General 2019; TAFE NSW 2016). However, Navitas (2019, p. 4), in its submission to the Joyce Review, argued that those same funding arrangements provide public providers with a net competitive advantage:

... there is a lack of truly contestable State/Territory Government funding available to independent education providers. ... This funding arrangement does not reflect a ‘level playing field’ for public and independent providers ...

It is beyond the scope of this review to investigate these matters on a State-by-State basis. However, it is incumbent on all governments to adhere to their CN commitments and this includes applying CN requirements to TAFEs. As TAFE providers are subject to each State and Territory governments’ CN complaint mechanisms, there is also the option for private VET providers — if they retain concerns about the effects of TAFE funding in their jurisdiction — to lodge a complaint that their TAFE competitors are not operating in compliance with their CN obligations. This should trigger investigations by the jurisdiction’s CN complaints office to determine whether TAFEs enjoy net competitive advantages or

disadvantages from government ownership in their jurisdiction. The process would also help identify any ‘implicit’ CSOs TAFEs are expected to meet, which in turn could enable competitive tendering for those CSOs.

The way forward

Governments should fund public providers based on explicit and transparent CSOs, which should be subject to market testing. For example, a competitively neutral avenue for delivering CSO involves tenders from private, not-for-profit and public providers. Once established, governments should also ensure that their TAFEs adhere to their CN policy commitments.

An important precursor for accountability is greater transparency of expenditure and activity related to public providers. State and Territory governments should, at a minimum, make publicly available the amount and purpose of funding provided to public providers in a nationally consistent manner. As identified in chapter 3, the lack of information on the use of funding makes it difficult to assess the effectiveness of government investments in VET.

State and Territory governments should also move to provide greater operational autonomy to public providers (as per recommendation 3.1).

While some changes could occur quickly, the Commission recognises that moving towards greater funding neutrality involves significant changes. These changes need to be flanked with transition arrangements to support market stability, particularly given the historical funding arrangements for — and market concentration of — public providers, and the high-cost base of these providers, which is likely to be relatively unchanged in the short to medium term.

RECOMMENDATION 9.5 — IMPROVING INVESTMENT IN PUBLIC PROVISION

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

- improve reporting on how funding is spent (as per recommendation 5.3)
- ensure compliance with competitive neutrality principles
- undertake market testing to increase the contestability of existing community service obligations.

These changes should include transition arrangements to support market stability.

10 Lifting participation: the role of income contingent loans

Key points

- Income contingent loans (ICLs) address the difficulty many students face in paying for vocational education and training (VET) upfront. They remedy the market failure that leads to credit not always being available for uncertain investments in human capital.
- While ICLs have been successfully used to expand participation in higher education for three decades, they have a chequered history in the VET sector. The flawed VET FEE–HELP scheme was rorted by unscrupulous registered training organisations.
- The current VET Student Loans (VSL) program has stamped out poor conduct through better program design and regulatory oversight, and has proven effective at expanding participation in VET.
 - About 50 per cent of eligible students took out a VSL in 2018, and 94 per cent of those students reported that they could not afford to pay their course fees without their loan.
- VSL should be available for more courses at Diploma level and above, as the current restrictions lock out many courses that deliver good student outcomes. The restrictions should be replaced with a ‘blacklist’ of ineligible courses demonstrated to yield poor student outcomes.
- VSL should be carefully extended to Certificate IV courses with monitoring and evaluation and a similarly constructed ‘blacklist’ to prevent VSL support for Certificate IV courses that yield poor student outcomes.
- The VSL program’s loan caps — which limit how much a student can borrow for a course — have prevented the price gouging witnessed under VET FEE–HELP. But they should be refined to be made fairer for students and more effective at constraining course prices to cost-reflective levels.
- A 20 per cent VSL loan fee (added to the value of the loan) applies for fee-for-service students, while no loan fee applies for subsidised students. This is not justified by differences in the budgetary risk of lending to fee-for-service versus subsidised students. Loan fees — levied at a lower rate — should apply to all VSL.
- VSL borrowers should be required to pay a small upfront loan charge to avoid the perception that their loan amounts to ‘free money’, with exemptions for disadvantaged students.
- VSL debts should be recovered from deceased estates, with protections in place for small estates and cases of hardship. There are strong grounds for collecting all ICL debts from deceased estates.

Income contingent loans (ICLs) provide students with credit to pay course fees. They differ from conventional ‘mortgage-style’ loans in that students’ repayments are deferred until the

borrower earns more than a set threshold (\$47 000 per year for all ICLs in Australia). Repayments are calculated as a percentage of the income above the threshold and according to a sliding scale. ICLs boost participation in vocational education and training (VET) by supporting students who could not otherwise afford to pay course fees.

The Australian Government offers ICLs to VET students under the VET Student Loans (VSL) program, part of the Higher Education Loan Program (HELP) for tertiary education students (VET and higher education). VSL is available only for some courses at Diploma level and above, and only at approved registered training organisations (RTOs).

This chapter proposes extensions to VSL to expand participation in VET and improvements to VSL policy settings. It:

- discusses the benefits of ICLs, lessons from the failed VET FEE–HELP program, and the current state of ICLs in the VET sector (section 10.1)
- considers the restrictions on the courses at Diploma level and above eligible for VSL (section 10.2)
- contemplates whether VSL should be extended to courses below Diploma level (section 10.3)
- discusses how to prevent price gouging under VSL (section 10.4)
- examines loan repayment terms (section 10.5).

10.1 Income contingent loans can be highly effective

A cornerstone of Australian higher education policy for the past three decades, higher education ICLs have been lauded as ‘a creative innovation, applauded in the main for [their] political sophistication’ (Chapman, Higgins and Stiglitz 2014, p. 1), ‘an excellent development’ (Corden 2005, p. 3), and ‘very effective policy’ (Norton 2014, p. 1).

ICLs work by addressing a failure in the capital market. People who want to study because they expect net benefits over the longer term may be unable to afford their course fees upfront. Student loans solve this problem, but private lenders are generally unwilling to offer student loans because prospective students cannot submit their future earnings capacity as collateral. By issuing ICLs, governments allow otherwise credit-constrained students to study.

In this way, ICLs have proven effective at expanding participation in VET. In 2018, 53 per cent of eligible students took out a loan under VSL and 94 per cent of those reported that they could not have afforded to pay their course fees without their loan (KPMG 2019). This implies that enrolments in eligible courses by approved RTOs are almost twice what

they would be without VSL. The effect of VSL on enrolments may be stronger still, as RTOs would likely cease to offer some courses altogether in the absence of VSL.⁸²

Moreover, ICLs have advantages over other policy tools — conventional loans and large course subsidies — that governments can use to assist students.

- Unlike conventional loans, ICLs insure students against the risk that VET will not yield a financial return.
- Fully subsidised courses can lead students to use the VET system for leisure purposes (Stiglitz 2014), whereas ICLs signal that training is a long-term investment.
- Taxes (which fund subsidies) typically distort labour supply decisions whereas ICL repayments do not, provided that students expect that they will repay their ICL in full (Quiggin 2014).⁸³
- As ICLs entail lower per-student fiscal costs than fully subsidised courses, they can facilitate access to VET for more students with a given budget (Chapman, sub. IR129; Stiglitz 2014).
- ICLs are inherently progressive, as people who earn low post-VET incomes are not required to repay their loans. Course subsidies, on the other hand, may result in government transfers to students who go on to earn high incomes.
- As ICLs are widely available for higher education, their use in VET minimises distortions to prospective students' choices between VET and higher education.

VET FEE–HELP offers valuable lessons

Despite these advantages, many people in the VET sector are wary of ICLs, as the VET FEE–HELP (VFH) ICL scheme — which preceded VSL — was rorted by unscrupulous RTOs. Many participants warned the Commission to heed the lessons from this debacle (AEU, sub. IR104; NSW Government, sub. IR122; NTEU, sub. IR106; Tasmanian Government, sub. IR80).

The Commission's examination of the VFH scheme found that poor design, implementation and regulatory oversight were responsible for its failures. VFH allowed RTOs (or brokers

⁸² The response of RTOs to the course restrictions imposed under VSL (section 10.2) provides evidence to support this. Among RTOs eligible for both VSL and VET FEE–HELP, in 55 per cent of cases that an RTO offered a course eligible for VET FEE–HELP in 2016 that was subsequently *eligible* for VSL, they continued to offer that course in each year through to 2019. However, those same RTOs continued to offer courses eligible for VSL that were subsequently *ineligible* through to 2019 in only 9 per cent of cases (Commission estimates based on NCVER (2017, 2018b, 2019b, 2020b)).

⁸³ Highfield and Warren (2015) found evidence that taxable incomes 'bunched' around HELP repayment thresholds in 2010–11, which could suggest that ICL debts reduced labour supply (although the authors suggest tax minimisation via deductions to be a more likely explanation). In any event, the HELP repayment schedule has since been flattened, reducing the incentive for bunching, and the Commission's recommendation to reclaim unpaid ICL debts from deceased estates (recommendation 10.5) should somewhat deter the avoidance of repaying ICL debts.

acting on their behalf) to sign up vulnerable people to courses without their full knowledge and consent — sometimes with inducements such as free iPads — and deliver little (if any) actual training. There was poor and tardy monitoring of RTOs, little auditing of the training provided and its value, allowance for RTOs to receive all their funding on student commencement, and the absence of the information and consumer protections that underpin informed student choice (ANAO 2017; Saccaro and Wright 2018).

The experience of VFH has prompted some to argue that the private provision of VET and ICLs are incompatible (AEU, sub. IR104; Quiggin 2018). In the immediate aftermath of VFH, this view was understandable. While the rorting was concentrated among a few private RTOs — 19 of the 243 private RTOs approved for VFH have faced legal action resulting in refunds of students' VFH debts (DESE 2017, 2020q) — it could have been argued at the time that the risks of rorting outweighed any benefits of improved access to courses delivered by trustworthy private RTOs.

However, VSL — introduced in 2017 — has addressed many of the deficiencies of VFH and proven effective at preventing the misconduct witnessed under VFH (ANAO 2019; KPMG 2019). Stricter compliance and reporting measures have been introduced for VSL RTOs. Loan brokers have been banned. Students are now required to report their engagement three times a year. Payments to RTOs are made in arrears (they were made in advance under VFH). And the Australian Skills Quality Authority has become a more experienced regulator following VFH.

The Commission's view is that there is now a robust regulatory framework to manage the risks exposed by the failure of VFH. No changes to RTO regulation under VSL are proposed. While this means that VSL will likely remain available only for a relatively small number of RTOs — there were 194 VSL-eligible RTOs in 2019; whereas there were 271 VFH-eligible RTOs in 2016 — strong regulation is necessary to ensure VSL's integrity over the longer term.

FINDING 10.1 — VET STUDENT LOANS' REGULATORY FRAMEWORK

Poor program design, implementation and regulatory oversight allowed the rorting of VET FEE-HELP. The strict eligibility requirements for VET Student Loans and an improved regulatory framework have addressed the many deficiencies of VET FEE-HELP.

VET Student Loans is a small and restrictive ICL program

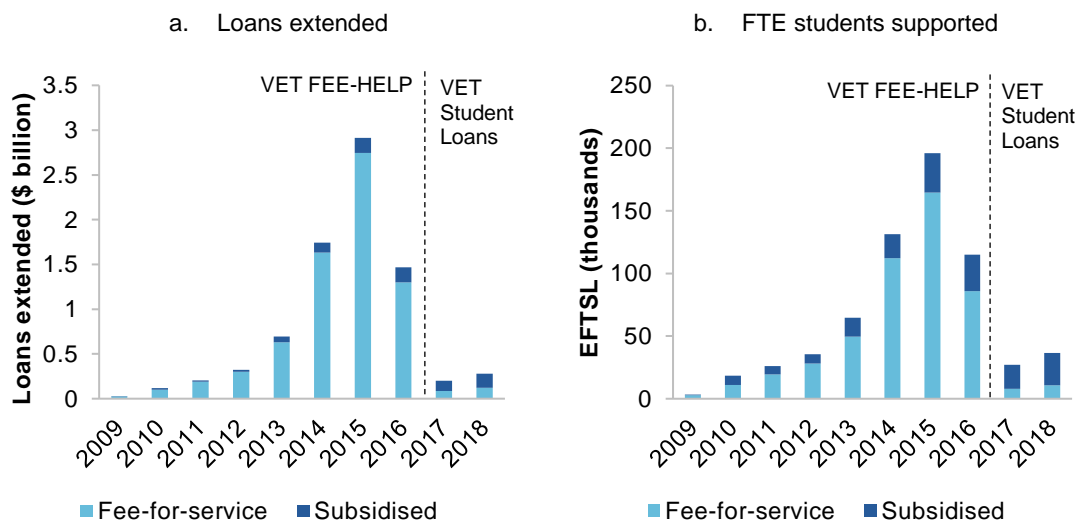
VSL is a substantially smaller program than VFH. At its peak in 2015, VFH supported about 196 000 full time equivalent (FTE) students with \$2.9 billion worth of loans, whereas in 2018 VSL supported about 37 000 FTE students with \$280 million worth of loans (figure 10.1, panels a and b). The aforementioned RTO eligibility restrictions —

which are justified, and should remain in place — explain part of this difference, with the remainder due to:

- VSL’s course restrictions — VFH did not have course restrictions (all courses at Diploma level and above were eligible). The impacts of the course restrictions are analysed in section 10.2
- VSL’s loan caps — VFH did not have per-course loan caps. VSL’s loan caps are analysed in section 10.4
- the reputational damage to the VET sector from the roting of VFH.

Another difference is that VSL primarily supports subsidised students, whereas VFH primarily supported fee-for-service students. In 2018, 71 per cent of VSL-supported FTE students received government subsidies, whereas, in 2015, only 16 per cent of VFH-supported FTE students received government subsidies (figure 10.1, panel b). This is a consequence of the RTO restrictions, which grant easier entry for government-owned RTOs (which are more likely to offer subsidised courses), and the course restrictions, which favour subsidised courses.

Figure 10.1 VET Student Loans is a much smaller program than VET FEE-HELP



Source: Commission estimates based on unpublished data supplied by DESE.

VSL is also more limited in scope than the higher education ICL programs (HECS-HELP and FEE-HELP). Whereas most higher education students can access an ICL under either the HECS-HELP or FEE-HELP programs, VSL offers comparatively limited coverage to VET students (table 10.1). There are no course- or qualification-level restrictions that prevent access to an ICL for higher education.

Other substantive points of difference include:

- the share of debts not expected to be recovered, which is substantially lower for HECS–HELP and FEE–HELP students (about 13 per cent) than it is for VSL students (35 per cent, or 29 per cent when loan fees are taken into consideration). This reflects the lower post-study incomes of VET students, as the same repayment terms apply to all loans
- loan caps and loan fees, which are discussed in sections 10.4 and 10.5, respectively.

Table 10.1 Comparison of income contingent loan programs for tertiary education

	<i>HECS–HELP</i>	<i>FEE–HELP</i>	<i>VET Student Loans</i>
Available to:	Subsidised students of higher education providers with some limited coverage of VET RTOs	Fee-for-service students of higher education providers	Subsidised and fee-for-service students of VET RTOs with some limited coverage of higher education providers
Qualification level restriction?	Yes, not available to masters (research) or doctorate courses	No	Yes, available only for Diploma or higher qualifications
Course restrictions?	No, courses across all fields of education are eligible if they meet qualification level/type requirements	No, courses across all fields of education are eligible if they meet qualification level requirements	Yes, course eligibility is based on employment linkages and industry skills needs
Per-course loan cap?	No, however student contributions for each course are capped, which acts as a de facto loan limit	No (and student tuition fees are not capped) ^a	Yes, there are four broad caps within the scheme (about \$5 264, \$10 528, \$15 793 and \$78 967) which are indexed annually
Loan fee? ^b	No loan fee	Loan fee for some fee-for-service students (25 per cent)	No loan fee for subsidised students, 20 per cent loan fee for fee-for-service students
Available to all public RTOs?	Yes	Yes	Yes
Available to all private RTOs?	No, only approved RTOs	No, only approved RTOs	No, only approved RTOs
Share of debts not expected to be repaid	Approximately 13 per cent ^c		35 per cent; share of course fee-related debts not expected to be repaid is 29 per cent ^d

^a Lifetime loan limits apply for all three loan schemes but rarely have any effect, except for some FEE–HELP-eligible courses. ^b The Australian Government has temporarily exempted VSL from loan fees until 30 June 2021 in response to the COVID-19 pandemic. ^c Includes the OS–HELP and SA–HELP programs, which accounted for 3 per cent of HELP debts in 2017. ^d Share of course fee-related debts not expected to be repaid is a Commission estimate (appendix D).

Sources: appendix D; Australian Government (2019b, 2020b); DESE (2020a,b,j).

The small number of courses eligible for VSL is at odds with the laudable policy aim of expanding participation in VET, especially given the success of the VSL RTO eligibility restrictions at preventing rorting. The key thrust of this chapter is that VSL should be

expanded to more courses at Diploma level and above and to Certificate IV courses, to the benefit of prospective students and society more broadly.

10.2 Revising course restrictions for VET Student Loans

Of the 635 courses at Diploma level and above that had enrolments in 2019, only 277 were eligible for VSL.⁸⁴ Students can only access VSL for courses at Diploma level and above that:

- are subsidised by at least two State or Territory governments
- are science, technology, engineering or mathematics (STEM) courses
- are tied to licensing requirements for a particular occupation, or
- have an exemption underpinned by strong evidence of employer support and employment outcomes (DET 2017).

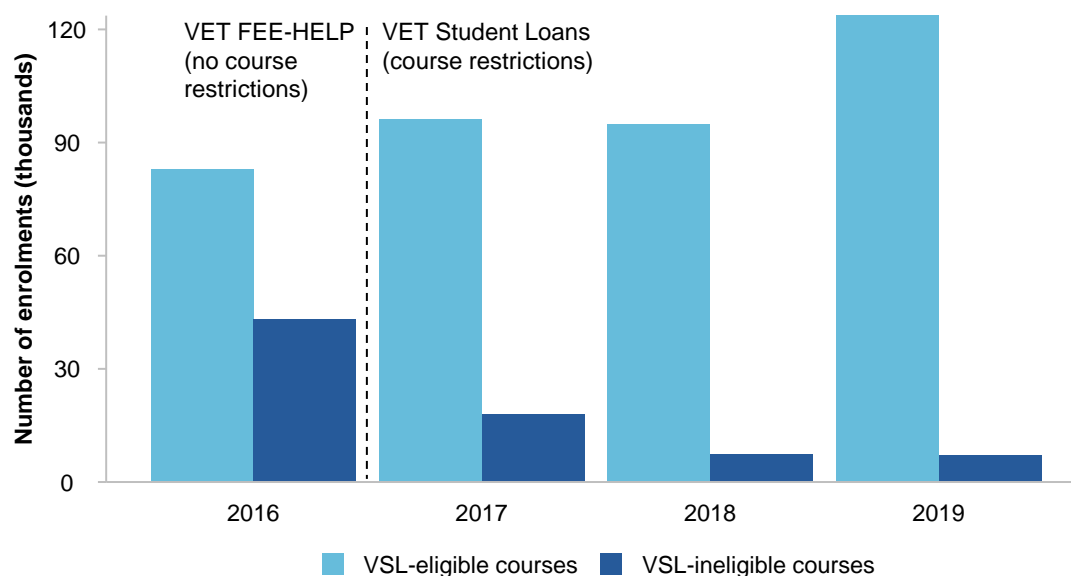
These restrictions have been in place since the commencement of VSL; there were no restrictions on the courses at Diploma level and above eligible for VFH. The restrictions were intended to ensure that students undertake courses aligned with the skills employers demand (DET 2016a). They were not intended to counter the RTO misconduct that occurred under VFH.

The restrictions have substantially reduced participation in VSL-ineligible courses at Diploma level and above. Their effects are illuminated by examining trends in enrolments in courses delivered by RTOs eligible for *both* VFH and VSL (figure 10.2). In 2016, before the course restrictions took effect, about 43 000 students were enrolled in VSL-ineligible courses; this fell to about 7000 students by 2018 and remained at that level in 2019. Some prospective students who would have studied a VSL-ineligible course had it been eligible for VSL will have been discouraged from tertiary education entirely, while others will have instead undertaken a course for which they can access an ICL — a VSL-eligible course or a higher education course.⁸⁵

⁸⁴ Commission estimate based on NCVER (2020b).

⁸⁵ Formal statistical tests indicate that the course restrictions had a negative and strongly statistically significant impact on enrolments in VSL-ineligible courses, although these tests assume that all prospective students who would have studied a VSL-ineligible course had it been eligible for VSL dropped out of VET at Diploma level and above entirely.

Figure 10.2 The VET Student Loans course restrictions have reduced participation in ineligible courses^a
Annual enrolments in courses delivered by RTOs eligible for both VET Student Loans and VET FEE-HELP



^a Excludes enrolments in courses eligible for VET Student Loans for only part of 2017 to 2020 (by course name).
Sources: Commission estimates based on NCVER (2017, 2018b, 2019b, 2020b) and *VET Student Loans (Courses and Loan Caps) Determination 2016* (Cth).

Proportionally, the overall effect on enrolments in courses at Diploma level and above has been more muted. Many students at the Diploma level and above would have studied a VSL-eligible course even in the absence of the restrictions and many students at the Diploma level and above study with VSL-ineligible RTOs. There were about 270 000 domestic student enrolments at Diploma level and above in 2019,⁸⁶ which suggests that the course restrictions have affected about 10–15 per cent of prospective students of such courses, either by dissuading them from undertaking tertiary education altogether or by distorting their choice of course.

Are the course restrictions justified?

ICLs provide public support for students to train and should come with the expectation that students will develop job-related skills. Students who have this expectation may see VSL courses as endorsed by governments. These considerations suggest that courses unlikely to improve employment outcomes should not be eligible for VSL, including ‘leisure courses’ — those taken for personal interest (or consumption) and with no likely job-related benefits (or return on investment).

⁸⁶ Commission estimate based on NCVER (2020b).

The VSL course restrictions measure poorly against these criteria.

- The restrictions prohibit access to VSL for most ‘leisure courses’ (as proxied by a high share of students reporting a primary study motivation of ‘personal interest or self-development’) (figure 10.3, panel a). But most courses made ineligible for VSL because of the restrictions are not courses for which a large share of students report a primary study motivation of ‘personal interest or self-development’.
- The restrictions are not targeted at courses that typically yield poor employment outcomes. Data limitations mean that rigorous quantitative estimates of the private financial returns to VET (the best measure of employment outcomes) cannot be made for individual qualifications, only for courses of the same qualification level (for example, the private return for *all* Diplomas) (Lee and Coelli 2010; Leigh 2008). Nonetheless, private returns can be proxied by measuring the proportion of VET graduates or partial course completers whose employment circumstances subsequently improved,⁸⁷ or by students’ incomes after study. There is little targeting of the restrictions at courses that yield poor employment outcomes by either of these measures (figure 10.3, panels b and c).⁸⁸

The Commission also has in-principle concerns about two aspects of the way that the course restrictions are determined.

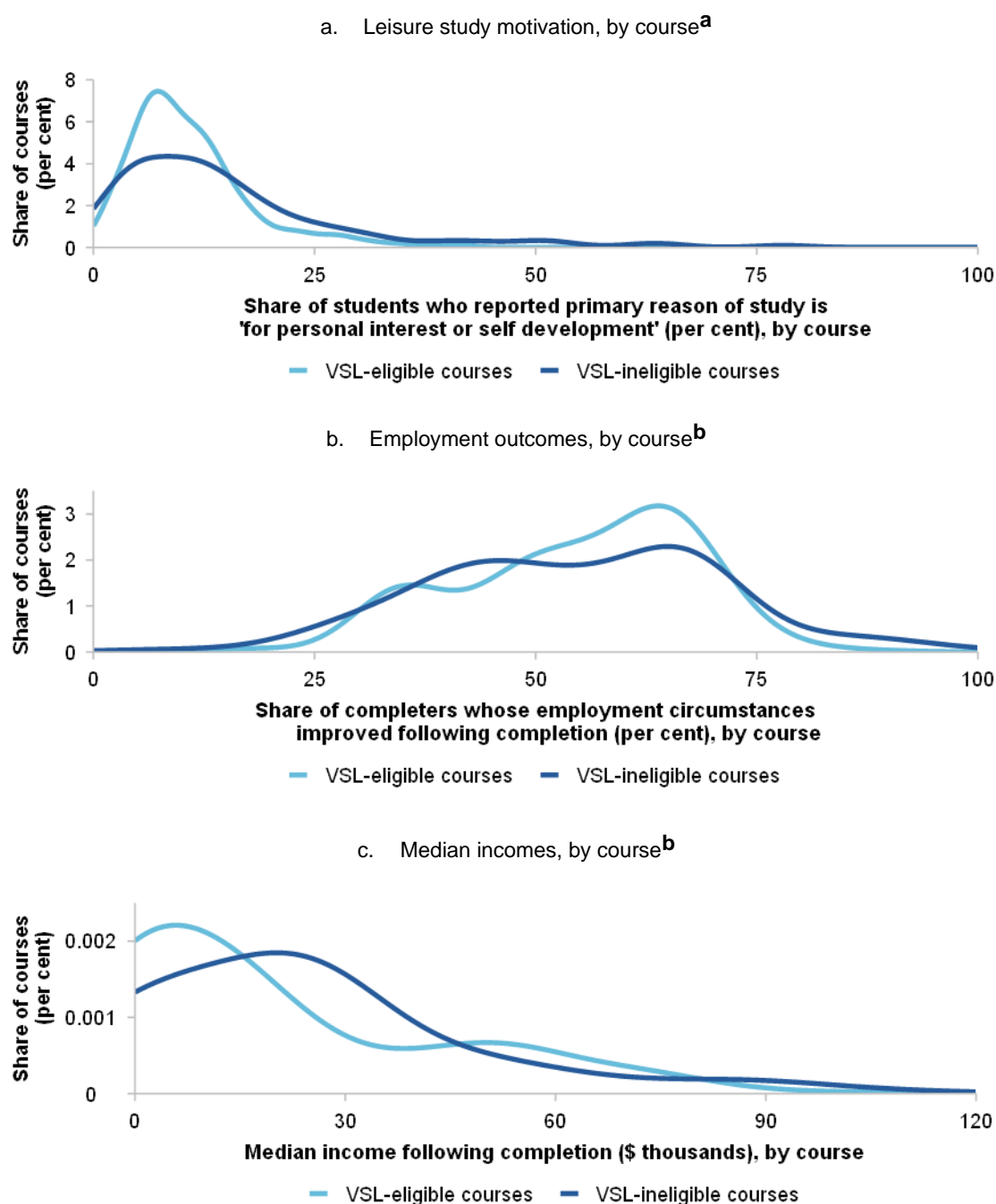
The first relates to the criterion that a course subsidised by at least two State or Territory governments is eligible for VSL. *Two* State or Territory governments seems arbitrary. When VSL was introduced, the Department of Education and Training justified the criterion on the grounds that VSL was to support ‘national’ skills shortages (Senate Education and Employment Legislation Committee 2016). But there is no reason to discriminate against skills needs that are particular to individual States or Territories. And the criterion does have a material impact — a ‘minimum of one State or Territory’ rule would have seen 57 additional courses eligible for VSL in 2019.⁸⁹

⁸⁷ The measure of ‘employment circumstances’ considered here is a composite indicator that records that a graduate’s or partial course completer’s employment circumstances improved if they (a) were not employed prior to VET but were employed after VET, (b) were employed prior to VET but were employed after VET at a higher classification level, or (c) reported that they got a job as a consequence of VET (unpublished information supplied by NCVER).

⁸⁸ These findings do not change when the sample is restricted to non-VSL RTOs, students who completed study in 2016 (before the course restrictions came into effect), or fee-for-service students. This suggests that they are not driven by wealthier and/or more motivated students selecting into VSL-ineligible courses (appendix D).

⁸⁹ Based on unpublished analysis supplied by DESE.

Figure 10.3 The VET Student Loans course restrictions are poorly targeted



^a 2016–2019; excludes courses for which there were fewer than 30 enrolments who provided a reason for study. Panel a includes 150 VSL-eligible courses and 115 VSL-ineligible courses. ^b Students graduating or partially completing study from 2016–2018; excludes courses for which there were fewer than 30 responses to the *National Student Outcomes Survey*. Panel b includes 141 VSL-eligible courses and 98 VSL-ineligible courses. Panel c includes 146 VSL-eligible courses and 105 VSL-ineligible courses.

Sources: Commission estimates based on NCVER (2017, 2018b, 2018a, 2019b, 2019a, 2020b, 2020a) and *VET Student Loans (Courses and Loan Caps) Determination 2016* (Cth).

The second concern relates to the automatic application of VSL to all STEM courses. There is no evidence of a shortage of STEM graduates (Norton 2020), and no intrinsic reason to treat STEM courses differently from other courses. Moreover, the STEM-based eligibility rules also have a material impact — as at early 2017, they increased the number of VSL-eligible courses by up to 77.⁹⁰

To summarise, there is a strong case for reforming the course restrictions, as they materially reduce participation in VET courses that deliver good student outcomes and have in-principle shortcomings.

A ‘blacklist’ approach is preferred

The Commission is proposing that the course restrictions be replaced with a ‘blacklist’ of ineligible courses, with the implication being that more courses would be eligible for VSL. This change would mean that courses would be eligible for VSL support unless expressly excluded via the blacklist. The blacklist approach was flagged in the Commission’s interim report and subsequently supported by several participants (for example, ACCI, sub. IR143; BCA, sub. IR145; JCSF Consulting, sub. IR78). It has several advantages.

- A blacklist would be more suited to assessing VSL eligibility for courses that yield middling student outcomes. In most cases, students face strong incentives to choose their course wisely and are better placed than the Australian Government to decide if a given course meets their needs. The Commission’s recommendations to improve information provision should only improve the capacity of students to make choices in their best interests (chapter 6). The blacklist gives students choice from a menu of VSL-eligible courses that the Australian Government has filtered to remove courses highly unlikely to deliver employment-related benefits.
- A blacklist would also be more responsive to changing skills needs. As new skills needs arise, new courses created to meet those needs would be eligible for VSL by default. And existing courses of revitalised importance would also be eligible for VSL, provided that they have not yielded particularly poor outcomes in the past (discussed next).

The blacklist should include only leisure courses or courses that have yielded particularly poor student employment outcomes. To determine the scope of the blacklist, the Australian Government should draw on the National Centre for Vocational Education Research’s (NCVER’s) *National Student Outcomes Survey* and Total VET Activity collection, as well as other surveys and administrative data collections. Other considerations pertinent to implementing the blacklist include the following.

- Data on student intentions and a ‘common sense filter’ should be used to determine whether a course is a ‘leisure course’ (for the purpose of the blacklist). For example, several courses for which a high proportion of students report a primary study motivation of ‘personal interest or self-development’ are religious qualifications, but it is likely that

⁹⁰ Based on unpublished analysis supplied by DESE.

many students responded in this way because of their religious convictions, not because the course had no vocational purpose.⁹¹

- When survey data are used, care should be taken to ensure between-course variation reflects actual differences in outcomes and not sampling error.⁹² A sensible condition would be to require that outcomes uncovered from survey data are found to hold across multiple independently conducted surveys, for example, multiple years of the *National Student Outcomes Survey*.
- Two aspects of the existing course restrictions should be retained.
 - RTOs should be able to apply for RTO-specific exemptions to the blacklist if they can demonstrate that their course delivers graduate outcomes similar to courses not on the blacklist.
 - Courses tied to a licencing requirement of a particular occupation should not be blacklisted.

If governments decide against adopting the blacklist approach, they should consider allowing courses to be eligible for VSL when subsidised by at least *one* State or Territory government. This would enable courses that are relevant only to a particular State or Territory's labour market to become eligible for VSL.

RECOMMENDATION 10.1 — REVISING VET STUDENT LOANS' ELIGIBILITY RESTRICTIONS

The Australian Government, in consultation with State and Territory governments, should replace the existing VET Student Loans course eligibility criteria with a 'blacklist' of ineligible Diploma and above courses. The blacklist should comprise only courses demonstrated, with evidence, to be leisure-related courses or courses with poor employment outcomes.

Providers should be able to apply for an exemption to allow their students access to VET Student Loans for a blacklisted course where it can be demonstrated that the course leads to employment outcomes at least similar to most non-blacklisted courses.

⁹¹ For example, between 2016 and 2019, 64 per cent of Diploma of Ministry and Theology (Stream) students and 63 per cent of Diploma of Christian Ministry and Theology students reported that their primary motivation for study was 'personal interest or self-development'.

⁹² Note that conventional statistical hypothesis testing interpretations ('there is sufficient evidence at the 95 per cent level of significance ...') are not valid when applied to a course chosen for consideration precisely because it is an outlier. This error in interpretation is an example of 'p-hacking' or 'data dredging'.

10.3 Extending VET Student Loans to lower level qualifications

The VSL program's success at expanding participation in courses at Diploma level and above raises the question of whether ICLs should be extended to courses below the Diploma level to help more students afford training. About the same number of students study Certificate IV courses as at Diploma level and above, and about twice as many students study Certificate III courses (chapter 2). The popularity of these courses raises the question of how many students are missing out because they cannot afford the upfront costs, both to their detriment and to the detriment of the broader community.

VSL should be extended to Certificate IV courses

The Commission has examined whether VSL should be extended to lower-level courses — and which ones — by considering six factors:

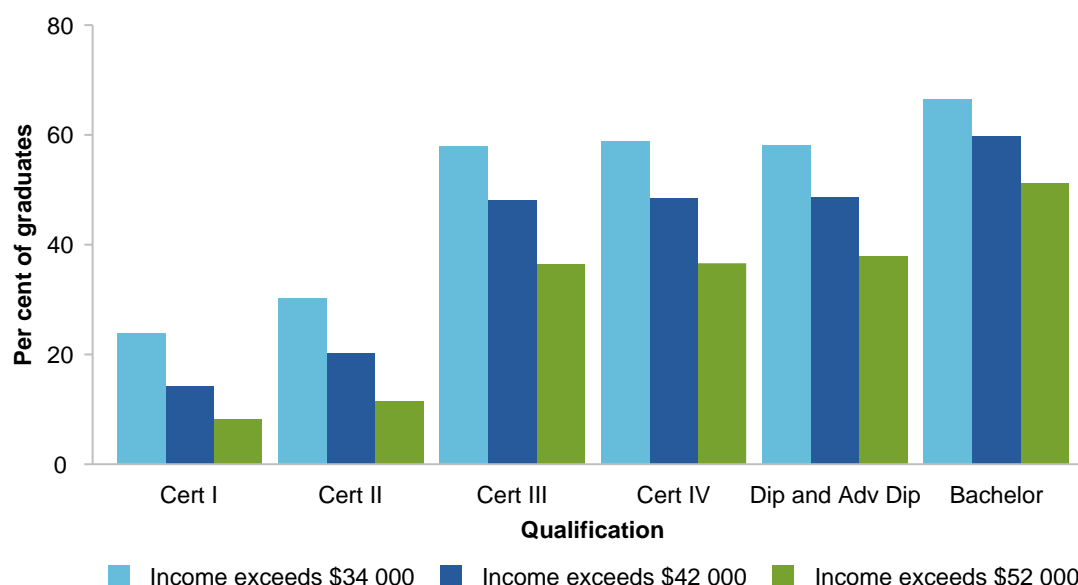
- expected post-VET incomes
- the availability of ICLs through other programs
- the suitability of ICLs for the student cohort at hand
- the extent of upfront cost barriers
- the employment outcomes of the courses in question (and, hence, their suitability for government support)
- the extent to which the lack of ICL support distorts students' choice of course.

The first factor is expected post-VET incomes, which affect the prospects for loan repayment. ICLs are unsuited to circumstances where a large proportion of borrowers undertaking a given course or type of qualification earn very low post-VET incomes. While, in principle, the repayment schedule could be made much more aggressive to counter this, doing so is likely to be unpalatable. The alternative is to expect and tolerate very high levels of unrepaid debt, but this would undermine the integrity of VSL, especially since it already yields higher shares of debts not expected to be repaid than other ICL programs (table 10.1). If governments' objective is to cover large shares of course costs, they should instead do so via large course subsidies, which — in practice — yield similar results to loans with very low repayment rates.

Graduates of Certificate I and II courses typically go on to earn considerably less than graduates of higher-level VET qualifications (figure 10.4). A repayment threshold of about \$25 000 to 30 000 would be needed for the share of Certificate I and II graduates making loan repayments in each given year to mirror the share of Diploma and Advanced Diploma graduates making loan repayments in each given year at the current repayment threshold (about \$47 000). Hence, the Commission's view is that VSL should not be extended to students undertaking Certificate I and II courses.

Figure 10.4 Certificate I and II recipients earn substantially less than Certificate III and above recipients^{a,b}

Cross-sectional age-standardised annual income by qualification, 2016



^a Qualification reciprocity based on highest level of qualification received. ^b Data are age-standardised to account for differences in the age profile of qualification recipients.

Source: Commission estimates based on ABS (*Census TableBuilder*; *Life Tables, States, Territories and Australia, 2016–2018*, Cat. no. 3302.0.55.001).

The second factor is whether VET students can access ICLs from another program. Students who have access to the Trade Support Loans (TSL) program — most domestic trade apprentices, who typically study Certificate IIIs or IVs — should not be eligible for VSL. Under TSL, eligible students can access ICLs of up to \$20 000 over a four-year period (chapter 11). Unlike VSL, TSL are paid directly to the student and can be used for any purpose, including payment of course fees. Moreover, \$20 000 is more than students (with the exception of aviation students) can borrow under VSL (section 10.4), and more than the average cost of delivery of Certificate III and IV trade courses.

The third factor is whether there are any reasons to think that the prospective students of the course in question are inherently unsuited to ICLs. During consultations for this review, some participants suggested that many VET students (especially those undertaking lower-level training) are ‘debt averse’ — unwilling to take out an ICL even when it is seemingly in their interest to do so — and that this makes ICLs unsuited to many VET courses, especially those at lower levels.

The Commission does not share this view. There is only indirect evidence to suggest that VET students undertaking lower level training are more debt averse than students of courses at Diploma level and above (box 10.1). Moreover, while debt aversion may reduce the effectiveness of VSL at expanding participation in VET, it ought to increase the

cost-effectiveness of ICLs, as only those debt averse students who expect a sizeable private return will take on an ICL. These findings suggest an ongoing role for course subsidies (chapter 9), but do not suggest that ICLs should not be offered to particular student cohorts.

Box 10.1 Debt aversion and income contingent loans

The effectiveness of income contingent loans (ICLs) would be lessened if prospective students were ‘debt averse’ — unwilling to take on debts where the expected private returns would exceed the costs. Several participants raised concerns about debt aversion at the Commission’s roundtables.

Debt aversion among prospective VET students has not been thoroughly studied, but debt aversion among prospective university students has. The findings are mixed, but suggest that debt aversion may correlate with lower levels of academic achievement.

- Some surveys of prospective students in the United Kingdom have found that students of lower socioeconomic status were more likely to be averse to taking on ICLs to fund university study (Callender and Jackson 2005; Callender and Mason 2017), while others found no evidence that aversion to ICLs is related to socioeconomic status (Wilkins, Shams and Huisman 2013). Moreover, there are reasons to be sceptical of surveys of debt aversion or desire to study. A study using experimental techniques found no evidence that survey-indicated debt aversion was related to experiment-indicated willingness to take on loans to fund university study (Eckel et al. 2007).
- An experimental study (Palameta and Voyer 2010) found that 5–20 per cent of study participants (Canadian high school students) were averse to university study-related debt, and that debt aversion was explained most strongly by students’ academic achievement (with lower academic achievement predicting greater debt aversion).
- Several Australian studies (Cardak and Ryan 2009; Marks and McMillan 2007; PC 2019b) have found that — controlling for university entrance score (a measure of academic achievement) — university participation is unrelated to socioeconomic status. Others (Andrews 1999; Aungles et al. 2002; Chapman 1997; Chapman and Ryan 2005) found that the 1989 introduction of ICLs to university study did not lead to a reduction in the share of students attending higher education who were of lower socioeconomic status. Neither of these findings are consistent with there being substantial debt aversion among students of low socioeconomic status, although they do not preclude the possibility of substantial debt aversion among students with lower levels of academic achievement.

This may imply that debt aversion is more common among prospective VET students than prospective university students, as the academic achievement of VET students is typically below that of university students (Norton, Cherastidtham and Mackey 2019).

The fourth factor is whether prospective VET students are likely to face upfront cost barriers to VET. Here, the Commission has focussed its analysis on Certificate III and IV courses undertaken by TSL-ineligible students, as other courses and student cohorts have already been winnowed from consideration for VSL.

It is not clear whether the average prospective Certificate IV student is more or less likely to face upfront cost barriers to VET than the average prospective Certificate III student. A larger share of Certificate IV students enrol in courses that are relatively costly to deliver

(suggestive of relatively high course fees) than Certificate III students (figure 10.5, panel a).⁹³ But Certificate III students are more likely to be disadvantaged than Certificate IV students (discussed later), which may have a countervailing effect. It should also be noted that courses at Diploma level and above are typically much costlier to deliver than Certificate IV courses and students of courses at Diploma level and above are about as likely to be disadvantaged as Certificate IV students, which suggests that demand for VSL among both Certificate III and IV students is unlikely to be as large as it is for students of courses at Diploma level and above.

The fifth factor is whether the courses in question deliver adequate employment outcomes to warrant government support. Studies find that Certificate III and IV courses (grouped together) yield material private financial returns, albeit smaller than those of courses at Diploma level and above (Lee and Coelli 2010; Leigh 2008) — although only for students who did not complete high school (about 40 per cent of Certificate IV students and 50 per cent of Certificate III students). Among students who completed high school, these studies found that only Diploma and above courses yielded private financial returns.

Other measures of employment outcomes indicate only small differences between Certificate III, Certificate IV and Diploma and above courses. The share of students whose employment circumstances improved following graduation or partial course completion is similar among Certificate IV courses and courses at Diploma level and above, but a slightly larger share of Certificate III courses perform less well by this measure (figure 10.5, panel b). The differences shrink when attention is restricted to higher cost courses; the courses for which prospective students are most likely to require ICL support (figure 10.5, panel c).

The sixth and final factor is the extent to which prospective students perceive the VET courses in question and higher education courses to be substitutes. The higher the degree of substitution, the higher the distortion that arises from VSL not being available for the courses in question. Certificate IV courses are closer on the Australian Qualifications Framework scale to higher education courses, which suggests greater prospect that students see them as substitutes for higher education courses. This makes Certificate IV courses more suited to VSL than Certificate III courses.

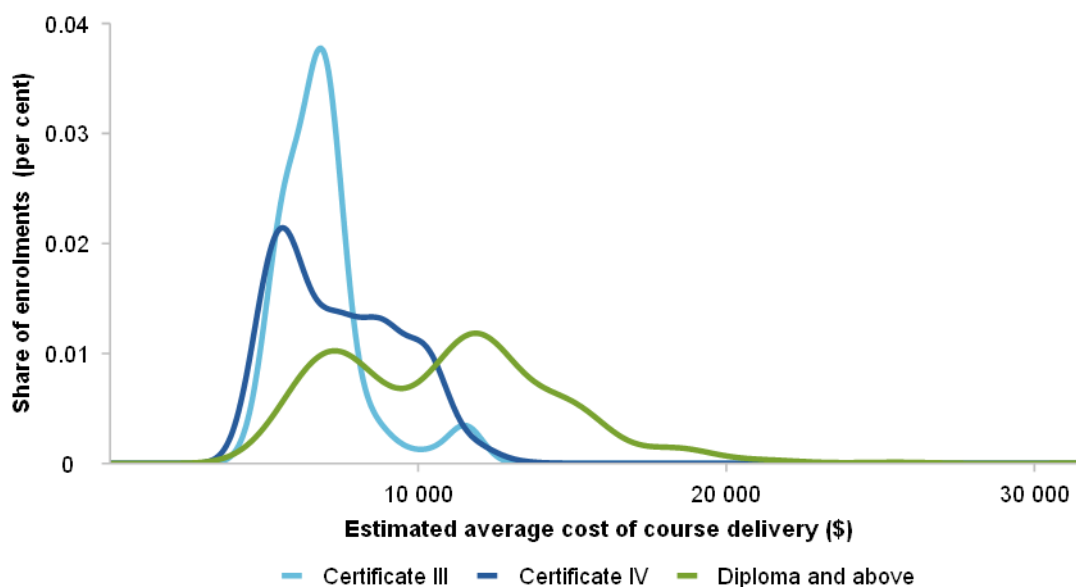
Collectively, the fourth, fifth and sixth factors suggest that VSL should be extended to Certificate IV courses undertaken by TSL-ineligible students, subject to a ‘blacklist’ as proposed for courses at Diploma level and above. Doing so would increase participation in Certificate IV courses, although probably to a lesser degree than VSL has brought about for courses at Diploma level and above. Extending VSL to Certificate IV courses would also benefit some students who would have studied a Certificate IV regardless of VSL arrangements, including the approximately 25 000 students who study a Certificate IV course with a VSL-eligible provider each year on a fee-for-service basis.

⁹³ Course subsidies also influence upfront cost barriers, as larger subsidies lead to lower course fees. But, whereas course subsidies are policy choices that can be changed (potentially alongside decisions about extending VSL), course delivery costs are structural features of the courses in question.

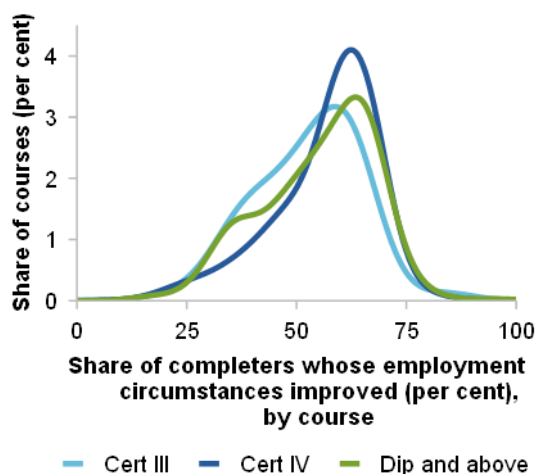
Figure 10.5 Certificate IVs are more suited to VET Student Loans than Certificate IIIs

Excludes enrolments eligible for the Trade Support Loans program

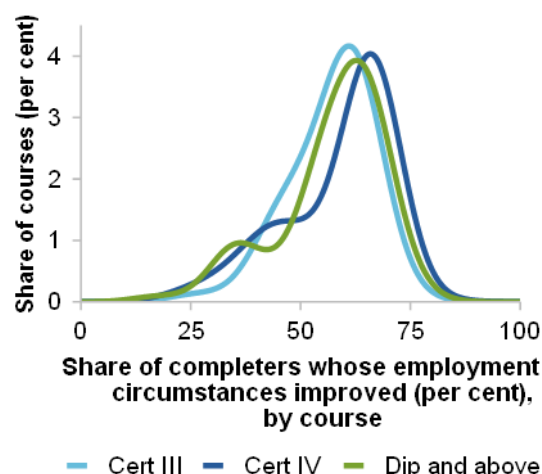
a. Average cost of course delivery^a



b. Employment outcomes by course (all courses)^b



c. Employment outcomes by course (cost exceeds \$7000)^b



^a 'Estimated average cost of course delivery' is based on New South Wales' regulated prices, including loadings to account for the share of students who are Aboriginal or Torres Strait Islander, have disability, or live in regional or remote areas. This is the estimated average cost of course delivery as determined by the NSW Independent Pricing and Regulatory Tribunal. Excludes courses not subsidised in New South Wales. Distribution based on 2018 enrolment volumes. ^b 2016–2018 graduates and partial study completers. Excludes courses for which fewer than 30 responses to the *National Student Outcomes Survey* are available.

Sources: Commission estimates based on NCVER (2018a, 2019b, 2019a, 2020a), Training Services NSW (2020b) and *VET Student Loans (Courses and Loan Caps) Determination 2016* (Cwlth).

Further extension of VSL to Certificate III courses could also be contemplated, but only if the extension to Certificate IV courses is found to be successful (increased participation relative to ICL uptake and no significant decreases to employment outcomes among Certificate IV students).

The remainder of this section discusses the ‘nuts and bolts’ of expanding VSL to Certificate IVs — the terms on which the ICLs are issued and steps to mitigate any risks from expansion.

Certificate IV loan repayment terms should match Diploma and above loan repayment terms

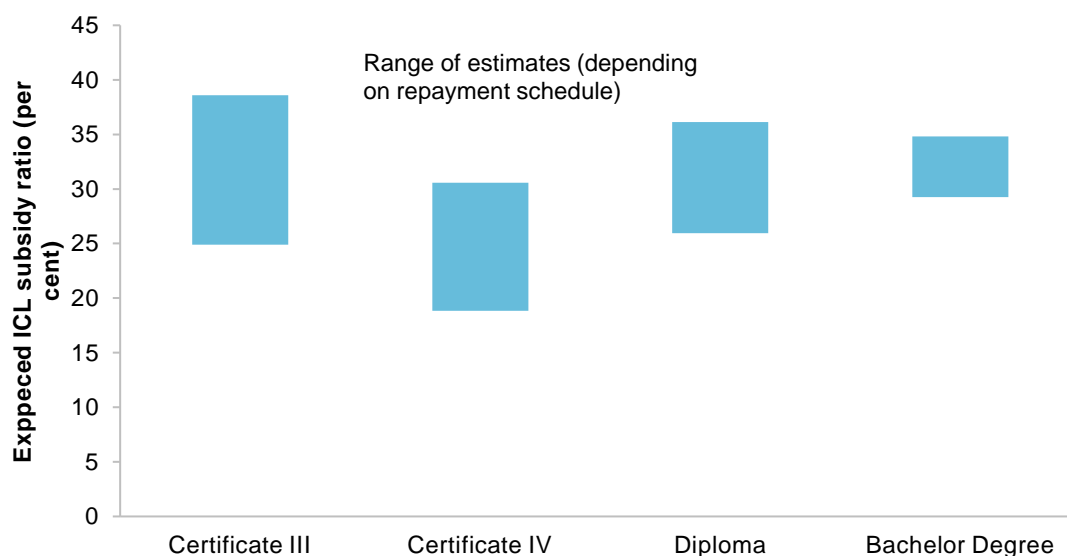
The same repayment schedule that applies to VSL-receiving students of courses at Diploma level and above (the standard HELP repayment schedule) ought to apply to students of Certificate IV courses, as the available evidence (laid out below) suggests that loans issued on the same repayment terms would yield similar shares of debts not expected to be repaid among students of Certificate IV courses and of courses at Diploma level and above.

Chapman and Higgins (2015) modelled the ‘expected ICL subsidy ratios’⁹⁴ that would result if ICLs were available to students of Certificate III and IV courses under various repayment scenarios, alongside expected ICL subsidy ratios for among Diploma and Bachelor degree students. In their central scenarios, the expected ICL subsidy ratio for Certificate IV graduates was 5–10 percentage points below that of Diploma graduates, depending on the repayment schedule (figure 10.6). The reason is that Certificate IV students were expected to take out sufficiently smaller loans than Diploma students to more than compensate for their lower post-VET earnings. However, if VSL were extended, as recommended in this review, the Certificate IV ICL subsidy ratio would likely be somewhat higher *relative* to the Diploma ICL subsidy ratio than Chapman and Higgins’ modelling suggests (box 10.2).

⁹⁴ The ICL subsidy ratio is the total debts not expected to be repaid plus the subsidies implied by the concessional interest rates on the loan as a share of total loans on course completion.

Figure 10.6 Certificate IV graduates have the best prospects for loan repayment when all courses and students are considered^{a,b}

Expected ICL subsidy ratio by qualification under various repayment scenarios, exclusive of loan fees



^a Original modelling results were separated by gender; they have been pooled according to the gender split at each level. ^b The upper range estimate corresponds with 2015 HELP repayment terms, and the lower range estimate corresponds with 2015 HELP repayment terms plus 3 per cent of income between \$50 000 and \$54 000, 2 per cent of income between \$40 000 and \$50 000, and 1.5 per cent of income between \$35 000 and \$40 000.

Sources: Commission estimates based on Chapman and Higgins (2015), DESE (2020z) and NCVET (2020o).

Box 10.2 **Adjustments to Chapman and Higgins' modelling**

If VET Student Loans (VSL) were extended, as recommended in this review, the Certificate IV income contingent loan (ICL) subsidy ratio would likely be somewhat higher relative to the Diploma ICL subsidy ratio than Chapman and Higgins' (2015) modelling suggests.

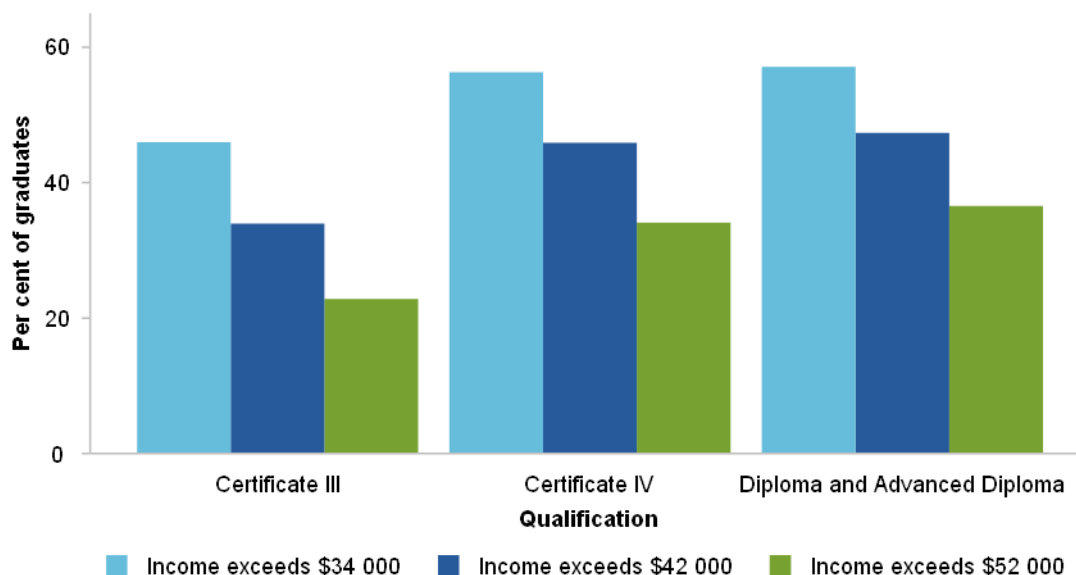
- Chapman and Higgins' central modelling scenario assumed a \$12 000 loan amount for Diploma students and a \$5000 loan amount for Certificate III and IV students. The limited available data on course prices suggest that these assumptions reflect average course prices.^a However, it seems somewhat less likely that a given prospective Certificate III or IV student would require an ICL to cover \$5000 of course fees than that a given prospective Diploma student would require an ICL to cover \$12 000 of course fees. Moreover, 94 per cent of VSL recipients report that they could not afford to pay their course fees in the absence of their loan (KPMG 2019), which suggests that students who do not need VSL tend not to access it. The Commission's recommendation that upfront loan charges be adopted for all VSL should only further this (recommendation 10.4). Hence, it is quite possible that the difference in typical loan size would, in practice, be less than that assumed in the central scenario. To give an idea of the effect of the loan size on the ICL subsidy ratio, consider another modelled scenario — a \$9000 loan amount for Certificate III and IV students (under 2015 higher education loan program repayment terms) gives rise to expected ICL subsidy ratios of 35 per cent for Certificate IV students and 43 per cent for Certificate III students. This compares with an expected ICL subsidy ratio of 36 per cent for Diploma students with a \$12 000 loan amount.
- Chapman and Higgins' modelling did not exclude TSL-eligible students, who comprised 36 per cent of Certificate III students and 10 per cent of Certificate IV students in 2018.^b TSL-eligible students (most trade apprentices) typically earn more post-VET than other Certificate III students. Removing them from consideration ought to increase the expected ICL subsidy ratio for Certificate III students relative to the expected ICL subsidy ratio for Certificate IV and Diploma students.

^a The assumed loan amounts are roughly consistent with the average course costs described in panel a of figure 10.5. These average course costs are the regulated prices for subsidised courses in New South Wales. ^b Commission estimate based on NCVER (2019b).

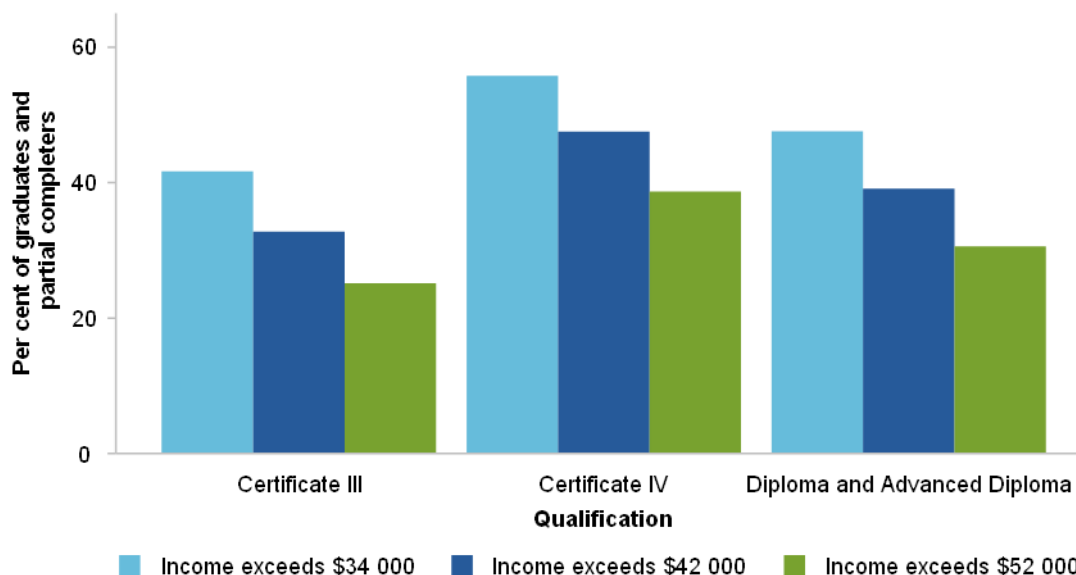
More recent data on graduate and partial course completer incomes suggest that VSL repayment prospects are not worse for Certificate IV students than for Diploma and Advanced Diploma students. In 2016, similar shares of Certificate IV and Diploma and Advanced Diploma recipients earned annual incomes greater than \$34 000, \$42 000 and \$52 000 (figure 10.7, panel a). And, from 2017 to 2019, larger shares of Certificate IV completers earned more than \$34 000, \$42 000 and \$52 000 annually in the year following completion than Diploma and Advanced Diploma completers (figure 10.7, panel b).

Figure 10.7 Incomes are similar among Certificate IV and Diploma and Advanced Diploma recipients

a. Cross-sectional age-standardised and field of education-adjusted annual income by qualification, 2016^a



b. Annual income in the year following completion among graduates and partial completers, 2017 to 2019^b



^a Data have been age-standardised and scaled to match 2018 shares of enrolments (excluding TSL-eligible enrolments) in each field of education. ^b Excludes TSL-eligible enrolments.

Sources: Commission estimates based on ABS (*Census TableBuilder*, *Life Tables, States, Territories and Australia, 2016–2018*, Cat. no. 3302.0.55.001), NCVER (2018a, 2019b, 2019a, 2020a) and Training Services NSW (2020b).

Were VET Student Loans to be extended to Certificate III courses, a stricter repayment schedule may be justified

Were VSL to be extended further to Certificate III courses, there may be a case for adopting a stricter repayment schedule for students of those courses.

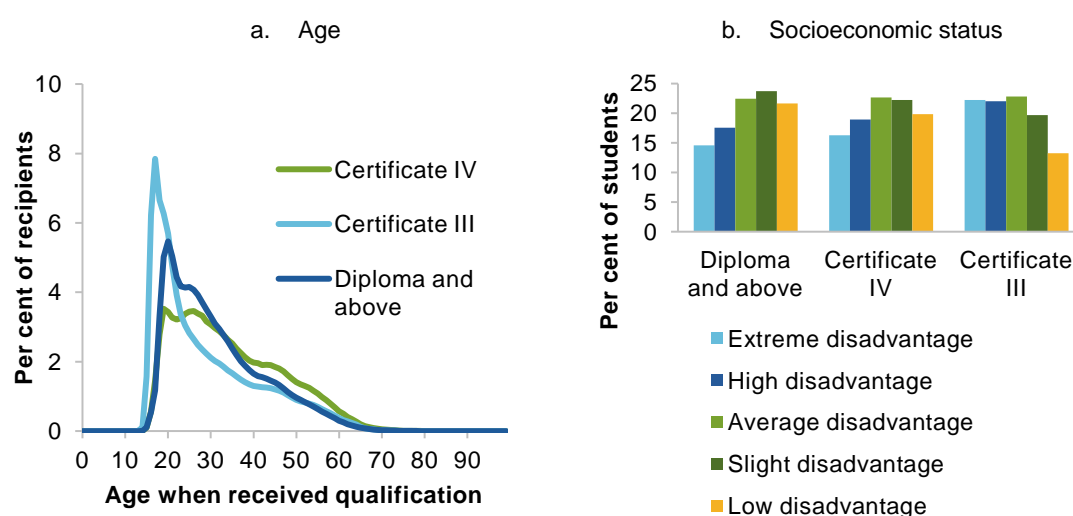
- Chapman and Higgins' (2015) modelling suggests that equivalent repayment terms would yield similar ICL subsidy ratios among Diploma and Certificate III courses. However, if VSL were extended, as recommended in this review, the Certificate III ICL subsidy ratio would likely be somewhat higher *relative* to the Diploma ICL subsidy ratio than Chapman and Higgins' modelling suggests (box 10.2).
- More recent data suggests that Certificate III completers typically earn less than Certificate IV and Diploma and Advanced Diploma completers, both in the cross-section (figure 10.7, panel a) and in the year following completion of study (figure 10.7, panel b).

A cautious expansion, with ongoing monitoring and evaluation

A lesson from VFH is that students will not always respond to ICLs as expected.

While the design of VSL means that the risks of unscrupulous RTOs rorting an expanded VSL program are low, the program might not operate as expected for other reasons. For instance, the students who take up a VSL for a Certificate IV course are likely to differ from students who take up a VSL for a Diploma or above course. Current Certificate IV students are typically older than students of courses at Diploma level and above, and slightly more likely to be disadvantaged (figure 10.8).

Figure 10.8 **Certificate IV students are older and more disadvantaged than Diploma and above students**



Sources: NCVER (2019p, 2020o).

The Commission considers that a cautious approach to extending VSL to Certificate IV students should be adopted, with the following preconditions met before any extension.

- Loan caps should be established for Certificate IV courses to minimise the scope for course price inflation (loan caps are discussed in section 10.4).
- A blacklist comprising Certificate IV courses ineligible for VSL should be established by following a process that mirrors that recommended for courses at Diploma level and above (section 10.2).
- Both levels of government should agree to extend the current sharing of VSL debts not expected to be repaid and the concessional interest costs.

Once the extension commences, there should be ongoing monitoring and evaluation. Special attention should be paid to the following indicators.

- Graduate/partial course completer outcome indicators collected in the *National Student Outcomes Survey*, such as employment circumstances and incomes. If these show a marked decline for a given course (especially over two or more years, given the risks that sampling error could indicate false trends in one year's worth of data), then the Australian Government should consider rescinding that course's eligibility for VSL.
- Changes to course prices and enrolments on an RTO-by-RTO basis. RTOs that sharply increase their course prices and/or accept steep increases in enrolments should face additional scrutiny. To allow for this, the Australian Government should amend the VSL data reporting requirements to require RTOs to supply course prices (that is, course fees plus any subsidies received) for each unit of competency supported by a VSL.

If, after several years, the expanded VSL program is successful (as measured by substantial increases to enrolments relative to loans issued — indicating high additionality and cost-effectiveness), consideration should be given to expanding VSL to Certificate III courses.

RECOMMENDATION 10.2 — EXTENDING VET STUDENT LOANS TO CERTIFICATE IV COURSES

The Australian Government, in consultation with State and Territory governments, should extend the VET Student Loans program to all Certificate IV courses, excepting those courses meeting the 'blacklist' criteria as recommended for Diploma and above courses (recommendation 10.1). Students eligible for the Trade Support Loans program should not be eligible for the expanded VET Student Loans program.

Certificate IV students should be issued VET Student Loans with the same repayment terms as those issued to students undertaking Diploma and above courses.

10.4 Course prices and loan caps

Despite their benefits, ICLs tend to mute price signals to students and thereby lessen price competition between RTOs that offer ICL-eligible courses. ICLs reduce students' sensitivity to course fees, for several reasons. First, income contingency (on post-VET incomes) means

that students are uncertain of whether they will have to repay their loan in full. Second, as repayments occur in the future, they are discounted by students in their decision making. And third, larger loans take longer to pay off than smaller loans but do not prompt higher annual repayments (Chapman, sub. IR129).

This creates risks that RTOs will charge course prices well in excess of delivery costs.

This is not just a theoretical concern. Sharp course price rises were witnessed in New Zealand and the United Kingdom when these countries relaxed price controls for university courses in the presence of ICLs (Chapman, sub. IR129). And in Australia under the former VFH program, average annual course fees per FTE loan-receiving student grew from about \$8000 in 2009 to about \$12 000 in 2015 on a course-equivalised basis.⁹⁵

VSL counters these risks with loan caps that apply on a per-course basis. Each VSL-eligible course is allocated a loan cap — either \$5264, \$10 528, \$15 793 or \$78 967, depending on the course — that sets the maximum amount that a student can borrow to pay for their course fees over that course’s duration. These caps should dissuade RTOs from charging course prices that yield course fees far in excess of the loan cap, because students must pay the difference out-of-pocket. In 2019, 23 per cent of VSL involved an upfront payment because the course fee exceeded the loan cap.⁹⁶

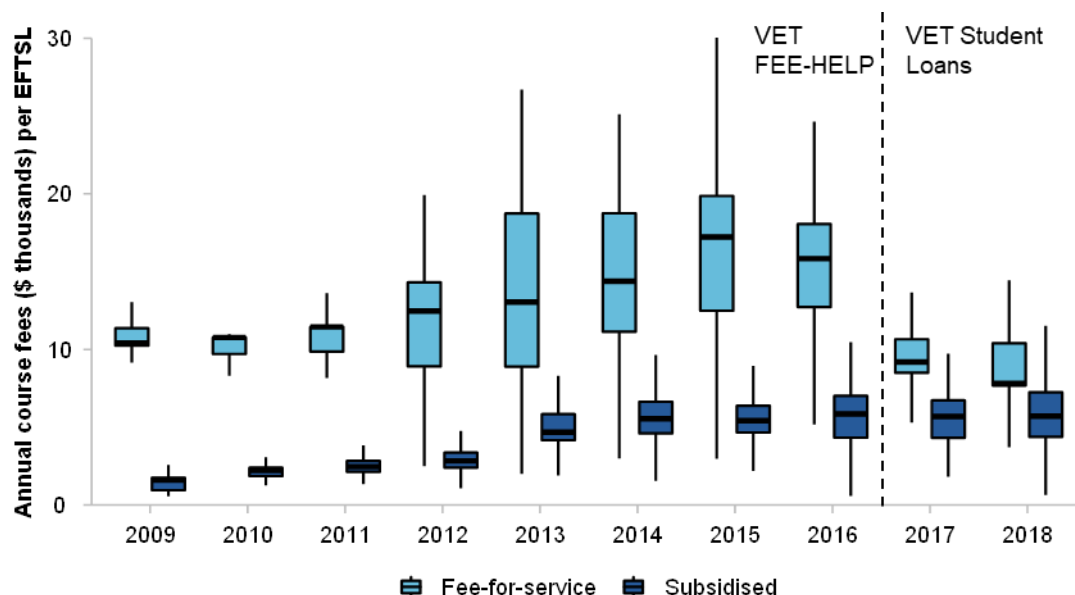
Loan caps are effective at constraining prices

The limited available data suggest that the VSL loan caps have prevented price gouging (although the caps could be improved, as discussed in the next section). On a course-equivalised basis, average course fees per FTE loan-receiving student declined sharply when VFH transitioned to VSL, due to a sharp decline in average fee-for-service course fees (figure 10.9). While some of this decline is likely to be due to the tighter VSL RTO restrictions ejecting RTOs charging excessive prices under VFH from VSL, 17 per cent of VSL-eligible RTOs reported in 2019 that they had reduced their course prices ‘as a result of the VSL program’ (KPMG 2019).

⁹⁵ Productivity Commission estimate based on unpublished data supplied by DESE.

⁹⁶ In 2018, the average out-of-pocket fee for an FTE student (including voluntary out-of-pocket payments and students who did not make an out-of-pocket payment) was \$623 (KPMG 2019).

Figure 10.9 **Average course fees rose under VET FEE-HELP but are lower under VET Student Loans^{a,b}**



^a Includes only courses eligible for both VFH and VSL, weighted by average share of total enrolments over 2009 to 2018. ^b Centre marks show the median value, the surrounding box shows the interquartile range, and the 'whiskers' show the minimum and maximum values exclusive of outliers.

Source: Commission estimated based on unpublished data supplied by DESE.

Nevertheless, as part of the broader debate about VET course price regulation (chapter 9), some participants raised concerns about unregulated course prices in the context of VSL. At present, course prices are not regulated, with the exception of subsidised courses in Western Australia and New South Wales. The New South Wales Government (sub. IR122, pp. 13–14) stated:

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

NSW also notes that potential extension of income contingent loans (ICL) to certificate IV and below qualifications would further dampen the responsiveness of students to price signals, and if implemented with fee deregulation, risks introducing a scenario similar to that which existed under VET FEE-HELP.

And the Business Council of Australia (sub. IR145, p. 28) noted:

History has shown in the VET market that there is the potential for providers to excessively price training. This was a key problem in the implementation of VET FEE-HELP, where the average cost of a loan per enrolment increased by 606 per cent between 2011 and 2014. While the design

of the system allowed this to happen, if student fees are not fixed or placed within a range, this problem could reoccur.

This raises the question of whether price caps should apply for VSL-eligible courses delivered by VSL-eligible RTOs. While the Commission has recommended that, in general, jurisdictions should not place caps on course prices (recommendation 9.3), the case for price caps is stronger for VSL-eligible courses delivered by VSL-eligible RTOs than it is for other courses given the evidence of price inflation under ICL schemes.

Nonetheless, the Commission's view is that price caps for VSL-eligible courses delivered by VSL-eligible RTOs are not desirable for the following reasons.

- Price caps are more likely to prevent high quality course provision than loan caps. High-quality RTOs may need to charge higher prices to recoup their additional costs but may be prevented from doing so if price caps are in place. If price caps prevent them from charging cost-reflective prices, their options are to either reduce their costs (and the quality of the training they offer) or to exit the market entirely — neither of which is a desirable outcome. Loan caps can also put the viability of these high-quality RTOs at risk, but at least allow the possibility that the RTO could charge a gap fee and service the students willing to pay that fee out-of-pocket.
- Loan caps are simpler to administer than price caps. Loan caps are administered by the Department of Education, Skills and Employment. Imposing price caps for all VSL-eligible courses delivered by VSL-eligible RTOs would require a new regulatory framework to be put in place, as there is no precedent for applying price caps to fee-for-service courses. The burden of these arrangements could be substantial if they were to require the agreement and ongoing cooperation of State and Territory governments.

There is scope to refine the loan caps

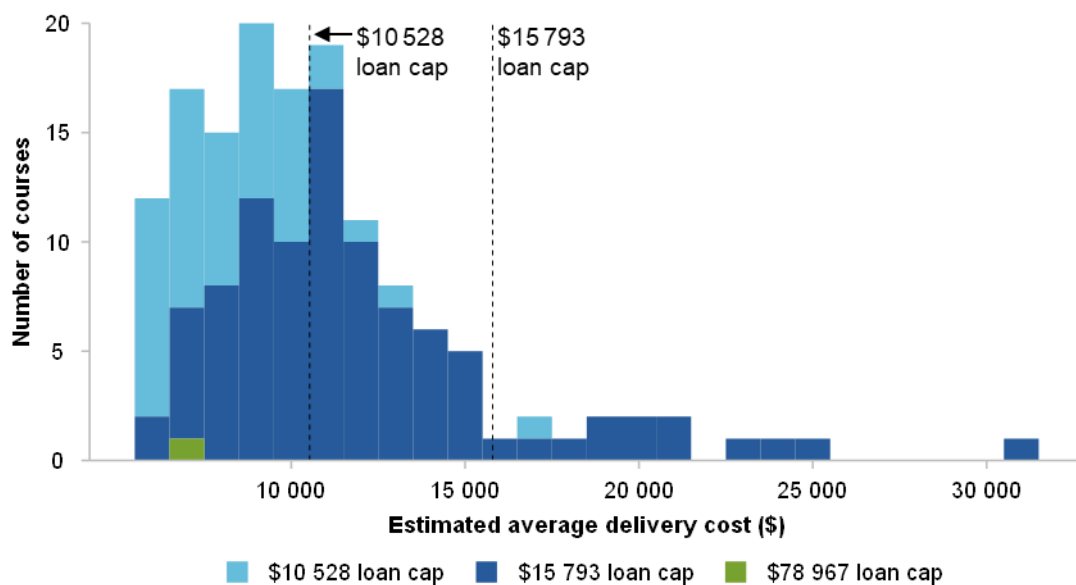
While the VSL loan caps have been, on the whole, effective at preventing price gouging, there is scope to refine them to reflect between-course differences in delivery costs. Doing so would make the loan caps more effective at preventing price gouging and reduce unjustified differences in students' out-of-pocket contributions. For example, in 2018, the average out-of-pocket contribution per FTE student was about \$1200 for information technology courses and food, hospitality and personal services courses, but was less than \$200 for architecture, environmental and related studies; education; and natural and physical sciences courses (KPMG 2019). These differences arise primarily because of the small number of loan caps (there are only four loan cap settings, as outlined above) and the process for assigning courses to caps. A secondary contributing factor is the interaction of loan caps and subsidies.

Increase the number of loan caps and improve the method for assigning courses to caps

At present, the four loan caps do not adequately reflect the cost of delivering the courses that are assigned to each cap.

- There are some courses allocated to the \$15 793 VSL loan cap that are, on average, delivered at lower cost than some courses allocated to the \$10 528 loan cap (figure 10.10).
- Some courses allocated to the \$15 793 loan cap cost, on average, more than \$20 000 to deliver.
- One course allocated to the \$78 967 cap — the Diploma of Aviation (Instrument Rating) — is estimated to cost only \$7000 to deliver, although many RTOs charge around \$35 000 per student.

Figure 10.10 **The VET Student Loans loan caps do not adequately reflect delivery costs^a**



^a Estimated average delivery cost is based on New South Wales' regulated prices with no loadings. This is the estimated average cost of course delivery as determined by the NSW Independent Pricing and Regulatory Tribunal. Excludes courses not subsidised in New South Wales. These are the same cost estimates originally used to formulate the loan caps.

Sources: Training Services NSW (2020b); *VET Student Loans (Courses and Loan Caps) Determination 2016* (Cth).

These outcomes are a consequence of the small number of loan caps and the methodology for allocating courses to caps. For the \$5264, \$10 528 and \$15 793 caps, courses are allocated on the basis of the average delivery cost among courses in their broad field of education (of which there are 12). All aviation courses are allocated automatically to the \$78 967 cap.

There is scope to improve this process by drawing on the estimates of efficient course costs that the National Skills Commission (NSC) is developing. Once these estimates are available (expected 2021 to 2022), the Australian Government should establish more granular loan caps (around 10) based on the NSC's estimate of efficient costs. The intent should be to ensure that every course is allocated to a loan cap somewhat above the best estimate of its efficient delivery cost (a 'cost plus' model) to allow for error in that estimate and to avoid locking higher-quality providers (who may quite legitimately have higher costs) out of the market.

Operationalising this intent will require a thorough understanding of the NSC's approach and consideration of how many loan caps are necessary.

- If the NSC has erred on the side of over-estimating the efficient cost of the course in question, then that course could be allocated to the loan cap immediately above the NSC's estimate. If the NSC has not adopted this conservative approach, the Australian Government should add a loading to the NSC's estimate to account for this.
- The Commission anticipates that there will be more than the current four caps required, but the actual number will depend on the distribution of the NSC's cost estimates.

RECOMMENDATION 10.3 — REFINING LOAN CAPS FOR VET STUDENT LOANS

The Australian Government should increase the number of caps applicable to VET Student Loans and refine its methodology for allocating courses to loan caps by drawing on the National Skills Commission's estimates of efficient course costs.

Consider taking account of subsidies when setting loan caps

The VSL loan caps are not adjusted for course subsidies, despite subsidies directly affecting course fees. Across most jurisdictions, the average subsidy for courses at Diploma level and above is more than half the loan cap applying to that course, meaning that the course price can be more than 1.5 times the loan cap without the student making any out-of-pocket contribution.⁹⁷ This has two negative consequences.

- It means that fee-for-service students need to make out-of-pocket contributions at much higher rates than subsidised students. In 2019, 38 per cent of fee-for-service students taking out VSL were required to make an out-of-pocket contribution, compared with only 15 per cent of subsidised students.⁹⁸
- It may limit the effectiveness of the loan caps at preventing price gouging of subsidised students. The larger the subsidy, the more the RTO can extract from the student without them needing to pay anything upfront. This may partly explain why average course fees per FTE loan-receiving student declined for fee-for-service students but not subsidised students following the introduction of the loan caps (figure 10.9).

⁹⁷ Unpublished analysis supplied by DESE.

⁹⁸ Unpublished analysis supplied by DESE.

These consequences could be remedied by deducting the subsidy from the loan cap for each individual loan. The additional administrative burden of this is unclear, and hence the Commission offers this as a suggested course of action rather than as a recommendation.

10.5 Loan fees and repayment terms

Loan fees should be levied at the same rate on all loans

Students taking out VSL to study fee-for-service courses normally pay a 20 per cent loan fee, while students with a subsidised place in the same course pay no loan fee.⁹⁹ The loan fee is added to the value of the loan; upfront payment is not required.

A somewhat similar arrangement applies for higher education courses. Students taking out loans under the HECS–HELP program (subsidised students) pay no loan fee, whereas fee-for-service higher education students studying an undergraduate degree at a public university pay a 25 per cent loan fee on FEE–HELP loans. However, this comparison is superficial, as fee-for-service study is far more pervasive in VET than in the higher education sector.¹⁰⁰ In 2019, 29 per cent of FTE VSL students were required to pay loan fees,¹⁰¹ whereas fewer than 4 per cent of ICL-receiving FTE Bachelor Degree students were required to pay loan fees in 2013 (the most recent year for which such data are publicly available).¹⁰²

Several participants argued that these arrangements are unreasonable.

- The Business Council of Australia (sub. IR145, p. 35) stated that ‘fair’ treatment would involve all students being charged ‘the same loan fee’.
- TAFE Directors Australia (sub. IR146, p. 25) submitted that ‘the 20 per cent automatic loan fee operates as a tax on participation and is applied inequitably in the tertiary sector’.
- The New South Wales Government (sub. 48, p. 22) suggested that ‘the current inconsistencies in loan arrangements are likely to distort student choices between the VET and higher education sectors’.

⁹⁹ The Australian Government has temporarily exempted VSL from loan fees until 30 June 2021 in response to the COVID-19 pandemic (DESE 2020j).

¹⁰⁰ Moreover, until 2017, university students who received a Commonwealth-supported place but did not take out a HECS–HELP loan received a discount on their course fees. This amounted to an implicit loan fee on HECS–HELP loans.

¹⁰¹ Commission estimate based on unpublished data supplied by DESE.

¹⁰² In 2013 — the most recent year for which data are published — 449 340 Bachelor Degree students received a HECS–HELP loan, and 20 825 Bachelor Degree students received a FEE–HELP loan (by equivalent full-time student load); hence about 4 per cent of ICL-receiving Bachelor Degree students received a FEE–HELP loan (Department of Education and Training 2014). The actual share who paid loan fees will have been lower, as loan fees are not levied on FEE–HELP loans to students studying at private universities.

While it is debateable that loan fees would distort many students' choices between VET and higher education given the many other considerations at play and that the loan fees can be deferred, the differential application of loan fees *within* VSL is unjustified.

- The Australian Government has justified the differential application of loan fees on the basis that it is exposed to the full cost of unrepaid VSL debts and concessional interest on loans to fee-for-service students, but only half this cost for subsidised students (as State and Territory governments bear the other half of the cost) (DIISRTE 2012). This has a logic from the perspective of the Australian Government, but not from a society-wide perspective.
- The differential application of loan fees is not justified by differences in the risks of lending to fee-for-service and subsidised students. The Australian Government Actuary has not modelled the differences in loan repayment between fee-for-service and subsidised students but the Commission's best estimate based on the Australian Government Actuary's modelling is that, once the loan fees are considered, the share of *course fee-related* VSL debts not expected to be recovered is at least 6 percentage points lower for fee-for-service students than it is for subsidised students (appendix D).

Loan fees should be recalibrated to remove the distinction between fee-for-service and subsidised students. The fees should not be removed entirely, as they have desirable properties. They reduce ICL subsidies in a highly progressive way, as they are — in effect — paid only by students who earn a sufficiently large post-VET income to repay the course fee-related part of their ICL debt in full (Higgins and Chapman 2015). The Grattan Institute has previously advocated for universal loan fees (levied at the same rate) on all HELP loans in recognition of these advantages (Norton and Cherastidtham 2016). A loan fee of about 9 per cent of the loan value applied to all VSL would be budget-neutral, although this may change if VSL were extended as the Commission recommends.

Levy a small upfront charge on all loans

ICLs create a risk that some students will see their course as 'free', and not devote adequate time and energy to choosing wisely. This was a significant issue under VFH, in part because of now banned aggressive marketing strategies (Saccaro and Wright 2018). And if students expect to not earn sufficient income post-VET to repay any of their ICL, they have no 'skin in the game'.

To remedy these issues, a small upfront 'loan charge' should be levied on VSL, in addition to a loan fee. The intent of this charge is similar to the 'minimum student fee' for subsidised courses recommended in chapter 9 (recommendation 9.3). The loan charge and minimum student fee should be levied at the same rate.

As with the minimum student fee, the upfront loan charge should be waived on loans to disadvantaged students. This should include students who pay concessional student fees (chapter 9). Consideration should also be given to waiving the upfront loan charge on loans

to fee-for-service students who meet similar criteria to students who pay concessional student fees.

The Australian Government should share the proceeds of the upfront loan charges and loan fees levied on subsidised students with State and Territory governments on a 50/50 basis, in line with the current sharing of VSL costs.

RECOMMENDATION 10.4 — REFORMING LOAN FEES FOR VET STUDENT LOANS

The Australian Government should reform the loan fees charged for VET Student Loans. Loan fees set as a proportion of the loan value should apply to all loans, not just loans issued to fee-for-service students.

A small upfront loan charge should also apply to all loans (with exemptions for disadvantaged students), with its value aligned with the Commission's recommended minimum student fee for subsidised students (recommendation 9.3).

Recover debts from deceased estates

Whereas most unpaid debts — including mortgages, credit card debts, utility bills and income tax liabilities — are collected from a person's estate upon their death, VSL debts (and HELP debts more broadly) are not. There is no clear rationale for this. It does not improve access to VET, and nor does it affect post-VET incomes.

Moreover, both levels of government forgo substantial revenues given that, under current arrangements, unpaid debts from loans to subsidised students are shared equally between the Australian Government and State and Territory governments. About 29 per cent of course fee-related VSL debts are not expected to be repaid (section 10.1). The Grattan Institute estimated that recovering HELP debts from only deceased estates valued at over \$100 000 would reduce unpaid ICL debts for the HELP program as a whole by 27 to 67 per cent (Norton 2014).

Were the Australian Government to collect debts from deceased estates, an issue that arises is whether debtors would respond by restructuring their estates to avoid payment. Debtors could transfer their assets to their next of kin, either to reduce their assets to near zero or to push them below a threshold level if an exemption were in place for small estates. Chapman (sub. IR129, p. 11) suggested a cap on the maximum amount that could be collected from a deceased estate to address this risk:

Perhaps one way to reduce the potential attraction of people moving finances around would be to have a cap on the amount of HELP debt that could be taken from a deceased estate to well below the likely transaction costs of avoidance; to say \$5000?

However, there are already 'gifting' rules in place that prevent older people from transferring their assets to shore up their Age Pension eligibility (Services Australia 2020), and people sufficiently wealthy to not be in contention for the Age Pension are unlikely to have outstanding VSL debts. These rules would, in many cases, provide a strong incentive against

evading posthumous repayment of VSL debts. The option suggested by Chapman seems unnecessary for this reason.

The Commission has previously suggested that HELP debts should be recovered from deceased estates, with protections in place to prevent hardship — exemptions for small estates and estates of debtors at prime working age, and discretionary powers for the Australian Taxation Office to waive debts (PC 2017c).

RECOMMENDATION 10.5 — COLLECTING UNPAID VET STUDENT LOANS DEBTS FROM DECEASED ESTATES

The Australian Government should collect unpaid VET Student Loans debts from deceased estates, with exemptions for small estates and discretionary powers for the Australian Taxation Office to waive debts in cases of financial hardship. (There are also strong grounds to pursue this reform for Higher Education Loan Program debts.)

11 Apprenticeships

Key points

- There are both recent and longstanding policy issues in the apprenticeship system.
 - There have been persistent skill shortages in occupations that rely on apprenticeships as the main training pathway.
 - Commencements have declined over the past decade — trade apprenticeships reached a peak of about 100 000 commencements in 2012, but fell almost 30 per cent by 2019.
 - Completion rates remain stubbornly low — only 57 per cent of apprentices commencing in 2015 completed their apprenticeship.
 - The COVID-19 pandemic has significantly affected employer demand for apprentices.
- Reforms to address these concerns should focus on reducing barriers to the supply of apprentices, lifting completion rates, and simplifying the hiring process for employers. Reforms should not be motivated by the goal of reaching an aspirational number of apprentices.
- There is scope for governments to improve completion rates through the use of screening, which helps match prospective apprentices to courses and support needs. Screening could be extended to other vocational education and training students if found to be cost-effective.
- Mentoring and related supports for apprentices are generally effective at increasing completion rates. Many entities provide overlapping support services, but there is also likely to be unmet demand. Governments could reduce duplication and extend services by making better, coordinated use of the Australian Apprenticeship Support Network.
- Apprenticeships can be rigid and inadvertently restrict the supply of qualified trade workers.
 - Apprenticeship pathways should be made more flexible by ensuring that all modern awards covering trade apprentices provide competency-based wage progression.
 - Non-apprenticeship pathways should be supported with the same course subsidies and supports as apprenticeships.
- Support from employers is essential to sustain the apprenticeship model. Employers engage apprentices for many reasons; modest government incentives are unlikely to be a significant factor. Over time, funding for employer incentives could be reoriented to other, more effective policies. Alternatively, employer incentives could be improved by:
 - considering options that better target incentives to influence employer behaviour
 - cancelling completion payments, and reorienting this funding to apprentice support services, screening programs, or converting them into progress payments
 - streamlining incentives to reduce their complexity for employers (such as simplifying some payments and extending incentives to existing-worker trade apprentices)
 - publishing and disseminating clear information about all government incentives.
- In response to the COVID-19 pandemic, the Australian Government budgeted \$4 billion to provide wage subsidies for new and existing apprenticeships. This is intended to be a strictly temporary measure.

Apprenticeships develop people's skills through a combination of formal training, on-the-job experience and paid employment. Apprentices are both students and employees, making them unique in the vocational education and training (VET) system.

This chapter examines the apprenticeship system to consider ways to ensure that government investment encourages increased participation in training (terms of reference (ToR) 5); promote consistency of funding and incentives (ToR 3); and coordinate government support for apprenticeships (ToR 2). Improving the attractiveness of apprenticeships is also a key reform area in the *Draft VET Reform Roadmap* (SSON 2020b). The chapter is structured as follows.

- Section 11.1 assesses the performance of the apprenticeship system and the extent of any problems.
- Section 11.2 describes the factors that influence students and employers to undertake an apprenticeship.
- Section 11.3 assesses ways to reduce barriers to the supply of apprentices.
- Section 11.4 assesses ways to reduce barriers to employer demand for apprentices.

11.1 How is the apprenticeship system performing?

Traditionally, apprenticeships have been the primary pathway into trade occupations, such as plumbing and carpentry. Gradually, however, the apprenticeship model has been extended into non-trade areas (in which apprenticeships are generally called 'traineeships') such as nursing, childcare and retail.¹⁰³ The number of apprentices rose rapidly in the 1990s and 2000s, peaking at about 515 000 apprentices training in 2012, before reversing and almost halving to 273 000 in 2019 (NCVER 2019e).¹⁰⁴ Apprentices tend to be young males studying Certificate IIIs in trade occupations and working for small employers (figure 11.1). The relationship between an apprentice, employer, and registered training organisation (RTO) is governed by interlocking agreements and regulations (box 11.1).

There is significant uncertainty about how the economic downturn caused by the COVID-19 pandemic will affect apprenticeships. Many of the issues in the apprenticeship system, such as skills shortages and declining commencements, are likely to be exacerbated by the downturn as employers withdraw from the system.

Nevertheless, apprenticeships remain a significant part of Australia's VET system. About 14 per cent of students studying a training package qualification are apprentices (NCVER 2020i). Indeed, Australia has a significantly higher proportion of students training as apprentices than many other OECD member countries (Kuczera 2017).

¹⁰³ A note on terminology: While most State and Territory governments use the terms 'apprentice' and 'trainee', the Commission follows the Australian Government's approach to use 'apprentice' to refer to both. In discussing issues relevant to either, the terms 'trade apprentice' and 'trainee' are used, respectively.

¹⁰⁴ Most data in this chapter do not yet reflect the impacts of COVID-19. Early data are used where possible.

Figure 11.1 **Apprentice characteristics^a**



^a In training as at 31 March 2020.

Source: NCVET (2020).

Concerns about apprentice shortages loom large

Employers and governments have long been concerned by skills shortages in occupations for which apprenticeships are the main pathway (Joyce 2019). Several review participants expressed their concern about shortages of apprentices in the immediate future and the longer term (ACA, sub. 46; AEU, sub. 21; CCF, sub. IR94; JCSF Consulting, sub. IR78).

Before the pandemic, industry had faced significant skills gaps, particularly for technicians and trades workers, and these specialist skill needs will still be demanded into the future despite a likely greater supply of labour. (Ai Group, sub. IR97, p. 11)

Australian Government data identifies persistent skill shortages in a range of occupations, such as automotive electricians, panel beaters, arborists (in shortage for each of the 10 years to 2018) and hairdressers and sheet metalworkers (in shortage for 9 of the 10 years to 2018) (DESE 2019c). However, conceptual and technical limitations make estimating skill shortages difficult (chapter 3).

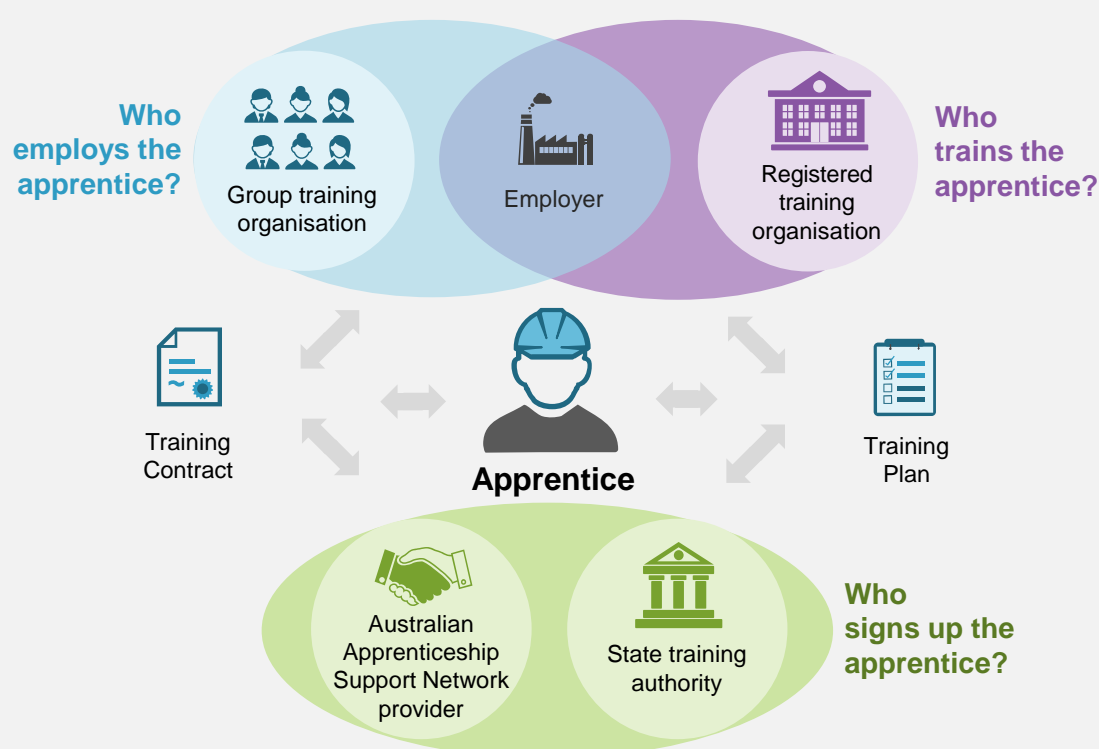
In 2007, the Australian Government developed the National Skills Needs List (NSNL) — a list of occupations experiencing skills shortage and therefore eligible for financial incentives. There are 65 occupations on the NSNL, and they make up about 85 per cent of trade apprenticeships (DESSFB 2019b, p. 5). However, the NSNL has not changed since 2011, and changes in the economy and labour markets mean that only one third of the occupations now meet the selection criteria (DESSFB 2019b, p. 8).¹⁰⁵

¹⁰⁵ The Department of Education, Skills and Employment is currently reviewing the NSNL's methodology.

Box 11.1 Roles of the parties involved in apprenticeships

The apprentice and employer enter into a training contract which outlines the apprentice's and employer's obligations, including supervision and working hours (Australian Apprenticeship Pathways 2020). The training contract is administered by an Australian Apprenticeship Support Network provider and approved by State training authorities. A registered training organisation (RTO) delivers the formal (off-the-job) component of training, conducts assessment and issues the qualification. The apprentice, employer and RTO must agree to a training plan setting out the details of how an apprentice will complete their qualification — including the units they will study, mode of delivery and assessment methods (Training Services NSW 2015).

Who is involved in an apprenticeship?



In the short term, the response to COVID-19 and the economic disruption in its wake will likely reduce the demand for workers, and there may be a reduction in skills shortages or even an oversupply of apprentices in some occupations. For example, GAN Australia (2020) estimated that the number of apprenticeship vacancies fell by almost 75 per cent from January to April 2020 across Australia. Vacancies have since rebounded, possibly because of easing lockdowns across most of Australia and the Australian Government's large wage subsidies for apprentices (section 11.4).

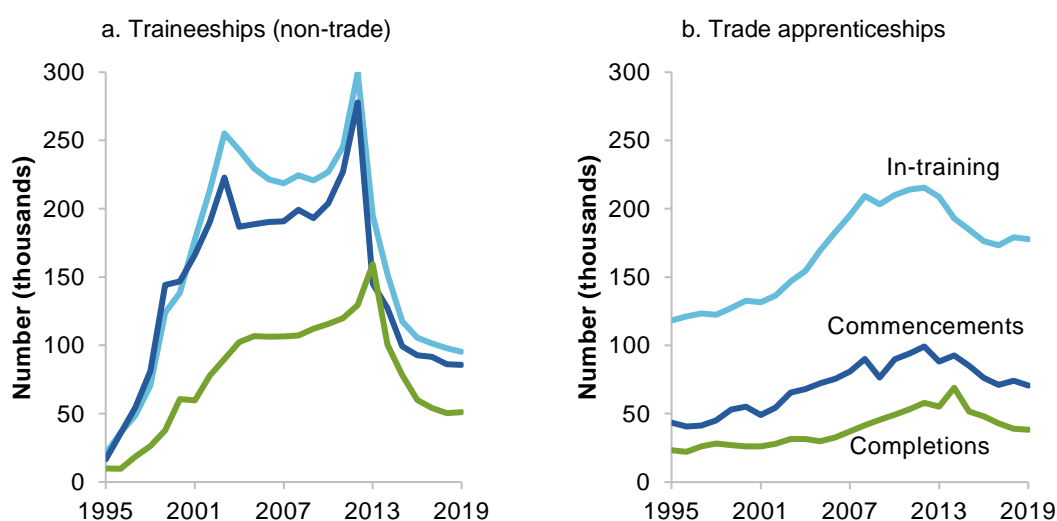
Nevertheless, there is a time lag between demand for workers and the time taken to train them — trade apprenticeships typically take 3–4 years to complete, and traineeships take 1–2 years. Therefore, a reduction in apprenticeships now may lead to a more severe shortage in the future. There is widespread concern that commencements and completions are falling (ACCI, sub. IR143; Ai Group, sub. 47; Canavan 2019; Clarke 2015; ETU, sub. IR118; IEUA-QNT, sub. IR82).

Commencements are declining

The decline in apprenticeship commencements pre-dates the COVID-19 pandemic. The decline was mostly in traineeships (figure 11.2, panel a). After growing significantly from the mid-1990s, traineeships reached a peak of about 280 000 commencements in 2012 but declined by almost 70 per cent by 2019. Many of the occupations contributing to this growth before 2012, such as sales assistants, office managers, hospitality workers and specialist managers, have since recorded sharp declines (NCVER 2019e, table 10). Research suggests that much of this boom–bust in traineeships was associated with changes to eligibility for employer incentives (section 11.4).

During the same period, trade apprenticeships declined somewhat less, although still significantly. They reached a peak of about 100 000 commencements in 2012 but declined by almost 30 per cent by 2019 (figure 11.2, panel b). Only some trades saw a decline (such as food trades workers, hairdressers, and engineering, ICT and science technicians) (NCVER 2019e). Apprenticeships in many other trades (such as construction, electrotechnology and telecommunications) have risen or remained stable.

Figure 11.2 Trends in trade apprenticeships and traineeships^{a,b}



^a In training recorded as at 30 June. ^b Commencements and completions in 12 months ending 30 June.

Source: NCVER (2019e, tables 1, 11 and 15).

Several factors probably contributed to the decline in apprenticeships, including:

- reduced demand for labour in some industries, such as mining, utilities and manufacturing (Gilfillan 2016)
- a decision by the Fair Work Commission (FWC) to boost apprentice pay from 2014, which increased costs for some employers (Noonan and Pilcher 2017, p. 13)
- more people aspiring to undertake higher education (Noonan and Pilcher 2017, p. 14)

-
- structural changes in the nature of work — for example, ‘the proliferation of sub-contracting in the building and construction industry means that some large construction firms no longer employ large numbers of apprentices, and specialised contractors are reluctant to take on apprentices’ (Noonan and Pilcher 2017, p. 14)
 - declining relevance of the apprenticeship model in some occupations, such as hairdressing (Noonan and Pilcher 2017, p. 14).

Apprenticeships are also susceptible to economic cycles, such as the economic downturn triggered by COVID-19. Apprenticeships are the only area of the VET system in which the supply of people in training may be restricted by demand from employers. Early data show that commencements were 11 per cent lower (representing about 6000 fewer apprentices) in the March quarter of 2020 than in the same quarter in 2019 (NCVER 2020d). The National Australian Apprenticeships Association (NAAA, sub. IR88, p. 10) found that the decline in the June quarter was even more severe.

In April and May [Apprenticeship Network Providers] recorded 7,650 and 7,771 sign ups respectively, 33% lower than the 12,639 and 11,591 from April and May 2019. There were 9,889 commencements in June, 15% below the previous year and 22% below 2018 commencements.

Completion rates remain low

Another longstanding observation regarding apprenticeships is that almost half of all apprentices do not complete their training. Only about 57 per cent of apprentices commencing in 2015 completed their apprenticeship (NCVER 2020e, table 1).¹⁰⁶

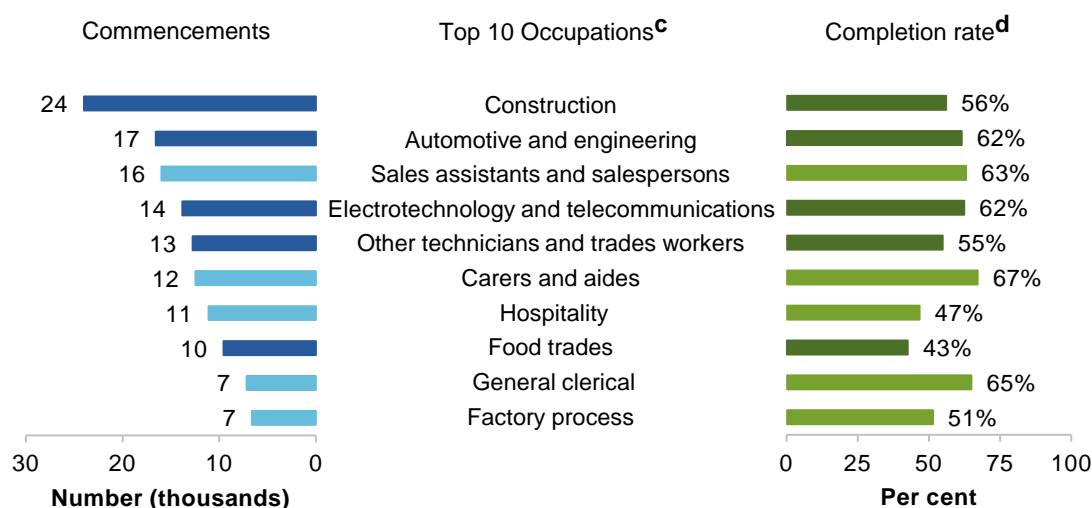
Completion rates vary for apprentices with different characteristics. For example, completion rates for females are lower than for males in trade apprenticeships, but higher in non-trade apprenticeships (Commission analysis based on unpublished NCVER data). Further, within trade apprenticeships, several groups typically have lower completion rates including: those aged below 19 years; people with a disability; Aboriginal and Torres Strait Islander people; school-based apprentices; and those who had only completed year 9 or below.

There is also significant variation in completion rates across occupations (figure 11.3). For example, among apprentices and trainees commencing in 2015, sales support workers had the highest completion rates (79 per cent), while chief executives, general managers and legislators had the lowest (38 per cent) (NCVER 2020e, table 1). Completion rates also vary significantly among trade occupations listed as being in persistent skills shortage (Commission analysis based on unpublished NCVER data). For example, despite both occupations being in skills shortage for 7 out of the 10 years to 2018, pastry cooks and locksmiths had very different completion rates (38 per cent and 60 per cent respectively) for apprentices commencing in 2015.

¹⁰⁶ ‘Completion rates’ refers to rates of individual completions (including completions by apprentices who ceased one contract and started another with a different employer) rather than contract completions (based on the outcomes of training contracts). Contract completion rates tend to be 5–8 percentage points lower than individual completion rates.

Figure 11.3 Completion rates for the top 10 occupations

Apprentices commencing in 2015^{a,b}



^a Darker shades represent trade occupations, while lighter shades represent non-trade occupations. ^b As training takes several years, there is a delay in the reporting of completion rates. ^c Top 10 ordered by number of commencements in 2015. ^d Individual completion rate.

Sources: NCVER (2019e, table 10; 2020e, table 1).

Some level of non-completion is healthy and should be expected. As apprentices gain hands-on experience, it is natural for some to change their mind about their career goals. Others may choose not to complete due to a change in personal circumstances, if they feel that they have gained the skills they require, or if their employer ceases operations.

It can be difficult to determine whether completion rates are reasonable. Completion rates in other qualifications and countries can be a guide, but differences in cohorts mean that a comparison of these rates should be interpreted with caution. The completion rate for apprentices was higher than the average completion rate for all government-funded VET qualifications (48 per cent) commencing in 2015 (Commission analysis based on unpublished NCVER data). However, this overall completion rate increased significantly (from 36 per cent) over the past decade (chapter 2), whereas apprenticeship completion rates hovered between 55–62 per cent (NCVER 2011b). Completion rates for apprentices in Australia tend to be similar to those in comparable countries, such as the United States and Canada (where they are approximately 50 per cent) (ILO 2013, p. 13). However, some other countries — such as Germany, France, Turkey, and Egypt — achieve completion rates over 80 per cent.

There are significant costs associated with non-completion. For example:

- apprentices may receive a lower wage than if they had completed
- employers will have spent resources in supervising the apprentice and paying training costs (including time the apprentice spent at off-the-job training)

-
- governments would have subsidised training, provided employer incentives and incurred administration costs.

This does not mean that all these costs are wasted — for example, the apprentice is likely to have developed some skills to improve their productivity. Nevertheless, the accumulation of costs can be significant, and non-completion limits the apprentice’s ability to work in some occupations (such as licensed trades). Deloitte (2011) estimated that the cost of apprenticeship non-completion in New South Wales was about \$350 million each year, largely driven by the foregone earnings of non-completers for whom entry to the workforce is delayed.

As such, removing barriers to completion would likely improve the cost-effectiveness of the apprenticeship system.

Outcomes for apprentices remain stable

Apprentices who complete their apprenticeships are generally satisfied with their training and achieve strong employment outcomes. In 2019, 88 per cent of apprentices who completed their training were satisfied with their apprenticeship (NCVER 2020c, tables 1 and 2). Further, 88 per cent were employed after training, with almost all finding the training relevant to their job. These outcomes have remained relatively stable over the past decade. Yet these high rates of satisfaction are likely to reflect a self-selection bias — apprentices who are satisfied can be expected to be more likely to complete.

People who do not complete their apprenticeship tend to have poorer outcomes. Just half of apprentices who did not complete were satisfied with their apprenticeship. This will reflect, in part, that some apprentices realised that the course or occupation was not for them. And although 74 per cent were employed after training, just half of those found the training relevant to their current job.

Employers are generally satisfied with their apprentices. In 2019, 78 per cent of employers with apprentices were satisfied with their training (NCVER 2019h, table 1). Satisfaction has decreased slightly since 2009 (when it was 83 per cent).

FINDING 11.1 — ISSUES FACING THE APPRENTICESHIP SYSTEM

There are both recent and longstanding policy issues in the apprenticeship system.

- There are persistent skills shortages in occupations for which apprenticeships are the main pathway.
- Commencements have declined significantly in recent years.
- Completion rates remain stubbornly low, particularly in some occupations (such as hospitality and food trades).
- The COVID-19 pandemic has significantly affected employer demand for apprentices.

11.2 Reducing barriers to apprenticeships

The apprenticeships system operates differently to other areas of VET, given the involvement of employers throughout the process. The number of apprenticeships depends on both the supply of apprentices and the demand for skilled labour by employers.

Karmel (an author of Nelms et al. 2017) considered that the number of apprentices generally reflects the level of employer demand rather than the supply of apprentices. Many people apply for apprenticeships but not all are successful. Indeed, since 2014, over 27 000 people per year applied but did not gain an apprenticeship (equivalent to 14–19 per cent of ongoing apprenticeships) (ABS 2020a). However, there is evidence that some businesses are restricted by the supply of potential candidates: about 40 per cent of businesses surveyed in New South Wales reported that they were interested in employing more apprentices (NSW Business Chamber 2019). These data suggest that there is value in investigating barriers to both demand and supply. Moreover, the influence of either demand or supply is likely to fluctuate over time and by occupation. There are likely to be additional shortfalls in employer demand during economic downturns (such as the downturn triggered by the COVID-19 pandemic).

Both prospective apprentices and employers consider a range of factors when deciding whether to engage in an apprenticeship — including immediate benefits and costs, opportunity costs, and longer-term opportunities and risks (figure 11.4; chapter 6).

What factors influence students to become apprentices?

Apprentices primarily choose to undertake an apprenticeship for job-related reasons (figure 11.5, panel a). There may be an intrinsic interest in working in a job or industry for which an apprenticeship is the main point of entry, or recognition that the job provides good wages once qualified. Apprentices view their training as an opportunity to improve their skills, with a balance between study and paid work.

Figure 11.4 A decision-making framework for apprentices and employers



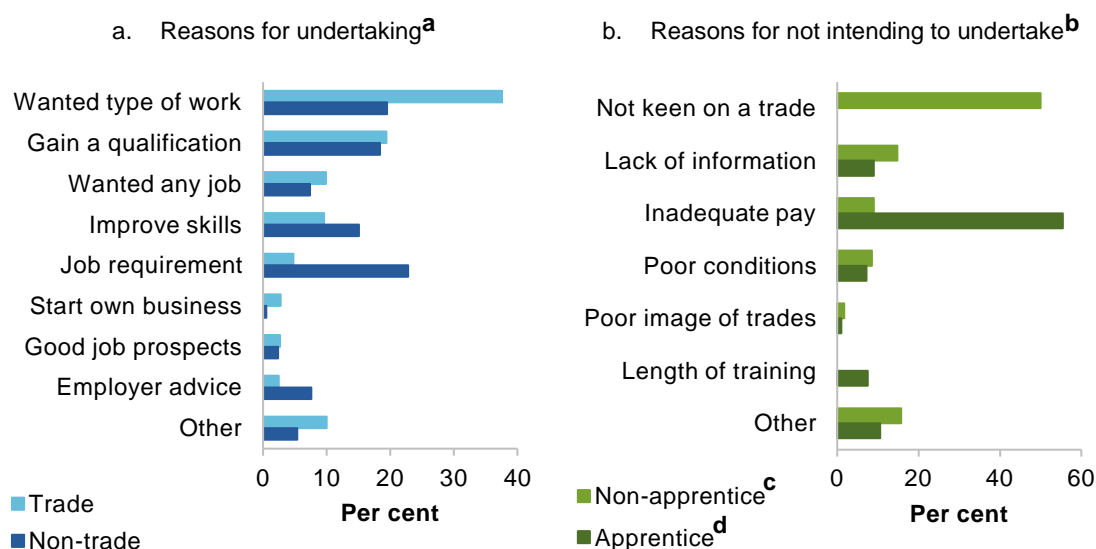
Apprentice 		Employer 	
Benefits	Costs	Benefits	Costs
<ul style="list-style-type: none"> • Desire to work in occupation • Improved skills • Training wages • Future wages • Government incentives 	<ul style="list-style-type: none"> • Training costs incurred by the apprentice • Opportunity cost of alternative employment • Lack of career information • Negative community and individual attitudes • Rigid structure or length of training and work • Risk of problems with employer 	<ul style="list-style-type: none"> • Productive contribution of apprentice • Wage discount • Giving back to the community • Government incentives 	<ul style="list-style-type: none"> • Training wages • Supervision costs • Training costs incurred by the employer • Group training fees • Administration costs • Extra maintenance due to apprentice errors • Risk of non-completion • Risk of poaching

Figure 11.5 Reasons for and against undertaking an apprenticeship



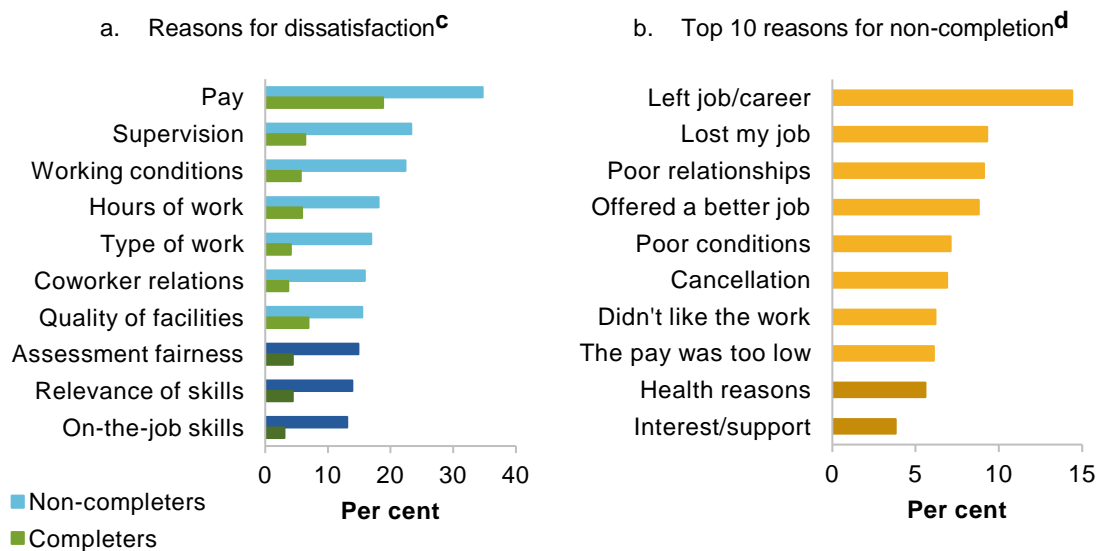
^a Main reason, 2019. ^b Main reason, 2007. ^c Students who indicated that they had no plans to, or had not thought about, undertaking an apprenticeship. ^d Apprentices reflecting on factors that may have discouraged them from undertaking an apprenticeship.

Sources: NCVET (2020c, table 3); Misko, Nguyen and Saunders (2007, table B1.5).

Several factors can prevent people from commencing or completing an apprenticeship.

- *The immediate or prospective benefits may be too low.* Training wages or expected future wages may be too low to attract and retain people. Apprentices gave inadequate pay as a key reason why they might be discouraged from undertaking an apprenticeship (figure 11.5, panel b), and for being dissatisfied (figure 11.6, panel a).
- *The costs of undertaking an apprenticeship may be too high.* In some cases, apprentices pay training costs, and these may be prohibitively high. However, under many awards, the employer pays these costs (FWO 2020). And most apprenticeships attract relatively generous subsidies (section 11.3), reducing this risk.
- *The opportunity cost may be too high.* Apprentices are likely to weigh up the prospects of alternative employment — asking ‘how much could I earn elsewhere?’¹⁰⁷
- *There may be non-financial barriers.* These can include lack of career information, negative community or individual attitudes about the end occupation, or a lack of flexibility in the structure or length of training.
- *The risk that job-related problems will prevent completion.* Apprentices often cite job-related problems, such as working conditions, as a reason for dissatisfaction and not completing their training (figure 11.6).

Figure 11.6 **Reasons for dissatisfaction and non-completion^{a,b}**



^a 2019. ^b Lighter shades represent job-related reasons, while darker shades represent training-related or personal reasons. ^c Any reason. ^d Main reason.

Source: NCVER (2020c, tables 4, 6 and 8).

¹⁰⁷ During economic downturns, lower employer demand may reduce apprenticeship commencements, but at the same time completions may rise as apprentices have fewer alternative job prospects.

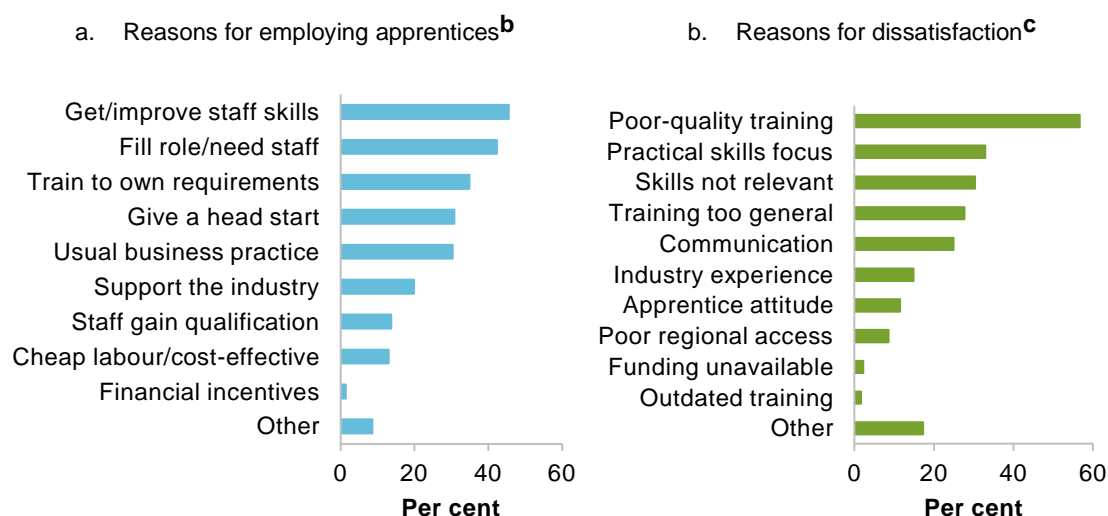
What factors influence employers to employ apprentices?

Employers view apprenticeships as an opportunity to hire a relatively unskilled employee at a significant wage discount, and to train them to be increasingly skilled and productive. They report that the top reasons for employing apprentices are to obtain skilled staff, upskill existing staff, fill a specific role or train to their own requirements (figure 11.7, panel a). Many employers also report that they employ apprentices to give young people a head start and to support their industry.

Several factors can prevent employers from engaging an apprentice.

- *The productive contribution of the apprentice may be too low.* The apprentice's productivity may reflect the quality or relevance of their off-the-job training. Issues with off-the-job training, such as poor training quality or not enough focus on practical or relevant skills, are the main causes of dissatisfaction among employers (figure 11.7, panel b).
- *The costs to employers may be too high.*
 - The training wage may be higher than the value of the apprentice's contribution to the employer (section 11.3), especially during economic downturns.
 - Supervision costs are often the most expensive costs for employers, aside from training wages, with higher upfront costs that decline over time as the apprentice requires less supervision (Nechvoglod, Karmel and Saunders 2009). The NAAA (sub. IR88) estimated these costs at about \$27 000 per apprentice on average.
 - Other costs include training costs paid to the apprentice's RTO, or group training fees paid to a group training organisation. Administration costs can also be significant — such as the time spent understanding complex incentive arrangements, developing training plans, and scheduling work around off-the-job training. Employers may also face additional maintenance or materials wastage costs to repair errors made by the apprentice.
- *The risk that their investment in an apprenticeship will not provide longer-term returns.* If an apprentice fails to complete, the relative costs to the employer are higher: they typically incur higher supervisory costs in the early years of the apprenticeship, without benefiting from greater productivity in the later years. This risk is likely to be greater in occupations with significantly lower completion rates. There is also a risk that apprentices will be poached by another firm, although the limited evidence available suggests that this risk is unlikely to be significant (section 11.4).

Figure 11.7 Reasons for employing apprentices and for dissatisfaction^a



^a 2019. ^b Percentage of all employers with apprentices. ^c Percentage of employers dissatisfied with apprentices.
Source: NCVER (2019g, tables 9 and 17).

Objectives of reform

The case for reform in the apprenticeships system is motivated by long-term trends in declining commencements (which create the risk of failing to meet future demand for skilled labour) and low completion rates (which can be costly). However, it would be impractical for reform to be motivated by the goal of reaching an aspirational number of apprenticeships.

Rather, reforms should aim to reduce barriers to accessing and completing training such that the market can reach an efficient and sustainable allocation of apprenticeships. For example, shortages of workers in occupations requiring a qualification for entry (such as many trade occupations) can be addressed in many ways, some of which are outside the scope of VET policy: providing information to prospective students about job prospects; making training easily accessible; supporting students to complete their training; allowing wages to reflect unmet demand for workers; and recognising migrants' qualifications obtained overseas, to allow people with relevant skills to participate in the labour market.

The rest of this chapter uses the framework above to assess how governments can reform VET policy to reduce barriers to the supply of apprentices (section 11.3) and employer demand for apprentices (section 11.4).

FINDING 11.2 — BARRIERS TO APPRENTICESHIPS

There are barriers to both the supply and demand of apprentices, affecting both commencements and completions.

On the supply side, apprentices often cite job-related problems as key reasons for dissatisfaction and non-completion. Lack of information, negative community and individual attitudes about the end occupation, and rigid training structures can also act as barriers.

On the demand side, employers cite poor-quality and irrelevant training as the key reason for their dissatisfaction. The risk of non-completion, and its associated costs, can reduce employers' appetite to hire apprentices.

Beyond these barriers, other factors may influence an apprentice's and employer's weighing up of the benefits and costs of undertaking an apprenticeship, such as training wages and the productive contribution of the apprentice.

11.3 The supply of apprentices

This section examines ways to reduce barriers to the supply of apprentices.

The role of wages is complex

Unlike most students in the VET or higher education system, apprentices receive training wages as part of their employment and off-the-job training.

Australia's workplace relations system recognises that apprentices are not as productive during their training as fully-trained workers and, accordingly, allows employers to pay a training wage below the normal minimum wage during the apprenticeship. This difference is often termed the 'wage discount'. The level of the minimum training wage varies across industry awards and with the apprentice's age. Training wages rise when the apprentice completes a set period (the time-based approach) or when the apprentice achieves certain competencies (the competency-based approach). The typical four-year wage structure for a junior apprentice who has completed year 12 is 55 per cent of the base rate of a qualified tradesperson in the first year, 65 per cent in the second, 75 per cent in the third and 88 per cent in the fourth (FWC 2013b, p. 2).

While discounted training wages are intended to encourage employers to offer apprenticeships, setting them too low will discourage prospective apprentices or prevent them from completing. In a 2007 survey of students who were not interested in, or had not considered, pursuing a trade apprenticeship, 9 per cent reported inadequate pay for apprentices and tradespersons as the key reason and 42 per cent indicated that higher apprentice pay would encourage them to consider an apprenticeship (Misko, Nguyen and Saunders 2007).

Training wages are not the main reason why apprentices do not complete their training, but they are likely to be a significant factor. Just 6 per cent of non-completers reported low training wages as the main reason why they did not complete their apprenticeship (figure 11.6, panel b). However, 35 per cent were dissatisfied with their wage (figure 11.6, panel a). This raises the question of whether apprentices might have endured other problems with their employment if they were more satisfied with their wages.

Apprentices accept that low wages are part of the deal. But this rapidly breaks down if their on-the-job training and work environment do not meet the terms of their Training Contract. (NAAA, sub. IR88, p. 4)

Some participants suggested increasing the minimum training wage to lift commencements and completions (VTHC, sub. IR87).

The training wage for apprentices is acting as a disincentive to sign-ups. For example, incentivising apprenticeships with a training wage that is 20% below the minimum wage paid to a qualified person, in the second or third year of an apprenticeship, would enhance attraction and retention of apprentices. (ISACNT, sub. 57, p. 11)

The effectiveness of increasing minimum training wages to encourage more apprenticeships depends partly on the extent to which apprentices are paid the minimum rate. There is little empirical evidence to answer this question, although Oliver (2012, pp. 167–171) estimated that, in 2009, only about 21 per cent of trainees and about 36 per cent of trade apprentices were paid award wages or close to them (up to 10 per cent more). Other research has suggested that, at least for some trades (such as electrical and plumbing), apprentices and employers agree that training wages are a reasonably accurate reflection of the apprentice's productivity (Nechvoglod, Karmel and Saunders 2009, pp. 16–17).

The training wage is also just one dimension of a complex dynamic between training wages, future wages, and wages in alternative employment. Karmel and Mlotkowski (2011) found that for trade apprentices, the wage premium from completing — the difference between wages on completion and wages in alternative employment — is more likely to affect completion rates than the training wage. For trainees, the training wage matters more:

... completion rates decrease with increases in the difference between wages in alternative employment and training wages. (Karmel and Mlotkowski 2011, p. 34)

... the wage discount to undertake an apprenticeship job is high. A first-year hairdresser for example earns 63% of the National Minimum Wage. Switching to any other entry level role provides them with a 37% pay rise. (NAAA, sub. IR88, p. 4)

A key issue with adjusting the level of training wages is that wages inversely affect apprentice and employer incentives. While increasing training wages may increase the potential supply of apprentices, it also raises employer costs, reducing their demand for apprentices. It would be counterproductive if wages rose so high that the increase in the supply of potential apprentices was negated by falling employer demand.

A 2013 FWC decision to boost apprentices' minimum pay and conditions (box 11.2) may have contributed to the decline in apprenticeships over the past decade. The Productivity

Commission partially analysed the effects of the decision on a selected number of trade occupations (appendix E). High-level analysis show a large decline in existing worker trade apprenticeships in the years following the implementation of the FWC decision. However, the analysis was not able to conclusively find a causal link between the FWC decision and the effect on existing or adult worker trade apprentices. Further analysis may shed more light. Nevertheless, the FWC will no doubt be acutely sensitive to the risk that future decisions may further restrict employer demand for apprentices, particularly when employer demand is already subdued following the economic downturn triggered by the COVID-19-pandemic.

Box 11.2 **The 2013 Fair Work Commission decision**

In 2013, the Fair Work Commission (FWC 2013b) decided to boost apprentices' minimum pay and conditions. The decision, which was phased in over 2014 and 2015, included:

- increases in junior and adult apprentice pay rates
- the introduction of adult pay rates into some awards that did not contain them
- increases in travel and training expenses borne by the employer
- a 'no loss of pay' requirement for existing adult employees commencing an apprenticeship.

In the Commission's inquiry on the *Workplace Relations Framework*, participants from a range of industries argued that the FWC decision reduced the affordability of apprenticeships for employers and likely contributed to the decline in commencements (PC 2015b, box 5.8). The Commission expressed concern about the potential effects of the FWC decision at the time but, without further analysis, was unable to determine the extent of the effects. In 2017, researchers commissioned by the FWC suggested that the decision was likely to have had only a minor impact.

... the decision made by the Full Bench in the 2013 Modern Awards Review to increase apprentice wages may have played a role [in a decline in the number of apprenticeships], but it seems that any effect appears minor given the prevalence of over award payments to apprentices (which would tend to mitigate any impact of the decision). In addition the lack of uniformity in commencement trends across individual trades suggests that if the 2013 Modern Awards Review Decision had any impact on employer demand for apprentices it was only one of a number of factors. (Nelms et al. 2017, p. 71)

Nevertheless, some employer groups remain concerned about the effects of the decision, particularly in relation to adult apprenticeships.

The minimum wage for adult apprentices is a significant issue which exacerbates the disincentive to taking on an apprentice, notwithstanding that adult apprentices have typically had wider life and work experience and higher productivity. (NAEN, sub. IR126, p. 5)

Subsidies and other financial incentives for apprentices

Governments provide subsidies and other financial incentives to apprentices. While apprentices only make up 14 per cent of students studying a training package, at least 24 per cent of government funding¹⁰⁸ was directed to apprenticeships in 2019 (NCVER 2020g, table 5).

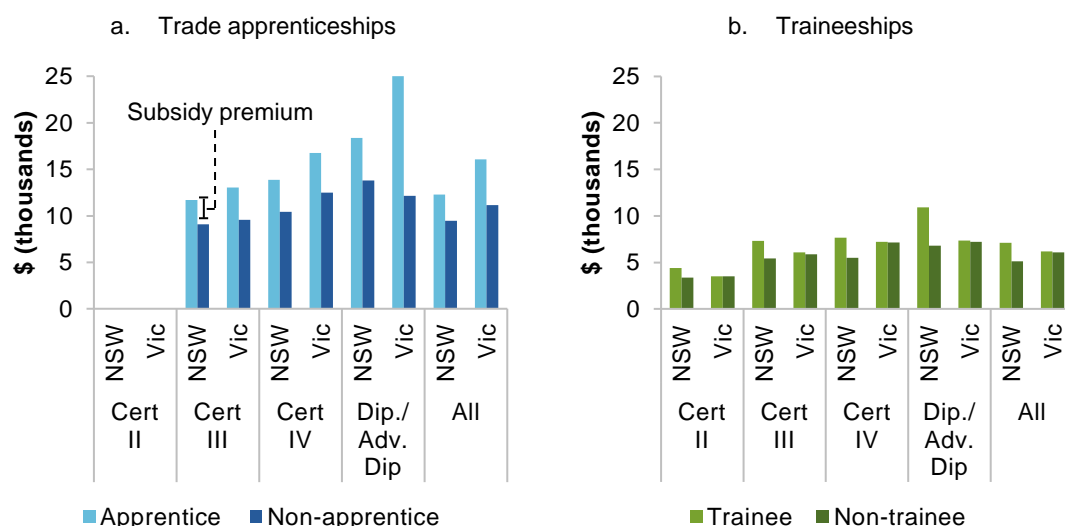
¹⁰⁸ Includes subsidies and incentives, but excludes capital funding, system administration and governance.

Governments provide subsidies for VET courses to reduce training costs. Subsidies are typically higher for trade apprenticeships than for non-apprenticeships. Commission analysis shows that subsidies paid to RTOs for trade apprentices are, on average, about 44 per cent higher than for non-apprentices undertaking the same course in Victoria and 30 per cent higher in New South Wales (figure 11.8, panel a).¹⁰⁹

Trainees also receive a subsidy premium over non-trainees, but this is typically far smaller than the premium for trade apprentices (figure 11.8, panel b). And jurisdictions have different approaches to subsidising trainees and non-trainees. For example, in New South Wales, trainees studying a Certificate III or Diploma in Early Childhood Education and Care receive a subsidy that is about 30 or 60 per cent higher than for a non-trainee. In Victoria, trainees and non-trainees get the same subsidy for these courses.

Figure 11.8 Apprenticeships receive a subsidy premium

Average subsidy for the same courses undertaken as an apprentice and non-apprentice, and as a trainee and non-trainee,^a September 2020



^a In New South Wales, a total of 136 courses subsidised for apprentices were also subsidised for non-apprentices, and 504 courses subsidised for trainees were also subsidised for non-trainees. In Victoria, 34 courses subsidised for apprentices were also subsidised for non-apprentices, and 287 courses subsidised for trainees were also subsidised for non-trainees.

Sources: Commission analysis based on data from DET (Vic) (2020c) and Training Services NSW (2020b).

Higher subsidies demonstrate the priority that governments place on apprenticeships. For example, the Western Australian Government (pers. comm., 25 February 2020) assigns the ‘highest priority’ to apprenticeships because they are ‘employment based’.

In addition to subsidies, some jurisdictions regulate student fees. For example, the New South Wales Government (2019; sub. 48) is fully subsidising 100 000 fee-free

¹⁰⁹ Other jurisdictions do not publish enough information to meaningfully compare the difference in subsidy rates.

apprenticeships (from 1 July 2018) and 75 000 fee-free traineeships (from 1 January 2020). For anyone not eligible, the student fee is capped at \$2000 for an apprenticeship and \$1000 for a traineeship. Some jurisdictions also provide fee concessions for apprenticeships. For example, Aboriginal and Torres Strait Islander apprentices in Queensland pay 40 per cent of student fees (DESBT (Qld) 2020a).

Governments also provide financial incentives to eligible apprentices — such as commencement and completion payments of \$1000, allowances for living away from home, and income contingent Trade Support Loans (box 11.3).

Box 11.3 Government incentives for apprentices

The Australian Government provides several financial incentives programs to apprentices. The largest amount of funding is provided through Trade Support Loans. Eligible apprentices can access loans of up to \$21 542 to help meet everyday living expenses (DESE 2020y). Apprentices are only eligible if they are studying toward an eligible, mainly trade, qualification or occupation. They are only required to begin repaying the loans once they are earning income above a repayment threshold, and receive a 20 per cent discount on their loan amount if they successfully complete their apprenticeship. In 2018-19, the Australian Government funded \$218 million in Trade Support Loans for about 56 000 apprentices (DESE, pers. comm., 12 May 2020).

Apprentices undertaking a Certificate II or above during the first three years of an apprenticeship may also be eligible for a Living Away From Home Allowance if they are required to move away from their parents' home for the apprenticeship. Apprentices receive \$77.17 per week in the first year, \$38.59 in the second year and \$25.00 in the third year (DESE 2020c, p. 108). In 2018-19, the Australian Government supported about 1300 apprentices through this program at a cost of \$2.5 million (DESE, pers. comm., 12 May 2020).

From 1 July 2019, eligible apprentices can also receive the Additional Identified Skills Shortage payment, which provides \$1000 12 months after commencing and \$1000 at the completion of their apprenticeship (DESE 2020c, pp. 110–114). Eligible apprentices must be new to the employer and undertaking a Certificate III or IV leading to an occupation in acute shortage — as identified by the Additional Identified Skills Shortage List (a subset of the National Skills Needs List) — such as carpenters, bakers and hairdressers (DESE 2019a).

Apprentices may also be eligible for other types of Australian Government assistance, such as Youth Allowance, Austudy or ABSTUDY (Australian Government 2019a).

State and Territory governments also provide financial incentives for apprentices, such as a travel allowance and scholarships or grants for target groups (section 11.4).

Before an apprenticeship begins

Several steps taken before an apprenticeship begins can affect commencements and completions.

Career guidance is a key example. Many young people make career decisions with inadequate career guidance or information (about, for example, career prospects), and some do not consider apprenticeships at all (chapter 6; Misko, Nguyen and Saunders 2007, p. 18). People may also be affected by negative perceptions and attitudes about apprenticeships relative to occupations requiring higher education (MBA, sub. IR147). Several reviews, such as the Joyce Review (2019) and the Shergold Review (2020), recommended strategies to improve career guidance both in and out of schools (chapter 6).

School-based apprenticeships can be another way to give young people exposure to different occupations. However, there are some issues with ‘VET in Schools’ programs (including school-based apprenticeships), such as difficulties in adequately connecting training and the workplace (chapter 12). The Joyce Review and the Shergold Review made several recommendations about how to improve the consistency and quality of VET in Schools, including school-based apprenticeships (chapter 12). For example, the Shergold Review recommended that VET only be provided at school if it can be done in a high-quality way with the explicit endorsement of local employers; if this is not possible, students should undertake VET at an external RTO.

Adequate foundation skills (such as literacy and numeracy) are important in determining the success of an apprenticeship. Employers have expressed concern that some apprentices begin with inadequate foundation skills and are likely to struggle as a result (NAEN, sub. IR126). The Commission notes that a coordinated approach by governments is required to support people with poor literacy and numeracy skills (chapter 12).

Addressing these problems, which also exist beyond the apprenticeship system, can be expected to increase the supply of apprentices. However, other barriers within the apprenticeship system can also be addressed.

Screening

Screening can help to detect challenges apprentices may face in completing their training. It can involve identifying support needs (such as foundation skills or mentoring) and assessing how an apprentices’ match with their qualification and employer would help to achieve their career goals (chapter 6).

There is limited evidence of screening’s effectiveness in increasing completion rates. The South Australian Government uses an Upfront Assessment of Need to screen all prospective VET students (chapter 6). The Upfront Assessment of Need was established in 2016, making it too early to discern any effects on completion rates in South Australia compared with other jurisdictions. However, anecdotally, RTOs have reported to the South Australian

Government (pers. comm., 19 October 2020) that improved selection has improved completion rates. Further, the South Australian Government (pers. comm., 10 November 2020) indicated that screening has reduced the cost of delivering support services by better targeting students.

Other indirect evidence also suggests that screening can contribute to higher completion rates. An evaluation of a pilot program in the energy industry largely supported the role of a ‘readiness assessment’ tool as one of several components that led to a 93 per cent completion rate, significantly higher than the 62 per cent rate for the Certificate III Electrician trade qualification (E-Oz Energy Skills Australia 2016). In addition, an evaluation of the Kickstart Mentoring Initiative found that service providers achieved slightly higher apprentice retention rates if their apprenticeship support services were guided by formal risk assessment (Quantum Consulting 2011). Screening was one of several proposals made by business groups:

In the shared proposal with ACCI and Ai Group the Business Council had proposed the following approaches to student and employer support ... A pre-intake process should be developed and used for all potential apprentices and trainees that includes appropriate literacy and numeracy testing, aptitude testing, personality testing and career guidance. (BCA, sub. IR145, p. 42)

The Commission considers that there is a good in-principle case for screening apprentices to increase their prospects of completion, thereby avoiding the cost of non-completion. Screening should use existing data that identifies groups at higher risk of non-completion, to better target individual supports and identify more systemic issues. State and Territory governments should consider establishing screening for apprentices in jurisdictions where it does not already occur. If found to be cost-effective, screening could be extended to all VET students.

RECOMMENDATION 11.1 — SCREENING APPRENTICES

Screening can improve completion rates by ensuring better matching of prospective apprentices and employers, as well as by identifying any need for support services. State and Territory governments should consider screening candidates before their apprenticeships commence (where this does not already occur). Screening could be extended to other VET students if found to be cost effective.

Pre-apprenticeship programs

Some barriers to commencing or completing an apprenticeship may result from a lack of preparation. For example, some apprentices may be entering a work environment for the first time and have difficulty adapting to learning and working at the same time. Others may lack the experience or skills necessary to be considered a competitive applicant for an apprenticeship. Employers generally prefer apprentices to have some work experience.

A key challenge employers face when hiring an apprentice is a lack of work-ready candidates. Learners that commence without being work-ready are less likely to complete their

apprenticeship. This costs employers, trainers and government time and money, and can create issues for the apprentice's future work prospects. (MBA, sub. 41, p. 8)

Pre-apprenticeship programs can prepare potential apprentices for the workplace. The programs are mainly classroom-based, and may provide work experience without requiring a formal contract with an employer. Programs are often undertaken as a Certificate I or II, or as unaccredited training, and can be recognised as prior learning for some apprenticeships.

In 2019, about 25 per cent of apprentices who completed their apprenticeship (and 22 per cent of those who did not) had also completed a pre-apprenticeship or other pre-vocational course (NCVER 2020c). This suggests that over 30 000 apprentices completed a pre-apprenticeship or similar course in 2019. These data do not include people who completed a pre-apprenticeship but did not go on to commence an apprenticeship.

In principle, pre-apprenticeship programs can increase the supply of apprentices and employer demand for apprentices by:

- shortening the commitment and removing the need to secure an employment position for trialling apprenticeship-type training and vocations
- providing skills for applicants to succeed in securing an apprenticeship, particularly applicants facing disadvantage. Indeed, Dumbrell and Smith (2007, p. 10) found that 'about two-thirds of these students were doing the course either to get into an apprenticeship or because they had missed out on an apprenticeship and saw this option as the next best'
- signalling to employers that the apprentice is likely to be more productive at the outset
- lowering the cost to employers by shifting some of the training costs to the apprentice and government. Stromback (2012, p. 9) noted that:

In contrast to employer subsidies, it does this at the margin, by converting applicants below the cut-off mark to above the mark. In contrast, subsidies are payable for all apprentices, including those who would have been trained in the absence of subsidies.

There is broad support for pre-apprenticeship programs. One survey found that (on average) 77 per cent of students undertaking a pre-apprenticeship completed it, and that the majority (70–80 per cent) who completed it went on to undertake an apprenticeship (Toner and Lloyd 2012, p. 3). And the great majority (79–84 per cent) of apprentices who had done a pre-apprenticeship found it relevant to their apprenticeship (NCVER 2020c). There is also support among employers (Dumbrell and Smith 2007), RTOs (Toner and Lloyd 2012), and review participants (Ai Group, sub. IR97; CSQ, sub. IR124).

However, there is limited and mixed evidence about the effectiveness of pre-apprenticeships at increasing apprenticeship commencements or completion rates (Stromback 2012; Toner and Lloyd 2012). Karmel and Oliver (2011) found that pre-apprenticeships may increase the likelihood of apprenticeship completion in some occupations (construction, food and electrotechnology trades), but may reduce the likelihood of completion for others (hairdressers, automotive and engineering trades). Further, the authors found that

pre-apprenticeships had no significant effect on apprentice satisfaction — and that even though apprentices were less likely to discontinue their apprenticeship because they did not like the type of work or training, this did not translate into higher completion rates.

Therefore, there is likely to be no ‘one-size-fits-all’ approach for pre-apprenticeships. Ideally, pre-apprenticeships should be encouraged in occupations where evidence shows that they increase commencements or completion rates.

More research is needed to determine how much pre-apprenticeships increase apprenticeship completion rates and in which occupations. However, the national VET statistical collections do not identify which programs are pre-apprenticeships, making it difficult to analyse activity and outcomes (Dumbrell and Smith 2013; Foley and Blomberg 2011). It is difficult to include an identifier because there is no formal, nationally consistent definition of what constitutes a pre-apprenticeship program. Along with improving research, a consistent definition could also be used to require RTOs to offer higher-quality pre-apprenticeships that readily articulate into apprenticeships. For example, Western Australia has its own definition for pre-apprenticeships that requires them to include a minimum amount of work experience (DTWD (WA) 2020d).

The Australian, State and Territory governments should task the National Centre for Vocational Education Research (NCVER) with developing a nationally consistent definition of pre-apprenticeships and establishing an identifier in its data collections. The NCVER is already doing similar work to reach a common definition of accredited courses aimed at foundation skills as a first step to guide research on the best path forward (chapter 12).

RECOMMENDATION 11.2 — DEFINING AND IDENTIFYING PRE-APPRENTICESHIPS

The Australian, State and Territory governments should task the National Centre for Vocational Education Research with conducting further research into pre-apprenticeship programs. This may require developing a nationally consistent definition of pre-apprenticeships and establishing a pre-apprenticeships identifier in its data collections.

Apprenticeship support services

As noted earlier, apprentices report that job-related problems (such as working conditions or poor relationships with their employer or co-workers) tend to be the main reasons for not completing their apprenticeships (figure 11.6, panel b). A small proportion also report personal difficulties, such as health reasons or lack of interest or support. These challenges can be difficult to deal with, particularly given that most apprentices are young and have little experience of the workplace. Indeed, about half of all trade apprentices commencing in 2015 were aged under 20 years, and this group has consistently had completion rates 20–30 percentage points lower than those aged 20–24 years over the preceding decade (Commission analysis based on unpublished NCVER data).

In some cases, employers may not meet apprentices' expectations for supervision and training. About 10 per cent of complaints to the Queensland Training Ombudsman (2020, p. 7) are apprenticeship-related. The Ombudsman's office noted that over the past five years 'a further key issue identified relates to apprentices not having access to appropriate supervision or the full range of work' (Queensland Training Ombudsman 2020, p. 5).

Readily-available complaints mechanisms can be important in ensuring that poor employer behaviour does not result in non-completion of apprenticeships (chapter 7).

In other cases, apprentices may face challenges in adapting to the requirements of the job despite employers fulfilling their responsibilities. Apprenticeship support services, such as mentoring and pastoral care, can help apprentices to overcome some of these challenges. These services can facilitate the apprentice's career and personal development, provide social or psychological support, and help them to reach their goals.

Evidence suggests that these services are generally very effective at increasing completion rates (box 11.4).

Such support has been recognised as important for at least two decades in Australia and has long been used in the United States (Bond 1999). An 'Expert Panel' review of the Australian apprenticeship system (McDowell et al. 2011) found that mentoring and pastoral care are the most significant support strategies for boosting completion rates. Evidence suggests that these supports are also more likely to improve completion rates than financial incentives (OECD 2018). Their importance has also generally been underscored by qualitative evidence (Billett et al. 2015).

Several entities provide apprenticeship support services

Most apprentice supports are provided through multiple agencies and by multiple levels of government. The private sector also provides some student supports, although the commercial incentives to do so are weak.

Some RTOs provide high-quality student support to differentiate and market their training. For example, VFA Learning's Student Wellbeing Assistance Program achieved a 74 per cent completion rate compared with the 50 per cent norm (DET (Vic) 2017). However, these incentives are blunted because prospective students often do not have the information to differentiate a high-quality support service from a poor one (chapter 6).

Box 11.4 **Evaluations show that mentoring is generally effective**

Australian Government programs

The Kickstart Mentoring Initiative provided mentoring and support services from July 2010 for a period of 12 months to targeted cohorts of apprentices: Aboriginal and Torres Strait Islander people, people with disability, school-based apprentices and those in priority employment areas. A review found that retention rates improved by an average of 14.6 per cent for mentored apprentices compared with previous years' retention rates (Quantum Consulting 2011, p. 55).

The Australian Apprenticeship Mentoring Program, which ran from 2011 to 2015, provided funding for 33 projects to support apprentices in their first year of training (when the risk of dropping out is greatest). An evaluation found that the average program participant had a 5 percentage point greater probability of retention than a comparable non-participating apprentice (Deloitte 2014b, p. 32). This varied between 6.4 and 2.6 per cent depending on the service provider.

The Industry Specialist Mentoring for Australian Apprentices Program, which ran from 2018 to 2019, tendered 24 organisations to provide intensive support to apprentices in their first two years. Several organisations have reported that this led to significantly higher completion rates.

[The program] delivered a 90% retention rate from 50% prior to the program for over 400 automotive apprentices in SA. (MTA (SA/NT), sub. IR119, p. 8)

[The program achieved] an 81 per cent retention rate in the Queensland automotive industry. (MTA Qld 2019)

Based on HIA's final figures at the conclusion of the 2 year mentoring period, an 84% retention rate was achieved for the 3,773 apprentices mentored. (HIA 2020, p. 4)

State and Territory government programs

In 2009, the Victorian Government established the Apprenticeship Support Officer program to mentor first-year apprentices aged under 25 years who were at risk of dropping out (Victorian Auditor-General 2014). A 2014 review found that the program increased the first-year retention rate by about 3 percentage points (Deloitte 2014a). The review also noted that while it may have been a relatively costly method of increasing retention, considerable economic benefits would be expected over the long term.

The South Australian Government provides Learner Support Services for students who are assessed as needing additional support, including apprentices, using a case management model.

The overall completion rate for students receiving [Learner Support Services] is approximately 7 per cent higher than overall completion rates and more than double the average completion rate for students facing complex barriers. (South Australian Government, sub. IR139, p. 7)

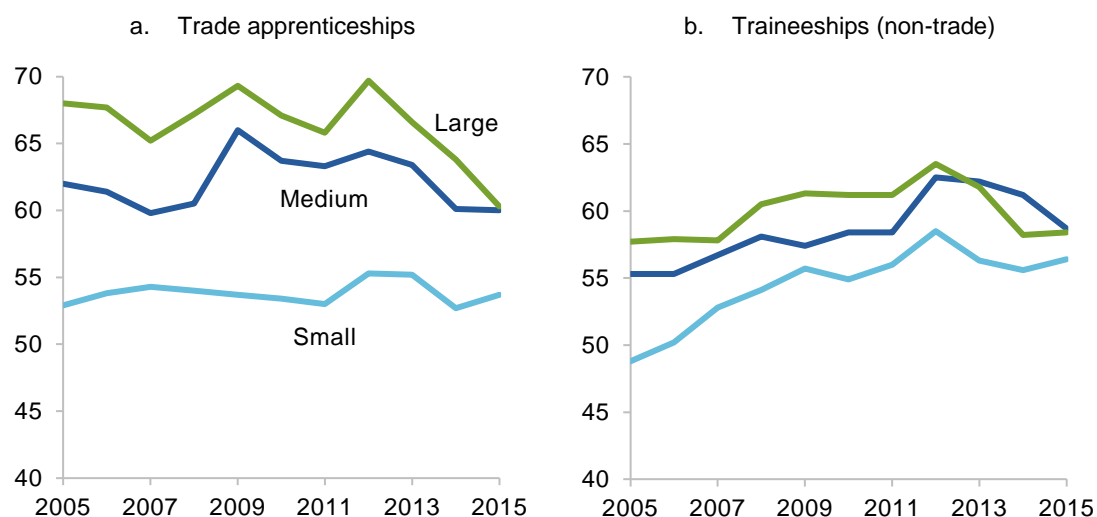
Other studies

A long-term study of mentoring for Aboriginal and Torres Strait Islander apprentices showed that, after 60 months, completion rates were about 55 per cent for apprentices with a caseworker — compared with about 30 per cent for apprentices who did not have a caseworker (Trendle 2014, p. 55). A subsequent study found the program increased Aboriginal and Torres Strait Islander trainees' completion rates by about 10 per cent (Mangan and Trendle 2019).

In New Zealand, a firm-based initiative found that the apprenticeship turnover rate per year was 12 per cent for the group receiving support but 23 per cent for those without (Johnson 2016, pp. 40, 43–44). Support also decreased the average duration of apprenticeships.

Employers have strong incentives to avoid non-completions because their apprentices are likely to become more productive over time. Indeed, evidence suggests that the productive work of apprentices outweighs the cost of training for some employers (Dockery et al. 1997, 2001). However, many employers, particularly small businesses, do not have enough capacity to provide a high-quality training environment and support for their apprentice because of resource constraints and lack of mentoring expertise (Bednarz 2014; Dickie, McDonald and Pedic 2011; O'Dwyer 2019). Indeed, small employers tend to have lower completion rates than larger employers (figure 11.9); this is especially problematic because three in five apprentices work for small employers (figure 11.1).

Figure 11.9 Small employers typically have lower completion rates
Individual completion rate (per cent) by year commenced and employer size^a



^a Small: 0–99 employees. Medium: 100–499 employees. Large: 500 or more employees.

Source: Commission analysis based on unpublished NCVER data.

Group training organisations (GTOs) provide support services as part of their role in employing apprentices, managing their training, and placing them with host employers. They are particularly helpful for small- to medium-sized businesses that face impediments (or do not have capacity) to hire and mentor apprentices. In return, businesses pay GTOs a fee to host an apprentice for on-the-job work experience. For apprentices, the structured mentoring and field officer visits are key reasons why they choose a GTO. However, GTOs only service a small part of the apprenticeship system — they accounted for about 8 per cent of apprentices in the December quarter of 2018 (O'Dwyer and Korbel 2019). Some apprentices prefer to work for an employer directly because they feel more connected to the work and there can be poor continuity of on-the-job learning if job rotations are frequent.

Research suggests that results are mixed when comparing completion rates between GTOs and directly employed apprentices. On the one hand, apprentices employed through GTOs tend to have completion rates 5–10 percentage points higher on average than those directly

employed by small- or medium-sized host employers (O'Dwyer and Korbel 2019). On the other hand, completion rates for trade apprentices employed directly by large employers are more than 20 percentage points higher on average than for those employed through GTOs.

The Australian Government funds the Australian Apprenticeship Support Network (AASN), which is contracted to provide support services for apprentices and employers (among other things).¹¹⁰ Not all apprentices receive these supports — AASN providers typically use a formal risk assessment for all apprentices to identify those in need of support.

The services vary across [AASN providers], but must include mentoring, pastoral care, information and advice on additional training or specialised support services, and liaison with the [State training authority] regarding workplace, dispute resolution or regulatory issues. (DET 2018a, p. 36)

In the past, the Australian Government has also provided ad hoc funding programs that target specific industries or groups at risk of non-completion (box 11.4). Some State and Territory governments additionally provide their own apprentice support programs through State training authorities (STAs) (box 11.4).

There is scope to better coordinate and expand support delivery

The involvement of multiple entities appears to have led to duplication in support services. The Joyce Review (2019) questioned whether the ‘bewildering’ array of support service providers was constraining the effectiveness of support services and confusing users of the apprenticeship system. And a recent performance evaluation of AASN providers found that:

... duplication or overlap of services is an issue in many jurisdictions. STAs in several states have their own officers who go out to visit apprentices and employers to provide information, perform quality checks or conduct mentoring or dispute resolution. For example, in South Australia, employers must go through a registration process in order to be eligible to take on an apprentice, while Victoria has an Apprentice Support Officer program under which all first year apprentices are mentored. (DET 2018a, p. 11)

Many providers claim to be the best placed to provide apprenticeship support services. Several review participants (including GTOs) acknowledged the support GTOs provide to apprentices, and some recommended that this role be expanded (BCA, sub. IR145; HIA, sub. IR137; MBA, sub. IR147; NAEN, sub. IR126; Sparks, sub. IR131; Zoellner, sub. IR107). For example:

The Government could fund GTOs to provide mentoring services to those apprentices and trainees that are employed directly by small businesses. (Ai Group, sub. IR97, p. 21)

While GTOs are well-placed to support the apprentices they already employ, for the vast majority of apprentices who are not employed by a GTO it may be unnecessary to involve

¹¹⁰ Provision of support services became a key feature of the renewed AASN model in 2015 (DET 2018a).

yet another organisation in their training — particularly if a relationship with an existing organisation is able to provide similar supports.

Both STAs and AASN providers are well-placed to be the main providers of support services, because all apprentices and employers are already required to have a relationship with them and because they already provide some support services. STAs approve all apprenticeship contracts in their jurisdiction, while AASN providers already act as the gateway to beginning an apprenticeship. Many stakeholders in the sector regard AASN providers as a trusted intermediary (Alliance of First Nations Independent Education and Training Providers, sub. IR127; DESE 2020w; Misko and Wibrow 2020).

While both levels of government provide support services, the Australian Government provides substantially more funding. The Australian Government has budgeted almost \$950 million for the AASN from 2018-19 to 2022-23 (DESE 2019d). By contrast, the Victoria Government allocated about \$12 million over three years to its Apprentice Support Officers (Mikakos 2015; Tierney 2017). In general, STAs and AASN providers have co-operative relationships.

All STAs report that they have good relationships with the providers in their jurisdiction and have put a considerable amount of effort into getting to this point. STAs are not always aware of what [AASN providers] do beyond the sign-up process as the details are not shared with them, which limits the level of co-ordination between the two. However, some jurisdictions reported a significant level of collaboration and co-operation with providers in regard to identifying and addressing apprentice problems during the course of the apprenticeship. (DET 2018a, p. 11)

In its interim report, the Commission proposed that one option to reduce duplication in support delivery would be for the Australian Government to jointly contract AASN providers with State and Territory governments. This model is already used in the Northern Territory where both governments set the scope of services, assess the tenders, and manage the contract. The Northern Territory does not administer separate support services. Some study participants supported this model (Ai Group, sub. 97). For example:

Feedback from Master Builders NT is positive about the AASN joint contracting model. (MBA, sub. IR147, att. 1, p. 4)

The national peak body representing AASN providers suggested that an alternative to joint contracting might involve additional contracts between AASN providers and STAs.

The Association agrees with these observations, although we recommend that the model used in Queensland (where an additional contract is entered into between the successful [AASN providers] and the STA) may be optimal. This allows for streamlined national procurement and the dovetailing of state requirements. The Northern Territory arrangement has worked well but does require a separate tender process with the potential to delay the national procurement. (NAAA, sub. IR88, p. 23)

The Commission considers that AASN providers are best-placed to provide apprenticeship support services — and that joint or additional contracting can reduce duplication of apprenticeship support services across governments, as well as more generally increasing

cooperation in service provision among STAs and AASN providers. The New South Wales Government (sub. IR122) and Western Australian Government (sub. IR152) both welcomed the opportunity for the AASN to work more collaboratively with State and Territory providers.

There may also be scope to increase AASN providers' capacity to deliver apprenticeship support services (Ai Group, sub. IR97; DET 2018a). Some participants expressed concern with AASN-provided support services because their role is largely administrative (NAEN, sub. IR126), and in some cases they have not provided adequate support before contracts are cancelled or suspended (ETU, sub. IR118; ISACNT, sub. 57). At present, services are targeted to a small proportion of apprentices. In future contract reviews, governments should assess the performance of AASN providers at providing apprenticeship support services and evaluate whether to expand these services to more apprentices who may benefit. Given the effectiveness of supports, they appear to present a stronger return on investment than employer incentives (section 11.4).

The Joyce Review (2019, p. 74) recommended that AASN providers be replaced with its proposed industry-led Skills Organisations, including in their role of providing apprenticeship support services. The Australian Government is trialling this approach in the human services care, digital technology and mining industries (DESSFB 2020). The pilots only recently commenced, but if they are found to be effective, similar contracting arrangements could streamline support delivery.

RECOMMENDATION 11.3 — IMPROVING APPRENTICESHIP SUPPORT SERVICES

The Australian, State and Territory governments should improve the coordination and delivery of apprenticeship support services through more co-operative contracting arrangements. This should involve either:

- the Australian Government and individual State and Territory governments jointly contracting Australian Apprenticeship Support Network (AASN) providers to deliver these services; or
- State and Territory governments setting up an additional contract with AASN providers to deliver these services.

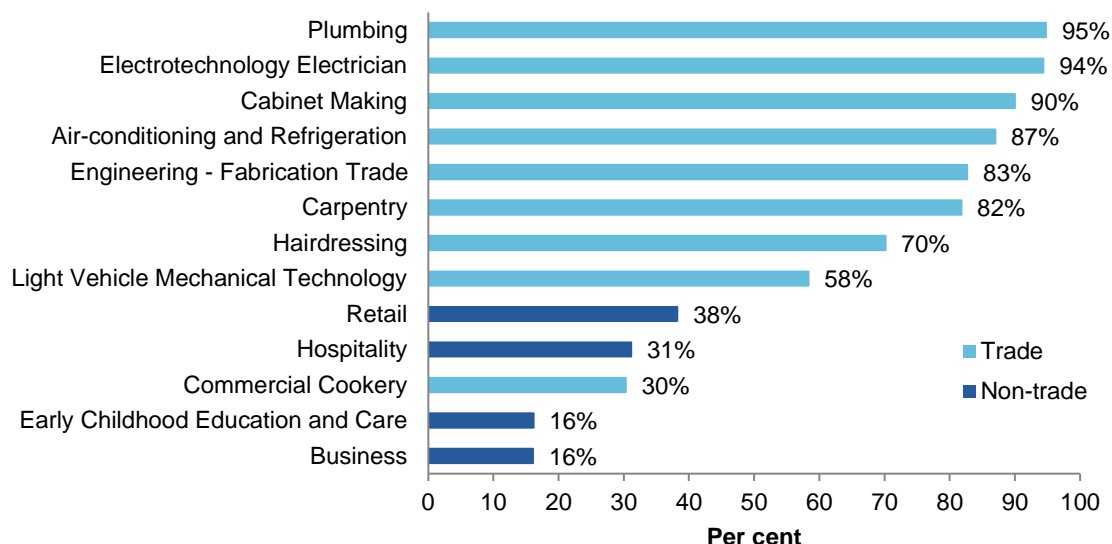
The Australian Government should also assess the level of unmet need for apprenticeship support services and consider expanding these services to increase completion rates.

Pathways to trade occupations

Apprenticeships are the main training pathway for trade occupations (figure 11.10). The top reason people gave for undertaking an apprenticeship was that they wanted to work in a particular occupation (figure 11.5, panel a).

Figure 11.10 Apprenticeships are the main pathway for trade occupations

Selected Certificate III programs^a by the percentage training as an apprentice, 2019



^a The programs selected accounted for about half of all apprenticeship program enrolments in 2019.

Source: NCVER (2020i).

However, the apprenticeship pathway can be rigid, imposing barriers that restrict the supply of workers in those occupations. There is scope to increase the flexibility of the apprenticeship pathway and reduce barriers to alternative pathways to trade occupations.

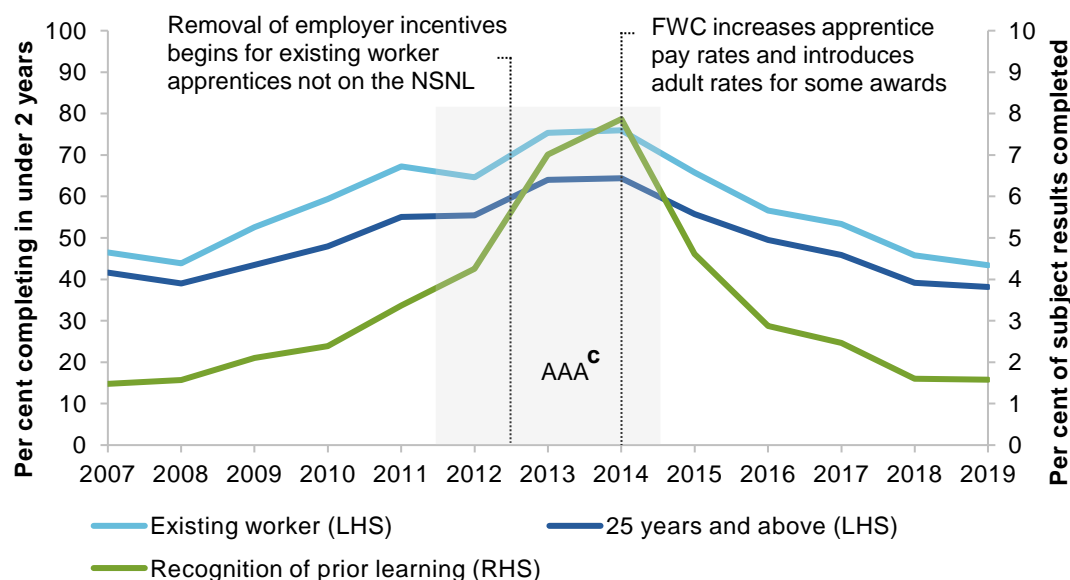
Increase the flexibility of the apprenticeship pathway

Trade apprenticeships can be lengthy, taking up to four years to complete. By comparison, most university Bachelor Degrees take three years. This is a significant time commitment, particularly for mature-age workers who may have significant expenses (such as a mortgage and dependants), and so may need to live on training wages during this time.

From the mid-2000s on, a growing proportion of existing worker and mature-age trade apprentices were completing their apprenticeship in under two years (figure 11.11). However, this trend has reversed since 2014 as the number of existing and mature-age apprenticeships has fallen. This rise and fall may have been affected by many policies, as it coincided with:

- changes to employer incentives for existing worker apprentices (section 11.4)
- the FWC decision to boost adult and existing worker apprentice pay rates
- the rise and fall in the uptake of recognition of prior learning more broadly (chapter 13)
- the Accelerated Australian Apprenticeship initiative to promote faster progression through apprenticeships.

Figure 11.11 Existing and mature-age workers were completing trade apprenticeships^a more quickly, but this trend is reversing^b



^a Trade apprenticeships were identified as occupations under ANZSCO group 3 (Technicians and trades workers). ^b Calendar year. ^c The grey shading is the duration of the Accelerated Australian Apprenticeship initiative.

Sources: NCVER (2019e, 2020k, 2020n).

The duration of an apprenticeship can be reduced through competency-based progression (CBP) and recognition of prior learning (RPL), but this rarely occurs.

CBP allows apprentices to progress through and complete their apprenticeship faster if they can demonstrate competency of skills ahead of the normal time-based schedule. CBP has been a feature of the apprenticeship system since at least 2006, and has been progressively built into modern awards (Clayton et al. 2015). The inclusion of competency-based wage progression (CBWP) in some modern awards requires employers to provide wage progression earlier than the normal annual progression if the apprentice achieves set competencies faster.

Between 2011-12 and 2014-15, the Australian Government provided \$100 million in grants under the Accelerated Australian Apprenticeship initiative to trial industry-led strategies for supporting CBP (Treasury 2011, p. 133). For example, Ai Group (2015) established an Engineering Excellence project which trialled several ways to improve awareness and uptake of CBP, such as formal systems for RTOs to confirm competency with employers. The extent to which this initiative affected uptake of CBP is unclear because it was not evaluated, but the timing of the program suggests that it may have had an effect (figure 11.11).

However, while all apprenticeships must now be completed via CBP (DESE, pers. comm., 22 October 2020), this has been slow to reduce the average duration of training and remains far from the norm (Clayton et al. 2015; Hargreaves and Blomberg 2015; NSW PC 2020,

p. 76). While the average duration of training decreased (and then increased again) for existing worker and mature-age trade apprentices (figure 11.11), this coincided with a temporary uptake of RPL. Further, there was little change in average duration for new workers and apprentices aged 24 years and below (NCVER 2020k). Where CBP is used to reduce the average duration of training, the prime candidates tend to be gifted or mature apprentices (Clayton et al. 2015, p. 9).

Clayton et al. (2015) identified several barriers affecting the uptake of CBP to reduce training duration. For example, some employers believe that quality training takes time, while others have concerns about the financial implications of allowing progression before they have gained full value from a reasonably skilled worker at a relatively low cost. CBP also depends on RTOs implementing administrative and training arrangements that make it possible for apprentices to train in a flexible way and progress at varying rates. While cultural change is inevitably slow, governments still increase the uptake of CBP by reducing the remaining policy barriers.

One reason why CBP may not have had much effect on training duration is because modern awards for some occupations, such as the Electrical and Plumbing Awards, still only allow wage progression based on time served (FWO 2020). This can deter prospective apprentices who are experienced and believe that they could receive higher training wages sooner. In 2013, the FWC (2013a) noted that only nine modern awards provided some form of CBWP for apprentice wages, and extended this to a further five awards. It is unclear why CBWP remains unavailable for some awards; however, where there are concerns about its implications for quality, there may be a further role for independent assessment (chapter 7). Further, where there are concerns that some RTOs may sign off on competencies too early, modern awards generally give the employer a chance to dispute the decision. The FWC should extend CBWP for apprentice wages to other modern awards with apprentice entitlements in trade occupations.

RPL goes hand-in hand with CBP, improving the flexibility of apprenticeships by reducing the amount of training needed for apprentices who demonstrate relevant experience or skills. RPL tends to be used more by existing worker and mature-age trade apprentices because they are more likely to have gained relevant experience. Trade apprentices' use of RPL grew from 2007, peaking in 2014 when 8 per cent of all subject results were completed using RPL, before falling sharply back below 2 per cent (figure 11.11). This rise and fall was likely affected by changes in the uptake of RPL more broadly (chapter 13). There is scope to reduce barriers to RPL (chapter 13).

Reduce barriers to non-apprenticeship pathways

One way to increase the overall supply of workers in occupations dominated by the apprenticeship pathway is to encourage alternative (non-apprenticeship) pathways to these occupations. While this may not change the supply of *apprentices* — and indeed might even decrease it (for example, if some would-be apprentices choose a non-apprenticeship pathway) — it is likely to increase the number of students training for jobs in these occupations.

A key problem with the apprenticeship pathway is that apprentices can only begin training once they have found work. This is particularly problematic during economic downturns, when employer demand falls.

Non-apprenticeship pathways to trade and non-trade occupations already exist (figure 11.10). For example, a student can choose to study a Certificate III in Cabinet Making either as an apprentice or not as an apprentice. However, in some cases, industry-specific rules may block non-apprenticeship pathways. For instance, in New South Wales a student must complete a Certificate III in Air-conditioning and Refrigeration to be licensed (NSW PC 2020); however, people under 21 cannot work in the industry unless they are an apprentice and students can only enrol in the non-apprenticeship pathway if they are already employed in the industry. In another example, the Queensland Water Directorate (sub. IR90, p. 2) stated that:

There are also restrictions in some streams within the National Water Training Package that require a trainee to be employed on a water or wastewater treatment plant to be able to complete a qualification. Alternative arrangements to deal with the practical elements of those components of the training package to allow other learners to participate in water and wastewater treatment training may assist with attraction to the industry ...

Governments can supplement apprenticeship pathways by reducing barriers to institution-based pathways. One option could be for students without any prior experience to front-load their institution-based training to receive a provisional qualification that is completed once they undertake work experience (Karmel and Rice 2011). Students with prior experience or skills could have those recognised as prior learning and complete the institutional training in a way that suits them. In 2013, the Queensland Government trialled a program offering existing workers an alternative to a traditional apprenticeship, in which trade-related skills, competencies and training already gained would be recognised toward the trade qualification (Langbroek 2013). Also in 2013, the Australian Government provided \$69 million for about 4000 training places in an Alternative Pathways to the Trades pilot of non-apprenticeship pathways (DESE, pers. comm., 22 October 2020). Candidates were to spend 12 months in institutional training before being placed with an employer. However, the program was not evaluated.

Another option may be to rely solely on an institution-based pathway. In some trades, most competencies are already completed at the RTO rather than in the workplace.

Carpentry apprentices ... were less likely to be able to get experience in all of the competencies in the qualification unless they were employed by a large company, which meant they could access different construction sites. As a consequence, the majority of apprentices in this trade covered all their competencies at TAFE. (Clayton et al. 2015, pp. 23–24)

The New South Wales Productivity Commission (2020) recommended that the New South Wales Government introduce two new non-apprenticeship pathways to supplement the apprenticeship pathway. The first would enable Higher School Certificate-holders to complete institutional training within two years, while the second would enable mature-age workers to complete institutional training within 18 months by recognising their previous skills and experience. The students would achieve the same competency standards through

alternative methods such as prior experience, unpaid work, simulated work, or paid employment outside of an apprenticeship contract.

Students can benefit from non-apprenticeship pathways if they are unable to find an employer or if the pathways offer more flexibility in training duration and structure. Institutional pathways may also improve completion rates because they can avoid many of the employment-related issues that are the main reason for non-completion (figure 11.6, panel b). Employers can benefit from non-apprenticeship pathways because most of the costs associated with employing an apprentice — training wages and supervision costs — are transferred to the apprentice and governments. This is likely to be particularly useful for small employers, which typically have less capacity than large employers to provide a high-quality training environment and support their apprentice through to completion.

State and Territory governments can encourage non-apprenticeship pathways by eliminating the difference in subsidies and loans between apprentices and non-apprentices undertaking the same course. As shown above, government subsidies tend to favour apprenticeship pathways; whereas ideally there would be no difference in the subsidies available to students undertaking the same courses as apprentices or non-apprentices. Further, students studying toward priority trade occupations can receive a Trade Support Loan (TSL) only if they are an apprentice (box 11.3); another way to put both pathways on an equal footing could be to extend TSL to students on non-apprenticeship pathways to trade occupations. While there are some safeguards in the TSL program (such as payments in arrears), additional safeguards and regulation would likely be required to prevent people from rorting non-apprenticeship pathways which lack the scrutiny of an ongoing employer relationship.

Clearly, non-apprenticeship pathways into trade occupations can increase the supply of skilled workers. Some stakeholders in the sector may be averse to encouraging non-apprenticeship pathways given the strong tradition of apprenticeships and concerns that students will not develop the necessary competencies. It would be essential for these alternatives to retain high standards; the existing requirement to hold an occupational license should help to alleviate quality concerns. Further, students taking non-apprenticeship pathways should receive information about any licensing rules that require them to have some workplace training or experience. In the wake of the COVID-19 pandemic, governments can encourage non-apprenticeship pathways to enable students to continue training and build skills for occupations with skills shortages.

RECOMMENDATION 11.4 — IMPROVING PATHWAYS TO TRADE OCCUPATIONS

The Fair Work Commission should make apprenticeship pathways to trade occupations more flexible, particularly for existing and adult workers, by ensuring that all modern awards covering trade apprentices provide competency-based wage progression.

Non-apprenticeship pathways should also be supported as a legitimate alternative to traditional apprenticeships.

- State and Territory governments should ensure that students receive the same level of course subsidy whether they undertake an apprenticeship or a non-apprenticeship pathway to trade occupations.
- The Australian Government should consider extending Trade Support Loans to students undertaking non-apprenticeship pathways to trade occupations if adequate safeguards can be developed to avoid the potential for rorting.
- The Australian, State and Territory governments should examine ways to reduce industry-specific barriers to students training through non-apprenticeship pathways (such as rules that students must already be employed in the industry).

11.4 Employer demand for apprentices

Employer demand for apprentices depends on whether an apprentice's productive contribution outweighs the cost of hiring and training them. The level of training wages, which is discussed in section 11.3, is a key input into this decision. To some extent, section 11.3 also addresses other barriers to employer demand. For example, screening, pre-apprenticeships and apprenticeship support services can increase completion rates, thereby making employers more willing to recruit more apprentices.

A key issue affecting demand is employer dissatisfaction with off-the-job training, for instance, if they consider it to be irrelevant or poor-quality training (figure 11.7, panel b). This is in line with a long-term decline in employer use of, and satisfaction with, the VET system more broadly (chapter 2). Improving the quality of VET services will involve several areas of policy and regulation (chapter 7).

This section focuses on governments' use of employer incentives, which aim to tip the balance of employers' decisions toward hiring apprentices, and the extent to which poaching is a substantial risk.

Employer incentives

Governments provide employers with financial incentives to hire apprentices. These payments are typically made on commencement and completion of an apprenticeship (box 11.5). In the Australian Government's main employer incentive program, payments can range from \$1500 to \$15 000 over the life of the apprenticeship, depending on the

apprentice's attributes (such as their age or occupation). In 2019, the median payment was \$2500 per apprentice (DESE, pers. comm., 22 October 2020).

Employer incentives are unlikely to provide a strong return on investment

Employer incentives, as designed, are widely seen to have little effect on the decisions made by employers of trade apprentices, largely because they are modest relative to the cost of hiring and training (Deloitte 2012; Karmel and Rice 2011; McDowell et al. 2011; Pfeifer 2016; Smith and Bush 2011). For example, Nechvoglod, Karmel and Saunders (2009, p. 24) found that employer incentives accounted for 2–3 per cent of the employer costs of hiring a trade apprentice.¹¹¹ Further, the effective incentive is less than the notional payment of \$4000: 62.5 per cent of the payment is paid on completion, which only occurs about half the time (box 11.5; section 11.1). Conversely, the current incentives could constitute a significant proportion of the expected return on investment of hiring an apprentice,¹¹² although this is difficult to model accurately for the diverse range of firms employing apprentices.

Overall, modest employer incentives provided to all employers are only likely to change the behaviour of a small number at the margin (OECD 2018, p. 47). Fewer than 2 per cent of employers reported financial incentives as a reason for employing apprentices (figure 11.7, panel a). Nevertheless, employer incentives may still contribute to their overall decision.

The importance of incentive size was recently shown for traineeships. Large fluctuations in the number of traineeship commencements — which reached a peak of about 280 000 commencements in 2012, but fell by almost 70 per cent by 2019 — have been linked to changes in employer incentives (box 11.6). A key reason for this may be that incentives make up a significant portion of trainee wages — in some cases, up to 20 per cent — effectively providing a wage subsidy to employers. This is because incentive payments are an absolute sum unrelated to duration, and traineeships are generally of a shorter duration than trade apprenticeships (Karmel and Rice 2011). The acute sensitivity of traineeships to employer incentives suggests that the training itself had little real or perceived value for most employers (box 11.6).

¹¹¹ These estimates are based on six case studies of electrical, plumbing and refrigeration apprenticeships. The methodology has been adopted by other Australian studies (for example, Dockery et al. (1997, 2001) and has been widely used overseas (Dionisius et al. 2008; Wolter and Ryan 2010, p. 541)). The Commission estimates that, in 2020, employer incentives (which remained fixed) accounted for less than 2 per cent of the employer costs of hiring an electrical apprentice.

¹¹² NAAA (sub. IR88) modelling suggests that, under certain assumptions, incentive payments make up 20 per cent of the return on investment — assuming that employers expect a 7 per cent return on wages paid.

Box 11.5 **Government incentives for employers of apprentices**

The Australian Government funds most apprenticeship incentives. From January 2021, the Incentives for Australian Apprenticeships^a program will pay eligible employers of apprentices studying a Certificate III or above \$1500 on commencement and \$2500 on completion (Australian Government 2019c). Apprentices must be a new worker or work in an occupation on the National Skills Needs List (NSNL) or in aged care, disability care, childcare or enrolled nursing. Between 2016-17 and 2018-19, these standard incentives made up 80 per cent of the value of this program (DESE, pers. comm., 12 May 2020). Employers may be eligible for additional payments (such that the minimum payment is \$4000 and the maximum payment is \$11 000) depending on whether the apprentice is school-based, works in a rural or regional area, works in a NSNL occupation, is mature aged or is recommencing after a failed apprenticeship elsewhere.

Employers of apprentices undertaking a Certificate II are eligible for \$750 on commencement and \$750 on completion if the apprentices are Aboriginal and Torres Strait Islander people, people with disability, school-based apprentices, mature-age people, living in rural and regional areas, or have severe barriers to employment. Employers may be eligible for additional payments (such that the minimum payment is \$1500 and the maximum payment is \$3750) depending on whether the apprentice is school based, mature aged or employed by a group training organisation.

The Additional Identified Skills Shortage payment gives employers an additional \$2000 on commencement and \$2000 on completion for eligible apprentices (box 11.3) (DESE 2020c, pp. 58–73). This increases the maximum payment to \$15 000.

Other payments available include Support for Adult Australian Apprentices (which pays \$4000 to employers of eligible mature-age apprentices) and Disabled Australian Apprentice Wage Support (which pays \$104.30 per week to employers of apprentices with disability) (DESE 2020c).

The Australian Apprentice Wage Subsidy trial provides a wage subsidy for 3260 apprenticeships and is limited to one eligible apprentice per employer. The wage subsidy amounts to 75 per cent of the award wage in the first year, 50 per cent in the second year, and 25 per cent in the third year.

As part of its economic response to the COVID-19 pandemic, the Australian Government established two temporary programs to provide a 50 per cent wage subsidy for apprenticeships, up to a maximum of \$7000 per quarter per apprentice.

- For existing apprenticeships: the Supporting Apprentices and Trainees program (budgeted at \$2.8 billion) provides wage subsidies to any business with fewer than 200 employees that *retains* or *re-engages* an apprentice who has been displaced (DESE 2020v). This program is expected to support 180 000 apprentices at 90 000 businesses with subsidies for wages paid from 1 July 2020 to 31 March 2021.
- For new apprenticeships: the Boosting Apprenticeship Commencements Wage Subsidy program (budgeted at \$1.2 billion) provides wage subsidies to any business for *new* apprentices (DESE 2020d). This program is expected to support 100 000 new apprentices with subsidies for wages paid from 5 October 2020 to 30 September 2021.

State and Territory governments also provide some employer incentives, such as payroll tax exemptions or rebates, workers' compensation premium discounts or travel allowances (table 11.1).

^a This program is a streamlined replacement of the Australian Apprenticeships Incentive Program

Box 11.6 The rollercoaster of traineeship commencements

Traineeships were established in 1985, extending the apprenticeship model to a wider range of occupations. Existing employees became eligible for employer incentives in 1998, and by 2012 they represented almost half of all traineeship commencements (NCVER 2019e, table 14). This was effectively a wage subsidy for many employers — in some cases amounting to 20 per cent of trainee wages (NCVER 2011c, p. 55). Some could even ‘make a profit from the employment of a trainee’ (Karmel and Rice 2011, p. 25). Noonan and Pilcher (2017, p. 6) described this strategic behaviour:

... [registered training organisations], apprenticeships centres and brokers aggressively marketed existing worker traineeships through the availability of employer incentives. A business model emerged whereby employers would share the incentives with [registered training organisations], who then delivered training, too often of questionable duration and quality.

However, there was little evidence that trainees were developing skills, becoming more productive and improving their employment prospects as a result of their traineeships (Karmel, Blomberg and Vnuk 2010; Karmel and Rice 2011; Muhlemann 2016; NCVER 2011c; Noonan and Pilcher 2017; OECD 2018; Snell and Hart 2007). Another concern was that the wage outcomes for trainees in some occupations were worse than if they had not trained (Nelms et al. 2017).

From 2012, the Australian Government removed employer incentives for existing and part-time workers in occupations not on the NSNL and for certain qualifications leading to aged care, child care or enrolled nursing (NCVER 2019e). This significantly reduced the number of existing workers undertaking traineeships — by 2019, existing workers made up just 12 per cent of commencing trainees. The change primarily affected people aged 25 years and over. According to Noonan and Pilcher (2017, p. 10), this sensitivity to employer incentives suggests that employers did not generally value traineeships beyond the level of subsidy.

The decline in existing worker trade apprentices was smaller for several reasons. First, incentives are small relative to the cost of hiring and training a trade apprentice. Second, incentives remained for existing workers in occupations on the NSNL, which is largely made up of trade occupations (DESSFB 2019b). Third, existing workers made up a smaller proportion (28 per cent) of trade apprenticeship commencements by 2012 (NCVER 2019e, table 14).

Therefore, unless they make up a sufficiently large proportion of employer costs or return on investment, employer incentives are not likely to be effective at achieving *additionality*. This suggests that many employers will train apprentices even without an incentive, and that governments often provide incentive payments to businesses for training that would have occurred anyway. Several participants acknowledged this to be the case (Bradford, sub. IR86; MTA (SA/NT), sub. 18; Skills Impact, sub. IR102; Sparks, sub. IR131). For example:

There is a view among some [National Apprentice Employment Network] members that the value of the payments is simply too low to change employer behaviour, since they comprise only a small percentage of the total cost of taking on an apprentice. (NAEN, sub. IR126, p. 4)

Some participants acknowledged that employer incentives are modest, but argued that they are a form of recognition for employers and should be retained or increased (BCA, sub. IR145; CCIWA, sub. IR105; MBA, sub. IR147; NAAA, sub. IR88). For example:

Ai Group recommends retaining employer incentives for apprentices, and recommends increasing their value to provide a greater recognition of the employer’s contribution. (Ai Group, sub. IR97, p. 13)

Employer incentives already made up 9 per cent (almost \$600 million) of total government expenditure on the VET system in 2019, with most provided by the Australian Government (NCVER 2020g, table 4). Given the lack of additionality, the budgetary cost was estimated to be between \$6500 and \$47 000 per additional commencement and between \$16 000 and \$530 000 per additional completion, depending on the program (Deloitte 2012, p. 50).

Overall, given their limited effectiveness relative to scale, employer incentives do not appear to offer a good return on investment. Increasing the size of incentives is unlikely to be prudent. Further, it is important to recognise that employers benefit from engaging in apprenticeships and need to have ‘skin in the game’.

The Australian Government should consider reorienting funding for employer incentives toward other measures that evidence suggests are more effective and provide a greater return on investment, such as apprenticeship support services and screening (section 11.3). This is not a new finding; the 2011 Expert Panel Report on improving the apprenticeship system suggested a similar course of action:

It is time to move away from government support in the form of direct financial payments to employers. The current system has been in place for many years and the outcomes being achieved do not represent an acceptable return on government investment. We suggest that these funds can be redirected towards structured support services which we believe will result in a much greater return on investment in the long term. (McDowell et al. 2011, p. 59)

A much larger, although temporary, employer incentive has been implemented in response to the COVID-19 pandemic. The Australian Government budgeted \$4 billion to provide a 50 per cent wage subsidy for new and existing apprenticeships (box 11.5). The programs provide a maximum \$7000 per quarter for up to one year of an apprenticeship. This is a particularly costly way of increasing apprenticeship numbers that is aimed at maintaining the connection between existing apprentices and their employers, and stimulating employer demand, in response to the extreme economic conditions triggered by the pandemic. As such, it is intended to be a strictly temporary measure.

As the 50 per cent wage subsidy is many times larger than existing employer incentives, it can be expected to be more effective at influencing employer behaviour. Indeed, a somewhat more generous wage subsidy trial in 2019 was almost fully subscribed within two months (box 11.5; DESE, pers. comm., 22 October 2020). At the same time, it is unclear how well this temporary subsidy will translate to completed apprenticeships, given that it will only last for the first year of a new apprenticeship. For some employers, the third and fourth years of an apprenticeship are particularly productive and are likely to be highly valued in the absence of a wage subsidy. However, other employers might only wish to hire and retain first year apprentices despite their lower expected productivity — perhaps to get access to low-cost menial labour. The Australian Government should monitor the effects of the subsidy, including on completion rates and staff turnover.

Review employer incentives to improve return on investment

If the Australian Government chose to retain some employer incentives or delay reorienting this incentive funding due to fragile economic circumstances, it could still improve the return on investment on public funds. Better-targeting incentives to employers making decisions at the margin would help to achieve additionality.

Incentives can be delivered more efficiently where they are targeted to the incremental behaviour they are designed to achieve. Effective targeting of incentives in this way means that for a given program budget the rate of incentive can be higher and as a result the increment to the supply of skills is likely to be greater. (DESSFB 2019b, p. 16)

The recently-introduced Additional Identified Skills Shortage (AISS) payment exemplifies one way to target employer incentives to achieve additionality (box 11.5). An employer must meet the ‘additionality criteria’ — a formula based on the number of apprentices considered additional to the employer’s usual practice — to be eligible for the payment for each additional apprentice hired. While the AISS may not effectively ensure additionality in industries where apprentice numbers will naturally change with the business cycle, in principle it has a better chance of directing employer incentives to apprenticeship decisions at the margin. It is also less ‘gameable’ than current incentives. The AISS was introduced in July 2019 and is yet to be evaluated. However, early data are promising — showing that by October 2020, over 15 000 apprentices were registered as additional to the employers’ usual intake, and that about three in four of these employers had not had an apprentice in the previous three years (DESE, pers. comm., 22 October 2020).

Absent a way to effectively identify employers at the margin, governments may be able to target particular apprenticeships for which the expected social benefits are larger — such as apprenticeships for people in regional Australia, with disabilities, and in occupations with very significant skills shortages. Rather than increasing funding, it may be more efficient to reorient some funding from base incentives toward these target groups. Therefore, for a given budget, larger incentives could be provided to those additional apprenticeships, increasing their effectiveness.

Recent policy measures provide a valuable opportunity to build the evidence base on the effectiveness of employer incentives. The Australian Government should review options for better targeting incentives to increase apprenticeship commencements and completions. This should involve evaluating the cost-effectiveness of recent measures, including the AISS payment, the Australian Apprentice Wage Subsidy trial and temporary wage subsidies in response to the COVID-19 pandemic. Several participants also suggested a review of employer incentives (ACT Government, sub. IR133; MTA (SA/NT), sub. 18; South Australian Government, sub. IR139).

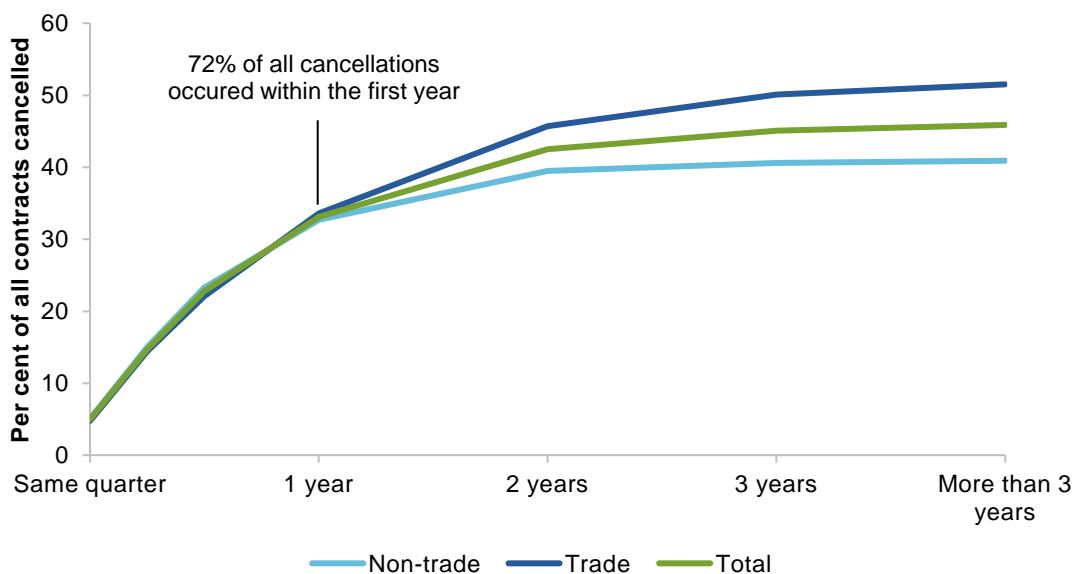
Change the timing of completion payments

Adjusting the timing of employer incentives might improve completion rates. The current \$2500 completion payment is unlikely to influence employer behaviour, for several reasons.

- Most apprenticeship contract cancellations occur within the first year (figure 11.12). As such, a distant payment on completion is unlikely to influence employers' decisions during this risky period.
- Employers are much less likely to cancel contracts toward the end of an apprenticeship, regardless of government payments. As the apprenticeship progresses, the supervisory and other costs for employers decline while the value they get from the apprentice rises. Indeed, review participants have stated that the last year or so of an apprenticeship is the 'payback' for the employer's upfront investment in the apprenticeship.
- The decision to cancel an apprenticeship is most often made by the apprentice, not the employer: about 80 per cent of cancellations are for reasons initiated by the apprentice (figure 11.6, panel b; Cully and Curtain 2001).

Figure 11.12 Most cancellations occur in the first year

Contracts commencing in 2014



Source: NCVET (2020e, table 1).

Cancelling or reducing the completion payment would allow the Australian Government to direct funds into other services for employers, such as apprenticeship support services or the screening of apprentices (section 11.3).

Alternatively, the completion payment could be transformed into multiple progress payments made earlier — such as \$1250 at 12 months and \$1250 at 24 months. This would

help encourage employers to retain apprentices during the period of highest cancellation risk, and to support apprentices to prevent them from cancelling. Using progress payments would be preferable to increasing the commencement payment: the latter could increase the risk of dropping out. The Commission's indicative estimates suggest that this change could result in about 26 000 extra payments at a cost of about \$32 million each year;¹¹³ otherwise, it could be made budget-neutral by reducing each progress payment to about \$1100. Indeed, some reduction would be reasonable if employers received payments earlier. Progress payments could also address the issue that traineeships and trade apprenticeships currently receive the same base incentives irrespective of duration.

The Australian Government should remove completion payments and reorient this funding to apprenticeship support services or screening. Alternatively, it should transform them into progress payments to be paid at 12 and 24 months. Current apprenticeships could be grandfathered under existing arrangements.

Incentives could be streamlined and better coordinated

A frequent complaint about apprenticeship incentives is how difficult they are to understand and use — particularly for small- and medium-sized businesses, which may have less capacity to navigate different incentive programs. About three in five apprentices work for small employers (figure 11.1), and about two thirds of Australian Government employer incentives are paid to businesses with fewer than 200 employees (DESE, pers. comm., 12 May 2020). This complexity was observed by the Joyce Review (2019), along with some employers (Misko and Wibrow 2020) and review participants (Ai Group, sub. IR97; Queensland Water Directorate, sub. IR90). For example:

The current Australian Apprenticeships Incentives Program Guidelines run to more than 120 pages. It needs to be remembered that this is the official guidance for an employer of an apprentice or trainee that needs to be digested and followed in order to receive government financial support. For a small business, it may be that the administrative burden is more of an obstacle to apprentice employment than the payments themselves. (NAEN, sub. IR126, p. 3)

Streamlining the apprenticeships system is a key reform direction in the *National Agreement for Skills and Workforce Development* (chapter 4). The Australian Government — which funds most incentives — has already streamlined its program to some extent. It has rebranded the Australian Apprenticeships Incentive Program to 'Incentives for Australian Apprenticeships', from January 2021. The new program reduces the number of payment categories from 31 to 14; it also harmonises eligibility rules for full- and part-time apprentices, and for apprentices studying Certificate III qualifications and above.

However, these payments could be streamlined further.

¹¹³ If completion rates increased, this cost would be higher, but would also be offset to some degree by the avoided costs of non-completion.

Simplify payments for target groups

About 20 per cent of the value of the main employer incentive program is payments made to target groups beyond the standard commencement and completion incentives (box 11.5). It is unclear whether these incentives were designed deliberately or simply reflect incremental policy changes. Regardless, there are some low-cost ways to simplify them.

Employers are eligible for \$1500–\$3750 for each apprentice undertaking a Certificate II who belongs to a target group, such as apprentices with a disability (box 11.5). Over the past five years, fewer than 8000 apprentices training for a Certificate II attracted employer incentives each year (DESE, pers. comm., 22 October 2020). Conservatively assuming 8000 apprentices, these payments would cost between \$12 million and \$30 million per year. Simplifying them by making the maximum payment for all eligible apprenticeships would cost, at most, an additional \$18 million per year. (The real additional cost would likely be significantly lower: some apprentices would already receive the maximum payment, and about half the apprentices do not complete their training and so would not receive the completion payment.) Alternatively, this change could be made budget-neutral by choosing a flat rate within the existing range of payments.

While the potential costs are small, the potential benefits are significant. The change would reduce five payments down to two — one commencement and one completion payment. Further, given that Certificate IIs typically take between a few months and two years to complete, larger payments are likely to be relatively more effective because they make up a more significant portion of employer costs. Finally, the change could help advance the social policy rationale for these payments by increasing the number of apprentices from the target groups.

Employer incentives for apprentices studying a Certificate III or above could also be simplified (box 11.5). For example, the Mature-Age Worker incentive provides an additional \$750 on commencement and \$750 on completion for disadvantaged workers aged 45 years and above. But this incentive is rarely used; in 2018-19, just \$17 250 was provided (DESE, pers. comm., 12 May 2020), suggesting that 23 people received it at most. It is unlikely to sway an employer's decision to hire mature-age apprentices, particularly as they would still receive the minimum \$4000 payment. For these reasons, it should be removed to further simplify employer incentives. Governments can take other actions that are likely to be more effective at supporting mature-age apprentices into training, such as reducing barriers to non-apprenticeship pathways (section 11.3) and extending employer incentives to existing worker trade apprenticeships.

The Australian Government should simplify employer incentives to target groups by rationalising some payments. To begin with, this should mean paying a single rate for disadvantaged apprentices undertaking a Certificate II and removing the rarely-used Mature-Age Worker incentive.

Extend employer incentives to existing worker trade apprenticeships

The number of existing workers commencing a trade apprenticeship declined from a peak of 28 000 apprentices in 2012 to fewer than 8000 apprentices in 2019 (NCVER 2019e, table 14). This coincided with the removal of employer incentives for some existing worker apprentices (box 11.6) and the FWC decision to boost adult and existing worker apprentice pay rates (section 11.3).

At present, existing worker apprentices (those already employed for more than three months) only attract employer incentives if they are studying a Certificate III or above in an occupation on the trade-oriented NSNL or one of four priority non-trade occupations (aged care, disability care, childcare and enrolled nursing).

Removing employer incentives for existing workers makes these workers more costly for employers to hire relative to new workers, creating a barrier to the apprenticeship pathway for existing workers. This is problematic because existing workers already face barriers to trade occupations, such as duration and ‘no loss of pay’ conditions (section 11.3).

In the interim report, the Commission proposed removing the NSNL as a criterion for existing-worker trade apprenticeships, thus extending employer incentives to this group. This would help to equalise treatment of new and existing trade apprentices. Several review participants agreed with this option (ACT Government, sub. IR133; Ai Group, sub. IR97; MBA, sub. IR147, att. 1; NAAA, sub. IR88).

Removing the NSNL as a criterion could also reduce the complexity of employer incentives, avoid problems with skills lists in general (chapters 3 and 8), and avoid the cost of administering the NSNL. For example, the Department of Education, Skills and Employment (DESE) is reviewing the NSNL with a view to updating the methodology to determine skills shortages, revising the trade occupations on the list, and formalising arrangements to annually review and update the list (DESSFB 2019b). Some stakeholders have argued that regular changes to the list may disrupt workforce planning, as occupations may only remain on the NSNL for a year (Ai Group 2019b; DESSFB 2019c). The cost of annually updating the list may not be worth the signal the NSNL sends to the relatively small cohort of employers of existing-worker apprentices. Existing workers have historically made up less than one-fifth of new trade apprentices. And apprenticeships in NSNL occupations already make up about 85 per cent of trade apprenticeships (section 11.1).

The costs of extending employer incentives to existing-worker trade apprenticeships are minimal relative to the total cost of employer incentives. In 2019, about 7500 existing workers commenced a trade apprenticeship (NCVER 2019e). Just over 5200 workers already attracted incentive payments for their employers (DESE, pers. comm., 10 November 2020). Therefore, if each of the remaining 2300 or so workers attracted the minimum \$4000 payment, the cost would be about \$9 million per year. That said, the cost is likely to be closer to \$7 million, given that \$2500 is paid on completion and only 56 per cent of trade apprentices commencing in 2015 completed their apprenticeships.

Employer incentives are also more likely to be effective for existing workers because they tend to complete their trade apprenticeships more quickly, meaning that incentives will make up a more significant proportion of employer costs. Moreover, even if extending employer incentives brought commencements back up to their 2012 peak of 28 000 existing worker trade apprenticeships per year, the cost of the extension would only be about \$25 million. This would make employer incentives for existing worker trade apprenticeships an investment with a relatively good return.

The Australian Government should extend employer incentives to existing-worker trade apprenticeships by removing the NSNL as a criterion. To avoid another proliferation of traineeships (box 11.6), this change would require re-designing incentives to distinguish trade and non-trade apprenticeships.

Coordinate information about government incentives

A key problem with incentives is that two different levels of government provide numerous apprenticeship incentive programs (table 11.1). Program incentives may be similar, and there is no clear complementarity between programs. This can cause confusion — for example, about whether an employer can claim incentive payments offered by both State and Territory governments *and* the Australian Government.

Table 11.1 Governments' financial incentives for apprenticeships

<i>Incentives</i>	<i>Commonwealth</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>SA</i>	<i>WA</i>	<i>Tas</i>	<i>NT</i>	<i>ACT</i>
Incentive payments for employers	✓		✓		✓	✓	✓		
Payroll tax exemption or rebate		✓	✓	✓		✓	✓		✓
Workers' compensation premium discount		✓	✓	✓	✓				
Travel allowance for apprentices		✓	✓	✓	✓	✓	✓	✓	Inter-State travel only if training unavailable in ACT
Other support for apprentices	TSL, ^a LAFHA, ^b AISS, ^c income support	Scholarships for disadvantaged apprentices							Completion payments and women in trades grants

^a Trade Support Loan. ^b Living Away From Home Allowance. ^c Additional Identified Skills Shortage payment.

Sources: NCVER (2019i); Skills Canberra (nd, nd).

There is scope to better coordinate and publish information about apprenticeship incentives. In the interim report, the Commission proposed having AASN providers publish clear information on all incentives or assess employers' eligibility for all incentives, including State and Territory incentives. Several participants supported both options (Ai Group, sub. IR97; Alliance of First Nations Independent Education and Training Providers, sub. IR127; Queensland Water Directorate, sub. IR90).

Some AASN providers in New South Wales, Victoria, Western Australia, and the Northern Territory already publish which State or Territory incentives employers can claim.

It is already a function of AASNs to inform employers of all the incentives available to them. As the first point of contact, AASNs are best placed to explain those roles and responsibilities to employers and learners. ... [Training Services NSW] meets regularly with AASNs to provide updated information on incentives. (NSW Government, sub. IR122, p. 24)

The Commission agrees that AASN providers are best-placed to publish information on incentives provided by both levels of government. Employers and apprentices cannot commence an apprenticeship without first contacting an AASN provider, and they are the first port of call for help with the apprenticeship system.

Master Builders Australia (sub. IR147, att. 1, p. 4) suggested that this information could be collated on a shared platform which AASN providers could use to publish clear and up-to-date information for their jurisdictions.

There is a need for a single platform where the Commonwealth, states, training funds, etc. can enter and update incentive information. This information could then be electronically accessible by governments, associations, employment providers, etc. so everyone's information is coming from the same place. For example, the Australian Tourism Data Warehouse.

In the future, this platform could be expanded to further improve the user experience of employers and apprentices. For example, it could be supplemented by an online tool allowing users to calculate the incentives they are eligible for, and could simplify the process of claiming incentives.

The Australian Government should coordinate incentive information across levels of government by tasking AASN providers with publishing this information, and should develop a shared platform to collate this information. The Australian Government should take these steps before it requires AASN providers to assess individual eligibility for each employer or apprentice. Assessing eligibility would likely require significant additional resources for AASN providers.

RECOMMENDATION 11.5 — IMPROVING EMPLOYER INCENTIVES

The Australian Government should consider reorienting funding for employer apprenticeship incentives to other measures that achieve a greater return on investment, such as apprenticeship support services and screening.

If some employer incentives are retained (not including recent temporary wage subsidies), the Australian Government should refine the system in the following ways.

- Review options for better targeting incentives to increase apprenticeship commencements and completions (including by evaluating the effectiveness of recent measures).
- Cancel completion payments and reorient this funding toward apprenticeship support services, screening, or progress payments to be paid at 12 and 24 months (when the risk of cancellation is highest).
- Streamline and better coordinate incentives by:
 - simplifying incentives to target groups (such as paying one rate for disadvantaged apprentices undertaking a Certificate II and removing the rarely-used Mature-Age Worker incentive)
 - extending incentives to existing worker trade apprenticeships (by removing the National Skills Needs List as a criterion)
 - coordinating incentive information across levels of government (by tasking Australian Apprenticeship Support Network providers with publishing this information, and developing a shared platform to collate this information).

The risk of poaching is unclear

Employers may face the risk that competitors will ‘poach’ apprentices once they have completed their training — an example of ‘free-riding’. This risk may lead to under-investment in apprenticeships. Its materiality depends on the extent to which employers’ training costs are offset by the work performed by apprentices during their training (section 11.2), or through a period of retention after they qualify. Factors like loyalty, firm-specific skills, career prospects, thin local markets, and uncertainty by other employers about the quality of apprentices they have not trained may overcome or diminish the free-rider problem.

Anecdotal claims about the extent of poaching have been raised periodically, but there is little evidence about how often it occurs (NSW SCSD 2006; TSC (SA) 2019). There has also been some media commentary on the issue, particularly during periods of high skill demand such as the mining and construction booms (ABC 2005; Mining.com 2011; Turnbull 2012). A few participants suggested that free-riding may occur (MTA (SA/NT), sub. IR119; Skills Impact, sub. IR102) — but several suggested that it is not a significant problem (ACCI,

sub. IR143; IEUA-QNT, sub. IR82; MBA, sub. IR147, att. 1; NAAA, sub. IR88; Zoellner, sub. IR107). For example:

... the Business Council did not indicate this was a significant issue, and further discussions with our membership has confirmed that free-riding is not one of the key areas to be repaired in the apprenticeship system. (BCA, sub. IR145, p. 40)

Empirical evidence suggests that poaching risks may be more acute for small firms because they have less capacity to retain apprentices on completion (Muhlemann 2016, p. 29). This could be because smaller firms cannot offer the qualified apprentice a job as a skilled worker, or because the apprentice prefers to work for larger employers with better career prospects or remuneration. Australian evidence is scant.

Industry levies are one approach to solving the free-rider problem. Levies raise funds from businesses to be reinvested as financial incentives for employers of apprentices. This rewards employers who offer apprenticeships, and makes those who benefit indirectly (such as by poaching) contribute to the cost of training. Governments and industry sectors here and overseas have used levy schemes to encourage employers to contribute to apprenticeship training (OECD 2018).

However, overseas evidence on the effectiveness of levies at increasing investment in training is limited and mixed, with some studies showing that larger firms tend to benefit more than smaller firms (Dar and Whitehead 2003; Johanson 2009; Müller and Behringer 2012; OECD 2018; Smith and Billett 2005). This is an important finding given that the free-rider risk appears to be greater for smaller firms. Overseas evidence also shows that the effectiveness of levies depends on the policy goal, the design (universal or sectoral), and the social, cultural, or economic environment of the country.

In the Australian context, it is also unclear whether levies have been effective. In the early 1990s, the Australian Government experimented with a national levy — the National Training Guarantee — which required all employers above a threshold to spend a minimum percentage of payroll in each financial year on training (Fraser 1996, p. 1). Assessments of the National Training Guarantee found that it had little impact on training for the majority of employees, and in some cases reduced access to training for the least skilled and most disadvantaged workers (Fraser 1996; Smith and Billett 2005). Its administration costs were too high, particularly for smaller firms; it was very unpopular with businesses; and it even prompted heightened sensitivity about the cost of training. However, it did contribute to increased investment in training in medium-sized businesses, and helped to protect existing training activity from cost-cutting pressures during the recession of the early 1990s.

Since the 1990s, most State and Territory governments have legislated some levies, mainly in the construction industry. But it is unclear whether levies (alone) have been effective at encouraging training investment in the construction sector relative to other sectors without levies. For example, a 2014 review of the construction levy in Western Australia found that stakeholders acknowledged the contribution of the levy ‘to the training of individuals and the supply of skilled workers ...’ (Stratton 2014, p. 4). But a subsequent review in 2019

found that the levy had failed to meet a number of efficiency and effectiveness performance targets (Walker 2019).

Participants were mixed in their support for and against industry levies. On the one hand, some participants suggested that industry levies are effective or otherwise expressed interest in using them (ACT Government, sub. IR133; AMWU, sub. IR121; CSQ, sub. IR124; HIA, sub. IR137; MBA, sub. IR147, att. 1; MTA (SA/NT), sub. 119; Skills Impact, sub. IR102). On the other hand, some participants (particularly business groups) suggested that levies do little to change employer behaviour or that they simply increase employer costs (ACCI, sub. IR143; Ai Group, sub. IR97; BCA, sub. IR145; NAAA, sub. IR88; NSW Government, sub. IR122). Others suggested that levies may only work on a case-by-case basis (NAEN, sub. IR126; Zoellner, sub. IR107).

Given that the extent of poaching is unclear, a training levy risks becoming a solution in search of a problem. Further, the mixed evidence of levies' effectiveness in addressing poaching suggests that caution is needed. Evidence suggests that levies are likely to be more effective in industries where support from business is stronger, in which case those industries may lobby for their establishment.

12 LLND skills and other targeted reforms

Key points

- Under the *Heads of Agreement for Skills Reform*, governments have made improving language, literacy, numeracy and digital literacy (LLND) skills a priority.
 - At least two to three million adult Australians lack the basic literacy and numeracy skills for modern life.
 - Without these skills, people cannot participate fully in the economic and social life of the country. Improving the foundation skills of these Australians would yield public and private benefits.
- The Joyce Review recommended that governments commit, over time, to fee-free foundation-level education for all Australians who do not meet the benchmark of level 2 literacy, numeracy and digital literacy in the Australian Core Skills Framework — 80 per cent of school students achieve similar NAPLAN benchmarks by year seven.
- Current LLND programs are unlikely to reduce substantially the number of Australians lacking these skills. Progress will require a coordinated national strategy from all governments, drawing on the scoping study recently commissioned by Skills Ministers, to improve school education, ‘second-chance’ learning in the vocational education and training (VET) sector and other adult education services delivered by public and private providers.
 - Elements of the national strategy that relate to VET should be incorporated as a schedule to the new national agreement replacing the *National Agreement for Skills and Workforce Development*.
- Governments will need to introduce or expand cost-effective training options and address gaps in the delivery of services to students.
- A staged approach to expanding LLND training is warranted by the lack of information about the performance and cost of programs and potential bottlenecks, such as the need to build capability in specialist teaching.
- The Joyce Review raised ‘targeted’ reform options for VET in Schools, Indigenous registered training organisations (RTOs), wrap-around support services and remote learning hubs.
- The Shergold Review also made detailed recommendations for improving VET in Schools. There is merit in many of the Review’s recommendations — in particular, the need for schools to use RTOs when they cannot deliver quality training themselves.
- Improving VET in Schools may also require State and Territory governments to supplement school funding for the costs of providing VET.
 - The National Skills Commission could be asked to provide estimates of the level of supplementation required, as recommended by the Joyce Review.
- Among the Joyce Review’s other recommendations for targeted reforms, the case for block funding RTOs for hard-to-reach students, including remote Aboriginal and Torres Strait Islander students, is strong, with the other proposals warranting evaluation.

The Commission has been asked to consider the ‘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 Education and Training System* (the Joyce Review)’. In addition to LLND skills, the main areas identified by Joyce for further targeted reforms were VET in Schools, Aboriginal and Torres Strait Islander students and Indigenous registered training organisations (RTOs), and the needs of disadvantaged and remote learners. Accordingly, this chapter covers:

- the Commission’s approach to assessing targeted reforms and their funding (section 12.1)
- the need to improve Australia’s LLND skills, and the reform and funding issues raised by the Joyce Review to do it (section 12.2)
- reforms to enhance VET in Schools proposed in the Joyce and more recent Shergold Reviews (section 12.3)
- reforms proposed by the Joyce Review to support Aboriginal and Torres Straits Islander VET students and Indigenous RTOs, for better ‘wrap-around’ support services for disadvantaged VET students, and for VET study hubs in regional Australia (section 12.4).

12.1 The Commission’s approach

In addressing the areas identified by the Joyce Review (2019), the Commission has examined the evidence supporting further government intervention, the available policy options, where governments might best work together or separately to improve outcomes, and what funding arrangements might be needed.

Determining ‘future funding arrangements’ — which is the focus of the terms of reference in relation to LLND and the other targeted reforms — is a complicated matter.

It depends, first, on what targeted reforms are warranted. But the sorts of reforms that might be warranted — for example, measures to boost LLND skills — can involve multiple parts of the education system, with VET just one component. This raises questions about how to coordinate or integrate reforms in the VET sector with related programs outside the sector, and the corresponding funding arrangements.

This complexity is compounded because different governments fund their own programs: for example, the Australian, State and Territory governments all fund LLND programs. Multiple funding streams create a patchwork of eligibility conditions, performance indicators and reporting requirements that make delivery more difficult for service providers and navigation more difficult for students.

It follows that when considering new (or further) targeted reforms, governments should look at a minimum for opportunities to coordinate or rationalise existing programs and/or their

funding. This may involve elevating or devolving responsibilities between governments or reaching agreement on the joint funding of programs.

The vocational education and training (VET) system's complexity also means that, before creating a different funding arrangement, there should be a good reason why a new targeted reform does *not* fit within existing funding structures. Reasons might include:

- the overlap with institutions or policy goals outside the VET system are more important than linkages within the system. This argument supports separate national funding for the Adult Migrant English Program (AMEP), which links strongly to Australian Government migration programs. Similarly, the Australian Government has primary responsibility for labour market programs and is the natural level of government to fund support for job seekers through programs such as the Skills for Education and Employment (SEE) program
- it is not possible to create incentives within the current system to achieve the intended policy goal — this argument may apply, for example, if it is impossible to remove cross-subsidies within the school system from VET in Schools towards the general curriculum.

In considering funding arrangements for the targeted reforms, there is also a need to assess the most appropriate *form* of funding, such as whether funds should be allocated on a per-student basis or through block funding for specified outcomes or a combination of the two.

The final and most difficult step (beyond the scope of the current review) is determining the amount of funds that should be provided to the reforms and programs.

12.2 Language, literacy, numeracy and digital literacy skills

Society relies heavily on parents and schools to equip children with language, literacy and numeracy skills — key ‘foundation skills’ on which later learning and social and economic participation are built. In a 2015 OECD working paper, Windisch (2015, p. 20) noted that literacy is ‘usually understood as the ability to read and write in order to interpret information, make decisions, and solve problems in personal, work, and community life’, and numeracy is ‘the ability to access and use mathematical information in order to handle the numerical demands of a range of situations in adult life’. These definitions encompass not just the technical skills involved in reading, writing and mathematics but also their effective use in everyday situations.

These skills are most easily acquired at an early age, but adults can lack some or all of these skills for several reasons:

- they may not have attended school, left school early or finished school without acquiring key skills

-
- they may be from groups where remoteness, poor schooling experiences, disadvantage and English as a second language (such as remote Aboriginal and Torres Strait Islander students) hamper acquisition of language, literacy and numeracy skills
 - they may be recent migrants or not have developed these skills in their time in Australia.

For adults without adequate foundation skills, the VET system can offer a ‘second-chance’. Context is particularly important for adult learners and VET provides one important avenue — as the NSW Adult Literacy and Numeracy Council (sub. IR92, p. 5) noted:

It has long been widely accepted that foundation skills are very often best developed in real-life contexts, with the VET context offering a particularly rich literacy and numeracy context.

Workplace training can also provide an effective setting:

Alkema and Rean (2013) undertook a literature review of research into LLN [language, literacy and numeracy] policies and practice in six countries — New Zealand, Australia, Canada, Ireland, the United Kingdom and the United States ... They found positive correlations between the practice of embedding LLN into vocational training and retention and successful outcomes for the learners. Workplace learning was shown to be successful in engaging learners who would not otherwise participate in LLN programs. (Newton 2016, p. 13)

Specialist community-based providers too can help adults gain foundation skills. Among the several thousand community training providers — including adult education providers, neighbourhood houses, men’s sheds and universities of the third age (Bowman 2017) — there were 218 community-based RTOs in 2020 (Australian Government 2019d). Many other organisations provide unaccredited LLND training (Bowman 2017).

The *National Foundation Skills Strategy for Adults* (DET 2012) aimed to improve the capacity and reach of the systems teaching foundation skills — described in the strategy as LLN skills and employability skills. The Strategy did not provide additional funding but focused on awareness raising, improving quality of provision, workplace programs and building the capacity of providers. For reasons discussed further below, it is unlikely that the Strategy has had a significant impact on the number of people with low levels of literacy and numeracy.

LLND skills and the Joyce Review

When commissioning the Joyce Review into Australia’s VET system, the Australian Government invited it to ‘review whether additional support is needed for vulnerable cohorts, including ... those with low literacy and numeracy skills’ (Joyce 2019, p. 5) The Review recommended reforms to ensure that, over time, all Australians lacking basic LLND skills can access fee-free foundation-level education (box 12.1).

Box 12.1 **The Joyce Review's recommendations on LLND skills**

The Review recommended that the Australian, State and Territory governments commit to supporting fee-free foundation-level education for all Australians to bring their language, literacy, numeracy and digital literacy (LLND) skills up to level 2 in the Australian Core Skills Framework (box 12.2).

To support this goal, the Review recommended that the Commonwealth, States and Territories develop a new national agreement to provide for the three main delivery models of LLND training:

- standard registered training organisation (RTO) delivery of foundation-level VET courses
- intensive literacy and numeracy short courses (such as the Adult Migrant English Program)
- dedicated workplace-delivered LLND skills programs in partnership between employers and RTOs.

The Review recommended that the Australian Government fund the development of an online LLND assessment tool to allow educators to assess the LLND standards of individual learners and measure improvements achieved by funded LLND courses.

Source: Joyce (2019, p. 128).

The Joyce Review added digital literacy skills to the more traditional focus on LLN skills because of the growing importance of information and communication technology (ICT) skills in the workplace and everyday life (AWPA 2013; CEDA 2015). As the OECD (2016a, p. 1) (drawing on Berger and Frey (2016)) has observed:

The use of ICT in the workplace — affecting only a handful of occupations a few decades ago — is now required in all but two occupations in the United States: dishwashing and food cooking.

The Commission has followed the approach of the Joyce Review to focus on LLND skills.

How strong are Australians' LLND skills?

The OECD's Programme for the International Assessment of Adult Competencies (PIAAC; box 12.2) provides the most recent measure of LLND skills in Australia (OECD 2013). The survey for Australia was undertaken by the Australian Bureau of Statistics (ABS) in 2011-12 and released in 2013.

PIAAC survey participants were rated on a six level scale with level 2 (which according to the Joyce Review is broadly equivalent to level 2 in the Australian Core Skills Framework (ACSF) scale),¹¹⁴ regarded as the level required to meet the *basic* demands of work and life (Joyce 2019, p. 103).

¹¹⁴ Comparing levels across measurement systems is complex. Circelli et al (2013) found that ACSF level 2 reading and numeracy constructs aligned to between levels 1 and 2 reading and numeracy constructs of the OECD *Adult Literacy and Life Skills Survey*, the forerunner to the PIAAC survey. Although there are some differences in survey design, cohorts and assumptions regarding response probabilities, it is not unreasonable to assume a similar degree of mapping between the ACSF and PIAAC as between the ACSF and the *Adult Literacy and Life Skills Survey*.

Box 12.2 **Assessing LLND skills**

Programme for the International Assessment of Adult Competencies (PIAAC)

The PIAAC survey was developed by the OECD and the first surveys undertaken in 2011–12. It is one of several tools used to classify and assess people's foundation skills. People's literacy and numeracy skills are rated on a six level scale from 'below 1' to level 5 where, for example:

- at level 1 in literacy, 'adults can complete simple forms, understand basic vocabulary, determine the meaning of sentences and read continuous texts with a degree of fluency. Little, if any, competing information is present at this level' (Grotluschen et al. 2016, p. 14)
- at level 2 in literacy, adults could be required to make matches between text and information and may have to paraphrase or draw simple inferences. Some competing information may be present and text may be digital or printed (OECD 2013, p. 64)
- at level 1 in numeracy, 'adults can complete basic mathematical processes in common, concrete contexts where the mathematical content is explicit with little text and minimal distractors. They can perform simple processes involving counting, sorting, basic arithmetic operations, understanding simple percentages, and locating and identifying elements of simple or common graphical or spatial representations' (Grotluschen et al. 2016, p. 14)
- at level 2 in numeracy, the respondent would be required to identify and act on mathematical information and ideas embedded in common contexts where the mathematical content is fairly explicit and there are few distractions (OECD 2013, p. 76).

The PIAAC survey also rates people's skills in 'problem solving in technology-rich environments', using a 4-level scale from 'below 1' to 3. At level 1, survey participants must solve simple problems that 'typically require the use of widely available and familiar technology applications, such as e-mail software or a web browser. There is little or no navigation required to access the information or commands required to solve the problem' (OECD 2013, p. 90). At level 2, generic and specific technologies may be involved, and some navigation will be required.

The Australian Core Skills Framework (ACSF)

Developed in 2008, the ACSF is a measure that has been widely used in Australia, including in the VET sector. It provides ratings against five core skills — learning, reading, writing, oral communication and numeracy. It offers 'shared concepts and language for identifying, describing and discussing core skills; and a systematic approach to benchmarking, monitoring and reporting on core skills performance' (DEEWR 2012, p. 1). Level 2 on the ACSF is regarded as broadly similar to level 2 in the PIAAC (Joyce 2019, p. 103). The ACSF can be used to benchmark the skill level of a student before commencing study, to refer students to appropriate courses, to monitor the progress of learning and help design course content.

How does the ACSF relate to school performance measured by the National Assessment Program – Literacy and Numeracy (NAPLAN)?

Some State and Territory governments have aligned year 12 certificates with level 3 literacy and numeracy in the ACSF, for example New South Wales (NSW Education Standards Authority 2019) and South Australia (SACE Board 2015). It is more difficult to relate level 2 with a particular year of school. Level 2 is probably slightly above band 6 on the NAPLAN system (Mendelovits, 2014), which is the minimum national benchmark for NAPLAN year 9. In 2019, 92 per cent of year 9 students met or exceeded this benchmark for reading, 82 per cent for writing and 96 per cent for numeracy (ACARA 2019). Many students achieved this benchmark earlier, with over 80 per cent of year 7 students performing at or above band 6 in reading and numeracy and more than 70 per cent for writing.

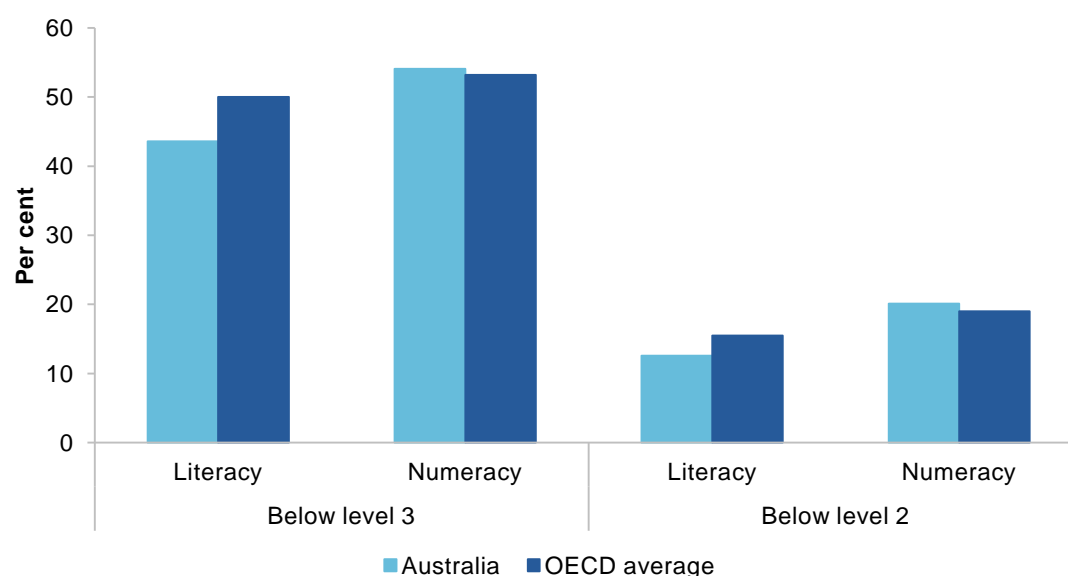
Australia ranks in the top half of OECD nations ...

The PIAAC survey suggested that Australia performed:

- near or slightly above the OECD average on literacy and numeracy (figure 12.1). Australia ranked 15th out of the 33 countries surveyed, with 77 per cent of the population rated level 2 and above in both literacy and numeracy. The top two countries were Japan and Finland, with 90 and 85 per cent rated level 2 and above respectively (OECD 2019e)
- significantly above average on ‘problem-solving in technology-rich environments’. Level 1 in this category involves a basic level of ICT skills, using widely-available technologies (web browser and email software) and the capacity to use these tools to solve simple problems. Thirty-eight per cent of Australian survey participants performed at levels 2 and 3 (the higher levels), compared with an OECD average of 30 per cent (OECD 2019e, figure 2.16). Australia ranked 7th out of the participating countries.

Figure 12.1 Where does Australia stand?

Proportion of participants aged 16–65 below level 3 and below level 2 on the Programme for International Assessment of Adult Competencies,^a 2011–12



^a Levels 2 and 3 are measures of skill levels in the OECD Programme for International Assessment of Adult Competencies.

Source: OECD (2013).

... but millions still lack basic LLND skills

Notwithstanding that Australia performs well by international standards, the survey results still meant that, in 2012, two to three million Australians did not have the skills to meet the basic demands of work and life:

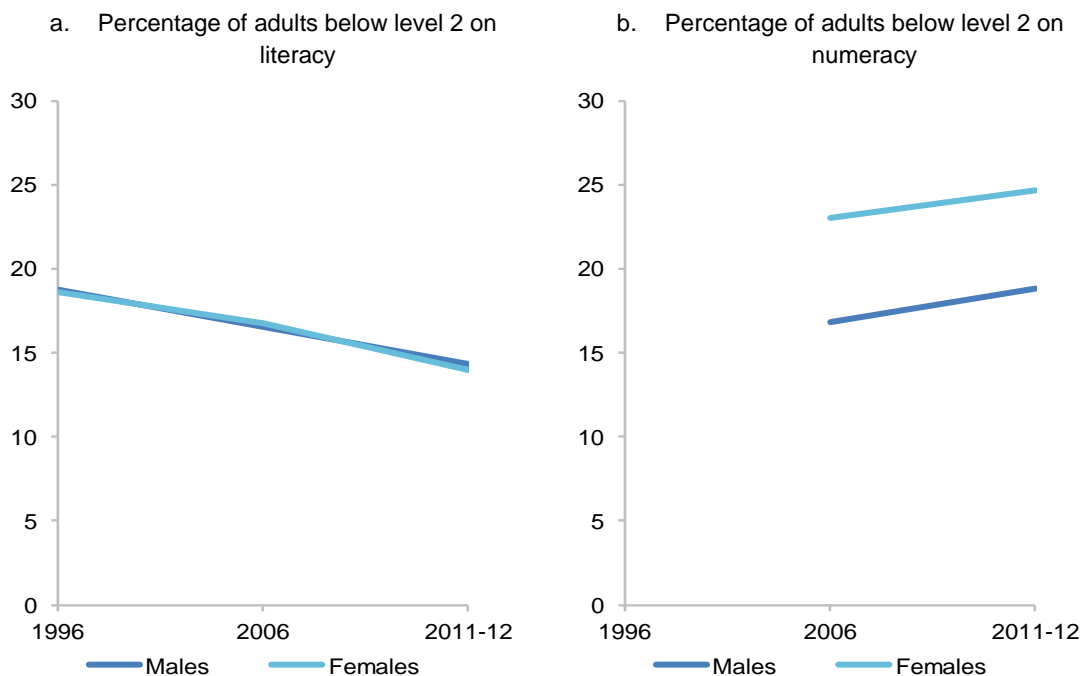
- 13 per cent of Australians aged 16–64 (1.9 million people) were below level 2 proficiency in literacy
- 20 per cent (3 million people) were below level 2 in numeracy (ABS 2013).

Eighty per cent of people below level 2 in literacy (about 1.9 million) came from a household where mainly English was spoken at home (ABS 2013). About 500 000 (20 per cent) came from households where English was not the main language spoken.

Older people had lower levels of literacy and numeracy. Under the age of 54 years, 12 per cent of people had level 1 literacy or below. In the 55–64 years age group, the proportion rose to 20 per cent and for people aged 65–74 years it was 29 per cent. Over time, therefore, there may be some improvement in the literacy and numeracy of the working-age population as the older cohort retires, although this would also depend on the literacy and numeracy level of new migrants.

In the two decades to 2012 there was some improvement in literacy levels. However, there was a decline in numeracy between 2006 and 2012 (figure 12.2).

Figure 12.2 Trends in adult literacy and numeracy skills: a mixed report card



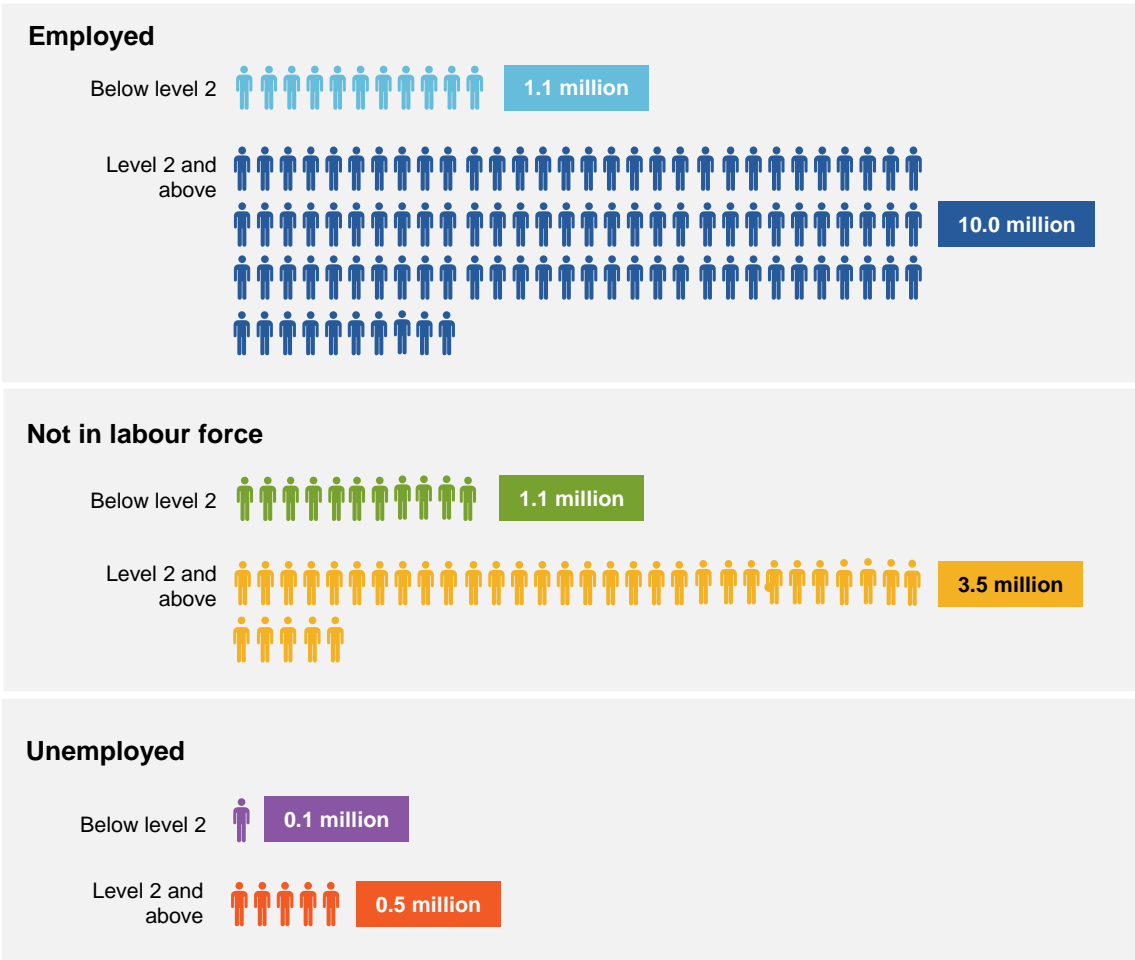
Source: ABS (*Programme for the International Assessment of Adult Competencies, Australia 2011-12*, Cat. no. 4228.0).

In 2012, the PIAAC data indicated that nearly 10 per cent of employed people (1.1 million) were below level 2 in literacy (figure 12.3), whereas 15 per cent of unemployed people

(0.1 million) and almost 25 per cent of people out of the labour force (1.1 million) were below the same level 2 benchmark. This suggests that low literacy and numeracy can be a barrier to participation.

Figure 12.3 People below PIAAC level 2 on literacy are in all parts of the labour market

Number of people, 2011-12



Source: ABS (*Programme for the International Assessment of Adult Competencies, Australia 2011-12*, Cat. no. 4228.0).

Although Australia ranks highly on digital literacy skills, most people are below level 2 (or not classified) on the PIAAC scale for problem solving in technology-rich environments, which is one measure of digital literacy (table 12.1). Survey respondents were not classified when they opted out or lacked the skills to attempt the digital component of the test.

Table 12.1 A high proportion of PIAAC survey respondents were below level 2 in problem solving in technology-rich environments
Percentage of respondents^a

	<i>Below level 2</i>	<i>Level 2 and above</i>
Male	61.4	38.6
Female	61.7	38.3
Total	61.5	38.5

^a Percentages are for respondents who were rated in the survey. Twenty-five per cent of respondents overall did not undertake the information-processing tasks and were included in the 'Not classified' category, which covered people who had 'No computer experience', 'Opted out of computer based assessment' and 'Failed Information and Communication Technology Core'.

Source: ABS (*Programme for the International Assessment of Adult Competencies, Australia 2011-12*, Cat. no. 4228.0).

While it makes good sense to lift digital literacy in tandem with other foundation skills, the 2011-12 PIAAC was the first internationally-comparable measure of these skills. An additional framework to cover digital literacy and complement the ACSF has been developed by the Australian Government (DESE 2020h) but the relationship between PIAAC and the new standards have not yet been explored by practitioners and researchers. Given that the data on, and measurement of, this concept is at an early stage, the remainder of this chapter focuses mainly on literacy and numeracy.

Investing in LLND skills offers significant social and economic benefits

Low levels of LLND skills inhibit participation in work and society

People lacking LLND skills are less likely to be employed and, if employed, are more likely earn lower wages (OECD 2016b, p. 17).

Drawing on the PIAAC survey results for Australia, in 2011-12 only 47 per cent of people at level 1 or below in literacy were employed, compared with 71 per cent of people with literacy levels of 2 to 5. For people at level 1 or below, the participation rate was 51 per cent, compared with 75 per cent for people with higher literacy. The unemployment rate for this cohort was also higher, at 7.8 per cent compared with 5 per cent for people with higher literacy.

Shomos and Forbes (2014) found that an increase of one skill level on the PIAAC scale for most people is associated with an increased likelihood of employment of 2.4 percentage points for men, and 4.3 percentage points for women — roughly the same increase in the probability of employment as increasing educational attainment from year 11 to year 12. Such an increase was associated with about 10 per cent higher wages (for both men and women).

OECD research based on the PIAAC data also found a relationship between skill levels and employment and wage levels across the countries involved in the survey (OECD 2019e,

p. 16). After taking account of different levels of educational attainment, increased numeracy was associated with significant increases in the probability of being employed and an increase in hourly wages.

Some of the effects of the COVID-19 pandemic, particularly if long-lasting, could dampen or delay the benefits of addressing deficits in LLND skills. For example, with many already-skilled people displaced from jobs and now looking for new work, there is a lower probability of employment for graduates of all courses, including LLND training. Nevertheless, for most people and younger workers in particular, there are many decades for the investment in basic skills to pay off.

It is also probable that people with better LLND skills will cope better with technological and structural change in the economy (OECD 2013, p. 27). Weaker LLND skills may prevent individuals from upskilling through tertiary study.

Adults' literacy and numeracy skills are also important for civic participation (Adult Learning Australia 2014) and community engagement (Tett and Maclachlan 2007). For instance, about half of 'informal' ballots (that is, ballots that cannot be counted due to being incorrectly filled out or blank) cast in the House of Representatives election in 2016 were done so unintentionally. Poor English language skills have been identified as a contributor (Australian Electoral Commission 2016). More broadly, the PIAAC survey found that people with:

... lower levels of proficiency in literacy are more likely than those with higher proficiency to report poor health, believe that they have little impact on the political process, and not participate in associative or volunteer activities. (OECD 2013, p. 27)

Overall, the Commission considers that there are likely to be net public and private benefits in improving the LLND skills of many low-skill individuals.

The prospect of improving their incomes and employment status would motivate some people to undertake LLND courses. Other people may not see benefits for themselves in undertaking training or may doubt their prospects of success.

Often those concerned will have done badly at school and have a negative perception of education; they may lack awareness of their deficiencies, and even if aware, are embarrassed to admit it. Initial motivation is therefore a serious obstacle. Even for those interested in tackling their weaknesses, it may be difficult to translate that interest into action. For adults with busy working and family lives it is often hard to find space for learning and drop-out rates of programmes are usually high. Although the employment benefits of basic skills acquired in early life are clear, the returns from mid-life learning are much less certain. Most evidence suggests that it is hard for adults to improve their career trajectories by learning basic skills in mid-life, and in the absence of job enhancement, newly acquired literacy and numeracy skills may rapidly decay through lack of use. (Windisch 2015, p. 8)

While some of these are legitimate reasons from the individual's perspective to *not* invest in improving their LLND skills, some derive from problematic perceptions about the difficulties of acquiring LLND skills and/or the benefits they would gain. These

considerations, together with the social benefits associated with improved LLND skills, provide a sound in-principle rationale for government support for LLND skill acquisition.

FINDING 12.1 — SOCIAL AND ECONOMIC BENEFITS OF IMPROVED FOUNDATION SKILLS

Two to three million adult Australians lack the literacy and numeracy skills for the basic needs of modern life. Without adequate language, literacy, numeracy and digital literacy (LLND) skills (equivalent to level 2 and above in the Australian Core Skills Framework), people cannot participate fully in society and the economy. Developing the LLND skills of these disadvantaged Australians would yield considerable public and private benefits.

What LLND programs do governments fund?

Governments fund a range of training and education services to develop and improve LLND skills, including through:

- schools
- adult migrant education
- training sponsored through employment programs
- foundation skill courses in the VET system
- community-based education programs.

This range of services reflects the diverse causes of poor LLND skills in the community.

Schools are producing graduates without basic standards of literacy and numeracy. About 80 per cent of students achieve NAPLAN outcomes in year 7 that are roughly equivalent to ACSF level 2 (band 6 or higher on NAPLAN)¹¹⁵ (ACARA 2019). By year 9, NAPLAN results indicate that about 10 per cent of year 9 students are still below minimum standards (band 6) for literacy and 4 per cent are below minimum standards for numeracy, and not all students manage to reach these standards by year 12.

Some State and Territory governments are working to fill this gap — for example, South Australia introduced funding in its 2018-19 Budget to support a ‘literacy guarantee’, with measures aimed at improving teacher quality and teaching methods (DOE (SA) 2020). New South Wales has a *Literacy and Numeracy Strategy 2017–2020* that focuses on meeting literacy and numeracy standards in school education (DOE (NSW) 2020). Western Australia requires that students meet minimum standards either in year 9 NAPLAN or alternative testing by year 12 to gain a year 12 certificate (DOE (WA) nd). However, as pointed out by the NSW Adult Literacy and Numeracy Council (sub. 42, p. 2):

¹¹⁵ In 2019, about 80 per cent of year 7 students achieved NAPLAN band 6 or higher on reading, spelling, grammar and punctuation, and numeracy. Results for writing were lower with 71 per cent of students achieving this level.

While the school system ought to provide equitable access and opportunities for a good education for all children, there will always be students for whom the school system does not work. This may include but are not limited to factors related to the students' family situation, poor health, multiple relocations or some complex interactions between one or more of these.

For adults lacking basic LLND skills, Australian, State and Territory governments fund and deliver training directly and through shared mechanisms.

Australian Government programs

LLND training is provided in the mainstream VET system, through courses under the Foundation Skills Training Package or subjects attached to other packages. The Australian Government contributes to the public subsidies supporting these courses.

The Australian Government also funds three programs to help people develop foundation skills (table 12.2). Each program targets a section of the population.

- The AMEP provides up to 510 hours of English language training for migrants. Until this year, only recent immigrants could access the AMEP but, in 2020, the Australian Government announced that it will be extending eligibility to any permanent resident or citizen without functional English. The limit on hours of training will be relaxed to allow students to attend classes free of charge until they acquire this capability (Tudge 2020).
- The SEE program provides up to 650 hours of language, literacy and numeracy training to eligible job-seekers.

In response to the Joyce Review, in 2019 the Australian Government announced the Foundation Skills for Your Future program under which approved service providers can apply for funding to deliver LLND skills through employer workplace training projects or to learners in personalised programs.

In total, these programs cost about \$350 million annually, with the AMEP accounting for two-thirds of the total. Evaluations of the AMEP and the SEE program found that they were broadly effective at providing foundation skills training to new migrants and the unemployed (ACIL Allen Consulting 2015d, 2015a).

These three Australian Government programs operate through RTOs but not as part of the broader VET funding arrangements administered by State and Territory governments. This can create problems where each level of government seeks to avoid funding training that could be provided by the other.¹¹⁶ Eligibility criteria can be complex as a result, creating

¹¹⁶ For example, Queensland requires that 'Learners who meet the eligibility requirements for any Australian Government foundation skills program must be directed to the appropriate program and not access subsidised training through a relevant Queensland Government VET program' (DESBT (Qld) 2018b). Applicants may not be eligible for free Australian Government training under the Foundation Skills for Your Future program if they are 'enrolled, or eligible to be enrolled in, existing Commonwealth, state or territory subsidised or partially subsidised language, literacy, numeracy and/or digital skills training program' (DESE 2020f).

issues for students and RTOs. The broadening of access criteria for the AMEP may help ease these tensions.

Table 12.2 Commonwealth programs supporting LLND skills

<i>Program</i>	<i>Description</i>	<i>Cost</i>
Adult Migrant English Program (AMEP)	<ul style="list-style-type: none"> Provides up to 510 hours of English language tuition to migrants and humanitarian entrants to support their social and economic participation in Australian society. 	~\$250 million (annual)
Skills for Education and Employment (SEE) program	<ul style="list-style-type: none"> Provides language, literacy and numeracy training of up to 650 hours to job seekers. 	~\$90 million (annual)
Foundation Skills for Your Future	<ul style="list-style-type: none"> Eligible employed or recently unemployed Australians can undertake free accredited and non-accredited training to improve their language, literacy, numeracy and digital literacy skills to support them in the workplace. 	\$52.5 million over four years to 30 June 2023

Sources: DESE (2019d, 2019f, 2020ae); DHA (2020).

State and Territory government programs

State and Territory governments primarily support foundation skills training by subsidising accredited and pre-vocational courses offered in the VET system and by community providers. For instance, New South Wales' Smart and Skilled program subsidises about 90 per cent of the cost of Certificate I and II level foundation skills courses (NSW Government 2020b).

However, the Commission lacks the necessary data to make a robust estimate of the funding committed by States and Territories.

State and Territory governments also assist certain groups to gain foundation skills with targeted subsidies to make the training more affordable. Concessional arrangements are available to Aboriginal and Torres Strait Islander students, people with a disability and recipients of certain government payments. The size of the discount to full fees varies but is substantial. In New South Wales, for example, people receiving government payments — such as Jobseeker or Youth Allowance — pay concession fees of just \$80 for foundation skills courses (relative to the general subsidised amount of about \$200–300). And Aboriginal and Torres Strait Islanders, and persons with a disability, are exempt from fees altogether (NSW Government 2017b).

VET and community adult education attempt to raise skill levels for people who did not develop them in school or are otherwise at a disadvantage. In 2018, 197 000 students were undertaking nationally recognised VET courses or qualifications designed to teach LLND

skills (Commission estimates based on NCVER 2019b). The data suggest that, aside from students in remote areas, LLND training through the VET system reaches a diverse cohort.

- Students who did not complete year 12 comprised half of the students undertaking LLND skills training in VET in 2018 (Commission estimates based on NCVER 2019b).
- Half of the students studying LLND in the VET system are from non-English-speaking backgrounds (Commission estimates based on NCVER 2019b). In 2018, 8 per cent of students studying LLND skills identified as Aboriginal and Torres Strait Islander (NCVER 2019b).
- Eighty-eight per cent of students undertaking LLND skills training in 2018 came from the cities or inner regional areas (NCVER 2019b). Although some remote students may travel to undertake training, the distance to attend a VET provider can be a significant barrier to undertaking training.

The States and Territories also provide LLND training through community education providers. The largest numbers of providers are in New South Wales and Victoria. Providers can deliver both accredited and unaccredited courses but most jurisdictions do not publish data on unaccredited course student numbers. In Victoria, where data are published, adult, community and further education providers had nearly 30 000 students, although not all of these students would be undertaking LLND training (ACFE Board 2019). Adult education can be an effective tool for outreach to difficult-to-reach students.

The ACE [adult continuing education] sector has a well-documented track record of attracting high rates of high needs and disadvantaged learners. It has achieved this in a highly constrained funding environment where providers' capacity to engage learners through outreach activity is not funded. Investing in the outreach and engagement in the ACE sector is possibly the single most effective strategy that can lead to increased participation by learners with high needs and low [language, literacy and numeracy]. (ALA and NHVic, sub. 12, p. 5)

Ad hoc funding

In addition to running dedicated programs and funding accredited training designed to boost foundation skills, governments at both levels fund providers of unaccredited foundation skills training on a case-by-case basis. The Literacy for Life Foundation (sub. 37, p. 2), an organisation working to improve literacy in Aboriginal communities, has received support from a variety of government sources — including but not limited to the Department of Family and Community Services (NSW), the Department of Education (NSW), the NSW Aboriginal Housing Office and the Department of the Prime Minister and Cabinet.

Are existing programs reducing the number of people with low LLND skills?

The number of people with low literacy and numeracy grows with people leaving the school system with poor literacy or numeracy, and through low-skilled immigration (figure 12.4).

The number falls as people gain skills through training or otherwise, as older members of this cohort age or die, or if they leave Australia. The data on the different programs and their outcomes do not allow a clear assessment of whether existing programs are enough to reduce the number of people with low LLND skills. However, rough estimates based on the overall numbers of participants in training suggest that it is likely that current programs are not providing higher skills to a large enough number of people to make *significant* inroads into the two to three million Australians identified as having low LLND skills in 2011-12.

Figure 12.4 The number of people with poor LLND skills is unlikely to be changing much with current government programs

Numbers shown are broad approximations of key flows

Number of people at start of year with low LLND skills aged 15–74	
+	Net migration resulting in more people who potentially have low skills (up to 50 000 in 2019-20) ^a
+	Low skill school leavers (about 25 000 in 2019) ^b
—	Successful VET, program and adult learning students; students who have made significant progress (AMEP and SEE have about 20 000 each and VET has at least 13 000) ^c
—	Low LLND individuals leaving the cohort due to ageing or death (about 55 000) ^d
= Number of people at end of year with low LLND skills aged 15–74	

^a Number of humanitarian refugees plus people from non-English speaking countries not on a skills list visa in 2019-20. No allowance is made for permanent residents leaving Australia. ^b Estimate based on year 12 students multiplied by the NAPLAN proportion for those below the minimum standard in year 9. This does not allow for those who were below the minimum standard in year 9 and then did not complete year 12, or those who improved their skills between year 9 and year 12. ^c The number of successful students are conservative estimates based on student numbers and expected hours of study for AMEP and SEE, and in the case of VET, the number of students who completed their course. A further 14 000 students completed at least one subject before leaving the VET system but are not included because it is unclear how much improvement was achieved. Data are not available for community adult education students undertaking non-accredited training. ^d Total population aged 74 multiplied by the proportion of low LLND 65–74 year-olds in 2012.

Sources: DESE (2020a, p. 56); Department of Home Affairs (2020a, 2020b); ACARA (2019, 2020b); Commission estimates based on NCVER (2019a); ABS (*Australian Demographic Statistics, June 2019*, Cat. no. 3101.0; *Programme for the International Assessment of Adult Competencies, Australia 2011-12*, Cat. no. 4228.0).

There are also some groups that have difficulty in accessing suitable training. The NSW Adult Literacy and Numeracy Council (sub. 42, p. 1) said that people not well served by existing LLND programs include:

- homeless adults, prison inmates, adults with a disability, migrants who were not able to access the AMEP during their eligibility period,¹¹⁷ and adults who are not job seekers
- workers who need to improve their LLND skills to sustain their employment or to retrain
- adults in remote communities, including Aboriginal and Torres Strait Islander people for whom ‘standard’ English may be an additional language or dialect.

What else should governments do?

The Joyce Review (2019, p. 105) called on governments to commit, over time, to supporting fee-free foundation-level training for all Australians to bring their LLND skills up to ACSF level 2:

A lack of foundation skills clearly limits the quality of life and employment opportunities for a significant group of Australians, and is likely to leave them vulnerable to future changes to work. It makes sense that one of the key ways to share the benefits of a strong and growing 21st century economy is to ensure that every adult Australian is given the opportunity to participate fully in that economy. Making such a commitment will improve social cohesion and ensure that every Australian gets an opportunity to succeed.

Subsequently, the Australian, State and Territory governments have concluded a *Heads of Agreement on Skills Reform* which includes, as one of their priorities:

Providing stronger support for foundation skills and ensuring access for all Australians with low levels of language, literacy, numeracy and digital literacy. (DPM&C 2020b)

However, governments are yet to agree on what measures they will take to pursue that priority. This review suggests the first steps governments could take towards the aspirational goal of universal access to LLND skills training. Governments will also have access to the results of a scoping study into foundation skills commissioned by Skills Ministers in November 2020 to provide evidence to inform decisions. The scoping study is due to be completed by February 2021 (DESE 2020n).

Is fee-free training the best approach to lift LLND?

Although the Joyce Review recommended fee-free foundation skills training, fees are not the only barrier to foundation skills training and are unlikely to be the most important barrier for many prospective students. For many high-need groups, fees are already low or zero. For

¹¹⁷ As noted above, the Australian Government has recently announced that it is extending eligibility for AMEP.

others, government subsidies to reduce fee levels may not be the most effective way to persuade them to undertake training.

Part of the challenge of improving LLND skills lies on the supply side. There is some evidence of emerging supply constraints in existing programs. For example, the Reading Writing Hotline has reported a rising number of people who sought courses through the Hotline but where no suitable literacy/numeracy provision was available. The Hotline in some cases was able to send paper-based resources to assist people to make a start with their learning, although in other cases no options were available for people to improve their literacy (Reading Writing Hotline, pers. comm., 4 November 2020). Further, some groups who may want to study LLND skills (such as people considering entering the job market but not classified as job seekers) are tripped up by eligibility requirements. These problems point to a need for an expansion in LLND places and/or, possibly, a revision of eligibility criteria.

The demand side constraints are also significant. Issues such as low confidence and stigma can reduce some adults' willingness to study LLND skills. A variety of solutions may be necessary to reach these people and convince them to study LLND skills (Windisch 2015). Many participants in this review emphasised the importance of tailoring courses to the needs of different types of learners (for example, NSW Adult Literacy and Numeracy Council, sub. 42). It is also important to tailor outreach to these types of learners. Given the many demand- and supply-side barriers to improving LLND skills, it is plausible that resources directed to LLND programs would be more effective if they targeted the most limiting constraints, not just course fees.

What programs might work?

The Joyce Review envisaged a range of measures and services. It recommended that the Australian, State and Territory governments develop a new national agreement to provide for the three main delivery models of LLND training:

- standard RTO delivery of foundation-level VET courses
- intensive literacy and numeracy short courses (such as the AMEP)
- dedicated workplace-delivered language, literacy, numeracy and digital literacy skills programs in partnership between employers and RTOs.

Workplace programs are a promising option and are a key element of New Zealand's response to poor literacy and numeracy (box 12.3). Another interesting element is the use of the wide range of interactions that people have with government to promote learning of basic literacy and numeracy skills. The New Zealand programs offer useful ideas for Australia to consider.

There are also other potential models such as the campaign approach adopted by Literacy for Life. Literacy for Life use a train-the-trainer model to reach Aboriginal and Torres Strait Islander communities, with evaluation results showing higher completion rates than for comparable students at traditional VET institutions (sub. 37).

Box 12.3 **New Zealand's Literacy and Numeracy Strategy**

New Zealand's Tertiary Education Commission has been pursuing improvements in LLN skills through its *Literacy and Numeracy Strategy 2015–2019*. The Strategy had four key work streams:

- reach more people to help them succeed
- better target support to individual learners to help improve their outcomes
- ensure that tutors and trainers are well equipped to help their learners succeed
- support and influence other agencies.

The Strategy recognised that existing programs were only reaching an estimated 20 to 25 per cent of the population with low LLN skills. One way to increase this was to implement additional programs targeting workplaces. Companies could receive Workplace Literacy and Numeracy Fund assistance based on the number of hours of tuition.

Another strand was to increase collaboration with other areas of the New Zealand Government administering services (such as social welfare benefits, prisons, drivers' licences and Maori programs) to increase the reach of programs.

The Strategy also tailored approaches to specific groups, especially Maori and Pacific Islanders. This included further development for trainers and improving teaching resources. Young learners, new arrivals to New Zealand and those with learning difficulties were also targeted.

Sources: Hopkins (2020); New Zealand Tertiary Education Commission (2015).

What do research and evaluations tell us?

The academic research on LLND training (box 12.4) does not make a compelling case for any particular program or allow clear estimates of the cost of achieving LLND outcomes. Few studies evaluate the costs and benefits of the LLND programs. Most aim to identify the best ways to influence and teach students or assess programs against their expected outcomes (which rarely go to their economic benefits).

Longitudinal studies show that students may need to be tracked for an extended period (up to six years) to determine whether there has been a significant improvement in skill levels. This implies that determining the best path towards higher LLND skill levels will require an experimental approach, relying on such performance information as exists and building the knowledge base over time.

Box 12.4 **Cost–benefit assessment of LLND skills training**

There is limited research assessing the costs and benefits of programs to improve the LLND skills of adults. The most relevant studies are summarised below.

Longitudinal studies

A longitudinal study in Portland, Oregon by Reder (2012) found that significant improvement in literacy and numeracy skills could take five to six years. There was no initial improvement in literacy proficiency from formal study — but formal study increased the likelihood of increased literacy practices and these led over time to higher levels of proficiency (Reder 2012, p. 3). Reder also found that younger adults showed higher rates of proficiency change than older adults, that improvements in literacy and numeracy were correlated, and that some life changes, such as starting a job or the addition of a child to a household, positively affected reading practices.

A longitudinal study of the Victorian pre-accredited training system by Deloitte Access Economics (2017) found that, after undertaking around 100 hours of study over the previous year, more than half of the students went on to further training, with almost 30 per cent going on to accredited training. Of these students, more than two-thirds completed accredited training. The study did not contain information about other employment and life outcomes for students.

Nationally-recognised VET courses

There is limited evidence on the effectiveness of nationally-recognised LLND courses, and the evidence that is available is mixed.

Satisfaction is one measure that can shed light on the effectiveness of training. On this measure, nationally recognised LLND training performs well. Of the 13 000 students who completed LLND programs in 2018, 88 per cent were satisfied with their training six months after completion (expressing a similar level of satisfaction as those who completed non-LLND programs) (NCVER 2019a). Of the 14 000 people who completed at least one subject in an LLND program before leaving the VET system in 2018 without obtaining a qualification, 81 per cent were satisfied.

The success of these courses in improving employment outcomes is less clear. Twenty-seven per cent of students who completed their course in 2018 had ‘improved their employment status’ six months after completion — either by getting a job, getting a better job or being employed at a higher skill level — in contrast with 67 per cent of people who completed non-LLND courses (NCVER 2019a). It is not clear, however, what outcomes these people would have achieved had they *not* undertaken training because of the lack of a comparison group. Given the barriers to employment that many in this cohort face, it may also be that benefits take longer to materialise.

Evaluations of AMEP and SEE

Research and evaluations of AMEP, SEE and community-based adult education have found that many clients have stronger skills after undertaking courses, but the evaluations stop short of providing information that would allow a convincing cost–benefit assessment.

The evaluation of AMEP in 2015 showed that, although the program was valued by students, even after 500 hours of learning most students had a transactional level of English at best (ACIL Allen Consulting 2015a, p. 64). This is perhaps not surprising given the low starting point for many students, with around 35 per cent starting with zero or very low levels of English skills (ACIL Allen Consulting 2015d, p. 42). It is also consistent with Reder’s (2012) findings that the initial gains tend not to be in the form of increased proficiency.

(continued next page)

Box 12.4 (continued)

The SEE program was evaluated in 2015 (ACIL Allen Consulting 2015d). Just over 40 per cent of participants were regarded as completing the program; 12 per cent did so by moving on to employment, while 11 per cent completed by progressing to other training; 18 per cent completed by undertaking 800 hours of training (ACIL Allen Consulting 2015d, p. 54). Thirty per cent of participants completed fewer than 100 hours. Those completing 800 hours recorded an improvement in their reading proficiency equivalent to 0.8 and about 0.7 in writing proficiency on the ACSF ratings (ACIL Allen Consulting 2015d, p. 61).

Workplace programs

A Canadian study of workplace training tracked over 200 participants working for 18 employers undertaking training in ‘essential skills’, including oral communications, problem solving, digital technology and working with others (Palameta et al. 2013). The participants covered all skills levels. Participants’ literacy, numeracy and other skills improved, based on their own and their employers’ assessments, with the employers noting improvements in their productivity, error rates, morale and social networks. The study did not consider the net returns on investment or benefit–cost ratios.

Between 2007 and 2011, the New Zealand government funded 18 pilots in a range of industries to test the efficacy of workplace literacy programs (Benseman 2013). Over 400 students took courses in their workplaces from 24–100 hours long. Each pilot had different characteristics allowing some comparisons. Forty-four per cent of participants increased their *International Adult Literacy Survey* reading level (a forerunner to the PIAAC levels) by one level and 86 per cent improved their score. Smaller improvements were recorded for writing proficiency. The improvements translated to better work performance in most companies. Although no formal cost–benefit assessment was undertaken, these were relatively inexpensive courses.

The Ai Group commissioned the Australian Council for Educational Research (ACER 2015) to evaluate training programs undertaken as part of the Australian Government-funded Workplace English Language and Literacy (WELL) program. Not all employers approached to participate in the evaluation agreed. Of the seven programs examined, return on investment was found to be positive in four; the other three were regarded positively by employers but it was not possible to calculate the net impact. Examples of savings included reduced supervision requirements, lower documentation errors, fewer injuries and efficiency improvements. The WELL program was discontinued in 2014.

Adult community education

The Victorian Government has commissioned at least two studies of the effectiveness of its Adult Continuing and Further Education (ACFE) system. Teese et al. (2013) found that students in pre-accredited courses had quite high completion rates and around one-third of students went on to further study. Employment outcomes were mixed — for those who were under-employed, completion was associated with more work hours. There were relatively few non-completers but, among participants who were initially unemployed, non-completers actually had twice the chance of gaining employment than completers, perhaps because job offers cut short their study.

The Deloitte Access Economics (2017) study discussed above mapped pathways of ACFE students into further learning. Consistent with Teese et al., it found half of pre-accredited students continue studying but only one-third went on to accredited training.

Schools and the VET system will remain core elements of efforts to lift basic skill levels — schools because they will always be the best way of building foundation skills, and VET because it represents a well-structured, regulated, delivery mechanism to offer ‘second-chance’ learning designed for adults. Commission analysis of unpublished National Centre for Vocational Education Research (NCVER) data for students who have undertaken LLND courses¹¹⁸ suggests that student satisfaction with these courses is similar to that for the VET system overall. While employment outcomes after six months are weaker, this is not surprising given the barriers facing the target student group.

Beyond the VET system, some States and Territories have strong systems for adult education. Adult education providers offer significant potential for outreach to students and for tailored course provision. These organisations may offer some of the best opportunities for hard-to-reach students, such as young parents who are out of the workforce, rural and remote groups or culturally and linguistically diverse and Aboriginal and Torres Strait Islander communities. However, better data are needed about the effectiveness of these systems, particularly for unaccredited courses, for lifting LLND skills.

Workplace courses also offer promise, as they allow literacy and numeracy teaching to be integrated with people’s everyday work, providing strong reasons for people to study and allowing them to see progress as they learn. Solid outcomes have been found for relatively low-cost courses, as long as professional literacy and numeracy experts are involved.

This suggests there is not one clear ‘best approach’ for lifting LLND skills, but the need for a variety of learning opportunities, to cover the range of students and to allow further consideration of the best return-on-investment propositions. It would also be prudent to expand support for LLND training in stages, involving a mix of experimentation and rigorous program evaluation. Governments will need to identify cost-effective training options and address gaps in the training sector, especially gaps that affect the delivery of services to disadvantaged groups.

Assessment tools can help providers decide who needs LLND assistance

The Joyce Review also recommended that the Australian Government fund the development of an online LLND assessment tool, to allow educators to assess the LLND standards of individual learners and measure improvements due to LLND courses.

Assessing student need is a sensible element of student induction for VET and community providers. There are four generally available tools that providers are already using for this purpose (that meet the VET Student Loans program student entry requirements), each of which can be accessed online (DESE 2020m). These are:

- Core Skills Profile for Adults

¹¹⁸ The NCVER is working with governments to finalise the courses that should be considered as foundation skills. The result will be an agreed list of LLND and employability skills courses. The Commission’s analysis is based on a near-final list, with courses related to employability skills removed.

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- Basic Key Skills Builder
 - Safe Work Resources VFH LLN Assessment Tool
 - VETASSESS Test.

Additionally, providers may create their own assessment tools for use with their students, subject to approval from the Department of Education, Skills and Employment (DESE). The Foundation Skills Assessment Tool was developed by the Australian Government and was in use between 2016 and 2018 (DESE 2020g) but further development was discontinued, in part because of the availability of alternatives.

It is not clear that governments need to develop an additional tool, but providers should be encouraged to use the available resources.

How should governments coordinate their efforts on LLND skills?

Consistent with the Joyce Review's recommendations, the previous discussion pointed to the need for coordinated actions, reporting and evaluation from both levels of government. It also noted that governments have included LLND skills acquisition as one of their priorities when negotiating a new agreement to replace the *National Agreement for Skills and Workforce Development* (NASWD).

The scope and shape of such an agreement could take several forms. In pursuing better LLND skill levels, governments should consider whether training activity is best delivered jointly or unilaterally by the Australian, State and Territory governments. There is a range of possible program models and not all need an intergovernmental framework. For example:

- the Foundation Skills for Your Future program can operate effectively under Australian Government funding arrangements, taking advantage of aspects of the VET system such as the quality assurance processes for RTOs. However, its dedicated focus on LLND skills may allow greater progress to be made than in the VET system more generally
- State and Territory funding for community providers of LLND training does not need an intergovernmental agreement. Strong community linkages allow effective outreach to potential students who may benefit from LLND training.

Nevertheless, it would be useful for the outcomes of these programs to be considered in an intergovernmental framework, with a broader program of evaluation and reporting. It may also be useful for eligibility conditions for the AMEP and the SEE program (which operate under Australian Government funding) to be considered alongside mainstream VET programs to minimise complexity for students and providers.

There are two main options for effective inter-governmental direction setting and cooperation:

1. within a new stand-alone agreement — the Joyce Review recommended such an agreement to provide profile for the goal of lifting LLND skills

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2. as a part of the new NASWD agreement — the agreement would set objectives and intended outcomes for LLND training in the same way as other aspects of VET.

A new national agreement, as envisaged in option 1, would allow a focus extending wider than the VET system. It could recognise governments' contributions to overall objectives through their own programs, as well as through shared programs. However, there is a risk that such an agreement would contain less detail on the VET sector itself and its contribution to the goal of lifting overall LLND skills. Further, national agreements are not normally negotiated on single issues, to avoid a proliferation of such arrangements.

Option 2 would give a focus on LLND training within the VET system. This is consistent with the significant roles played by VET and RTOs in providing this training. Under this approach, targets and performance measures for the VET system are likely to be specified in more detail and the contribution of VET more closely monitored. A schedule to the agreement would define roles and responsibilities of governments and detailed performance targets, including outcomes for specific cohorts such as Aboriginal and Torres Strait Islander students, rural and remote students, younger people, those not in the workforce and employees.

Either approach may also involve complementary funding agreements between governments to achieve particular purposes or projects related to building LLND skills.

The Commission's approach: an overarching strategy and sector-specific agreements

Both approaches have strengths and the Commission considers a combination of these elements is most likely to be successful.

A national LLND skills strategy would bring together measures to improve school education, 'second-chance' learning in the VET sector and the other adult education services delivered by public and private providers. It should draw on the recently announced scoping study into foundation skills and be coordinated across the Australian, State and Territory governments given they are all involved in service provision and funding. The proposed national strategy would sit above the NASWD and other education-related agreements, which would house the details of how the national strategy would be delivered in specific sectors.

Efforts to improve LLND skills will need to influence policy areas that have traditionally been managed through separate processes — the most obvious is the school system but program elements such as the AMEP, SEE program and adult education will also be important.

An agreed national LLND strategy can help bring together efforts in all these areas. It would set out governments' objectives and outcomes, the contributions expected from the various policy elements and the relationships between them. This task is analogous to that envisaged for the National Disability Agreement in the Productivity Commission's 2019 review:

An overarching agreement is needed to clarify the relationship between all aspects of the disability policy landscape, and to facilitate cooperation between governments and promote greater accountability. Further, the Commission is of the view that a national agreement is likely

to be the most effective instrument to influence and drive government policies and practices to achieve the agreed outcomes. (PC 2019a, p. 5)

RECOMMENDATION 12.1 — DEVELOPING A NATIONAL STRATEGY TO IMPROVE FOUNDATION SKILLS

The Australian, State and Territory governments should jointly develop a strategy to reduce the number of people with low language, literacy, numeracy and digital literacy (LLND) skills (below level 2 in the Australian Core Skills Framework). The LLND strategy should:

- recognise the varied circumstances of people with low LLND skills
- cover the range of LLND training programs across schools, the VET system, workplace programs and community adult education providers
- guide and coordinate policies in these areas to improve LLND outcomes
- facilitate a staged approach to expanding access to LLND training, using evaluations to inform where the greatest improvements can be achieved at lowest cost.

The strategy should draw on the scoping study into foundation skills commissioned by Skills and Training Ministers in November 2020.

The details of how the national strategy would be delivered would be found in sector-specific agreements, including for schools, and in the new NASWD agreement.

This approach appears more likely to promote agreement between the Australian, State and Territory governments on the key actions and outcomes needed. It would provide for shared objectives and additional LLND training through the VET system. It can operate more flexibly and does not prevent any government from taking additional action as it sees fit.

Key elements of a NASWD schedule

The earlier discussion highlights a number of elements that should be covered in a schedule covering efforts to improve LLND skills through the VET system:

- program arrangements for jointly-funded programs
- reporting and evaluation arrangements for jointly-funded programs and other LLND programs
- roles and responsibilities of both levels of government.

The roles and responsibilities of the Australian Government under such an agreement would cover its contribution to funding LLND training within the VET system and any conditions on this funding. The schedule should also specify the relationships between the SEE program, the AMEP and the Foundation Skills for Your Future program, and the remainder of the VET system. Eligibility issues should be resolved to simplify arrangements for students and RTOs.

Similarly, the schedule should specify State and Territory government contributions to raising LLND skills, ensuring that the relationships between specific programs, non-accredited programs and the broader VET system are clear and potential funding issues resolved.

The current training options are more likely to reach people who have a strong incentive to undertake training, because they are in the job market, have newly arrived in Australia or need to improve their foundation skills to gain a qualification.

Groups such as people not in the labour market, who had poor experiences in their school education, are homeless or facing other barriers will need well-designed outreach. The Foundation Skills for Your Future program offers a model to explore more tailored delivery as well as increased delivery in workplaces.

Evaluations of current delivery and new programs need to be improved and consolidated as part of the new strategy. These evaluations will also be more valuable if they include a longitudinal component in different settings.

Funding mechanisms may differ between the programs aimed at LLND skill levels. The schedule may need to recognise this with separate funding, governance and reporting arrangements.

Per-student subsidies are the dominant funding arrangement in VET and have many advantages. They provide incentives for providers to increase their number of students up to the point where costs exceed the per-student subsidy plus fee income from the student. This is desirable insofar as more people accessing supports help to achieve governments' goals, provided students and governments correctly value the services.

The crucial caveat is that providers may respond to the incentive to maximise student numbers by unduly reducing quality if other aspects of the market or the regulatory environment do not provide adequate discipline — a prospect raised by many respondents to the interim report (for example, Alliance of First Nations Independent Education and Training Providers, sub. 63). Per-student funding also works best when the market has sufficient scale, allowing providers some certainty when they are considering investment, and when students have reliable information about likely course outcomes.

Block funding may be a preferable funding mechanism for some activities aimed at helping hard-to-reach students. Block funding provides governments and service providers with greater certainty about the funds committed to a program, which may help providers plan and invest. It is suited to situations where:

- costs bear little relationship to the number of students, for example to encourage a start-up training provider with significant setup costs
- providers perceive high levels of risk with particular groups of students — governments face a different risk profile because they can spread the risk across multiple providers. Small providers are less able to manage these risks, but these providers are more likely to provide the tailored teaching that is required for many potential LLND students.

Where block funding is used without the benefit of per-student incentives, alternative mechanisms such as performance measures will be needed to ensure the goals are achieved. Further, governments are unlikely to accurately predict the level of funding required to achieve an outcome and this can lead to insufficient or excessive funding. Block funding is best allocated by a tendering mechanism, in which providers bid based on their own estimates of costs.

National Partnership Payments may be the vehicle for the Australian Government to promote these funding mechanisms, particularly if payments need to be made to some States or Territories and not others.

There are other funding mechanisms that could also be considered, particularly capitation and payment for outcomes. Capitation is generally considered for very large numbers and is in fact how overall skills Specific Purpose Payment funding is allocated to each State and Territory. An effective payment for outcome arrangement would require a clearer definition of desired outcomes than has so far been possible in the VET system, with its complex mix of pathways, students and providers.

More detail on the factors influencing the choices between block and fee-for-service funding, capitation models and pay for performance can be found in the Productivity Commission analysis of subsidies for human services (PC 2017a, p. 94).

RECOMMENDATION 12.2 — EMBEDDING LLND IN THE NEW INTERGOVERNMENTAL AGREEMENT

As part of the new LLND strategy, governments should identify the VET-specific, high-level objectives and outcomes relating to LLND skills for inclusion in the new intergovernmental agreement on skills. A schedule to the new agreement should contain the following key elements:

- governments' roles and responsibilities, in relation to the different programs
- the relationship between jointly-funded programs and programs funded by a single level of government
- LLND funding arrangements through both the skills Specific Purpose Payment and any National Partnership Payments, with per-student funding retained as the main funding mechanism for most activity delivered through the VET system, but block funding considered for organisations tackling more difficult-to-reach students
- reporting and accountability arrangements with respect to these programs, including a performance reporting framework.

12.3 VET in Schools

Funding for VET in Schools comes primarily through State and Territory school funding arrangements. Schools themselves are funded, to varying degrees, by State and Territory governments and the Australian Government. Across States and Territories there are

different approaches to topping up per-student funding to meet additional VET in Schools costs.

About VET in Schools

VET in Schools was introduced in upper secondary schools in the mid-1990s ‘within the broader context of improving the range of post-school pathways for students’ (Anlezark, Karmel and Ong 2006, p. 12), with the potential to improve student engagement. The current framework for VET delivered to secondary students in Australia, *Preparing Secondary Students for Work*, states that the purpose of VET in Schools is to develop the skills required in the workplace (DESSFB 2014a).

VET in Schools provides students with the opportunity to acquire nationally recognised qualifications while they are completing their Senior Secondary Certificate of Education (DESSFB 2014b). Secondary school students can complete a full VET qualification, or units of competency within a qualification, or commence an apprenticeship or traineeship.

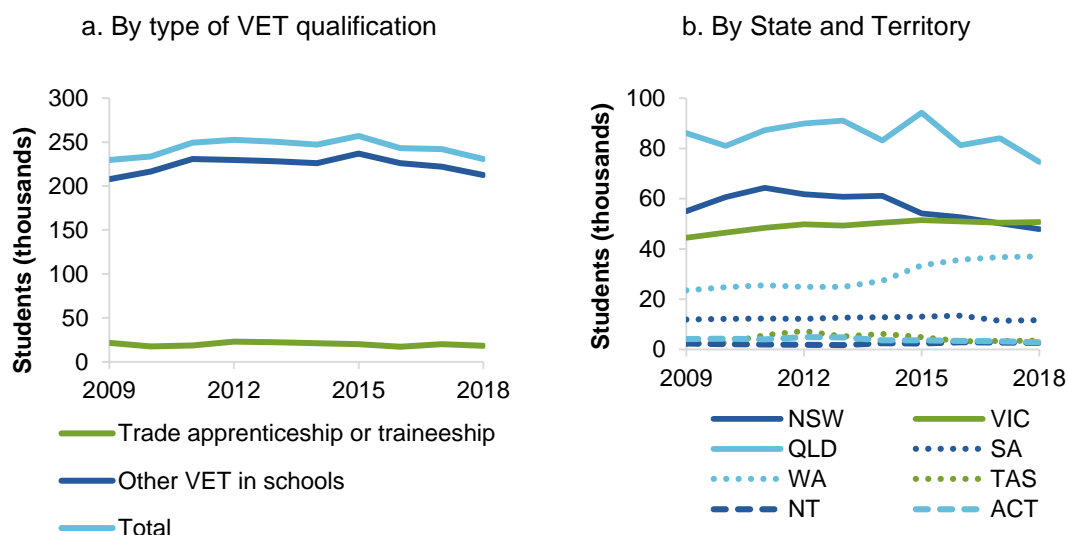
In 2018, schools accounted for just over 5 per cent of total VET enrolments (NCVER 2019). VET qualifications undertaken through VET in Schools can be delivered by a school that is an RTO or by an external RTO; both delivery methods are subject to the same quality standards. VET qualifications offered to secondary students are intended to be the same as VET qualifications delivered in non-school settings — that is, the qualifications are regulated in the VET sector and are held to the same quality standards as VET qualifications delivered in non-school settings (DESSFB 2014b).

Assessment and curriculum authorities in each jurisdiction decide which VET programs can be offered to school students. Each school decides which VET programs to offer to its students, which results in significant differences in the type of VET qualifications offered to school students. For example, Bisson and Stublely (2017, p. 34) found that only 52 per cent of youth surveyed were offered school-based apprenticeships at their school and that apprenticeships were much more likely to be offered to students in schools located in rural areas than urban areas.

The number of school students undertaking VET as part of their Senior School Certificate of Education changed little between 2009 and 2018 (figure 12.5). Most students undertaking VET in Schools are qualifications that are not part of a trade apprenticeship or traineeship.

Figure 12.5 **Number of school students in VET**

Students, 2009–2018



Source: NCVER (2019r).

Recent work by the NCVER provides a reasonably positive report card for VET in Schools (Misko, Chew and Korbel 2020). VET in Schools students were just as likely to be employed five years after completing their study as students who did not undertake VET study in school. They were more likely than other students to have:

- full-time and permanent ongoing jobs
- jobs as technicians and trade workers (especially construction trades), and hospitality, retail and service managers
- completed an apprenticeship or VET studies.

The NCVER researchers found that, from their 2006 study cohort to their 2011 cohort, there was an increase (from 87 to 94 per cent) in the proportion of VET in Schools students achieving year 12 completion or a higher qualification, suggesting that VET in Schools may be meeting its aim of keeping students at school who might otherwise disengage (Misko, Chew and Korbel 2020, p. 35).

The researchers also found that VET in Schools students undertaking apprenticeships and traineeships were the most successful in finding work. VET in Schools students transition early into full-time work, resulting in a high employment rate at age 25 (Misko, Chew and Korbel 2020; Ranasinghe et al. 2019). Overall there was limited alignment between intended occupations during study and destination occupations, except for technician and trade jobs, community and personal service work, and sales (Misko, Chew and Korbel 2020, p. 9). This lack of alignment is not surprising — VET in Schools provides students with a taste of a future career that will not always be what the student eventually decides to do.

Issues with VET in Schools

There is debate about the purpose of VET in Schools. In submissions to the Joyce Review, industry groups emphasised the importance of VET in Schools for promoting vocationally-based careers (Joyce 2019). Education providers, on the other hand, highlighted how VET can encourage more students to stay in school and complete year 12. With the focus over the last decade on lifting year 12 retention rates, VET in Schools has been used to engage less academically inclined students.

Participants to the Joyce Review and to this review highlighted concerns about the outcomes, relevance and quality of VET delivered in secondary schools (table 12.3).

Some employers and industry representatives who participated in the Joyce Review also argued that, in some circumstances, individuals with a school-level VET certificate are actually *less* employable. For example, the Joyce Review heard that some employers were reluctant to:

- employ school leavers with a Certificate III as they do not believe the students have the skills and competencies at the level of the certificate
- take on an apprentice who already has a low-level VET certificate (such as a Certificate II obtained through a pre-apprenticeship program) as industrial relations arrangements may require them to pay the prospective apprentice more than a school leaver without the lower qualifications, despite the risk that the individual may not have the skills or work experience to enter at the higher wage level (Joyce 2019, p. 95).

The Joyce Review suggested that the purpose of providing VET in secondary schools should be to offer pathways for students wanting to pursue vocationally-based careers and smooth transitions to employment. Joyce (2019, p. 97) also stated that keeping students engaged is important but students stay engaged only if there is a clear purpose to their learning — students are entitled to expect that school-based VET qualifications lead to the relevant careers.

The Joyce Review also pointed to other problems with VET in Schools, including issues with quality and consistency across the States and Territories. The Review suggested that it was important that the Australian Skills Quality Authority (ASQA) and the two State regulators be ‘active in regulating all RTOs, including school-based RTOs’ (Joyce 2019, p. 98). Recommendation 7.5 was:

The Australian Skills Quality Authority and the two state regulators ensure their regulatory activity equally applies to all Registered Training Organisations delivering VET to secondary students. (Joyce 2019, p. 98)

The Joyce Review also suggested that ‘more schools should engage with external RTOs for the delivery of training to secondary students’ (Joyce 2019, p. 99). Regarding funding, the Review noted that ‘different approaches to delivering VET to school students are often driven by the availability or non-availability of additional operational funding to provide VET in schools programs’ (Joyce 2019, p. 99).

Table 12.3 Issues raised by stakeholders about VET in Schools

<i>Issue</i>	<i>Submissions to this review</i>	<i>Submissions to the Joyce Review</i>
Purpose of VET in Schools — keeping students in school or delivering training?	<ul style="list-style-type: none"> The Electrical Trades Union of Australia (sub. IR118) reflected that VET in Schools had not been overly successful in producing work ready skills, but that the courses did provide an insight into what would be required to complete an apprenticeship. 	<ul style="list-style-type: none"> The Smith Family (2019) stated that VET in Schools, while successful in raising retention, does not offer adequate pathways or help students transition to work after secondary school.
Relevance and outcomes of VET in Schools	<ul style="list-style-type: none"> The Ai Group (sub. IR97) noted that although students graduating with certificates from VET in Schools were not immediately employable due to their limited exposure to work-based learning, many of the students went on to acquire higher qualifications and eventual employment. The Ai Group (sub. 47) was concerned about declining enrolments in school-based VET. 	<ul style="list-style-type: none"> The Queensland Tourism Industry Council (2019) argued that students completing VET qualifications through VET in Schools often lack understanding of how to apply the skills.
Quality and consistency	<ul style="list-style-type: none"> The Master Builders Association (sub. 41) pointed to inconsistent quality of training between schools, quality issues with some low cost private providers contracted by schools and regulatory constraints preventing industry trainers from teaching courses. 	<ul style="list-style-type: none"> The Queensland Tourism Industry Council (2019) comments suggested that VET in Schools students were not always able to apply their skills consistently.
Connection with workplaces	<ul style="list-style-type: none"> The Master Builders Association (sub. 41) raised some schools' lack of access to real-work situations and regulatory constraints preventing industry trainers from teaching courses. 	<ul style="list-style-type: none"> Several submissions to the Joyce Review questioned the capacity of VET in Schools to connect training and the workplace (Future Now (2019, p. 1); Queensland Tourism Industry Council (2019, p. 3), The Smith Family (2019, p. 7). This connection provides an opportunity for practical learning and on-the-job experience — submissions suggested this was not always present in VET in Schools.
Resource constraints	<ul style="list-style-type: none"> Master Electricians Australia (sub. IR89) suggested resource constraints on schools could result in inappropriate VET in Schools courses being offered 	<ul style="list-style-type: none"> The Australian Industry Group (2019a) recommended that governments provide resources to schools to establish new, and enhance existing, partnerships with local businesses to increase apprenticeships and traineeships, and offer incentives to employers to expand workplace learning opportunities.

The Shergold report to the COAG Education Council

The links between academic learning, career exploration and formal VET education were considered in detail by the Shergold Review (2020) in its report to COAG's Education Council. It found that:

VET delivered to senior secondary students is of inconsistent quality, difficult to navigate, and not well integrated into senior secondary studies. VET qualifications delivered in schools need to meet clearly defined standards and deliver or contribute to credentials that are accepted in the labour market.

Upfront expenses associated with undertaking VET are not equitable. Costs can act as a disincentive for students to study VET in both Years 11 and 12 or as a post-school pathway. (Shergold Review 2020, p. 76)

The Shergold Review found strong grounds for breaking down the barriers between academic and vocational learning, and made recommendations to provide a more holistic approach to senior secondary school learning. The Review (p. 77) suggested greater emphasis on career education and learning — including short programs with industry, work placements and curriculum-based subjects — to help secondary students explore the world of work, identify career options and pathways, and build career development skills.

Compared with this career-education approach, the Shergold Review noted that VET in Schools is a more formal concept, comprising formal units of competency or qualifications, including apprenticeships and traineeships. The Review pointed to the need to maintain quality in the school-based provision of this training.

The Review recommended the development of a strategy to ensure that VET in Schools is only provided in-house when schools have the expertise, finances and connections with local industry to deliver high-quality training. Where this is not possible, the Shergold Review recommended students should be supported and encouraged to study with a local RTO. The Review recommended the interests of the student be central to the strategy.

Assessing the recommendations from the Joyce and Shergold Reviews

The Shergold and Joyce Reviews address a number of issues for VET in Schools that are also discussed in this review for the VET system as a whole. The Commission sees merit in many of the approaches suggested in the two reviews. In particular, the Shergold Review's recommendations are consistent with the Commission's view that the VET system should be designed with the needs and interests of students and employers at its centre (chapter 5).

Providing training that is actually useful to students and businesses is critical and the Shergold Review's recommendation that schools should provide VET training in-house only when they can do so at high quality is consistent with the Commission's views in chapter 7. To achieve this, the Commission supports the Joyce Review suggestion that funding issues need to be addressed to remove incentives for sub-standard in-house provision of VET training.

The Joyce Review’s recommendation 7.5 supports effective regulatory oversight of school provision of VET, consistent with the Commission’s view in chapter 7 that regulation needs to provide quality safeguards. This is supported further by the Shergold Review’s observations that industry has a critical role in maintaining quality. In the case of VET in Schools, schools providing VET training in-house need to engage with local industry to ensure that workplace learning is part of the VET in Schools process.

Finally, the Shergold Review recommended that all students must meet the minimum standards in literacy, numeracy and digital literacy — this is consistent with suggestions in section 12.2 about taking opportunities to improve LLND skills and taking advantage of vocational contexts.

Overall, these recommendations help address the specific issues regarding quality of training when schools are the VET provider:

- the consumers — school students — are younger than in the rest of the system and less able to make informed choices (chapter 6)
- schools (and the governments that stand behind them) are ultimately responsible for the quality of in-house VET in Schools provision — if quality cannot be assured in a particular school it is better that the training be delivered as part of the larger system.

In its initial response to the Shergold Review, the Education Council noted that Ministers had identified the scope for ‘a national strategy on vocational education and training delivered to secondary students’ (Education Council 2020, p. 2). The *Heads of Agreement for Skills Reform* includes a priority for ‘strengthening VET pathways for secondary school students and improving the quality and vocational relevance of VET in schools’ (DPM&C 2020b, p. 2).

The funding challenge raised by the Shergold and Joyce Reviews is how to design school funding arrangements that do not encourage poor school decision making. The Shergold Review (2020, p. 86) pointed to funding constraints that could have adverse consequences for student and school decisions:

Many of the consultations conducted and submissions received by the Panel identified funding arrangements for VET delivered to secondary school students as a significant driver of behaviour. It is the strong view of the Panel that there should be no financial disincentive for schools or students in circumstances in which students wish to undertake VET at external RTOs. Decisions on whether students study inside or outside school should not be based on financial incentives or administrative convenience, but on what is in the best interest of students.

The Joyce Review (2019, p. 99) recommended a number of changes to the funding of VET in Schools, including that:

... the Commonwealth and States and Territories consider setting up a new national funding agreement for co-funding VET in schools provision over time, with pricing to be determined by the National Skills Commission and the fund to be administered by State and Territory Training Authorities in partnership with the Commonwealth.

Funding arrangements for VET in Schools differ between the States and Territories, with the supplementation for the costs of vocational education provided at different levels. One of the issues the Joyce Review highlighted was the provision of what employers regarded as lower quality training by schools seeking to avoid paying higher costs at a specialist VET provider.

Recommendation 7.6 of the Joyce Review (2019, p. 99) provides for ‘the National Skills Commission to compare VET in Schools funding models and recommend national cost and funding models for delivering VET to secondary students’. The Australian Government could seek State and Territory governments’ agreement for these funding models to form the basis of their supplementation without a new formal agreement, or such an outcome could be represented in the principles of a new VET agreement.

FINDING 12.2 — THE JOYCE AND SHERGOLD SCHOOL-BASED VET RECOMMENDATIONS

The Joyce and Shergold Reviews offer complementary recommendations to improve the quality of school-based VET. The Commission sees merit in these recommendations and supports reform of VET in Schools as an early priority for governments.

12.4 Options for other targeted reforms

Reforms to support Aboriginal and Torres Strait Islander students

The Joyce Review called on the Commonwealth to provide more funding for Indigenous RTOs (IRTOS) and to measure enrolments, progress and outcomes for government-funded Aboriginal and Torres Strait Islander students (at both Indigenous and non-Indigenous providers).

Aboriginal and Torres Strait Islander students face a range of disadvantages and challenges

Language barriers (many Aboriginal and Torres Strait Islander students’ first language is not English) and the remote location of many Aboriginal and Torres Strait Islander students can significantly impede their participation in VET. Lack of data means that the scale of the problem is not clear and this is an issue in itself — the sample size in the PIAAC survey was too small to identify the literacy and numeracy characteristics of the adult Aboriginal and Torres Strait Islander population:

While the English literacy outcomes of Indigenous children are constantly measured and debated, as evidenced in discussions around NAPLAN and school achievement in the Closing the Gap policy framework, attention falls away once these children leave school. In fact, there is almost no reliable national data on English literacy rates among Indigenous adults. (Literacy for Life Foundation, sub. 37, p. 4)

However, some indication can be gained from NAPLAN data, which show that year 9 Aboriginal and Torres Strait Islander students are, on average, around three to four years behind their non-Indigenous peers in numeracy, reading, and writing (Goss 2018).

Many Aboriginal and Torres Strait Islander students who live in metropolitan areas are readily able to access TAFEs, other VET providers and additional supports as part of the VET system, but it is more difficult for students in remote areas. Markets for training in remote areas are thin and there is limited competition and course choice (chapter 2). The need to travel significant distances adds to challenges (for staff as well as students) and can make it more difficult for providers to run courses at a reasonable cost.

Better support for students who need to study interstate

A further challenge arises because, sometimes, Aboriginal and Torres Strait Islander students will need to travel interstate if they are to undertake an apprenticeship or a course with an IRTTO. On this matter, the Alliance of First Nations Independent Education and Training Providers (sub. 63, p. 5) explained:

The availability of IRTTOs varies from State to State and the availability of courses suitable for Indigenous learners also varies from State to State. Where IRTTOs exist in each State and Territory, it is not economically sensible or even feasible for all IRTTOs to provide all relevant courses in every State and Territory. It is crucial [for] IRTTOs are encouraged to provide specialised courses on a national basis to meet the needs and demands of a comparatively small (compared to the wider non-Indigenous student population) Indigenous student cohort.

State and Territory governments confine access to the courses they subsidise to students residing in their jurisdiction.

While some students who travel may be able to access Australian Government support (such as ABSTUDY), students resident in one State or Territory generally cannot access VET concessions or subsidy arrangements in other jurisdictions (Alliance of First Nations Independent Education and Training Providers, sub. 63). Nor will their home State or Territory fund them to study externally. States and Territories may be willing to negotiate reciprocal arrangements on a case-by-case basis — the Commission was told of exploratory discussions on one such proposal between Western Australia and the Northern Territory.

FINDING 12.3 — NON PORTABILITY OF FUNDING FOR STUDENTS

State and Territory governments generally restrict access to subsidised courses to students residing in their jurisdiction. This can act as a barrier for students considering undertaking training outside their home jurisdiction. This is likely to be a bigger issue for Aboriginal and Torres Strait Islander students in remote areas wishing to study at an Indigenous RTO.

While most students can move their residence to become eligible, some students, and particularly Aboriginal and Torres Strait Islander students, often have very limited local training choices, and cultural ties and other reasons may prevent them moving for training purposes. The Commission is recommending that State and Territory governments should develop reciprocal agreements for (existing) funding to follow students who enrol in subsidised courses interstate. This would be of particular benefit to Aboriginal and Torres Strait Islander students living in remote areas.

RECOMMENDATION 12.3 — IMPROVING PORTABILITY OF FUNDING FOR STUDENTS

State and Territory governments should develop reciprocal agreements for (existing) funding to follow students who enrol in subsidised courses interstate.

Support for RTOs to provide basic training in remote areas

A second issue is that per-student funding models do not always adequately cover the costs of delivering VET to disadvantaged students who may require additional support services, such as assistance with basic LLND skills. This applies particularly to Aboriginal and Torres Strait Islander students in remote communities. These students often need additional assistance with basic language skills, face a challenging adjustment to a new learning culture, and take longer to complete their training than the average non-Indigenous student (Bat et al. 2017; Alliance of First Nations Independent Education and Training Providers, sub. IR127). Reaching these students may require outreach by providers to encourage participation and eventual success.

It is evident that current funding models do not reflect the costs of teaching many Aboriginal and Torres Strait Islander students. A member of the Alliance of First Nations Independent Education and Training Providers (pers. comm., 25 August 2020) argued that the per-hour subsidy IRTOs received in several jurisdictions was appropriate for standard, classroom-based training but did not support the outreach and one-on-one support often required to reach Aboriginal and Torres Strait Islander students.

IRTOs argued that their client group of Aboriginal and Torres Strait Islander students is unable to pay fees, leaving subsidies as their sole income source (Alliance of First Nations Independent Education and Training Providers, sub. 63). They argued that the shift from Australian Government block grant funding to funding provided through the VET system more generally, as part of the NASWD, had disadvantaged them relative to TAFEs — TAFEs receive assistance from State and Territory governments that is not available to community and private providers.

FINDING 12.4 — EFFECTIVENESS OF PER-STUDENT FUNDING FOR ABORIGINAL AND TORRES STRAIT ISLANDER STUDENTS

Per-student funding models do not always adequately cover the costs of delivering VET to student cohorts with diverse and specific needs. This applies particularly to Aboriginal and Torres Strait Islander students in remote areas.

Block funding — discussed earlier in this chapter in the context of outreach for difficult-to-reach low LLND-skill students — is relevant here too. Block funding can reduce the risk posed to an RTO by students who need significant one-on-one guidance and confidence-building in the early stages of their course, and who may take longer to complete their study than is reflected in the normal VET pricing arrangements. Many students participating in these courses follow non-linear trajectories — for instance, students may study only intermittently or leave before completing a course. This raises cash flow issues for any provider relying on payments made on completion of courses.

Gaining a successful outcome with these students may be expensive — the form of funding does not change that. Policymakers should consider both per-student and block funding (or a combination). It may be possible to recognise students' varying paths through a more granular per-student funding model — one that provides funding when students reach milestones in their training (between commencement and completion). However, relative to block funding, such a model may still impose additional risk and administrative costs on providers. Governments' choice of funding mechanism can help make providing training for Aboriginal and Torres Strait Islander students in remote areas financially sustainable.

Any block funding provided should be contestable, with all providers able to bid on their merits to offer training. Blanket rules based on organisational ownership or control can unnecessarily burden providers, or exclude suitable providers from providing training (PC 2017a). Nevertheless, there is some evidence that IRTOs have to date produced better outcomes for Aboriginal and Torres Strait Islander students than non-Indigenous RTOs (Bat et al. 2017; Alliance of First Nations Independent Education and Training Providers, subs. 63 and IR127). IRTOs also argued that they should be able to access capital and other community service obligation funding that is available to TAFEs (Alliance of First Nations Independent Education and Training Providers, sub. IR127, p. 5).

RECOMMENDATION 12.4 — IMPROVING FUNDING FOR REMOTE ABORIGINAL AND TORRES STRAIT ISLANDER STUDENTS

Governments should consider block funding to supplement per-student funding for the additional support services that some RTOs are uniquely placed to provide to remote Aboriginal and Torres Strait Islander students.

Funding to reflect costs and benefits

Quantifying the costs and benefits of providing this support is difficult because there is scant data on the current state of literacy and numeracy, markets are thin which limits cost information, and the gains are hard to value — including because the outcomes being sought are not clearly defined and evaluations do not assess final outcomes. Among the benefits from more educated remote Aboriginal and Torres Strait Islander students are better employment prospects in their local area and more mobility, enabling them to access a wider job market while still maintaining their links to country. As with basic LLND training, a more educated Aboriginal and Torres Strait Islander population is also likely to bring social benefits.

The funding that governments should invest to improve outcomes for remote Aboriginal and Torres Strait Islander students is not easily determined, but it is possible to consider some of the elements that could be funded to make a difference. These elements might include the cost of outreach by providers to encourage participation in training, any special travel and accommodation costs for Aboriginal and Torres Strait Islander students, and the costs to providers of offering more flexible course arrangements (allowing, for example, that a student might complete half a course and need to return to country for family reasons before returning to complete the other half).

Where governments provide targeted supports for a particular cohort, the performance of these supports should be measured and monitored. As some of these programs are likely to be unaccredited, information on levels of enrolment, progress and outcomes for government-funded Aboriginal and Torres Strait Islander students would need to be collected separately to Total VET Activity data.

Wrap-around services

The Joyce Review recommended the introduction of funding models to provide for flexible ‘wrap-around’ support services — services that address impediments to learning such as health, housing, transport and family issues — in disadvantaged communities.

The Review (2019, p. 110) argued that a proliferation of Commonwealth and State and Territory funding programs made it difficult for vocational educators to identify those programs that can assist their students:

... a clear message from providers who deliver training in Indigenous communities and communities with high levels of disadvantage was their frustration with the sheer number (upwards of 100) of well-intended but different Commonwealth and State and Territory funding programs they had to comb through in order to provide help to a particular person with a particular issue that was affecting their participation in training. The time taken to find, access and administer such programs contributed significantly to making the provision of vocational training to such groups almost completely uneconomic.

The Review suggested that, for particular disadvantaged communities (such as remote Aboriginal and Torres Strait Islander communities), different State and Territory and Commonwealth funding and services be combined to improve service delivery, and block funding be provided to community-based non-government organisations so that they can structure bespoke social support to individuals and families.

Some State and Territory governments already fund TAFEs and community education providers to broker support for their students through VET-specific programs. These programs offer help in navigating the potentially complex support networks available through mainstream services. For example, the Reconnect program in Victoria supports the long-term unemployed as they re-engage with training and employment, referring clients to a range of other social services (such as housing and accommodation services), while also providing vocationally-focused services (such as career advice) (DET (Vic) 2020a).

The Joyce Review alternatively contemplated a ‘fund-holder’ model, where community support organisations are provided with sufficient funds to purchase services on behalf of students in disadvantaged communities, rather than referring them to mainstream services. Such a system would represent a significant change in the way that social supports are administered and would mean that social supports for VET students would differ significantly from the rest of that community. Two criteria would need to be satisfied for such a system to be justified:

- the social support needs of the community are sufficiently unique or complex that referral to mainstream services will not be effective
- there is a strong argument for VET students to receive social supports in a different manner from other people in the community.

The number of communities, if any, for which this would apply would likely be small. But where appropriate, such a system may be more effective in addressing the needs of particular disadvantaged communities.

Regional study hubs

The Joyce Review recommended that the Australian Government fund support for regional study hubs, which would provide infrastructure and academic support for students in regional and remote areas studying VET via distance learning.

These hubs would be like the Regional University Centres, which were introduced to the higher education sector in late 2018. A Regional University Centre is a facility that regional or remote students can use to study tertiary courses locally (in-person), delivered by distance from any Australian institution (DESE 2020r). The Centres provide:

- infrastructure — such as study spaces, break out areas, video conferencing, computing facilities and high-speed internet access

-
- administrative and academic support services, which assist with developing writing and researching skills and managing administrative processes
 - student support services, such as pastoral support and study advice.

There are 25 Centres around Australia, which host a total of 34 campuses — some Centres have more than one campus, such as the Uni Hub Spencer Gulf in South Australia, which has campuses in Port Augusta and Port Pirie (DESE 2020r). There is at least one Centre in each State or Territory (excluding the ACT), with about three quarters located in areas classified as ‘inner regional’ or ‘outer regional’ on the ABS’ remoteness index, while a quarter are located in ‘remote’ or ‘very remote’ areas.

Providing support to students in remote locations incurs significant costs, which are borne by taxpayers, and so needs to be justified. The Commission’s recent report into remote area assistance (PC 2020b) found that there is not a general case for governments to compensate people for the costs and challenges of living in remote areas. However, the combination of several factors can warrant government support for students in regional and remote areas:

- many prospective students are school leavers who grew up in their current location
- prospective students may face financial or familial constraints to relocating
- there are fewer providers available in regional and remote areas (chapter 2), restricting choice for prospective students.

For study hubs to be worthy of investment, they would have to be more effective than increasing levels of support for existing programs that support students in regional and remote areas. The Australian Government administers:

- Rural and Regional Enterprise Scholarships, which provide up to \$18 000 to support regional, rural and remote students to study any course at Certificate IV or higher
- the Tertiary Access Payment, which will provide relocating students a payment of \$5000 to study tertiary education of Certificate IV level or higher from 2021 (DESE 2020b).

Additionally, State and Territory governments fund School of the Air — a distance education service that (among other things) provides adult education in remote communities.

Study hubs would provide assistance distinct from these existing programs.

It is too early to gauge the effectiveness of Regional University Centres. State and Territory governments could consider introducing a regional study hub model for VET, contingent upon the success of Regional University Centres in expanding access and participation of regional and remote students, and their cost-effectiveness. However, governments should account for the possibility that this type of support may be less economical if applied to the VET system, due to the capital-intensive nature of many VET courses.

13 Supporting lifelong learning

Key points

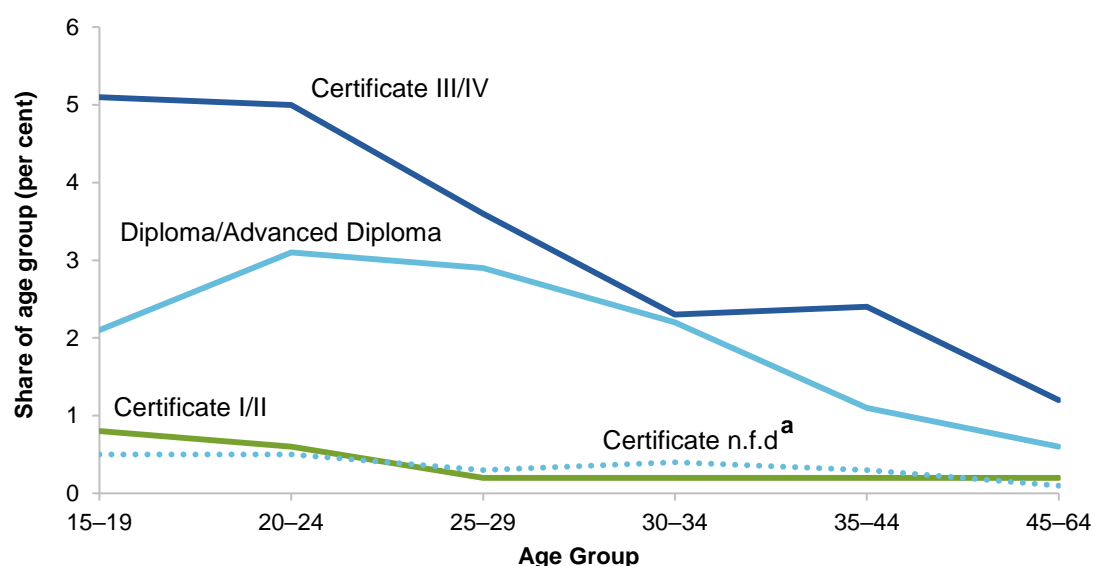
- Through lifelong learning, people advance their careers and keep pace with the economy's changing demand for skills. The vocational education and training (VET) system supports lifelong learning, but there are frictions in the system.
- The government-funded VET system focuses on supporting people to obtain formal qualifications. The national training entitlement is weighted to young people seeking entry-level qualifications. These qualifications are the foundations of many careers.
- Participation rates in formal VET decline sharply for people aged 25 years and older. People in mid-career often have different needs to younger people. They:
 - tend to acquire higher-level qualifications such as Certificate IVs and Diplomas
 - are less likely to use subsidised courses (some are ineligible for the national training entitlement) and more likely to study part-time and enrol with private registered training organisations (RTOs)
 - have, in general, less need for credentials to signal their skills to employers and more often obtain skills through non-formal training
 - have a greater need for micro-credentials, which allow students and employers to tailor the content of training to their individual needs.
- While the VET system meets some of these needs, there can be barriers to the acquisition of skills, including lack of financing options, time, difficulties obtaining recognition of prior learning and flaws in credit pathways.
- Some of these barriers would be addressed by policy measures recommended elsewhere in this report, particularly wider access to student loans, improved foundation skills and enhanced credit pathways.
- Other gaps are likely to be important. There are no income contingent loans for acquiring skills through lower-cost packages of courses, a gap most relevant for mature-age students with a poor capacity to finance such training. A small-scale trial would help test the effectiveness, risk, and demand for such a loans scheme, while providing evidence on its best design were it to be expanded.
- Credit pathways are an important enabler of lifelong learning, by allowing students to receive credit for previous relevant learning, training, or experience.
 - Improving access to recognition of prior learning (RPL) would encourage experienced workers to undertake formal training and complete courses more quickly.
 - Governments should develop options to reduce barriers to RPL, including by balancing consistency and flexibility of RPL across providers, funding models and incentives of RTOs, and the costs to RTOs and students.

Lifelong learning — the ongoing acquisition of knowledge, skills, and capabilities as people age — is critical to stable employment, wages, the adaptability of an economy to technological and demand shifts, and to meet people’s changing job preferences. More generally, the acquisition of skills over a person’s lifetime allows fuller participation in the community. Many participants in this review supported the value of lifelong learning.¹¹⁹ As working lives lengthen and the proportion of older people in the workforce rises, the benefits of a vocational education and training (VET) system that caters effectively for lifelong learning are likely to be significant.

The VET system remains important for the lifelong acquisition of nationally recognised vocational skills, particularly for higher-level qualifications (figure 13.1). About 40 per cent of domestic students enrolled in nationally recognised training in 2019 were aged 30 or more years.¹²⁰

Figure 13.1 Enrolments in nationally recognised VET qualifications decline with age

Student enrolments in VET qualifications by age group, 2020



^a n.f.d is not further defined.

Source: ABS (*Education and Work, Australia, May 2020, table 5, Cat. no. 6227.0*).

¹¹⁹ For example, these included groups as diverse as Adult Learning Australia and Neighbourhood Houses Victoria (sub. 12, p. 8), the Australian Chamber of Commerce and Industry (sub. 33, p. 16), the Australian Council of Trade Unions (sub. IR109, pp. 4–5), the Business Council of Australia (sub. 16, p. 24), the Victorian TAFE Association (sub. 27, p. 12), the Minerals Council of Australia (sub. 35, p. 3; sub. IR117, p. 3), and the South Australian Government (sub. 11, p. 5).

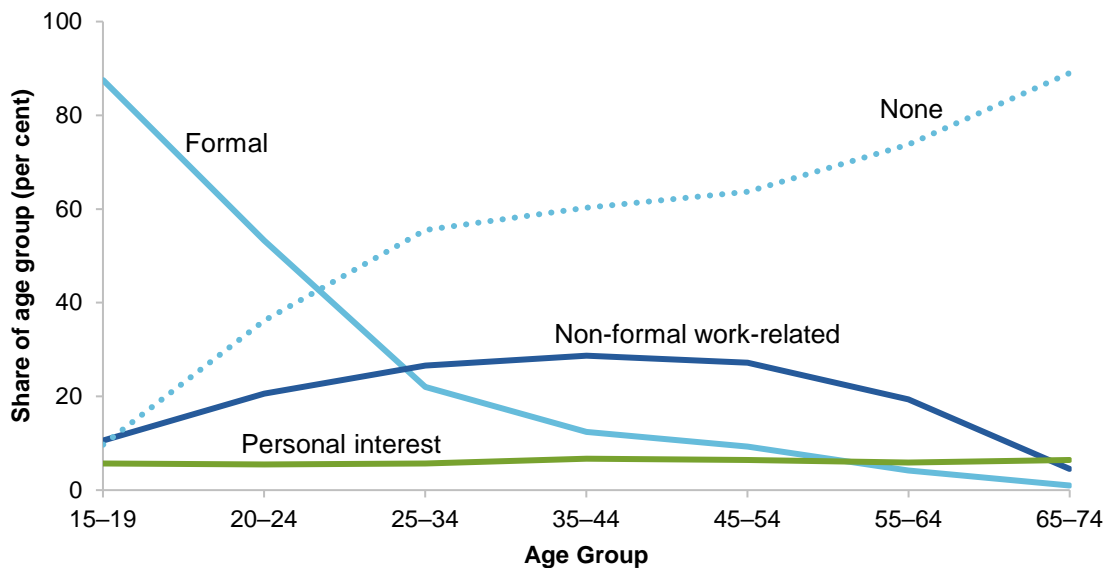
¹²⁰ Based on National Centre for Vocational Education Research (NCVER) Total VET Activity program enrolment data (NCVER 2020o).

By OECD standards, Australia has relatively high mature age participation in formal training (Coelli and Tabasso 2015; OECD 2020a, p. 163). Australia has the equal highest rate of enrolment in formal education (with Finland) among OECD countries for people aged 40–64 years (three times the OECD average), and equal third for people aged 30–39 years (2.3 times the OECD average).¹²¹

Nevertheless, people aged over 25 years still have lower rates of participation in formal VET than younger Australians (figure 13.2).

Figure 13.2 Formal training declines sharply with age, while non-formal training rises^a

Participation in learning by age group, 2016-17



^a Non-formal training is defined by the ABS as 'structured training or courses that do not form part of an award or qualification (for example, Degree or Certificate) recognised by the Australian Qualification Framework'. It can be work-related or personal interest. Formal training includes courses that lead to qualifications in higher education as well as VET.

Source: ABS (*Work-Related Training and Adult Learning, Australia, 2016-17*, table 1.2, Cat. no. 4234.0).

This reflects the emphasis of the VET system. Younger people require broad skills and employer-recognised credentials to secure early career jobs. Government funding mirrors this priority, with younger students benefiting more from government subsidies.¹²² In

¹²¹ Overall rates of adult education (formal and non-formal) are also much higher for older Australians (aged 56–65 years) than for equivalents in most other OECD countries (Desjardins 2020, p. 90).

¹²² Younger students in nationally recognised programs are more likely than older students to receive government funding. As an illustration, in 2019, the share of Certificates III and IV funded by governments was about 73 per cent for domestic students aged 15–24 years, and 57 per cent for those aged 25–29 years. For remaining ages, the rate was often below 50 per cent (based on NCVER (2020o)).

contrast, the training needs of mature-age workers are unique to their circumstances and aspirations. Mature-age Australians more commonly acquire skills through non-formal training (figure 13.2), which is often provided by employers. This reflects that, in many cases, mature-age people are focused on filling a personal skills gap rather than gaining an off-the-shelf credential. It also reflects that older students and employers are often more interested in the results of learning than the form of learning (Misko 2008, p. 3).

There is some flexibility in how people can acquire skills in the formal VET system, with students able to create ad hoc combinations of skill sets and units from established training packages. Demand for skill sets is rising and now accounts for almost half of non-Australian Qualifications Framework (AQF) enrolments (Noonan et al. 2019, p. 56). Employers use (non-government-funded) unaccredited training (49 per cent of employers) more frequently than nationally recognised training (20 per cent of employers), and they are more satisfied with unaccredited training (NCVER 2019c). The Noonan Review (2019, p. 55) noted that:

Future workers are increasingly likely to access formal, non-formal and informal learning through a process of lifelong learning. The availability of courses to meet this need is likely to increase rapidly.

As much reskilling and upskilling occurs at no expense to governments, inside and outside the formal education system, there is a question of what, if any, further steps governments should take to foster lifelong learning.

13.1 There are gaps in adult learning

The relatively strong involvement of mature-age adults in VET and the growth of micro-credentials (box 13.1) and other forms of training obscure gaps in mature-age training.

- The OECD ranks Australia as only ‘around the average’ in terms of a strong culture of adult education (OECD 2019c, p. 75).
- The national training entitlement guarantees a subsidised VET place for all working-age Australians without a Certificate III or higher qualification. While some jurisdictions offer other subsidies, access is often limited for people who have already completed a Certificate III or higher qualification. In other instances, people are not supported to undertake a course at a lower AQF level than their current qualification. These restrictions mainly affect mature-age people.¹²³

¹²³Not only do many people acquire qualifications above Certificate III at older ages, but many also get additional qualifications at the same or lower level than those already acquired — which, depending on the jurisdiction, may not be eligible for a subsidy. For example, analysis of the *Household, Income and Labour Dynamics in Australia* (HILDA) dataset found that of all males undertaking a Certificate III or IV as an adult, 59 per cent already held a Certificate III or IV, 11 percent a Diploma and 9 per cent a Bachelor Degree or higher (Coelli and Tabasso 2015, p. 6). In 2019, 27 per cent of domestic students aged 30–39 years who were enrolled in a Certificate III had already acquired a higher qualification (based on the NCVER (2020o)).

- Training is uneven across the economy. The type and incidence of employer-based training depends on firm size, industry and occupation with much less training in smaller firms and in some sectors such as accommodation and food services (ABS 2017, tables 5 and 7; Desjardins 2020, pp. 43–46). In 2016–17, about 16 per cent of small businesses provided no training compared with 0.8 per cent of large businesses (NCVER 2019c, p. 12).
- There appears to be significant unmet demand for adult education. One quarter of adults in the *Programme for the International Assessment of Adult Competencies Survey* (last undertaken in 2012) wanted more training but, for various reasons, did not train. This was especially the case for lower-skilled adults (Desjardins 2020, pp. 107–108).

Box 13.1 What are micro-credentials?

Micro-credentials are a type of standalone, short-duration credential that allows students to obtain niche skills more quickly. While there is a process underway to develop an agreed definition of micro-credentials (SSON 2020a), there are several possible definitions in train, such as:

A micro-credential can take many forms. At its smallest, it is a single module, subject, skill or competency, but it can also be a suite of skills or knowledge, or a skill set. For example, if someone becomes a company secretary and does not know how to read a balance sheet, they could complete a training module that would teach them how to do it. (BCA, sub. IR145, p. 49)

A micro-credential is a certification of assessed learning that is additional, alternative, complementary to or a component part of a formal qualification. (Noonan et al. 2019, p. 56)

Participants to the Noonan Review (2019, p. 58) did not support making micro-credentials a type of Australian Qualifications Framework (AQF) qualification. There were several reasons for this, such as problems arising from variation in scope and level of complexity, regulatory burden, and the potential for rorting. Rather, the Review (2019, p. 9) recommended that the Australian Government broaden the AQF guidelines to recognise shorter-form credentials toward AQF qualifications. The Australian Government accepted this recommendation (Tehan and Cash 2019). Skills Ministers have since agreed to fast-track development of an operational framework for how micro-credentials will work in the VET system, to support development of the *Draft VET Reform Roadmap* (DESE 2020aa).

Like other forms of training, skills learned through short-form credentials can already be granted as credit or recognition of prior learning (RPL) to a qualification. For example:

... units from the Archive and Keep Records Skill Set can provide credit towards the Certificate III in Library and Information Services. (Noonan et al. 2019, p. 58)

The Noonan Review noted that recognising micro-credentials through RPL and credit transfer would build on current practice. Improving recognition of micro-credentials should enable a more standardised approach to receiving credit.

The Joyce Review also found that:

... on questioning, many industries and RTOs believed that around half of the enthusiasm for micro-credentials was due to the hope that new skills could find a quicker path through the qualification development system using micro-credentials. (Joyce 2019, p. 55)

13.2 An option to address gaps in lifelong learning

This review outlines reforms that address some of the obstacles to lifelong learning, such as improved foundation skills, better credit pathways, and extending VET Student Loans. The latter in particular would improve access to higher-level qualifications for mature-age people seeking to advance their careers but who cannot afford the high upfront (and often unsubsidised) costs of some courses.

However, as already noted, there is likely to be a growing need for adults to acquire individualised skillsets by bundling short courses and units, possibly from multiple VET courses and providers, into bespoke training. This modular approach to learning is convenient for time-poor adults who need flexible delivery to manage their family, work, and training commitments. (In 2019, about 80 per cent of domestic students aged 25–44 years old and enrolled in Certificate I or higher programs studied parttime (NCVER 2020o)). At its best, this approach allows the student to design their training content and delivery.

A lack of time is likely to be the single most important barrier to adult education, but financial constraints have also been found to affect about one quarter of people (ABS 2017, table 15). In particular, it can be difficult for some students to afford additional VET qualifications if they do not have the upfront funds or cannot obtain loans from private financial markets.¹²⁴ Financial barriers are likely to be most significant in the fee-for-service market. The OECD (2019a, pp. 8–9) has concluded that in Australia’s skills system:

... current financial incentives fail to address the greatest barrier to adult participation in training: lack of time. Incentives are too tightly linked to full formal qualifications ... Australia should allow use of existing subsidies and loans for less time-consuming types of training (e.g. modular, distance, online, etc.).

The Commission sees merit in testing whether a new financing instrument would support more mature-age workers to participate in adult learning. Given that some support is available for the cohort aged over 45 years,¹²⁵ the target group would be mid-career people aged 30 to 45 years who are ineligible for existing forms of assistance. (Applicants may be ineligible for support because they already hold a qualification, or their intended training is not supported.)

¹²⁴A range of unsecured personal loans are available for education expenses with an interest rate of about 6.5–8 per cent. However, they will not suit all. Their availability depends on credit worthiness and a capacity to pay back the loan progressively over a relatively short period (thus requiring ongoing income during training). A fintech, *Study Loans*, also provides education loans on a more flexible basis, but interest rates are typically higher than those for unsecured personal loans.

¹²⁵For example, at the Australian Government level, support available includes Career Transition Assistance, the Skills Checkpoint Program and the Skills and Training Incentive. State and Territory governments also offer skills support to mature-age people. While many do not specify age criteria, others implicitly do so by the nature of the assisted cohort. For instance, training arrangements for workers displaced by the closure of the Hazelwood power station in Latrobe relate to a workforce whose average age was over 50 years (Poole 2017).

An Australian Government trial rather than a new entitlement program would be prudent given the uncertainties about the level of demand and likely employment outcomes for the target group. The trial would need to be conducted for a sufficient period to allow an effective program evaluation, including tracking of post-training outcomes for assisted students.

Assistance should be provided in the form of income contingent loans. Eligible students would be able to apply for income contingent loans to meet the upfront costs of approved training. To contain risks — for both students and the taxpayer — loans should be capped at a modest ceiling (about \$3000–\$5000). Students would make contributions to pay off the loan through a combination of income contingent repayments and an upfront loan charge. As with the Commission’s recommended upfront loan charge for VET Student Loans (chapter 10), the upfront loan charge would partially discourage uptake by students without a serious commitment to training.

Unlike VET Student Loans, the loans offered through the trial should involve overall student contributions that are *closer* to those that would be required by a commercial lender. Nevertheless, there will likely be some modest fiscal costs for government as it would not be feasible to screen out all students who have a low likelihood of repayment, nor scope to fully recover the costs of such bad debts from other students without making the loan prohibitively costly to them.

The purpose of the trial is to test whether there is a significant group of prospective students who wish to undertake bespoke training but are not eligible for assistance and cannot afford the upfront costs of their intended program. In this respect, the trial is essentially offering last resort financing to assist people not supported by existing programs.

In principle, it would be desirable to maximise the choice of training options given that micro-credentials span so many different types of skills, many of which may not be offered by regulated VET providers. At the same time, the Australian Government will be concerned that students are investing in credible training. The trial may wish to commence with a list of pre-approved training providers (including higher education providers as well as registered training organisations (RTOs)). However, consideration should be given to assessing proposals from students who wish to train with alternative providers. This could be conducted as part of a general screening of applicants. Screening could identify applicants unlikely to benefit from the proposed training or with the capacity to self-fund their training. Applicants could also benefit from access to government-funded career guidance services.

As a novel experiment testing a ‘known unknown’ (the demand from a potentially large cohort of students for training not supported by existing government assistance), the trial would require careful design, drawing on industry consultation. Given the narrow scope of the trial, the risks carried by the Australian Government are likely to be low. At worst, a rigorously evaluated trial will reveal more information about the needs of mature-age students that could be incorporated into other policies.

This new financing instrument is likely to be preferable to an often-recommended alternative — government-funded lifetime learning programs — as used in Singapore, France, the

Netherlands, and several other countries. The Business Council of Australia, for example, has proposed a Lifelong Skills Account, comprising a combination of income contingent loans and a capped government-funded lifetime training voucher that would subsidise eligible training (BCA 2017, pp. 85–87).

Such programs take various forms, with the most common being a government-funded fixed value voucher that reduces the student contributions to courses, but leaves students with a substantial degree of choice about the eligible training and when in the person’s life it can be undertaken. Individual learning accounts (which have been used in Canada and the United States) involve pooling of contributions typically from government, employers, and individuals into a savings account. This can be drawn down to fund training, but unused funding may ultimately be used for other purposes, such as retirement income. A third variant requires that the funds can only be used for training (for example, the French *Compte Personnel de Formation*).

However, despite their intuitive appeal, such learning schemes have proven problematic. Many (but not all) have been found to be flawed, with the key defects being lack of significant labour market outcomes, poor additionality, weak targeting at those in need, and abuse. In light of these problems, the OECD (2019b) emphasised the need for careful design of such schemes, while not rejecting their use altogether. The Australian Chamber of Commerce and Industry (sub. 33, p. 17) also identified a range of practical obstacles for using them ‘at this time’ including their complexity. The advantage of testing a lifelong learning income contingent loan is that it would come with lower fiscal risks and be targeted at a vulnerable group for access to unsubsidised training.

RECOMMENDATION 13.1 — TRIALLING A LIFELONG LEARNING LOAN SCHEME FOR MATURE-AGE AUSTRALIANS

The Australian Government should undertake a trial of an income contingent loan scheme for mature-age Australians to allow them to tailor training to their needs, drawing on units from different VET courses and, possibly, different providers. The trial could include a range of features to protect its integrity and target the groups most likely to benefit, including:

- caps on the loan amount to relatively low levels
- limits on eligibility to pre-approved providers and courses
- loan fees that are set to minimise the net fiscal costs of the program, while not being so high as to deter uptake
- the screening of students for the likelihood of benefits to them and their capacity to repay their loans.

13.3 Credit pathways

VET students can reduce the time taken to complete, or avoid repeating, nationally recognised training by receiving credit for previous relevant training or experience. Credit pathways are an important enabler of lifelong learning and reduce obstacles to students reskilling or upskilling. The *AQF Qualifications Pathways Policy* (the Pathways Policy) provides the basis for credit arrangements within and between the VET and higher education systems (box 13.2). There are three main components to credit pathways: ‘credit transfer’, ‘articulation’, and ‘recognition of prior learning’.

Box 13.2 The AQF Qualifications Pathways Policy

The *AQF Qualifications Pathways Policy* (the Pathways Policy) builds the capacity to support lifelong learning into the Australian Qualifications Framework (AQF). It provides the basis for credit arrangements within and between the VET and higher education systems.

The purpose of the policy is to maximise the credit that students can gain for learning already undertaken. (AQF Council 2013, p. 1)

The Pathways Policy outlines responsibilities for users in the tertiary education system to support credit pathways for students, including credit transfer, articulation, and recognition of prior learning.

In the VET system, registered training organisations are required to comply with the Pathways Policy as part of the *VET Quality Framework* (which includes the AQF) (Ithaca Group 2018). While higher education providers are required to comply with the Higher Education Standards Framework, this does not bind them to the Pathways Policy.

In the Higher Education sector, providers have more freedom to determine their own institutional policies and processes for credit pathways. (Ithaca Group 2018, p. 16)

Consultation within the tertiary education system suggests the Pathways Policy is mainly used as a guide.

Consultation with stakeholders suggested that providers do not feel compelled to attend separately to the requirements of AQF Qualifications Pathways Policy, believing that their compliance requirements are fully contained within either the Higher Education Standards Framework (2015) or the Standards for RTOs (2015). (Ithaca Group 2018, pp. 16–17)

The Noonan Review recommended several changes to the Pathways Policy, including:

- renaming it ‘AQF Pathways Policy — Credit and Recognition of Prior Learning’ to increase users’ understanding of what the policy entails
- more prominent guidance for recognition of prior learning
- equal emphasis to pathways from VET to higher education and vice versa (Noonan et al. 2019).

The Review also recommended trialling a voluntary prototype credit point system to provide more transparency about what students have learned and how long it took them to do so. Credits would be measured based on learning outcomes and notional duration, making learning outcomes more comparable between different institutions. This system would be similar to systems in Europe and New Zealand.

Credit transfer

Credit transfer requires RTOs to provide credit to students for previously completed units of competency or modules from nationally recognised training (units of study). For example, a student may complete a unit of competency as part of a qualification and then have that recognised in another qualification (ASQA 2020c). Students are not required to repeat any training for which they have already been assessed as competent, unless required by a regulatory requirement or licence condition.

A key pillar of the national VET system is that nationally endorsed qualifications, skill sets and units of competency are recognised and portable across the country — regardless of where they were issued. (ASQA 2020d)

While there may be scope to improve the awareness of credit transfer among students (chapter 6), nationally recognised training makes credit transfer a relatively straightforward operation within the VET system. For example, the Australian Skills Quality Authority (2020d) suggested RTOs use a student's Unique Student Identifier transcript as a valid way to authenticate training.

Articulation

Articulation facilitates the progression of VET graduates to further study and, as such, is an important enabler of lifelong learning. Articulation involves the recognition of completed qualifications, with defined pathways for automatic admission or credit for future courses. Like credit transfer, the use of nationally recognised training makes articulation within the VET system (such as progressing from a Certificate II to a Certificate III) reasonably straightforward.

Articulation pathways from the VET system to the higher education system (such as progressing from a Diploma to a Bachelor Degree program) are more challenging (Ithaca Group 2018). Under the Pathways Policy, those involved in developing qualifications are responsible for developing and negotiating articulation arrangements between AQF qualifications (AQFC 2012). In addition, individual training providers (such as RTOs and universities) are responsible for negotiating individual articulation agreements with other providers on an ad hoc basis. However, training providers are not necessarily bound by the policy (box 13.2).

However, negotiating articulation agreements with individual training providers is time-consuming. And even though they are intended to be ongoing agreements, they are vulnerable to changes in qualification structure, content, delivery mechanisms and personnel. A review of the Pathways Policy found that:

... some providers reported that more articulation agreements would be useful but the necessary support or motivation to develop them seemed lacking. (Ithaca Group 2018, p. 43)

For many institutions, the negotiation of articulation arrangements appears more serendipitous than systematic, and the purpose of negotiations does not always seem to emphasise maximising available credit. (Ithaca Group 2018, p. 52)

Nevertheless, 79 per cent of higher education providers surveyed reported pursuing new articulation agreements, compared with about 41 per cent of VET providers (Ithaca Group 2018). This is consistent with the notion that higher education providers have more to gain from articulation as a way of increasing student enrolments (Ithaca Group 2018).

There is scope to improve information about credit pathways (including articulation) for students by having the National Careers Institute extend its work on information provision (chapter 6). Beyond this, several options to improve articulation arrangements have been suggested in recent years (box 13.3).

Box 13.3 Options to improve articulation arrangements

One option is to upgrade the Pathways Policy from 'guidance' (box 13.2) to a stronger regulatory tool.

Consultation with tertiary education regulators indicates that provider compliance with the *AQF Qualifications Pathways Policy* is not a priority for VET or Higher Education regulators, and while aspects of the provider standards relate to credit and RPL these are not a significant focus of regulatory activity. (Ithaca Group 2018, p. 17)

While the Noonan Review recommended some updates to the Pathways Policy (box 13.2), it proposed that the policy remain as guidance — a view shared by its participants.

Almost all stakeholder submissions to the Review supported retaining the Pathways Policy. Additionally, they saw value in the policy remaining a 'guideline', not a strong regulatory tool. This provides flexibility in the way learning is assessed between qualifications and respects provider autonomy regarding course assurance and qualification integrity. (Noonan et al. 2019, p. 65)

Another option would involve increasing the status of the Pathways Policy by explicitly referring to it in the RTO Standards and Higher Education Standards Framework. The Noonan Review acknowledged there is a case to improve alignment between sector standards and the Pathway Policy to ensure a consistent message to users. And Lehrer (sub. IR103, p. 7) suggested that:

The requirement for articulation agreements between the VET sector and Higher education is poorly managed because articulation agreements are stated in a different manner in different documentation that are specific to each sector. If the two sectors of formal tertiary education are going to work together to form articulation agreements then the same requirements need to be defined and enforceable in the same manner in both sectors.

Alternatively, La Trobe University (sub. IR84, p. 4) suggested that developing national articulation arrangements for common pathways could improve consistency and uptake.

... the process of negotiating articulation agreements can be lengthy and frustrating for universities and TAFEs alike. The opportunity to create national level articulation arrangements to University courses for specified training packages would further facilitate and quicken the process of approving articulations and enable more consistency nationwide.

The Noonan Review also recommended trialling a voluntary prototype credit point system, based on learning outcomes and notional duration, to provide more transparency about what students have learned and how long it took them to do so (box 13.2). VETASSESS (2018, p. 4) suggested that a system such as this could '... provide clearer, more objective articulation pathways within and between higher education and the technical and vocational sectors'.

On the one hand, it may be possible to design more consistent arrangements across RTOs, given the degree of standardisation involved in the *AQF* and *VET Quality Framework*.

Increasing the consistency of articulation arrangements (such as through model articulation agreements that can be used as an optional tool) could reduce or avoid the cost of negotiating individual articulation agreements on an ad hoc basis, making articulation easier to implement and more widespread.

On the other hand, as self-accrediting bodies, universities generally have discretion regarding the recognition of completed qualifications, including from other universities. Given that articulation from VET to higher education can result in (sometimes significant) course credit, universities must ensure the quality of the qualifications they recognise. Any concerns about uneven quality standards across RTOs would further impede moves to a more consistent approach to articulation.

Improving articulation will require reforms beyond the scope of just VET policy. Stronger alignment and integration of VET and higher education is already a key reform area of the *Draft VET Reform Roadmap* (DESE 2020aa, p. 9), including actions to ‘create flexible entry and exit points to support transfer and progression between VET and higher education’. As part of this action, governments will need to consider the potential benefits to VET students of a more consistent approach to articulation, as well as the importance of autonomy for universities. Improvement of articulation arrangements may require greater assurance that the quality of training in the VET system is consistent across RTOs, potentially through such avenues as independent assessment (chapter 7).

Recognition of prior learning

If previous training cannot be granted a credit transfer, students can make use of recognition of prior learning (RPL). RPL is a process that *assesses* students’ competency — acquired through unaccredited learning or work experience — to determine if they meet the requirements for a unit of study. RPL can allow entry into a qualification or provide credit toward the qualification, reducing its duration.

In the mid-2000s, about 3–4 per cent of successfully completed government-funded VET subject enrolments were granted RPL (figure 13.3). This grew to a peak of over 10 per cent by 2012 but has since declined back to 4 per cent by 2019. The reason for the rise and fall is not entirely clear. It may have been affected in part by changes in Victoria’s VET system. Established in 2009, the Victorian Training Guarantee — an expansion in government-funded training places — led to significant increases in training activity in Victoria but was later tightened in 2011 (chapter 4). There have also been concerns of gaming in the past, whereby some RTOs’ RPL processes were simple ‘tick and flick’ exercises to receive government funding (ABC 2016).

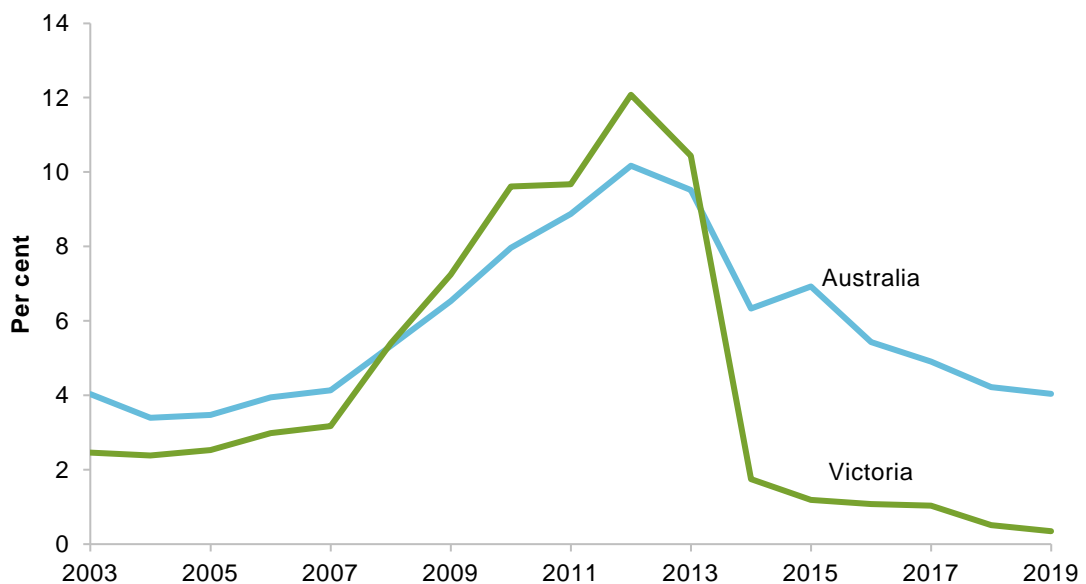
Victoria experienced a large rise in low quality RPL. It responded by tightening up RPL. Only one in seven of its providers can offer subsidised RPL. They must be pre-approved after demonstrating they provide quality assessment. Victoria has also reduced the RPL subsidy to 25 per cent of the course subsidy. (NSW Auditor-General 2015, p. 29)

Commission analysis found that much of the change in RPL was driven by changes in RPL uptake by students aged 25 years and older, students who undertook Certificate IIIs, and students whose previous highest education level was high school. Specific policies targeting RPL uptake may also have had an effect.

In 2006 the Council of Australian Governments funded a three-year RPL program, in which the states and territories made significant efforts to streamline and simplify RPL processes and build the VET system's capacity to deliver quality RPL ... This has seen a sustained commitment to ensuring that [RPL] can be accessed and utilised more effectively, which is reflected by the increase in numbers undertaking RPL over more recent years. (Hargreaves and Blomberg 2015, p. 38)

Figure 13.3 The rise and fall of RPL^{a,b}

Share of successfully completed subjects that were granted RPL



^a Includes subjects where the student passed their assessment or RPL was granted. ^b Government-funded students and courses.

Source: NCVER (2020n).

Some jurisdictions, such as Queensland and the Northern Territory, use RPL much more than others, such as Victoria and the ACT (Osborne and Serich 2020). This suggests the rate of RPL granted can be affected by government programs that facilitate or fund RTOs to administer RPL.

Barriers to RPL can limit credit pathways for people who wish to upskill or reskill, reduce the attractiveness of further study, duplicate students' investments of time and effort, and duplicate financial investments (by both governments and students). Barriers to RPL can also undermine the process to implement standalone, short-duration micro-credentials which rely on RPL and credit transfers (box 13.1).

Review participants expressed concern with barriers to RPL (box 13.4).

Box 13.4 RPL concerns and suggestions from review participants

Bradford noted that regulation has a role to play in improving RPL.

... state departments treat RPL and providers of RPL with suspicion and unreasonable amounts of regulatory vigour ... We need to take a national position on RPL. Workplace learning including RPL will be significant and important tools moving forward post COVID 19. We need to educate industry about the benefits and legitimacy of RPL and we need the state regulators to stop undermining RPL and by insinuation providers of it must be [doing] something wrong simply by offering it. (sub. IR86, p. 8)

Independent Higher Education Australia stated that more information for students can help.

The confusion students face is particularly evident in the application of credit for informal and non-formal learning and work experience. The process that is expected of a student to be able to identify their opportunity for RPL or credit from previous work experience or life learning is too arduous and ambiguous and this prohibits the system being best utilised by students. This is not a simple problem to address but providing students with more information and clearer options about RPL and credit transfer would assist in the opportunity being taken up. (sub. IR115, p. 6)

The Australian Institute of Marine and Power Engineers noted that costs can be inconsistent.

Some students have been given RPL of substantive subjects but offered no reduction in the course FEEs. For example [Blank] was granted RPL in respect of the two subjects 'Electro-Technology' and 'Marine Electrical Practice' yet has been charged the full \$12,000 + \$4,375 for the course. This is the same FEE as charged to Mr [Blank] and Mr [Blank] who both had no RPL whatsoever. (sub. 29, p. 3)

Heys noted that integrity in RPL must be maintained.

The VET System has established a system and practice of [RPL]. This system needs to be further developed and applied with integrity to ensure that good sense and accountabilities apply to the evolving systems, practices and regulations. Qualifications need to ensure that confidence and professionalism of the system and maintained and improved as required. (sub. 50, p. 2)

Lehrer suggested that funding for RPL should be reconsidered.

Funding for assessment only and/or recognition of prior learning needs to be reconsidered in-line with the learning pathways that are used to gain the VET outcome. (sub. IR103, p. 3)

Skills Impact submitted that RPL can be onerous and that providers have poor incentives.

Certainly, following workplace training and experience, people may possess capabilities corresponding to higher-level qualifications (Certificate III and above), but may not seek recognition of prior learning/competency because of the onerous task of proving it ... As previously pointed out, with RPL and [recognition of current competency (RCC)] access 100% controlled by training providers, it is not surprising that participants in the VET sector are offered training and very poor or no access to RPL or RCC services or such services are offered at a similar price (sometimes higher) to attendance at a training course. (sub. 28, p. 12)

The Australian Council of Deans of Education Vocational Education Group suggested that:

All VET teacher education courses include at least one subject on assessment that develops student teachers' knowledge of a range of theoretical and philosophical approaches to assessment and their practical implications. These subjects include the assessment of VET learners through RPL and recognition of current competency. (sub. IR120, p. 7)

While RTOs are legislatively required to offer RPL (unless prevented by a specific training package or licence requirement), each RTO is responsible for developing its own policies and practices for granting RPL, creating little consistency across RTOs. A large number of

RTOs never grant any RPL, while a small number of RTOs specialise in granting qualifications based entirely on assessing RPL (Osborne and Serich 2020). Further, in practice, the onus is often on students to request RPL — 65 per cent of VET survey respondents agreed more could be done to raise student awareness of available credit (Ithaca Group 2018, p. 14).

Some review participants noted that RTOs may not have strong incentives to grant RPL. RTOs generally receive some government funding for subjects completed by RPL to contribute to the cost of administering RPL for that unit of study. However, RTOs generally receive a smaller amount of funding than if the student undertook the course without RPL. For example, in New South Wales, RTOs only receive 50 per cent of the price for each unit of competency granted RPL (NSW Government 2019). Further, it can be burdensome to administer the RPL process, which involves: identifying the evidence required; advising and informing students; assessing students; reporting the outcome. Therefore, if the cost of granting RPL is too high, RTOs have an incentive not to promote or grant RPL.

Students can also find the process of applying for RPL onerous, complex, and costly (chapter 6; box 13.4). To gain RPL, students need to learn about the process, prepare evidence, undertake an assessment, and are usually charged a fee. RPL tends to be used by students for training package qualifications rather than shorter courses or skill sets.

For example, RPL might be more appealing when it will shorten the time to complete a diploma from 12 to nine months, but if the student is only studying a single unit for a month, RPL may take as much or more time to complete than the study. (Osborne and Serich 2020, p. 12)

There is likely to be scope to overcome some of these barriers to RPL, but the solutions are not necessarily straightforward.

Providing better information on RPL to students may help (box 13.4). The Commission has recommended that the National Careers Institute extend its work on information provision to students for credit pathways (among other things) (chapter 6). Further, the Noonan Review recommended providing more prominent guidance for RPL in the Pathways Policy (box 13.2). However, information provision on its own is unlikely to reduce other barriers to RPL.

More substantive improvements to RPL are needed. For example, Hargreaves and Blomberg (2015, p. 70) suggested that:

More and effective recognition of prior learning requires: greater promotion; improved support and resources to assist individuals gather evidence; and trained and experienced professional assessors available to offer cost-effective skills recognition. It requires training providers to model a consistent and effective approach to RPL but also be supportive of the flexibility required to meet individual and employer needs. This requires funding models and audit and compliance regimes that genuinely support the flexibility required. The data suggest that efforts amongst jurisdictions do matter.

To give VET students confidence that they can receive RPL in a simple and timely manner, RPL will need to be reasonably standardised and predictable. This puts more onus on existing scrutiny of providers (such as via registration of providers), as well as scrutiny of

each subject (such as validation of teaching and assessment of every subject), but there is a risk this results in more regulatory burden. A balance must be struck.

It is also not clear how the cost of RPL, which can differ at each RTO, affects students' decisions to undertake the process. In response to the COVID-19 pandemic, TAFE Queensland (2020c) is providing RPL at no cost for a limited number of eligible Queensland residents. It could be useful to assess how this affects uptake of RPL.

Overcoming barriers to RPL requires careful consideration of the balance between consistency and flexibility, funding models and incentives of RTOs, the costs to RTOs and students, and the risk of rorting. The Australian, State and Territory governments should develop options to reduce barriers to RPL and ensure the system is operating effectively. Similarly, governments should investigate options to improve the consistency of articulation arrangements, while maintaining flexibility for training providers to negotiate individual arrangements.

RECOMMENDATION 13.2 — REDUCING BARRIERS TO CREDIT PATHWAYS

The Australian, State and Territory governments should improve the system of credit pathways by developing options to reduce barriers to recognition of prior learning (RPL). The options should carefully consider the balance between consistency and flexibility of RPL across providers, funding models and incentives of RTOs, the costs to RTOs and students, and the risk of rorting.

APPENDIXES

A Consultation

During this review, the Commission engaged extensively with Australian, State and Territory government officials, regulatory bodies, service providers, unions, industry groups, academics, and many people and other organisations from a variety of backgrounds. Some 158 public submissions (listed in table A.1) and 18 brief comments were received and placed on the review website. The Commission also held informal discussions with various parties (table A.2) and convened roundtables dealing with apprenticeships, foundation skills, registered training organisation issues and a user-centred model of VET (table A.3). The Commission thanks everyone who participated in this review.

Table A.1 Public submissions^a

<i>Participant</i>	<i>Submission no.</i>
ACT Government	52 #, IR133
Adult Learning Australia (ALA)	IR128
Adult Learning Australia (ALA) and Neighbourhood Houses Victoria (NHVic)	12
Alliance of First Nations Independent Education and Training Providers	63 #, IR127
Alphacrucis College	IR125 #
AMES Australia	IR108
Ananian-Cooper, Sebastian	1
Australian Bureau of Statistics (ABS)	IR114
Australian Chamber of Commerce and Industry (ACCI)	33, IR143
Australian Childcare Alliance (ACA)	46
Australian Computer Society (ACS)	49
Australian Council of Deans of Education Vocational Education Group (ACDEVEG)	IR120
Australia's Dual-Sector Universities	IR155
Australian Council of Trade Unions (ACTU)	6, IR109
Australian Education Union (AEU)	21, IR104
Australian Industry Group (Ai Group)	47 #, IR97
Australian Institute of Marine and Power Engineers (AIMPE)	29
Australian Manufacturing Workers' Union (AMWU)	IR121
Australian New Zealand Policing Advisory Agency (ANZPAA)	9
Australian Skills Quality Authority (ASQA)	38, IR132 #
Australian Trucking Association (ATA)	17
Australasian Vocational Education and Training Research Association (AVETRA)	2

^a An asterisk (*) indicates that the submission contains confidential material NOT available to the public.

A hash (#) indicates that the submission includes attachments.

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Table A.1 (continued)

<i>Participant</i>	<i>Submission no.</i>
Batchelor Institute of Indigenous Tertiary Education	IR157
Bowden, Anne	IR111
Bradford, David	IR86
Brotherhood of St Laurence	IR140
Buchanan, John	IR151
Burke, Gerald	IR135
Business Council of Australia (BCA)	16, IR145
Career Development Association of Australia Inc (CDAA)	IR71
Chamber of Commerce and Industry of Western Australia Limited (CCIWA)	54, IR105
Chapman, Bruce	IR129
Charles Darwin University	44 #
Cho, Jin	IR123
Civil Contractors Federation Western Australia Ltd (CCFWA)	IR73
Civil Contractors Federation (CCF)	IR94
Committee for Melbourne	13, IR148 #
Community Colleges Australia	IR96
Construction Skills Queensland (CSQ)	IR124
CQUniversity Australia	26
Donaldson, Roy	61 #
Electrical Trades Union of Australia (ETU)	IR118
Equality Rights Alliance (ERA)	IR136
Feldman, Peter	IR83
Field, Claire	IR116
Field, Jenny	IR66
FYI Training Pty Ltd	IR154 #
Gender Equity Victoria (GEN VIC)	IR99
Green, Adam	IR65
Halls Outdoor Education	5
Hamill, Chris	7
Hammond Street Developments	IR79
Hayes, Justin	IR138
Heys, Kevin	50
Hospitality NT	23
Housing Industry Association (HIA)	24, IR137
IAS Electrical Pty Ltd	10
Industry Skills Advisory Council NT (ISACNT)	57, IR75
Innovative Research Universities	25
Independent Education Union of Australia, Qld and NT branch (IEUA-QNT)	IR82
Independent Higher Education Australia (IHEA)	IR115
Independent Tertiary Education Council Australia (ITECA)	53, IR144

^a An asterisk (*) indicates that the submission contains confidential material NOT available to the public.

A hash (#) indicates that the submission includes attachments.

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Table A.1 (continued)

<i>Participant</i>	<i>Submission no.</i>
Integrated Information Service (IIS)	IR95
IntoWork Australia	22 *
JCSF Consulting Pty Ltd	3, IR78, IR158
Jesuit Social Services	IR142
Johnston, Adam	IR64 #
Karmel, Tom	IR134
La Trobe University	IR84
Laundry Dry Cleaning Training (LDCT)	34
Lehrer, Jeffrey	IR103
Literacy for Life Foundation	37
Mackenzie Research Institute	IR69
Macquarie Community College (MCC)	IR77
Master Builders Australia (MBA)	41, IR147 #
Master Electricians Australia (MEA)	IR89
Minerals Council of Australia	35, IR117
Mitchell Institute for Education and Health Policy	IR149
Motor Trade Association (MTA (SA/NT))	18, IR119
Motor Trade Association Queensland (MTA (Qld))	IR101
National Apprentice Employment Network (NAEN)	IR126
National Australian Apprenticeships Association (NAAA)	39, IR88
National Retail Association (NRA)	IR110
National Territory Education Union (NTEU)	IR106
Navitas Pty Ltd	IR153
NSW Adult Literacy and Numeracy Council	42, IR92
NSW Government	48 #, IR122
NSW Utilities and Electrotechnology Industry Training Advisory Body (UEITAB)	31
NSW Water Directorate	45
O'Connell, Barry	IR72
Palmer, Robert	IR67 #
Queensland Catholic Education Commission	IR98
Queensland Government	60, IR141
Queensland Nurses and Midwives' Union (QNMU)	15, IR85
Queensland Water Directorate	30, IR90
Rio Tinto Australia	40, IR113
Seet, Pi-Shen, and Jones, Janice	IR100
SEEK	IR156 #
Shah, Chandra	IR74
Shop Distributive and Allied Employees Association (SDA)	51, IR68
Shreeve, Robin	IR70
SkillsIQ limited	IR130

^a An asterisk (*) indicates that the submission contains confidential material NOT available to the public.
A hash (#) indicates that the submission includes attachments.

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Table A.1 (continued)

<i>Participant</i>	<i>Submission no.</i>
Skills Impact	28, IR102
South Australian Government	11, IR139
Sparks, Alan	IR131
State Training Board WA	43
Supply Chain Sustainability School	IR91
TAFE Community Alliance (TCA)	56, IR76
TAFE Directors Australia (TDA)	59, IR146
Tasmanian Government	32, IR80
Unions NSW	IR93
Unions WA	IR112
Universities Australia (UA)	36
University of Melbourne	55 #
University of Wollongong	19
VETASSESS	IR81
Victorian TAFE Association	27
Victorian Trades Hall Council (VTHC)	IR87 #
Victorian Government	58, IR150
Western Australian Government	20, IR152
William Angliss Institute	62
WithYouWithMe	14
Year13	8 #
Zoellner, Don	4 #, IR107

^a An asterisk (*) indicates that the submission contains confidential material NOT available to the public.
A hash (#) indicates that the submission includes attachments.

Table A.2 Meetings including by video conference

Participant

Aboriginal Health & Medical Research Council of NSW (AH&MRC)
Activ Pathways
ACT Government, Chief Minister, Treasury and Economic Development Directorates
Adult Learning Australia
Adult Multicultural Education
Ai Group
Alliance of First Nations Indigenous Education and Training Providers
Artibus Innovation
Australian Securities and Investments Commission (ASIC)
Australian Bureau of Statistics (ABS)
Australian Business Apprenticeships Centre
Australian Chamber of Commerce and Industry (ACCI) and selected members
Australian Council of Deans of Education Vocational Education Group (ACDEVEG)
Australian Council of Trade Unions (ACTU)
Australian Council of Trade Unions VET Committee
Australian Government Actuary
Australian Industry Standards
Australian Skills Quality Authority (ASQA)
Australian National Audit Office (ANAO)
Australasian Vocational Education and Training Research Association (AVETRA)
BAE Systems Australia
Brotherhood of St Laurence
Buchanan, John (University of Sydney)
Burke, Gerald (Monash University)
Business Council of Australia (BCA)
Business NSW
Chamber of Apprenticeship Support Australia
Chamber of Commerce (NT)
Chamber of Commerce and Industry (Qld)
Chamber of Commerce and Industry (WA)
Chamber of Minerals and Energy (WA)
Chapman, Bruce (Australian National University)
Charles Darwin University
Cobb-Clark, Deborah (University of Sydney)
Community Colleges Australia
Construction Training Fund (WA)
Davidson, Jim (Photography Studies College)
Deloitte Australia
Department of Education (NSW)
Department of Education (NT)
Department of Education (SA)

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Table A.2 (continued)

Participant

Department of Education (WA)
Department of Education (Tas)
Department of Education (Qld)
Department of Education, Skills and Employment
Department of Education and Training (Vic)
Department of Education and Training (NSW)
Department of Employment, Small Business and Training (Qld)
Department of Premier and Cabinet (WA)
Department of Finance (Australian Government)
Department of Infrastructure (Vic)
Department of Innovation and Skills (SA)
Department of Premier and Cabinet (Tas)
Department of Prime Minister and Cabinet (Australian Government)
Department of State Growth (Tas)
Department of Trade, Business and Innovation (NT)
Department of Training and Workforce Development (WA)
Department of Treasury (Australian Government)
Department of Treasury (NSW)
Department of Treasury (Tas)
Department of Treasury (WA)
Electrical Trades Union of Australia
Expert Panel on Skills
Fair Work Commission
Flinders University
G8 Education
Hospitality NT
Human Capital Solutions
Hurley, Peter (Mitchell Institute for Education and Health Policy)
Independent Tertiary Education Council Australia (ITECA)
Industry Skills Advisory Council (NT)
Kaplan Australia
Karmel, Tom (University of Adelaide)
Larkin, Steve (Batchelor Institute of Indigenous Tertiary Education)
Literacy for Life Foundation
Macklin, Jenny (Chair, Macklin Review)
Master Builders Association
Murawski, Carsten (University of Melbourne)
National Australian Apprenticeships Association (NAAA)
National Careers Institute, Department of Education, Skills and Employment (Australian Government)
National Centre for Vocational Education Research (NCVER)
National Skills Commissioner

(continued next page)

Table A.2 (continued)

Participant

Noonan, Peter (Mitchell Institute for Education and Health Policy)
NSW Education Standards Authority
NSW Productivity Commission
NSW Skills Board
Open Colleges
Peta Furnell Consulting
Pilcher, Sarah (Mitchell Institute for Education and Health Policy)
Programmed
Queensland Training Ombudsman
Resources Industry Training Council (WA)
Rio Tinto
Smith, Erica (Federation University Australia)
SAS Group
See, Pi-Shen (Edith Cowan University)
SEEK
Skeen, Robert (Aboriginal Health and Medical Research Council)
Skills Canberra
Skills for Victoria's Growing Economy Review
Skills Generation
Skills Impact
Skills Tasmania
Skills Victoria
Steven Joyce Advisory
TAFE Directors Australia
TAFE NSW
TAFE QLD
TAFE Tasmania
Tasmanian Government
Tertiary Education Quality and Standards Agency (TEQSA)
Training Accreditation Council (WA)
Training and Skills Commission (SA)
The Pivot Institute
Unity College Australia
Universities Australia
van Dijk, Robbie (RMIT University)
VERTO Skills to Transform
Victorian Registration and Qualifications Authority (VRQA)

(continued next page)

Table A.2 (continued)

Participant

Victorian Skills Commissioner
Western Australian Government
Wheelahan, Leesa, (University of Toronto, Canada)
Work and Training (Tas)
Wright, Barry (Federation University)
Yasukawa, Keiko (University of Technology Sydney)
Year13

Table A.3 Roundtables by video conference

Participant

Foundation skills 10th July 2020

ACT Government
Australian Council of Trade Unions (ACTU)
Adult Learning Australia (ALA)
Adult Multicultural Education Services (AMES)
Ai Group
Business Council of Australia (BCA)
Community Colleges Australia
Department of Education (Tas)
Department of Education and Training (NSW)
Department of Education and Training (NT)
Department of Education and Training (SA)
Department of Education and Training (Vic)
Department of Education and Training (WA)
Department of Education, Skills and Employment (Australian Government)
Literacy for Life Foundation
National Centre for Vocational Education Research (NCVER)
TAFE Directors Australia
TAFE NSW
TAFE Tasmania
TAFE Queensland
Wright, Barry (Federation University)

(continued next page)

Table A.3 (continued)

Participant

Apprenticeships 17th July 2020

Australian Council of Trades Union (ACTU)
Ai Group
Construction Training Fund (WA)
Department of Education, Skills and Employment (Australian Government)
Karmel, Tom (University of Adelaide)
Master Builders Association (MBA)
National Australian Apprenticeships Association (NAAA)
National Centre for Vocational Education Research (NCVER)
Skills for Victoria's Growing Economy Review
Hurley, Peter (Mitchell Institute for Education and Health Policy)

Registered training organisations 20th July 2020

Activ Pathways
Charles Darwin University
Kaplan Australia
Skills Generation
Open Colleges
TAFE NSW
Unity College Australia

User-centred models in VET 31st July 2020

Australian Skills Quality Authority (ASQA)
Business Council of Australia (BCA)
Chapman, Bruce (ANU)
Career Industry Council of Australia (CICA)
Community Colleges Australia
Deloitte Access Economics
Department of Education, Skills and Employment, (Australian Government)
Higgins, Tim (Australian National University)
Murowski, Carsten (University of Melbourne)
National Centre for Vocational Education Research (NCVER)
National Careers Institute (Australian Government)
TAFE Directors Australia
Training Ombudsman Queensland
Year13

B Progress against the NASWD performance framework

The *National Agreement for Skills and Workforce Development* (NASWD) contains a performance framework which provides a basis to measure whether governments have been delivering on the objective that governments committed to under the agreement. The performance framework includes two ‘long term, national and aspirational’ targets for 2020, and three broad ‘outcomes’ measured by two performance indicators. Figure 4.1 in chapter 4 depicts the framework.

This appendix assesses governments’ progress against the performance framework. It also explains how the indicators are relevant for understanding vocational, education and training (VET) system performance.

The Commission has assessed progress against the indicators by comparing the latest available data to a 2009 baseline (the year when the NASWD was first signed). Where data are limited, supporting evidence has been used. Figure 4.2 contains a summary of this assessment.

Outcome 1 – The skill levels of the working-age population are increased to meet the changing needs of the economy

Proportion of people holding Certificate III and above qualifications (Indicator 1a)

Governments likely regarded Certificate III qualifications as a benchmark for working-age people, given their positive impact on employment and earnings (Stanwick 2005) and status as a minimum qualification for many entry-level jobs (Bowman, McKenna and Griffin 2016, p. 7). Additionally, governments may have considered that a workforce with skills at least at this level would be required in the context of future global competition (Skills Australia 2011).

This indicator is related to Target A, which aimed to halve the proportion of the working-age population without at least a Certificate III. The Commission has therefore examined performance against Indicator 1a and Target A together, later in this appendix.

Proportion of employers satisfied that training meets their needs (Indicator 1b)

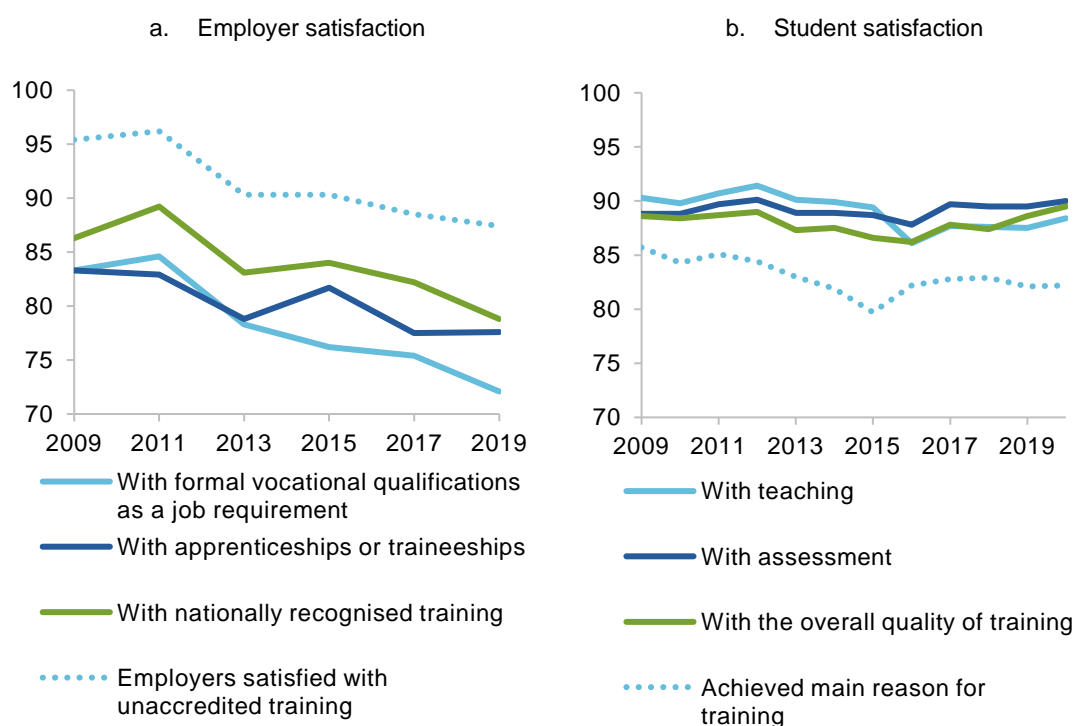
Satisfaction with training, whether from the employer’s or student’s perspective, is an important signal about the quality and value of VET.

Surveys suggest that employers and students are generally satisfied with the quality of training, albeit less so than in 2009. Employer satisfaction with all forms of training (apprenticeships, formal qualifications as a job requirement, and unaccredited training) fell over the past ten years. The extent of the fall varied according to the form of training (figure B.1, panel a). Satisfaction with nationally recognised training fell from 86 per cent in 2009 to 79 per cent in 2019.

While not a performance indicator under the NASWD, government-funded students' satisfaction with the overall quality of training is also slightly lower than in 2009 (figure B.1, panel b). Subject completers (students who completed at least one subject and left the VET system without obtaining a qualification) were more satisfied than graduates. Even so, about 88 per cent of graduates were satisfied with the overall quality of training in 2019.

Figure B.1 Employer and student satisfaction with VET have dropped

Employer satisfaction with VET, and satisfaction of government-funded graduates (per cent)



Sources: NCVER (2018e, 2019c).

Outcome 2 – All working-aged Australians have the opportunity to develop skills

Proportion of people with adequate foundation skills (Indicator 2a)

People need foundation skills (such as literacy and numeracy) to participate in both tertiary study (such as VET) and the labour market (chapter 12). The OECD's *Survey of Adult Skills* (PIAAC)¹²⁶ uses a six-category scale to measure literacy and numeracy proficiency. The scale ranges from level 5 (the highest level of proficiency) to level 1, with an additional category below level 1 (the lowest level of proficiency). A proficiency of level 3 or above (the benchmark used for Indicator 2a) was considered by COAG to be the minimum required by individuals to meet the complex demands of work and life (DET 2012, p. 2).¹²⁷

There was no baseline for this indicator in 2009; the OECD Survey of Adult Skills was last conducted in 2012. That survey found that 56 per cent of Australians achieved a literacy level of 3 or above (which exceeded the OECD average of 50 per cent), while 46 per cent of Australians achieved a numeracy level of 3 or above (just below the OECD average of 47 per cent) (OECD 2012, p. 2). There has been no survey since; the results of the next survey are expected in 2023.

While more recent data on the performance of adults are not available, evidence from the NAPLAN¹²⁸ and the OECD's PISA programs¹²⁹ suggest that the literacy and numeracy skills of Australia's school students have deteriorated over the past decade (ACARA 2020a; OECD 2019d).

Proportion of people with or working toward a non-school qualification (Indicator 2b)

The share of people with or working toward a non-school qualification increased from 65 per cent in 2009 to 73 per cent in 2019. For those living in remote or very remote areas, this percentage rose from 54 per cent in 2010 to 61 per cent in 2019. This indicator also includes higher education.

While these numbers have increased, completions in 2019 have fallen back to 2009 levels. However, there is significant diversity of cohorts within the VET sector, so a single indicator does not reveal the breadth of differences. Government-funded VET qualifications completed by Aboriginal and Torres Strait Islander persons or by persons with disability increased by about 40 per cent from 2009 to 2018 (figure B.2) (NCVER 2019o). However, students living

¹²⁶ Programme for the International Assessment of Adult Competencies.

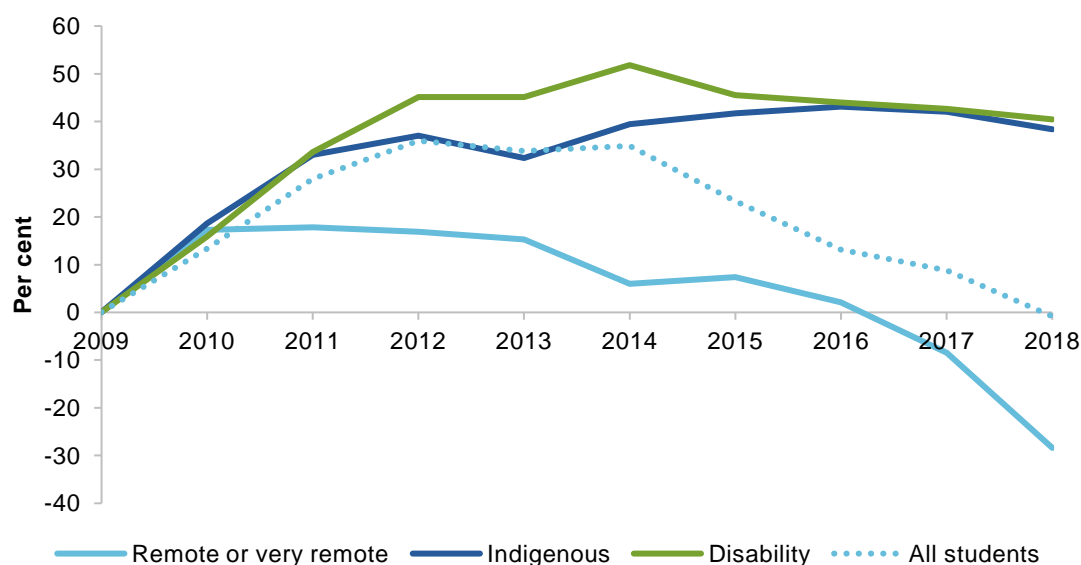
¹²⁷ As noted in chapter 12, focus has since shifted (for example, through the recommendations of the Joyce Review) to Australians meeting a level 2 standard, regarded as the level required to meet the *basic* demands of work and life.

¹²⁸ The National Assessment Program – Literacy and Numeracy.

¹²⁹ Programme for International Student Assessment.

in remote or very remote areas have fared worse — 28 per cent fewer students completed a government-funded VET qualification in 2018 than in 2009.

Figure B.2 VET completions by students facing disadvantage
Government-funded VET program completions, per cent change since 2009, 2009–18



Source: NCVER (2019o).

Outcome 3 – Training delivers the skills and capabilities needed for improved economic participation for working age Australians

Graduates with improved employment status (Indicator 3a)

The share of government-funded VET graduates with improved employment status (became employed, became employed at a higher skill level or received a job-related benefit) about six months after graduation fell from 65 per cent in 2009 to a low of 55 per cent in 2016, before rebounding to 63.5 per cent in 2019 (NCVER 2019n).¹³⁰ Students facing disadvantage have also seen a decrease in employment status since 2009, although proportions differ substantially by type of graduate (table B.1).

Prima facie, there is no evidence to suggest that government-funded training or fee-for-service training delivers better employment outcomes for students. The proportion of all VET graduates (including fee-for-service graduates) who improved their employment

¹³⁰ The definition of improved employment status after graduation changed for 2019.

status increased in a similar way to government-funded graduates (from 56 per cent in 2016 to 66 per cent in 2019), suggesting that the funding status of qualifications did not significantly influence students' employment outcomes.

Table B.1 The proportion of VET graduates facing disadvantage with improved employment status has fallen

Percentage of government-funded graduates with improved employment status, by type of graduate

	2009	2019
Aboriginal and Torres Strait Islander	65.0	58.4
With a disability	45.2	40.1
Living in a remote or very remote area	73.4	70.4
All students	65.0	63.5

Sources: NCVER (2010, 2019o).

Graduates with improved education/training status after training (Indicator 3b)

The share of government-funded graduates who improved their education status (that is, completed a higher qualification, Indicator 3b) rose from 53 per cent in 2010 to 67 per cent in 2015, but has fallen in recent years to 59 per cent in 2018.¹³¹ The recent fall is mirrored for all VET graduates (including fee-for-service graduates) aged 20–64.

The decline may have been affected by an increase in the number of university graduates undertaking VET. The percentage of government-funded VET graduates with a previous Certificate III or higher qualification rose from 31 per cent in 2015 to 35 per cent in 2018 (NCVER 2019e).

NASWD targets

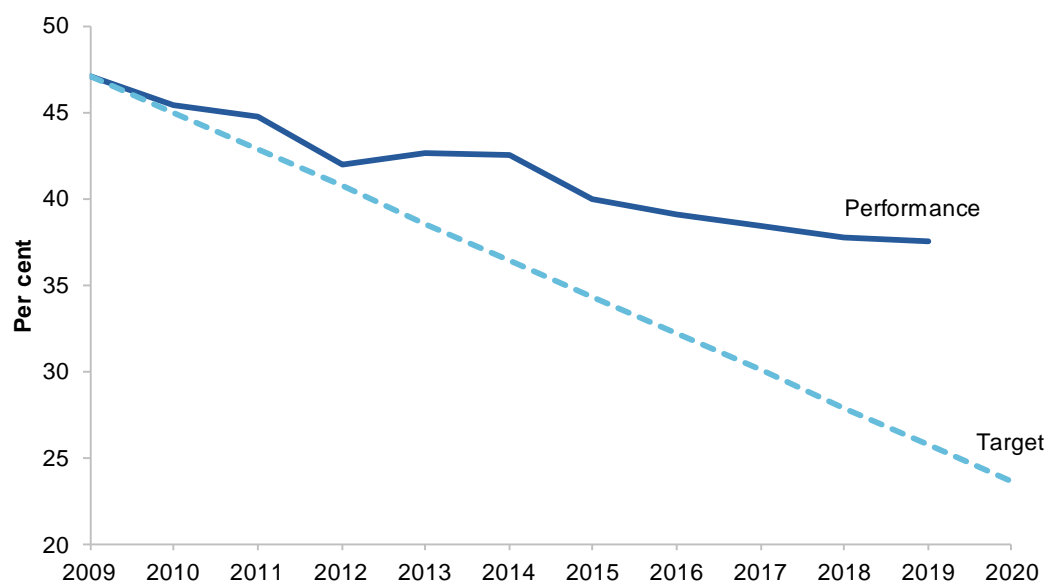
Target A: Halve the proportion of Australians nationally aged 20–64 without qualifications at Certificate III level and above between 2009 and 2020

The NASWD's first target (Target A) will not be achieved. This partly reflects that the target was overly aspirational. People aged 25 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) than in formal training (which is often associated with increasing the prospects of getting a job) (ABS 2017).

¹³¹ The definition of 'improved education status' changed in 2012. For years in which both definitions were recorded, the new definition is about three percentage points higher than the previous definition.

From 2009 to 2019, the percentage of working-age people without a Certificate III decreased from 47 per cent to 38 per cent, which will not be enough to meet Target A (figure B.3).

Figure B.3 Despite progress, Target A will not be met
Share of Australians aged 20–64 years without qualifications at Certificate III and above

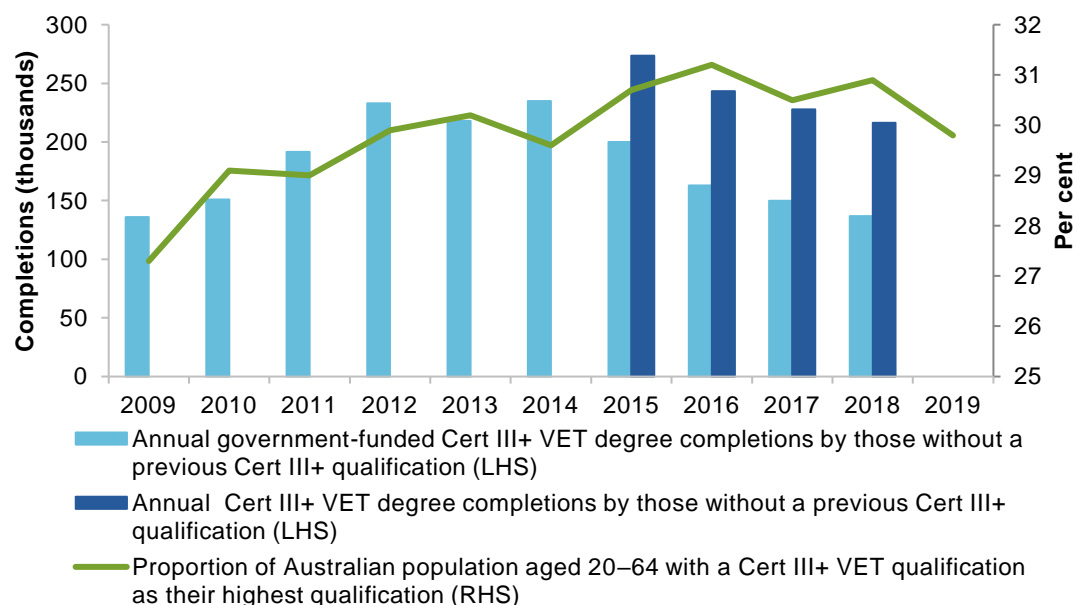


Sources: ABS (2019); PC (2020a).

Most of the progress against Target A occurred in the higher education sector, not in the VET sector. The share of people aged 20–64 whose highest qualification is a Bachelor Degree or above rose from 26 per cent in 2009 to 33 per cent in 2019. By contrast, over the same period, the proportion of people aged 20–64 whose highest qualification was at Certificate III level or above, but below a Bachelor Degree, only rose from 27 per cent to 30 per cent. However, it should be noted some students will have completed both VET and higher education degrees.

The number of government-funded VET completions at Certificate III level and above by students without a previous qualification at those levels rose rapidly after 2009 (an increase of 72 per cent in the years to 2012) but fell substantially after 2014 (figure B.4). Total completions (government-funded plus fee-for-service courses) also fell after 2015.

Figure B.4 After rising significantly, higher-level VET completions have fallen back to their 2009 levels



Sources: ABS (2019); NCVER (2019q, 2019o).

The rise in VET qualification completions to 2014 was likely driven by the introduction of entitlement schemes in several jurisdictions, and the increase in VET funding from 2009 as part of the Productivity Places Program. The program funded Certificate II qualifications and above. It probably contributed to the rise in completions of government-funded Certificate IIIs and above in every jurisdiction between 2009 and 2012.¹³²

Much of the fall in government-funded completions after 2014 can be attributed to the tightening of entitlement schemes in the ‘early mover’ States of Victoria and South Australia and the Australian Government’s withdrawal of incentive payments for most traineeships for existing workers. Existing worker traineeships fell from about 100 000 in 2012 to about 20 000 in 2014 (NCVER 2020m). Several State and Territory governments also cut funding for Diplomas following the expansion of VET FEE–HELP in 2012, reducing the number of government-funded diploma places and completions (Saccaro and Wright 2018).

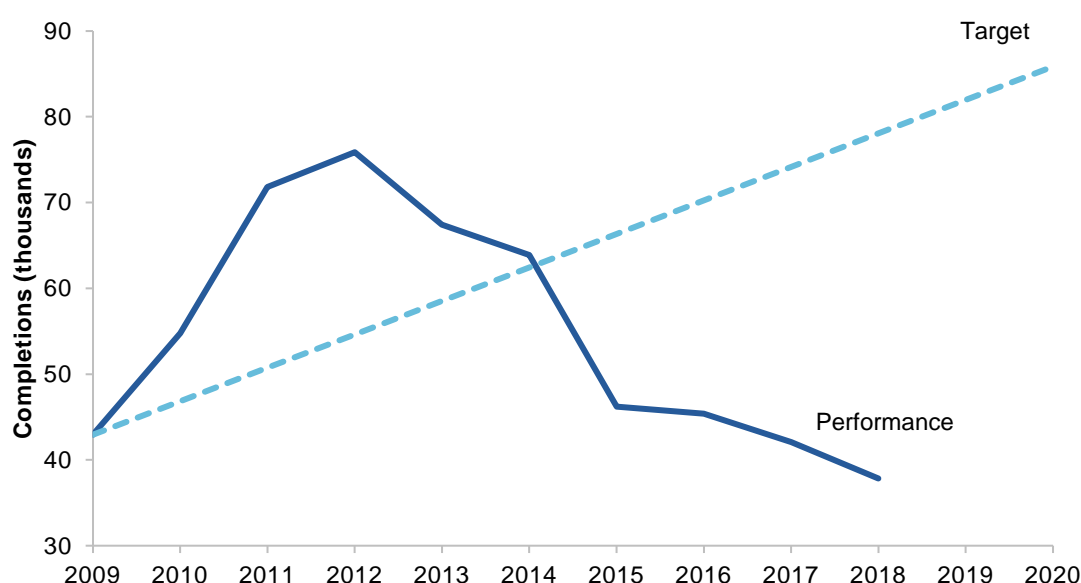
Another cause of the fall in VET completions may have been students choosing higher education over VET after the introduction of demand-driven funding for the higher education system (PC 2019b). In addition, the VET sector’s reputation suffered following expansion of the VET FEE–HELP scheme (the poor behaviour of private providers was first broadly publicised during 2015 (Saccaro and Wright 2018)).

¹³² This was not due to the implementation of a national training entitlement; Victoria was the only jurisdiction to have the entitlement in time to affect completions over this period

Target B: Double the number of higher-level qualification completions (diploma and advanced diploma)

The NASWD's second target (Target B) will not be achieved. There was a sharp increase in the number of completed VET Diplomas and Advanced Diplomas from 2009 to 2012 (figure B.5). This increase was largely due to the introduction of the Productivity Places Program and Victoria's entitlement scheme (the Victorian Training Guarantee) in 2009.

Figure B.5 The gap for Target B is widening
Number of Diploma and above qualification completions^{a,b}



^a Higher-level qualifications defined as Diplomas and Advanced Diplomas. ^b Figures reflect the revised definition reported on the Productivity Commission's Dashboard in 2019. It now includes only Australian, State, and Territory government-funded training (either Commonwealth or State recurrent funding, Commonwealth specific purpose funding or State-specific funding) from all training providers. All fee-for-service activity from training providers has been excluded.

Source: PC (2020a).

Since 2012, completions have fallen to their 2009 level. Total VET Diploma and Advanced Diploma completions (including private fee-for-service students) also fell between 2015 and 2018. The following factors may have contributed to this decline:

- the reduction in funding from several State and Territory governments following the expansion of VET FEE-HELP in 2012 (Saccaro and Wright 2018)
- Victoria scaled back its Victorian Training Guarantee in 2011 by, among other things, reducing subsidies and tightening eligibility criteria
- some students may have shifted from VET to higher education for Diploma and above-level Degrees. The number of higher education graduates completing

sub-Bachelor level courses rose substantially, from 14 510 in 2012 to 24 957 in 2018 (DESE 2019e).

C Funding and pricing arrangements for subsidised courses

As outlined in chapter 8, States and Territories use contracts with registered training organisations (RTOs) and accompanying policy documents to regulate the provision of subsidised courses. This appendix outlines the key regulatory settings. For each State and Territory, tables C.1–C.8 provide information on:

- fees, prices and subsidies for subsidised courses
- how the costs of courses are derived for the purposes of determining subsidies. As explained in chapter 8, jurisdictions calculate an hourly cost (base rate) for each qualification. This can vary by industry or field of education. The qualification cost estimate is the number of hours multiplied by the base rate, plus any fixed costs
- the cost methodology, including data source and year. In addition to the qualification cost estimate, loadings are added, which reflect the higher cost of provision to some groups, including due to the location of training delivery or a student’s background. The numbers in the table reflect the additional percentage loading applied to the base qualification estimate
- contract and quality management. Some States and Territories set out quality frameworks that outline their approaches to managing the quality of services and contracts with RTOs. These frameworks usually specify, among other things: RTO eligibility requirements; statements of expectations; performance monitoring and compliance requirements; and consumer protection provisions. It also outlines key aspects of State and Territory quality frameworks.

The information in the tables represents the Commission’s understanding of a broad range of vocational education and training (VET) funding and pricing measures used by the States and Territories as at 1 June 2020. All States and Territories were consulted on the accuracy of the information presented, and the Commission endeavoured to ensure that the information is relevant. That said, given the plethora of VET programs and policies and how frequently the settings change, as well as the difficulties that the Commission has faced in obtaining information, the lists may not be comprehensive.

Table C.1 New South Wales

<i>Setting</i>	<i>Description</i>								
Price, student fee and subsidy settings									
Price	Regulated price set equal to the estimated cost of the qualification								
Student fee (1 st qual/2 nd qual)	<table> <tr> <td>Foundation</td><td>0/0%</td></tr> <tr> <td>Certificate II–III</td><td>25/30%</td></tr> <tr> <td>Certificate IV</td><td>30/35%</td></tr> <tr> <td>Dip. /Adv Dip.</td><td>40/45%</td></tr> </table>	Foundation	0/0%	Certificate II–III	25/30%	Certificate IV	30/35%	Dip. /Adv Dip.	40/45%
Foundation	0/0%								
Certificate II–III	25/30%								
Certificate IV	30/35%								
Dip. /Adv Dip.	40/45%								
Government subsidy (1 st qual/2 nd qual)	<table> <tr> <td>Foundation</td><td>100/100%</td></tr> <tr> <td>Certificate II–III</td><td>75/70%</td></tr> <tr> <td>Certificate IV</td><td>70/65%</td></tr> <tr> <td>Dip. /Adv Dip.</td><td>60/55%</td></tr> </table>	Foundation	100/100%	Certificate II–III	75/70%	Certificate IV	70/65%	Dip. /Adv Dip.	60/55%
Foundation	100/100%								
Certificate II–III	75/70%								
Certificate IV	70/65%								
Dip. /Adv Dip.	60/55%								
Fee concession/exemption	<p>Eligible students pay student fees of \$160 for a Certificate II and \$240 for a Certificate III/IV. Eligible students are:</p> <ul style="list-style-type: none"> • persons receiving a welfare benefit or allowance eligible for concessions • Aboriginal and Torres Strait Islander people, people with disability and asylum seekers are exempt from fees 								
Funding cap	RTOs have a funding cap for a given year and region								
Estimated costs									
Course cost estimate	Cost per course = Fixed cost + nominal hours × Field of Education rate per hour								
Hours	Victorian purchasing guide nominal hours								
Base rate	Base rates are calculated by Field of Education and assigned to a Unit of Competency								
Cost data	<p>2012 TAFE NSW Resource Allocation Model data that have been calibrated with 2011-12 competitive tender data</p> <p>IPART calculated the base rates from data in its 2013 report. Updated by CPI in 2017</p>								
Location loading	Regional (10%); remote (20%)								
Equity loading	Aboriginal and Torres Strait Islander or person with a disability (15%); long-term unemployed (10%)								

(continued next page)

Table C.1 (continued)

<i>Setting</i>	<i>Description</i>
Quality management	
Contracted RTOs	367
Quality framework	<ul style="list-style-type: none"> • Strong regulation • Select the right training providers • Effective contracting • Performance monitoring
RTO eligibility criteria	<ul style="list-style-type: none"> • Validation of assessment • Build teaching and leadership • Ensure consumer protection • Evaluation • An RTO • Registered to deliver qualification on NSW skills list • Has not had a contract terminated in last three years • Has not had registration cancelled • Has no current sanctions
Statement of expectations	<ul style="list-style-type: none"> • Quality • Ethics • Accountability • Responsiveness
Performance monitoring	<p>Risk/performance indicators:</p> <ul style="list-style-type: none"> • outcomes reported by students/employers, training completion rates, complaints. <p>Performance monitoring includes:</p> <ul style="list-style-type: none"> • surveys, interviews, desktop monitoring, site visits and investigations
Sanctions for breach	<ul style="list-style-type: none"> • Suspend all or part of the training provider's rights under the contract • Withhold in whole or part any subsidies payable to the provider • Place further conditions in relation to government-subsidised training • Varying the contract • Exercise rights to terminate the contract
Regulator	<ul style="list-style-type: none"> • ASQA

Table C.2 Victoria

<i>Setting</i>	<i>Description</i>
Price, student fee and subsidy settings	
Price	Deregulated but subsidies set a price floor
Student fee	Deregulated — RTOs can charge any fee (including no student fee)
Government subsidy	<ul style="list-style-type: none"> • Subsidies range between \$2.00–\$15.50 per nominal hour • Government subsidy — Scheduled hours (up to maximum payable hours for each course) multiplied by the subsidy rate per hour • Subsidy rates are determined by course and reflect the estimated cost of quality training delivery • Maximum payable hours are set at a course level and are based on the aggregate nominal hours needed to meet the minimum requirements of the course • Subsidies are paid monthly in arrears based on reported training delivery (apportioned over the duration of the training)
Fee concession/exemption	<ul style="list-style-type: none"> • Aboriginal and Torres Strait Islander students only pay 20% of the student fee • Holders of concession cards and Asylum Seekers pay 20% of the student fee up to AQF level 4 • Free TAFE for priority courses • Limited other fee exemptions to specific cohorts (for example, young people on community-based orders)
Funding cap	Each non-TAFE RTO is assigned a maximum number of funded commencements
Estimated costs	
Course cost estimate	Cost per course = nominal hours × estimated industry cost per hour
Hours	Scheduled contact hours, reported by training providers. (Usually the same as Victorian purchasing guide hours)
Base rate	Industry rates not provided
Cost data	Based on TAFE cost data and varies by industry sector
Location loading	Regional (10%)
Equity/VCAL loading	<ul style="list-style-type: none"> • Under 20 years old with a concession entitlement (30%); ATSI (50%) • Eligible Victorian Certificate of Applied Learning students (10%)

(continued next page)

Table C.2 (continued)

<i>Setting</i>	<i>Description</i>
Quality management	
Contracted RTOs	302
Quality framework	Skills First Quality Charter
RTO eligibility criteria	<p>Training providers are assessed against a range of evaluation criteria to receive a <i>Skills First</i> Contract, including:</p> <ul style="list-style-type: none"> • financial viability • demonstration of a history of training delivery • performance under previous contracts with the Department • quality measures
Statement of expectations (Skills First Quality Charter)	<ul style="list-style-type: none"> • Commitment to serving the public interest • Accountable and effective governance • Informed choice of course and provider and awareness of essential training entitlement • Deliberate planning of training program • High quality delivery of training and assessment
Performance monitoring	<ul style="list-style-type: none"> • The Department has a range of mechanisms to monitor and manage provider performance, data reporting and monitoring, complaints investigation and special investigations, and student and employer satisfaction surveys • Rectification plans addressing non-compliance
Sanctions for breach	<p>Sanctions include:</p> <ul style="list-style-type: none"> • direct RTOs to suspend part or all of the provision of Training • withhold or suspend payment of any part of the Funds • cancel RTOs entitlement to funds • require RTOs to refund amounts previously paid • require RTOs to pay a monetary amount to the department (a penalty) • terminate the VET Funding Contract
Regulator	ASQA and VRQA

Table C.3 Queensland

<i>Setting</i>	<i>Description</i>
Price, student fee and subsidy settings	
Price	Deregulated but subsidies set a price floor
Student fee	Deregulated — RTOs can charge any fee greater than zero. Student fees are regulated to \$1.60 per hour for the User Choice program
Government subsidy	Subsidies are a percentage of the estimated cost There are three subsidy rates ranging between 50 and 100% of the cost depending on priority
Fee concession/exemption	Students who are eligible receive a higher subsidy to reduce the student fee Eligible students include, concession card holders or dependents of those holding one, ATSI students, students with a disability, adult prisoners and Free TAFE for Year 12
Funding cap	Uncapped
Estimated costs	
Course cost estimate	Cost per course = nominal hours × industry rate per hour No explicit fixed cost calculation
Hours	Victorian purchasing guide nominal minimum and maximum hours inform the basis of Queensland nominal hours Nominal hours are capped at 1100 hours per qualification
Base rate	11 Price Bands based on nominal hours from 3 industry rates: \$5.23 (A); \$7.03 (B); \$9.86 (C)
Cost data	Information not provided
Location loading	Regional (15%); remote (75%); Cape York & Torres Strait Islands (150%) subject to the mode of delivery
Equity loading	..

(continued next page)

Table C.3 (continued)

<i>Setting</i>	<i>Description</i>
Quality management	
Contracted RTOs	485
Quality framework	<ul style="list-style-type: none"> • Supplier entry requirements • Information and support • Market performance and oversight • Compliance • Program design
RTO eligibility criteria	<ul style="list-style-type: none"> • An RTO • Registered to deliver the full qualification • At least one qualification on the priority skills list • Evidence of 12 months delivery of training services in Queensland or industry area
Statement of expectations	<ul style="list-style-type: none"> • Included in pre-qualified supplier policy. • Disclose pricing information upfront to enable informed consumer • Demonstrate professional and ethical standards of behaviour
Performance monitoring	The selection of RTOs for audits may be done randomly, those perceived to be higher risk, or be initiated in response to complaints made to the department or the Queensland Training Ombudsman
Sanctions for breach	<ul style="list-style-type: none"> • Referral to ASQA for audit • Recovery of funds previously paid to the RTO • Directive to cease new enrolments • Withholding payment for unit
Regulator	ASQA
.. not applicable.	

Table C.4 South Australia

<i>Setting</i>	<i>Description</i>
Price, student fee and subsidy settings	
Price	Deregulated but subsidies set a price floor
Student fee	Deregulated — RTOs can charge any fee greater than zero
Government subsidy	Nominal hours × (field of education rate per hour – AQF reduction) The AQF reduction ranges from \$0.50 to \$3.85 per nominal hour The AQF Reduction is the expected Participant Course Fee (it acts as an adjustment on the price) Subsidies are paid for each unit of competency completed for a course There is an additional course completion payment
Fee concession	Standard Course Fee less \$0.50–\$1.35 per nominal hour. (This amount is paid as an additional subsidy to the RTO) Foundations Skills are fee free <u>Example:</u> Course fee – concession = concession fee = \$3.00 – \$2.00 = \$1.00 per hour <u>Eligible:</u> <ul style="list-style-type: none"> • Health Care Card, Pensioner Concession Card; or Veteran Affairs Concession Card • Prisoner
Funding cap	Partially capped
Estimated costs	
Course cost estimate	Cost per unit of competency = nominal hours × Field of Education rate per hour No explicit fixed cost calculation. Costs are subject to reviews, which are undertaken on training providers actual costs
Hours	Victorian purchasing guide nominal hours
Base rate	44 unique rates across 356 Fields of Education. These are mapped to a unit of competency
Cost data	2011 User Choice data from private RTOs in South Australia and TAFE data
Location loading	Accessible (10%); moderately accessible (20%); remote (30%); very remote (40%)
Equity loading	..

(continued next page)

Table C.4 (continued)

<i>Setting</i>	<i>Description</i>
Quality management	
Contracted RTOs	173 active Funded Activities Agreements for delivery of Subsidised Training List courses
Quality framework	..
RTO eligibility criteria	Organisational structure and financial viability
Statement of expectations	..
Performance monitoring	Information not provided
Sanctions for breach	South Australia refers quality issues to ASQA
Regulator	ASQA
.. not applicable.	

Table C.5 Western Australia^a

<i>Setting</i>	<i>Description</i>
Price, student fee and subsidy settings	
Price	Regulated price equal to the estimated cost of the course
Student fee	<p><u>Student fee rates (\$ per hour)</u>: AQF 5/6 (\$5.79), Priority Certificate I-IV (\$3.25), General Certificate I-IV (\$4.88) and Foundation (\$0.21)</p> <p>RTOs may charge an additional resource fee on top. There is a maximum student fee of \$7860 for Diplomas and Advanced Diplomas. There is a maximum student fee of \$1200 for targeted fee relief qualifications</p>
Government subsidy	<p>Subsidies are the difference between the fixed student fee and the estimated cost of the course</p> <p>Subsidies range from about 99% for Foundation Skills courses and 70 % for Diplomas and above</p>
Fee concession	<p><u>Concession rates (\$ per hour)</u>: AQF 5/6 (\$1.74), Priority Certificate I-IV (\$0.97), General Certificate I-IV (\$1.47) and Foundation (\$0.21)</p> <p><u>Eligible:</u></p> <ul style="list-style-type: none"> • Persons and dependants holding a Pensioner Concession Card, Health Benefits Card issued by Department of Veteran Affairs or Health Care Card • Persons and dependants in receipt of AUSTUDY, ABSTUDY or Youth Allowance • Persons and dependants who are inmates of custodial institution • Secondary school-aged not enrolled at school
Funding cap	Uncapped for some courses and capped for others
Estimated costs	
Course cost estimate	Cost per course = nominal hours × Field of Education rate per hour + fixed cost
Hours	Western Australia nominal hours guide
Base rate	Base rates are calculated by Field of Education and assigned to a Unit of Competency
Cost data	TAFE data and 2017 private RTO data
Location loading	Gascoyne (70%), Esperance (50%), Great Southern (30%), Kimberley (115%), Mid-West (30%), Peel (10%), Pilbara (105%), South West (10%) and Wheatbelt (30%)
Equity loading	40% for private RTOs delivering to identified equity groups, and additional funding for TAFEs to support Aboriginal and Torres Strait Islanders and students with disability

^a Settings vary depending on multiple factors, which can be different between TAFE and private RTOs. The information presented is for private RTOs.

(continued next page)

Table C.5 (continued)

<i>Setting</i>	<i>Description</i>
Quality management	
Contracted RTOs	150
Quality framework	<ul style="list-style-type: none"> • Planning context • Supplier eligibility • Contract management and compliance • Consumer information and support • Financial viability assessments
RTO eligibility criteria	<ul style="list-style-type: none"> • Registered to deliver training by ASQA, TACWA or VRQA • Submitted a Total VET Activity (TVA) report to NCVER for the previous one/two calendar years • Must give permission for the State training authority, the regulator and NCVER to release RTO data • The service provider must have current scope with the relevant regulator for the qualification • The requested qualification(s) must be listed on the Corporation's current payment table
Statement of expectations	..
Performance monitoring	<ul style="list-style-type: none"> • RTOs are assessed against key risk indicators and assigned a risk score • Amount of funding • Student growth levels • Compliance with contract including regulatory performance, timeliness and accuracy of data lodgement and training completion rates • Contractual arrangements • Audit findings including student, employer and other feedback • Training packages and qualifications with identified risk • Complaints
Sanctions for breach	<ul style="list-style-type: none"> • Withhold service payment to the RTO • Place the RTO on an action plan • Restrict or change number of places allocated to the RTO • Amend or remove the RTO's eligible delivery from designated preferred provider panels • Suspend variations in all or some programs • Not offer a contract extension • Terminate the contract of the RTO
Regulator	TAC
.. not applicable.	

Table C.6 Tasmania

<i>Setting</i>	<i>Description</i>
Price, student fee and subsidy settings	
Price	Deregulated but subsidies set a price floor
Student fee	Deregulated — RTOs can charge any fee greater than zero
Government subsidy	Subsidies are percentage of the estimated cost with higher level qualifications receiving less subsidy Subsidies range from 95% for Certificate Is to 65% for Diplomas and above. Subsidies are distributed through grants
Fee concession	Students in the following categories are exempt from paying fees. <ul style="list-style-type: none"> • People or dependents of people in receipt of certain benefits • People who are inmates of a custodial institution • People enrolled in one of the fees-exempt, publicly funded programs • People experiencing extreme financial hardship
Funding cap	Information not provided
Estimated costs	
Course cost estimate	Cost per course = nominal hours x base rate x Field of Education weight No explicit fixed cost calculation
Hours	Victorian purchasing guide nominal hours
Base rate	A single base rate (\$7), which is the average cost per hour across all courses (the rate was calculated by an independent third party) It applies one of 12 Field of Education weightings ranging from 0.86 to 1.24 to determine the hourly base rates per Field of Education
Cost data	The average cost per hour is based on 2018 benchmarking across all courses The Field of Education weightings were calculated by NCVER in 2011 from 2005–09 data
Location loading	Although there are no explicit location loadings, the subsidy is adjusted if it is not sufficient to cover costs
Equity loading	Although there are no explicit loadings for students facing disadvantage, the subsidy is adjusted if it is not sufficient to cover costs (for delivery to students facing disadvantage)

(continued next page)

Table C.6 (continued)

<i>Setting</i>	<i>Description</i>
Quality Management	
Contracted RTOs	128
Quality framework	..
RTO eligibility criteria	<ul style="list-style-type: none"> • Registered as an RTO • Does not have any outstanding compliance issues identified by ASQA or current or intended ASQA restrictions • Provide evidence of established relationships with Tasmanian industry, employers or enterprises • Have evidence of Fee-for-Service delivery in Tasmania
Performance monitoring	Skills Tasmania has the right to conduct any type of audit of the RTO and any organisation in a sub-contracting arrangement with the RTO for the purpose of ensuring compliance with the terms and conditions of this agreement or any preceding or subsequent agreement
Sanctions for breach	<ul style="list-style-type: none"> • No payments will be made under existing contracts • No new contracts will be issued • No payments for new commencements will be made • In the case of User Choice, no new Training Contracts nominating the RTO will be approved • A RTO's Endorsed RTO status will be reviewed • Skills Tasmania may terminate funding agreements
Regulator	ASQA
.. not applicable.	

Table C.7 Northern Territory

<i>Setting</i>	<i>Description</i>
Price, student fee and subsidy settings	
Price	Deregulated but subsidies set a price floor
Student fee	Deregulated — RTOs can charge any fee greater than zero. However, any fee will be to cover excess costs as the NT Government subsidises the entire estimated cost of training Charles Darwin University (CDU) charges \$3.40 per nominal hour for all subsidised training
Government subsidy	Subsidies cover the entire estimated cost of training
Fee concession	..
Funding cap	RTOs can train as many people as they want within the contracted hours
Estimated costs	
Course cost estimate	Cost per course = nominal hours × industry rate per hour No explicit fixed cost calculation
Hours	Victorian purchasing guide nominal hours
Base rate	For private providers, the base rate is the annual hours curriculum (AHC) rate split in to 20 industries For CDU there are 3 rates
Cost data	Cost data that annual hours curriculum rates are derived from not provided
Location loading	Remote 1 (regional) (15%) and remote 2 (70%)
Equity loading	..

(continued next page)

Table C.7 (continued)

<i>Setting</i>	<i>Description</i>
Quality management	
Contracted RTOs	74
Quality framework	The Department of Trade, Business and Innovation Grants Framework (the framework) is to provide guidance on the development and management of grants and grant programs within the Department of Trade, Business and Innovation
RTO eligibility criteria	Information not provided
Statement of expectations	Expectations set out in each Vocational Education and Training program, Training contract and Funding Agreement
Performance monitoring	<p>The RTO must participate in audits and collect any data required, including:</p> <ul style="list-style-type: none"> • Department audits of the RTO's financial activities including, audits of the expenditure and use of the Grant Funds • NCVER and Department audits of non-financial activities using NCVER's non-financial audit guidelines • Audits against the National VET Framework undertaken by ASQA • The financial data collection and associated audits • Collection of data that are associated with infrastructure utilisation such as use of buildings and plant specifically associated with VET delivery
Sanctions for breach	<ul style="list-style-type: none"> • Suspend or withhold any payment of the Grant Funds or under any other funding or training contract that the Department has with the RTO • Terminate the contract
Regulator	ASQA
.. not applicable.	

Table C.8 Australian Capital Territory

<i>Setting</i>	<i>Description</i>
Price, student fee and subsidy settings	
Price	Partially deregulated — subsidy plus the minimum student fee sets a price floor
Student fee	Partially deregulated — RTOs can charge a student fee that is above the published minimum and below the unpublished maximum fee
Government subsidy	Subsidy amounts are calculated as a percentage of the estimated cost. This percentage varies according to various factors that determine course priority. There are three subsidy rates for the Skilled Capital program: Band A = 72%; Band B = 50%; Band C = 40% of the estimated cost
Fee concession/exemption	Students with a health care card or pensioner card are entitled to a fee concession. Students who can demonstrate genuine financial hardship may also be eligible for additional fee concessions or fee waivers. Student concessions are applied for on behalf of students by RTOs <u>Eligibility:</u> <ul style="list-style-type: none"> • Student has Health Care Card or Pension Card • Student can prove genuine hardship
Funding cap	Skilled Capital has capped places for each qualification funded. Places are released in batches at the beginning and middle of each year
Estimated costs	
Course cost estimate	Cost per course = nominal hours × cost per hour There is no explicit fixed cost used in the calculation of course cost
Hours	ACT applies the estimated duration to deliver each course (the nominal hours) from the Victorian Purchasing Guides
Base rate	Estimated cost-per-hour to deliver training varies according to the field of education (FoE) for each course. Hourly rates, specific to the ACT, have been determined for each Field of Education
Cost data	The ACT Field of Education cost per hour is based on cost per hour data for the Canberra Institute of Technology, ACT private RTOs and NSW's IPART
Location loading	..
Equity loading	\$500 loading for Aboriginal and Torres Strait Islanders and/or students with a disability. Additional loadings are available for youth at risk and long-term unemployed for wraparound services or work experience coordination

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Table C.8 (continued)

<i>Setting</i>	<i>Description</i>
Quality management	
Contracted RTOs	82 RTOs with a Training Initiative Funding Agreement (TIFA)
Quality framework	<ul style="list-style-type: none"> • ACT Statement of Expectations • TIFA including application process and eligibility criteria • Audit Guide for Training Providers in the ACT including the compliance matrix and RTO Internal Review • Compliance guides including ACT Standards Compliance Guides
RTO eligibility criteria	<ul style="list-style-type: none"> • Hold a current registration with ASQA • Hold all insurance cover necessary to carry out its business operations • Be able to report training delivery information using an AVETMISS compliant student management system
Statement of expectations	<ul style="list-style-type: none"> • Co-operative • Accountable • Responsive • Ethical
Performance monitoring	<p>The risk level of each RTO is assessed against a set of measurable risk indicators each calendar year. The two indicator categories are potential and known concerns.</p> <ul style="list-style-type: none"> • Potential concerns include but are not restricted to amount of funding; student activity; number of qualifications; past audit results; turnover in personnel; and completion rates • Known concerns include but are not restricted to poor RTO behaviour; complaints about RTO; incorrect payment claims; and ASQA notice of non-compliance for RTO
Sanctions for breach	<p>Actions are taken in response to systems and process or student file non-compliances identified:</p> <ul style="list-style-type: none"> • deducting an amount from the funding • deferring or withholding payments • preventing or limiting access to further funding • removing, restricting or suspending the RTO's TIFA • applying conditions to the RTO's TIFA
Regulator	ASQA
.. not applicable.	

D Income contingent loans: supporting information

This appendix provides further information to support the Commission's analysis of income contingent loans in chapter 10. It:

- outlines the Commission's approach to estimating VET Student Loans (VSL) course fee-related debts not expected to be repaid (DNER) (section D.1)
- presents robustness checks to support the Commission's analysis of differences in student outcomes between VSL-eligible and VSL-ineligible courses (section D.2).

D.1 Course fee-related debts not expected to be repaid

The Australian Government Actuary (AGA) has estimated that 35 per cent of VSL debts (by loan value on completion of study) will not be repaid.¹³³ For fee-for-service students, the loan value on completion of study includes a 20 per cent loan fee (not paid upfront). Subsidised students do not pay a loan fee.

The Commission has drawn on the AGA's modelling to estimate the share of *course fee-related* DNER — that is, the estimated DNER less the loan fee divided by the loan less the loan fee. The share of course fee-related DNER is useful from a policy perspective for two reasons. It allows for:

- better assessment of the long-term budgetary cost of VSL.¹³⁴ Whereas unrepaid course fee-related debts represent a budgetary loss (relative to the loan having never been taken out), unrepaid loan fees have no budgetary impact
- a fairer assessment of the effects of the differential application of loan fees to fee-for-service and subsidised students.

The Commission estimates the share of course fee-related VSL DNER to be 29 per cent, comprising estimated course fee-related DNER of 32 per cent for subsidised students and 26 per cent for fee-for-service students. These estimates assume that, on average, fee-for-service and subsidised students who take out VSL of the same size will earn the same

¹³³ Unpublished information supplied by DESE.

¹³⁴ A fuller assessment of the long-term fiscal cost of VSL would also take account of the concessional rate of interest on VSL. VSL are indexed at the rate of inflation, which is usually below the Australian Government's cost of borrowing. For simplicity, this appendix disregards the effects of the concessional rate of interest on VSL.

incomes in each year post-VET. However, evidence indicates that fee-for-service students tend to earn substantially higher incomes than subsidised students who take out loans of a similar size. This suggests that the difference between the fee-for-service and subsidised course fee-related DNERs is likely to be greater than 6 percentage points. (However, this ought to not substantially bias the overall estimate of the share of VSL DNER.)

The remainder of this section discusses the methodology underlying these estimates. But first, a note of caution — these estimates should be treated as indicative only. They are ‘back of the envelope’ calculations based on AGA modelling. Moreover, the AGA modelling on which they are based has been calibrated with VET FEE-HELP data from 2011–2013. The AGA’s estimates also pre-date COVID-19, which may have substantial and ongoing impacts on employment and incomes.

The Commission’s methodology is based on AGA modelling

The AGA estimated the share of VSL DNER to be about 35 per cent on the basis that the average VSL (on completion of study and inclusive of loan fees) is about \$9000.

Table D.1 shows how the AGA’s estimate of the share of DNER would vary if average loan size were to vary. From this, it can be ascertained that the AGA’s modelling assumes the following linear relationship between the average loan size and the average share of DNER.

$$\frac{DNER(L)}{L} = 0.000011L + 0.24684 \quad (1)$$

Where $DNER(L)$ is the average DNER associated with an average loan of size L , such that $\frac{DNER(L)}{L}$ is the average share of VSL DNER (and, hence, the share of VSL DNER for VSL as a whole).

Table D.1 Australian Government Actuary estimates of the share of VSL debt not expected to be repaid by average loan size

<i>Average VSL size</i>	<i>Estimated average VSL DNER as a share of loan value on completion of study</i>
\$	%
2 000	27.0
3 000	28.1
4 000	29.3
5 000	30.4
6 102	31.7
7 000	32.7
8 000	33.9
9 000	35.0
10 000	36.2
15 000	41.9

Source: Unpublished Australian Government Actuary advice to the Department of Education, Skills and Employment.

For subsidised students, the AGA estimated that the average loan size is \$6102, which implies that the share of DNER for subsidised students is 32 per cent. As subsidised students do not pay loan fees, the share of course fee-related DNER for subsidised students is also 32 per cent.

For fee-for-service students, an adjustment must be made to account for the loan fees to derive a course fee-related DNER.

Note that:

$$DNER^*(L, L^*) = L^* - L + DNER(L) \quad (2)$$

Where $DNER^*(L, L^*)$ is the average course fee-related DNER associated with an average loan of size L and an average course fee-related loan of size L^* (hence the average loan fee is $L - L^*$). Among fee-for-service students, $L = 1.2L^*$. Combining this with equations (1) and (2) and rearranging yields the following relationship:

$$\frac{DNER^*(L^*)}{L^*} = 0.095776 + 0.00001584L^* \quad (3)$$

As noted above, the AGA assumed an average loan size of about \$9000 among all students. In 2018, 56 per cent of loans were issued to subsidised students (by loan value).¹³⁵ This — when combined with the AGA's estimated loan for subsidised courses of \$6102 — suggests

¹³⁵ Productivity Commission estimate based on unpublished data supplied by DESE.

that the average course fee-related loan (L^*) among fee-for-service students is \$10 300.¹³⁶ Hence, by equation (3), the Commission estimates the share of course fee-related DNER for fee-for-service students to be 26 per cent.

The overall share of course fee-related DNER is the average of the share of course fee-related DNER among subsidised students and the share of course fee-related DNER among fee-for-service students weighted by the share of loans issued to each cohort. This comes to 29 per cent.

Effects of assumptions

The calculations above implicitly assume that, on average, fee-for-service and subsidised students who take out VSL of the same size will earn the same income in each year following the completion of their study. Put differently, they assume that the modelled relationship between L and $DNER(L)$ holds for both fee-for-service and subsidised students in isolation.

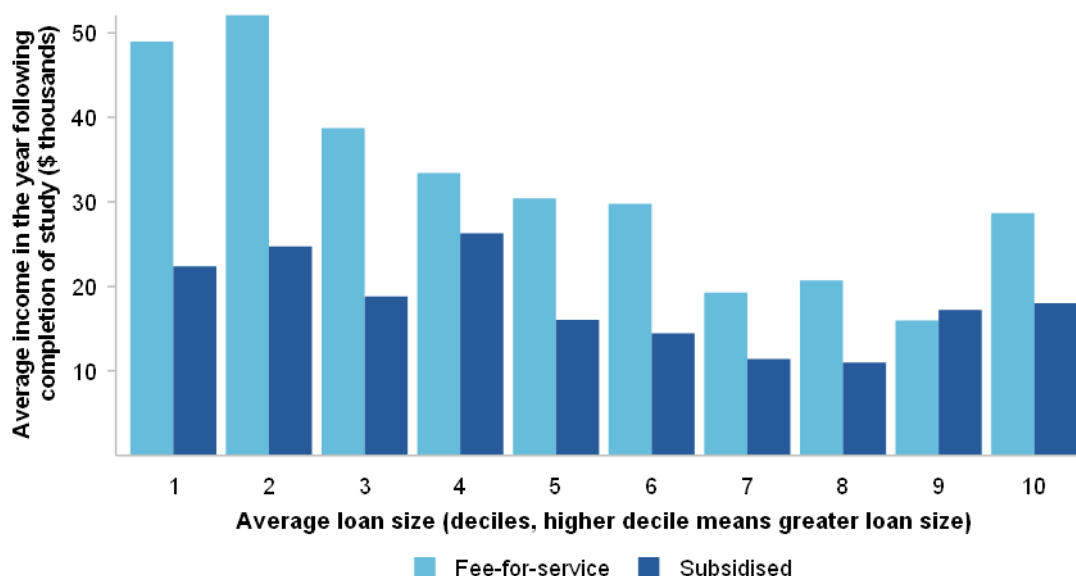
In reality, it seems highly likely that, on average, fee-for-service students earn substantially higher incomes than subsidised students who take out VSL of a similar size. To demonstrate this, the Commission calculated — for each course and separately for fee-for-service and subsidised students — the average loan per FTE student (from VSL administrative data) and the average income in the year following completion of VET study (from the NCVER's *National Student Outcomes Survey*). Matching these data indicates that fee-for-service students typically earn substantially higher incomes than subsidised students who took out loans of the same size (figure D.1).

This implies that the difference between the share of course fee-related DNER for subsidised students and for fee-for-service students is likely to be greater than the 6 percentage points calculated in the previous section (that is, 32 per cent versus 26 per cent). However, this ought to not substantially bias the overall estimated VSL DNER, as the higher course fee-related DNER among subsidised students ought to compensate for the lower course fee-related DNER among fee-for-service students.

¹³⁶ These estimates seem reasonable, as they are consistent with the 2018 average VSL per EFT student load — \$6000 for subsidised students and \$11 300 for fee-for-service students (Productivity Commission estimate based on unpublished data supplied by DESE).

Figure D.1 Post-VET incomes of fee-for-service and subsidised students, by loan size^{a,b}

Average loan size (2018) versus average income in the year following completion of study (2017–2019), by student type



^a Averages are calculated at the course level with courses matched by name. ^b Incomes are of only students who studied at VSL-eligible registered training organisations. Not all such students will have taken out a VSL.

Source: Commission estimates based on unpublished data supplied by the DESE and NCVER (2018a, 2019a, 2020a).

D.2 Post-VET income and employment outcomes

Chapter 10 presented data on outcomes (the share of students whose employment circumstances improved following training and median student incomes in the year following completion of study) among students of VSL-eligible and VSL-ineligible Diploma and above courses. That data indicated that many VSL-ineligible courses do not yield worse student outcomes than many VSL-eligible courses.

However, a possibility is that this finding reflected underlying differences between students who study VSL-eligible and VSL-ineligible courses, rather than the relative merits of the courses. It is plausible that disadvantaged students are overrepresented in VSL-eligible courses, as some could not afford to study without access to VSL. Likewise, it is plausible that particularly hardworking students are overrepresented in VSL-ineligible courses, as students who are especially invested in their course of study may find the upfront costs more justifiable. Both of these effects would upwardly bias the outcomes of students of VSL-ineligible courses relative to students of VSL-eligible courses.

Robustness checks indicate the data are not biased by VSL availability. For both indicators (the share of completers whose employment circumstances improved and median post-VET incomes), the Commission examined outcomes specific to:

- students of VSL-ineligible registered training organisations (RTOs). None of these students were eligible for VSL, whether they studied a VSL-eligible course or not
- students who completed their study in 2016. There were no course restrictions at that time; all Diploma and above courses were eligible for the VET FEE-HELP program (which preceded VSL).

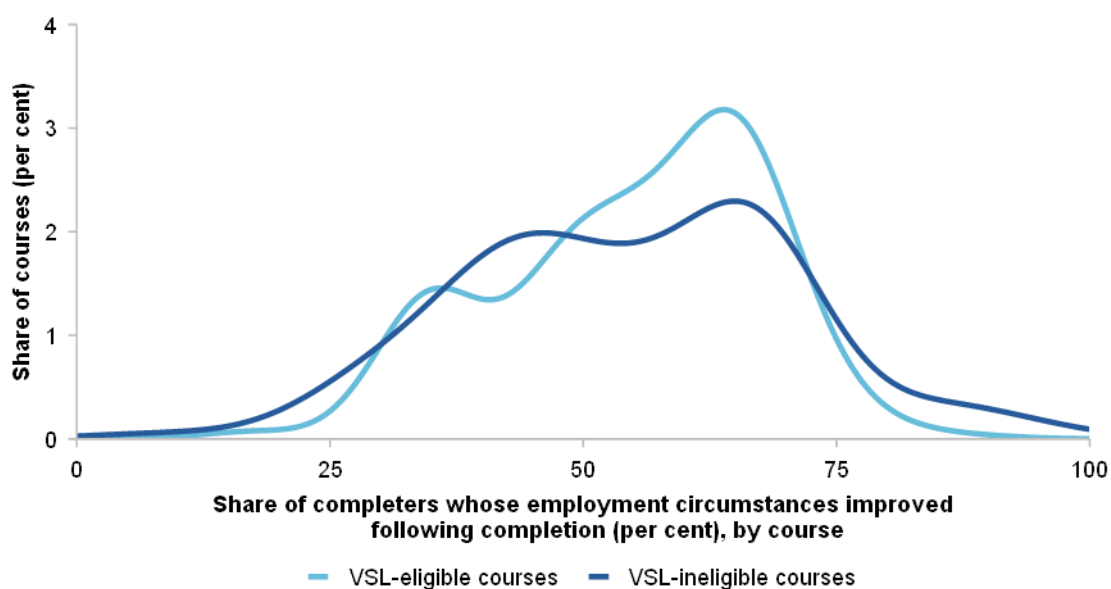
The results of these robustness checks are shown in figures D.2 and D.3. In each figure, panel a shows the data displayed in chapter 10, while panels b and c show the robustness checks. The robustness checks do not reveal patterns inconsistent with the conclusions drawn in chapter 10, which suggests that bias due to the availability of VSL is not a concern.

Another possibility is that the data displayed in chapter 10 reflect underlying differences between students who accessed subsidised training and students who accessed fee-for-service training, rather than the relative merits of the courses. Subsidised students are overrepresented in the VSL program, because a course's eligibility for VSL is linked to the number of States or Territories that subsidise it (chapter 10). And figure D.1 suggests that fee-for-service students tend to have better employment outcomes than subsidised students. This effect could upwardly bias the outcomes of students of VSL-ineligible courses relative to students of VSL-eligible courses.

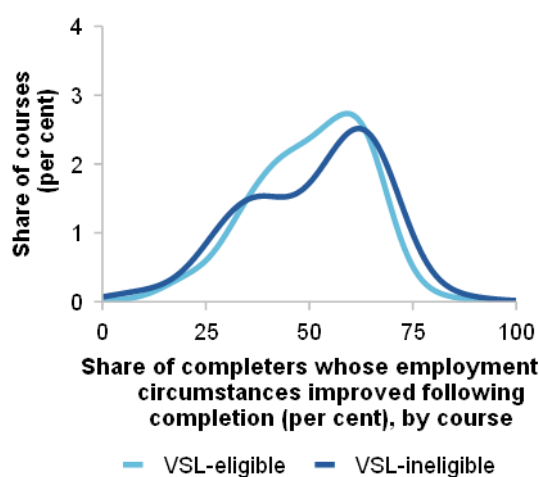
Further robustness checks indicate the data are not biased by subsidy availability. The Commission repeated the robustness checks shown in figures D.2 and D.3, but with only outcomes of fee-for-service students considered. These checks ought to be robust to the effects of both income contingent loan availability and subsidy availability. The results of the robustness checks are shown in figures D.4 and D.5. Again, panel a shows the data displayed in chapter 10, while panels b and c show the robustness checks. The robustness checks do not reveal patterns inconsistent with the conclusions drawn in chapter 10, which suggests that bias due to the availability of subsidies is not a concern.

Figure D.2 **Robustness check: improvement to employment circumstances^a**

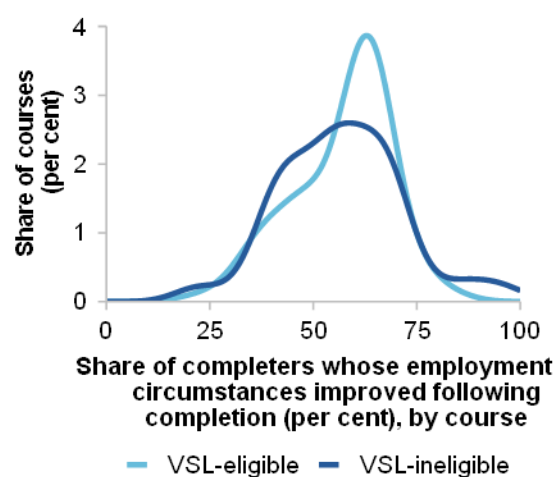
a. All RTOs and years (2016–2018 completers)



b. Only students who completed study in 2016



c. Only students who studied at VSL-ineligible RTOs

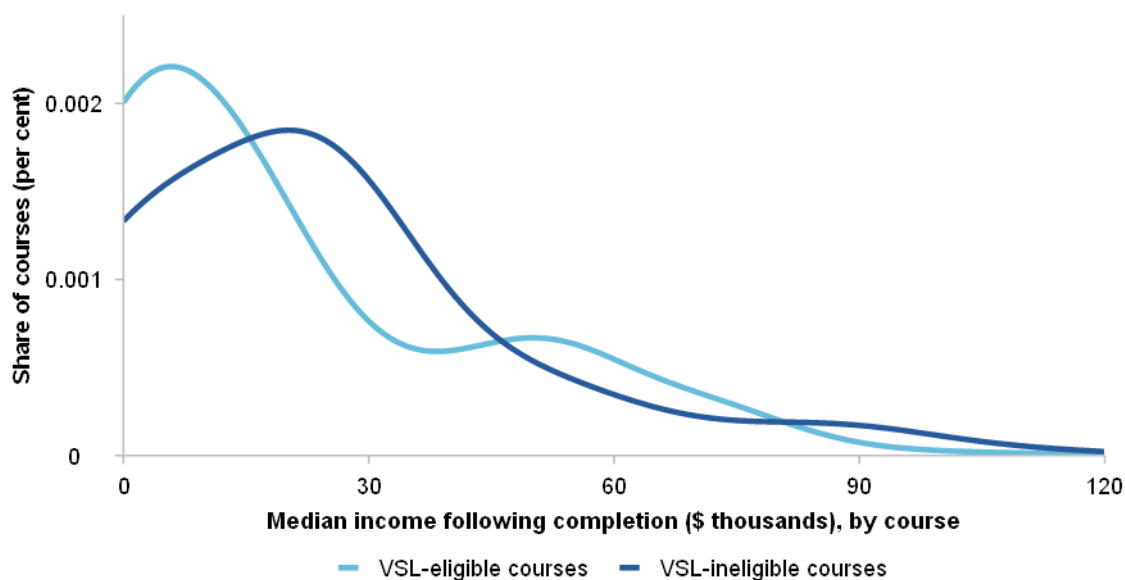


^a Excludes courses for which there were fewer than 30 respondents.

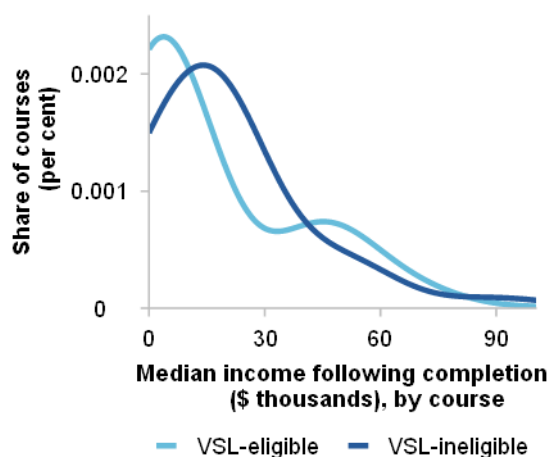
Sources: Commission estimates based on NCVER (2018a, 2019a, 2020a) and *VET Student Loans (Courses and Loan Caps) Determination 2016* (Cth).

Figure D.3 Robustness check: median student income following completion of study^a

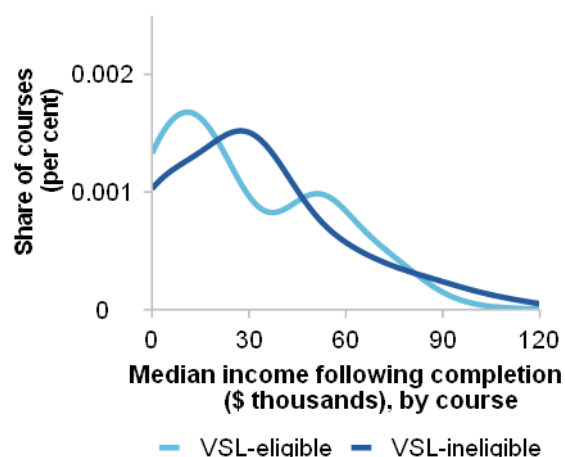
a. All RTOs and years (2016–2018 completers)



b. Only students who completed study in 2016



c. Only students who studied at VSL-ineligible RTOs

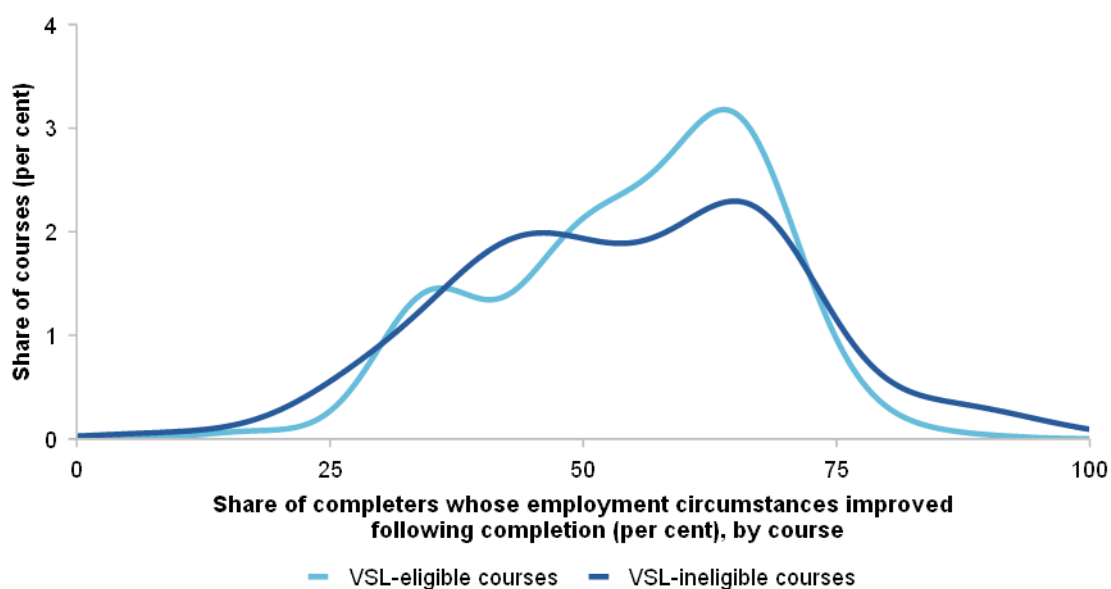


^a Excludes courses for which there were fewer than 30 respondents.

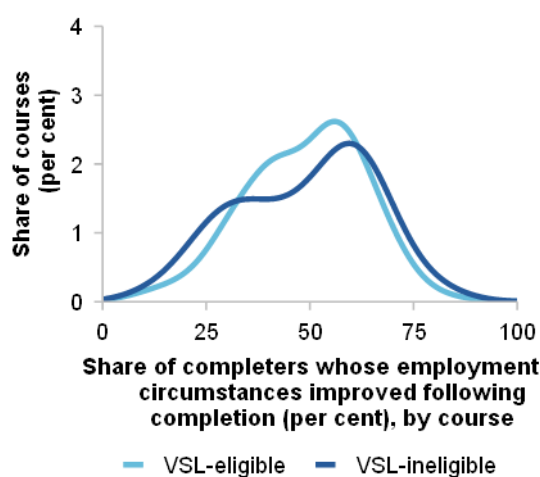
Sources: Commission estimates based on NCVER (2018a, 2019a, 2020a) and *VET Student Loans (Courses and Loan Caps) Determination 2016* (Cth).

Figure D.4 **Robustness check II: improvement to employment circumstances^a**

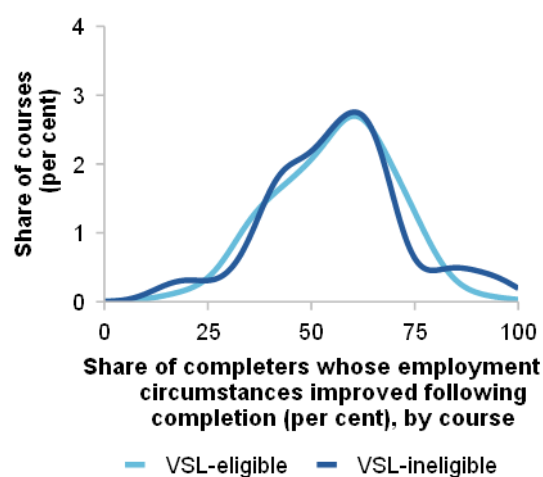
a. All RTOs and years (2016–2018 completers)



b. Only fee-for-service students who completed study in 2016



c. Only fee-for-service students who studied at VSL-ineligible RTOs

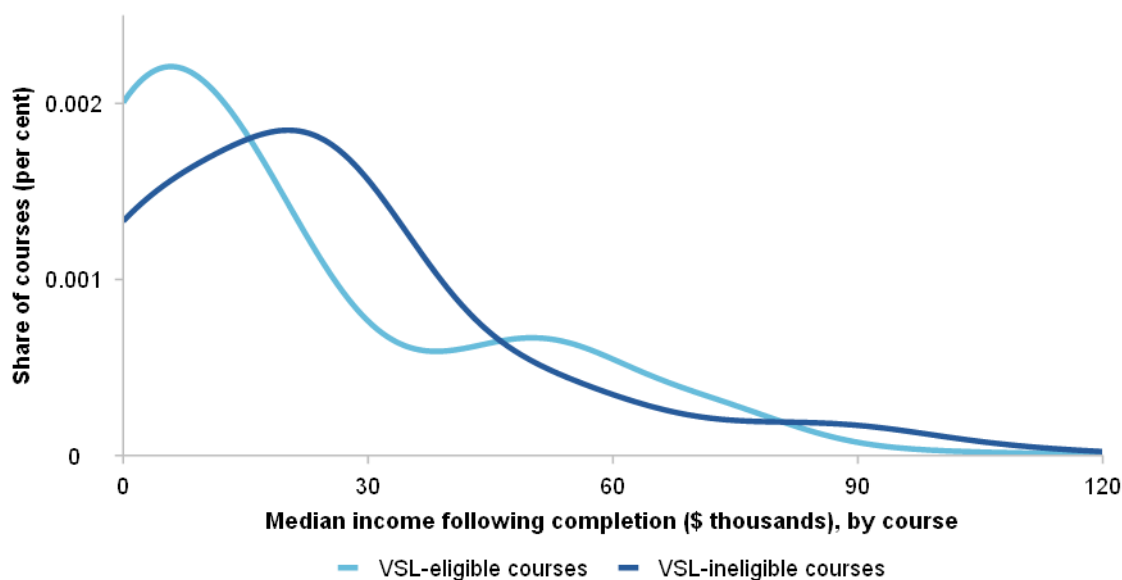


^a Excludes courses for which there were fewer than 30 respondents.

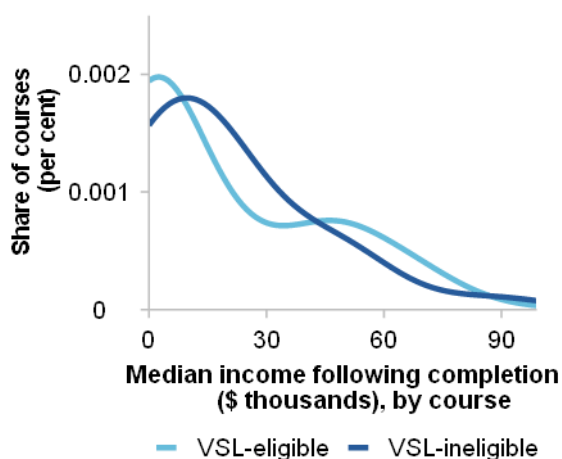
Sources: Commission estimates based on NCVER (2018a, 2019a, 2020a) and *VET Student Loans (Courses and Loan Caps) Determination 2016* (Cth).

Figure D.5 Robustness check II: median student income following completion of study^a

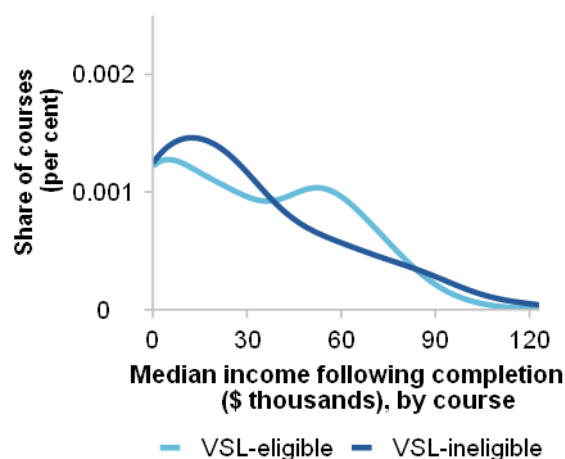
a. All RTOs and years (2016–2018 completers)



b. Only fee-for-service students who completed study in 2016



c. Only fee-for-service students who studied at VSL-ineligible RTOs



^a Excludes courses for which there were fewer than 30 respondents.

Sources: Commission estimates based on NCVER (2018a, 2019a, 2020a) and *VET Student Loans (Courses and Loan Caps) Determination 2016* (Cth).

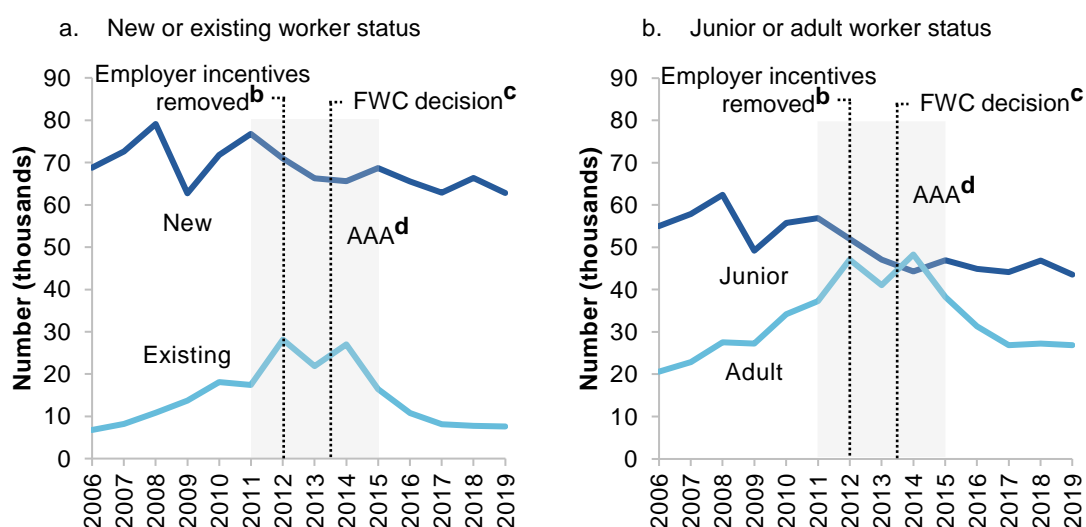
E Apprenticeship pay effects

This appendix analyses trends in ‘existing worker’ and ‘adult worker’ trade apprenticeships and assesses the effects of a Fair Work Commission (FWC) decision to increase minimum pay for these workers.¹³⁷

E.1 A decline in existing and adult apprenticeships

Since the mid-2000s, a growing number of people commencing trade apprenticeships were existing workers (figure E.1, panel a). However, since 2014, commencements of existing workers declined by 72 per cent. In contrast, commencements of new workers declined by just 4 per cent over the same period. Similarly, commencements of adult workers reached a peak in 2014, before declining 44 per cent by 2019 (figure E.1, panel b). In contrast, the commencements of junior workers declined by just 2 per cent over the same period.

Figure E.1 Trade apprenticeship commencements^a



^a Year end 30 June. ^b Employer commencement incentives for existing worker apprenticeships not on the National Skills Needs List removed from 1 July 2012 (completion incentives removed from 3 August 2013). ^c FWC decision to boost apprentice pay for some awards, including for existing and adult workers (implemented from 1 January 2014). ^d Accelerated Australian Apprenticeships initiative.

Source: NCVER (2020).

¹³⁷ An existing worker is someone who undertakes an apprenticeship with their existing employer. An adult worker is an apprentice aged 21 years or above on commencement.

One possible driver for the decline was the 2013 FWC decision to increase minimum pay rates for apprentices (box E.1). The decision to introduce a ‘no loss of pay’ requirement for existing workers as well as to introduce or increase minimum adult pay rates would be expected to increase the cost of existing and adult worker apprenticeships, and thus reduce employer demand. In the Productivity Commission’s 2015 inquiry into Workplace Relations, participants from a range of industries argued that the FWC decision reduced the affordability of apprenticeships for employers and likely contributed to the decline in commencements (PC 2015b, box 5.8). The Commission expressed concern about the potential impacts of the FWC decision at the time, but without further analysis was unable to determine the actual impact.

Another possible driver was the removal of employer incentives in 2012 for some existing worker apprenticeships (chapter 11, box 11.6). However, there are several reasons to expect that the removal of employer incentives had only a minor effect. First, about 85 per cent of trade occupations retained employer incentives for existing workers (chapter 11). Second, employer incentives are widely seen as having little effect on employers’ decisions to hire trade apprentices because they are modest relative to the cost of hiring and training.

Another possible driver was the Accelerated Australian Apprenticeship initiative to trial industry-led strategies to support uptake of competency-based progression. While the program was not evaluated to determine its effectiveness, the timing of the program suggests it may have had an effect (figure E.1). For example, E-Oz Energy Skills Australia (2016) received funding under this program (in addition to other program funding) to develop a pilot competency-based progression model for electrician apprenticeships. By July 2014, 1549 apprentices had engaged in the pilot, although it is unclear whether these were *additional* apprenticeships.

Box E.1 The 2013 Fair Work Commission decision

In 2013 the Fair Work Commission (2013b) decided to boost apprentices’ minimum pay and conditions. The decision, which was phased in from 2014, included:

- increases in junior and adult apprentice pay rates
- the introduction of adult pay rates into some awards that did not contain them
- increases in travel and training expenses borne by the employer
- a ‘no loss of pay’ requirement for existing adult employees commencing an apprenticeship.

E.2 Further analysis of the effect of the FWC decision

The Commission analysed apprenticeship data to assess whether the FWC decision affected existing and adult worker trade apprenticeship commencements.

Methodology

The Commission assessed how the FWC decision affected the minimum training wages for existing and adult worker apprentices in selected modern awards. The modern awards were selected through a rough mapping of modern awards to five high-level ANZSCO trade occupations (table E.1). These occupations were selected because they made up about 86 per cent of trade apprenticeship commencements in 2019 (NCVER 2019e, table 10). The Commission analysed trade apprenticeships, rather than traineeships, because existing worker trade apprenticeships were largely unaffected by changes to employer incentives.

Table E.1 How the FWC decision affected selected awards^a

<i>ANZSCO occupation code</i>	<i>Awards</i>	<i>Increase in junior pay</i>	<i>Introduced adult pay</i>	<i>Increase in adult pay</i>	<i>Included 'no loss of pay'</i>
33 Construction trades workers	Building and Construction General On-Site Award 2010	Yes	Already included	No	Broadened
	Plumbing and Fire Sprinklers Award 2010	Yes	Already included	No	Already included
	Joinery and Building Trades Award 2010	Yes	Already included	No	Already included
32 Automotive and engineering trades workers	Manufacturing and Associated Industries and Occupations Award 2010	Yes	Already included	Yes	Already included
	Vehicle Manufacturing, Repair, Services and Retail Award 2010	Yes	Already included	Yes	Already included
34 Electrotechnology and telecommunications trades workers	Electrical, Electronic and Communications Contracting Award 2010	Yes	Yes	Yes	Yes
	Electrical Power Industry Award 2010	Yes	Already included	Yes	Already included
35 Food trades workers	Hospitality Industry (General) Award 2010	No	Yes	Yes	Yes
	Restaurant Industry Award 2010	No	Yes	Yes	Yes
391 Hairdressers	Hair and Beauty Industry Award 2010	Yes	Yes	Yes	Yes

^a Each award was assessed before and after the FWC decision to determine how they were affected.

The FWC decision affected each modern award differently, depending whether the award already included the relevant provisions or pay rates (table E.1). Most awards covering construction and automotive trades workers already included adult pay rates and 'no loss of pay' provisions. For others, such as awards covering electrotechnology and telecommunications trades workers, food trade workers and hairdressers, there were no existing provisions on these matters, so the changes were binding.

The Commission then analysed changes in the proportion of apprenticeship commencements that were existing or adult workers over time. This analysis used trade occupations

unaffected by the FWC decision as a baseline to compare against those affected. This allowed two assessments:

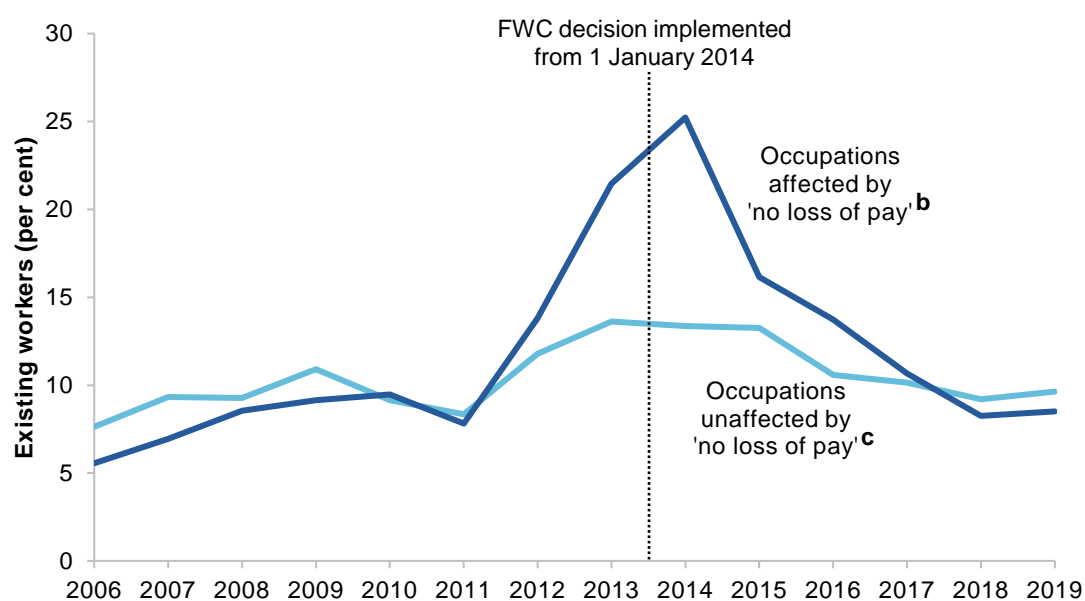
- did the decision to introduce ‘no loss of pay’ provisions into some awards cause employers to hire fewer existing workers or substitute new for existing workers?
- did the decision resulting in increased adult pay cause employers to hire fewer adult workers or substitute junior for adult workers?

Results

Did affected employers hire fewer existing workers?

Figure E.2 shows the proportion of commencements that were existing workers by whether their occupation was affected by the FWC decision to introduce a ‘no loss of pay’ provision for some awards. The proportion of commencements in affected occupations declined sharply after the decision was implemented. In contrast, there was a smaller decline for unaffected occupations. These results are consistent with the hypothesis that the FWC decision affected existing worker apprenticeships.

Figure E.2 **Per cent of trade apprenticeship commencements that were existing workers^a**



^a Year end 30 June. ^b Included the following ANZSCO occupations: 34 Electrotechnology and telecommunications trades workers (note this was included as affected despite the Electrical Power Industry award being unaffected); 35 Food trades workers; 391 Hairdressers. ^c Included the following ANZSCO occupations: 33 Construction trades workers; 32 Automotive and engineering trades workers.

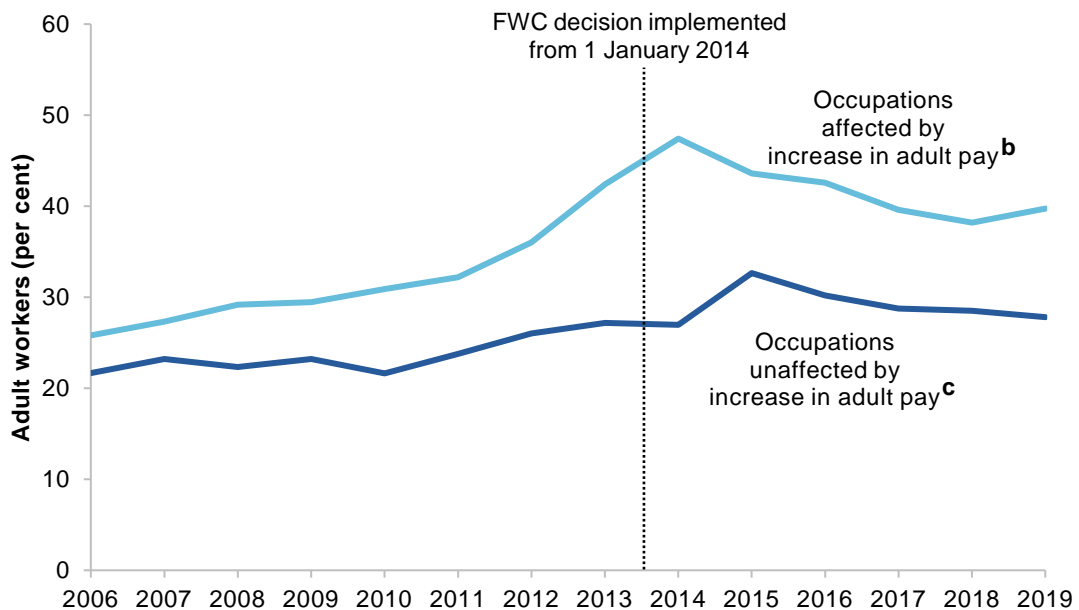
Source: NCVER (2020).

However, it is not possible to establish a causal relationship. Unaffected occupations are not a robust control because the trend in the lead up to the FWC decision differed between affected and unaffected occupations. From 2011 to 2014, the proportion of existing workers more than tripled in the affected occupations, whereas the unaffected occupations increased by about half. There may have been industry-specific shocks that drove these results.

Did affected employers hire fewer adult workers?

Figure E.3 shows the proportion of commencements that were adult workers by whether their occupation was affected by the FWC decision to introduce and increase minimum adult pay rates for some awards. The proportion of commencements in affected occupations declined after the decision was implemented. In contrast, there was an initial uptick for unaffected occupations and a subsequent decline. These results are consistent with the hypothesis that the FWC decision affected adult worker apprenticeships.

Figure E.3 Per cent of trade apprenticeship commencements that were adult workers^a



^a Year end 30 June. ^b Included the following ANZSCO occupations: 32 Automotive and engineering trades workers; 34 Electrotechnology and telecommunications trades workers; 35 Food trades workers; 391 Hairdressers. ^c Included the following ANZSCO occupation: 33 Construction trades workers.

Source: NCVER (2020).

However, for the same reasons as above, it is not possible to establish a causal relationship. From 2011 to 2014, the proportion of adult workers increased by almost 50 per cent in the affected occupations, whereas the unaffected occupations increased by less than 15 per cent.

Further, the control group only included one trade occupation — construction trades workers. This increases the risk of industry-specific shocks that drive these results.

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