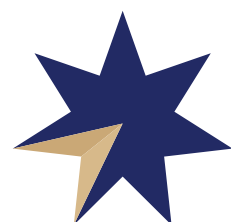


**Australian Chamber Policy Position**

February 2016

# **Focus on Skills:** Building a Better National VET System



Australian  
Chamber of Commerce  
and Industry



# Focus on Skills: Building a Better National VET System

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# Focus on Skills:

## Building a Better National VET System

Australia needs a robust vocational education and training (VET) sector capable of delivering quality outcomes that meet the skills needs of industry, and boost workforce participation and social engagement.

We need a strong system of public and private providers, underpinned by a well-resourced national regulator operating in a competitive environment focussed on industry and students, to ensure that learners and employers can exercise choice in accessing training where and when they need it. The growth in knowledge-based industries emphasises the importance of tertiary education and the acquisition of higher-level skills to meet emerging skills needs.

To lift productivity, Australia needs greater skills than currently exist in the labour market. The gap between the expected supply of higher-level skills and expected industry demand is widening. The Australian Chamber believes that increasing the skills of Australian workers across all occupations is crucial to long-term productivity growth.

This policy position addresses the future of VET in the context of Federation Reform and presents a case for change.



## Size and change

VET sector competition has increased significantly in the past three decades due to market deregulation. Many private commercial and not-for-profit training providers entered the market after the sector was opened beyond the state-run Technical and Further Education (TAFE) institutes. There are over 4000 registered providers of vocational training; just 59 are TAFEs, with the remainder being private providers, schools, universities and not-for-profit community education providers.

Despite this trend, TAFEs retain a dominant market share of publically funded training, with around 60 per cent of publically funded VET being delivered by TAFE. However, nearly 60 per cent

of nearly four million VET learners study at private training providers, according to the National Centre for Vocational Education Research. Fee-for-service providers, funded by employers and learners, account for 35 per cent of all VET activity across public, private and other training providers.

Around a quarter of all Australians aged 15 to 64 undertook VET studies in 2014, with most students doing so to advance their career or break into a new career. Therefore the VET system must prepare them with skills that reflect national demand and that are nationally consistent in quality.

## Current issues

The sharing of arrangements between federal, state and territory governments has led to blurred accountabilities, inconsistencies, inefficiencies and duplication. Different approaches to the level and availability of funding and definition of an apprenticeship or traineeship have turned the supposedly national VET system into eight very different structures with overlapping and competing priorities and approaches. This has made VET difficult for employers and individuals to navigate, especially where cross-jurisdictional training is required. National employers, registered training organisations or individuals moving between jurisdictions must decipher a system that is disparate and complex in its funding and delivery. Complexity issues are not just confined to operating nationally – even the smallest of employers has to navigate the system and funding confusion.

“The sharing of arrangements between federal, state and territory governments has led to blurred accountabilities, inconsistencies, inefficiencies and duplication.”

The differences in funding available for the same qualification in different jurisdictions can be significant. For example, one retail training qualification, delivered as a traineeship in most states, varies from \$5788 in user-choice funding with a \$404 learner contribution in the Northern Territory, to no government contribution at all in South Australia, to a \$2550 state contribution in New South Wales.

This qualification is recognised by the industry as the entry point for learners to gain employment in pharmacies and provides skills for people who can be the first point of contact for people seeking health advice and over-the-counter medication. As another example, the government contribution for a construction and property services apprenticeship qualification varies from \$11,000 in one state to over \$30,000 in another.

Where employers and learners are paying near the top of these ranges, the fairness of the differential must be questioned. Governments should consider what the differential means for the quality of delivery and the efficiency of funding.

Some state governments fund VET based on funding flows rather than industry need. Under the training entitlement principles recently implemented by the states, funding has flowed away from some qualifications despite high usage and high employment. Victoria initially offered an open-access Victorian Training Guarantee but has since significantly reduced and in some cases scrapped funding for some hospitality and retail qualifications. These sectors have strong employment growth and are often the entry point into the workforce for people on welfare. South Australia previously offered the Skills for All training entitlement but has most recently scrapped funding for some qualifications, and made some funding available exclusively to TAFEs. Restricting funding access to certain qualifications in some jurisdictions has disadvantaged employers and registered training organisations (RTOs) seeking to access these courses for students and employees.

VET is funded by a mix of direct federal funding for training (VET FEE HELP, industry skills fund, apprenticeship incentives), targeted federal funding (AMEP, some LLN training, structural adjustment), targeted funding through the National Agreement, direct state funding (user choice, subsidised program-focussed funding such as Skills for All, Smart and Skilled), targeted state funding for specific learner groups or regions, and fee-for-service arrangements. Recent state budgets have significantly reduced funding and the previous Federal Government substantially cut apprenticeship incentives.

**VET FEE HELP** shows where the split in roles and responsibilities has exacerbated policy failure. This failure will likely cost the Federal Government hundreds of millions of dollars in bad debt and has harmed learners targeted by opportunistic providers chasing funds through the scheme. Extending loans to VET learners enabled access to otherwise-unaffordable training (the rationale to maintain the scheme). But the implications were not fully understood because the loan scheme was implemented by a different jurisdiction to the major provider of funds for diplomas and advanced diplomas (until the scheme was expanded). In response states cut funding at the upper levels, forcing learners deeper into debt. Many providers who previously charged the states a reasonable amount in a funded system increased fees significantly under VET FEE HELP.

After regulatory reform in 2012, the Federal Government did not adequately limit the loan amount and had no knowledge (other than anecdotal) of the previous funding amounts. This lack of coherent policy scrutiny has exacerbated high-profile concerns about quality and excesses, and reflects a system where jurisdictions often “play their cards close to their chest”. The VET FEE HELP saga also demonstrated how in a federated system, the costs can easily be shifted from one jurisdiction to another, in this case the States shifting their spend on higher qualifications to the Commonwealth and individuals.

Funding is not the only area where inconsistency is in evidence. There are major variances across the state around the duration of training and the approach competency based training.

Given quality is a focus across the system, there are no rational policy grounds for two states to remain on the perimeter of the national regulatory system. The continued resistance from Victoria and WA to confer power on the Commonwealth to regulate all training providers adds to the confusion about how providers are regulated. The transition to the national regulator has clearly had teething problems,

including the limitations imposed by the self-funded regulatory model in place until the 2014 federal budget. Due to more funding and a risk-based targeted approach, the national regulatory approach is now on track. More work needs to be done to ensure that poor quality providers are removed from the system, but this issue is best dealt with through a single national system.

“Duplicative and inefficient policy is also evident in the apprenticeship system.”

Duplicative and inefficient policy is also evident in the apprenticeship system. Currently, the Federal Government is responsible for setting the standards and capturing industry input, apprenticeship support services and financial incentives, while state governments oversee training contracts, decide which qualifications are “apprenticeships” and fund the training.

Over the past five years substantial policy changes at state and federal level have resulted in a dramatic slide in apprenticeship numbers even though no government has a stated policy to reduce apprenticeship participation. The Australian Chamber has strongly argued for a review of the business case for employers taking on an apprentice (trade or non-trade), including wages, financial incentives and training funding. The policies impacting on these issues are out of sync, with decisions often made in isolation or in ignorance.

For example, the Federal Government substantially changed the financial incentives and wage subsidies of employers between 2011 and 2013 without any detailed knowledge of the changes some states were making to the funding for some qualifications. Retail, hospitality and business administration, major employing industries particularly for school leavers, received a “double whammy” from separate decisions. A consolidated picture of the funding that different apprenticeship qualifications receive is impossible. But without this picture, understanding the impact of federal changes is difficult.

Finally, one of the key issues with the current system is ‘information asymmetry’ where the complex system struggles to explain itself with a lack of a holistic message to better inform the marketplace. Regulation and compliance is an important way of improving quality and responsiveness, but quality and better outcomes can also be delivered by a better informed market which provides transparency and is the basis for better choices made by employers and students.

## The case for change

The Australian Chamber supports transferring oversight and (if necessary) legislative power from the states to the Commonwealth in order to achieve a truly national VET system, and to avoid duplication and cross-jurisdictional barriers that negatively impact on employers, students and providers. Beyond improving efficiency, there are two fundamental reasons VET should become a federal responsibility: the direct connection with employment outcomes given the national, even global, labour market; and the need for funding and policy that is more nationally consistent within VET and also with other parts of the tertiary education system.

The Australian labour market has become increasingly national and international, so VET policy and outcomes need to be linked to employment, innovation, infrastructure and trade policies. The 2014 Federal Government Industry Innovation and Competitiveness Agenda recognised the importance of improving VET efficiency to better prepare Australians for the jobs and industries of the future. Businesses, their employees and students need to be able to exploit new technology, innovative work practices, new and emerging opportunities, open export markets and emerging economies. The Australian VET sector, with a skills delivery framework that reflects industry practice, is well placed to develop the skills needed by employers at home and abroad as new industries emerge or existing industries evolve.

VET is tied to employers, industry and the economy more broadly due to the closeness of VET to employment and the use of VET to help people outside the workforce find a job. The fiscal and economic imperative that drives Governments to fund vocational training is to support an employment and productivity outcome – that is the public benefit, and the Commonwealth is better placed to deliver it. Some 78 per cent of VET graduates are employed after training and the average earnings of VET graduates in the 12 months after completion are comparable to the earnings of university graduates. Therefore VET is vital in both preparing Australians to enter the workforce and upskilling them to transition between industries to exploit new employment opportunities.

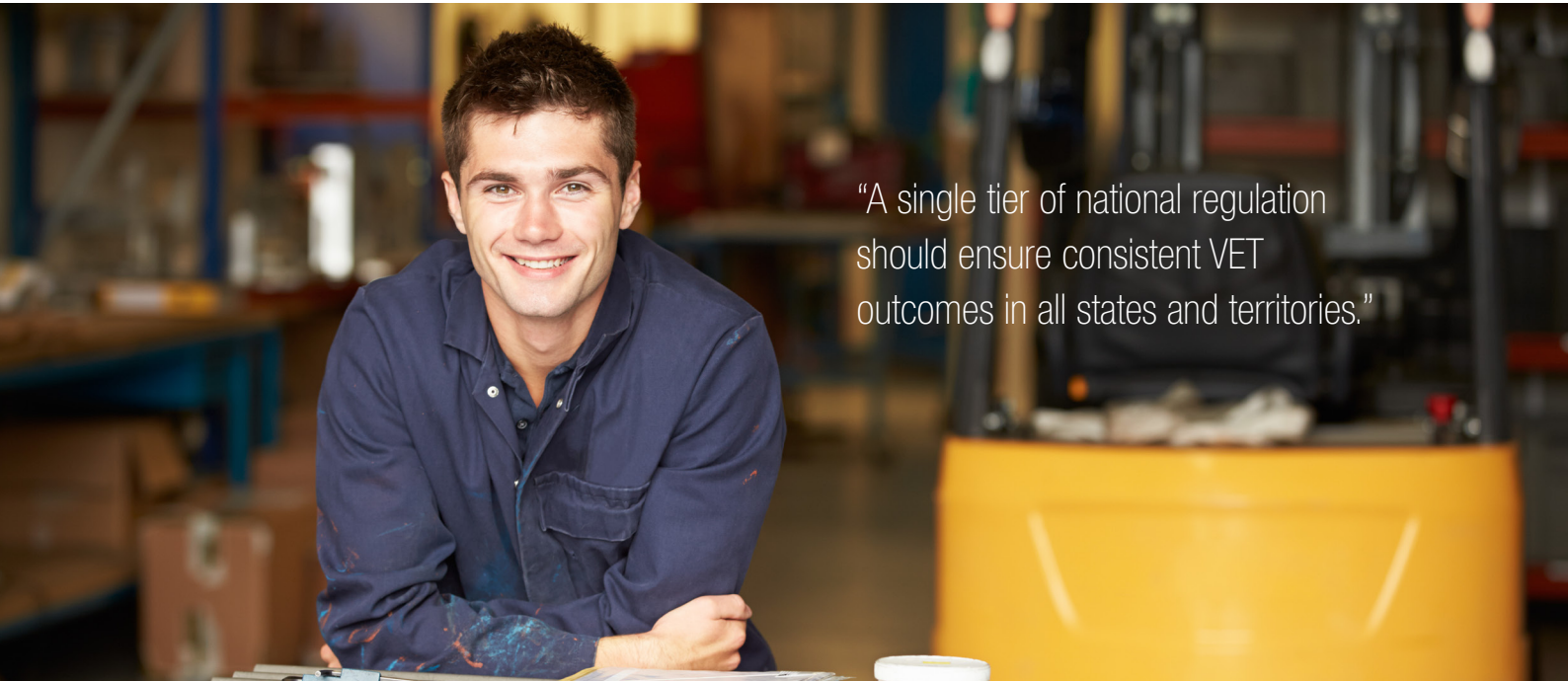
There is increasing interaction and crossover between VET and higher education; more universities offer higher-level VET qualifications and proposed changes to university funding add incentive for universities to develop sub-bachelor qualifications directly aligned to AQF levels 5 and 6, traditionally the domain of

VET providers. Therefore national funding and policy must take into account the needs of both education sectors.

If sub-bachelor funding becomes more widely available, and state funding remains inconsistent or non-existent for VET diplomas and advanced diplomas, providers and students will be incentivised to shift to higher education qualifications to “follow the money” rather than assessing whether that is in students’ and employers’ best interests. Industry knows that it directly influences the skills outcomes of VET courses through nationally developed training packages, but it lacks the same influence in the higher education curriculum. Industry would therefore be very concerned if a curriculum with minimal industry influence increasingly replaces higher-level VET qualifications. That said, the Australian Chamber in principle supports sub-bachelor higher education funding, but we need a holistic view to deliver the best outcome.

Regarding a whole-of-tertiary-system approach, VET has traditionally been a transition point for learners entering university. Many universities offer advanced standing for VET graduates with relevant qualifications and many students use VET as a pathway into university rather than entry straight from school. Increasing numbers of university graduates undertake VET qualifications in their field of study to give them greater exposure to workplace practices and help them get a job. These interactions can be more seamless with a single tertiary education approach.

“The Australian labour market has become increasingly national and international, so VET policy and outcomes need to be linked to employment, innovation, infrastructure and trade policies.”



“A single tier of national regulation should ensure consistent VET outcomes in all states and territories.”

## Proposed federal model for VET

The Australian Chamber proposes a national VET system where the Federal Government is responsible for developing packages, policy, regulation and funding, with strong guidance provided by industry. The Federal Government would also oversee policy direction, industry-specific programs, training subsidies and employer-centric programs. State and territory government input would help determine skills demand and local skills requirements. Strong labour market planning and analysis is required for VET and other national policy areas and so is consistently advocated in Australian Chamber submissions in relation to employment, education and migration.

The shift of responsibility to the Federal Government should not prevent state and territory governments from supplementing funding to address localised labour shortages or offering programs to increase employment and training opportunities for disadvantaged people. States could also continue to own TAFEs (further comments below). States and territories would continue to fund vocational learning as well as VET delivered to secondary school students, provided that in relation to VET, it is delivered in accordance with industry and national standards.

## Industry leadership

Industry must remain a central pillar of VET following a shift to a national system. Industry:

- sets the occupational standards around which learning and assessment processes are developed;
- is central in determining the criteria for assessment and the conditions of assessment;
- provides guidance and a learning context for training providers when implementing training and learning strategies; and
- often provides practical experience for students undertaking training.

Industry needs to be embedded in every layer to work with government to identify critical skills demand and emerging skills needs, and work alongside the national regulator to determine quality output and the veracity of training outcomes from training providers.

There must be strong involvement from industry, in this context employers, in all levels of the VET system and at all stages of students' learning journeys. The Australian Chamber supports retaining the Australian Industry and Skills Committee or similar to oversee the system provided that it is truly an industry body including more industry representatives and not requiring a nominee from every state.



## The role of the Commonwealth

The Commonwealth, with significant input from industry, should determine the regulatory framework, set skills priorities, oversee the setting of occupational standards and regulate the outcomes of training.

It should also be responsible for purchasing training, including providing income-contingent loans and training subsidies to employers and individuals, with significant input from industry with regard to priorities. Funding for region- or industry-specific training should be determined nationally, with input from industry and state, territory and local governments. Having the Commonwealth as sole funder will ensure a coordinated approach to tertiary education funding (higher education and VET) and ensure clarity of the role and funding of apprenticeships compared with the Industry Skills Fund and learner- or employer-initiated training.

The Federal Government should be responsible for regulatory oversight of training process and for setting the regulatory framework, again in consultation with industry and the training sector. All levels of government could share responsibility for contracting training providers or third parties to provide solutions

for specific skills needs or client groups, such as new migrants, or specialist language, literacy and numeracy (LLN) training.

The national regulator, the Australian Skills Quality Authority, should cover all VET providers, including schools and universities delivering VET qualifications in all jurisdictions. ASQA should retain responsibility for accrediting and regulating training providers and accrediting courses. A single tier of national regulation should ensure consistent VET outcomes in all states and territories.

In 2013 the Federal Government invested \$2.5 billion in VET (including through the National Agreements), and the states and territories \$4 billion, NCVET data show. Clearly a system fully funded by the Commonwealth would require it to make a substantial additional investment, which would need to be offset in other areas. Given the combined investment in VET has fallen in recent years, despite the urgent need for a skilled workforce, the Australian Chamber opposes any reduction in the overall investment due to changes arising from the Federation White Paper. Savings made through the reduction in duplication and improved efficiency should be reinvested in skills development.

## Policy based on timely data

The research undertaken by the National Centre for Vocational Education Research (NCVER) is a valuable resource. The Federal Government must continue to provide adequate funding and governance arrangements must continue to include industry representatives.

“The existing federation arrangements... inhibit the timeliness of NCVER’s data”

The existing federation arrangements, however, inhibit the timeliness of NCVER’s data; states often delay its release. Data available through Australian Vocational Education and Training Management Information Statistical Standard (AVETMISS) could deliver real-time trends and be published up to a year earlier than is currently the case. Good policy would be better informed by more timely data. Confirmation that the Commonwealth is responsible for VET will correct this inefficiency by insisting that data is directly submitted by providers to NCVER not via the States.

Reliable labour market analysis and forecasting is also needed. Until 2013 this role was in part performed by the Australian Workforce and Productivity Agency along with the Federal Department of Employment, Industry Skills Councils, and a range of other Government agencies. The Australian Chamber does not necessarily see a role for a separate entity, but we do believe there is an opportunity to establish a mechanism whereby federal, state and territory governments and industry representatives participate in a labour market analysis process. This mechanism could be supported and funded by the Commonwealth, potentially in partnership with the states, and could inform policy and funding decisions relating to migration, higher education, VET, employment and industry.





## The role of state governments and TAFE

State and territory governments have invested significantly in VET infrastructure in TAFE institutions. The Australian Chamber supports the continued ownership of physical TAFE assets at a state or territory level, and that States continue to deliver training services as a provider. But Commonwealth funding for training delivered as part of a contestable and demand-driven market should not favour a particular subset of provider, be they public, private, enterprise- or community-based.

One option for the states is that TAFE institutes become autonomous, with boards comprised of regional employers or industry representatives. A governance and asset-ownership model similar to that of public universities would make TAFEs more responsive to regional skills needs and help them to service local learner populations. TAFE institutes' significant physical assets are often underutilised, and third party access should be more prevalent. An independent board and full autonomy would enable TAFE institutes to capitalise on their existing infrastructure and resources through third-party arrangements to use facilities.

VET has an important social responsibility to provide employability and vocational skills to all Australians. Traditionally public VET providers used state or federal funds to provide skills development for low socio-economic-status students and training in thin markets. But TAFEs are not the only training providers who can deliver these services effectively and efficiently.

The Australian Chamber supports additional efforts and funding to provide access to training for disadvantaged students and in thin markets where there is little return for training providers. Extra funding to support training in these areas should remain but be accessible through either a tender process or a direct grant to the best-placed training provider, rather than simply be provided to TAFEs by virtue of their public ownership.

States need to provide information and advice on emerging skills needs and labour and skills supply, and target responses to meet objectives for disadvantaged students and training provision in thin markets.



## Call to action

We need greater policy coherence than is possible under the current situation, where federal, state and territory governments each separately set VET policy and funding priorities. The future of VET cannot be marred by duplication, inequalities in funding application and complexity. We must overcome confusion among employers and students who need to access information, funding and services at multiple levels or who cannot access training in one jurisdiction when it is readily available in others.

Federal Government control of VET, with significant industry input, is the most logical, effective and efficient way forward. The Federal Government will purchase rather than deliver training. Its role will be similar to the one it currently plays in higher education, where it sets policy and funds delivery and regulation. Employers and industry must remain central to VET in a move to a genuinely national system.

Removing duplication and inefficiencies should result in significant savings, which should be directed back into VET to make up for ground lost with significant cuts in recent years. A refocused and centrally directed VET system should be adequately funded so employers and learners can access the flexible and responsive training needed to deliver quality outcomes for a productive economy.



Australian  
Chamber of Commerce  
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The Australian Chamber of Commerce and Industry speaks on behalf of Australian business at home and abroad.

We represent more than 300,000 businesses of all sizes, across all industries and all parts of the country, making us Australia's most representative business organisation.

We speak on behalf of the business sector to government and the community, fostering a culture of enterprise and supporting policies that keep Australia competitive.

We also represent Australian business in international forums.

Our membership comprises all state and territory chambers of commerce and dozens of national industry associations. Individual businesses also get involved through our Business Leaders Council.

ABN 85 008 391 795

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