



# **Productivity Commission Review of the National Agreement on Skills and Workforce Development**

Victorian Government Submission

## VICTORIAN GOVERNMENT SUBMISSION

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### *Overview and summary*

The Victorian Government welcomes the opportunity to make a submission to the Productivity Commission's Review of the National Agreement for Skills and Workforce Development (NASWD).

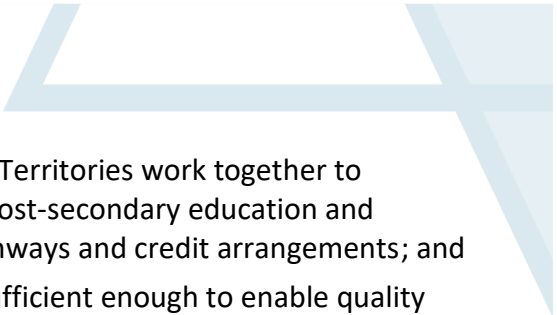
The Victorian Government is committed to building a world class education system where Victoria is recognised nationally and internationally for the skills, knowledge, and expertise of its people. A strong and stable tertiary education system is critical to ensuring all Victorians have the opportunity to develop the skills they need – and the skills employers want – for jobs today and tomorrow.

The Victorian Government submission addresses key themes in the Productivity Commission's Issues Paper using the following structure:

- **Section 1** discusses the current vocational education and training (VET) context, including Victoria's student entitlement model, market operation, skills forecasting, and pricing and subsidy arrangements.
- **Section 2** discusses the NASWD, a range of issues associated with evaluating its effectiveness, and some possible features of a potential future national agreement, including retaining certain features of the current agreement.
- **Section 3** provides a conclusion.

Key points in this submission are that:

- the Victorian Government has a successful track record of managing its government funded VET system. In the key areas of student and employer satisfaction, there has been steady improvement;
- national funding arrangements should recognise and respect the role of State and Territory governments in managing their VET systems, and provide flexibility for jurisdictions to determine resource allocations that allow them to effectively address geographic variability in skills needs and government priorities;
- public provision through TAFE institutes, dual sector Universities and Learn Locals is central to the VET system, and their distinct role needs to be recognised and acknowledged. TAFE institutes also operate with important community service obligations not required of other VET providers;
- there is substantial diversity in labour markets and economic conditions in each jurisdiction and State and Territory government. Victoria has a robust system to assess the qualifications demand in Victoria and is best placed to make decisions regarding how training activity can best align with the needs of the Victorian economy;
- there is a range of national and jurisdictional specific reviews currently being undertaken, including the reform process being undertaken by the COAG Skills Council, which needs to be reflected in and inform national funding arrangements;

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- it is important that the Commonwealth and States and Territories work together to strengthen the links and connection across the entire post-secondary education and training sector, with simpler and more transparent pathways and credit arrangements; and
  - national funding arrangements should reflect and be sufficient enough to enable quality training delivery that supports students to gain genuine employment outcomes that are responsive to industry and community needs.

## 1. CONTEXT FOR THE REVIEW OF THE NASWD

The Victorian Government recognises that a highly skilled workforce is critical to meeting the economic and social aspirations of Victorians and all Australians. The knowledge and skills of our people need to be of high quality and relevant in a truly globalised world characterised by accelerating technological advancement. To achieve this, the VET system must be adaptable and responsive to the changing local needs of students and employers.

A high quality, accessible and relevant VET system is also essential to the delivery of government priorities. For example, Victoria currently has 119 major road and rail projects under delivery. This includes the Metro Tunnel, removal of level crossings across Melbourne, the construction of the West Gate tunnel, the North East Link, and Airport Rail. VET is also critical as our social care workforces are transformed in response to the introduction of the NDIS and Victorian Royal Commissions into Family Violence and Mental Health, as well as a range of Commonwealth commissions and inquiries.

The Victorian Government has a successful track record of managing its government funded VET system, which continues to support a strong TAFE network, meaningful engagement with local industry and employers, and delivery of real training for real jobs. Key actions undertaken by the Victorian Government include:

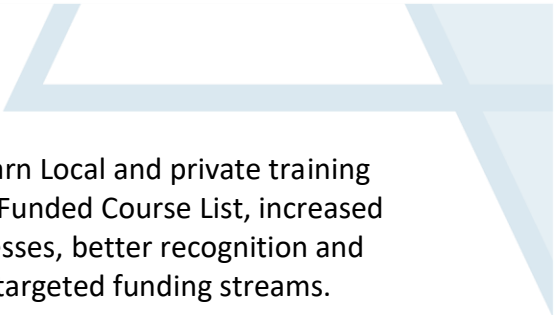
- *Free TAFE for Priority Courses* to give more Victorians the chance to study at TAFE;
- recognising and supporting the distinct role of TAFE to meet the needs of their communities and respond to government priority areas;
- higher quality standards and a more targeted Funded Course List to deliver real training linked to real jobs;
- investment in innovative workforce training;
- introduction of a Major Project Skills Guarantee to provide opportunities for apprentices, trainees and cadets to work on Victoria's biggest building and infrastructure projects; and
- the *Building Better TAFEs Fund* for investment in TAFE capital.

### 1.1 The Victorian Training Guarantee and Skills First

The Victorian student entitlement model, the Victorian Training Guarantee (VTG), was first introduced in 2009. The general objectives of the VTG were to increase participation in VET and lift qualification levels in the workforce through an individual entitlement to funding for courses at a higher level than their existing qualification. The VTG was also designed so that student choice could drive provision through a demand driven funding model.

The VTG provided greater choice for students, employers and industry to meet their training needs, with Victoria experiencing a significant growth in student enrolments, which peaked in 2012. During this period there were also significant challenges, including a proliferation of training providers operating in the market without the necessary quality assurance mechanisms, unstable funding rates that drove perverse behaviour by some training providers, an increase in training activity that was not aligned to labour market needs, and a failure to incentivise quality training provision.

In response, the Victorian Government introduced *Skills First* in January 2017. *Skills First* included a range of reforms designed to improve mainstream training market settings and ensure targeted



funding to facilitate high quality training provision by TAFE, Learn Local and private training providers. Reforms under *Skills First* included a more targeted Funded Course List, increased subsidies, strengthened provider contracts and selection processes, better recognition and support for the distinct role of TAFE and introduction of three targeted funding streams.

The success of *Skills First* has gone a long way in restoring public confidence in TAFE and the Victorian VET system. The market settings under *Skills First* have made a positive impact on training quality.

For example, *Skills First* introduced strengthened VET funding contracts with training providers that are better aligned to workforce needs and include:





- penalties that can be applied to providers who fail to properly assess every student's suitability for their course;
- the ability to publish results of student and employer satisfaction surveys;
- new requirements to improve the quality of online and workplace-based training; and
- requirements that training providers using brokers must disclose brokering arrangements on their websites.

Under *Skills First*, the Victorian Government has set a high benchmark for training quality and qualifications in response to repeated instances of poor provider behaviour and rorting of the system. Since the *Review of Quality Assurance in Victoria's VET System* in 2015, the Victorian Government has put in place a range of measures to strengthen quality and confidence in Victoria's training system, including:

- a robust Provider Selection Process that ensures only providers with a proven track record of delivering quality training have access to government funding;
- clearer requirements within the VET Funding Contract to ensure that every student is informed about the training that they are undertaking and the support they will be given;
- better information for students about their options for training through the Victorian Skills Gateway, which details every funded course available to a student at every funded provider, as well as information on pathways to occupations, information for employers and information for parents; and
- the introduction of the *Skills First* Quality Charter which spells out the Government's expectations of quality training for students.

These quality assurance measures were necessary for Victoria to implement, in part, due to the limited effectiveness of the national VET regulator. The *Review of Quality Assurance in Victoria's VET System* found that the regulatory system conducted audits that tested training providers' compliance with the national standards at a point in time. These audits sought to form a view as to whether the training provider met the standards, but did not include a systematic assessment of individual student outcomes. This approach did not provide the level of assurance required for Victoria to be confident that training providers were delivering high quality training.

## Improvement in student outcomes

	Actual Performance				
	2015-16	2016-17	2017-18	2018-19	3-Year Trend
Proportion of employers of apprentices and trainees who are satisfied with training	n/a	76.5	76.8	77.6	 1.1
Proportion of VET completers who are satisfied with their training	78.4	82.5	84.0	84.6	 2.1
Proportion of VET completers with an improved employment status after training	50.7	50.6	47.1	51.4	 0.8*
Proportion of VET completers who achieved their main reason for training	n/a	77.2	82.0	83.4	 6.2

Source: Victorian Budget Paper Number 3.

\* Please note: results for the 2018-19 are not directly comparable with previous years due to a change in the methodology used to construct this measure for the 2018 student survey.

## 1.2 Free TAFE for Priority Courses

In 2019-20, the Victorian Government introduced tuition-fee support through *Free TAFE for Priority Courses*. *Free TAFE for Priority Courses* has been highly successful and seen more than 36,000 students commencing training in *Free TAFE* courses as at September 2019, a 90 per cent increase in commencements in these courses compared with the same period in 2018.

*Free TAFE for Priority Courses* reduces the financial barrier for students wanting to train in courses that lead to jobs in demand from Victorian employers.

There is a wide variety of *Free TAFE* courses available across a range of key industry areas, including civil construction, community services, health care, early childhood education, disability, hospitality, cyber security and agriculture. Similarly, there is a range of apprenticeship pathways courses for industries such as automotive, building and construction, engineering, and plumbing. *Free TAFE for Priority Courses* also makes pre-apprenticeship courses in growth industries tuition-fee free for students who are eligible for government-subsidised training.

Female students account for 57 per cent of all *Free TAFE* students, up nine per cent compared with the same courses last year. The data also shows female participation has doubled in traditionally male-dominated courses such as Agriculture, Horticulture, Building Surveying and Cyber Security.

Meanwhile, students over the age of 30 account for 47 per cent of *Free TAFE* students and more than a quarter of *Free TAFE* commencements are in regional Victoria.

### 1.3 Funded Course List and Jobs and Training Needs Reports

Victoria has a well-developed model for forecasting qualifications demand, which informs the Victorian Government's planning and monitoring of training activity against industry need. The model is used to identify which courses should be added to the Funded Course List, and also determines the appropriate number of commencements required in the next year to meet industry demand by occupation and region, accounting for occupational employment growth, replacement demand and churn, as well as factoring in students that will graduate to supply the workforce in future years. This model informs the Funded Course List and the Jobs and Training Needs Reports.

The model was initially developed in 2016 to provide a more comprehensive picture of the supply and demand for VET graduates, by occupation and region. Initially, the model provides a set of indicators to identify imbalances between labour and training markets, and occupations at risk of over- or under-supply. Subsequent improvements to the model have resulted in it becoming an integral part of the 'setting the market' process under *Skills First*. Each year the methodology of the model is reviewed and updated, to continue to improve robustness and accuracy and respond to ongoing policy and investment activities that are likely to have an impact on the VET system.

#### **Funded Course List**

The Funded Course List is a central element of *Skills First*, designed to promote a stable, sustainable VET model to meet the current and future needs of Victorian industry, employers and students. Jobs and Training Needs Reports are published for Melbourne and five regions to provide RTOs with information on the level of training activity required to meet labour market demand.

The Funded Course List is updated annually. The methodology for the Funded Course List is based on the latest labour market and training data. The Funded Course List methodology involves a multi-step process of evaluation for each course, including an initial value assessment based on economic, social, and outcome measures. The scores for each of these three headline measures are then combined to develop a 'composite indicator score' for each course. A high composite indicator score reflects that the course contributes to achieving industry and/or community objectives. There are also a number of flags used to indicate courses that strongly align to budget announcements, priority sectors and other government initiatives.

Consultation with industry stakeholders is also undertaken to ensure a focus on courses most highly valued by Victorian employers. The 2020 Funded Course List has around 800 courses.

The 2020 Funded Course List is focussed on encouraging students to enrol in the courses most likely to lead to jobs, resulting in more VET graduates with the skills and qualifications that industry values. Prior to the implementation of *Skills First* in 2017, the Victorian Government funded over 1,500 courses, and many of these delivered limited economic or social value for the State.

## **Jobs and Training Needs Reports**

Victoria produces Jobs and Training Needs Reports by Victorian region, which:

- combine each region's labour market analysis with existing government funded training activity;
- provide insights on the level of future training needs for specific occupations; and
- flag courses of specific regional or niche occupation need.<sup>1</sup>

The Victorian Government also maintains a comprehensive online resource, the Victorian Skills Gateway, which provides course and career advice and referral points, and links potential students to training providers offering the courses they might be interested in.<sup>2</sup>

## **Skills-needs assessment**

Victoria's forecasting model relies on the national training package system developing relevant qualifications and units of competency that effectively identify skills needs within occupations. As identified by the *Expert Review of Australia's Vocational Education and Training System* (the 'Joyce Review'),<sup>3</sup> many stakeholders have expressed concern with the current training package development arrangements, in particular, that the system is too slow, too bureaucratic, and is not responsive to industry skills needs.

### **1.4 Course prices and subsidy rates**

Victoria provides a government subsidy for VET courses on its Funded Course List. The maximum course subsidy amount is obtained by multiplying the maximum payable hours assigned to a course by the course subsidy rate, which reflects the cost of delivery, and applying loadings. The subsidy component is based on:

- estimated (efficient) cost per hour for a course;
- government contribution to cost, based on course level; and
- adjustment to the government contribution by considering the value/priority of the course.

In addition, *Skills First* introduced higher subsidies for areas of priority, including:

- apprenticeship and apprenticeship pathways;
- high-value traineeships;
- courses related to the rollout of the NDIS; and
- the response to the *Royal Commission into Family Violence*.

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<sup>1</sup> The Jobs and Training Needs Reports can be accessed here:

<https://www.education.vic.gov.au/training/providers/market/Pages/jobs-training-needs.aspx>

<sup>2</sup> The Victorian Skills Gateway can be accessed via the following link:

<https://www.skills.vic.gov.au/victorianskillsgateway/Pages/Home.aspx>

<sup>3</sup> The Hon. Steven Joyce, *Strengthening Skills: Expert Review of Australia's Vocational Education and Training System*, Commonwealth of Australia, 2019, pp. 53-58.



### 1.5 Importance of public provision

While both public and high quality private providers make valuable contributions to the training system in Victoria, the Victorian Government, through *Skills First*, recognises and supports the distinct role that public providers play in the Victorian training system.

TAFEs are at the centre of the training system – delivering the majority of subsidised training and serving students and communities, particularly in regional areas. As public providers, TAFEs partner with industry and Government to respond to key economic priorities, ensuring Victoria's workforce is provided with the skills it needs now and in the future. TAFEs provide equitable access to training, playing a critical role in serving disadvantaged students and their communities.

TAFEs are also expected to meet a range of community services obligations by providing a broad range of general and tailored support programs and pathways for a large number of diverse students and communities.

It is noted that there is a range of support for the public provider through system and funding settings in higher education, however, there is not the same level of support or recognition for public providers in the VET system.

### 1.6 There are a range of reviews and reforms currently underway

It is critical that the Productivity Commission recognises that there are a number of reviews and reform processes currently underway, the outcomes of which will have a significant impact on the national VET system, including in relation to national VET funding.

This includes the work being done in response to the Council of Australian Governments (COAG) agreeing to a shared vision for the national VET system on 9 August 2019. Victoria is currently working with the Commonwealth Government and other State and Territory Governments – primarily through the COAG Skills Council – to develop a shared national reform roadmap to be provided to COAG in 2020.

In addition to the COAG process, the Victorian Government recently announced two reviews: the *Skills for Victoria's Growing Economy – A Review into Victoria's Post-Secondary Education and Training System* and the *Review into Vocational and Applied Learning (VCAL) Pathways in Senior Secondary Schooling*.

Led by the Hon Jenny Macklin, the *Skills for Victoria's Growing Economy* review will consider how Victoria's post-secondary education and training sector can work more effectively to deliver the training needed to support the growth of the Victorian economy, including the Victorian Government's major investments (including in relation to education, disability, aged care, family violence, roads and transport), which will create thousands of jobs over the next decade. The review will provide recommendations for how the Victorian training system can better meet the requirements of both industry and government, while supporting individual students to get the skills they need. Given the significance of this review for the Victorian VET system, it will be important for the Productivity Commission to engage with the review.

The *Review into VCAL Pathways in Senior Secondary Schooling*, undertaken by John Firth, will make recommendations to reform VCAL and VET delivered to school students to improve access and transitions for students between school, post-secondary education and work.

## 2. NATIONAL AGREEMENT

### 2.1 Has the National Agreement been successful?

Stewardship of the VET system is shared between Victoria, the Commonwealth and other States and Territories. The system has evolved over time, with a mix of arrangements and bodies now covering who can and should participate in education and training, how courses are developed and quality assured, and how funding and information is used to shape how students engage in training.

Responsibility for the national VET system is shared across the Commonwealth and States and Territories. This was acknowledged in the COAG vision for VET and publicly reaffirmed by the COAG Skills Council at both the September and November 2019 meetings. The NASWD plays a critical role in articulating the roles and responsibilities of different levels of government in the system, providing funding certainty and enabling local innovation and responsiveness.

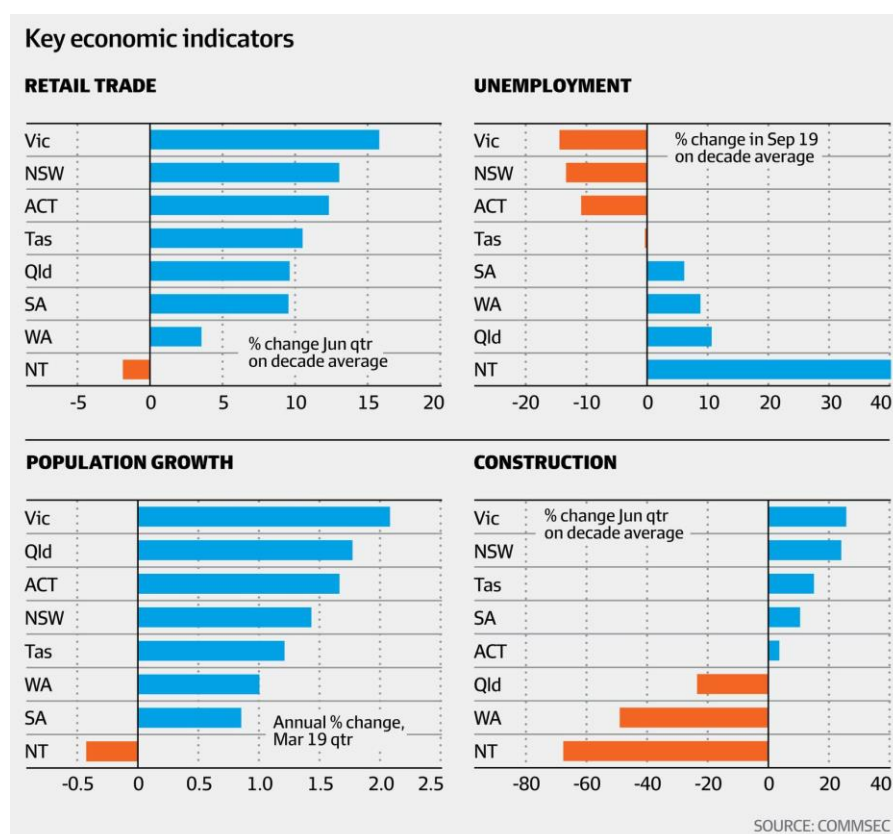
#### ***Flexibility to respond to local economies has created a stronger alignment with jobs than in higher education***

The NASWD has provided State and Territory governments with the flexibility to manage their VET systems and respond to local skills needs.

Victoria, for example, has enjoyed strong economic growth in retail trade and construction work for the last 6 quarters.<sup>4</sup> The following table illustrates the diverse nature of local markets, population growth and unemployment rates. Taking indicators such as this into consideration provides valuable insights into the different aspects of the economy where skills and training might best be supported by State and Territory governments.

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<sup>4</sup> Cranston, Matthew, *Victoria cements status as best performing economy*, Australian Financial Review, October 28, 2019, <https://www.afr.com/policy/economy/victoria-cements-status-as-best-performing-economy-20191025-p534cj>



State and Territory management of VET delivery has resulted in a stronger alignment between training and jobs than in higher education. This was demonstrated in the OECD's *Getting Skills Right: Australia* report, which found that "over-qualification is higher in Australia compared to the OECD average...with vocational education and training (VET) graduates better matched to their jobs than graduates from higher education."<sup>5</sup>

### ***Existing performance measures do not effectively capture the performance of VET systems***

The performance indicators and targets used to measure progress against the NASWD's objectives prioritise volume over quality and relevance. While Victoria remains supportive of the student entitlement model, it has learned from its experience of running a fully contestable, demand-driven training system that, without proper controls, there is a risk that unscrupulous training providers will manipulate the system for profit. As outlined above, *Skills First* was designed to ensure the profile of government funded training better aligned with Victorian Government priorities and that quality outcomes were being achieved by learners.

### ***Unilateral action by the Commonwealth has significantly impacted VET over the life of the agreement***

Decisions by the Commonwealth Government have significantly impacted the operation of the VET market.

<sup>5</sup> Organisation for Economic Cooperation and Development, *Getting Skills Right: Australia*, OECD Publishing, 2018, p.19.

The most significant example of this is the perverse incentives and resultant provider behaviour associated with the operation and ultimate cessation of the Commonwealth's VET FEE-HELP (VFH) scheme.

Further, the design of the VFH and the current VET Student Loans scheme provides arrangements that are less beneficial for VET students than equivalent income-contingent loan schemes offered in higher education. Combined with the uncapping of university places between 2008 and 2017, this resulted in significantly distorted student choices.

Another example is the changes the Commonwealth Government made to employer incentive payments for apprenticeships and traineeships, which have a significant impact on the uptake of these courses and participation in the VET market. The removal of the incentive for existing workers, for example, has led to an ongoing decline in the number of trainees in Victoria.

***Performance measures are also impacted by changes outside of the Skills portfolio***

The performance indicators used to measure progress against the NASWD's objectives have also been impacted significantly by a range of factors outside the control of Skills Ministers. In particular:

- **the convergence of different educational pathways** — the VET system interacts with and is influenced and shaped by schooling and higher education. Growth in university participation, including the introduction of demand-driven higher education, and the increasing options for non-formal vocational training (e.g. online learning) impact on delivery against the performance measures, but are outside the control of VET systems; and
- **changes to work and employment** — structural adjustment in the economy and changes in employment programs policy both impact the utilisation of the training system.

While the NASWD recognises the impact of the above external factors that are outside of the control of the training system, it is silent on and doesn't effectively consider how these interactions can best be governed or measured.

## ***2.2 How could the existing agreement be changed?***

It is important that any national agreement provides clear direction and stability for the national VET system. The aim should be for a coherent national framework that provides flexibility for States and Territories to deliver training needs that respond to local circumstances and priorities.

A national agreement needs to:

- **reflect the outcomes of the current reform** process being undertaken by the COAG Skills Council, building on the agreed vision for Australia's VET system;
- recognise that VET is a **shared responsibility**, with different levels of government working cooperatively to deliver for all Australians. Shared responsibilities, such as developing and maintaining a system of nationally agreed regulation of training providers, qualification standards, and a commitment to ensuring high quality training, should also be retained;

- provide **flexibility** for States and Territories to determine resource allocation in their jurisdictions, including to enable the Victorian Government to expend public funds in the manner it deems most appropriate to meet local skills needs and government priorities. It is highly unlikely that a national pricing system, across over 1400 nationally-recognised VET qualifications, could accurately account for variations in delivery costs across jurisdictions and regions;
- recognise the important and distinct role that **public providers** play in the delivery of VET in Australia;
- strengthen the links and connection across the **wider post-secondary education and training sector**, with simpler and more transparent pathways and credit arrangements; and
- reflect the importance of and be sufficient enough to ensure **quality training** that supports students to gain genuine employment outcomes that are responsive to industry and community needs.

There is an opportunity to fold the existing funding available through the National Partnership on the Skilling Australians Fund into the National Agreement. This would provide all State and Territories with greater flexibility to make best use of these funds.

### **2.3 What evidence should be considered?**

The Victorian Government reports on the performance of its VET system through its budget papers and training market reports. These reports provide evidence of a smaller, higher quality training market.<sup>6</sup> Future performance indicators could use these as examples of how more specific and relevant measures might provide greater insight into the performance of the national VET system in achieving national objectives.

It will be important to identify performance indicators that relate to factors within the control of Skills Ministers to influence – a weakness of the current NASWD as described previously.

### **2.4 Data collection**

Victoria is supportive of the National Centre for Vocational Education Research continuing its function to manage national data collections. A centralised institution with responsibility for developing and managing nationally consistent data, along with a dedicated research function, is vital for understanding the performance of the national VET system.

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<sup>6</sup> Victorian Training Market Reports can be accessed via the Victorian Department of Education and Training's website: <https://www.education.vic.gov.au/training/providers/market/Pages/reports.aspx>  
 Victorian Budget Papers, including the BP3 Performance measures can be accessed via the Victorian budget website: <https://budget.vic.gov.au/budget-papers>

### 3. CONCLUSION

The Victorian Government welcomes the opportunity to work collaboratively to strengthen the national VET system. A more coherent, agile, integrated and flexible system, with public providers at the centre, is needed to effectively meet the skills and training needs of Australia's modern economy.

The Victorian Government has a successful track record of managing its government funded VET system. National funding arrangements should support a robust national framework that respects the role of State and Territory governments in managing their VET systems, and provides flexibility for jurisdictions to respond to the skills needs of their labour markets while contributing to increased national productivity.

The review needs to recognise that there is substantial diversity in labour markets and economic conditions in each jurisdiction and State and Territory government. Victoria has a robust system to assess the qualifications demand in Victoria and is best placed to make decisions regarding how training activity can best align with the needs of the Victorian economy.

The review also needs to acknowledge and as far as possible align with the significant reviews currently being undertaken, including the reform process being undertaken by the COAG Skills Council and those occurring within Victoria.

National funding arrangements, including associated performance frameworks, need to reflect the importance of a focus on quality training that supports students to gain genuine employment outcomes that are responsive to industry and community needs.

National funding arrangements need to recognise the important and distinct role that public providers play in the delivery of VET in Australia.