CCIWA Submission

Productivity Commission Review into the National Agreement for Skills and Workforce Development

January 2020

Background

The Chamber of Commerce and Industry of Western Australia (CCIWA) is the leading business association in Western Australia (WA) and has been the voice of business for more than 125 years. CCIWA represents employer members from across all regions and industries in Western Australia.

The National Agreement for Skills and Workforce Development (NASWD) is the foundation of our national Vocational Education and Training (VET) system. The NASWD outlines high-level objectives for the system and allocates roles and responsibilities of the States and Commonwealth. Crucially, the NASWD also determines how recurrent Commonwealth funding for the VET system is allocated and for what purpose it is used.

Given the importance of the NASWD's role, it is appropriate that the current Commonwealth reforms to the VET system considers the NASWD and its role in the future. Importantly, this should be done within the context of the critical issues identified by the Expert Review into the Vocational, Education and Training Sector (the Joyce Review).

CCIWA agrees with the significant challenges facing the VET sector that are outlined in the Joyce review, including:

1. Continuing variation in quality between providers and concerns about the relationship between providers and the regulator;

2. A cumbersome qualifications system that is slow to respond to changes in industry skill needs;

3. A complex and inconsistent funding system that is hard to understand and is not matched well to skill needs;

4. Lack of clear and useful career information for prospective new entrants;

5. Unclear secondary school pathways into the VET sector and a strong dominance of university pathways; and,

6. Access issues for Aboriginal and Torres Strait Islander people and second-chance learners seeking skills to help them stay in work.

The challenges highlighted above are multifaceted, where clear and simple solutions may be difficult to implement due to the inaccuracy of labour market forecasting, the tripartite nature of the VET system and the inherent tensions of Australia's federated system of governance.

It is CCIWA's view that very few of these issues can be resolved at a national level. Each jurisdiction should be free to design, implement and manage their VET delivery market, so that it operates in an effective, equitable and effective manner.

While many of these issues cannot be resolved at a national level, the Commonwealth does have a central role in administering a national VET framework to ensure a consistent, needs-based approach to funding throughout the system and national consistency in qualifications across jurisdictions.

To gain a deeper understanding of the Western Australian context and CCIWA's approach to the Commonwealth current reform program, this submission should be read in conjunction with the following CCIWA submissions made concerning other aspects of the reform process.

- CCIWA Submission to the Expert Review of the VET Sector;
- CCIWA Submission to the Review of the Australian Apprenticeships National Skills Needs List; and
- CCIWA Submission to Co-designing the National Skills Commission and Skills Organisations.

CCIWA Recommendations

1. **Ensure that VET Policy Decisions are clearly linked to the NASWD.** In general, the objectives and division of responsibilities in the NASWD are sound. However, line of sight between policy decisions and the Agreement are not clear.

2. **A centralised pricing and funding model will not enhance the effectiveness, efficiency or equity of Australia's VET system.** The assumption that nationally consistent pricing and incentives will enhance engagement and outcomes within the system is flawed. Instead, the pricing of publicly funded VET should reflect local market conditions. A high-quality VET system will be driven by consistent Commonwealth funding, with the States structuring their markets in such a way that incentivises providers to deliver the highest quality training while encouraging users of the system to make informed choices regarding the training they engage in.

3. **The Productivity Commission's review should focus on the clear delineation of State and Commonwealth responsibilities within the national VET system.** Central to determining the structure of any future National Agreement is to clearly articulate the roles and responsibilities for the Commonwealth and the States, as well as ensuring there are effective mechanisms in place to evaluate the arrangement.

   To delineate the roles and responsibilities of the States and the Commonwealth, three central factors need to be considered:

   - how to manage inter-jurisdictional spillovers (national consistency and portability of qualifications);

   - subsidiarity (where decisions are best made at the lowest possible level in the system); and

   - the vertical fiscal imbalance (where States have a broader scope of policy and spending responsibilities but have limited revenue collection options, where the opposite is true in the Commonwealth's jurisdiction).

Is the NASWD fit for purpose?

The NASWD intends to provide high-level strategic guidance as to the priorities and desired outcomes for Australia's national VET system. Additionally, the NASWD outlines areas of responsibility for the Commonwealth and States, including aspects of the system where responsibility is shared.

It is CCIWA's view that in general, the objectives and division of responsibilities in the NASWD are sound. However, line of sight between policy decisions and the Agreement are not clear.

It is further noted that the Council of Australian Governments (COAG) has outlined a new vision for the VET system, which is broadly supported by CCIWA. To ensure the effective implementation of this vision, the NASWD needs to be amended to reflect this updated approach.

A Centralised Pricing Approach is a Solution looking for a Problem

The following section of this submission focuses on a critical term of reference outlined in the review scoping document:

> "*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 assumption that nationally consistent pricing and incentives will enhance engagement and outcomes within the system is flawed. Rather than elaborate pricing structures, a high quality VET system will be driven by consistent Commonwealth funding, with the States structuring their markets in such a way that incentivises providers to deliver qualifications that are demanded by business and to provide high quality training, while encouraging users of the system to make informed choices regarding the training they engage in.

CCIWA has concerns about the assumption that national funding arrangements based on a nationally consistent pricing model will maximise efficiency, transparency and the supply of trained workers in the economy. While such arrangements may promote greater transparency within the system, it is unlikely that centrally determined prices within market-based allocation systems will enhance the operation of the national VET system. It is CCIWA's view that such an approach will be detrimental to the VET system.

This is due to two critical considerations:

- the problems with using skills forecasting to underpin policy; and

- the fact that Australia's labour market needs are not homogenous across jurisdictions.

Forecasting Skill Needs

While labour market forecasting can be a useful input into high-level strategic decision making, this approach is unable to provide an insight into skill needs that are accurate enough to underpin specific funding decisions. This position is supported by research undertaken by the National Centre for Vocational Education Research (NCVER), where Richardson and Tan concluded that:

> "The MONASH[1] Model for projecting future skills needs is of high quality by international standards. Still, the complexity of the economy is such that it is not possible to make accurate projections of future skill needs in any detail, or for more than a few years into the future[2]."

Furthermore, the Australian and New Zealand Standard Classification of Occupations (ANZSCO), Australia's standard occupation classification taxonomy (the official taxonomy that is used for occupation-based data collection and forecasting) is no longer fit for purpose. This is due to the time it takes to update the classification system (the last update occurred in 2013), combined with the rapid speed at which occupations and the broader labour market is evolving. As such, the data used to forecast skills needs is unlikely to provide the accuracy or level of responsiveness required to identify evolving labour market needs. This is not a new problem. A 2003 Senate Reference Committee for Workplace Relations and Education noted that the outdated nature of the current occupation classification system (ANZSCO) that underpins labour market and occupational shortage information limits the value of such information as a planning tool[3].

Skill Requirements of Australian Businesses are not Homogenous

There is significant variation between states and territories when it comes to actual and projected employment growth in individual industries. For example, jobs in Victoria's construction industry are expected to grow by 13.5 per cent in the five years to May 2023. In contrast, WA's construction sector is only expected to grow by two per cent over the same period[4].

Variation in employment markets is also apparent in apprenticeship and traineeship commencement data. In the year to March 2019, Western Australia's mining sector comprised 16 per cent of the state's apprenticeship and traineeship commencements. This is in stark contrast to Queensland, a State also with a significant resource sector, where apprenticeships and traineeship commencements in the sector was only 3.25 per cent of the total apprenticeship and traineeship market[5] [Figure One].

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[1] The MONASH model is a powerful economy-wide forecasting tool used for predicting Australian labour market demands.
[2] Richardson S & Tan Y (2007) *Forecasting future demands: What we can and cannot know* NCVER, Adelaide.
[3] Employment, Workplace Relations and Education References Committee (2003) Bridging the Skills Divide. Pp 21.
[4] Employment Projections five years to May 2023, Department of Jobs, Skills, Small and Family Business.
[5] NCVER *Apprenticeships and Traineeships Quarterly (March Quarter)* (2019)

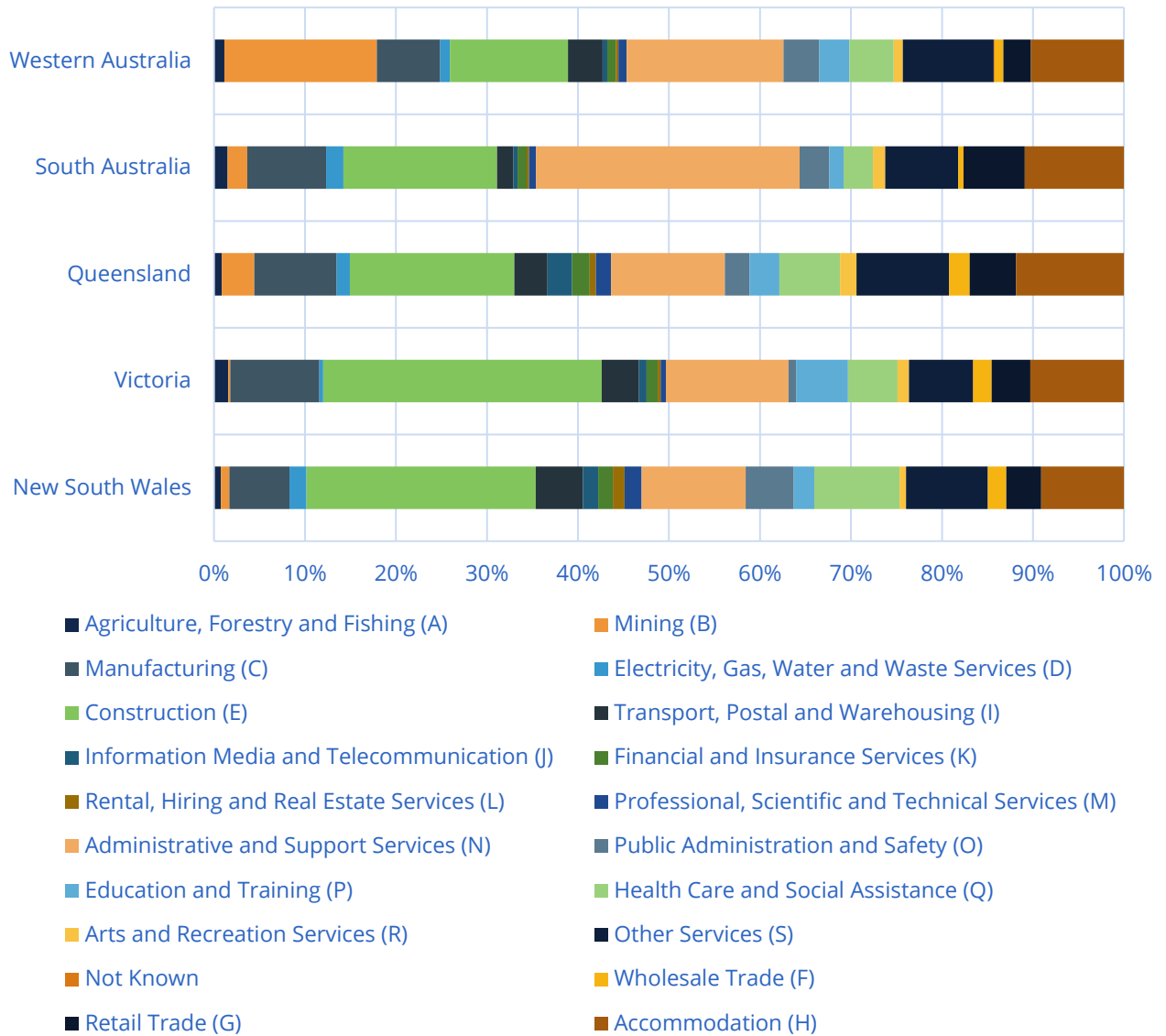# Apprenticeship/Traineeship Commencments Year Ending March 2019

Figure 1 (Source NCVER 2019)

Government Funding of VET

While the States are the primary funders of VET, the Commonwealth's contribution is not insignificant, making up around 30 per cent of each state's total VET budget in 2018[6]. These contributions comprised around 29 per cent of the Commonwealth's total VET budget allocation in 2018, with the remainder allocated to employer assistance (49 per cent), student assistance (4 per cent) and system administration and governance (17 per cent)[7].

While the Commonwealth should demand value for its investment (through achieving the outcomes outlined in the NASWD), it would be a significant overreach for the Commonwealth to dictate how each State should price and subsidise publicly delivered VET services, of which they are the primary funders.

Rather than pursuing a national pricing model that by its very nature will undermine the ability for States to make decisions based on their local needs. CCIWA recommends that the Productivity Commission's review focuses on how to best achieve clearer delineation of State and Commonwealth responsibilities and ensure policy and funding certainty for the Australian VET system.

Federal-State Relations Considerations

Central to determining the structure of any future National Agreement is to clearly articulate the roles and responsibilities for the Commonwealth and the States, as well as ensuring there are effective mechanisms in place to evaluate the arrangement.

To delineate the roles and responsibilities of the States and the Commonwealth, three central factors need to be considered:

- how to manage inter-jurisdictional spillovers (national consistency and portability of qualifications);

- subsidiarity (where decisions are best made at the lowest possible level in the system); and

- the vertical fiscal imbalance (where States have a broader scope of responsibility – hence need to spend more but have limited revenue collection options, where the opposite is true in the Commonwealth's jurisdiction).

Inter-Jurisdictional Spill Overs

It is broadly acknowledged that the provision of education delivers both a private and public good. The public good aspect is derived from individuals within a community

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[6] NCVER (2019) *Government funding of VET 2018,* retrieved from
https://www.ncver.edu.au/research-and-statistics/publications/all-publications/government-funding-of-vet-2018
[7] IBID

gaining education which provides both a regional and national impact. To ensure the VET system delivers national public impacts (inter-jurisdictional spillovers), responsibilities of the States and Territories should be considered in the context of whether or not an element of the system needs to be consistent across state boundaries.

For example, a central tenant of Australia's VET system is that qualifications are nationally consistent and portable between jurisdictions and employers. As a result, there is a need for a degree of commonality across jurisdictions. This makes it easier for businesses to recruit across state boundaries, as well enabling individuals to move between businesses and industries across the nation. This is especially important for industries that are experiencing structural adjustment.

Other areas of Commonwealth responsibility should include: data standards, research, knowledge translation as well as the whole of system governance arrangements.

While a single regulator for the system could be considered to provide a national public benefit, this would have risks. A single national regulator would be detrimental for Western Australia, given the recent under-performance of the Commonwealth regulator, the Australian Skills Quality Authority (ASQA), and the practical disadvantage faced by Western Australia in not being in close physical proximity to the regulatory body. Furthermore, the ability for State-based regulators to accredit certain types of qualifications based on specialised local needs provides distinct advantages for States with unique skills requirements such as Western Australia.

Subsidiarity

Subsidiarity is the principle that decisions are most effective when made as close as possible to the people or organisations that are affected by them. This approach helps reduce problems where policies are not aligned to, or effective at, alleviating issues occurring at the point of delivery and ensures that services are fit for purpose. Local decision-makers are more likely to understand their community's needs and be accountable for their decisions[8]. As a result, it is best practice for decisions relating to resource allocation and service delivery to be made at the most local level of competent authority. In the case of VET policy, decisions surrounding market design, pricing and subsidies should be made at a State level in close consultation with local stakeholders. A national approach to pricing would not be effective or efficient.

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[8] Smith, Ken; Kamener, Larry; Novak, Sarah (2018), *Subsidiarity, leadership and an empowered public service: keys to rebuilding trust in government,* Centre for Public Impact. Retrieved from:
https://www.centreforpublicimpact.org/subsidiarity-leadership-empowered-public-service-keys-rebuilding-trust-government/

Vertical Fiscal Imbalance

The vertical fiscal imbalance that characterises Australia's federation presents a significant challenge. This imbalance arises from the States having primary responsibility for the delivery of public services, including health and education, while having limited opportunities to raise revenue to fund these services. The reverse is true with respect to the Commonwealth. This results in States relying on Commonwealth contributions to supplement the delivery of these services. As State and Commonwealth priorities are not necessarily aligned, this arrangement can create tension when seeking to structure the delivery of critical services such as VET.

In recent years the Commonwealth has become increasingly prescriptive with respect to how VET funding provided to States is spent. Often, the Commonwealth links payments to States meeting specific performance requirements, such is the case with the Skilling Australian Fund National Partnership Agreement. While it is essential that the Commonwealth seeks to ensure that the funding it provides to States achieves outcomes, it is also important that operational decision making is devolved to the most practical local level.

Conclusion

Based on the principles outlined above, it is CCIWA's view that the States, not the Commonwealth, should be the primary decision makers when it comes to Australia's VET system. While there are definite advantages of having some elements of the system managed centrally at a national level, the heavy lifting is done by the States. This makes sense as the State's primarily fund the delivery of public VET within their respective jurisdictions and are better placed to make policy and resourcing decisions that are aligned with local needs.

However, this occurs within the context of a vertical fiscal imbalance, entrenching a reliance on Commonwealth support. As a result, challenges can arise due to differing policy priorities and an increasing tendency for the Commonwealth to impose conditions before the States can access funding. As a result, it is vital that the Commonwealth effectively balances the need to ensure that the States are spending Commonwealth funding in a way that aligns to outcomes agreed to by both parties. States should however be provided latitude for decision making, with exception to a number of minor elements of the system that would benefit from a nationally consistent approach.