

Service Skills NSW
Submission to the
Independent Pricing
and Regulatory Tribunal
of NSW - *Pricing Under*
Smart and Skilled
(May 2013)

Service Skills New South Wales (SSNSW) is the Industry Training Advisory Body (ITAB) for the service industries in the state of NSW. ITABs are funded by the NSW Government to speak on behalf of their NSW industry sectors on training and related matters to support the vocational education and training (VET) system.

SSNSW represents a range of industry sectors, including:

- **WRAPS**—retail and wholesale, hairdressing, beauty, floristry, community pharmacy and funeral services.
- **Tourism, Travel and Hospitality**—travel, tourism, meetings and events, accommodation, restaurants and catering, holiday parks and resorts.
- **Sport, Fitness and Recreation**—sport, fitness, community recreation and outdoor recreation.

SSNSW would like to thank the Independent Pricing and Regulatory Tribunal of NSW (IPART) for the opportunity to provide a submission to the issues paper, *Pricing Under Smart and Skilled*.

Please note: SSNSW has not responded to some questions in the issues paper as they are not within our capacity as an ITAB to answer. Where certain questions are clustered together, the relevant response answers both.

Submission Details

Name of Organisation: Service Skills New South Wales

Category of Stakeholder: Industry Training Advisory Body

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- 1. Do you agree with our proposed approach for developing a methodology to determine prices, student fees and government subsidies for government-funded VET? Do you think this approach will lead to arrangements that ensure students and governments make an appropriate contribution to the efficient costs of providing VET courses, qualifications and part-qualifications?**
- 2. Are our proposed assessment criteria for the review reasonable and consistent with our terms of reference?**

Service Skills NSW (SSNSW) commends the approach of the Independent Pricing and Regulatory Tribunal of NSW (IPART) to develop a methodology to determine the prices, student fees and government subsidies for government-funded VET under the NSW Government's Smart and Skilled training reforms. However, SSNSW would like to stress that no matter how sound the proposed pricing methodology may be, it is useless unless matched to an appropriately developed 'skills list' – particularly one that takes into account the economic value and labour market characteristics of the service industries.

Service industry occupations are characterised on average by higher rates of part-time employment, lower levels of pay and higher levels of occupational mobility—all features that are associated with lower returns to investment in education and training and lower incentives for employers to provide education and training for their workers. Despite this, there are also many people (in some cases a majority) employed full-time in these occupations with expectations of continuing long-term employment.

While the lower incentives for employers to provide training do not indicate market failure, without government intervention, it is likely service industry workers would receive far less education and training. A range of COAG education targets that underpin national policies to improve labour productivity through raising the skill levels of the workforce would be unattainable. A whole group of often disadvantaged workers would be excluded from the education and training system if access were determined simply by market mechanisms.

- 3. Which of the two possible methods for determining a base price for courses and qualifications that reflects efficient costs do you prefer (map costs to industry groupings or map costs to Unit of Competency)?**
 - a. Have we identified all the advantages and disadvantages of each method?**
 - b. Is there another approach that we should consider to set base prices?**

SSNSW, in consultation with its key stakeholders, supports method two (mapping costs to Unit of Competency (UoC)) for determining a base price for courses and qualifications. As IPART has noted, method one (mapping costs to industry groupings) would subsume too many qualifications with varied delivery costs underneath one industry banner. An additional disadvantage of method one that has not been identified by IPART is that it could induce some training providers to only offer qualifications that contained elective UoCs with lower delivery costs. This could result in a situation where students would be exposed to only some of the national industry skill standards found in training packages, thereby limiting specialisation and reducing total pool of skills required by industry and the economy. SSNSW believes that method two, soundly implemented and open to periodic review, is the best approach to set base prices.

- 5. With reference to method two (map costs to UoC):**

- a. **What would be the best way to group UoCs?**
- b. **How should the methodology take account of different modes of delivery (ie, classroom based and flexible delivery)?**

SSNSW believes that IPART's proposal to group UoCs by their cost drivers, using Field of Education (FoE) classifications is sound. Moreover, by using an already existing classification system this would mitigate some of the disadvantages of method two identified by IPART, namely that method two will be 'more complex to implement and administer.'¹

The methodology must take account of different modes of delivery. SSNSW's industry stakeholders have explicitly stated that face-to-face delivery in the workplace—the most expensive mode of delivery—forms part of the blended training model preferred by industry. The blended delivery model has proven to be most effective in achieving completions.

6. What student groups are more costly to train, and why? What additional costs are associated with providing training for these students?

IPART has already identified many of the student groups that are more costly to train:

- Individuals in remote and regional locations
- Aboriginal and Torres Strait Islanders
- The long-term unemployed
- Culturally and linguistically diverse groups
- Individuals with a disability

SSNSW would also include individuals with low-levels of language, literacy and numeracy (LLN) as a student group that is more costly to train. This student group needs additional guidance and support during their training, which often involves more hands-on learner support. SSNSW strongly urges IPART to include this group when calculating loadings.

SSNSW is strongly supportive of setting loadings to cater to these groups, particularly given the social importance of VET in providing second-chance education, integrating marginalised members of the community into the workforce and the broader community.

7. Regarding thin markets:

- a. **What training markets are likely to have low levels of demand and high operating costs (these markets may be defined geographically, by occupation or demographically)?**
- b. **Should we test for a thin market by using the difference between the cost per student and the base price (plus loadings) expressed as a percentage?**
- c. **If so, what is the appropriate threshold of cost in excess of the base price (plus loadings) do you think is appropriate?**
- d. **What other test should we consider?**

SSNSW encourages IPART's use of 'thin markets' for determining Community Service Obligation (CSO) payments. Across the industry sectors represented by SSNSW, certain training markets already

¹ Independent Pricing and Regulatory Tribunal NSW (IPART), 2013, *Pricing Under Smart and Skilled: Other Industries – Issues Paper*, p. 37.

have low levels of demand and high operating costs and could be characterised as thin markets. These include:

Outdoor Recreation: Students come from disparate geographical areas and delivery occurs in both a classroom setting and face-to-face in regional/remote areas. These qualifications also attract smaller numbers of students and have smaller class sizes. Outdoor recreation qualifications are also a regulatory requirement in certain parts of NSW (for example, canyoning qualifications are a regulatory requirement for outdoor adventure guides in the Blue Mountains) and, as such, provide benefit to the community.

Funeral, Crematorium and Cemetery Services: The industry faces a rapidly ageing workforce. In 2011, 47.55 per cent of funeral service workers in NSW were 50 years or older, while 74.93 per cent were 40 years or older. These numbers must also be seen in the context of the incredibly low number of enrolments in Funeral Services qualifications in NSW (there have been no enrolments since 2008, when there were only 3 enrolments in the Certificate III in Funeral Operations). Given the ageing workforce, the low numbers of students choosing a Funeral Services qualification and the projected future demand for the industry, this is a serious challenge. Such fears are made all the more real given the barriers facing graduates wishing to enter the industry, including the small number of RTOs delivering qualifications, high course costs and geographical restrictions on availability.

SSNSW would also note that training markets for retail, wholesale, tourism, travel, hospitality, hairdressing, beauty, floristry, community pharmacy, sport, fitness, community recreation in remote and regional areas could also have low levels of demand and higher delivery costs.

SSNSW believes that the methodology for calculating a thin market should be open to review more regularly than the broader methodology.

In the discussion paper, IPART provides an example of a 'thin market' qualification which uses a cost threshold of 25 per cent above the base fee and loadings. SSNSW believes that 25 per cent is too high a threshold for calculating a 'thin market' qualification. SSNSW would suggest IPART conduct further consultation with RTOs to determine an appropriate threshold.

8. How should the price and fee arrangements take account of the Government's training priorities when sharing base prices between student fees and government subsidies? Should the arrangement also consider the private and public net benefits that may be realised when a student undertakes VET? What alternative approach or criteria should be used to decide how the efficient costs of VET should be shared between students and taxpayers?

As SSNSW indicated in its response to Questions 1 and 2, "no matter how sound the proposed pricing methodology may be, it is useless unless matched to an appropriately developed 'skills list' – particularly one that takes into account the economic value and labour market characteristics of the service industries." While SSNSW is aware that it is not within IPART's remit to develop the skills list, price and fee arrangements need to reflect the qualifications included on the list. Furthermore, SSNSW strongly supports extensive industry consultation during the development of this list and that it be open to regular review.

SSNSW supports the use of public and private net benefits as criteria for determining fees and subsidies. However, we would stress that the calculation of ‘spillover’ and ‘civic’ benefits be made publicly available and open to consultation. For qualifications with substantial spillover and civic benefits, SSNSW would recommend that the benefit should flow at commencement (as an incentive) and upon successful completion—whether in a taxable rebate form or as a payment.

9. What is the effect of the level of student fees on students’ participation in VET, eg to what extent do the current fees influence participation? What effect might a hypothetical doubling of fees have?

10. What is the impact of any capacity to pay and/or credit constraints faced by students or prospective students?

As IPART notes in the context for this review, VET students in NSW have relatively low levels of social and economic advantage:

- 49 per cent come from areas identified as being in the lowest two quintiles for relative socio-economic disadvantage.
- 50 per cent come from areas in the lowest two quintiles for access to economic resources.²

Given the high proportion of disadvantaged students who undertake VET in NSW, student fees have a greater effect on participation, particularly relative to participation in university. SSNSW is concerned by IPART’s inclusion of the question ‘what effect might a hypothetical doubling of fees have’ since if such an increase were enacted it would raise a significant financial barrier to further education and training for many of the most marginalised members of society, particularly those who do not fall neatly into concession categories.

Feedback from SSNSW’s retail and hospitality industry stakeholders has indicated that for traineeships, student fees are often paid by the employer. Substantial increases in student fees are very likely to further reduce participation by employers in the traineeship system.

SSNSW acknowledges that the introduction of VET FEE-HELP would reduce the immediate financial barrier to participation in VET and we would like to see this system enacted across all qualification levels, not just Certificate IV or above.

11. How could the approach to sharing base prices between student fees and government subsidy take account of any positive externalities associated with the provision of VET?

12. Do any other characteristics of the VET sector warrant additional government subsidy of the costs of VET provision?

SSNSW acknowledges the positive externalities of VET, as described in our response to Question 6 of this submission. However, we believe that further research is required into the positive externalities of VET before making comment on how they could be used to influence the approach to sharing base prices between student fees and government subsidies.

14. Which of these options do you think best meets the assessment criteria for this review:

² IPART, *Pricing Under Smart and Skilled*, pp. 12-13.

- a. The student fee (and government subsidy) is an increasing percentage of the base price, depending on qualification level or;
- b. The student fee (and government subsidy) is the same percentage of the base price for all qualification level areas.

SSNSW, in consultation with industry stakeholders, believes that option a) best meets the criteria for this review.

15. What criteria do you think we should use to decide on the additional contribution that should be made by students undertaking a subsequent qualification? Could these criteria be the basis of a fee setting rule?

SSNSW acknowledges the point presented in the IPART discussion paper that higher student contributions for subsequent qualifications 'reflects the view that students undertaking a subsequent qualification have already benefitted from training.'³ However, we would like to stress that service industry qualifications accounts for 33% of all training delivered for teenagers.⁴ For teenagers, there is a high level of enrolment in Certificate II courses, and many courses at this certificate level are important to the skilling requirements of school leavers who need initial or entry level training that can act as stepping stones or pathways to higher level training.⁵ This is a vital role played by lower level certificate courses offered in the service industries. SSNSW would not want to see students with pre-existing lower-level qualifications dissuaded from undertaking further education and training by onerously high contribution costs for subsequent qualifications.

16. What evidence is there on the benefits of part-qualifications? Is it appropriate to share the costs of part-qualifications between students and taxpayers in the same way as full qualifications? If not, what other approach would be appropriate?

In SSNSW's experience, part-qualifications provide the greatest benefit to those already employed and often constitutes skills deepening. This assists in driving greater productivity and supports economic growth by enhancing specific skills that industry deem necessary. SSNSW advocates sharing the costs of part-qualifications between students and taxpayers in the same way as full qualifications, however only for students already in possession of a full qualification.

17. How should the current annual fee for apprentices and new entrant trainees be converted to a fee per qualification? Should a flat fee across all qualification levels be maintained for apprentices and new entrant trainees?

In SSNSW's experience, the annual fee for apprentices and new entrant trainees acts partly as an incentive for a candidate to complete their studies in a timely fashion. As such, any changes would have to take this into account, as employers are mostly interested in having a fully qualified individual within a reasonable and practical timeframe.

³ IPART, *Pricing Under Smart and Skilled*, p. 58.

⁴ The Centre for Research on Education Systems at The University of Melbourne, 2013, *Destinations Survey for the Services Industries: Overview* (unpublished), prepared for Service Skills Australia, p. vi.

⁵ Ibid.

With regard to the flat fee across qualification levels, SSNSW and its industry stakeholders believe that it should be maintained. This approach works well and since many employers cover the cost of the training, a flat fee across all qualification levels would be easier for employers to understand and accept.

18. How important are concession fee arrangements (rather than the availability of concession fees themselves) for providing equitable access to VET? Should the concession fee arrangements be aligned with fee arrangements for other students? For example:

- a. Should concession fees be charged per qualification rather than per annum (or time served)?
- b. Should the level of the concession fee vary by level of qualification?

As SSNSW indicated in its response to Question 6, equitable access to VET is paramount. As such, we strongly support the use of concession fee arrangements to ensure that many of the most marginalised members of society are given the opportunity to participate in earning and learning.

In order to reduce unnecessary complexity and confusion in the VET system, SSNSW would advocate for concession fee arrangements to align with fee arrangements for other students. SSNSW believes that the level of the concession fee should be kept constant to incentivise equity groups to pursue the most relevant qualification for them, rather than having price dictate their choice. We believe this an essential component of equity arrangements for VET in NSW.

22. How often should the methodology for setting prices and fees for government-funded VET be reviewed or re-estimated to ensure that students and taxpayers both continue to contribute an appropriate share of the efficient costs of providing VET?

SSNSW believes that the proposal to review the methodology every four to five years is too long. Considering the degree of changes, we would advocate for a review every year for the first three years to be more appropriate and thereafter, biennially. Furthermore, certain aspects of the methodology, such as the determination of 'thin markets' and the appropriateness of FoE classifications to determine UoC base prices, should continue to be reviewed on an annual basis.

23. How should base prices, student fees and government subsidies be adjusted in between reviews? What is an appropriate inflator for base prices? For student fees? For government subsidies?

As SSNSW advocates for more regular reviews of the methodology, we believe that CPI is an appropriate inflator for base prices in between biennial reviews. However, we would stress that the CPI for education (5.8 per cent nationally, but higher for NSW) be used as it is substantially higher than the all groups CPI (2.5 per cent).⁶

The following table shows the percentage variation in the index for Sydney for the March quarter from 2010 to March 2013 for Sydney and shows also the percentage change for all groups. The last two columns reflect the national change in Education and All Groups across all cities.

Percentage Change for Education - March Quarter Year on Year

⁶ Australian Bureau of Statistics, 2013, Cat. No. 6401.0, *Consumer Price Index, Australia, Mar 2013*.

	New South Wales					National	
	Primary	Secondary	Tertiary	All	All Groups	Education	All Cities
2010	4.4	5.3	1.5	3.5	2.9	5.7	2.9
2011	4.7	5.9	6.0	5.6	3.2	5.9	3.3
2012	4.6	6.3	4.5	5.1	1.7	6.1	1.6
2013	5.8	5.2	7.2	6.4	2.8	5.8	2.5

Source: ABS

The March quarter has been selected as it reflects the quarter in which most of the movements in the index take place at the commencement of the education year. The movement in the education index has consistently been higher than the All Groups both on a State and All Cities basis

24. In the years following implementation of Smart and Skilled, would it be appropriate to set a range for the student fee, rather than a single student fee, for each qualification?

25. Do you support relaxing fee regulation in areas of the government-funded VET market where competition is considered effective?

SSNSW agrees that it would be appropriate to set a range for the student fee in the years following the implementation of Smart and Skilled. A range would allow sufficient flexibility for RTOs to set prices that accurately reflected the cost of training delivery.

In principle, SSNSW supports relaxing fee regulation for government-funded VET once competition is considered effective. We support this as competing RTOs have varying training delivery techniques and subsequently resource their programs to suit. We feel that the fee is most suitably negotiated between the training provider and the employer/participant. However, SSNSW would stress that the relaxation of fee regulation would have to occur following the full implementation of the *MySkills* website, so that consumers had appropriate access pricing and quality information. Essentially, competition cannot be considered effective without pricing transparency.