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Minister for Education and Training  
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Our Ref: 61-23844

Mr Jonathan Coppel  
Commissioner  
Productivity Commission

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Dear Mr Coppel

Thank you for the opportunity to provide comment on the Productivity Commission's Interim Report on the Review of the *National Agreement for Skills and Workforce Development* (NASWD).

Western Australia's response addresses key themes and issues emerging from the interim report's recommendations. It also addresses options for the development of a new national skills agreement and VET sector reform.

I look forward to the final findings of the Productivity Commission's Review of the NASWD in November 2020.

Yours ~~sincerely~~

HON ~~ROGER~~ COOK MLA  
**ACTING MINISTER FOR EDUCATION AND TRAINING**

**16 JUL 2020**

# **Western Australian Government response to the Productivity Commission's Interim Report for the Review of the National Agreement for Skills and Workforce Development.**

## **1. CURRENT CONTEXT**

The Commission's Interim Report has been released at a time when the nation is navigating its way through the unprecedented social and economic impacts of the COVID-19 pandemic.

The challenge of steering the nation's economy out of recession rests with all Australian governments working closely with industry. It will require strong collaboration, exceptional policy responses and a willingness to innovate and reform.

In his Press Club speech on 26 May 2020, the Prime Minister outlined his "JobMaker" agenda as a priority in coming months to assist people back into jobs<sup>1</sup>. The speech focused attention on skills reform, the Joyce Review<sup>2</sup> and the need to renegotiate the National Agreement on Skills and Workforce Development (NASWD). It seems likely that skills reform will be a first order priority for National Cabinet in the coming months<sup>3</sup>.

The Government of Western Australia has also placed a high priority on skilling and reskilling the workforce as part of the State's economic recovery, with skilling strategies planned for the three phases of recovery: reopening, restarting and reforming. Workforce needs will be identified across the five recovery areas of the State's Recovery Plan: Health; Social; Economic & Infrastructure; Industry; and Regions.

The importance of workforce skills to the State's economic recovery is underlined by the announcement of a rapid review of skills, training and workforce development by the Western Australian Premier and Minister for Education and Training on 21 May 2020<sup>4</sup>. The review team reported on 30 June 2020 and its recommendations will inform recovery planning.

The Government of Western Australia has already put in place significant skills initiatives in response to COVID-19 which are aimed at:

- Assisting displaced apprentices and trainees to continue their training;
- Providing the critical skills that businesses need to reopen and operate safely in a COVID-19 environment;
- Providing free skill set training to displaced workers and youth to provide a launch-pad to jobs as the economy recovers or pathways to full qualifications if employment is not immediately available; and
- Reducing student fees on courses that have been specifically selected to support economic stimulus measures (e.g. infrastructure and construction), priority industries (e.g. Defence and agriculture) and target disadvantaged cohorts such as youth, women and Aboriginal students.

The Government of Western Australia welcomes the opportunity to work collaboratively with the Commonwealth Government and other States and Territories to enhance the capacity of the vocational education and training (VET) sector to rise to the challenges of economic recovery.

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<sup>1</sup> <https://www.pm.gov.au/media/address-national-press-club-260520>

<sup>2</sup> Strengthening Skills: Expert Review of Australia's Vocational Education and Training System, the Honourable Steven Joyce, <https://www.pm.gov.au/media/update-following-national-cabinet-meeting>

<sup>3</sup> <https://www.pm.gov.au/media/update-following-national-cabinet-meeting>

<sup>4</sup> <https://www.mediastatements.wa.gov.au/Pages/McGowan/2020/05/Urgent-review-of-skills-training-and-workforce-development-announced.aspx>



We believe that this reform process should be based on a sound national framework with flexibility for jurisdictions to tailor the policy responses to meet the unique needs of their economies and communities.

## **2. GENERAL COMMENTS ON THE INTERIM REPORT**

Many of the recommendations and options presented in the Commission's Interim Report cannot be considered as stand-alone options as they would potentially combine and interact to create policy outcomes. In this section, we briefly set out key concerns for the Western Australian Government arising from a combination of options presented.

### **2.1 Erosion of the State's ability to align VET to the State's needs**

The Commission's Interim Report has proposed significant shifts in the roles and responsibilities of the Commonwealth and State/Territory governments with a suite of recommendations to centralise major policy levers such as the ability to determine subsidy levels for courses, the ability to determine priority skills and the powers to regulate training providers and accredit courses.

These options limit the ability of States and Territories to manage VET in their jurisdictions and are strongly opposed by the Western Australian Government, which is the majority funder of VET in Western Australia. As stated in its original submission to the Productivity Commission:

- The State's ambitious economic development agenda requires a strongly aligned VET sector that retains the flexibility and autonomy to respond to local demand, industry needs and government priorities; and
- WA has service delivery challenges associated with the State's unique geographic, demographic and industry characteristics compared to the rest of Australia, these challenges present as unique skill needs, thin markets and higher costs to deliver VET.

### **2.2 The need for a more contemporary vision for VET**

Many of the Commission's interim recommendations and options would point the VET sector back to competition policy and student loans, which were the prevailing policy prescriptions in 2012 when the NASWD was last updated and jurisdictions committed to introducing an entitlement scheme under the *National Partnership Agreement on Skills Reform*. Coupled with the expansion of the VET Fee Help scheme from 2013 to 2016, the reforms led to serious failure which damaged the reputation of the VET sector and left students saddled with debt.

The report's analysis of this recent history and the various experiments with competition policy is insufficient as it does not uncover why these experiments failed and what lessons have been learned. Further analysis may identify viable alternatives or could more clearly identify the necessary pre-conditions for the success of these reform proposals.

There is a place for a cautious and limited expansion of the student loan scheme for VET. However, the Commission's risk management proposals for an expanded scheme are inadequate, relying on the National Regulator (Interim Recommendation 7.2) which has recently been overhauled in response to stakeholder concerns, and improving consumer information (Interim Recommendation 7.3) to be provided by the recently established National Careers Institute.

Western Australia welcomes recommendations within the report that align with the VET Reform Roadmap developed prior to the disruption caused by the COVID-19 pandemic. These include:

- recognition of the need for funding stability within the principles of a new agreement;
- recommendations for greater parity of funding between higher education and VET;
- the emphasis on a student-centred approach; and
- options to expand student loans.

### **3. SPECIFIC COMMENTS ON THE INTERIM REPORT**

The following specific comments on the Interim report are organised around key themes and recommendations. Commentary does not exhaustively cover all recommendations and options. An absence of commentary should not be interpreted as support for that recommendation.

#### **3.1 Principles for a new Agreement (Interim Recommendation 2.2)**

The Commission's report and proposed principles for a new agreement have a heavy emphasis on the economic aspects of VET: funding, pricing, markets and efficiency. These are important components of the policy challenge for Governments, but not the only ones.

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, which was a central tenet of the vision for VET endorsed by COAG on 9 August 2019.

#### **3.2 Nationally determined course subsidy levels and price controls (Option 6.1, Interim Recommendations 6.1 and 6.2)**

Adopting a nationally consistent set of course subsidies is not supported by Western Australia. More information on how these subsidies would be set is required as well as considerable analysis on the impacts on smaller jurisdictions with 'thin markets'<sup>5</sup>. Until further information and analysis is available, WA considers the proposal presents significant risk to maintaining access to quality training across diverse and geographically isolated regions.

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 draft VET Reform Roadmap which is still under consideration by Skills Ministers includes actions to improve VET quality through enhancing the industry experience of trainers and lifting the standards for training providers. This agenda has been disrupted by the impact of the COVID-19 pandemic and is yet to resume. Analysis of suitable subsidy levels will need to take into account the impact of reform initiatives on the cost of quality training.

Benchmarking of course subsidies across jurisdictions using common methodologies could inform State and Territory funding models and provide useful information on differences

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<sup>5</sup> The challenge of 'thin markets' has been covered in WA's original submission to the Commission.



between markets across jurisdictions. Benchmarking could also identify opportunities to simplify the number of different subsidy rates for courses.

### **3.3 Vouchers (Option 6.3)**

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.

### **3.4 Nationally determined skills priorities (Option 6.2)**

VET is fundamental to the State Government's strategies to grow and diversify the economy and respond to COVID-19, and other structural changes affecting the economy. Ensuring the VET system is delivering in priority areas to meet these needs is critical. A national approach to modelling priorities is unlikely to capture the nuances of State and regional skill needs, or the qualitative inputs gathered through consultations with local employers and communities.

Skills priorities should be determined jointly to ensure the needs of employers at State and regional levels are recognised. This should be undertaken as a collaborative effort between Governments to improve forecasting methodologies and labour market information.

### **3.5 Equal access to Government funding for public and private RTOs (Interim recommendations 2.2, 6.3)**

A strong TAFE system allows for training delivery over the whole state, including regional areas which may not be profitable for private providers to operate in. TAFE colleges have also played a key role in training displaced students when market intervention is required.

TAFEs obligation to deliver high quality training extends beyond course delivery to facilities, wrap-around support, product development and industry engagement. The investment and infrastructure required to meet these obligations does not always lend itself to the competitive market approach proposed by the Productivity Commission.

The experience in Western Australia when contestability has gone too far has been one of disruption to services, particularly in regions. The State Government approach focuses on consumers, employers and community needs. Where appropriate and sustainable, funding is available on a competitive user choice basis for up to 160 quality assured private RTOs. The managed market approach in Western Australia has avoided much of the massive disruption experienced in other jurisdictions where fully contestable markets were trialled.

### **3.6 Referral of State regulatory powers (Interim recommendation 7.2)**

The case for referral of regulatory powers to the Commonwealth Government is not strong and not based on evidence or performance. The reform of ASQA is a more important priority for the VET system and needs to be successfully implemented and evaluated before further changes are considered.

The performance of ASQA has been a major concern for Skills Ministers for some time due to significant failures on issues such as VET delivered to school students, short courses, VET Fee Help ports and 'tick box' compliance regimes. In response, Skills Ministers commissioned a Rapid Review of regulatory practices and processes in late 2019.



It is of note that many of the Training Accreditation Council's (TAC) exemplary and established practices are now being advocated for adoption by ASQA as a result of its Rapid Review. The efficacy of these reforms will take time to adequately assess.

There is no evidence to suggest that there is any overlap of regulatory and reporting requirements in the regulation of RTOs, as an RTO can only be registered with one VET regulator. The three VET regulators have worked effectively, cooperatively and collaboratively under a Memorandum of Understanding that ensures this is the case.

### **3.7 Expansion of student loans and reducing employer incentives (Options 6.4, 6.5 and 7.1)**

The Government of Western Australia supports some expansion of an income contingent loan scheme to help address barriers to access and the distortion of student choice between university and VET. However, there needs to be careful consideration of the potential job outcomes and levels of debt a student can accumulate. Any expansion should be on a trial basis and evaluated routinely and monitored for rorts and exploitation of students.

Redirection of employer incentives to finance an expanded student loan scheme is not supported. Shifting money away from employers in the current COVID-19 economic recession comes with substantial risk. Further analysis on the design, management, targeting, size and complementarity of incentive schemes across jurisdictions and industry areas is needed before any radical changes are considered. This work may also reveal opportunities to streamline and better coordinate the information on apprenticeship incentives provided by the Commonwealth, State and Territory governments.

There is clear evidence of underinvestment (i.e. market failure) in skills in Australia. This provides the basis for increased Government funding for training. While WA supports some expansion of the student loan scheme within VET, the proposal to fund growth in the VET system through increased student debt is untenable. NASWD funding has declined in per capita terms over the last 12 years. An appropriate growth funding mechanism is needed to underpin a stable VET system that meets employer and student needs.

### **3.8 Better information and improved apprentice support (Interim recommendation 2.1, Option 7.1 and 7.3)**

Consumers, especially disadvantaged learners typically serviced in the VET sector, need better information on training and career options. While students were exploited by unscrupulous RTOs during the VET Fee Help debacle, better consumer information is only part of the solution and is not sufficient on its own to support the expansion of student loans proposed in the Commission's Interim Report.

Recommendations that the National Careers Institute (NCI) lead a national approach to developing quality VET market information is supported. The proposed NCI initiative to commence a national campaign to promote VET as an equal first choice option to higher education should be progressed as a priority. A similar project is underway in Western Australia and there would be great benefit in pursuing a collaborative approach to maximise outcomes.

The Commonwealth Government's ongoing challenges in managing the AASN contracts are likely to be addressed through an integrated and nationally consistent career advisory service. The Government of Western Australia welcomes the opportunity to assist the Commonwealth in redesigning the AASN network to operate effectively and collaboratively with State providers.

#### **4. Conclusion**

The Government of Western Australia welcomes opportunities to reform and strengthen the national VET system.

The preferred approach would be predicated on collaborative national governance arrangements which genuinely shares ownership and decision making between the Commonwealth and State and Territory governments, working closely with industry.

The draft VET Reform Roadmap has been developed collaboratively by jurisdictions and is sound basis for future reform. The reform areas most important for recovery from the economic and social impacts of the COVID-19 pandemic should be brought forward, with other reforms staged appropriately.

It is in the national interest to put in place funding arrangements that provide flexibility for States and Territories to manage responsive VET systems that meets the local needs of students, employers and the community.