



Dr Peter Boxall AO
Chair NSW Independent Pricing and Regulatory Tribunal
Level 8, 1 Market Street
Sydney NSW 2000

Dear Dr Boxall

Thank you for the opportunity to comment on IPART's review into Pricing VET in NSW under Smart and Skilled.

The Australian Workforce and Productivity Agency (AWPA) acknowledges IPART's considered approach to this complex issue. We would like to make brief comments on issues of significance for Australia's skills and workforce development needs.

Ensuring supply of specialised skills

AWPA considers that, while the labour market is generally quite effective in responding to changing skills needs and economic fluctuations, there is still potential for market failure. This is particularly so for those occupations where there is a long lead time in training; where there is a close 'fit' between the training and occupational outcomes such as where, for example, qualifications are not 'substitutable'; and where there would be a high cost to the economy if disruption in supply were to occur.

In line with this, AWPA has developed the Specialised Occupations List. This list is used to identify those occupations for which the risk of over or undersupply justifies greater planning and policy attention, and covers only around twenty per cent of total employment. AWPA considers monitoring the supply of these specialised occupations, as well as working to ensure a good 'match' of skills supply and demand more broadly, is critical to maximising the returns on our collective investment in education and training – both public and private. We know that an over or undersupply of these specialised non-transferable skills can have significant consequences for the economy, not just at a state or territory level, but nationally.

We understand that the NSW Government intends to develop a skills list to determine which courses will qualify for a public subsidy. We strongly recommend that your considerations recognise the principle that such specialised and critical occupations in undersupply should be included on this list.

In our view working to achieve a good alignment between skills needs and supply for these specialised occupations is an important consideration in any policy designed to allocate finite government resources across a VET system. It should be acknowledged that, while the labour market is usually an effective mechanism for managing supply and demand it does not always work perfectly for these occupations and in such cases governments may need to intervene. Therefore AWPA considers IPART's recommendations regarding a pricing and subsidy regime for VET in NSW should recognise that for these specialised





occupations, in addition to considerations of cost recovery and equity, there can also be a need for an additional subsidy when these specialised occupational skills are projected to be in short supply.

We consider that recommendations regarding the level of public subsidy could be strengthened by including provision for appropriate caps and incentives for the specialised occupations to ensure an adequate supply of skills. In some cases this might result in higher or lower levels of public subsidy, with higher costs justified by the benefits of thus avoiding the costs of probable skills shortages.

Estimating the efficient base cost

AWPA notes that in developing its base price IPART did not conduct its own review of the efficient cost of delivering VET training in NSW, but rather based its analysis on available information on the current cost of delivery.

We understand that the terms of reference asked IPART to have regard to certain information on current costs, and these are set out in the draft report. We would have been pleased to see IPART undertake a comprehensive, independent review of the cost of delivering VET training. AWPA has previously advocated such a review be undertaken, as we believe it would provide a valuable evidence base for VET policy design more broadly.

It would also be beneficial to the sector more broadly if IPART were to provide details on the methodology that it used to determine its base costs. This would enable similar reviews to be conducted in other states and would enhance the transparency of the process. The evidence we have seen from other jurisdictions shows clearly that costs vary significantly between providers; indeed by as much as 100 per cent for what appears to be the same qualification. In these circumstances AWPA would value being able to better understand how the different providers' costings were weighted by the Tribunal.

AWPA requests that IPART publish further information on this process, explaining how the information from different providers was combined. For example, was an average cost estimated, and if so how were factors such as market share, size of provider and number of students serviced used, or alternatively was there any attempt to give a greater weight to more cost-effective providers. You will appreciate that, given what we believe are probably large variations in the Tribunal's data base of costs, there is potential to over or underestimate the current cost of delivery if these factors have not been adequately addressed. In the absence of a more fundamental review by IPART, we believe it would further enhance decision making if the methodology was made explicit.

The terms of reference for IPART ask that its 'approach should encourage quality training delivery at the most efficient price'. In recent years there has been frequent expression of concern about quality in the VET sector, documented in several reports by the Productivity Commission.¹ A common issue is the delivery of courses in a very short time, a matter reported by IPART in Appendix B, the VET Quality Framework. IPART has noted the reduction in real funds per enrolment in recent years in section 4.5.3. The Productivity Commission, in its annual Report on Government Services, also shows this reduction for government funding per hour of training in NSW and the other states. IPART might consider whether the reduction in government funding to the current levels per hour has contributed to a reduction in the hours of training and the quality of training.

¹ See Productivity Commission, 2011, *Vocational Education and Training Workforce*, p 124 and p 259.



Loadings

We note IPART's approach to identifying those categories of students typically associated with higher costs. In its recommendations regarding loadings based on needs and locations, we recommend that IPART also consider the additional funding that may be associated with supporting and retaining students from low socio-economic backgrounds. Taking socio-economic status into account would align with the policy approach taken in the school and higher education sectors.

Equity and access

In considering the appropriate level of public subsidy IPART had regard to the subsidies provided in the higher education sector. Although this comparison is appropriate for higher level VET qualifications, a great number of VET students are of school age, or undertaking lower level courses. IPART acknowledged in its report that in NSW 32 per cent of students were aged 19 or under. Given this, AWPA considers a comparison with the level of public subsidy in the secondary school sector may be more appropriate for all qualifications up to Certificate II, and possibly Certificate III. This is the case for the following reasons:

- All higher education students received free education up to and including Year 12, but this is not true for the majority of students doing Certificate I and II courses, while the value of these courses is at best no higher than a Year 12 qualification.
- Many VET courses, such as foundation skills, are provided for 'second chance' learners who did not gain these skills while at school. Higher fees mean that such students are further disadvantaged by that failure.
- There is potential for inequity as some school students may pay fees for the VET subjects they are studying where their non-VET counterparts are receiving free education.
- Generally financial rewards for VET courses are lower than those for a university course. Indeed for many lower level qualifications the appropriate comparison in terms of return on investment is with Year 12 completion, rather than university.
- It is doubtful whether people achieving a VET qualification below Certificate II, and possibly for many Certificate IIIs, would have the capacity to repay an income contingent loan even if such a loan were available at this level. Indeed, it is likely that there may not be enough students reaching the repayment threshold to justify introducing such a scheme.
- There is a significant risk that charging for courses directed to the needs of the most disadvantaged members of our community means that they will no longer undertake VET training, with consequences for participation, the economy, and social inclusion.

Language literacy and numeracy

AWPA would also like to emphasise the critical importance of language, literacy and numeracy and foundation skills to enable successful participation in the labour force and in the community. We would ask that IPART consider the importance of this training to achieving successful vocational outcomes, and take into





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account the fact that it is often delivered as additional support in conjunction with another qualification. This could be better addressed in the pricing and subsidy arrangements.

Again, thank you for this opportunity to comment on the draft report and recommendations of this review. We would be happy to discuss any of the issues raised here in more detail if it would be of assistance.

Yours sincerely

Philip Bullock

Philip Bullock
Chair, Australian Workforce and Productivity Agency Board
27 August 2013

