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Productivity Commission

National Agreement for
Skills and Workforce
Development Review

Productivity Commission
Study Report
Overview

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The Productivity Commission

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The full report is available at www.pc.gov.au

OVERVIEW

Key points

- This review has not found evidence of a vocational education and training (VET) system in crisis. Our recommendations address some of the system's acknowledged weaknesses and should build on its strengths to lift participation and improve the quality of training.
- The *National Agreement for Skills and Workforce Development* is overdue for replacement.
 - Governments have stepped back from some of its policy aspirations. Targets have not been met and the performance framework has not held governments to account.
- A new intergovernmental agreement should be principles-based, modular (to retain flexibility and currency) and reviewed every five years.
 - Australian Government funding should remain largely untied for base funding but subject to much greater accountability and transparency.
- Governments should continue to support the development of a more efficient and competitive VET market through informed user choice and a focus on quality.
 - Students need better curated information on career opportunities, the performance of training providers, course quality and prices.
 - Efforts to improve quality should be ramped up through faster changes to training packages, developing an evidence-based VET workforce strategy, and a phased introduction of independent assessment.
- There is a manifest capacity for governments to achieve a better return on the \$6.4 billion spent on VET by:
 - using the efficient costs and loadings currently being estimated by the National Skills Commission as a common basis for setting and simplifying course subsidies
 - introducing modest minimum student fees for Certificate III and above courses with exemptions for disadvantaged students
 - applying more contestability and transparency to public funding of TAFEs and enhancing the operational autonomy of public providers
 - enabling State and Territory funding to follow students enrolled with an interstate provider.
- To scale up workforce skills, governments should expand VET Student Loans (VSL) to more Diploma and above courses and to most Certificate IV courses.
 - Loan caps should better reflect course costs, and loan fees should be paid by all students.
- Reforms to the trade apprenticeship system are best focused on:
 - improving completion rates by better screening and matching of prospective apprentices
 - making pathways more flexible and providing the same subsidy for non-apprenticeship pathways as for traditional pathways
 - adjusting the timing of employer incentives to provide more support when the risk of cancellation is greatest.
- There should be a coordinated national strategy to improve school education, 'second-chance' learning in the VET sector and other adult education services to reduce the large number of Australians with low language, literacy, numeracy and digital literacy skills.
- To address some of the key obstacles to lifelong learning, this report proposes improvements in foundation skills, better credit pathways, an expansion of VSL and a trial of a new financing instrument for mature-age Australians reskilling and upskilling.

About this review

A skilled workforce is fundamental to Australia's future. As a pillar of our post-school education system, the vocational education and training (VET) system enables people to develop and maintain the skills needed to participate effectively in society and the economy. Millions of Australians with diverse educational needs, capabilities and aspirations have obtained or honed their workplace skills through Australia's formal (nationally accredited) VET system.

VET is a shared area of responsibility between the Australian and State and Territory governments. The *National Agreement for Skills and Workforce Development* (NASWD) — which commenced in 2009 and was updated in 2012 — defines the framework for intergovernmental collaboration in VET. It sets out governments' roles, policy aspirations, performance measures, and reform directions for the formal VET system.

The Australian Government has asked the Commission to review progress against the targets, outcomes and performance indicators in the NASWD and to assess whether it is still an effective long-term framework for intergovernmental cooperation on VET policy. Intertwined with that assessment, the Commission has also been asked to consider options:

- to coordinate and streamline government support
- for national consistency in VET funding and pricing that maximise efficiency, transparency and the supply of trained workers
- to promote consistency in funding and loan arrangements between the VET and higher education sectors
- to ensure government investment in VET encourages increased participation in training that is commensurate with the benefits.

During this review there have been major skills policy developments. In November 2019, the COAG Skills Council released a *Draft VET Reform Roadmap* which set out three priority areas for improvement — the relevance, quality and accessibility of the VET system. In response to the 2019 Joyce Review, the Australian Government established a National Skills Commission (NSC) and a National Careers Institute (NCI). And in August 2020, all governments signed a *Heads of Agreement for Skills Reform* setting out high-level directions for a new National Skills Agreement to replace the NASWD. The Commission has taken this evolving policy landscape into account in its assessment and recommendations.

The review has also coincided with the COVID-19 pandemic. Beyond the immediate disruption for students, employers and VET providers, the pandemic may lead to substantial structural changes in the VET sector. VET policy announcements have been at the centre of government responses to the pandemic and, where possible, the Commission has incorporated these announcements in its assessments. The pandemic has highlighted the importance of VET and why 'getting the system right' is critical to meeting Australia's changing skills needs.

A snapshot of the VET system

Australia's VET system is a pillar of our post-school education system. Over 4 million students from diverse backgrounds participated in VET in 2019 (figure 1, panel a), and close to one third of working-age Australians hold a VET-level qualification as their highest qualification. Most students enrol in VET to obtain a job, gain extra skills for their current job, or as a step towards a new career. VET also provides a 'second-chance' learning opportunity for many people with low foundation skills.

More than 4000 registered training organisations (RTOs) deliver VET. Most training hours are delivered by private RTOs and TAFEs (figure 1, panel b). Half of VET student enrolments and 85 per cent of training hours are in nationally recognised programs. Most programs are pre-approved training packages, which specify the skills and knowledge ('competencies') required to work in particular occupations. These formal credentials (qualifications and statements of attainment) are developed in consultation with industry and educational institutions. Some employers hire students while they undertake a VET course (through an apprenticeship).

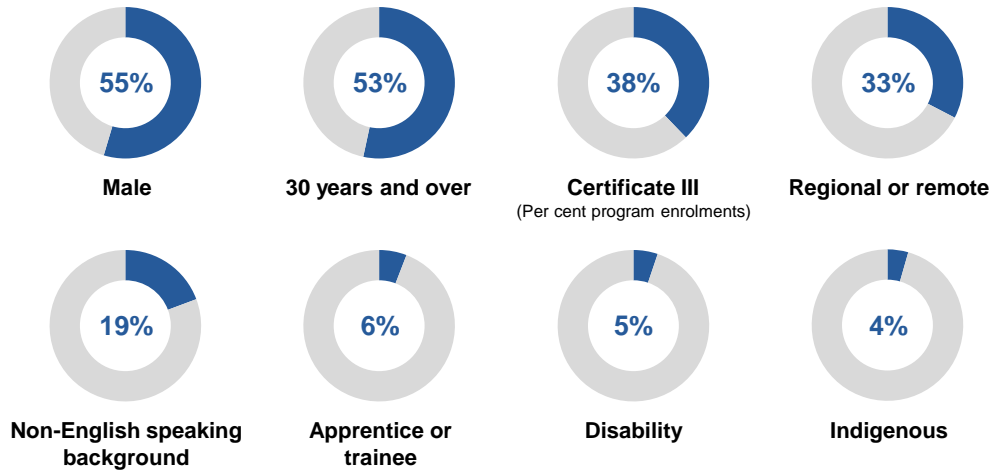
Australian, State and Territory governments share responsibility for the regulation, funding and performance of the system. In 2019, governments spent about \$6.4 billion on VET. In addition, the Australian Government provided about \$500 million in VET Student Loans and Trade Support Loans. While total real funding has remained stable in recent years, this largely coincided with lower training activity, such that funding per student has increased (figure 1, panel c) and is broadly comparable to funding per student in both higher education and schools. Funding trends across jurisdictions have been mixed (figure 1, panel d).

Since the 1990s, VET has become a more market-oriented system, with much government-funded training now delivered by private RTOs under contestable funding arrangements. This shift was confirmed in the NASWD, which sought to promote a more responsive training market through competition led by 'user choice'. However, governments continue to tightly manage VET markets, with a large portion of government funding still provided to public RTOs to deliver training.

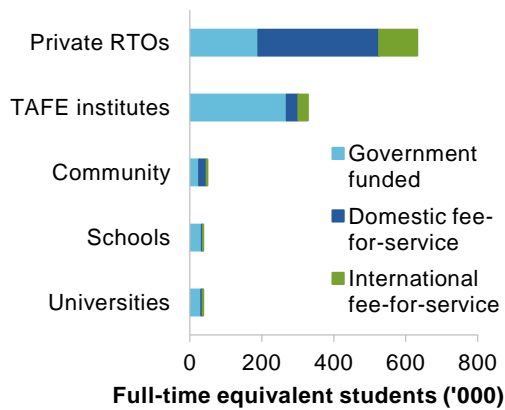
Notwithstanding the high degree of market management, the VET system is competitive on some measures. Most students (87 per cent) have a choice of provider for their program of study. About 30 per cent of students train in what can be described as highly-competitive markets, and an additional 20 per cent in moderately-competitive markets. While the remaining 50 per cent of students train in markets concentrated among a few providers, these tend to be 'thin markets' with few students, often in regional and remote areas. Nevertheless, these markets tend to have low barriers to entry and are generally 'contestable'.

Figure 1 **A snapshot of the VET system**

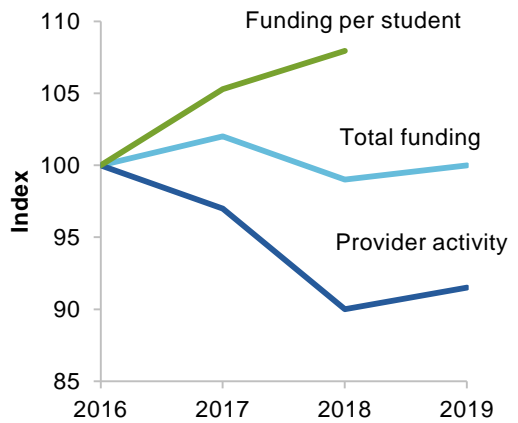
a. Profile of VET students



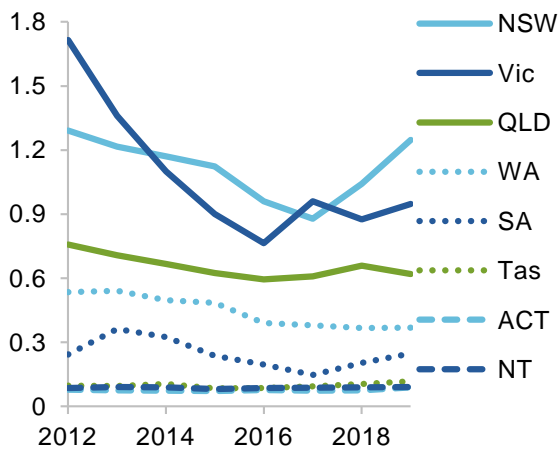
b. Most training is delivered at private RTOs



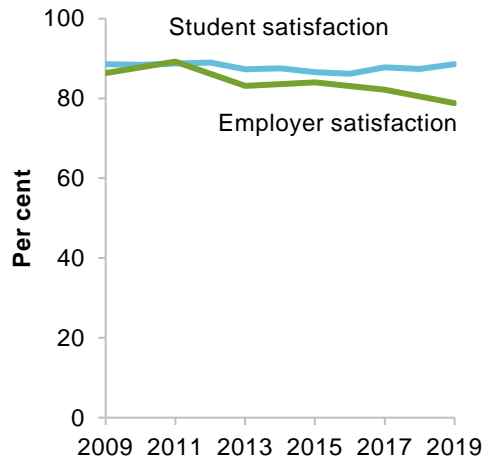
c. Funding per student has increased recently



d. Funding trends are mixed (\$ billion)



e. Students and employers are largely satisfied



The degree of competition in VET markets is affected by governments' use of subsidies and income contingent loans, which reduce or eliminate the upfront fee paid by students. For these courses, students are unlikely to make their decisions solely or primarily on the basis of price. Competition is also impaired by a general lack of information to allow students to compare competing RTOs in terms of price, quality or other non-price criteria.

Competition is further weakened by governments reserving a large share of public funding for TAFEs. On average, State and Territory governments allocate about half of total VET funding to public RTOs without market testing. The remaining funds are contestable for both public and private providers. Altogether public providers receive about 70 per cent of public funding — the government-funded VET market is still largely a market of direct government provision. Recent years and the COVID-19 pandemic have seen a greater reliance on TAFEs for the creation of additional VET places and an increase in free-TAFE programs. While these programs may increase training overall, they come at the cost of reduced contestability in some markets.

Students remain broadly satisfied with the VET system (figure 1, panel e) and student completion rates are improving. Employer satisfaction is also high but has trended down over the past decade (figure 1, panel e). Fewer employers are using the formal VET system.

While some claim that the quality of training is superior at TAFEs, the evidence suggests that at least some outcomes (satisfaction and labour force outcomes) are similar across provider types.

The NASWD: lessons and a way forward

Lessons from the NASWD

The NASWD was intended to reform intergovernmental relations and facilitate collaboration in VET. Established as one of six national agreements under the *Intergovernmental Agreement for Federal Financial Relations* (IGA FFR), the NASWD emphasised jurisdictional flexibility for service delivery, with the intention of greater transparency of, and accountability for, outcomes. However, the agreement has not realised these aims.

Lack of accountability

The NASWD was intended to lift workforce skills and improve participation in training. The NASWD's performance framework was meant to measure if governments' efforts in VET were achieving results, with annual public reporting as the main accountability mechanism. Overall, progress against the performance indicators is mixed (figure 2). The two targets will not be met — a disheartening legacy common to many of the targets set under other national agreements.

Figure 2 Mixed progress against the NASWD performance framework

Outcome	Description of measure	2009	Trend	2019	Result
Skill levels are increased to meet the changing needs of the economy	1a Working-age population with Cert III and above	53%		62%	Improved
	1b Employers satisfied that training meets their needs	86%		79%	Worsened
All Australians have the opportunity to develop skills	2a Working-age population with adequate foundation skills	—	56% in 2012	—	Unclear, but likely worsened
	2b Working-age population with or working toward a non-school qualification	65%		73%	Improved
Training delivers the skills and capabilities for improved economic participation	3a Graduates with improved employment status after training	65%		64%	Roughly equal
	3b Graduates with improved education/training status after training	53%		59% ^a	Improved
National targets	A Halve the proportion of Australians aged 20–64 without at least a Cert III	47%		38%	Not met
	B Double the number of higher-level qualification completions nationally	~43k		~38k ^a	Not met

^a The latest year for which data were available was 2018.

The NASWD’s performance framework is not sufficient to hold governments to account on their reform commitments, nor on the performance of their VET system. There are several reasons for this failure.

First, the targets were arbitrary and too ambitious, and quickly became irrelevant for policymakers. While most of the performance indicators are reasonable *general* measures, they are not well linked to policy specifically in VET and were influenced by developments outside the VET system. For example, NASWD performance indicator 1a (working-age population with a Certificate III and above) also captures the impacts of policy changes in higher education.

Second, the performance framework measures outcomes, as distinct from program inputs or outputs. While outcomes generally provide the most desirable basis for assessing policy effectiveness, what constitutes a ‘good’ outcome in skills acquisition is difficult to define and measure, given the diverse capabilities of students. It is also difficult to identify the extent to which governments’ policies contribute to such outcomes, given that other factors such as economic cycles will also affect outcomes. Outcomes are therefore insufficient as a sole mechanism to hold governments to account.

Third, the performance framework does not provide for review and evaluation. That role could have been performed by the COAG Reform Council but it was disbanded in 2014.

Flexibility without strong commitment

Under the NASWD, governments endorsed ‘a shared vision of reform’ based on 10 high-level reform directions to increase the quality of the VET system and to make it more accessible, efficient, and relevant. Governments made two main commitments to achieve these ambitions — introducing a national entitlement to training and expanding the availability of student loans. The NASWD does not prescribe how governments are to pursue the reform directions, in keeping with the ethos of jurisdictional responsibility under the IGA FFR.

The NASWD reform directions are flexible as they allow governments to tailor policy responses to local and emerging issues. However, they have lost relevance over time as the national reform consensus frayed.

- Two key national commitments — the national training entitlement and expansion of student loans (VET FEE-HELP) — initially increased participation but incentives were later wound back because of escalating costs and roting.
- Similarly, efforts to promote a ‘more open and competitive training market’ have stalled. Improving the efficiency of training markets is no longer an explicit priority for most governments.
- While student-focussed indicators of quality remained stable over the past decade, employers are less satisfied with vocational education than they were when the NASWD was signed and they use the VET system less.
- Governments’ efforts have improved national data collection, particularly on VET activity. Yet, critical data on VET quality, prices, funding, and cost of delivery remain inadequate, contrary to prior commitments.

This experience demonstrates the limited efficacy of ‘reform directions’ as a tool to link tangible policy commitments to desired outcomes in an intergovernmental agreement.

The agreement is overdue for replacement

Overall, while the NASWD has served some useful functions, it is overdue for replacement. The experience with the agreement provides important lessons for governments negotiating a future intergovernmental agreement.

The context for intergovernmental cooperation has also evolved. The Skills National Cabinet Reform Committee and the Skills Ministers’ Meeting (formerly the COAG Skills Council) are now the main forums for cooperation on VET policy and delivery. The allocation of some roles has blurred over time, especially in areas of shared responsibility, such as support for apprentices. Moreover, the roles of some government bodies, such as the VET regulators, are not included in the NASWD, and other bodies have since been created.

Notwithstanding the agreement’s flaws, the objective articulated in the NASWD — to improve labour market participation and productivity — remains a relevant policy goal and

was widely supported by review participants. Even so, it could be improved by recognising the VET system as a major, but not the only, contributor to skills and workforce development, alongside higher education, non-nationally recognised VET and workplace training. Better measurement against an objective revised in this way would assist with identifying governments' contributions in VET.

Where to for a new agreement?

The *purpose* of an intergovernmental agreement such as the NASWD is to promote and facilitate government cooperation through: agreed shared objectives; coordination of national policy reforms; improved transparency and accountability; clarified roles and responsibilities; and, in some cases, funding arrangements. Government cooperation through these channels can improve outcomes for users (students and employers) and for the community more broadly. This purpose remains relevant for a new agreement, which should build on the lessons from the NASWD (table 1).

Striking the right balance between flexibility and accountability

As priorities and circumstances are likely to change over time, agreements need to be flexible to retain currency. One way to provide that flexibility is through a modular agreement. Like the Commission's proposal for a new National Disability Agreement, a modular agreement can include a concise statement of key principles and commitments with the more detailed content (that is likely to change) placed in schedules. A modular structure allows governments to revise aspects of the agreement (for example, targets or benchmarks) without wholesale renegotiation. In maintaining relevance, a modular agreement would also support ongoing accountability.

The Australian, State and Territory governments, as parties to a new agreement, should commit to mechanisms to improve accountability for outcomes, including:

- a revised performance reporting framework, with a broader set of performance indicators that better capture the contribution of government activity in the VET system to skills and workforce development. Measures under the framework should reflect desired outcomes for different parts of the VET system (including foundation skills and 'second-chance' learning, VET in Schools, and apprenticeships)
- additional reporting arrangements for *all* governments, with monitoring by an independent body and regular public reporting by a national body such as the NSC
- more defined roles and responsibilities of governments in the VET system, with existing roles reaffirmed. Governments should clarify roles in areas of shared responsibility (such as apprenticeships and information provision) and include the roles of recently created government bodies, such as the NSC, the NCI, and the Skills National Cabinet Reform Committee.

Table 1 A future agreement that builds on experience

<i>Purpose</i>	<i>Lessons from the NASWD</i>	<i>Implications for a new agreement</i>
Agree shared objective(s)	<ul style="list-style-type: none"> Lack of clarity on whether the focus is on VET or skills and workforce development. 	<ul style="list-style-type: none"> VET as one major, but not the only, avenue for skills acquisition.
Coordinate national policy reforms	<ul style="list-style-type: none"> Flexibility of reform directions permits tailored policy responses to local and other emerging issues. Early progress on pursuing reform directions was made, but the NASWD failed to maintain jurisdictional buy in. 	<ul style="list-style-type: none"> Include reform principles to guide a renewed national VET reform agenda. A ‘modular’ agreement structure, with agreed reforms in a schedule (for example, the <i>Draft VET Reform Roadmap</i>).
Improve transparency and accountability (for example, through a performance monitoring and evaluation framework)	<ul style="list-style-type: none"> Does not capture the breadth of VET offerings and different parts of the system. Deficiencies in performance framework do not support improved transparency, partly due to poor indicators and target setting. Improved data sharing arrangements and development of VET activity data, but limited availability and/or transparency of quality, cost, price and funding data. Performance framework is not a sufficient mechanism for funding assurance and accountability. 	<ul style="list-style-type: none"> New framework with improved performance indicators to better measure the contribution of governments across VET’s varied parts (for example, foundation skills) and links to evaluation. New governance arrangements, such as an intergovernmental data working group and national VET data strategy. National Skills Commission (NSC) or other national body to coordinate annual public reporting on funding and reform progress by the Australian, State and Territory governments.
Clarify roles and responsibilities	<ul style="list-style-type: none"> Role of the Australian Government as funder, and jurisdictions both as funders and determining funding allocation. Broad definition of roles works relatively well, but not always kept to. Blurring of responsibility has occurred over time, particularly in areas of shared responsibility. References to COAG governance arrangements are outdated. 	<ul style="list-style-type: none"> Retain existing roles, particularly for funding, consistent with the IGA FFR. Clearer fundamental roles and responsibilities in the agreement, with more detail defined in schedules that can be updated over time and/or in bilateral agreements. Updated governance arrangements to reflect VET regulators, NSC, and the National Careers Institute.
Facilitate funding arrangements	<ul style="list-style-type: none"> Untied funding improved flexibility to align resources to local priorities, in line with subsidiarity principle. 	<ul style="list-style-type: none"> Retain mostly untied funding, but as above, with annual public reporting by jurisdictions on how funds are used.

Funding is not a ‘silver bullet’ for long-term cooperation

Intergovernmental financial transfers are a necessary feature of a federated system with decentralised responsibility for service delivery and high vertical fiscal imbalance. Financial arrangements can strongly influence behaviour but cannot, in isolation, ensure meaningful intergovernmental cooperation.

Governments should negotiate funding arrangements that keep largely untied base funding (like a Specific Purpose Payment), thereby retaining State and Territory government responsibility for achieving agreed outcomes. Within or alongside a new agreement, governments could consider funding arrangements that promote greater accountability, based on the tools under the IGA FFR, or the precedent of recently negotiated agreements.

The IGA FFR provides for tied funding arrangements through National Partnership Payments that include conditions for reforms of national significance, with funding conditional on reform implementation. Recently negotiated agreements have also included additional conditions to improve accountability, including legal enforceability, bonus payments for outcomes and matched funding arrangements. Such arrangements should be among those considered for new funding agreements.

Principles should be the core of a new agreement

A principles-based approach to reform directions in a new agreement would ensure coherence and give governments flexibility about their policy choices. The policies that would give effect to those principles could then sit separately to a new agreement and could be pursued collaboratively or unilaterally. A principles-based approach would, for example, leave contestability and efficient delivery of services on the table, but defer to governments to determine how to design such policy.

For the national agreement, the Commission has identified 11 principles to guide governments' VET reform agenda:

- centring policy on the users — students and employers — with a focus on informed choice, quality safeguards and measured outcomes
- accessibility, with a focus on meeting the needs of diverse user cohorts
- continuous improvement in VET quality
- fiscal sustainability and stability of funding
- transparency and accountability about VET investment and outcomes
- efficient pricing and delivery of quality training at least cost
- designing incentives to increase participation in VET commensurate with the benefits
- contestability in VET markets, with a provider-agnostic approach to training delivery
- alignment with other parts of the education system, so that the treatment of VET and higher education for similar training does not distort student incentives
- evidence-based policy, informed by quality data and evaluation
- responsiveness to the changing needs of users and the economy.

Supporting the VET system

Irrespective of the form of a new agreement, maximising the benefits from more training will depend on some preconditions being met. Students and employers need relevant and accessible information to make informed choices about courses and providers. Users also need to have trust and confidence in the quality of services offered and protection from the risks of misconduct by RTOs. In this context, the scope and quality of regulation matter.

Informed choice in VET

Informed choice is illusory without salient information

The VET system offers an intimidating range of training options — more than 1400 qualifications across almost 4000 RTOs. Faced with this array of options, students and employers need quality, accessible information to choose suitable courses and training providers. But there are also limits to the value of information. Those limits are framed by the costs of collecting and disseminating information, and by those incurred by students in processing the information.

Informed choice is not, therefore, simply about providing ever more information. It requires an assessment of where the material information gaps lie, and effort to determine how available information is curated and disseminated to students to best facilitate informed choices. Websites, portals and data are likely to be more useful when supported by career advice and screening to help better match students to VET courses, providers, and support services. There is also a role for minimum regulatory standards to remove poor providers and low-quality courses from the market.

There are gaps in information and career advice

VET students are not always well placed to navigate the information maze. Many study participants noted how information for students is fragmented and duplicated across multiple government and private sector websites. Others lamented the limited information on student fees and RTO quality; only around one-in-five training providers upload student fee information to the My Skills platform — the main source of information for VET students.

The Business Council of Australia noted how these information gaps ‘stymied a learner-centric approach and contributed to poor decisions on the part of learners’. Students need better information about training providers — especially the fees charged and the quality of RTO services — and graduate employment outcomes.

Qualitative information on tertiary education, training and career options also has weaknesses. It is split along VET and higher education lines, and information on credit pathways is often unclear. According to tertiary admission agencies, most students are unaware of credit pathways or are deterred by the complex and lengthy process.

More alarmingly, the reliability and usefulness of career information and advice (especially for school students) is questionable. Previous reviews have found that schools and their advisers often have little experience with VET and favour universities.

There are gaps in low-cost career advice for people not in post-school educational institutions and/or government programs. These gaps disproportionately affect disadvantaged groups.

Some of these gaps are being addressed but more could be done

The NCI's charter includes informing prospective VET students, and, with My Skills recently added to its responsibilities, the NCI is well placed to address many information gaps. My Skills should publish better information on student fees, RTO quality (including labour market outcomes), and credit pathways. Ideally, the information should be tailored to different cohorts, such as school leavers and mature-age students.

Given the importance of prices in decision making, reporting student fees on My Skills should be mandatory. A good starting point would be to publish the average fees paid by subsidised and non-subsidised students in the past year. Summary indicators on the quality of an RTO should also be made available on My Skills, covering metrics such as student experiences, employer satisfaction, and graduate outcomes.

While some gaps in career advice are being addressed (for example, through the NCI's Career Partnership Grants Program), the Shergold Review (2020) has recommended further changes including the creation of 'career hubs'. This has some merit. Hubs could lead to better use of resources (especially in regional areas) by linking industry, schools, and the NCI. Career hubs should be focused on assisting school students, older people at high risk of unemployment and disadvantaged groups.

Ensuring quality training

Quality in VET has multiple dimensions: course content, course delivery (including teaching and assessment), and the broader student experience. Each contributes to the credibility of VET qualifications in the labour market, as well as the trust that students and employers alike have in the system.

VET services are generally of a high standard. Survey results point to over 85 per cent of students satisfied with the quality of teaching and assessment, as well as the overall quality of training. Feedback from participants to this review accorded with commentary from Joyce (2019) that poor quality was an issue for a minority of RTOs. However, there is scope to improve the quality of training.

Employers' satisfaction and use of the VET system, while still relatively high, has trended downwards over the past decade. Among those employers dissatisfied, many claimed programs do not teach relevant skills (52 per cent), are not sufficiently focussed on practical skills (29 per cent), are out of date (17 per cent) or generally deliver poor quality training (36 per cent). Some also felt that instructors did not have sufficient industry experience (19 per cent).

There is no single policy lever to ensure quality standards are met while promoting a culture of continuous improvement in RTOs. The Commission has identified options to further improve the regulatory approach, the processes for developing and updating course content (training packages), the capability of the VET workforce and how students are assessed.

Taken together, it is expected these will bolster the quality of training in areas of weakness and build on the existing strengths of the system.

Upholding RTO standards — a shared responsibility

The national regulator — the Australian Skills Quality Authority (ASQA) — was established in 2011 to achieve national consistency in the way providers are registered, courses are accredited and the quality of the system is monitored. ASQA replaced State or Territory regulators in all jurisdictions except Victoria and Western Australia. The goal of national consistency had, and still has, merit.

The establishment of a new national regulator coincided with unprecedented growth in the number of training providers and major policy changes that involved under-appreciated risks. In the case of VET FEE-HELP, flawed program design added further risks. It was a prelude to a perfect storm and, in the subsequent deluge, weaknesses with the regulatory standards, particularly those relating to RTO registration and course accreditation, and an enforcement mantra that eschewed engagement with industry exposed flaws in the regulatory framework.

But change is in train following the Braithwaite and Joyce Reviews, and in 2020 the Australian Government accepted all 24 recommendations of a ‘rapid review’ of ASQA’s operations. The new direction for ASQA will balance its compliance-based approach to (minimum) standards regulation with RTOs’ use of self-assurance processes to critically examine their performance on an ongoing basis.

It is too early to judge the impact of these changes, but there is a broad sense that progress is being made and ASQA’s engagement with RTOs to improve quality is welcomed. The latter could be improved with better administration and use of survey data, including providing better data to RTOs for benchmarking purposes.

Governments have other avenues than regulation to promote quality. State and Territory governments can influence quality through the terms of their funding contracts. Current approaches vary across jurisdictions, but typically involve additional requirements, audit regimes, and sanctions. In New South Wales, for example, subsidised RTOs are required to comply with additional obligations for teachers’ professional development. There is room to improve the use of contract management to target key aspects of quality.

Funding contracts can affect VET quality in other ways. Where funding contracts are subject to annual renewal, RTOs have only short-term certainty over funding. This limits their capacity to make investments that would improve quality (such as equipment purchases, extended employment contracts, or investments in professional development). Governments should increase the length of their contract terms with RTOs.

Regardless of the level of minimum standards set by the regulator and in government contract management processes, there will always be instances when individual students are

failed by shoddy training. And with training essentially an ‘experience good’ (where quality becomes more evident to students after the initial purchase), the risk will still remain, highlighting the need for robust consumer protection. This will, in its own right, deter poor quality service as well as provide remedies to students.

The avenues for students’ complaints differ according to jurisdiction, type of complaint, type of student, provider ownership, and type of funding. Many complaints about VET quality are initially received by ASQA, which may lead to ASQA’s involvement (and often resolution) or referral to other avenues. ASQA does not have responsibility for consumer affairs and does not see its role as an ombudsman. Increasingly, ASQA will seek to focus only on resolving those cases ‘at risk of causing greatest harm’, ceasing the previous process that sought to substantiate or resolve individual complaints.

Notwithstanding many complaints being resolved without mediation or legal action, the limited avenues of redress for consumer complaints remains an important gap in the consumer protection framework in VET. ASQA’s public complaints portal received 921 complaints about VET providers in 2019-20. Joyce (2019), Braithwaite (2018) and the Commonwealth Ombudsman have all identified the potential to improve the handling of complaints.

State and Territory governments should address this gap by establishing complaints-handling authorities (ombudsmen) with coverage of all RTOs providing VET services within their jurisdiction, as in Queensland and South Australia.

Keeping course content relevant

A key challenge for the VET system is ensuring that vocational pathways keep pace with the rapidly changing needs of students, employers and the economy. Inevitably, there is some tension between the value that employers place on specific skills and the incentives for students to invest in more generic and transferrable skills. But there is scope to improve the responsiveness of training content and course materials to changing needs and circumstances (for example, new technology).

Some of that scope is being taken up or piloted in efforts to shorten the time frames needed to develop and update training packages. For instance, procedural changes have facilitated more timely amendments — changes to the Australian Meat Processing training package that commenced in 2017 took 23 months on average to complete, while those commencing in 2018 took 17 months. In addition, the Australian Government is piloting Skills Organisations in selected industries, in line with the Joyce Review’s recommendation. It is too early to assess the effectiveness of these initiatives.

To further improve the timeliness of the process, the Commission recommended in its interim report that the COAG Skills Council (now the Skills National Cabinet Reform Committee) consider delegating responsibility for approving straightforward, non-controversial or minor changes to training packages to Industry Reference Committees (IRCs). Feedback from review participants was generally positive, with the caveat that there

would need to be consultation with industry and appropriate safeguards. Clear guidelines would be required from governments to define the scope and use of the IRCs' new decision-making powers.

Improving the capability of the VET workforce

The capability of the VET workforce is a key driver of quality. The hallmarks of capable VET teachers are pedagogical skills and contemporary industry expertise in their field of training. There is also a growing expectation that VET teachers have the digital skills to provide an engaging learning experience for students.

Views differ about the relative importance of these teaching attributes and whether the current minimum pedagogical credential required for teaching in VET — the Certificate IV in Training and Assessment (TAE) — is at the right level. Some review participants argued it is unduly restrictive while others believe a higher qualification with more emphasis on pedagogical skills should be required.

Despite some new research on this issue since the Commission's 2011 *VET Workforce* report, many aspects of the relationship between teaching qualifications and teacher performance remain poorly understood. More generally, the increase in the proportion of VET teachers holding the TAE has *not* been associated with greater satisfaction with VET teaching. On balance, there is insufficient evidence to justify increasing the minimum qualification for VET teachers.

Governments have outlined in the recent *Heads of Agreement for Skills Reform* their intention to develop a VET workforce quality strategy. This is an opportunity to identify steps that would lift the quality of VET teaching. To inform the strategy, the National Centre for Vocational Education Research (NCVER) should first undertake a census of the VET workforce focusing broadly on the characteristics of teachers at the RTO level. The census should include pedagogical and occupational qualifications, as well as industry experience.

Transitioning to independent assessment

How students are assessed also bears on the quality of training. The *Draft VET Reform Roadmap* foreshadowed new assessment models involving independent assessment of competency. The unbundling of assessment from teaching could boost confidence in the value of VET qualifications. Independent assessment also raises new concerns about cost and effectiveness, which will depend on careful design and application of programs. Despite several trials in the past decade, there has been no systematic expansion of independent assessment. Nor has the effectiveness of different models been appraised.

Independent assessment can be used widely or narrowly. It would be possible, but costly, to test the competency of random samples of VET graduates from each RTO. Independent assessment could be used by industry as an additional voluntary marker of quality (such as

Canada's Red Seal). Regulators could use independent assessment to audit RTOs' performance, either at regular intervals (for example, renewal of registration or after a change in scope) or in cases of high risk.

Further progress towards independent assessment could be achieved through a process of phased implementation, which should include:

- identifying suitable qualifications and occupations — which involves consultation between, and leadership from, governments, industry, and occupational governing bodies
- determining the design of an independent assessment program and its objectives, including examining the merits of:
 - undertaking national trials for the chosen qualifications, with the specific purpose of assessing the usefulness and cost-effectiveness of independent assessment
 - developing an institutional framework, which would allocate responsibilities for assessment, accreditation of assessors, and funding.

It would be particularly valuable to explore the use of independent assessment where there is strong industry support, or where there are widespread concerns about uneven quality of graduates' skills — particularly where minimum training standards contribute directly to public benefit. One example of the latter is the aged care sector, which is in the process of establishing stronger minimum standards for its workforce. Changes to training packages and units of competency are underway. Once new course content and any additional mandatory requirements are established, some form of independent assessment could provide an additional quality assurance.

Funding and pricing

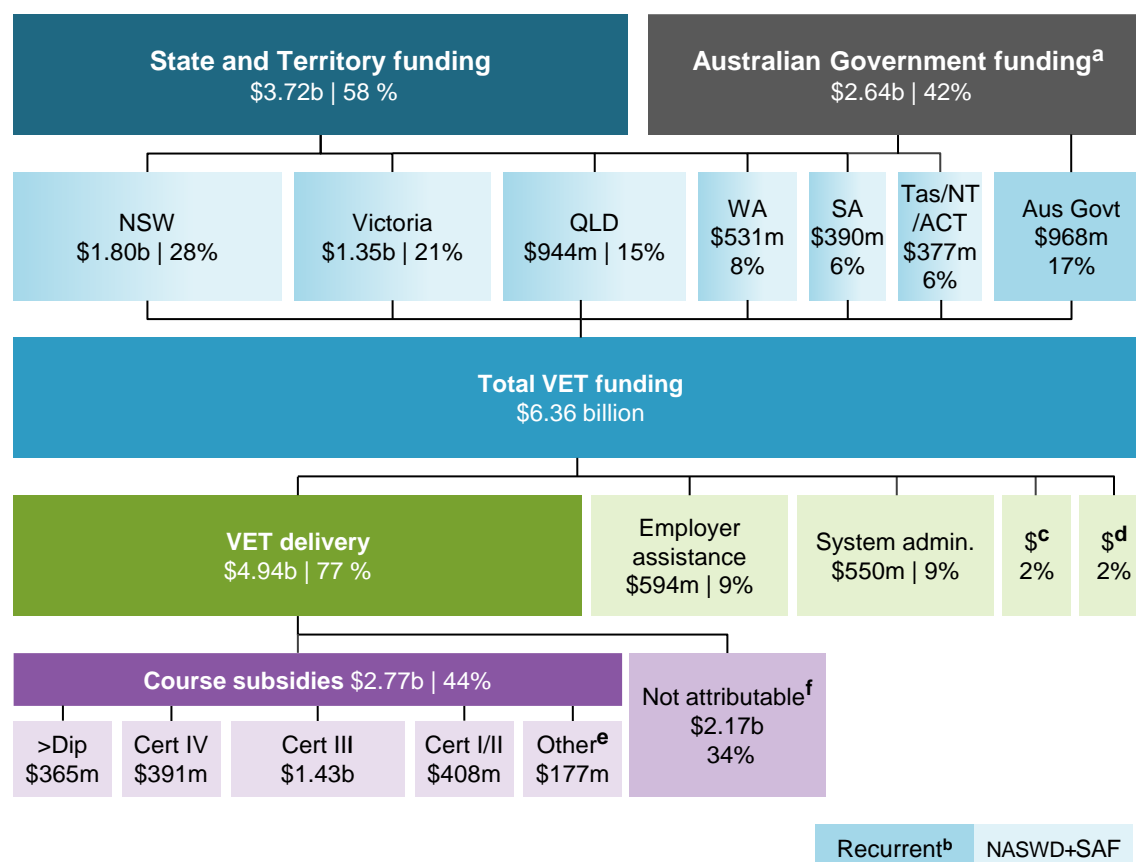
There are compelling reasons for governments to invest in VET. These are that:

- private incentives for investment in VET do not take account of broader public benefits from VET, leading to under-investment
- there is an equity argument for requiring contributions from all the parties (including taxpayers) who benefit from those public benefits
- disparity between higher education and VET sector funding arrangements can distort students' choices in favour of those less suited to them.

Governments spent close to \$6.4 billion on VET delivery in 2019 — shared between the Australian, State and Territory governments (figure 3). The Australian Government contributed about \$1.7 billion to the States and Territories for the delivery of VET services.

State and Territory governments decide how to allocate these funds and are responsible for the day-to-day delivery of training in their jurisdictions, including through publicly-owned TAFEs. About 44 per cent of the funding was allocated to course subsidies.

Figure 3 VET funding, 2019



^a Excludes Government provisions for VET loans. ^b On the second row, the darker shades relate to recurrent funding for each jurisdiction. ^c Capital funding accounts for approximately \$181 million. ^d Student assistance accounts for about \$149 million. ^e Other programs include non-award programs, skill sets, bridging courses and enabling courses not identifiable by level. ^f Funding not attributable by level of education captures costs associated with training delivery, support and administration, and operational base funding. SAF stands for Skilling Australians Fund.

Large differences in jurisdictions' course funding

Broadly, governments use subsidies to encourage training in priority areas and to improve access to VET for students facing disadvantage.

The key steps that all governments take in funding and pricing VET courses are:

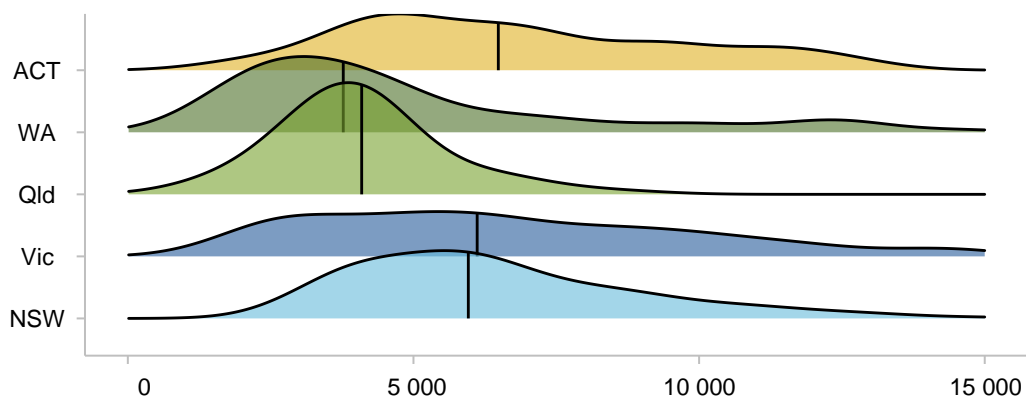
1. determining which courses will receive government subsidies
2. setting course subsidies by estimating costs and assigning subsidy rates. Subsidies comprise three components — base subsidies, which are a proportion of estimated course costs, loadings to reflect the higher costs of supplying services in different regions and to some students, and concessions intended to attract students facing disadvantage (such as Aboriginal and Torres Strait Islander people, people with disability and the long-term unemployed)

3. managing course subsidies through contractual arrangements with RTOs.

However, governments use different methods to undertake these steps (box 1). As a result, each jurisdiction has a very wide distribution of subsidy amounts across courses and, given differences in priorities and methods for calculating subsidies, these distributions also differ across jurisdictions (figure 4). For example, very few Diploma/Advanced Diploma courses obtain subsidies above \$5000 in Western Australia or Queensland, while more than half do so in the ACT, Victoria and New South Wales.

The combination of a diverse VET sector and each State and Territory government using their own method to set subsidies raises the potential for a complex array of subsidy settings. With many courses on offer, different course types (for example apprenticeships and non-apprenticeships) and various loadings and concessions, there is a bewildering number of possible subsidy settings. Against this background, the Joyce Review's critique of complex subsidies is well justified.

Figure 4 **The distribution of subsidies by jurisdiction varies widely^a**
Subsidy for Diploma/Advanced Diploma qualifications (\$)



^a Non-apprenticeship students without a loading or concession. Vertical lines represent the median subsidy.

Box 1 Each to its own — how jurisdictions determine course costs and subsidies

Methods for estimating course costs, calculating subsidy rates and setting loadings/concessions vary significantly across jurisdictions.

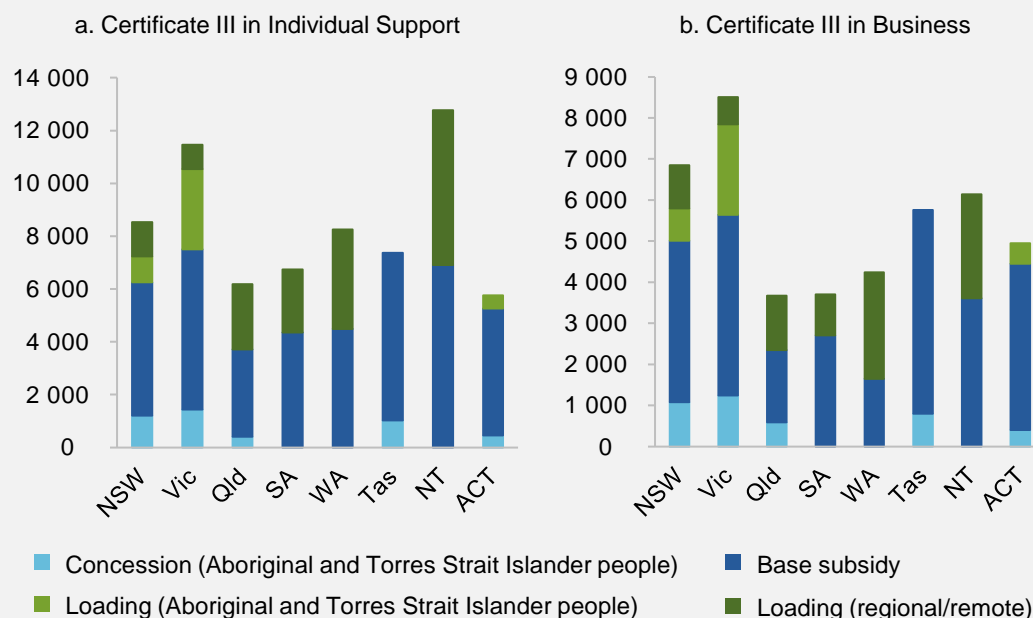
Many jurisdictions' estimates of the cost of delivery are based on historical averages of course costs, whose original methodologies are unclear. In New South Wales, subsidy rates are based on 2012 data and on the cost profile of TAFEs (which do not have cost structures typical of the broader market). The Commission's analysis of two popular VET courses suggests that estimates of costs can significantly affect the subsidies on offer (see figure below).

The methods jurisdictions use to apply subsidies to courses also differ. New South Wales, for example, determines average course subsidies by field of education, whereas in Victoria they are determined using an industry classification.

Jurisdictions have different ways of grouping subsidised courses for the purpose of signalling their priority. For example, Queensland has three groups (with subsidy rates ranging from 50 to 100 per cent of course costs) and Western Australia has five groups.

There are also large differences in the approaches used to calculate location loadings to take account of the higher costs of training in regional and remote areas. For example, New South Wales has a flat 10 or 20 per cent regional loading, which is between five and seven times lower than Queensland and Western Australia — despite large parts of the State being classified as remote or very remote. Similarly, equity loadings vary markedly. As an illustration, the loading for Aboriginal and Torres Strait Islander students is 15 per cent of course costs in New South Wales, 50 per cent in Victoria, and a flat \$500 in the ACT.

Subsidy schedules for two Certificates (\$) ^{a,b}



^a These comparisons are for illustration. Due to the varied nature of information on subsidies some jurisdictions' data have been supplemented with TAFE data and amounts may not be directly comparable. ^b These comparisons are for an Aboriginal and Torres Strait Islander student living in a regional or remote location.

Is there a better way?

The Commission has been tasked with providing ‘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’.

The proposed way forward focusses on a common approach for estimating course costs (and loadings), streamlining subsidies, and removing fixed student fees. These allow governments to improve accountability, while leaving jurisdictions with the ability to set their subsidies and concessions to reflect differences in, among other things, priorities, demographics and geography.

A common method for determining course costs — a major step forward

Since the interim report’s release, the NSC has been established (in July 2020) and tasked with developing a methodology to estimate the efficient cost of delivery in each jurisdiction by October 2020, and to produce estimates for common VET qualifications by 1 July 2021 and all VET qualifications by 1 July 2022.

Notwithstanding the challenges inherent in estimating efficient costs, State and Territory governments should use the NSC’s estimates of efficient costs as a common basis for setting their subsidy rates. This would still leave jurisdictions the flexibility to determine their subsidy rates according to their own priorities for courses and student cohorts.

The work being undertaken by the NSC will also address the lack of transparency about course costs and enhance the information available for students and training providers.

A strong case for streamlining subsidies

As finely calibrated subsidy rates are unlikely to sway student choices or reflect real differences in the public and private returns from different courses, there are strong grounds for simplifying subsidies.

There is merit in the NSC working with the Australian, State and Territory governments to simplify subsidy rates. The NSC is well placed to undertake this work as it has greater insight into the efficient cost of delivery. Input from State and Territory governments will ensure that any proposed simplification of subsidies reflects the priorities of each government.

States and Territories would still decide on the rates for their own jurisdiction and the eligibility criteria for subsidised courses, as well as policies for lower level qualifications and priority student groups.

Good grounds for removing fixed student fees

Governments differ in how stringently they control student fees and prices paid to RTOs for subsidised courses, reflecting different views on quality and service delivery risks. New South Wales and Western Australia regulate most stringently by ‘fixing’ student fees for all qualifications (allowing neither lower nor higher fees). Effectively, the payment to the RTO — the ‘price’ of the service — is fixed as the subsidy amount is also set. (Queensland sets student fees for apprenticeship courses.)

Other jurisdictions do not set student fees for most courses, although RTOs in Victoria, Queensland, South Australia, Tasmania, the Northern Territory and the ACT must charge a (modest) minimum student fee so that students have ‘skin in the game’. This sensibly aims to reduce the risk of fraudulent conduct by RTOs (for example, giving inducements to students to undertake training while supplying low-quality services) and encourages students to choose their training carefully.

However, regulated prices and student fees can have perverse impacts because they reduce the ability of RTOs to differentiate their offerings based on quality and mode of delivery. Price regulations do not prevent RTOs reducing quality but can prevent RTOs delivering higher-quality training at a higher price or delivering high-quality courses at lower than capped prices.

Consequently, there are good in-principle grounds for the New South Wales and Western Australian Governments to shift away from fixing fees.

Scope to increase market testing

TAFEs receive payments besides course subsidies, yet State and Territory governments do not fully disclose the value or use of these payments. Such payments may distort competition between public and private providers, and funding higher-cost public providers outside competitive processes diminishes the returns from the public funds invested in training.

Some review participants put forward arguments for preferential funding for public providers, including servicing thin markets, maintaining certainty of supply, servicing particular student cohorts, and community service activities. Yet, course subsidies already provide additional payments for particular student groups and allow for regional variation in costs. Moreover, if there are additional community service obligations, public provision is not necessarily the only or best option. Governments should subject community service obligations to competitive tendering, rather than simply earmarking additional payments for TAFEs.

Income contingent loans

Course subsidies have overly elaborate designs, do not apply for many courses, have only partial effectiveness in increasing overall VET enrolments and changing students’ course

choices, and involve large government outlays. By contrast, income contingent loans (ICLs), when robustly designed with effective integrity safeguards, can improve access to training and expand participation in VET.

VET Student Loans (VSL) — the Australian Government’s VET ICL program — has proven effective at expanding participation in VET. About half of eligible students took out a VSL in 2018, and 94 per cent of these students reported that they could not have afforded to pay their course fees without that loan. This implies that enrolments in eligible courses delivered by approved providers are almost twice as high as they would be in the absence of VSL.

ICLs also have desirable efficiency and equity properties. They:

- provide a signal that training is a long-term investment to be repaid
- entail lower per-student fiscal costs than large course subsidies, allowing more students to access VET with a given budget
- are highly progressive in that the effective subsidies resulting from loans not repaid accrue only to people earning low post-VET incomes.

The sorting that occurred under the previous VET FEE-HELP ICL program (box 2) has obscured these strengths (and damaged the reputation of VET). But the failures were a symptom of poor program design, implementation and regulatory oversight, rather than a flawed concept. VSL has rectified these shortcomings.

The Commission’s interim report flagged options for expanding VSL. While review participants had concerns, they generally supported cautiously expanding VSL to more courses.

Box 2 The lessons from VET FEE-HELP

The expansion of the VET FEE-HELP loans scheme saw a surge in the uptake of loans from about 54 000 students in 2012 to over 272 000 in 2015, and average course fees more than tripled from \$4060 in 2009 to about \$14 000 in 2015. Many of these higher-cost courses were offered by a small number of opportunistic providers delivering poor-quality training that are no longer operating.

The sorting associated with VET FEE-HELP stemmed from flaws in the design and implementation of the program. For example, providers received all their funding when a student commenced, with no requirement for students to confirm ongoing engagement with the course. Regulatory oversight was also inadequate at a time of rapid change and a newly established national regulator in 2011.

The scheme was replaced at the end of 2016 with the VET Student Loans program. In recognition of the shortcomings of VET FEE-HELP, it includes substantially strengthened integrity measures and tighter provider eligibility criteria.

Expanding VET Student Loans

In its current form, VSL is available for only 43 per cent of courses at the Diploma and above level, although those courses account for 87 per cent of Diploma and above enrolments. A course is eligible for VSL if it is subsidised by at least two States and Territories, is a science, technology, engineering or mathematics course, or is tied to occupational licensing requirements. No courses at the Certificate IV level or below are eligible for VSL.

The restrictions on the eligible Diploma and above courses are poorly targeted — eligible and ineligible courses for VSL yield similar post-training improvements to employment outcomes. The restrictions have also substantially reduced participation in VSL-ineligible courses. Some of the prospective students of these courses have been discouraged from tertiary education entirely, while others have been diverted into the more expensive higher education system or into VSL-eligible VET courses that may be less suited to their preferences and capabilities.

The Australian Government, in consultation with State and Territory governments, should extend VSL to more courses at the Diploma and above level, with restrictions used sparingly. This should be done by replacing the existing course restrictions with a ‘blacklist’ of restricted courses comprising ‘leisure courses’ and courses that yield poor employment outcomes.

Prospective students of Certificate IV courses could also benefit from access to VSL. About 40 per cent of Certificate IV students are enrolled in courses that cost, on average, over \$8000 to deliver. This suggests that some prospective students face fees of many thousands of dollars without recourse to a loan — an obstacle to training for some, and out of kilter with the loans available in the higher education sector. Governments should therefore extend VSL to Certificate IV courses.

While many of the necessary integrity measures are already in place, the risks associated with extending VSL to a new student cohort warrants a conservative approach. A Certificate IV ‘blacklist’ should be established (following the same process used for Diploma and above courses) and suitable loans caps determined to reduce the risks of price gouging. As the rollout proceeds, data on student employment outcomes should be monitored carefully and any adverse developments promptly addressed.

Governments could subsequently consider further extending ICLs to selected Certificate III courses, provided the extension to Certificate IVs is successful (if it yields higher enrolments relative to loan uptake with no significant decline in student outcomes). Fiscal sustainability may dictate relatively stricter repayment terms for Certificate III courses given graduates’ lower earning potential and reduced prospects of loan repayment.

Recalibrating VET Student Loans settings

Regardless of whether VSL is expanded to additional courses, there are strong grounds to update loan caps and loan fees.

VSL loan caps limit how much a student can borrow on a per-course basis and have helped to constrain course prices and manage governments' fiscal risk. However, the loan caps are poorly calibrated.

There are four caps — \$5264, \$10 528, \$15 793, and \$78 967. Caps are based on the average course cost across broad fields of education, covering a wide spectrum of costs. The weak relationship between individual course cost and the applicable loan cap reduces the caps' effectiveness in constraining course prices, potentially distorts student and provider decisions, and results in some students paying large upfront contributions.

There is scope to refine caps by adopting a more granular, but still limited (around 10), number of caps, set on the basis of the ongoing work of the NSC to estimate the efficient cost of delivering courses. As these estimates become available (expected in 2021-22), the Australian Government should group courses that have similar estimated costs and set the loan cap somewhat above the highest estimated efficient delivery cost among courses in each group (a 'cost plus' model) to allow for an error margin and to avoid locking higher quality providers out of the market.

There is also merit in reviewing the application of loan fees. Loans for fee-for-service courses are subject to a fee of 20 per cent of the loan value (which can be added to the loan), whereas loans for subsidised courses are fee-free. There is no justification for this differential treatment. Indeed, once the impact of the loan fees is considered, the Commission's best estimate is that the share of course-fee-related debts not expected to be repaid is at least 6 percentage points *lower* for fee-for-service students than it is for subsidised students.

Loan fees should be levied on both fee-for-service and subsidised courses at the same proportion of the loan value.

There should be a minimum student contribution (paid upfront) to the cost of the course for government-funded programs at the Certificate III level and above. This is to encourage the student to conduct due diligence into the value of the course and to avoid the perception that their loan amounts to 'free money'. Under VSL, the student contribution would be in the form of an 'upfront loan charge'. The level of the upfront loan charge should be aligned with the minimum student fee for subsidised courses. Disadvantaged students should be exempt from the minimum student contribution and the upfront loan charge.

In adjusting the settings for VSL, the Australian Government could also revisit debt collection arrangements. The collection of unpaid student loan debts from estates would reduce the fiscal cost of VSL without inhibiting access to VET or reducing post-VET student incomes. It would also bring student loans into line with the treatment of other debts. Cases of financial hardship could be managed via exemptions for small estates and discretionary powers for the Australian Taxation Office to waive debts in extenuating circumstances. The same changes would need to be applied to higher education loan programs.

Apprenticeships

About 14 per cent of students studying a training package qualification are apprentices — a much higher proportion of students training as apprentices than most OECD member countries.

Improving the attractiveness of apprenticeships was a key goal of the COAG Skills Council's *Draft VET Reform Roadmap*. More recently, as part of its economic response to the COVID-19 pandemic, the Australian Government established temporary programs to support employers to recruit new apprentices and retain existing ones. While the economic downturn caused by the pandemic is disrupting the apprenticeship system, many of the issues of concern predate the pandemic.

There have been persistent skill shortages in many occupations that rely on apprenticeships as the main training pathway. Apprenticeship commencements have declined significantly over the past decade — commencements of trade apprentices peaked at about 100 000 in 2012 but fell almost 30 per cent by 2019. And apprenticeship completion rates remain low in many occupations — only 57 per cent of apprentices commencing in 2015 completed their apprenticeship. There are significant costs to non-completion, including time, resources and wasted government funding.

Preparing and supporting apprentices

There is scope to better prepare apprentices before they begin their apprenticeship. Governments should consider screening apprentices to gauge whether their apprenticeship matches their career goals and identify any support needs (such as foundation skills and mentoring). For example, in South Australia, all prospective VET students undergo screening.

While pre-apprenticeship programs show promise in increasing apprentice productivity and completion rates, more research is needed to determine their effects in different occupations. The effectiveness of such research relies on intergovernmental cooperation to develop a nationally-consistent definition of pre-apprenticeships.

There is also scope to support students through their apprenticeship. Support services, such as mentoring and pastoral care, can help apprentices overcome workplace or personal challenges to completing their apprenticeship. Governments could better coordinate apprenticeship support services through co-operative contracting arrangements with the Australian Apprenticeship Support Network. Further, there is merit in expanding these services to more apprentices likely to benefit, increasing completion rates in the process.

Reducing barriers to apprenticeship and non-apprenticeship pathways

Apprenticeships are the main training pathway for trade occupations, many of which are in persistent skills shortage. The apprenticeship pathway can be time consuming and act

as a major barrier, particularly for mature-age workers — trade apprenticeships can take up to four years to complete.

Competency-based wage progression allows apprentices to progress through their apprenticeship faster, and receive higher wages sooner, if they can demonstrate competency of skills earlier than the nominal time-based progression. While modern awards in some occupations allow for this type of progression, this should be extended to all modern awards covering trade apprentices.

Alternatively, students can take non-apprenticeship pathways to trade occupations. This can overcome key problems with the apprenticeship pathway: apprentices can only begin training once they have found work and job-related issues tend to be the main cause of non-completion. Non-apprenticeship pathways exist, but several barriers contribute to them being rarely used.

- Industry-specific rules may block entry. For example, in New South Wales, students below 21 years old can only undertake a Certificate III in Air-conditioning and Refrigeration as an apprenticeship and, if they are older, can only undertake a non-apprenticeship pathway if they are already employed in the industry.
- Governments provide less financial support for students of a non-apprenticeship pathway — when undertaking the same course, an apprentice receives higher subsidies and is eligible for income contingent Trade Support Loans to assist with everyday living expenses.

Governments should reduce these barriers and equalise the treatment of apprentices and non-apprentices studying the same course.

Reorienting employer incentives

Support from employers is essential to sustain the apprenticeship model. Apprenticeships are the only area of the VET system where employers determine the number of people in training. Employers are generally satisfied with the apprenticeship system and report many reasons for hiring apprentices, including obtaining skilled staff, upskilling existing staff, filling a specific role, or training to their own requirements.

Governments mostly rely on financial incentives for employers to boost their demand for apprentices. In 2019, employer incentives made up 9 per cent (almost \$600 million) of total government expenditure on the VET system, with the main incentive program providing a median payment of \$2500 per apprentice. Employer incentives accounted for about 2 per cent of the employer costs of hiring a trade apprentice.

However, employer incentives are unlikely to provide a strong return on investment. Incentives are provided to all employers, but are only likely to change the behaviour of a few. Many employers will train apprentices without an incentive, with governments often paying businesses for training that would have occurred anyway. This is a costly approach.

The Australian Government should consider reorienting funding for employer incentives toward other measures that evidence suggests are more effective and provide a greater return on investment, such as apprenticeship support services and screening.

If the Australian Government retains employer incentives or delays reorienting funding, there are several ways to improve the return on investment on public funds including by:

- reviewing the return on investment of recently introduced payments or trials and acting on any learnings for future programs
- reorienting funding for completion payments (which are unlikely to have much impact) to other services for employers (such as screening) or making payments earlier in the apprenticeship (where the risk of cancellation is greatest)
- streamlining incentives to reduce their complexity for employers (such as simplifying some payments and extending incentives to existing worker trade apprentices)
- having better coordination across governments to ensure that clear information on the incentives is published.

In response to weak employer demand triggered by the COVID-19 pandemic, the Australian Government budgeted \$4 billion to provide a 50 per cent wage subsidy for up to one year for new and existing apprenticeships. The subsidy is many times greater than the current level of employer incentives and for this reason alone is likely to have a major impact on employers' behaviour. However, it is a temporary measure in response to extraordinary circumstances and not a cost-effective way to sustainably increase apprenticeships. The impact of the subsidy should be monitored.

Foundation skills and other targeted reforms

For many Australians, their participation in society and the economy is limited by poor 'foundation skills' — language, literacy, numeracy and digital literacy (LLND) skills.

According to the OECD's *Programme for the International Assessment of Adult Competencies Survey* — which was last undertaken in 2012 — two to three million Australians lacked the literacy and numeracy skills for the basic needs of modern life. Eighty per cent of people with below level 2 standards in literacy (which is broadly equivalent to the minimum national benchmark for NAPLAN year 9) came from a household where English is spoken at home. About 500 000 (20 per cent) came from households where English was not spoken.

People lacking LLND skills are less likely to be employed and, if employed, are more likely to be in jobs with lower wages. Studies have also shown that LLND skills are important for civic participation.

Many individuals and society would benefit substantially if LLND skill levels could be improved. Although Australian governments have a wide range of LLND programs, they

roughly just keep pace with the flow of school leavers and new migrants who lack adequate LLND skills and will not greatly cut the share of the broader population that lacks these skills.

The Joyce Review recommended that governments commit, over time, to support fee-free foundation level education for all Australians who need training to achieve the benchmarks of level 2 literacy and numeracy in the Australian Core Skills Framework. And under the *Heads of Agreement for Skills Reform*, governments have made improving basic LLND skills a priority. This review suggests the first steps governments could take towards the aspirational goal of universal access to LLND skills.

What are the barriers to higher skill levels?

Fees are not the only barrier to foundation skills training and are unlikely to be the most important barrier for many prospective students. For high-need groups, fees are already low or zero. For others, government subsidies to reduce fee levels may not be the most effective way to encourage them to undertake training. Issues such as low confidence and stigma reduce some adults' willingness to engage in LLND training. A variety of solutions — both in terms of outreach and course design — may be necessary to meet the needs of different types of learners.

Evaluations and academic research provide little guidance on how governments can best invest in LLND skills acquisition. There is no compelling case for any particular program, nor clear estimates of the cost of achieving better LLND outcomes. Longitudinal studies show that students need to be tracked for an extended period (up to 6 years) to determine whether there has been a significant improvement in skill levels.

These considerations imply that determining the best path towards higher LLND skill levels will require a gradualist approach, building the knowledge base over time.

Developing a national strategy

A national LLND skills strategy would bring together measures to improve school education, 'second-chance' learning in the VET sector and the other adult education services delivered by public and private providers. It should draw on the recently announced scoping study into foundation skills and be coordinated across the Australian, State and Territory governments, given they are all involved in service provision and funding. The strategy would sit above the NASWD and other education-related agreements, which would house the details of how the national strategy would be delivered in specific sectors.

Schools and the VET system will remain core elements of efforts to lift basic skill levels — schools because they will always be the best way of building foundation skills, and VET because it represents a well-structured, regulated, delivery mechanism to offer 'second-chance' learning designed for adults. Other training methods such as adult education, workplace training or job seeker courses will also be important if the strategy is

to reach students who would not otherwise undertake training. Programs to provide English language skills to migrants should be maintained.

The current training options are more likely to reach people who have a strong incentive to undertake training — those who are in the job market, have newly arrived in Australia or need to improve their foundation skills to gain a qualification.

People not in the labour market, with poor experiences at school, who are homeless or facing other challenges will need well-designed outreach. The *Foundation Skills for Your Future* program offers a model to explore more tailored delivery as well as increased delivery in workplaces.

Evaluations of current delivery and new programs need to be improved and consolidated as part of the new strategy. These evaluations will also be more valuable if they include a longitudinal component in different settings.

High-level objectives and outcomes relating to LLND for the VET sector would be set out in the body of the new skills agreement. A detailed schedule to that agreement would elaborate on how to operationalise the agreement. The schedule would specify governments' roles and responsibilities in relation to the programs covered by the schedule. The schedule would also cover how LLND training is funded, through both the skills Specific Purpose Payment and National Partnership Payments, with per-student funding retained for most activity delivered through the VET system, but block funding considered for organisations tackling more difficult-to-reach students.

Indigenous RTOs and students

The Joyce Review proposed additional funding for Indigenous RTOs. Language barriers and the remote location of many Aboriginal and Torres Strait Islander students can be significant impediments to participation in VET. Dedicated data are scant, but NAPLAN data show that year 9 Aboriginal and Torres Strait Islander students are on average around three to four years behind their non-Indigenous peers in numeracy, reading, and writing.

Many Aboriginal and Torres Strait Islander students who live in metropolitan areas can readily access TAFE, other VET providers and additional supports as part of the VET system, but it is more difficult for Aboriginal and Torres Strait Islander students in remote areas. The provision and choice of training in those areas is limited and often requires significant travel (for RTO staff as well as students).

One specific (and a broader) issue raised with the Commission is restricted support for Aboriginal and Torres Strait Islander students who move interstate temporarily to train. More generally, State and Territory governments limit access to the courses they subsidise to students residing in their jurisdiction. The Commission is recommending that State and Territory governments should develop reciprocal agreements for (existing) funding to follow

students who enrol in subsidised courses interstate. This would be of particular benefit to Aboriginal and Torres Strait Islander students living in remote areas.

A second issue is that per-student funding models do not always adequately cover the costs of delivering VET to disadvantaged students who may require additional support services, such as assistance with basic LLND skills. This also applies particularly to Aboriginal and Torres Strait Islander students in remote communities. Governments should consider block funding to supplement the per-student funding for RTOs that are best placed to provide VET support services to remote Aboriginal and Torres Strait Islander students.

Supporting lifelong learning

Knowledge obtained when young can often become obsolescent, may not meet contemporary social and economic needs, and may be unsuited to new career paths. Lifelong learning — the ongoing acquisition of knowledge, skills and capabilities as people age — is critical for people’s capacity to participate in a changing economy and society.

VET financing for mature-age Australians

The VET system is weighted to funding the acquisition of entry-level qualifications for young people. Yet, there is likely to be a group of mature-age Australians who would like to undertake more flexible training but are stymied by financial and time constraints. Letting older adults flexibly assemble packages of micro-credentials by combining short VET courses and modules from different VET qualifications across multiple providers would provide bespoke solutions for skill gaps while addressing the time constraints. A new income contingent loan scheme targeted at this form of training would address the financial constraints.

Given its novelty and uncertainty about the level of unmet need, a trial would be appropriate. The trial could include a variety of features — loan caps and loan fees, the eligibility of training providers, and student screening — to protect its integrity and target the groups most likely to benefit.

The balance between these design features would require consultation and modelling. One of the purposes of a trial would be to test these features and, subject to the wider adoption of the program, finesse them. A trial would also identify the need for a new instrument, the types of users, the benefits of involvement to them and the community at large, the degree of crowding out of private sources of finance, any administrative burdens for government and providers, and financial and reputational risks for government.

Credit pathways

Credit pathways allow students to receive credit for previous relevant training or experience, reducing the time taken to complete training, or enabling them to avoid repeating it. Credit

pathways are an important enabler of lifelong learning and reduce barriers to students reskilling or upskilling from a previous qualification or occupation. There are three main components to credit pathways: credit transfer, articulation and recognition of prior learning (RPL).

Credit transfer requires RTOs to provide credit to students for previously completed units of competency or modules from nationally recognised training. This process is relatively straightforward. Articulation involves the recognition of completed qualifications, with defined pathways for automatic admission or credit for future courses, such as from Diplomas to Bachelor Degrees. Individual training providers (such as RTOs and universities) negotiate articulation agreements with other providers on an ad hoc basis. This can be time consuming and inconsistent across providers. More consistency in arrangements may help, but requires policy reform in both the VET and higher education systems. Improving pathways between these systems is a key action area under the *Draft VET Reform Roadmap*.

RPL involves an *assessment* of students' competency — acquired through formal non-nationally accredited training or other learning or work experience — to determine if they meet the requirements for a unit of study.

Several barriers to RPL exist for both RTOs and students. RTOs are legislatively required to offer RPL but each RTO is responsible for developing its own policies and practices for granting RPL, creating little consistency across RTOs. RTOs can also face disincentives to granting RPL, such as receiving less funding for subjects completed by RPL. Administering the RPL process can also be burdensome, increasing the cost of granting RPL. Students can also find the process of applying for RPL onerous, complex and costly. These barriers act to:

- limit study paths for people who wish to upskill or reskill
- reduce the attractiveness of further study
- duplicate students' investments of time and effort
- duplicate financial investments (by both governments and students)
- undermine the process underway to operationalise standalone, short-duration micro-credentials which rely on RPL.

There is likely to be scope to overcome some of these barriers to RPL but the solutions are not necessarily straightforward. It requires careful consideration of the balance between consistency and flexibility, funding models and incentives of RTOs, the costs to RTOs and students, and the risk of rorting. Governments should develop options to reduce these barriers. To the extent that low RPL uptake reflects poorly-informed students, this could be addressed by the NCI.

Summing-up

Australia's VET system has many strengths. It plays a central role in facilitating workforce participation, productivity, and the nation's economic prosperity. It services a diverse group

of users who are broadly satisfied with the training received and it strikes a balance between national and local priorities, alongside educational and industry outcomes. Most students have a choice of provider and many pay low or no upfront costs to obtain their first qualification. While this review has not found evidence of a system in crisis, there is considerable room to improve.

The Commission has identified reforms that address the weaknesses and build on the solid foundations, focussing on three key themes:

- improving how governments work together
- supporting the development of a more efficient and competitive VET market
- better targeting government investment to increase participation in training (figure 5).

Together, these reforms will deliver a more accessible, responsive, reputable, and efficient system to give effect to governments' collective vision for VET (table 2).

Figure 5 A VET reform agenda

Intergovernmental arrangements			
A new national agreement (with embedded LLND arrangements)	Revise intergovernmental financial transfers	Improve system monitoring and evaluation	Develop national LLND skills strategy

Supporting the VET system		
User choice	Improving VET quality	
Address information gaps	A national regulator	A VET workforce census
Other reforms	Improve use of existing data for quality improvement	Shorten training package development timeframes
Improve operational autonomy of public providers	Improve complaints handling mechanisms	Establish independent assessment

Improving VET investment and participation		
Pricing and funding	VET Student Loans	Apprenticeships
Common methods for costing VET courses	Revise course eligibility restrictions	Establish screening processes
Streamline subsidies	Expand loans to Certificate IV courses	Define and identify pre-apprenticeships
Remove fixed course prices		Improve apprenticeship support services
Minimum student fees	Refine loan caps	Improve pathways to trade occupations
Improve investment in public provision	Reform loan fees	Streamline employer incentives
Improve portability of funding	Collect unpaid debts from estates	
Broaden funding options for Aboriginal and Torres Strait Islander students	Lifelong learning	
	Reduce barriers to recognition of prior learning	Trial loans for mature-age students

Table 2 Towards an accessible, relevant, reputable and efficient VET system

<i>Recommendation</i>	<i>Key potential benefits</i>
Intergovernmental arrangements — a renewed framework for intergovernmental cooperation	
<ul style="list-style-type: none"> • An intergovernmental agreement (5.1), with embedded arrangements for LLND skills (12.1) • Refine government financial transfers (5.2) • Improve monitoring and evaluation of system performance (5.3) • National strategy to improve LLND skills (12.2) 	<ul style="list-style-type: none"> • Renewed commitment to government cooperation • Improved accountability for spending by all governments • New evidence to test effectiveness of VET policies and governments' achievement of goals • Broad-ranging, gradual and cost-effective expansion of access to LLND training
Supporting the VET system — reforms to support informed user choice and improved VET quality	
<ul style="list-style-type: none"> • Address information gaps, including fees and RTO quality measures (6.1) • Progress towards a national regulator (7.1) • Improve the use of existing data for continuous quality improvement (7.2) • Improve complaints handling mechanisms (7.3) • Speed up training package development (7.4) • Conduct a VET workforce census (7.5) • Establish independent assessment in VET (7.6) • Improve operational autonomy of public providers (3.1) 	<ul style="list-style-type: none"> • Centres the VET system on users and their needs • More efficient VET market operation • Greater consumer protection • Improved system responsiveness to industry needs • Better incentives for quality teaching, delivery and assessment • Supports continuous improvement through evidence on what works to deliver quality training • Improved flexibility and efficiency of public provision
Improving investment and participation in VET — better investment to increase VET participation	
<i>Funding, subsidies and fees</i>	
<ul style="list-style-type: none"> • Jurisdictions to adopt consistent costs and loadings (9.1) and streamline subsidies (9.2) • Remove fixed course prices (9.3) • Ensure students have a stake in training (9.4) • Improve investment in public provision (9.5) • Improve portability of funding (12.3) and broaden funding options for the Aboriginal and Torres Strait Islander students (12.4) 	<ul style="list-style-type: none"> • Removal of unjustified national variations • Removal of perverse incentives and improved efficiency of VET markets • Greater accountability for spending • Better match of funding to student preferences • Better targeting of gaps in remote provision and address inflexibility of funding arrangements
<i>Income contingent loans</i>	
<ul style="list-style-type: none"> • Revise VSL course eligibility restrictions (10.1) • Expand VSL to Cert IV courses (10.2) • Reform VSL administration, including loan caps (10.3), loan fees (10.4) and collection of unpaid debts from estates (10.5) 	<ul style="list-style-type: none"> • Alignment to industry and labour market demand • More affordable access to training for students • Fiscal sustainability and administrative efficiency for governments
<i>Apprenticeships</i>	
<ul style="list-style-type: none"> • Establish apprentice screening (11.1) • Define and identify pre-apprenticeships (11.2) • Improve apprenticeship support services (11.3) • Develop pathways to trade occupations (11.4) • Streamline employer incentives (11.5) 	<ul style="list-style-type: none"> • Higher uptake and completion rates • Greater effectiveness in inducing additional apprentice numbers • Increased responsiveness to industry needs
<i>Lifelong learning</i>	
<ul style="list-style-type: none"> • Improve recognition of prior learning (13.1) • Trial an income contingent loan scheme for mature-age Australians (13.2) 	<ul style="list-style-type: none"> • Improve flexibility and responsiveness of training • Expand access for those requiring training to reskill or upskill

Findings and recommendations

The VET system

FINDING 2.1 — COMPETITION IN THE VET SYSTEM

There is a reasonable degree of competition in the VET system.

- Most students (87 per cent) have a choice of registered training organisation (RTO).
- About 30 per cent of students study in highly-competitive markets and 20 per cent in moderately-competitive markets.

However, 50 per cent of students train in highly-concentrated markets with less potential for competition. These are often ‘thin markets’ with limited local demand for particular courses. Nevertheless, some of these markets have low barriers to entry and are generally contestable.

FINDING 2.2 — FREE TAFE AND MARKET DISTORTIONS

Some State governments have introduced policies to increase VET enrolments by offering more places in free or low-cost courses at public RTOs. While these policies increase training at public RTOs, some of this growth may simply reflect a switch from private RTOs, crowding these providers out of some markets and ultimately reducing contestability and student choice.

FINDING 2.3 — STUDENT OUTCOMES BY PROVIDER TYPE

There is no evidence that public RTOs deliver consistently better student outcomes than private RTOs, or vice versa. Employer satisfaction is higher with private RTOs than public RTOs but students experiencing disadvantage report higher satisfaction at public RTOs.

FINDING 3.1 — PUBLIC AND PRIVATE RETURNS TO VET

There are significant economic returns to investing in VET, with private and public returns larger for Diploma and Advanced Diploma VET courses.

There are also less-tangible benefits — such as intergenerational economic mobility and reduced crime — which may be greatest for lower-level VET qualifications.

FINDING 3.2 — SKILLS SHORTAGES

Skills shortages lists used to prioritise funding are often outdated and not rigorously measured, reflecting problematic conceptual frameworks and poor data. There is merit in adopting a consistent methodology for measuring skills shortages that allows for variations in local labour markets.

FINDING 3.3 — FUNDING OF VET AND HIGHER EDUCATION

The use of subsidies in the university system provides an efficiency and equity rationale for subsidies in the VET system.

However, given the public benefits and aims of the VET and higher education systems differ, subsidy rates do not need to be the same in the two sectors.

RECOMMENDATION 3.1 — IMPROVING THE OPERATIONAL AUTONOMY OF PUBLIC PROVIDERS

Many public training providers have been established as statutory authorities, yet there are ongoing concerns about their lack of independence from State and Territory governments.

State and Territory governments should give greater operational autonomy to public training providers, with control over their assets, industrial relations arrangements and financial performance.

The NASWD and a new agreement

FINDING 4.1 — THE *NATIONAL AGREEMENT FOR SKILLS AND WORKFORCE DEVELOPMENT* (NASWD) OBJECTIVE

The NASWD objective remains a relevant policy goal for governments. However, it could be improved by acknowledging nationally recognised VET as a major, but not the only, contributor to skills and workforce development, alongside higher education, non-nationally recognised VET, and workplace training.

FINDING 4.2 — THE NASWD PERFORMANCE FRAMEWORK

Governments' targets on skills formation will not be met. Progress against performance indicators, such as employer satisfaction and employment outcomes, is mixed.

The NASWD's performance framework is not sufficient to hold governments to account on their reform commitments, nor system performance.

- The targets are unrealistic, and some performance indicators are of limited value or relevance.
- The framework has no provisions to review the performance indicators and targets, nor for requiring evaluations of policy performance.

Revised reporting arrangements and more meaningful performance indicators are required to improve transparency and accountability.

FINDING 4.3 — THE NASWD REFORM DIRECTIONS

The NASWD reform directions allow governments the flexibility to tailor policy responses to local and emerging issues. However, they have lost relevance over time as the national reform consensus frayed.

- Two key national commitments — the national training entitlement and expansion of income contingent loans (VET FEE-HELP) — initially increased participation but governments later wound back incentives because of escalating costs and roting.
- Similarly, early efforts to promote a 'more open and competitive training market' have stalled. Improving the efficiency of training markets is no longer an explicit priority for most governments.
- While student-focussed indicators of quality were stable over the past decade, employers are less satisfied with VET than they were when the NASWD was signed and are using the VET system less.
- Governments have improved national data collection, particularly on total VET activity. However, public data and information on VET quality, prices, funding, and cost of delivery remain inadequate.

This experience demonstrates the limited efficacy of 'reform directions' as a tool to link tangible policy commitments to desired outcomes in an intergovernmental agreement.

FINDING 4.4 — ROLES AND RESPONSIBILITIES OF GOVERNMENTS UNDER THE NASWD

The NASWD affords State and Territory governments greater flexibility to exercise their roles and responsibilities in the VET system, consistent with the *Intergovernmental Agreement on Federal Financial Relations* and the principle of subsidiarity.

Over time, the allocation of some responsibilities has become blurred. Moreover, some important government bodies (such as the VET regulators) are not included or have since been established (such as the National Skills Commission and the National Careers Institute).

FINDING 4.5 — THE NASWD NEEDS REPLACEMENT

The NASWD is overdue for replacement. Governments have stepped back from some of its policy aspirations. Targets have not been met and the performance framework does not hold governments to account.

Many of the principles in the *Intergovernmental Agreement on Federal Financial Relations* — including recognising the Australian Government's interest in areas traditionally the responsibility of State and Territory governments, clarifying all governments' roles, and allowing State and Territory governments flexibility in the use of grants — are a sound basis for a new agreement.

RECOMMENDATION 5.1 — ESTABLISHING A NEW PRINCIPLES-BASED INTERGOVERNMENTAL AGREEMENT

The Australian, State and Territory governments should negotiate a new, principles-based intergovernmental agreement. To retain flexibility and currency, this agreement should be modular (using schedules) and reviewed every five years. It should include:

- an updated objective that recognises VET as a major, but not the only, avenue for skills and workforce development
- principles to guide a renewed national VET reform agenda centred on meeting the needs of students and employers
- a revised performance reporting framework, with a broader set of performance indicators that better capture the contribution of government activity in the VET system to skills and workforce development
- governance arrangements to improve data sharing and collection, such as an intergovernmental data working group and a revised national VET data strategy
- regular public reporting by all governments and monitoring by an independent body to improve accountability for outcomes
- fundamental roles and responsibilities of governments in the VET system, with existing roles reaffirmed. Governments should clarify roles in areas of shared responsibility and include the roles of recently created bodies (the National Skills Commission, the National Careers Institute, and the Skills National Cabinet Reform Committee).

RECOMMENDATION 5.2 — RENEWING INTERGOVERNMENTAL FINANCIAL TRANSFERS

The Australian, State and Territory governments should negotiate funding arrangements that retain untied base funding transfers.

This should be conditional on stronger accountability for funding and the intended economic and social outcomes. All jurisdictions should transparently report on how public money is spent.

Within or alongside a new agreement, governments should consider arrangements that promote greater accountability, based on the tools available under the *Intergovernmental Agreement on Federal Financial Relations*, or the precedent of recently negotiated agreements.

RECOMMENDATION 5.3 — MONITORING AND EVALUATING SYSTEM PERFORMANCE

The Australian, State and Territory governments should commit to:

- new governance arrangements to improve data sharing and collection (recommendation 5.1). As part of these arrangements, governments should instruct:
 - the National Centre for Vocational Education Research to collect and publish more information on the attribution of funding to course subsidies (by qualification level and provider type), capital expenditure and community service obligations (as part of the National Funding Collection)
 - the National Skills Commission to establish a national database of efficient course costs
- enhanced data analytics capability to evaluate VET outcomes and investments. This should include a commitment to improve understanding of VET students' longer-term labour market outcomes, for example.

These arrangements would be a welcome feature of a new intergovernmental agreement but could be implemented before the new agreement is settled.

Supporting VET through informed choice and quality

FINDING 6.1 — INFORMED CHOICE

Providing well-curated VET and career information, career guidance, screening prospective students before commencement, and regulatory safeguards are the main levers governments can use to support informed choice.

Use of these levers should be commensurate with their benefits.

FINDING 6.2 — VET INFORMATION GAPS

Despite a plethora of information sources on courses and careers, public information is either missing or deficient in four areas:

- student fees
- RTO quality
- ready comparisons between VET and higher education training options
- credit pathways.

There is evidence that these deficiencies lead to students making poor educational choices.

RECOMMENDATION 6.1 — ADDRESSING INFORMATION GAPS

The National Careers Institute (NCI) should extend its work on information provision to fill significant information gaps in My Skills for each RTO, including by publishing information about:

- student fees — commencing with the average fee paid by subsidised and non-subsidised students in the past year
- the quality of the RTO — including indicators of learning and teaching quality, and student and employer satisfaction
- the expected graduate employment outcomes from course completion
- credit pathways.

The NCI should also test that information is salient, trusted and easily understood.

The Australian, State and Territory governments should:

- continue to work together to establish the NCI as a central information hub
- require all RTOs to provide up-to-date student fee information to enable publication on My Skills
- task the National Centre for Vocational Education Research to develop a set of summary indicators on RTO quality and expected student outcomes, with the NCI publishing those indicators (subject to statistical validity) for each RTO on My Skills.

FINDING 6.3 — CAREER ADVICE GAPS

This and other recent reviews have identified room to improve career advice. Career guidance given to students tends to be skewed toward university education, of inconsistent quality, and is sometimes difficult to obtain for people who have left school.

RECOMMENDATION 7.1 — PROGRESSING TOWARDS A NATIONAL REGULATOR

The Victorian and Western Australian Governments should ultimately follow other State and Territory governments in referring regulation of registered training organisations to the Australian Skills and Quality Authority (ASQA).

In the first instance, ASQA should:

- proceed with its reform agenda to improve its regulatory approach and operations
- continue to work with the Victorian Registration and Qualification Authority and the Western Australian Training Accreditation Council to address any inconsistencies and overlap in their requirements, including in their interpretations of regulatory standards.

RECOMMENDATION 7.2 — IMPROVING THE USE OF EXISTING DATA FOR CONTINUOUS QUALITY IMPROVEMENT

The *Data Provision Requirements 2012*, under the *National Vocational Education and Training Regulator Act (2011) (Cth)*, should be amended such that:

- RTOs continue to administer the *Employer Questionnaire*, with data to be collected by the NCVER
- RTOs be no longer required to administer the *Learner Questionnaire* or provide the Australian Skills and Quality Authority (ASQA) with an annual summary report of their performance against quality indicators.

The National Centre for Vocational Education Research (NCVER) should use its survey data to:

- report benchmarking data to each RTO, enabling RTOs to compare their performance with aggregate results across similar courses of study
- supplement the VET national data collection by developing the summary RTO quality indicators proposed in recommendation 6.1
- publish summary statistics aggregated across all RTOs.

ASQA should be given access to the survey data held by NCVER to inform its risk-based compliance strategy.

RECOMMENDATION 7.3 — IMPROVING COMPLAINT-HANDLING MECHANISMS

State and Territory governments should establish VET ombudsmen (where they do not already exist) to receive, assess, and resolve complaints from VET students in their jurisdictions. The ombudsmen should mediate complaints about the quality of services delivered by all RTOs operating in their jurisdiction.

State and Territory ombudsmen should work cooperatively alongside the Commonwealth Ombudsman, which should continue its responsibilities for VET Student Loans and international students.

RECOMMENDATION 7.4 — SHORTENING TRAINING PACKAGE DEVELOPMENT TIMEFRAMES

The Skills National Cabinet Reform Committee should delegate to Industry Reference Committees the power to:

- commission updates to training packages
- approve non-controversial and minor changes to training packages.

FINDING 7.1 — TEACHER QUALITY AND OUTCOMES

There is little information on the VET workforce and scant evidence to judge the effectiveness of teachers' qualifications, attributes, or industry experience in improving students' outcomes.

Further research would help inform the development of the VET workforce quality strategy foreshadowed in the *Heads of Agreement on Skills Reform*.

RECOMMENDATION 7.5 — INFORMING THE VET WORKFORCE QUALITY STRATEGY

The Skills National Cabinet Reform Committee should task the National Centre for Vocational Education Research to conduct a census of the VET workforce. Using this information, governments should investigate:

- the relationship between teacher characteristics and student outcomes, focusing on pedagogical skills and contemporary industry experience
- whether there are barriers (for example, minimum credentials, teaching conditions) preventing professionals with industry experience from teaching in VET
- other issues relevant to developing a VET workforce strategy.

FINDING 7.2 — INDEPENDENT ASSESSMENT

The unbundling of assessment from teaching would help allay concerns associated with uneven quality standards among VET graduates and provide employers with greater certainty about graduates' competencies.

Over the past decade, governments have explored how independent assessment could be used more widely in VET. To date the pilots and trials have done little to progress the use of independent assessment.

RECOMMENDATION 7.6 — ESTABLISHING INDEPENDENT ASSESSMENT IN VET

The Australian, State and Territory governments should undertake a process of phased implementation of independent assessment (IA), which should include:

- determining the objectives and model of IA
- identifying suitable qualifications and occupations through consultation between governments, industry, and occupational governing bodies
- undertaking national trials for qualifications identified as suitable, to assess the usefulness and cost-effectiveness of IA
- developing an institutional framework, which would assign responsibilities including for undertaking assessment, accreditation of assessors, and funding.

It would be particularly valuable to explore the use of IA in areas where minimum training standards contribute to public benefit, such as the aged care sector.

Expanding participation in VET

Funding, subsidies and fees

FINDING 8.1 — DATA UNDERPINNING SUBSIDY RATES

The data used to estimate course costs (which inform subsidy rates) are dated in most States and Territories and are not a sound basis for setting subsidies.

FINDING 8.2 — JURISDICTIONS' APPROACHES TO SUBSIDISING COURSES

State and Territory governments share the same goal for subsidies to increase participation in training, particularly for students facing disadvantage and in skill areas in short supply or with other public benefits. All take the same general steps when setting subsidies. However, as governments have different policy priorities, the courses receiving subsidies and the subsidy rates for courses vary widely across Australia.

In most jurisdictions, there is little transparency about subsidy setting. Subsidies are not set using a consistent methodology.

RECOMMENDATION 9.1 — ESTABLISHING A COMMON METHOD FOR COSTING COURSES

State and Territory governments should adopt the efficient costs and loadings currently being estimated by the National Skills Commission for setting their subsidies.

RECOMMENDATION 9.2 — STREAMLINING SUBSIDIES

The National Skills Commission should work with the Australian, State and Territory governments to produce a method for simplifying the large number of course subsidies.

FINDING 9.1 — PRICE CONTROLS

Fixing student fees can stifle competition, inhibit the allocation of resources and blunt incentives to improve the quality of training.

RECOMMENDATION 9.3 — REMOVING FIXED COURSE PRICES

The New South Wales and Western Australian Governments should cease fixing prices and student fees for VET courses. The Queensland Government should cease fixing student fees for apprenticeship courses.

RECOMMENDATION 9.4 — ENSURING STUDENTS HAVE A STAKE IN THEIR TRAINING

Where they do not charge them, State and Territory governments should introduce modest minimum student fees for subsidised training in Certificate III and above courses, including for courses delivered as traineeships or apprenticeships, to encourage students to make sound investment choices. Minimum student fees should not apply to students eligible for concessional fees.

RECOMMENDATION 9.5 — IMPROVING INVESTMENT IN PUBLIC PROVISION

In making payments to publicly-owned VET providers, State and Territory governments should:

- improve reporting on how funding is spent (as per recommendation 5.3)
- ensure compliance with competitive neutrality principles
- undertake market testing to increase the contestability of existing community service obligations.

These changes should include transition arrangements to support market stability.

Income contingent loans

FINDING 10.1 — VET STUDENT LOANS' REGULATORY FRAMEWORK

Poor program design, implementation and regulatory oversight allowed the rorting of VET FEE-HELP. The strict eligibility requirements for VET Student Loans and an improved regulatory framework have addressed the many deficiencies of VET FEE-HELP.

RECOMMENDATION 10.1 — REVISING VET STUDENT LOANS' ELIGIBILITY RESTRICTIONS

The Australian Government, in consultation with State and Territory governments, should replace the existing VET Student Loans course eligibility criteria with a 'blacklist' of ineligible Diploma and above courses. The blacklist should comprise only courses demonstrated, with evidence, to be leisure-related courses or courses with poor employment outcomes.

Providers should be able to apply for an exemption to allow their students access to VET Student Loans for a blacklisted course where it can be demonstrated that the course leads to employment outcomes at least similar to most non-blacklisted courses.

RECOMMENDATION 10.2 — EXTENDING VET STUDENT LOANS TO CERTIFICATE IV COURSES

The Australian Government, in consultation with State and Territory governments, should extend the VET Student Loans program to all Certificate IV courses, excepting those courses meeting the 'blacklist' criteria as recommended for Diploma and above courses (recommendation 10.1). Students eligible for the Trade Support Loans program should not be eligible for the expanded VET Student Loans program.

Certificate IV students should be issued VET Student Loans with the same repayment terms as those issued to students undertaking Diploma and above courses.

RECOMMENDATION 10.3 — REFINING LOAN CAPS FOR VET STUDENT LOANS

The Australian Government should increase the number of caps applicable to VET Student Loans and refine its methodology for allocating courses to loan caps by drawing on the National Skills Commission's estimates of efficient course costs.

RECOMMENDATION 10.4 — REFORMING LOAN FEES FOR VET STUDENT LOANS

The Australian Government should reform the loan fees charged for VET Student Loans. Loan fees set as a proportion of the loan value should apply to all loans, not just loans issued to fee-for-service students.

A small upfront loan charge should also apply to all loans (with exemptions for disadvantaged students), with its value aligned with the Commission's recommended minimum student fee for subsidised students (recommendation 9.3).

RECOMMENDATION 10.5 — COLLECTING UNPAID VET STUDENT LOANS DEBTS FROM DECEASED ESTATES

The Australian Government should collect unpaid VET Student Loans debts from deceased estates, with exemptions for small estates and discretionary powers for the Australian Taxation Office to waive debts in cases of financial hardship. (There are also strong grounds to pursue this reform for Higher Education Loan Program debts.)

Apprenticeships

FINDING 11.1 — ISSUES FACING THE APPRENTICESHIP SYSTEM

There are both recent and longstanding policy issues in the apprenticeship system.

- There are persistent skills shortages in occupations for which apprenticeships are the main pathway.
- Commencements have declined significantly in recent years.
- Completion rates remain stubbornly low, particularly in some occupations (such as hospitality and food trades).
- The COVID-19 pandemic has significantly affected employer demand for apprentices.

FINDING 11.2 — BARRIERS TO APPRENTICESHIPS

There are barriers to both the supply and demand of apprentices, affecting both commencements and completions.

On the supply side, apprentices often cite job-related problems as key reasons for dissatisfaction and non-completion. Lack of information, negative community and individual attitudes about the end occupation, and rigid training structures can also act as barriers.

On the demand side, employers cite poor-quality and irrelevant training as the key reason for their dissatisfaction. The risk of non-completion, and its associated costs, can reduce employers' appetite to hire apprentices.

Beyond these barriers, other factors may influence an apprentice's and employer's weighing up of the benefits and costs of undertaking an apprenticeship, such as training wages and the productive contribution of the apprentice.

RECOMMENDATION 11.1 — SCREENING APPRENTICES

Screening can improve completion rates by ensuring better matching of prospective apprentices and employers, as well as by identifying any need for support services. State and Territory governments should consider screening candidates before their apprenticeships commence (where this does not already occur). Screening could be extended to other VET students if found to be cost effective.

RECOMMENDATION 11.2 — DEFINING AND IDENTIFYING PRE-APPRENTICESHIPS

The Australian, State and Territory governments should task the National Centre for Vocational Education Research with conducting further research into pre-apprenticeship programs. This may require developing a nationally consistent definition of pre-apprenticeships and establishing a pre-apprenticeships identifier in its data collections.

RECOMMENDATION 11.3 — IMPROVING APPRENTICESHIP SUPPORT SERVICES

The Australian, State and Territory governments should improve the coordination and delivery of apprenticeship support services through more co-operative contracting arrangements. This should involve either:

- the Australian Government and individual State and Territory governments jointly contracting Australian Apprenticeship Support Network (AASN) providers to deliver these services; or
- State and Territory governments setting up an additional contract with AASN providers to deliver these services.

The Australian Government should also assess the level of unmet need for apprenticeship support services and consider expanding these services to increase completion rates.

RECOMMENDATION 11.4 — IMPROVING PATHWAYS TO TRADE OCCUPATIONS

The Fair Work Commission should make apprenticeship pathways to trade occupations more flexible, particularly for existing and adult workers, by ensuring that all modern awards covering trade apprentices provide competency-based wage progression.

Non-apprenticeship pathways should also be supported as a legitimate alternative to traditional apprenticeships.

- State and Territory governments should ensure that students receive the same level of course subsidy whether they undertake an apprenticeship or a non-apprenticeship pathway to trade occupations.
- The Australian Government should consider extending Trade Support Loans to students undertaking non-apprenticeship pathways to trade occupations if adequate safeguards can be developed to avoid the potential for rorting.
- The Australian, State and Territory governments should examine ways to reduce industry-specific barriers to students training through non-apprenticeship pathways (such as rules that students must already be employed in the industry).

RECOMMENDATION 11.5 — IMPROVING EMPLOYER INCENTIVES

The Australian Government should consider reorienting funding for employer apprenticeship incentives to other measures that achieve a greater return on investment, such as apprenticeship support services and screening.

If some employer incentives are retained (not including recent temporary wage subsidies), the Australian Government should refine the system in the following ways.

- Review options for better targeting incentives to increase apprenticeship commencements and completions (including by evaluating the effectiveness of recent measures).
- Cancel completion payments and reorient this funding toward apprenticeship support services, screening, or progress payments to be paid at 12 and 24 months (when the risk of cancellation is highest).
- Streamline and better coordinate incentives by:
 - simplifying incentives to target groups (such as paying one rate for disadvantaged apprentices undertaking a Certificate II and removing the rarely-used Mature-Age Worker incentive)
 - extending incentives to existing worker trade apprenticeships (by removing the National Skills Needs List as a criterion)
 - coordinating incentive information across levels of government (by tasking Australian Apprenticeship Support Network providers with publishing this information, and developing a shared platform to collate this information).

Foundation skills and other targeted reforms

FINDING 12.1 — SOCIAL AND ECONOMIC BENEFITS OF IMPROVED FOUNDATION SKILLS

Two to three million adult Australians lack the literacy and numeracy skills for the basic needs of modern life. Without adequate language, literacy, numeracy and digital literacy (LLND) skills (equivalent to level 2 and above in the Australian Core Skills Framework), people cannot participate fully in society and the economy. Developing the LLND skills of these disadvantaged Australians would yield considerable public and private benefits.

RECOMMENDATION 12.1 — DEVELOPING A NATIONAL STRATEGY TO IMPROVE FOUNDATION SKILLS

The Australian, State and Territory governments should jointly develop a strategy to reduce the number of people with low language, literacy, numeracy and digital literacy (LLND) skills (below level 2 in the Australian Core Skills Framework). The LLND strategy should:

- recognise the varied circumstances of people with low LLND skills
- cover the range of LLND training programs across schools, the VET system, workplace programs and community adult education providers
- guide and coordinate policies in these areas to improve LLND outcomes
- facilitate a staged approach to expanding access to LLND training, using evaluations to inform where the greatest improvements can be achieved at lowest cost.

The strategy should draw on the scoping study into foundation skills commissioned by Skills and Training Ministers in November 2020.

RECOMMENDATION 12.2 — EMBEDDING LLND IN THE NEW INTERGOVERNMENTAL AGREEMENT

As part of the new LLND strategy, governments should identify the VET-specific, high-level objectives and outcomes relating to LLND skills for inclusion in the new intergovernmental agreement on skills. A schedule to the new agreement should contain the following key elements:

- governments' roles and responsibilities, in relation to the different programs
- the relationship between jointly-funded programs and programs funded by a single level of government
- LLND funding arrangements through both the skills Specific Purpose Payment and any National Partnership Payments with per-student funding retained as the main funding mechanism for most activity delivered through the VET system, but block funding considered for organisations tackling more difficult-to-reach students
- reporting and accountability arrangements with respect to these programs, including a performance reporting framework.

FINDING 12.2 — THE JOYCE AND SHERGOLD SCHOOL-BASED VET RECOMMENDATIONS

The Joyce and Shergold Reviews offer complementary recommendations to improve the quality of school-based VET. The Commission sees merit in these recommendations and supports reform of VET in Schools as an early priority for governments.

FINDING 12.3 — NON PORTABILITY OF FUNDING FOR STUDENTS

State and Territory governments generally restrict access to subsidised courses to students residing in their jurisdiction. This can act as a barrier for students considering undertaking training outside their home jurisdiction. This is likely to be a bigger issue for Aboriginal and Torres Strait Islander students in remote areas wishing to study at an Indigenous RTO.

RECOMMENDATION 12.3 — IMPROVING PORTABILITY OF FUNDING FOR STUDENTS

State and Territory governments should develop reciprocal agreements for (existing) funding to follow students who enrol in subsidised courses interstate.

FINDING 12.4 — EFFECTIVENESS OF PER-STUDENT FUNDING FOR ABORIGINAL AND TORRES STRAIT ISLANDER STUDENTS

Per-student funding models do not always adequately cover the costs of delivering VET to student cohorts with diverse and specific needs. This applies particularly to Aboriginal and Torres Strait Islander students in remote areas.

RECOMMENDATION 12.4 — IMPROVING FUNDING FOR REMOTE ABORIGINAL AND TORRES STRAIT ISLANDER STUDENTS

Governments should consider block funding to supplement per-student funding for the additional support services that some RTOs are uniquely placed to provide to remote Aboriginal and Torres Strait Islander students.

Supporting lifelong learning

RECOMMENDATION 13.1 — TRIALLING A LIFELONG LEARNING LOAN SCHEME FOR MATURE-AGE AUSTRALIANS

The Australian Government should undertake a trial of an income contingent loan scheme for mature-age Australians to allow them to tailor training to their needs, drawing on units from different VET courses and, possibly, different providers. The trial could include a range of features to protect its integrity and target the groups most likely to benefit, including:

- caps on the loan amount to relatively low levels
- limits on eligibility to pre-approved providers and courses
- loan fees that are set to minimise the net fiscal costs of the program, while not being so high as to deter uptake
- the screening of students for the likelihood of benefits to them and their capacity to repay their loans.

RECOMMENDATION 13.2 — REDUCING BARRIERS TO CREDIT PATHWAYS

The Australian, State and Territory governments should improve the system of credit pathways by developing options to reduce barriers to recognition of prior learning (RPL). The options should carefully consider the balance between consistency and flexibility of RPL across providers, funding models and incentives of RTOs, the costs to RTOs and students, and the risk of rorting.