



Chamber of Commerce
and Industry WA

CCIWA Submission to the Expert Review of the VET Sector

1 February 2019

Summary of Recommendations

Recommendation 1

Expenditure in the VET sector per student is increased at the same rate as higher education funding. This will be vital due to the likely increase in VET placements as Australia transitions back to a capped place higher-education model.

Recommendation 2

State and Commonwealth Governments seek to establish a clear strategy for the VET sector that is designed to underpin policy and regulatory decisions at both a state and national level. This will provide business with long term policy certainty and better align State and Commonwealth VET sector initiatives.

Recommendation 3

State and Commonwealth agencies responsible for VET delivery reconsider the way in which they design VET market incentives, ideally with a focus on demand-driven and user-centric models as tools to incentivise training activity.

Recommendation 4

Any VET system reform should seek to reduce complexity as a matter of priority to enhance sector flexibility and responsiveness to a rapidly changing labour market.

Recommendation 5

Develop a nationally consistent VET sector that is underpinned by good market design principles. This includes:

- The State Government continues providing training services through TAFEs with a renewed focus on quality and positioning TAFEs as a means to counteract ‘thin’ markets caused by geographic dispersion or for vital but highly specialised training for niche sectors;
- Introduce third-party quality benchmarking and shift the current risk-based regulatory focus to one that is outcomes driven to encourage best practice in the sector;
- Enhance fee transparency by requiring training providers to publish their indicative course fees on a publicly accessible database; and
- Remove current pricing restrictions on the provision of state subsidised training to enhance the sensitivity of the market to price signals, reduce market congestion and promote an increased focus on quality.

Introduction

The Chamber of Commerce and Industry of Western Australia (CCIWA) is the State's peak business body and has been the voice of business for more than 125 years. Our vision is to make Western Australia (WA) the best place to live and do business. Sound public policy that underpins a sustainable and effective education system is critical to this vision.

The ability to access and retain adequately trained workers is vital to business success. This must be supported by sound public policy that ensures a sustainable and effective education system. CCIWA considers the Commonwealth Government's review as an opportunity to reaffirm its commitment to the Vocational Education and Training (VET) sector and to ensure it is structured in a way that ensures its relevance for both employers and employees into the future.

VET is WA's most popular post-secondary education pathway. Six per cent of WA's working-age population engaged in a VET training program in the 2017-2018 financial year¹ and around 28.9 per cent of all West Australians reported that they held a VET qualification in the 2016 census².

Despite providing the majority of post-secondary training pathways in Australia (often in highly technical roles that are vital for the effective operation of businesses), the VET sector has had to respond to major policy changes (e.g. VET-FEE help) and significantly decreased funding in recent years.

CCIWA's submission

CCIWA is broadly supportive of the recommendations provided by the Australian Chamber of Commerce and Industry's (Australian Chamber) submission to the review. Given the scope of the review and short consultation period provided by the Commonwealth Government, CCIWA does not intend to address the multitude of 'micro' problems within the education system in its submission. Instead, this submission focuses on the fundamental design of the system, the delivery of training activities and how the VET sector is funded. This submission is intended to complement the Australian Chamber's submission and provide additional information that will help the Commonwealth Government better understand the VET sector in the WA context.

¹ Department of Training and Workforce Development Annual Report 2017/18 (2018)

² Australian Bureau of Statistics (2016) *Persons with Post-Secondary Qualifications – over 15 years old*

Objectives and scope of the VET sector

The National Agreement for Skills and Workforce Development³ defines the following objectives for Australia's VET system:

- Deliver a productive and highly skilled workforce;
- Enable all working age Australians to develop the skills and qualifications needed to participate effectively in the labour market; and
- Support the achievement of increased rates of workforce participation.

The Australian VET system achieves these objectives by providing practical, job-relevant training and education activities to broad segments of the community. This includes the provision of apprenticeships and traineeships, foundational training for people from disadvantaged backgrounds and highly specific technical training.

As a competency-based education system, VET focuses training and education activities on ensuring that students can demonstrate they are competent at a given task. These competencies are developed in consultation with industry to ensure that the practical training being delivered is what businesses need. The linkages between VET training and the skills needs of industry mean VET pathways are highly valued by employers who see the quality of VET training delivery as a high priority.

Current Situation

Declining VET participation and increasing market volatility

Since its 2011-2013 peak, WA's participation in the VET sector has been in decline [Figure 1]. This has coincided with comparative increases in government-supported higher education participation. At the same time, employment-based VET training (apprenticeships and traineeships) in WA has become increasingly volatile in comparison to higher education pathways, as illustrated by dramatic fluctuations in year-on-year commencements [Figure 2].

³ Council of Australian Governments (ND) *National Agreement for Skills and Workforce Development*, pp. 4

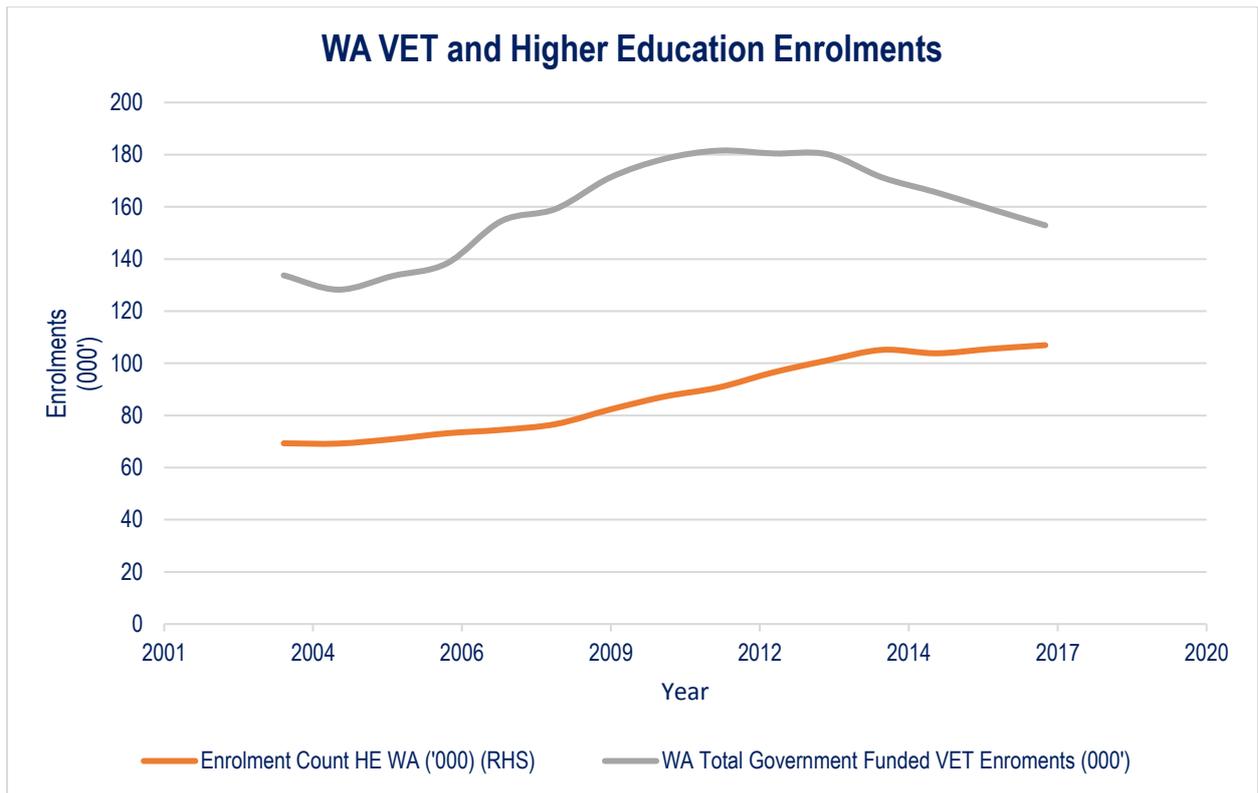


Figure 1: Total Government Funded VET and Higher Education Enrolment WA (Source: NCVET and UCube data)

The sharp decline in apprenticeship and traineeship (A&T) commencements can partly be attributed to WA's economic downturn since 2013, following the end of the mining construction boom. However, the removal and tightening of a number of Commonwealth Government incentive packages, including the removal of commencement incentives for part-time apprentices and trainees and the tightening of incentives available for existing workers not on the National Skills Needs List have also been a contributing factor.

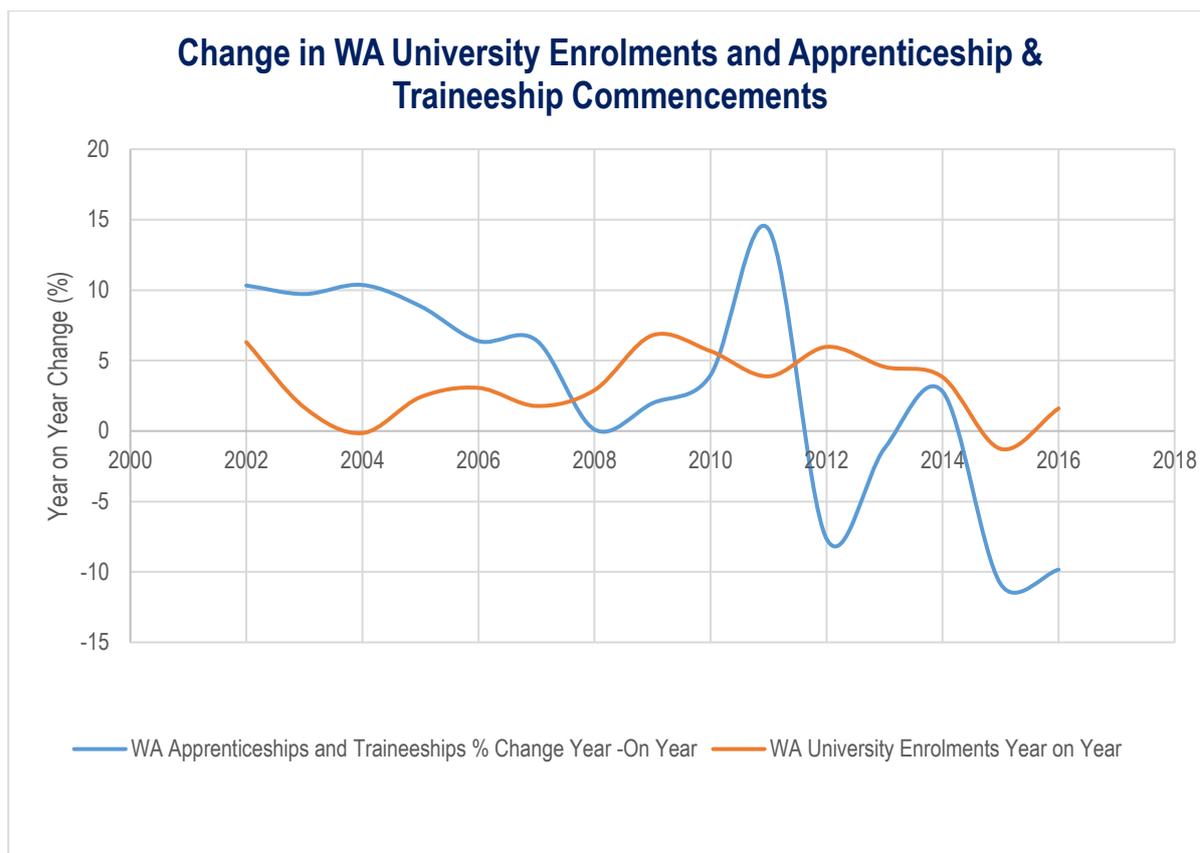


Figure 2 (Source: Commonwealth of Australia UCube and NCVER)

The relative volatility of the VET sector can be attributed to the fact that the number of A&T commencements are largely driven by employers in response to prevailing economic conditions. While this response to economic conditions is universal across all jurisdictions, the highly cyclical and project-based nature of WA’s economy makes A&T commencements particularly volatile in the State. To some extent, this demonstrates that sector activity is responding to market signals. However, such volatility can make A&Ts a less attractive option for potential students when compared with higher education pathways.

The Sector is Highly Valued by Participants.

Despite the decline in VET participation, employer satisfaction with the quality and outcomes of training in the sector remains strong. In 2017, 78.9 per cent of WA employers that have a VET qualification as a job requirement were satisfied that the training provided to employees met the skills needs of their business.⁴ Recent data also shows that 86 per cent of VET graduates in 2018 were satisfied with the overall quality of the training they received⁵. This suggests that disengagement with the sector is not likely to be driven by dissatisfaction stemming from people currently engaged in the VET system.

⁴ NCVER (2017) Employers Use and Views of the VET system in 2017

⁵ NCVER (2018), Australian vocational education and training statistics: VET student outcomes 2018, NCVER, Adelaide.

Relative Funding Decline

The introduction of a demand-driven higher education system in 2008 led to an uncapping of university places, resulting in an increase in the number of university enrolments Australia-wide⁶. As the Commonwealth covers a portion of most domestic undergraduate course costs, national expenditure on higher education has grown markedly since 2007-08. However, VET expenditure has declined considerably relative to higher education over the same period [Figure 3].

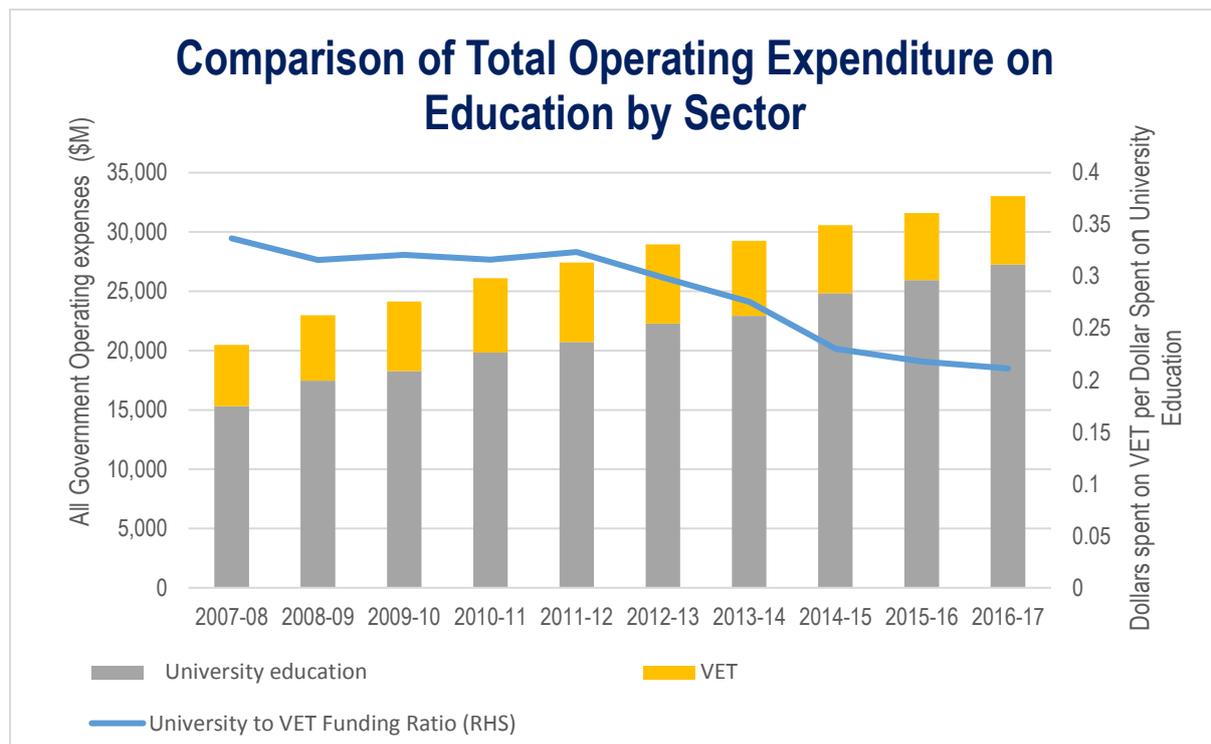


Figure 3 (Source ABS Cat: 518.0.55.001 - Government Finance Statistics, Education, Australia, 2016-17)

Australia spends around five times more per person enrolled in higher education compared to VET. Higher education funding per person has increased by just over \$5000 (27 per cent) since 2008 compared to VET funding, which increased by around \$700 (17 per cent) over the same period.⁷

This funding disparity has a direct impact on outcomes at global level, with the 2019 *Global Talent Competitiveness* ranking Australia 11th globally when it comes to high level skills (skills that are gained in a university setting) however Australia was ranked 21st in the Vocational and Technical skills⁸ (skills delivered through the VET sector) competitiveness ranking.

⁶ Atkinson, G & Stanwick, J (2016), Trends in VET: policy and participation, NCVET, Adelaide

⁷ CCI Modelling based on ABS Cat: 518.0.55.001, NCVET National VET Provider Collection and Department of Education and Training UCube data

⁸ 2019 Global Competitiveness Index (2019) Retrieved from: <https://gtcistudy.com/the-gtci-index/#gtci-country-view>

If the VET system is to remain a viable post-secondary education pathway, it is vital that it receives appropriate funding to ensure that the system can deliver quality education outcomes that are perceived on equal terms when compared to higher education.

Recommendation 1:

Expenditure in the VET sector per student is increased at the same rate as higher education funding. This will be vital due to the likely increase in VET placements as Australia transitions back to a capped place higher-education model.

Sector Governance and the Need for a Clear Strategy

Responsibility for the Australian VET sector is shared between the Commonwealth and State Governments. The Commonwealth is primarily responsible for the national regulatory structure of the system, the development and accreditation of qualifications, as well as specific incentives and other policy interventions for national priority areas. The States and Territories provide around two-thirds of government funding to the sector⁹. Jurisdictions are also responsible for the delivery of VET training, as well as the structure and operation of the training market. This division of responsibilities is generally sound as it aims to ensure national consistency through the Commonwealth administering the broad regulatory framework, whilst also accounting for unique regional differences by assigning the responsibility of delivery and market design to a local level.

However, the Commonwealth provides around \$1.8 billion towards the VET sector, accounting for around 39 per cent of the total national training delivery spend to State and Territories. The majority of this funding is delivered through specific purpose and national partnership payments¹⁰, resulting in the Commonwealth having a large amount of influence on local training activity. This can erode the autonomy of local agencies' decision-making and lead to significant policy paralysis due to competing training priorities. A recent example of this has been the 18-month stalemate between the States and Commonwealth over Skilling Australians Fund (SAF) National partnership agreement negotiations.

Whilst we accept that some policy tension is inevitable in a jointly administered system, any long-term uncertainty (as seen with the recent SAF negotiations) has direct implications for the business community which can lead to a reluctance to engage in training activities.

A national VET strategy, developed in consultation with industry, the states and territories, will help to reduce policy uncertainty. A clear strategy can help businesses to understand the overarching intent

⁹ Productivity Commission (2018) *Report on Government Services, Chapter 5 Vocational Education and Training* Retrieved from: <https://www.pc.gov.au/research/ongoing/report-on-government-services/2018/child-care-education-and-training/vocational-education-and-training/rogs-2018-partb-chapter5.pdf#page=5>

¹⁰ IBID

and goals of the VET sector, while also improving policy alignment between states and the Commonwealth. In turn, this will reduce the risk of future policy paralysis.

Recommendation 2:

State and Commonwealth Governments seek to establish a clear strategy for the VET sector that is designed to underpin policy and regulatory decisions at both a state and national level. This will provide business with long term policy certainty and better align State and Commonwealth VET sector initiatives.

Incentive-focused policy instruments

The primary area subject to policy change in the VET sector is the way in which government incentivises training. This includes supply incentives such as skills priority lists, which outline qualification eligibility for Commonwealth and State subsidies, and demand incentives that seek to provide tax concessions or direct payments to encourage employers to engage an apprentice or trainee.

These incentives are based on labour market forecasting by State and Commonwealth Governments which identify where government should direct its training support. However, this approach is problematic.

Firstly, it is highly reliant on labour market forecasting which is inherently inaccurate as it applies a macro approach to highly granular and often localised issues.

Secondly, the design of WA's VET sector is focused around the promotion of incentive schemes to prospective students and employers.

This centralised incentive system is only truly effective if the labour market can be perfectly predicted so that incentives can be targeted in the marketplace. If incentives are misallocated, it creates inefficiencies in the market that originate from encouraging individuals to choose courses of study that are not needed or valued. This is demonstrated clearly with respect to enrolments in the Diploma of Management/Leadership Qualification outlined below [Figure 4]



Figure 4 Impact of Policy changes on the Diploma Management/Leadership & Management

Ensuring that incentive structures do not distort labour market signals will be critical to reducing the impact of structural change arising from increasingly rapid changes in skills required by business.

Recommendation 3: State and Commonwealth agencies responsible for VET delivery reconsider the way in which they design VET market incentives, ideally with a focus on demand-driven and user-centric models as tools to incentivise training activity.

Sector Complexity

The complexity of Australia’s VET sector makes meaningful change challenging and disproportionately affects the ability of small and medium enterprises to take on apprentices or trainees. This is because the cost of dealing with regulatory and administrative complexity remains the same regardless of business size¹¹. This is recognised in tax policy with many tax concessions afforded to small business.

It is vital that any reforms to the VET sector improves its ability to adapt and respond to the changing nature of work and demand of labour markets.

Recommendation 4:

Any VET system reform should seek to reduce complexity as a matter of priority as a means to enhance sector flexibility and responsiveness to a rapidly changing labour market.

¹¹ Kauffman-RAND Institute for Entrepreneurship Public Policy (2007) *Is Special Regulatory Treatment for Small Business Working as Intended?*

The VET System and Good Market Design

Ensuring good market design is central to enabling the VET sector to continue to deliver the skills business requires as the nature of work changes, be aware of changing market demands and empowered to adjust to meet these needs rapidly.

Thickness

Market thickness in the context of the VET sector refers to a situation where there is a range of training providers delivering a course (sellers) and enough prospective students (buyers) seeking to undertake the course being provided. Having enough buyers will ensure that the total size of the market is large enough to incentivise a range of sellers to participate. This creates choice and competition, which leads to enhanced price competitiveness and quality.

The level of competition across the VET market is inconsistent due to the broad level of qualifications on offer through the system. This means that there are likely to be segments of the market that have good numbers of participants and others that may not have enough participants to enable the market to operate effectively. This can occur in regional areas where there isn't the population to sustain private training providers or where there is need for a qualification, but low demand.

The provision of VET training in regional WA is a challenge due to the State's small, but highly dispersed regional population. Low populations in regional areas can make it economically prohibitive for both public and private providers to deliver training packages where particular qualifications are crucial for industry. This is intended to be overcome through the use of public training providers (TAFEs) located in regional centres, with the government also providing enhanced subsidies to cover the extra cost of delivering training in a regional area. However, due to the structure of TAFEs they are run like for-profit providers and in some cases struggle to meet to needs of 'thin' markets. Furthermore, anecdotal evidence suggests that the quality of training provided by regional TAFEs can be poor which can lead to employer disengagement with the VET system.

It is CCIWA's view, that the role of TAFEs within the national VET system should be focused on delivering high quality training in 'thin' markets, as opposed to attempting to compete in areas that are already well serviced by other non-government providers.

Congestion

Markets need to be 'thick' to ensure competition, but too many participants can create market 'congestion'. In the case of the VET sector, congestion reduces the ability for prospective students to make informed choices due to a high number of training providers and a lack of quality information about those providers. Congestion can also be increased through market interventions that prevent underperforming providers exiting the market.

Congestion and lack of transparency in the VET sector may manifest itself as a misalignment between the incentives provided into the market and the desired policy outcome. For example, private VET providers that deliver courses subsidised by the government are not able to set the price of the publicly subsidised courses they deliver.¹² This is intended to reduce the likelihood of private providers 'price gouging' or reducing prices of training at the expense of quality. Furthermore, the price-per-hour of publicly supported training cannot be altered depending on the delivery method. This provides strong incentives for profit maximising businesses to select the least cost delivery model which may come at the expense of student outcomes. In a traditional market setting it would be assumed that providers delivering less than satisfactory courses would attract less patronage and hence either encourage them to alter their prices or enhance the quality of their offerings. Due to the congestion and minimal mechanisms available to provide consumers with transparency of options of training provider, costs and quality outcomes being delivered, participants in the training sector are ill-informed regarding what's on offer, modes of delivery and quality outcomes.

The lack of price differentials in the VET sector not only means training may be delivered at higher prices than necessary, it also means any price signals in the market are likely to be less effective. This will limit market rationalisation and create market congestion. The more congested the market is, the harder it is for learners to differentiate between providers based on quality.

Market Safety

Within the context of VET market design, market safety is primarily concerned with how to incentivise training providers to reveal information about the quality of the courses that they deliver. As noted previously, the way in which government supported VET programs are funded in WA leaves little incentive for training providers to enhance quality, hence leading to a market culture focused on compliance and lowest possible prices.

Ideally, a safe VET market would be a system where training providers are incentivised to deliver courses at reasonable prices and where quality is central to their value proposition. To achieve this, the underlying regulatory focus should shift from a risk-based compliance model to an outcome-focused regulatory system that incentivises high-quality training. Having reputable third party benchmarking available to the public will not only enhance the ability for prospective students to make better choices, but also offers an avenue for providers to compete on quality.

In addition to third party benchmarking, any regulatory reform should mandate indicative course prices to be provided in a central location. While the Commonwealth's *Myskills* website offers the opportunity for providers to indicate fees for courses that they deliver, very few organisations choose to do so. For

¹²Department of Training and Workforce Development (2018) *VET Fees and Charges Policy*, Retrieved from: https://www.dtwd.wa.gov.au/sites/default/files/uploads/dtwd-vet-fees-charges-policy-v2018_v2-28june.pdf

example, the most popular apprenticeship in WA as at June 2018¹³ was the Certificate III in Electrotechnology Electrician, yet out of the nine providers registered on the *Myskills* website only one organisation listed indicative course fees. This, combined with the limited ability of market participants to evaluate the quality of providers, severely erodes the safety of the VET marketplace to reduce the capacity for market actors to make good decisions, which is key to an efficiently operating market.

Recommendation 5:

Develop a nationally consistent VET sector that is underpinned by good market design principles. This includes:

- The State Government continues providing training services through TAFEs with a renewed focus on quality and positioning TAFEs as a means to counteract ‘thin’ markets caused by geographic dispersion or for vital but highly specialised training for niche sectors;
- Introduce third-party quality benchmarking and shift the current risk-based regulatory focus to one that is outcomes driven to encourage best practice in the sector;
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- Remove current pricing restrictions on the provision of state subsidised training to enhance the sensitivity of the market to price signals, reduce market congestion and promote an increased focus on quality.

¹³ Extracted from NCVET (2018) Apprentices and Trainees, Data Slicer.