

ACPET response to
Future Proof: Protecting Australians Through Education and Skills
Discussion Paper

Introduction

The Business Council of Australia is to be congratulated on its leadership in preparing the discussion paper, *Future Proof: Protecting Australians Through Education and Skills*.

Since its 2014 Budget, the Australian Government has attempted various reforms of the higher education sector. The reforms announced in the lead-up to the 2017 Budget contained a range of measures to essentially rein-in the costs of the demand-driven system for public university places. These measures included those aimed at addressing the rapid growth in HELP student debts. While the Government has announced more recent measures to rein in expenditure, fundamental questions about the future sustainability of the demand-driven system remain unresolved, as does the concern of ensuring equitable access for those who wish to pursue higher education or training.

It is clear the governance, policy and funding framework for the VET sector remains in need of major reform. It is, as the Productivity Commission put it in its recent review of the economy, “a mess”.

The need for VET sector reform has long been recognised. The *Reform of the Federation* initiative established under the Abbott Government included governance reform of the VET sector as one of its priorities. This opportunity for reform was lost with the shelving of the initiative.

The current shared responsibilities between State, Territory and Australian Governments essentially means eight models for the governance and funding of the VET sector. This is reflected in the growing differences between jurisdictions in priorities, funding and participation levels.

As the BCA paper highlights, the financial constraints faced by some States and Territories means government funding has declined in recent years. More concerning is the longer-term trend of declining real investment.

Without fundamental reform, the sector will continue to decline, with increasingly erratic governance, policy and funding decisions driven by budget imperatives and a seemingly, at times, ambivalent government commitment to VET. This will increasingly put at risk the ability of the sector to meet the needs of students, industry and its workforce and the longer-term capacity to contribute to the economic growth of the nation.

This at a time when the Productivity Commission and others have highlighted the important and complementary relationship between high-skilled jobs and new technology and the grounds for increased investment in skills development - particularly for those who are most at risk.

With the apparent failure of governments to provide leadership and respond to these issues, the contribution of the BCA is timely and welcome. ACPET looks forward to working with the BCA and others to bring about the reforms required to ensure a tertiary education and training sector best placed to meet the needs of Australia’s students, industry and community.

Overall Tertiary System

ACPET supports the overall model proposed by the BCA for the tertiary education system. As the BCA paper highlights, the silo approach to funding, in particular, has led to many of the issues the VET sector has confronted in recent years. The sector has been starved of funding and confronted dysfunctional governance and program administration.

Unless these circumstances are addressed, the residualisation of VET will become a reality.

The proposal for a funding model that is 'neutral' across the sectors is strongly supported. It builds on recommendations of the Bradley review of nearly a decade ago - the impact of not responding then is now apparent. It is important, of course, the funding model should also be neutral across providers and their students. That students who attend a private higher education or VET provider pay a loading on their income contingent loan, for example, can't continue under a truly 'neutral' funding model.

At the same time, ACPET believes the new model needs to maintain, and protect the unique aspects and strengths of Australia's higher education and VET sectors. While the focus on a compliance regulatory 'model' in VET has failed the sector, at this time ACPET does not believe significant structural changes are appropriate. Regulatory reforms of the VET sector are required to ensure that ASQA is fit for purpose, prior to consideration of potential mergers.

The proposed AQF 'split' between jurisdictions regarding funding responsibilities largely reflects the current situation but would, nonetheless, assist in simplifying and settling uncertainty in the market about 'which government is responsible'.

The inclusion of an explicit focus on lifelong learning in the model is welcome and necessary to effect the practical and cultural change required if Australia is to respond to the fundamental changes in its economy, industries and workforce. A commitment to lifelong learning will also negate the constant debate about the respective value of qualifications versus skill sets.

ACPET agrees the need for better information to support student and industry choice is a necessary element of the system. At present, information on the VET sector is held closely by agencies and not broadly available to inform a diverse, dynamic market. While there have been recent efforts at reform these have been modest, disjointed and ponderously slow in being delivered.

A new model will only be successful if there is a commitment from all governments and stakeholders. The proposed model is very ambitious, particularly in relation to the establishment of the new institution to administer and oversight many aspects of the model.

While it is clear there needs to be reform, it may be that a more graduated approach to that proposal, in particular, would more readily garner the necessary support from jurisdictions and stakeholders.

Structure

The BCA paper highlights the need to remove the funding silos that have distorted the decisions made by students. While this is a clear need, it is not apparent that further wide-scale restructuring of the tertiary system is warranted at this time. As the paper notes, there is a deal of reform fatigue across the sector. The case for any further structural reform would need to be clearly established.

This is not to suggest that greater harmonisation across the tertiary education and training sector isn't warranted. With the increasing recognition of the need for the workforce to undertake ongoing education and training, often at higher skill levels, there is a real need for the clear pathways between the sectors. The current ad-hoc approach needs to be reconsidered for opportunities to free-up student movement between the sectors. Indeed, the real benefits of the proposed lifelong learning approach require the streamlining of pathways to match the streamlining of funding proposed.

While there have been proposals for the creation of a single regulator, ACPET does not believe this should be pursued at this time. The recent challenges in the VET sector, together with a new regulatory model, means ASQA should remain focused on its current priorities. These priorities should be informed by the soon to be completed review of the National VET Regulator Act 2011.

The higher education regulator, TEQSA, appears to be struggling with an increase in workloads as evidenced by the recent 'blow-out' in times taken to make regulatory decisions. This is clearly unsatisfactory and its attention must be on providing a fit-for-purpose regulatory regime that supports, and doesn't stifle, a high quality, responsive sector that is vital to Australia's future prosperity.

ACPET in principle supports the notion of creating a new institution to develop and oversight the funding model. More details will be required. While the current federated model is not working, there is an important role for States and Territories in determining priorities and contracting training delivery. A focus on leading policy, prices and performance would be a valuable role for the proposed new institution, while leaving the administration of 'contracts' with States and Territories.

The current arrangements for government funding in the higher education sector have developed over many years, and not always on a rational basis. Similarly, the arrangements adopted by States and Territories reflect historical considerations and often crude approaches to manage, or rein-in, VET expenditures. The proposed task of establishing the base price of qualifications and the relative contribution of governments and students is worthwhile. It will provide a rational, evidence-based starting point for governments to consider variations that reflect their priorities and labour market needs.

As with the efforts of the IPART in New South Wales and other similar exercises, this work need not require a dedicated ongoing institution, though the value of driving and oversighting decision making has merit.

In proposing the new institution establish the pricing arrangements, it is recognised in the paper that governments should be able to adjust these pricing parameters to reflect their greater understanding of local needs and priorities.

This rationale would also extend to the understanding of the performance of providers, where outcomes are highly linked to local and regional labour market needs and student cohorts. Accordingly, it would seem more appropriate the 'contracting' of VET providers remains with State and Territories as they have the better 'on the ground' understanding of providers and the markets they operate in.

In a similar vein, it would seem reasonable to expect that jurisdictions would have a greater understanding of the qualifications in demand, particularly those at the regional and local level, and therefore a role in approving those eligible for government subsidies, if such an approach is to be adopted at all. ACPET has a different view.

It has strongly advocated that providers, with industry support and clear evidence of labour market need, opportunity or student outcomes, should be able to propose qualifications for government approval of funding and an income contingent loan. The value of centrally prepared 'lists' of approved qualifications is increasingly limited in responding to the dynamic needs of industry and the workforce.

The proposed institution approving higher education qualifications for funding would also largely run counter to current arrangements. With an appropriate focus on outcomes, and noting the recent efforts by the federal government in this regard, these current higher education arrangements should continue.

It is also proposed that the new institution manage the market information platform. Noting the unique features of the sectors and the good work already done (and underway) in the higher education sector, it is not clear there would be advantages to this proposal.

In summary, with the level of government intervention and administration required and proposed, there is a risk of more administrative burden, duplication, delay and cost associated with another new institution, that outweighs the benefits.

What would be beneficial would be a genuine commitment by jurisdictions to work with providers and industry on the development of the base pricing model and contributions of governments and students. This would help address the inconsistencies across jurisdictions and sectors and build the expertise and understanding across jurisdictions necessary for an effective 'sector-neutral' funding model.

Funding

The concept of the price paid for tertiary education and training being a contribution from government and students is well understood. It broadly provides the basis for current government-funded tertiary education and training across jurisdictions. While there is debate about the merits of the higher level of private contribution in Australia relative to other OECD countries, it provides a rational basis for allocating limited resources.

The concern with current arrangements is the disparity in prices and contributions across the country, at least in respect to VET. The proposal to establish base prices and contributions for qualifications would help address this issue.

The proposal to create a Lifelong Skills Account (LSA) is conceptually an extension of the entitlement models introduced by States and Territories, to varying extents, under the National Partnership Agreement on Skills Reform. The demand-driven system in higher education (at least perhaps until the most recent mid-year budget measures) provides for lifelong learning in that sector.

The challenge with recent models operating across the sectors has been one of affordability to the public purse. Some of the responses by jurisdictions to rein-in expenditures in the face of 'excess' demand have caused significant damage to the VET sector, in particular. The damage caused in South Australia, for example, following that government's decision simply stop its entitlement model 'overnight' has been irreparable for students, industry and providers.

More than anything else, the market needs consistency and certainty in policy, program and funding settings. The proposal for a 10-year commitment by governments is important in providing much needed certainty.

While many lessons have been learnt from these entitlement ‘experiences’ there must be significant confidence measures are in place to estimate and manage demand under an LSA, particularly as it is proposed there be no caps on government-funded places.

The proposal that all students contribute to their education and training, acknowledging the needs of disadvantaged cohorts, is supported and would address some of the excesses seen in the VET sector. Given the barriers to entry for its students and providers it is not clear this is required in the higher education sector.

ACPET supports the setting of caps for income contingent loans and believes the federal government’s recent mid-year announcements are reasonable. The concept of an 8-10 year limit, however, seems inconsistent with the need for the LSA to operate across a working life.

It is unclear, however, why ICLs are not proposed for qualifications at the Certificate I-IV. While these programs are generally of a lower cost, depending on the government subsidy students could still be significantly out of pocket. While a particular VET program might not be a priority for a government at the time, subject to satisfying approvals and pricing requirements, these students should be able to access an ICL.

As noted above, ICLs should be made available to students of all eligible providers, public and private, on an equal basis.

A single market information platform

One of the issues identified with the recent VET program failures was the lack of real-time, or at least timely, data on the performance of programs and providers. By the time data was made available the ‘damage had been done’.

The data sets and reports currently available in the VET sector are of little value to students and industry in making critical decisions about their choice of program and provider. The current national VET data policies and their publications remain a resource for, and of, jurisdictional planners and accountants. There is little recognition of the need for data to inform student choice in what is a contestable market.

This must be addressed before any efforts can be made to introduce a LSA or other arrangements that expand student choice. While there are currently some efforts to address this need they are tentative and ponderously slow.

Fortunately, with leadership from the Higher Education Standards Panel, much stronger arrangements are in place to support higher education students make informed decisions. Initiatives like the Quality Indicators for Learning and Teaching and the admissions transparency reforms provide exemplars.

ACPET is not convinced that turning over the responsibility for what is proposed to be a single platform across the sectors to another institution would address the fundamental problem of VET sector jurisdictions (and some stakeholders) seemingly uncommitted to transparency and supporting students to make the best possible choice of program and provider.

Noting the unique nature of the sectors, it may also be that ‘something is ‘lost’ in the translation to a generic, single platform.

The existing platforms and publications need to be enhanced to provide real time, or at least timely, provider performance and outcomes data and any adverse regulatory matters. Provider web sites need to also include this data and information. Students need to be able to access and compare this data in ways that are consistent with and harness modern technologies.

A shared governance model

Noting the existing constitutional arrangements, the past failed efforts to address the shortcomings of them and the program failures at the federal level, the shared governance model proposed is the most that can reasonably be in prospect. As noted above it largely reflects the current reality.

The methodology proposed to determine pricing, subsidies and student contributions are largely understood and are an existing feature of most jurisdictions' determinations.

As noted above, ACPET has reservations about the benefits of a new institution given the role that governments are expected to play in adjusting qualification subsidy levels. The need for a greater 'on the ground' understanding means jurisdictions should also approve providers and programs for the proposed LSA.

While ACPET does not see the need for an institution to perform all the functions proposed, there clearly is a need for arrangements that can drive identified reforms through the Ministerial processes and have the authority to hold agencies to account.

As noted above, ACPET believes that ICLs should be available to all students at all AQF levels subject to normal approval arrangements.

TAFEs are a valuable element of the VET delivery capacity and particularly in relation to trade training and the delivery of some community service obligations (CSOs). ACPET acknowledges the legacy costs associated with these infrastructure and workforce arrangements. These costs need to be funded, but in a transparent way that does not involve the subsidisation of contested programs.

ACPET does not support the proposal in the paper that TAFEs (only) are funded for thin markets. These should be tested in the marketplace to ensure the best value for money. Indeed, CSOs should similarly be considered for a contestable approach.

Create a culture of lifelong learning

The explicit inclusion of a lifelong learning focus is appropriate as it is required to address the cultural and funding changes necessary to meet the future skill needs of industry and its workforce.

The LSA proposal provides a model to achieve this and the existing ICL and Unique Student Identifier arrangements could be harnessed in support.

As noted above, key challenges include ensuring costs can be contained and maintaining some consistency and continuity in the arrangements over the medium-term. This will require a bi-partisanship similar to that evidenced in the traditional apprenticeship arrangements.

The paper notes that a number of dedicated industry skills programs have been implemented over a number of years. As the paper says, "none of these programs have proven to be successful". There would seem little merit in another industry skills fund. Rather, industry can support a culture of lifelong learning by providing the professional development opportunities and making available the internships, apprenticeships and work placements that are a feature of the German skills system highlighted in the paper.