



Australian Government  
Productivity Commission

# Skills and Workforce Development Agreement

Productivity Commission  
Issues Paper

November 2019

The Commission has released this issues paper to assist individuals and organisations to prepare submissions.

It contains and outlines:

- the scope of the study
- the Commission's procedures
- matters about which the Commission is seeking comment and information
- how to make a submission.

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- the scope of the study
- the Commission's procedures
- matters about which the Commission is seeking comment and information
- how to make a submission.

Participants should not feel that they are restricted to comment only on matters raised in the issues paper. The Commission wishes to receive information and comment on issues which participants consider relevant to the study's terms of reference.

## Key study dates

Receipt of terms of reference	15 November 2019
Due date for submissions	20 December 2019
Release of interim report	31 March 2020
Final report to Government	November 2020

## Submissions can be lodged

Online:	<b><a href="http://www.pc.gov.au/skills-workforce">www.pc.gov.au/skills-workforce</a></b>
By post:	National Agreement for Skills and Workforce Development Review Productivity Commission GPO Box 1428, Canberra City, ACT 2601

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## The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website ([www.pc.gov.au](http://www.pc.gov.au)).

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## Terms of reference

### National Agreement for Skills and Workforce Development Review

I, the Hon Josh Frydenberg MP, Treasurer, pursuant to Parts 2 and 4 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission undertake a review of the National Agreement for Skills and Workforce Development (NASWD).

### Background

The NASWD is a high-level agreement that identifies the ‘long term objectives of the Commonwealth and State and Territory Governments in the areas of skills and workforce development, and recognises the interest of all governments in ensuring the skills of the Australian people are developed and utilised in the economy’. Parties to the NASWD have agreed to ‘the need for reform of the national training system to ensure it delivers the high quality, responsive, equitable and efficient training and training outcomes needed’.<sup>1</sup>

The NASWD’s objectives are to ensure the vocational education and training (VET) system delivers a productive and highly skilled workforce; enables all working age Australians to develop the skills and qualifications needed to participate effectively in the labour market and contribute to Australia’s economic future; and supports increased rates of workforce participation.

### Scope

In the context of the VET system, the review will consider:

1. achievement of the objectives, outcomes, performance indicators, targets, reform directions and roles and responsibilities set out in the NASWD and their ongoing suitability
2. options for governments to coordinate and streamline their support for vocational education in the future
3. options for nationally consistent government funding and pricing arrangements that maximise efficiency, transparency and the supply of trained workers for the economy and promote consistency of incentives

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<sup>1</sup> Council of Australian Governments, *National Agreement for Skills and Workforce Development*, 2012, [www.federalfinancialrelations.gov.au/content/npa/skills/national-partnership/skills-reform\\_NA.pdf](http://www.federalfinancialrelations.gov.au/content/npa/skills/national-partnership/skills-reform_NA.pdf).

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4. options to promote consistency in funding and loan arrangements between the VET and higher education sectors, and on any cross sector impacts that there might be
  5. options to ensure government investment in VET encourages increased participation in training by all Australians and is commensurate with the outcomes and benefits derived by individuals, business, industry, the local and national economy and society more generally
  6. potential for future funding arrangements to achieve further targeted reforms, including extending Language, Literacy, Numeracy and Digital Literacy (LLND) programs to all Australians and other relevant recommendations from the Expert Review of Australia's Vocational Education and Training System (the Joyce review)<sup>2</sup>
  7. options for improved performance indicators, data and information sharing arrangements to enable all governments to assess the effectiveness of VET investment and delivery.

In undertaking this review, the Commission should have regard to current and potential funding arrangements, existing skills programs and contemporary policy settings and labour market needs, noting:

- A. the VET and higher education sectors are closely linked with cross system impacts seen through funding arrangements, pathway policies and the skills continuum
- B. responsibility for funding and financing of VET is shared between the Australian Government, state and territory governments, employers and individuals. The Australian Government provides funding to the sector through its own programs such as the Australian Apprenticeship Incentives Program, the Skills for Education and Employment program and additional financial support to students through VET Student Loans and Trade Support Loans
- C. the differences in local labour market conditions and economies, and the need to deliver opportunities and outcomes for all Australians regardless of geographic, social or personal circumstances
- D. the National Skills and Workforce Development Specific Purpose Payment (SPP), made under the Intergovernmental Agreement on Federal Financial Relations. These payments are made independently of the NASWD and are not tied to the achievement of outcomes. The only requirement is that the money is spent on skills and workforce development
- E. the Skilling Australians Fund, currently managed through a National Partnership Agreement with signatory state and territory governments, aimed at supporting apprenticeships, traineeships and employment related training

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<sup>2</sup> The Honourable Steven Joyce, Strengthening Skills Expert Review of Australia's Vocational Education and Training System, 2019, [www.pmc.gov.au/sites/default/files/publications/strengthening-skills-independent-review-australia-vets\\_1.pdf](http://www.pmc.gov.au/sites/default/files/publications/strengthening-skills-independent-review-australia-vets_1.pdf).

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- F. the Joyce Review, commissioned by the Australian Government, recommendations in relation to skills programs and VET funding. For example, the report recommended that the Australian Government and state and territory governments agree to a new national agreement where the parties co-fund subsidised qualifications based on nationally consistent subsidy levels
  - G. the August 2019 COAG agreement for a shared vision for VET that delivers high quality education and training that helps all Australians, and meets the needs of students and employers and any further decisions taken by COAG and Skills Council during the review.
  - H. the new measures in the \$525 million Skills Package ‘Delivering Skills for Today and Tomorrow’ announced as part of the 2019–20 Budget.

## **Process**

The Productivity Commission is to consult broadly including with state and territory governments, provide an interim report in March 2020 that has particular regard to points two, three and five above, and final report within 12 months of receipt of the terms of reference.

**The Hon Josh Frydenberg MP**

Treasurer

[Received 15 November 2019]

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## Contents

Terms of reference	iii
1 About this study	1
2 Assessing performance and the suitability of the agreement	4
3 How well is the VET system working?	14
4 Funding and pricing of VET	22
5 Government investment in VET	30
6 Options to better coordinate and streamline initiatives	34
7 Other targeted reforms	35
References	37
Attachment A: How to make a submission	41

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# 1 About this study

## The Commission's task

This study has been commissioned as one of a series of reviews of national agreements established under the auspices of the *Intergovernmental Agreement on Federal Financial Relations* (COAG 2009).<sup>3</sup>

The *National Agreement for Skills and Workforce Development* (NASWD) was agreed by the Australian, State and Territory governments in 2009 and updated in 2012. The NASWD sets out goals for skills attainment by Australians through the vocational education and training (VET) system and commitments to reforms to ensure that the system is accessible, produces high quality services and operates efficiently.

The NASWD contains performance indicators and targets to track progress. To improve accountability, the agreement was intended to clarify the roles and responsibilities of governments. Taken together, these commitments were intended to create an effective partnership between governments in setting policy for, and overseeing the provision of, VET services.

This study will assess progress made by governments against the NASWD, and whether the agreement is still an effective long-term framework for government policy and cooperation.

The Commission has also been asked to investigate the following matters with a view to improving the performance of the VET system:

- (a) options for coordinating and streamlining governments' support for the VET system
- (b) options for nationally-consistent funding and pricing arrangements
- (c) options for promoting consistency in funding and loan arrangements between VET and higher education
- (d) options to ensure that government investment in VET encourages increased participation in training, and is commensurate with the outcomes and benefits derived by beneficiaries
- (e) the potential for funding arrangements to achieve further targeted reforms, such as extending foundational learning programs and other recommendations made by the *Strengthening Skills: Expert Review of Australia's Vocational Education and Training System* (the Joyce Review) (Joyce 2019)
- (f) options to improve performance reporting, data and information sharing to assess the effectiveness of VET investment and delivery.

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<sup>3</sup> The National Agreement on Skills and Workforce Development is the second of six nationally significant agreements to be reviewed. The Commission reviewed the first, the National Disability Agreement, in 2018.

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The Commission is to produce an interim report by March 2020 that has particular regard to items (a), (b) and (d) above, and a final report by November 2020.

## **Our assessment approach<sup>4</sup>**

The Commission will assess progress against the specified objectives, outcomes, performance indicators, targets, reform directions and government roles and responsibilities in the NASWD. To assess the continuing value of the NASWD, the Commission will also consider how the agreement aligns with contemporary policy issues and goals.

The Commission will review policy settings in areas where we have been asked to consider specific reform options.

### **Assessing the NASWD in context**

As recognised in the NASWD, the training offered by the VET system is only one factor contributing to the skills levels of Australia's workforce. Skills are attained through many other channels, such as schools, universities, workplace training and work experience. When assessing the contribution of the VET system to the goals set in the NASWD, the Commission will take into account policies in these and other areas that materially affect the performance of VET.

### **How does this study relate to other reviews?**

This study will examine options for implementing several recommendations (related to the funding of VET courses and targeted funding programs) made by the Joyce Review (box 1). The Commission will draw on the Joyce Review more generally in this study as well as evidence from other relevant reviews, including:

- reviews of States and Territories' administration and supervision of VET in their jurisdictions
- the review of the *National Vocational Education and Training Regulation Act 2011* (the Braithwaite Review) (Braithwaite 2018)
- the *Review of the National Partnership Agreement on Skills Reform* (ACIL Allen 2015)
- the Australian Qualifications Framework review (the Noonan Review) (Noonan et al. 2019)
- the review of senior secondary pathways into work, further education and training (COAG Education Council 2019)
- the review of the Australian Apprenticeships National Skills Needs List (DESSFB 2019a).

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<sup>4</sup> Consistent with the NASWD, the Commission will primarily focus on formal, accredited VET in this study — that is, education and training that is delivered in a structured or organised way that leads to a nationally recognised qualification.



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## Box 1 **Joyce Review findings and recommendations**

The Joyce Review proposed a ‘strategic roadmap’ for reforming the vocational education and training (VET) system, with a view to ensuring that the system meets Australia’s future skill needs and provides ‘a modern, fast-paced alternative to classroom-based education’ (2019, p. 29). It considered that there should be reform of six main areas: quality assurance, qualification development, funding and skills matching, careers information, secondary school pathways and access for disadvantaged Australians.

### **Key findings**

The Review considered that the main problems with the VET system are:

- training content is not developed in a timely way, so nationally recognised qualifications available do not always match those needed in the economy
- the quality of training offered is variable, a product of how assessments are designed and gaps in approaches to regulating training organisations
- there is unnecessary complexity and variation in the funding and pricing of courses due to States and Territories determining course subsidies and regulating fees and prices differently
- there is a lack of clear guidance for students on education options and career paths, particularly for secondary school students participating in VET courses
- there is insufficient access to language, literacy, numeracy and digital (LLND) training for adults with lower skill levels
- VET completion rates and employment outcomes are lower for Aboriginal and Torres Strait Islander people, particularly in regional and remote areas.

### **Key recommendations**

The Review proposed a new governance architecture to provide clearer and more transparent roles and responsibilities for governments, and an increased role for industry in the VET system. It recommended:

- strengthening quality assurance, with additional regulatory guidance for providers and an ‘educative’ approach to improving quality in the VET sector
- introducing benchmark hours for courses to ensure they are not unduly short, and piloting of independent and proficiency-based assessment
- simpler funding and skills matching with a new body, the National Skills Commission (NSC), responsible for determining nationally-consistent subsidy levels and skills demand forecasts
- speeding up qualification development, by introducing industry-led Skills Organisations to undertake qualification development, with final qualifications approved by the Australian Skills Quality Authority (ASQA)
- additional funding and a national agreement for foundational learning to deliver nationally-consistent access to LLND skills for adults
- a National Careers Institute, an independent office within the NSC to provide a single government source of careers information and promote vocational career pathways.

Many of Joyce’s 71 recommendations require agreement between governments. The Australian Government announced several initiatives in the 2019-20 Budget in response to the Joyce Review, including establishment of the NSC and piloting of the proposed Skills Organisations.

*Sources:* Department of Employment, Skills, Small and Family Business (2019c); Joyce (2019).

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#### INFORMATION REQUEST 1

*The Commission welcomes views on our proposed approach to this study, and on any other reviews that are of relevance to this study.*

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## How you can contribute to this study

This paper sets out the Commission's initial views on questions and issues raised by the study's terms of reference. It provides a starting point on these matters only — the Commission welcomes evidence and comment on any considerations raised by the terms of reference.

Attachment A explains how to make a submission. Submissions should be made by **20 December 2019**. These submissions will inform the production of an interim report, which will be released by the end of March 2020.

After the release of the interim report, the Commission will call for further submissions to inform the final report, which is due to the Australian Government by November 2020. Details of the Commission's consultation processes can be found at <https://www.pc.gov.au/inquiries/current/skills-workforce-agreement>.

## Structure of this paper

Section 2 of this paper considers performance against the specific goals of the NASWD. As a strict assessment against these terms will provide a partial picture on system performance and thus guidance on the ongoing suitability of the agreement, section 3 considers further how well the system is working.

The remaining sections of the paper consider specific policy areas raised in the other terms of reference — funding and pricing arrangements (section 4), government investment in VET (section 5), the potential for better coordination and streamlining of government support for VET (section 6) and other targeted reforms (section 7).

## 2 Assessing performance and the suitability of the agreement

The NASWD specifies governments' shared objectives for the VET system, outcomes that the agreement should contribute to and performance indicators to track progress. It also sets out:

- long-term targets for skills attainment by the working-age population

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- the roles and responsibilities of Australian, State and Territory governments with respect to supporting and overseeing the VET sector
  - reform directions, which specify policy priorities and reform initiatives.

## **How well have the NASWD's objectives been achieved?**

The NASWD sets out a broad objective for VET:

A VET system that delivers a productive and highly skilled workforce and which enables all working age Australians to develop the skills and qualifications needed to participate effectively in the labour market and contribute to Australia's economic future; and supports the achievement of increased rates of workforce participation. (COAG 2012b, para. 18)

The agreement also indicates subsidiary objectives for the national training system, including that it:

- meets industries' needs promptly as the economy changes
- is accessible to all working-age Australians
- works with businesses to provide Australians with the opportunity to develop and use their skills
- is accessible to, and meets the needs of, people experiencing disengagement or disadvantage who may need additional support, including young people, Aboriginal and Torres Strait Islander people and people in certain locations
- is centred on quality teaching and learning outcomes
- provides individuals, businesses and jurisdictions with access to information about training products, services and outcomes so that they can make informed choices
- provides pathways into, and removes barriers between, schools, vocational and higher education and employment
- has a stable funding base and promotes opportunities for shared investment by governments, businesses and individuals
- is efficient, in that government efforts appropriately respond to areas of future jobs growth and works to support the skills needs of the Australian businesses and industries (COAG 2012b).

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### *INFORMATION REQUEST 2*

*The Commission seeks evidence on how well the National Agreement for Skills and Workforce Development's (NASWD) objectives for the vocational education and training (VET) sector have been met, and the reasons for those outcomes.*

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## Are the NASWD's objectives suitable for the future?

Governments' objectives set the basis for assessing performance, the suitability of policy settings for the future and directions for policy change. It is important, therefore, that objectives are clear and, when there are multiple objectives, their relative priority is known.

The Council of Australian Governments (COAG 2019) recently released a vision statement for the VET sector, which generally reaffirmed governments' desired features of the VET system for users. The statement emphasised, however, the changing nature of work associated with economic and technological change and the part that VET should play — as an 'equal and integral part ... of a joined up and accessible post-secondary education system' with higher education — in helping people to adapt to these trends by developing new skills over their careers.

### What should governments' priorities be?

A range of commentators have expressed similar visions for VET. For example, the Business Council of Australia (BCA 2018), Noonan et al. (2019) and Dawkins et al. (2019) saw Australia's VET sector sitting in parallel with the higher education sector, where users could select offerings from both to obtain skills over their working lives.

The Joyce Review (2019) considered that the VET system will play an increasingly important role in equipping people with up-to-date skills as the pace of technological change increases. Braithwaite's (2016) vision centred on having high quality skills training that met student needs, was valued by employers, and contributed to human capital formation.

There are a range of views on policy directions for the VET system. For example, the BCA (2018) has called for government funding of VET and higher education to be set on a 'sector-neutral' basis, delivered through a Lifelong Skills Account for accredited learning at Australian Qualifications Framework (AQF) levels 5 to 9. It has also called for recognition of 'micro-credentials' (or short-form courses) as a flexible alternative to full qualifications for efficient upskilling. The Noonan Review (2019) of the AQF also supported recognition of micro-credentials alongside proposed revisions to the AQF architecture (section 3). The Joyce Review has recommended wide-ranging reform to raise the status of the VET sector and better position it to meet students' and the economy's needs.

Recent changes in learning methods could also modify policy priorities. For example, new models of education service delivery (such as online learning) could reduce the cost of acquiring skills and the need for interventions seeking to overcome financial constraints on access. But a revised skills assessment framework may be needed to facilitate the independent accreditation of skills obtained through any learning method if online and other emerging forms of learning play a larger part in the skills formation of workers (PC 2017a).

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## What is the role of the VET system?

For many people, the defining feature of the VET system is its focus on employment-related training — equipping people with technical and other ‘practical’ skills to secure new or better jobs.

However, the VET sector caters for a much broader range of needs and interests, including meeting regulatory requirements (such as responsible service of alcohol courses), increasing literacy and numeracy skills, providing bridging qualifications to enter into higher education and learning for hobby interests.

On the wide range of courses offered by the VET system, the Joyce Review (2019, p. 31) considered that the ‘flexibility and variety in VET are strengths but also a weakness’ as the different types of VET services are not clearly understood by potential students. The Joyce Review proposed that qualification-based training — the training considered to be the most closely linked to employment — be elevated as the primary stream of VET.

COAG’s focus is also on training that helps people to participate in the labour market. At present, governments express their preference for job-related courses by directing most public funding towards those conferring full qualifications (Joyce 2019).

A question for the study is whether policy settings need to change to ensure governments’ skills development objectives are met.

A second question about VET’s role concerns how it differs from higher education. There has long been overlap in the types of qualifications the sectors offer — that is, at the diploma level. Surveys suggest VET diploma graduates rate the vocational benefits of their training above those of higher education diploma graduates (Fowler 2018), but the overlap between sectors goes beyond qualification types. Providers in both sectors are changing their offerings to meet employers’ demands for graduates who have both discipline knowledge and technical skills (Fowler 2017). There has also been an emergence of dual-sector providers — institutions offering both higher education and VET to students (including universities, TAFEs and other providers).

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### INFORMATION REQUEST 3

The Commission seeks views on:

- whether the objectives and policy directions for the VET sector set out in the NASWD are suitable for the future and why
  - if currently-stated objectives and policy directions for the VET sector are suitable for the future, which should be given priority
  - if currently-stated objectives and policy directions are not suitable for the future, how they should be changed and evidence in support of proposed changes.
- 

## Outcomes, performance indicators and targets

The NASWD's outcomes, performance indicators and targets<sup>5</sup> are set out in figure 1. Progress against targets and most performance indicators is measured annually as part of the Steering Committee for the Review of Government Service Provision's (SCRGSP) *Report on Government Services and Performance Dashboard* (SCRGSP 2018a).

### Current performance

Formal reporting to date indicates mixed progress against the outcomes in the NASWD:

- Outcome 1 — the proportion of working-age Australians<sup>6</sup> with higher-level qualifications (Certificate III and above) increased between 2009 and 2019 (ABS 2019) but the share of employers satisfied with nationally recognised training declined between 2009 and 2019 (NCVER 2019b)
- Outcome 2 — the proportion of the working-age population with or working towards a non-school AQF qualification increased between 2009 and 2019 (ABS 2019). Due to lack of data, it is uncertain whether the proportion of the working-age population with adequate foundation skills has increased since 2009<sup>7</sup>
- Outcome 3 — the proportion of VET graduates with improved education status after training increased between 2010 and 2017, however the proportion with improved employment status declined between 2009 and 2018<sup>8</sup> (SCRGSP 2015, 2016, 2018b).

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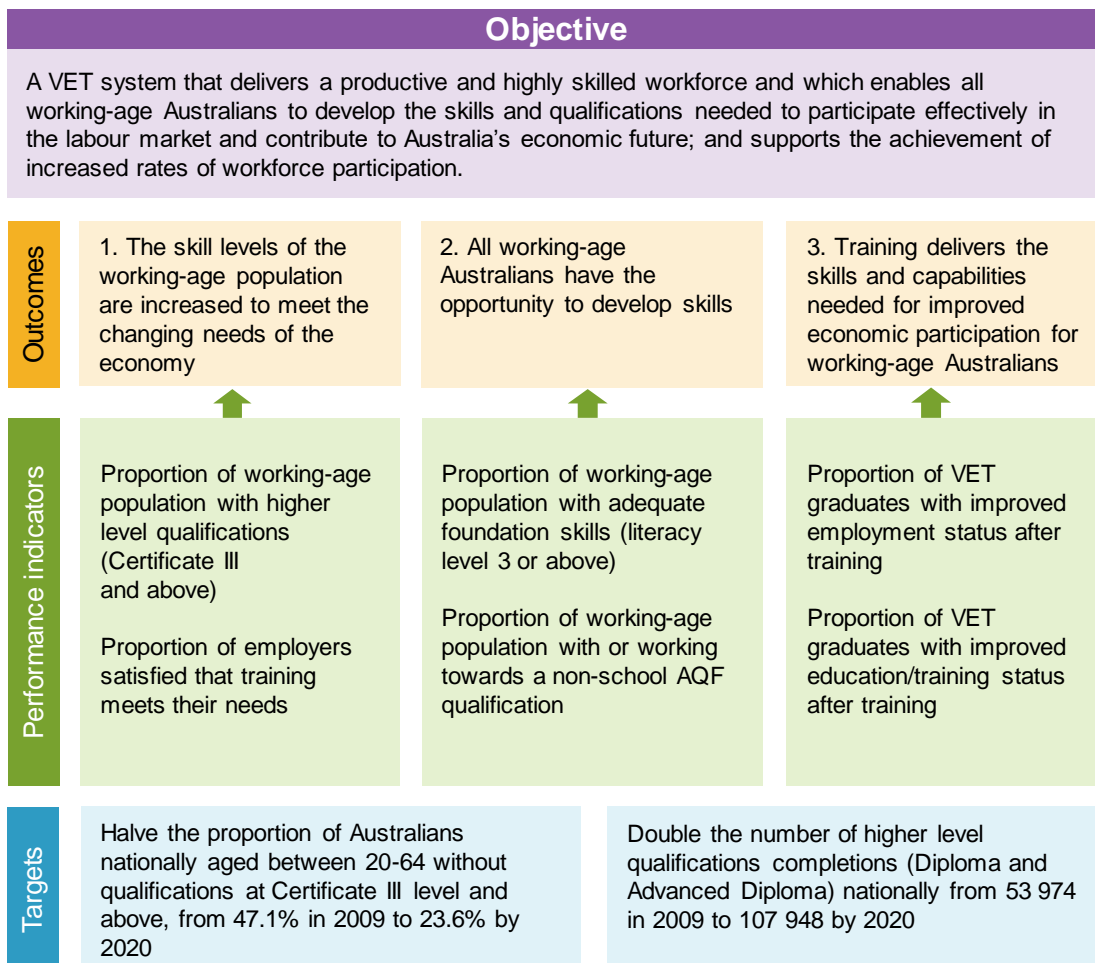
<sup>5</sup> The NASWD's outcomes and performance indicators were clarified and simplified in 2012 after a review of performance frameworks for national agreements. The discussion in this part refers to the revised indicators.

<sup>6</sup> Includes Australians aged 20-64 years.

<sup>7</sup> Available data from the Australian Bureau of Statistics (ABS) — collected through national and international surveys — shows that between 2006 and 2011, the proportion of Australians aged 15 to 64 years with literacy levels 3 and above had marginally declined (57.1 per cent to 56.5 per cent) (ABS 2013).

<sup>8</sup> Includes government-funded VET graduates only.

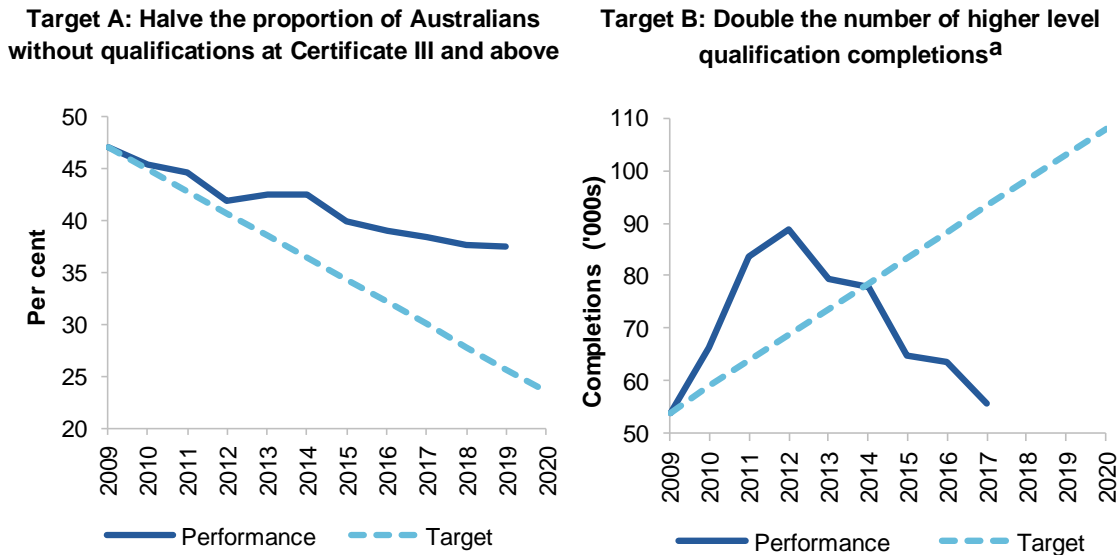
Figure 1 **NASWD's performance reporting framework**



Source: COAG (2012b).

Performance against the two NASWD targets is also not on track (figure 2).

**Figure 2 Australia’s performance is not on track**



<sup>a</sup> Higher-level qualifications defined as diplomas and advanced diplomas. Includes government-funded VET and domestic and international fee-for-service activity of government VET providers only.

Sources: ABS (2019); PC (2019).

### Limitations of current performance reporting

There are several limitations to the performance information reported above.

- The performance indicators and targets are loosely related to or give partial pictures on outcomes. For example:
  - the two performance indicators for Outcome 2 — all working-age Australians have the opportunity to develop skills — measure the proportion of the population with adequate foundation skills and who have or are working towards a non-school qualification, which do not indicate the degree of opportunity to develop skills afforded to either the general population or groups requiring additional support
  - the targets concern attainment of higher-level qualifications, not whether the qualifications are those needed to improve workforce participation or meet the changing needs of the economy.
- The performance indicators do not indicate what constitutes good performance, such as by providing benchmarks for achievement or success.
- For one indicator, adequate data are not collected at regular intervals — adult literacy data are collected using an international survey every 10 years.



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- The coverage of reporting of the performance indicators and targets is not complete.
    - The reported proportion of VET graduates with improved education status after training includes only government-funded completions.
    - Similarly, progress against target B — doubling the number of higher-level qualifications completed — is only reported for government-funded qualifications and those completed through Technical and Further Education (TAFE) colleges and other government providers.

In addition, factors outside the national training system will affect the achievement of outcomes and targets set in the NASWD. For example, low literacy skills among young apprentices and students' views about their long-term prospects in the labour market can be contributing factors to low completion rates for VET qualifications (Beddie 2015). Similarly, the economic cycle affects the job market outcomes of graduates. This can limit the usefulness of employment-related indicators in assessing whether the VET system is meeting student and employer needs.

The Commission welcomes additional evidence on how well outcomes and targets under the NASWD have been achieved and what has contributed to these results. The Commission also seeks information on how performance data are used — for example, how it informs program appraisals and policy directions.

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#### *INFORMATION REQUEST 4*

- *What evidence (other than that included in the Report on Government Services and Performance Dashboard) is available to assess performance against outcomes and targets in the NASWD?*
  - *What has affected the achievement of outcomes and targets to date, and how?*
  - *Do current indicators and targets provide the right information to assess performance? For example:*
    - *are the indicators and targets fit for purpose — are they reasonable and attainable; do they adequately reflect contemporary policy settings?*
    - *how well do the outcomes, performance indicators and targets link to each other and the objective?*
  - *How are performance data interpreted and used?*
  - *Are there other areas of performance that should be measured and, if so, why? What types of indicators should be adopted for these areas?*
  - *What should a future performance framework look like and include?*
-

## Roles and responsibilities of governments

The NASWD sets out the roles and responsibilities of the Australian, State and Territory governments (figure 3). The State and Territory governments are primarily responsible for training markets and overseeing public expenditure; many other functions are shared with the Australian Government, including overseeing the quality of training.

Clarity on roles and responsibilities is important to ensure that policies are targeted and designed well (including having the desired national or local characteristics), tasks are undertaken efficiently and there is clear accountability for outcomes.

Figure 3 **Summary of governments' roles and responsibilities in the NASWD**

Commonwealth	Shared	State and Territory
<ul style="list-style-type: none"> <li>Support the States and Territories' training systems through funding contributions</li> <li>Provide specific incentives and interventions</li> <li>Coordinate reporting requirements under legislation</li> <li>Ensure data is provided as required</li> </ul>	<ul style="list-style-type: none"> <li>Develop and maintain the national training system</li> <li>Raise the status of VET and Australian Apprenticeships</li> </ul>	<ul style="list-style-type: none"> <li>Determine resource allocation</li> <li>Oversee the expenditure of public funds for, and delivery of, training</li> <li>Ensure the effective operation of the training market</li> </ul>

Source: COAG (2012b).

## Reform directions

The NASWD sets out reform directions aimed at creating a system that is efficient and responsive to users and the broader economy, supports the attainment of higher-level qualifications and provides universal access to training (box 2).

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## Box 2      **Reform directions in the NASWD**

The NASWD outlines ten policy reform directions:

- improving training accessibility, affordability and depth of skills
- improving training participation and qualification completions
- encouraging responsiveness in training arrangements by facilitating a more open and competitive training market
- enabling public providers to operate effectively in an environment of greater competition
- strengthening the capacity of public and private providers and businesses to deliver training and support people in training
- streamlining the Australian Apprenticeships System
- assuring the quality of training delivery and outcomes, with an emphasis on measures that give industry more confidence in training delivery and assessment
- providing greater transparency through better information for users, policymakers and regulators
- increasing industry's engagement with the VET sector to ensure training outcomes are high quality and relevant to the needs of employers
- facilitating more interconnected tertiary and training sectors, with better links between employment services and training provision.

Source: COAG (2012b).

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### INFORMATION REQUEST 5

- *How well does the NASWD describe the roles and responsibilities of governments in skills and workforce development? Could this be improved?*
- *How well have the Australian, State and Territory governments fulfilled the agreed reform directions and their roles and responsibilities?*
- *How could governments better work together, for example, to improve the efficiency of tasks, or support accountability for outcomes?*

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Several of the NASWD's reform directions focus on the desired characteristics and operation of the training system (in contrast to training outcomes). This aspect is considered in more detail in section 3 as part of the broader question of how well the system is operating.

## **How well has the 'new' approach to intergovernmental relations under the NASWD worked?**

In comparison to previous intergovernmental agreements on the VET system, the NASWD was intended to provide greater clarity on the roles and responsibilities of governments and allow States and Territories more flexibility in the use of funds so that they could better meet

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the skills and workforce development needs of their jurisdictions in line with agreed national aims (COAG 2008). For example, the National Skills and Workforce Development Specific Purpose Payment provided by the Australian Government to State and Territory governments is not tied to specific actions or outcomes, and only required to be spent on skills and workforce development. In contrast, the 2005–2008 Commonwealth-State Agreement for Skilling Australia’s Workforce (Commonwealth of Australia 2006) tied the release of funds to compliance with certain planning requirements.

Through the NASWD, COAG also hoped to improve public accountability and reduce administrative costs with a focus on outcomes-based reporting, provide funding certainty and improve the equity of Commonwealth funding distributions to the States and Territories by basing these on population shares (COAG 2008).

## **A future agreement**

The Commission is interested in the broader question of the form of a future national agreement. This includes whether some mechanism(s) other than or in addition to an intergovernmental agreement would better meet governments’ objectives for the VET system and facilitate policy cooperation and accountability for outcomes.

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### *INFORMATION REQUEST 6*

- *How well have the intergovernmental arrangements instituted under the NASWD worked?*
  - *Is an intergovernmental agreement still required, or the best instrument, to promote collaboration on policy directions and reform, and accountability for outcomes?*
    - *If not, what alternative mechanism(s) would be suitable?*
    - *If so, how should its overall form and structure differ from the existing agreement?*
- 

## **3 How well is the VET system working?**

The NASWD indicates that the national training system should provide training that is relevant (including in the context of changing economy needs), of high quality, accessible and, for those requiring additional support, tailored in its delivery. Governments envisaged many of these qualities would be facilitated by a more open and competitive training market.

This study does not constitute a review of the training system as a whole, but some aspects of the training market and broader system are outlined below to aid considerations on the success of the NASWD and continuing suitability of the agreement. This section also provides some context for the discussion on reform options later in this paper.

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## Characteristics of the VET market

The VET market is a central mechanism committed to by governments to achieve their shared aims for the national training system. Assessing progress made against the NASWD therefore requires an understanding of how the VET market operates in practice and why.

The VET market comprises different types of users with diverse interests and many providers (box 3). The Australian, State and Territory governments oversee the development of training content, regulate training providers (known as registered training organisations (RTOs)), make interventions to meet labour market needs and seek to ensure the effective operation of the training market. Some of these tasks are undertaken on a nationally-consistent basis — chiefly those related to course accreditation and quality; other aspects are jurisdiction-specific and approached differently by each government. Hence, the training market operates differently in each jurisdiction.

This tension between national consistency and local flexibility is a deliberate feature of the national training system (Bowman and McKenna 2016b). A question for the study is whether the balance between consistency and flexibility is efficient in supporting governments to meet their shared aims.

The VET provider market features few larger and many relatively smaller RTOs (Korbel and Misko 2016). The size and structure of the VET market raises challenges for users and regulators. For example, there is a plethora of fragmented information on VET courses, which makes it difficult for users to navigate and choose the right course (Joyce 2019; PC 2017a). The sheer number and diversity of providers adds to this navigation task. Other commentators have questioned whether the market structure adequately harnesses potential economies of scale and optimally meets Australia's skills and training needs. Myconos, Clarke and te Riele (2016), for example, noted that many private RTOs may be too small to provide adequate infrastructure and support services to young early school leavers.

The VET market is challenging for regulators (outlined below) to oversee. One review described RTOs as comprising a 'continuum of organisations ranging from the highest performers to those acting on the edges of almost criminal enterprise' (Braithwaite 2018, p. 7).

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### Box 3 **An overview of the VET market**

VET services are diverse, reflecting the variety of student types and needs serviced by the market. The main ‘product’ in the VET market is training packages — a set of nationally-endorsed standards and qualifications for recognising and assessing people’s skills in a specific industry or sector. There are 57 training packages comprising over 1400 qualifications (spanning levels 1 to 8 of the Australian Qualifications Framework (AQF)) and over 1300 skillsets (Australian Government 2019). The top four packages (Business Services, Community Services, Tourism, Travel and Hospitality and Construction, Plumbing and Services Integrated Framework) account for nearly half of all training package enrolments (Joyce 2019).

Governments also bundle a range of non-formal VET (including foundation skills courses and some non-accredited industry-specific training delivered by registered training organisations (RTOs)) under the umbrella of VET for funding purposes (Joyce 2019).

#### **Users of VET services**

VET users include those seeking vocational qualifications, school students, apprentices, and others looking to develop foundational skills, enter higher education or pursue a hobby. About 4.1 million students participated in VET in 2018 (NCVER 2019e), compared with over 1.3 million in higher education (DET 2018a) and 3.9 million in schools (ACARA 2019). In 2017, about half of VET students were training for an AQF qualification and half were studying short courses (Joyce 2019). VET users also have a broad student age profile, with a quarter of students aged 45 or older (NCVER 2019e). Equity groups — such as Aboriginal and Torres Strait Islander peoples or individuals living in regional or remote areas — tend to be overrepresented in VET (Ey 2018; SCRGSP 2019).

Employers are also ‘users’ of VET services, whether as beneficiaries of apprenticeship and traineeship programs or directly as purchasers of VET services for their employees. Industries more broadly rely on the quality of VET to develop a well-skilled workforce, and their interests are represented via involvement in the training package and qualification development process.

#### **Providers of VET services**

In October 2019, there were about 4100 RTOs providing VET services (Australian Government 2019), down from almost 5000 in 2014 (Korbel and Misko 2016). RTOs may be private or public, the latter being Technical and Further Education (TAFE) colleges (who dominate enrolments), government schools and government enterprises.

There are a diverse range of VET providers, including education or training businesses, professional associations and industry associations. Private providers make up the bulk of VET providers (75 per cent in 2017) (NCVER 2018). Community education providers (which have a primary focus on education and training for personal and community development), schools and TAFE institutes service most of the remaining market.

Providers vary considerably in size. Most private providers are small compared with TAFEs. For example, in 2014, about one-third of private providers had fewer than 100 students, whereas most TAFEs had more than 10 000 (Korbel and Misko 2016).

Typically, both public and private providers are eligible for public subsidies through a competitive funding model, although allocation models vary across States and Territories. In 2018, 1747 training organisations delivered government-funded VET. Over half (52 per cent) of government-funded students attended a TAFE or other government provider and most RTOs receiving government funding were non-government providers (NCVER 2019a).

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INFORMATION REQUEST 7

- *Does the current division of joint and jurisdiction-specific policy approaches (and approach to managing the associated tensions) produce the best outcomes?*
  - *Is the current market structure efficient, and is it well-placed to meet Australia's current and future skills and training needs?*
- 

## **Supervision of VET supply**

### The qualification development process

The Australian, State and Territory governments (through the COAG Skills Council) supervise and approve the development of training packages. The Australian Government funds industry bodies known as Industry Reference Committees (IRCs) and Skills Service Organisations (SSOs) to identify sector-specific skills needs and develop nationally recognised training packages (DET 2015). The industry-led Australian Industry and Skills Committee (AISC) also approves training packages.

Participants in the Joyce Review identified concerns with the timeliness of developing qualifications and the relevance of training content to labour market needs. The Review proposed a simplified process for qualifications development and assessment, with industry-led Skills Organisations developing training packages (Joyce 2019).

The Review also proposed that Skills Organisations replace the role of the current AISC, IRCs and SSOs to: assess industry skills needs, provide careers information to students, manage apprenticeship and traineeship support, and endorse preferred training providers — funded jointly by the Australian Government and employers (Joyce 2019). A program to pilot Skills Organisations is underway.

A recent review of the AQF (Noonan et al. 2019), which underpins qualifications in VET, higher education and schools, has proposed a range of changes to clarify qualification types, reflect emerging skills needs, facilitate credit recognition, including of shorter-form credentials, and support learner pathways within and between education and training sectors.

### Training quality and safeguarding

Governments share responsibility for ensuring 'high quality training delivery' (COAG 2012b). All governments oversee the quality of VET through a nationally recognised qualification system under the AQF, the approval of training packages by the COAG Skills Council, and regulation of RTOs (by the Victorian Registration and Qualification Authority, Western Australia Training Accreditation Council and the Australian Skills Quality Authority (ASQA) for other States and Territories).

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The Braithwaite Review reviewed the capacity of ASQA and concluded that the existing regulatory framework, functions and powers were appropriate. However, it considered ASQA should deepen the quality of its regulatory engagement, better manage entrance to the market and focus more on the ‘hard cases’ (Braithwaite 2018).

Both the Braithwaite and Joyce Reviews observed that the VET system generally provides high quality services (Braithwaite 2018; Joyce 2019), but, as noted above, employer satisfaction with nationally recognised training is declining.

There are concerns that a small number of providers delivering poor quality services are affecting the reputation of the sector. More broadly, the Joyce Review noted that the competency-based approach to assessments allows a ‘tick and flick’ approach to teaching, provides no information on the level of proficiency gained and contributes to unreasonable variations in the quality of services from RTOs (Joyce 2019, p. 35). Consumer protections were considered insufficient to address these issues by either review.

Both Joyce and Braithwaite identified problems with ASQA’s regulatory approach, with some providers lacking understanding of the approach to audits and feeling they had insufficient information and guidance on regulatory requirements (Joyce 2019). The Joyce Review also heard concerns about multiple audit requirements for government-funded services, given checks by ASQA, State and Territory training authorities, multiple Australian Government funding authorities and professional licensing bodies (Joyce 2019). The experience of the VET FEE-HELP scheme has further contributed to concerns about the adequacy of supervision over the sector.

The Reviews made recommendations to improve the quality of VET services by embedding incentives and approaches to regulation that encourage and reward high performance.<sup>9</sup> Recommendations included:

- that ASQA adopt a proactive ‘educative’ and ‘student-focused’ regulatory approach to improving quality, instead of a sole focus on compliance (Braithwaite 2018; Joyce 2019)
- increased use of proficiency-based assessment to create incentives for RTOs to improve teaching effort and reward students for high performance (Joyce 2019)
- additional powers for ASQA to better control RTO registrations, and increased registration requirements to improve the standards of RTOs entering the market (Braithwaite 2018; Joyce 2019)
- use of benchmark hours to prevent unduly short courses (Joyce 2019)
- strengthening the consumer protection framework for VET students by having a single ombudsman, either through establishing a Tertiary Ombudsman (spanning VET, higher education students and overseas students) (Braithwaite 2018) or expanding the remit of the Australian Government VET Student Loans Ombudsman’s role to resolve consumer complaints against RTOs (Joyce 2019).

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<sup>9</sup> The Australian Government is working with key stakeholders to implement the Braithwaite Review’s recommendations (DESSFB 2019b).



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#### INFORMATION REQUEST 8

*The Commission seeks evidence on how the issues identified in recent reviews (or other issues) have affected the achievement of aims in the NASWD, and any additional opportunities to better meet governments aims for the VET system. For example:*

- are there ways to improve VET service quality and responsiveness in addition to those already identified in past reviews?*
  - how effective are consumer protection arrangements? What are the pros and cons of different models operating in different jurisdictions? How do these operate in addition to national protections under consumer law?*
- 

## **Government interventions to influence demand and supply**

The Australian, State and Territory governments all seek to ensure that training offered by the VET system meets labour market needs and have sought to expand and improve competition in supply. The Commission will consider whether governments' main initiatives are achieving their aims and doing so in a way that improves the operation of the market. Funding programs are considered further in section 4.

### **Matching supply and demand**

Australian, State and Territory governments, along with industry, assess current and future skills needs to link VET services to labour market skills shortages, although different jurisdictions use different approaches. Skills needs assessments inform the allocation of government subsidies for courses, student financing and apprenticeship incentives.

To better match VET sector offerings to labour market needs, the Australian Government is establishing the National Skills Commission (NSC). As proposed by the Joyce Review, the NSC is to work with State and Territory governments to:

- identify workforce skills needs to determine a national picture of current and forecast labour market skills demand and provide a single authoritative source of skills needs
- develop a nationally-consistent approach to costing and subsidies (discussed further in section 4), where the NSC would administer all Commonwealth VET funding based on a nationally agreed course subsidy level and price. Qualification subsidies could link to labour market demand, the extent of public or private benefits, and activity-based costs (Joyce 2019).

An aim of governments under the NASWD is that all market players — training users, providers and governments — have information on training products, services and outcomes so they can make informed decisions. The Joyce Review found that information for students is still not clear and reliable. As a result, some students may not choose the best course and provider for their needs, and their career aspirations are not always aligned to their

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educational plans (Joyce 2019). The Australian Government has established a National Careers Institute to improve the quality of career information and advice for users, as recommended by the Joyce Review.

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*INFORMATION REQUEST 9*

- *How effective are skills needs assessments as a basis for estimating demand for VET services?*
    - *How do governments' skills needs matching efforts alter student demand for VET?*
    - *Are priority skills lists the best way of signalling skills shortages?*
    - *How could nationally-consistent skills demand forecasting be implemented to better match training to the economy's needs?*
  - *Noting that the National Careers Institute will cater for students' needs, do other market players have access to information to efficiently inform their choices? If not, how could this be improved?*
- 

## Major reform initiatives

Governments agreed to specific actions to implement the reform directions under the NASWD (box 4). Key reforms have included the introduction of a national training entitlement and the expansion of income-contingent loans through the VET FEE-HELP scheme.

The training entitlement scheme has been the primary means of increasing competition in supply in the VET market. Entitlements have been instituted differently in each State and Territory, contributing to differences in how training markets work in each jurisdiction.

Income-contingent loans were expanded through the VET FEE-HELP scheme in 2012 to provide access to finance for students studying higher level qualifications. The scheme was expanded due to the initial low uptake of the program, and numbers in the scheme increased from 5262 in 2009 to 272 000 in 2015 (DET 2017). Following concerns about the costs of the scheme, quality of courses being offered and widespread misrepresentation by providers, VET FEE-HELP was replaced by the VET Student Loans (VSL) in 2017 (section 4; Braithwaite 2018).

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#### Box 4      **Actions by government to support reform directions**

The COAG communique accompanying the signing of the (revised) NASWD set out key actions to support reform directions in the NASWD, including:

- introducing a national training entitlement for a government-subsidised training place to at least the first Certificate III qualification
- extending the availability of income-contingent loans to government-subsidised diploma and advanced diploma students
- developing and piloting independent validation of training provider assessments and implementing strategies that enable TAFEs to operate effectively in an environment of greater competition
- improving access to information about training options, training providers and provider quality on a new My Skills website
- supporting around 375 000 additional students over five years to complete their qualifications, and improving training enrolments and completions in high-level skills, particularly among disadvantaged students, including Indigenous Australians.

*Source:* COAG (2012a).

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#### *INFORMATION REQUEST 10*

- *How have the reforms undertaken by governments (such as the national entitlement system and introduction of income-contingent loans) shaped the operation of the VET market?*
  - *How well have these reforms contributed to the achievement of the NASWD's aims (such as improved access, quality and market efficiency)?*
  - *What lessons can be learned from past reforms?*
- 

### **How efficiently is the VET market operating?**

As previously noted, governments sought to establish a more open and competitive training market (COAG 2012b). The Commission will therefore consider the operation of the VET market against standard indicators to assess the progress made by governments against the NASWD, including that:

- the attributes of services being provided — such as their type, quantity, quality and location — are those that system users and the community most value
- the market is operating efficiently — such that supply matches users' needs and preferences as they change, services are delivered as efficiently as possible, and users easily find the services they want

- 
- the prices paid (in normal circumstances) reflect the efficiently-incurred costs of supply — or this amount adjusted to help meet governments’ other policy objectives, such as improving access to training for disadvantaged groups or managing demand (pricing of VET services is discussed in section 4).

As noted, common concerns relate to the quality of VET services, mismatches between services and labour market needs and whether policy settings support informed learning choices over people’s careers (whether via the VET or higher education sectors). The Commission seeks further information on the magnitude and impact of the problems identified by recent reviews and any additional concerns about the operation of the market.

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*INFORMATION REQUEST 11*

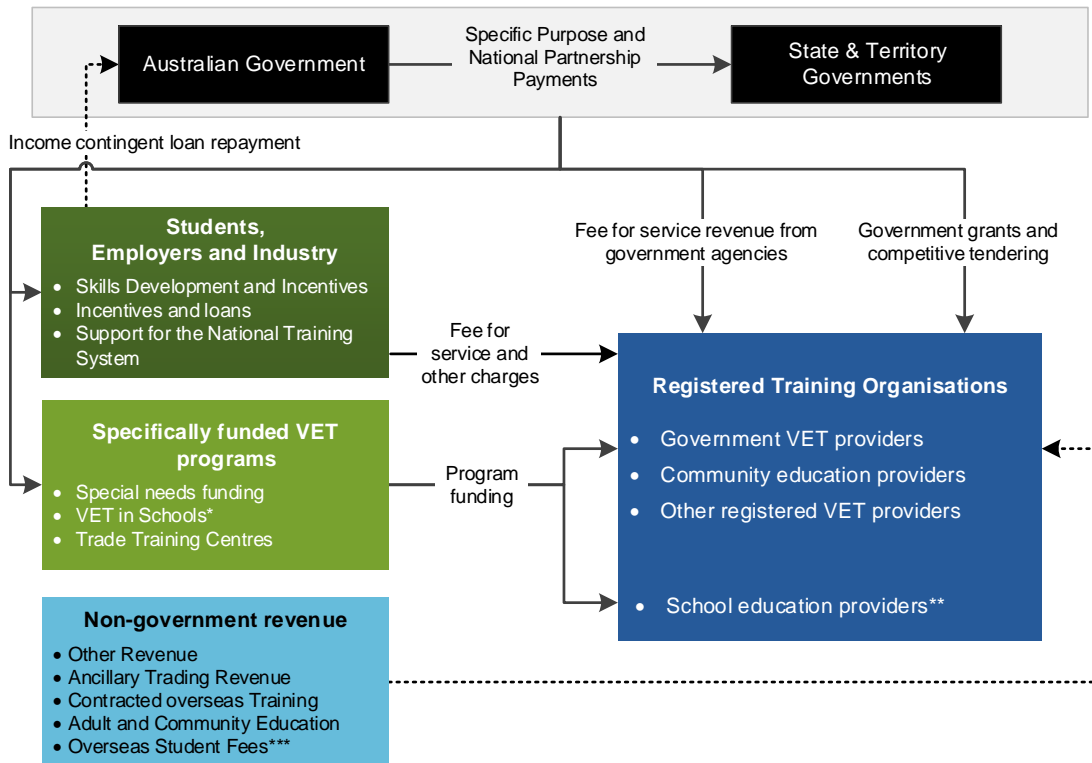
- *To what extent do (and should) users (students and employers) determine VET offerings?*
  - *How are users’ preferences influenced by government incentives and programs (including information programs)?*
  - *To the extent not covered elsewhere in this paper, the Commission seeks additional evidence on how well the VET market is operating, for example in terms of:*
    - *services being of the quantity, type, quality and location that users and the community most value*
    - *its efficiency in meeting users’ needs, including as they change*
    - *prices usually reflecting efficient costs, or this amount adjusted to achieve other policy objectives.*
  - *How can governments best ensure the market develops to support policy goals?*
    - *How do (and should) governments coordinate and manage the interactions between different types of interventions and initiatives to support market development?*
    - *Is there a preferred model for market stewardship? Why?*
  - *If agreed by governments, how would implementation of the recommendations of recent reviews (for example, the Joyce and Noonan Reviews) improve:*
    - *the operation of the VET market?*
    - *choices and pathways between schools, VET and higher education?*
  - *Are there any issues not identified by previous reviews that materially affect the operation of the VET market?*
- 

## **4 Funding and pricing of VET**

Governments influence the VET market through selective subsidisation of qualifications, overseeing course prices or fees and discrete funding programs. State and Territory governments allocate training subsidies and oversee course prices/fees. The Australian

Government provides grants to the States and Territories for skills and workforce development purposes, and student loans. Both levels of government undertake additional programs to help meet their respective policy priorities (figure 4).

Figure 4 VET funding flows



\* The Australian Government provides VET in Schools funding to the State and Territory governments as a part of the National Specific Purpose Payment for Skills and Workforce Development. State and Territory governments provide funding to government and non-government schools for VET in Schools programs.

\*\* School education institutions may operate with an RTO arm, providing courses that may combine traditional studies with VET.

\*\*\* Except in WA where overseas student fees are received by the State Training Authority.

Source: SCRGSP (2019).

The Joyce Review reported concerns that the different approaches used by State and Territory governments to subsidising and pricing VET create unnecessary complexity, act as a barrier to RTOs operating across jurisdictional boundaries and may discourage students from undertaking VET (encouraging them to enrol at universities, where course costs are clearer). It recommended that governments adopt nationally-consistent pricing and funding for the VET sector, facilitated by a new body, the National Skills Commission (NSC).

The Productivity Commission is to consider options for achieving consistency in VET funding and pricing, as well as for achieving greater consistency in funding and loan arrangements between the VET and higher education sectors.

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## Public funding for VET

VET providers receive funding from both government and private sources. In 2017, funding from all sources, public and private, was estimated to be approximately \$9 billion (Burke 2018). About two-thirds of this was provided by governments (Burke 2018; NCVER 2019c); the remainder came from students. Of public funding, the Australian Government and State and Territory governments each contributed about half.

- State and Territory governments provided about \$3.2 billion.
- The Australian Government provided about \$3 billion, of which \$2 billion was provided to the States and Territories in the form of grants (\$1.5 billion untied). An additional \$600 million was provided through income-contingent loans (NCVER 2019c).

Public funding for VET increased between 2008 and 2012, and has since declined. Funding per full time equivalent student has also trended down over the decade to 2017. The significance of this funding trend in terms of the impact on VET outcomes is unclear.

Most students do not take subsidised courses. Only 1.1 million of the 4.1 million students undertaking VET in 2018 benefited from government subsidies (NCVER 2019a).

About 75 per cent (\$4.6 billion) of public funding for VET (excluding loan values) in 2017 made its way to RTOs, which are responsible for delivering VET qualifications to students. About 10 per cent (\$615 million) was distributed in the form of employer assistance. The remainder mainly covered system administration and capital investments (NCVER 2019c).

## States and Territories fund and price services differently

All VET courses have a *price*. The price reflects the *cost* to the training provider of delivering the course. The cost of some courses is *subsidised* by the government. In these cases, the price faced by VET students is reduced by the amount of the subsidy. The difference between the price and the subsidy is referred to as the *student fee*.

Funding and pricing arrangements differ in each jurisdiction, including in relation to:

- which VET courses are subsidised and the rate of subsidies. The funding arrangements for VET in schools also differ in each jurisdiction
- the price of subsidised qualifications — in New South Wales, prices are fixed by a regulator; in other jurisdictions, the price is variable or partly variable
- the cost of qualifications — methodologies used to assess costs for the purposes of determining subsidies, student fees and/or prices vary across jurisdictions
- student fees — in some jurisdictions the fees are regulated.

Information that would allow ready comparisons of the different approaches and their impacts on the market are not publicly available. It is unclear, for example, how funding and pricing settings affect the quality of training products and services.

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The States and Territories' discretion in setting pricing and funding arrangements arguably allows them to better respond to the needs of their local labour markets. For example, governments encourage enrolment in courses where qualifications are deemed to be in short supply by subsidising their costs. However, the Joyce Review considered that the current model leads to unjustified differences in course fees and uncertainty and complexity for the market as governments can change subsidy arrangements at any time (Joyce 2019).

The Joyce Review envisaged that the functions of the NSC would include setting subsidy levels applicable nationwide, including loadings for equity groups. The NSC would work with the States and Territories to project demand for skills and decide the distribution of subsidies funded by the Australian Government. States and Territories would retain discretion to distribute other subsidies in line with their labour market needs, but this would be at the agreed national price.

### Setting of prices, fees and subsidies for qualifications

The Commission seeks detailed information on funding and pricing arrangements for government-funded VET in each jurisdiction. In broad terms, costs and subsidies are evaluated as follows.

The price of a qualification reflects the cost of delivering training. Students either pay full prices or reduced prices depending on whether government (and/or employers) subsidises the course. State and Territory governments decide whether to subsidise the course and the size of the subsidy (which can go to employers or individuals) depending on, among other things:

- whether the course is in a priority occupation or skills area (reflecting a shortage in the economy). This determination is typically made following consultation with industry and labour market testing
- the estimated return (for example, wages and likelihood of employment) to the individual and the community from undertaking training
- equity, social and needs-based considerations, for example, whether the student is an Aboriginal or Torres Strait Islander Australian, has experienced long-term unemployment or is from a regional or remote area.

State and Territory governments all set subsidies in proportion to the estimated cost of training, but do so in different ways. For example, the NSW Government sets the price of qualifications equal to the estimated cost of delivering a qualification and then decides the split between fees and subsidies. The Queensland Government uses the estimated cost of a qualification to set the subsidy rate.

States and Territories' approaches to setting prices range from fixed to variable depending on the degree of control over fees set by RTOs and how often subsidies vary (table 1). New South Wales is the only jurisdiction that fully regulates the prices of subsidised courses. In fully deregulated markets, prices are determined by the RTO.

**Table 1 Different approaches to setting prices, fees and subsidies**

<i>State or Territory</i>	<i>Government subsidy</i>	<i>+ Student fee</i>	<i>= Price</i>	<i>Means of public budget control</i>
New South Wales	Variable	Fixed	Fixed	Capped places
Victoria	Variable – five bands	Fully deregulated	Variable	Subsidy adjustments
Queensland	Variable – four levels	Fully deregulated	Variable	
Western Australia	Variable	Tuition fixed Discretionary variable	Partly variable	
South Australia	Discretionary variable	Tuition fixed Discretionary variable	Partly variable	Capped places
Tasmania	Variable	Tuition fixed Discretionary variable	Partly variable	Capped places
Northern Territory	All fully subsidised	Tuition fixed Discretionary variable	Partly variable	Capped places
ACT	Variable – three bands	Semi-deregulated	Variable	Capped places

Source: NCVET (2016a).

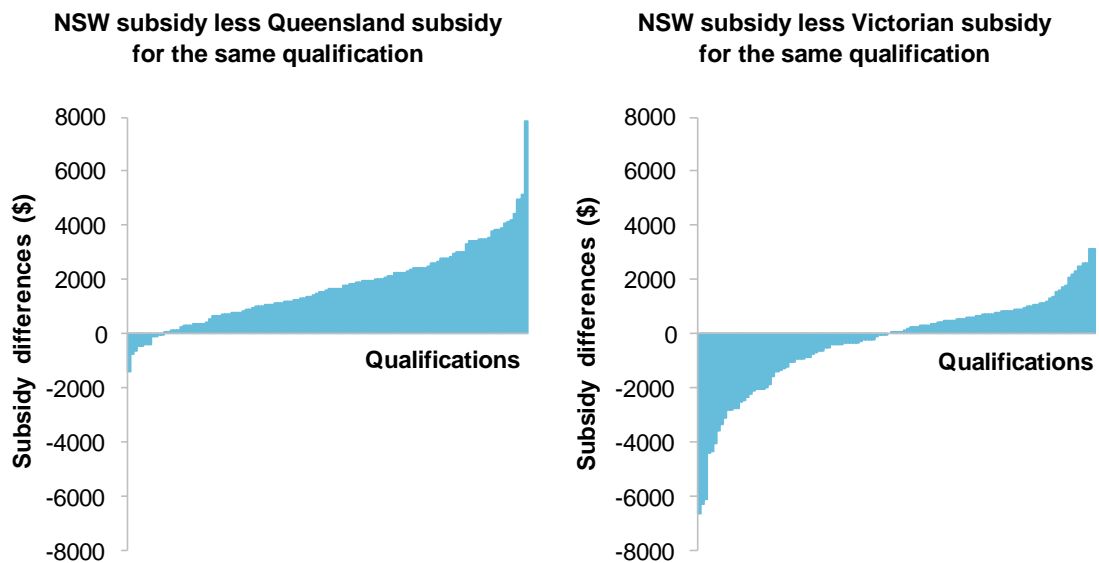
### *Different State, different subsidy?*

The same qualifications can have different subsidy levels depending on where the qualification is undertaken (figure 5). The discrepancies can be large. For example, in 2019 a student undertaking a Certificate III in Blinds, Awnings, Security Screens and Grilles will receive a subsidy of \$3726 in Queensland, \$9630 in New South Wales and no subsidy in Victoria unless the qualification is taken as an apprenticeship (DESBT 2019; DET (Vic) 2019; Training Services NSW 2019). For the Diploma of Nursing, subsidies in 2017 varied between \$19 963 in Western Australia and \$8218 in Queensland (Joyce 2019).

The Commission understands that differences in subsidy levels may be due to various factors, including different government priorities for funding, the different costs of doing business in different jurisdictions and differences in methodologies, such as how jurisdictions estimate the cost of providing training.



Figure 5 The same qualifications can have different subsidy levels<sup>a</sup>



<sup>a</sup> These charts only include the subsidy levels for qualifications that both states subsidise.

Sources: DESBT (2019); Training Services NSW (2019); DET (Vic) (2019).

#### INFORMATION REQUEST 12

The Commission seeks the following information for each jurisdiction:

- governments' objectives in relation to their pricing and funding approaches
- the methodologies for assessing the cost of providing qualifications and the rationale for the methodologies
- the methodologies used to set prices, government subsidies and/or student fees for qualifications and the rationale for these methodologies
- current and historic estimated costs, prices, subsidies and student fees for qualifications
- how funding and pricing arrangements affect the decisions of VET players (for example, whether they encourage providers to operate at least cost or employers to provide wages at market rates).

Options for reforming pricing and funding arrangements will need to be informed by, among other things, the nature and materiality of current problems and evidence on what aspects of funding and pricing would benefit from greater national consistency. Benefits might arise, for example, from the better meeting of governments' policy objectives, improvements in the efficiency of the training market and/or more transparency in administration. Ultimately, the benefits of reform should outweigh the costs (including the costs of adjustment). The Commission welcomes views on reform options and how reform options should be evaluated.

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INFORMATION REQUEST 13

*The Commission also seeks input on the following questions.*

- *What is the rationale underpinning each jurisdiction's funding and pricing approach? How well have governments' objectives in relation to their funding and pricing approaches been met?*
  - *What are the pros and cons of the specific pricing and funding approaches used by the State and Territory governments?*
  - *How well do current funding and pricing arrangements support governments' shared goals for the VET sector?*
  - *What aspects of funding and pricing should be undertaken on a nationally-consistent basis, and how should this be achieved?*
  - *What aspects of funding and pricing administration or supervision can be improved (within VET and across VET and higher education)?*
  - *What alternative models for funding and pricing government services could the VET system draw from?*
- 

## **VET in schools**

The Joyce Review found that, as for the VET sector more generally, current funding arrangements for VET in schools are 'opaque' and differ significantly across jurisdictions. In addition to a national approach to costing and funding VET for secondary school students, Joyce recommended governments consider setting up a new national funding agreement for co-funding VET. Funds for VET in schools would be administered by State and Territory training authorities in partnership with the Australian Government.

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INFORMATION REQUEST 14

- *If governments agree to a new national funding agreement for co-funding VET in schools, what should be part of this new arrangement?*
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## **VET versus university — how does funding affect choice?**

As alternative options for post-school education, the VET and higher education sectors compete for students. As discussed in section 2, there are also some overlaps in the qualifications offered by higher education and VET providers.

A person's choice between using a VET or higher education provider is likely to be influenced by many factors. According to Fowler (2017, p. 16) these factors 'might include institutional prestige, relative costs of the course, access to funding/loans, and easier

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articulation to university bachelor study’. Perceptions regarding future employment and income prospects may also factor into decision-making. For career paths where the qualifications obtained in higher education and VET are similar (such as nursing), relative costs are likely to be important. Therefore, any differences in funding between the sectors that affects fees could influence people’s choice to enrol in the VET or higher education sectors. Government funding for VET and higher education courses offering similar levels of qualifications can vary significantly.

### How do funding arrangements in the university sector affect demand?

Compared with VET students, university students have access to more generous financing arrangements. This advantage, combined with other factors (such as greater prestige), has led some commentators (for example, Norton and Cherastidtham (2018)) to suggest that universities are expanding at the expense of participation in VET (2018).

Unlike in VET, where jurisdictions take different approaches to setting student fees, the Australian Government — which fully funds the university sector — determines the maximum student contribution for courses. These contributions act as pricing controls, leading to generally consistent pricing for university qualifications (PC 2017b).

Also in contrast to VET, all eligible Australian university students have the option to pay their tuition fees and student contributions through income-contingent loans — the Higher Education Loan Program (HELP) (PC 2017b). In VET, income-contingent loans are limited to diploma and above qualifications, at a limited set of providers, and with a cap on the loan amount. In addition, a loan fee must be paid by many VET students when accessing these loans. This type of fee is not charged to students using HELP.

Universities also have ‘self-accreditation’ status (that is, they can evaluate their own courses to ensure qualification standards are met) and greater control over course content. In contrast, VET RTOs are required to use regulator-approved training packages and accredited courses. In the past, the NCVER has pointed to this as a potential competitive advantage for universities offering courses that are traditionally in the VET domain (Moodie 2011).

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#### *INFORMATION REQUEST 15*

*The Commission seeks:*

- *evidence of how funding (and other) settings affect learning and career choices*
  - *views on options for achieving greater consistency in funding and loan arrangements between the VET and higher education sectors, and the likely benefits, costs and impacts of these options.*
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## 5 Government investment in VET

The Commission has been asked to consider options to ensure that government investment in VET encourages increased participation in training by all Australians and is commensurate with the outcomes and benefits derived by business, industry, the economy and society more generally. This term of reference raises several questions:

1. whether the financial contribution by students, industry and governments to the funding of VET courses appropriately reflect the benefits that accrue to each
2. more generally, whether public funding is being directed at endeavours that would provide the best returns for the broader community.

In principle, the costs of VET courses might be assigned in proportion to the benefits that different parties receive. This would require identification of private and public returns (box 5). The BCA (2018) and others (for example, Dawkins, Hurley and Noonan 2019) have suggested that governments base their funding contributions and subsidies for courses on estimates of the likely public and private benefits from ensuing VET activity.

### Box 5 Public and private returns to education

There are both public and private returns from education and skills development.

Private returns are those captured by the recipients of education and training. People who increase their skills raise their productivity and, potentially, their lifetime earnings. Economic literature has shown a positive association between educational attainment and individual labour market outcomes, including increased rates of employment and higher wages (for example, Deloitte 2016; Forbes, Barker and Turner 2010; Shomos and Forbes 2014).

Among other things, the VET sector provides vocational skills to students (for example, courses leading to qualifications required for specific job roles). Much of the benefits from these types of training are private in nature, accruing to individuals (for example, higher wages) and the businesses that employ them (for example, higher returns on capital).

Some benefits from improving skills are not captured privately and instead spill over to the public to the benefit of the wider community. For example, more highly skilled and productive individuals can potentially facilitate higher total factor productivity across the economy (Dawkins, Hurley and Noonan 2019). Similarly, higher rates of employment can reduce government transfer payments.

Improving the skills of the population also generates broader social or civic benefits. For example, Deloitte Access Economics (2016, p. 16) stated:

The many non-pecuniary benefits of a quality education ... also have economy-wide benefits. Greater civic engagement and community participation will positively influence communal cohesion, and improve the functioning of society. This further flows on to reduced crime rates which benefit the nation through a greater sense of security, and reduced costs of incarceration.

Griffin (2016) summarised the literature on the costs and benefits of VET, which suggested that the private returns to individuals from high-level VET qualifications, including advanced diplomas and diplomas, were ‘good’ — although the benefits seemed to be captured in the form of increased participation (employment) rather than productivity (higher

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wages). But she considered estimates of the returns to businesses, public and private, were much harder to estimate, tending to be highly variable and context-specific. Overall, the research found:

It is not easy to untangle the financial (market) and non-financial (non-market) benefits of training ... the different data and methodologies used ... have led to much variability in the findings, making it problematic to be confident about any of the specific returns on investment reported. (Griffin 2016, p. 23)

A funding approach based on formally estimating the public and private returns to stakeholders would be very different to approaches to funding in other education sectors. For example, higher education is funded jointly by the Australian Government and students on an approximately 60:40 basis (on average). The parameters used to determine this split are not updated regularly.<sup>10</sup> There is no explicit funding role for industry.

The second question above goes to the focus and efficacy of public funding. At present, most public funding is directed to student subsidies for VET qualifications, with a view to promoting participation in training and addressing skills shortages.

Governments also undertake and fund a variety of other activities in the VET system, including programs to improve employment outcomes, regulatory functions, information sharing in the market, direct service provision (including through TAFEs) and industry liaison.

Whether the 'investment' by government in these activities is commensurate with the outcomes and benefits sought is unclear. Performance reporting under the NASWD provides a partial indication of whether outcomes have been achieved (section 2). The Joyce Review noted that the VET system has limited reporting requirements and performance indicators to measure the effectiveness of government programs, and there are no checks on how well the system is delivering the skills needed by the labour market (Joyce 2019).

The Commission is interested in approaches to assessing the effectiveness of governments' investments in VET, in relation to both the outcomes achieved and whether these outcomes are cost-effective.

The Commission also seeks views on directing government funding towards the objective of increasing participation in training by all Australians (noting that this goes further than governments' aims in the NASWD), and options on how this might be achieved.

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<sup>10</sup> Many date back to 1989 when the Higher Education Contribution Scheme was introduced, or 1997 when funding bands for student contributions were phased in (PC 2017b).

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#### INFORMATION REQUEST 16

- *Are the contributions by government (on behalf of the public), industry and individuals towards VET proportionate to the benefits that each of these groups receive?*
  - *Is direct estimation of public and private benefits as a means to direct government funding feasible and desirable? What would be the implications for other sectors (e.g. Higher Education) if such an approach was taken in VET?*
  - *How should governments judge priorities for funding and effort, and why?*
  - *How should employers and industry contribute to funding the skills training of their workforce? Are there any barriers or disincentives to private funding of VET?*
  - *Should the level of government funding vary for different course or student types, and if so, how should government decide the relative amounts?*
  - *What approaches are most useful to assess the effectiveness of government investment in VET?*
  - *Should government investment in the VET system seek increased participation in training by all Australians? How should this goal be achieved?*
- 

## Supporting policy making in the future

The Commission has been asked to consider options for improved data and information-sharing arrangements to enable all governments to assess the effectiveness of VET investment and delivery.

Existing NASWD data commitments include ‘an agreed dataset for VET data collection and performance reporting at the national, jurisdiction and RTO level’ (COAG 2012b para. 24), which is used to report on NASWD objectives (section 2). Governments have primarily facilitated this commitment through the NCVER, the national body responsible for collecting, managing, analysing and communicating research and statistics on the VET sector. Governments also introduced a Unique Student Identifier to improve the transparency of VET information for users and governments, and aide consideration of policy (box 6).

The Australian Government has expressed in-principle support for recent proposals made by the Braithwaite Review to improve the frequency and accessibility of VET system data (DET 2018b). For example, the Review recommended quarterly data reporting by RTOs, making RTO-level data public and identifiable, additional data collection on student experience, and timely data sharing across government agencies to inform regulatory responses (Braithwaite 2018).

It is important that any new VET data initiatives go beyond accumulating data. The Commission’s 2016 inquiry into the *National Education Evidence Base* (PC 2016) noted the importance of:

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- a ‘top-down’ capability for monitoring, benchmarking and assessing performance in achieving objectives at all levels of the system, as well as promoting transparency and accountability
  - a ‘bottom-up’ capability for evaluating the effectiveness of policies, programs and practices, enabling systematic identification of ways to improve the system
  - effective translation and communication of evidence and its practical application, including through guidelines accessible to policy makers.

The Commission welcomes input on improvements to information and supporting arrangements that would better support the evaluation and making of policy.

#### **Box 6 Unique Student Identifier**

A Unique Student Identifier (USI) is a reference number that creates an online record of all nationally recognised VET training and qualifications that a student has gained in Australia. Since 1 January 2015, it has been a requirement that all VET students undertaking nationally recognised training in Australia possess a USI before they can be awarded a qualification.

The USI was developed following agreement at a 2012 COAG meeting to ‘provide students with access to and control over their future training records and help to streamline data exchange between students, training providers and other relevant stakeholders’ (Australian Government 2016; DEEWR 2012).

The USI provides valuable data for policy makers and administrators, though its potential remains untapped. The USI can provide information about, for example, how many students are undertaking VET training, students’ average duration of study and typical pathways through the VET system. However, the USI provides no information about training and qualifications undertaken in other parts of the education system, such as university or high school. It is therefore unable to shed light on a number of topics of interest to policy makers — for instance, the pathways that students take *between* the VET and higher education sectors.

Sources: Australian Government (2016, 2017).

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#### *INFORMATION REQUEST 17*

- *How effective and accessible are data collection and reporting arrangements?*
  - *How can data and information-sharing arrangements be further improved to facilitate assessments of the effectiveness of VET investment and delivery?*
    - *What additional data (if any) or improvements in data quality are required to effectively monitor the performance of Australia’s training system?*
  - *How significant are current compliance requirements relating to the provision of data to authorities?*
    - *Can some data collections be ceased?*
    - *How can data be collected in a way that minimises reporting costs?*
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## **6 Options to better coordinate and streamline initiatives**

As noted, past reviews have proposed that governments better coordinate and streamline methodologies and processes relating to the skills demand assessments (section 3) and funding and pricing arrangements for VET courses (section 4) (Joyce 2019; OECD 2018). There has also been criticism of the efficiency with which governments undertake some shared tasks, such as approving training content.

The Commission is to consider any additional opportunities to better coordinate and streamline governments' activities. Additional recurring themes from recent reviews and stakeholders on opportunities to coordinate and streamline the system are noted below.

### **Apprenticeships**

There is overlap in governments' support for the apprenticeship system — for instance, some Commonwealth-funded services for apprentices and their employers (delivered by Australian Apprenticeship Support Network providers) duplicate support provided by State and Territory governments (Joyce 2019). This may reduce the effectiveness of government efforts and any overlap may also increase the system's complexity, making it more difficult to navigate (AIG 2016). The Tasmanian Government (2019) has noted that employers' engagement with the system may be diminished by administrative burdens.

### **Data collection**

Many students switch between the VET and higher education sectors and graduates can acquire skills assessed at the same AQF level for some VET and higher education courses. Nearly half of registered higher education providers are dual sector (80 in total) (TEQSA 2018). Dual sector providers deliver both higher education and VET. Despite this, the data collected across the tertiary sector and research on VET and higher education are not closely connected, with several reviews stating that the tertiary sector could benefit from a more co-ordinated approach. For example, the Bradley Review recommended that NCVER's remit be broadened to encompass data collection and reporting across the wider tertiary sector, as did NCVER in its submission to the Joyce Review (Bradley et al. 2008; NCVER 2019d). The Braithwaite Review also recommended that government agencies improve their data sharing policies to minimise duplication of data submissions by RTOs and students (Braithwaite 2018).



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INFORMATION REQUEST 18

- *Can the apprenticeships system and data collection by governments be better coordinated, or streamlined? If so, how?*
  - *What other areas of the VET system are unnecessarily complex or inefficient? Are there any additional opportunities for governments to better streamline or coordinate their initiatives to improve the VET system?*
  - *To what extent will fixing these issues improve the operation of the VET system?*
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## 7 Other targeted reforms

The terms of reference for this study ask the Commission to consider the potential for future funding arrangements to achieve other targeted reforms, including extending language, literacy, numeracy and digital (LLND) programs to all Australians and other relevant recommendations from the Joyce review. These are discussed below.

### Foundational learning

The VET system offers training on foundational skills such as language, literacy, numeracy and digital literacy. This training provides a ‘second chance’ for individuals with low levels of educational attainment to build the skills usually developed in primary and secondary schools (Joyce 2019). Many who seek to build these skills do so at TAFEs (through Certificate I qualifications), or through Adult and Community Education providers. In 2018, 2.6 per cent of enrolments in training package qualifications were in those that develop foundational skills (NCVER 2019e).

States and Territories offer support to develop foundational skills, with programs varying across jurisdictions. The Australian Government offers fee-free support to build LLND skills for the unemployed through its Skills for Education and Employment Program, and individuals aged between 45 and 70 years who are at risk of losing their jobs through the Skills Checkpoint Program (DESSFB 2019d). English language tuition is also available to eligible migrants through the Adult Migrant English Program (DET 2019a).

The Joyce Review considered that differences in government foundational skills programs create confusion for students and employers seeking to access services (Joyce 2019). It recommended targeted funding to help disadvantaged learners and those with low LLND skills, including:

- fee-free foundation-level education for all Australians with low LLND skills, co-funded by the Australian, State and Territory governments

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- Australian Government funding for an online LLND assessment tool for educators to assess a student's LLND standards and improvements resulting from participation in such courses.

## **Service provision for disadvantaged groups**

The Joyce Review noted that disadvantaged groups have high rates of attrition in attendance due to health, housing, transport and family factors. While there are many government programs available to assist these groups, training providers find it difficult to find ones that will specifically help their students. To address this, the Review recommended that consideration be given to combining programs across governments, and a new funding model be developed to provide flexible 'wrap-around' social support services in communities where there is high disadvantage.

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### *INFORMATION REQUEST 19*

- *If governments agree to extend programs to improve language, literacy, numeracy and digital (LLND) skills, who should these programs be targeted to?*
  - *What is the role of the VET sector in teaching foundational skills as opposed to other sectors, such as schools?*
  - *How can regulatory, program and funding arrangements for foundation-level skills and education be improved? Can the schooling and VET sectors be better linked?*
  - *How can funding arrangements between governments better support more efficient, effective and accessible services for disadvantaged groups?*
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## Attachment A: How to make a submission

### How to prepare a submission

Submissions may range from a short letter outlining your views on a particular topic to a much more substantial document covering a range of issues. Where possible, you should provide evidence, such as relevant data and documentation, to support your views.

#### Generally

- Each submission, except for any attachment supplied in confidence, will be published on the Commission’s website shortly after receipt, and will remain there indefinitely as a public document.
- The Commission reserves the right to not publish material on its website that is offensive, potentially defamatory, or clearly out of scope for the inquiry or study in question.

#### Copyright

- Copyright in submissions sent to the Commission resides with the author(s), not with the Commission.
- Do not send us material for which you are not the copyright owner — such as newspaper articles — you should just reference or link to this material in your submission.

#### In confidence material

- This is a public review and all submissions should be provided as public documents that can be placed on the Commission’s website for others to read and comment on. However, information that is of a confidential nature or that is submitted in confidence can be treated as such by the Commission, provided the cause for such treatment is shown.
- The Commission may also request a non-confidential summary of the confidential material it is given, or the reasons why a summary cannot be provided.
- Material supplied in confidence should be clearly marked ‘IN CONFIDENCE’ and be in a separate attachment to non-confidential material.
- Please contact the Commission for further information and advice before submitting such material.

#### Privacy

- For privacy reasons, all **personal** details (e.g. home and email address, signatures, phone, mobile and fax numbers) will be removed before they are published on the website. Please do not provide these details unless necessary.

- 
- You may wish to remain anonymous or use a pseudonym. Please note that, if you choose to remain anonymous or use a pseudonym, the Commission may place less weight on your submission.

### Technical tips

- The Commission prefers to receive submissions as a Microsoft Word (.docx) files. PDF files are acceptable if produced from a Word document or similar text-based software. You may wish to research the Internet on how to make your documents more accessible or for the more technical, follow advice from Web Content Accessibility Guidelines (WCAG) 2.0<<http://www.w3.org/TR/WCAG20/>>.
- Do not send password protected files.
- Track changes, editing marks, hidden text and internal links should be removed from submissions.
- To minimise linking problems, type the full web address (for example, <http://www.referred-website.com/folder/file-name.html>).

### How to lodge a submission

Submissions should be lodged using the online form on the Commission's website. Submissions lodged by post should be accompanied by a submission cover sheet.

Online*	<a href="http://www.pc.gov.au/skills-workforce">www.pc.gov.au/skills-workforce</a>
Post*	Review of the Skills and Workforce Development Agreement Productivity Commission GPO Box 1428, Canberra City, ACT 2601

\* If you do not receive notification of receipt of your submission to the Commission, please contact the Administrative Officer.

### Due date for submissions

Please send submissions to the Commission by **Friday 20 December 2019**.