



Response to Productivity Commission Interim Report on the National Skills Agreement

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Background

The Chamber of Commerce and Industry of Western Australia (CCIWA) is the leading business association in Western Australia (WA) and has been the voice of business for 130 years. CCIWA represents employer members from across all regions and industries in WA.

The National Agreement for Skills and Workforce Development (NASWD) is the foundation of Australia's national Vocational Education and Training (VET) system. The NASWD outlines high-level objectives for the system and allocates roles and responsibilities to the States, Territories and Commonwealth. Crucially, the NASWD also determines how recurrent Commonwealth funding for the VET system is allocated and for what purpose it is used.

An effective VET system should be focused on preparing individuals for a lifetime of work and ensuring businesses have people with the skills they need to drive growth and productivity. This intention is reflected in the NASWD, with one of the agreement's central performance indicators being the proportion of employers that are satisfied that training meets their needs. Any new or updated NASWD should reflect this approach by placing the needs of employers and individuals at the heart of the agreement.

However, both the Productivity Commission's own data and evidence presented by CCIWA's members suggest that the VET system is struggling to deliver the skills employers need. This is largely a result of the system's overly cumbersome and non-responsive qualifications development system, which is not a direct focus of the NASWD. However, the way in which VET markets are funded and structured has a direct impact on the nature of training offered by providers. If these arrangements are ill-conceived, the system will struggle to deliver the skills employers want.

CCIWA's initial submission to the Commission's review into the NASWD focused on the dangers of a centralised and expert-led approach to funding the VET system. Such an approach will significantly impede the training system's ability to ensure employers' skill needs are met, because forecasting undertaken by a central body cannot predict local skill needs with sufficient granularity, accuracy and responsiveness. Individual state governments have a much deeper and more nuanced understanding of local market conditions.

We urged the Commission to focus its attention on how to better allocate State and Commonwealth funding and policy responsibilities within the VET system and to establish appropriate funding arrangements.

We argued that the principle of subsidiarity should be the driving factor behind the allocation of funding and policy responsibilities because decisions are most effective when made as close as possible to the people or organisations that are affected by them. Commonwealth funding should be primarily used to offset vertical fiscal

imbalance, whereby states and territories rely on Commonwealth funding to deliver services that they are responsible for, due to their limited revenue-raising capacity.

The Commission's interim report goes much further than addressing these issues, taking a deep dive into the fundamental structure of VET delivery in Australia. This is vitally important. Structural VET reform is needed to ensure the system is better focused on meeting businesses' needs as businesses see them, as opposed to using top-down, government led methods to anticipate what businesses may need in the future. This business-first approach should be underpinned by a focus on ensuring that each State's VET market is operating in a way that meets the needs of both businesses and individuals. This should be combined with an outcomes-focused regulatory approach that ensures minimum standards rather than seeks to mandate quality.

Quality versus minimum standards

The 2019 Expert Review into the Vocational Education and Training System led by Hon Stephen Joyce (the Joyce Review) noted that stakeholders reported significant variations in training provider quality across Australia.

Joyce attributed this in part to the poor regulatory practice of the Australian Skills Quality Authority (ASQA). In Joyce's view, quality and the assurance of minimum standards are one and the same.

However, this is not the case. Regulatory approaches in the VET sector, while needing to be focused on outcomes, should seek to ensure adherence to a set of minimum standards. This is distinctly different from promoting higher quality. The level of quality above the minimum standards is a choice an individual provider makes, which in turn constitutes a component of that provider's value proposition. This approach would lead to a significantly more competitive VET markets across Australia, ultimately driving better outcomes for all participants.

As such CCIWA strongly endorses the following reform principles put forward in the Commission's interim report:

- Supporting effective competition in service delivery by establishing clear, contestable community service obligations.
- Better data collection and transparent, comprehensive reporting of the allocation of public funds to support the regular assessment of governments' policies.
- Better curated information for students and employers about career opportunities, the performance of registered training organisations (RTOs), course quality and prices.

However, we hold deep concerns about the following reform directions being considered by the Commission:

- The centralisation of VET course subsidy arrangements at a national level.
- The shift from employer facing incentives to other forms of support.
- The establishment of a single national regulator.

Recommendations

Recommendation 1

The Commission should not recommend the NASWD adopts a VET system funding approach that places the role of pricing and subsidy determination at the Commonwealth level.

Recommendation 2

The focus for a revamped NASWD should be on laying the foundations for States and Territories to reform their VET delivery markets based on good market design principles, including by ensuring that public providers remain competitively neutral.

Recommendation 3

Any updated NASWD should ensure state governments report on how Commonwealth funding provided under the agreement is spent and consideration should be given to restricting NASWD funding to the delivery of training, not infrastructure.

Recommendation 4

The Commission should consider how a voucher-based funding approach would interact with VET Student loans. Trialling such an approach should not come at the expense of reforms to fundamental areas like pricing and information arrangements.

Recommendation 5

Employer facing incentives should be retained. These incentives should be framed as a tool to encourage businesses to continue providing an important public good in the form of an apprenticeship or traineeship.

Recommendation 6

States and Territories that still have locally based regulators should retain this function. This should be complemented by state regulators taking urgent action to eliminate overlapping and inconsistent regulatory requirements across the States and Commonwealth.

Centralisation of VET course subsidy arrangements at a national level

While the Commission notes it is still investigating options for how the Commonwealth can support the delivery of VET, there appears to be a clear preference for nationally consistent subsidy arrangements. While this approach has some attraction due to its simplicity and because it creates consistency across jurisdictions, the drive for simplicity and consistency is misplaced.

In CCIWA's initial submission to the review, we argued that:

“While such arrangements (nationally determined subsidy levels) may promote greater transparency within the system, it is unlikely that centrally determined prices within market-based allocation systems will enhance the operation of the national VET system. It is CCIWA's view that such an approach will be detrimental to the VET system.”

Centrally determined subsidy arrangements would represent an overstep in Commonwealth policy control, because it would mean the Commonwealth, not the States, determine the quantum and manner of public support for VET throughout Australia. This directly undermines the principle of subsidiarity, which underpins Australia's federated system of governance.

A centralised approach to determining subsidies also assumes that prices and skill needs can be centrally determined. This is simply not the case. States and Territories are much better placed to understand the skill needs of their markets and develop subsidy arrangements that best reflect this. Individual state governments will have a much deeper and more nuanced understanding of local market conditions. If a state's market settings are not right, they are able to identify this and respond more rapidly to refine current settings. This is due to the practical advantages of being geographically close to stakeholders and the ability for users of the system to hold critical decision makers directly to account.

While this approach leads to variations in subsidy arrangements across jurisdictions, these variations reflect each jurisdiction's local needs and priorities. This in turn helps to ensure the jurisdictions' VET systems reflect the needs of local businesses.

While skill needs forecasting and analysis can provide a high-level indication as to the broad direction of the labour market, this cannot be done with the degree of granularity required to underpin policy decisions. For a forecasting-based approach to work, forecasts need to be extremely accurate and effectively capture regional nuance regularly. Policy endeavours such as the National Disability Insurance Scheme (NDIS) and the move to underpinning skilled migration rules with skill needs lists demonstrate the dangers of centralising funding and policy decision making at a national level.

Recommendation 1

The Commission should not recommend the NASWD adopts a VET system funding approach that places the role of pricing and subsidy determination at the Commonwealth level.

The focus for a revamped NASWD should be on laying the foundations for States and Territories to reform their VET delivery markets based on good market design principles and ensuring that public providers remain competitively neutral. It is vitally important that each State is empowered to undertake these reforms in a way that best reflects their own unique situation.

State-based reforms should include removing pricing controls on publicly funded VET qualifications, shifting TAFE colleges to a more competitively neutral setting, and providing better information on course outcomes and pricing. TAFE colleges should be re-focussed on delivering training in thin markets, though different delivery arrangements may be necessary to create effective competition in these markets, including in regional areas.

Recommendation 2

The focus for a revamped NASWD should be on laying the foundations for States and Territories to reform their VET delivery markets based on good market design principles, including by ensuring that public providers remain competitively neutral.

Transparency over how funding is spent

CCIWA shares concerns about the lack of transparency over how NASWD funding is spent at a State level. As an example, the current lack of transparency would allow for a portion of this funding to be used to support state-owned infrastructure, such as TAFE college buildings, rather than the delivery of qualifications. The incentive to use the funds to support physical infrastructure is particularly strong in jurisdictions where the cost of ensuring VET is available in remote areas and thin markets is very high.

While TAFEs play a central role in ensuring equity of access and the delivery of qualifications in thin markets, the institutions themselves are a state responsibility. Funding to support the TAFE network beyond the provision of training should not come from national agreement funding.

With increased transparency over how funding is spent, States and Territories would have to demonstrate that National Agreement funding is being used only for training delivery purposes.

Recommendation 3

Any updated NASWAD should ensure state governments report on how Commonwealth funding provided under the agreement is spent and consideration should be given to restricting NASWD funding to the delivery of training, not infrastructure.

A voucher-based funding approach

We support the Commission's consideration of a shift to a voucher-based system in principle.

However, the Commission should consider how this is likely to interact with the VET student loan system, due to the student led nature of both approaches. If two versions of student led funding were to operate within the VET system, the complexity of funding arrangements and the subsequent risk of unintended consequences will be compounded.

Further, while decisions about which party holds the support funding are an important aspect of VET market design, ensuring market fundamentals such as pricing and providing VET users with clear information about the cost and quality of training should be the focus of reforms in the first instance.

Recommendation 4

The Commission should consider how a voucher-based funding approach would interact with VET Student loans. Trialling such an approach should not come at the expense of reforms to fundamental areas like pricing and information arrangements.

The shift from employer facing incentives to other forms of support

Employer incentives in the context of fundamental VET reform are a fringe issue and should not be a focus of the NASWD.

CCIWA acknowledges that there is conjecture surrounding whether employer facing incentives play a significant role in reducing specific skill shortages. As noted above,

medium to long term skill shortage forecasting is problematic. There are also flaws with the ANZSCO taxonomy that underpins the analysis of skills shortages.

However, incentives are an essential tool to induce businesses' engagement with the VET system. They provide vital support for employers who engage an apprentice and trainee and in so doing help to ensure businesses deliver the 'public good' they provide by offering these type of learning opportunities. The provision of a training opportunity can deliver a significant net community benefit as it ensures a pipeline of skilled workers, in turn reducing the risk of productivity sapping skills shortages.

Maintaining businesses' engagement with the VET system is particularly important given the current precarious nature of the labour market. Young people are expected to bear the brunt of the COVID-19 induced recession. Removing employer facing incentives would create further uncertainty at a time of economic crisis. This would further compound disruptions to Australia's VET pipeline and limit the ability for employers to access the skills they need when they need them.

The Commission's interim report argued that there is a high budgetary cost for incentives accessed by employers that would have provided training regardless of support being available or not. However, not all businesses would continue to provide these opportunities if support stopped being available. This creates an opportunity cost of potential lost productivity as well as a long-term impact on young people's engagement in the workforce. These costs need to be factored in when considering the impact of a wholesale withdrawal of employer facing incentives over the short to medium term.

Recommendation 5

Employer facing incentives should be retained. These incentives should be framed as a tool to encourage businesses to continue providing an important public good in the form of an apprenticeship or traineeship.

Establishing a single national regulator

Over the past 18 months, there have been calls for Western Australia and Victoria, the two States and Territories who continue to operate their own VET system regulator, to refer these powers to ASQA, the national regulator.

The Commission's interim report notes that some stakeholders hold concerns about inconsistencies and overlapping requirements in jurisdictions that retain state-based regulators.

Inconsistencies and overlapping requirements need to be addressed, as uncertainty about regulatory requirements have a direct and negative impact on businesses.

However, CCIWA has received consistent feedback that the national regulator is not operating well. The Commonwealth has recognised these concerns with the appointment of a new Commissioner to ASQA, as well as instituting a rapid review into the regulatory practice of the agency during the second half of 2019.

While ASQA may be on track to reform its regulatory approach, there are still benefits for Western Australian businesses, students and workers in Western Australia retaining its own VET regulator. There are practical benefits from having a locally based regulator. For example, the direct accountability of the regulator to locally elected officials, the ability to set policy at a local level and the ease of establishing and maintaining productive relationships. Furthermore, and most importantly, local regulators can accredit qualifications that meet areas of locally identified needs rather than having to pursue change through the cumbersome national system.

For example, a suite of qualifications providing students with exposure to remote and automated operations in the resources sector was developed by Rio Tinto and South Metropolitan TAFE and accredited locally in just over 12 months. This process would have taken significantly longer using the national accreditation process. Anecdotal evidence also suggests that the State based regulator better understands businesses' needs and is focused on pursuing compliance in a constructive manner, as opposed to an overly punitive manner as the case has been with ASQA.

While it may seem attractive to have a harmonised national approach to VET regulation, the regulator will be more effective the closer it is to the regulated parties. This enhances the regulator's ability to build constructive relationships with regulated parties and better respond to local trends. This, in turn, assures the VET system is better positioned to deliver the skills WA employers need.

Recommendation 6

States and Territories that still have locally based regulators should retain this function. This should be complemented by state regulators taking urgent action to eliminate overlapping and inconsistent regulatory requirements across the States and Commonwealth.