

23 August 2013

Dr Peter J Boxall AO, Chairman
Independent Pricing and Regulatory Tribunal
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NSW Business Chamber
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- Sydney Business Chamber
- Australian Business Limited Apprenticeships
- Australian Business Lawyers and Advisors
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By email

Dear Dr Boxall,

Pricing VET under Smart and Skilled

The NSW Business Chamber (the Chamber) welcomes the opportunity to comment on IPART's *Pricing VET under Smart and Skilled* draft report.

As you may be aware, the Chamber is one of Australia's largest business support groups, with a direct membership of more than 14,000 businesses, providing services to over 30,000 businesses each year. Tracing its heritage back to the Sydney Chamber of Commerce established in 1825, the Chamber works with thousands of businesses ranging in size from owner operators to large corporations, and spanning all industry sectors from product-based manufacturers to service provider enterprises. The Chamber is a leading business solutions provider and advocacy group with strengths in workplace management, occupational health and safety, industrial relations, human resources, international trade and business performance consulting.

Operating throughout a network of offices in metropolitan and regional NSW, the Chamber represents the needs of business at a local, regional, State and Federal level, advocating on behalf of its members to create a better environment for industry.

In recent years, the Chamber has driven significant public policy debates in NSW. Our goal in doing so is to help create an economic environment that is supportive of productivity, growth, investment and jobs.

NSW industry needs a skilled, flexible and motivated workforce that contributes to productivity gains and drives economic development. Ensuring that the available workforce has the skills and knowledge required to meet the needs of industry and employers is a significant issue for NSW.

The Chamber believes that addressing high levels of youth unemployment through more effective school to work transitional arrangements, increasing employment participation and driving productivity growth need to be a central focus of the NSW Government and the community, including business.

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Employers expect better outcomes and continually look for products tailored to their needs. Knowledge-based industries continue to grow which is placing greater emphasis on the importance of higher education and the acquisition of higher level skills.

Smart and Skilled

In its submission to the *Smart and Skilled* discussion paper, in November 2011, the Chamber supported proposals for the introduction of greater contestability of public funding for VET in NSW and recognised that competition can produce positive outcomes for the VET sector and the NSW economy.

The Chamber has emphasised that greater contestability in the NSW training market, and moves towards a demand driven system, can support and encourage competition and innovation in the NSW VET market. Encouraging a more flexible and responsive VET system through the introduction of greater competition is important for the future of the training system in NSW.

Student fees and government subsidy

The Chamber recognises that IPART's methodology developed to set prices aims to replicate the outcomes that would be achieved in a fully competitive market. The Chamber also notes IPART's analysis suggests that, without fee increases the NSW Government would provide around 61,000 fewer subsidised VET places in 2014/2015, compared to if fees are increased.¹

In its final report to the NSW Government, the Chamber recommends that IPART explore the broader impacts of price increases on demand across the VET sector. There is always a risk that significant price increases will have a negative impact on participation and/or completion. The recent experiences in Victoria, particularly pricing for apprenticeship courses, may provide IPART with some insights into the possible impact of changes in NSW, and any mitigation that may be required.

While the creation of an efficient market may be desirable, the introduction of fully competitive market pricing should not be viewed as an end in itself. The primary objective of pricing changes and other Smart and Skilled reforms should always be to maximise VET outcomes, contribute to productivity outcomes, address areas of market failure and stimulate economic development.

The Chamber accepts that prices should reflect the efficient costs associated with course delivery. Students should, however, be supported by a robust income contingent loan system to ensure the immediate cost burden is mitigated, available to a broader range of courses than VET FEE HELP, similar to the current higher education loan arrangements. This should reduce any negative impact on participation and completion resulting from, in some cases, significant fee increases.

In the analysis of relativity between fees for VET and university study, the draft report recognises the need to minimise the potential for differential fee arrangements to influence student choice between VET and university. Government assistance to cover upfront fee costs, in the form of loans, can also influence student choice. This type of assistance in the VET sector should, therefore, be more closely aligned with current higher education arrangements.

¹ Independent Pricing and Regulatory Tribunal (2013). *Pricing VET under Smart and Skilled*. Draft Report 2013. Page 93

Given that training benefits flow to individuals, businesses and the wider economy, it is reasonable to expect the costs of qualifications be shared between individuals, employers and governments. The Chamber has previously supported the former Skills Australia's recommendation that costs of training should be shared for qualifications at Certificate IV and above, and that income-contingent loans be made available to support the student contribution.²

However, in 2011 the Essential Services Commission in Victoria pointed out that two years after VET FEE HELP was made available to government subsidised diploma and advanced diploma students, in practice, it was not widely accessible to students training at this level. The significant administrative burden and design of the scheme being unable to cope with the flexibility of the VET system were cited as problems. The Commission recommended that the Victorian and Commonwealth Governments consult with training providers to improve the flexibility of VET FEE HELP arrangements. It is also recommended that VET FEE HELP be expanded to a broader range of VET qualifications to assist with the affordability of training.³ The Chamber agreed with these recommendations, particularly expanding VET FEE HELP to a broader range of VET qualifications.

Since then, the VET FEE-HELP income contingent loan scheme has been reviewed to encourage more VET students to access education opportunities through the program and improve the efficiency and integrity of the scheme through a risk-managed approach with RTOs. Legislation, in the form of the Higher Education Support Amendment (Streamlining and Other Measures) Bill 2012, has been passed by Federal Parliament to underpin these aims.

Broadly, the legislative changes aim to:

- implement a risk-managed approach to RTO approvals and administrative compliance, including information sharing with the national regulators;
- simplify the VET FEE-HELP guidelines;
- more effectively carry out suspension and revocation actions;
- improve the flexibility of the census date requirement; and
- provide enabling legislation which would allow specified Certificate IV qualifications to be eligible under the program.

The full impact of these changes is yet to be seen. In its final recommendations to the NSW Government, IPART should recognise the importance of income contingent loan arrangements and encourage the NSW Government to explore options for improvement of current arrangements, including Australian Qualifications Framework coverage, with the Commonwealth.

Loadings and Community Service Obligations

In its *Smart and Skilled* submission, the Chamber cited a report prepared for the National VET Equity Advisory Council (NVEAC) that acknowledged entitlement funding provides significant opportunities for improved participation and outcomes for disadvantaged learners. The report points out that the demand based nature of entitlement funding provides a clear sense of entitlement to a training place for disadvantaged learners.

The report also recognises that without access to additional learner support for disadvantaged learners within an entitlement based model, there is potential for providers

² Skills Australia (2011) *Skills for prosperity: a roadmap for vocational education and training*

³ Essential Services Commission (2011). *VET fee and funding review, Volume 1: blueprint for change.*

to 'cherry pick' easy to reach learners. There is also a risk that eligibility criteria will exclude some disadvantaged learner groups.

In order to address the risks and issues presented to disadvantaged learners, associated with the introduction of contestable funding models, the report specifies a series of principles and guidelines for entitlement based funding. These guidelines are listed below.

- The primary objective of entitlement based funding should be to improve participation in education and training, as well as outcomes, specifically for equity groups.
- Entitlement based funding should be complemented by specific tendered or place based funding, for disadvantaged learners who may be ineligible for or not able to access entitlement based funding. This is also important for those in rural and remote areas where thin markets may mean that viable classes are not always possible.
- Governments and independent agencies should be the primary source of advice and information to potential learners. Information programs should be targeted to equity groups to ensure learners are able to make informed choices regarding education and training.
- Standard enrolment funding rates should be accompanied by loadings or specific payments for equity groups. Loadings should be targeted to identify additional learning needs. Eligibility for loadings should be based on an assessment of need. Specific consideration should be given to the needs of students with disabilities where enrolment based loadings may not be sufficient.
- Government should clearly define eligibility for exemptions or concessions for those who are not eligible for entitlement funding. Government or independent agencies should administer exemptions or concessions to potential learners.
- Outcomes in a demand based system should be carefully monitored and evaluated. This should include monitoring and evaluation of equity outcomes and transitions to higher level qualifications or study, and employment.⁴

The Chamber supports additional loadings and concessions to support delivery in regional areas, thin markets and to ensure disadvantaged learners are adequately supported.

Apprentice and new entrant trainee fees

The Chamber recognises that under current arrangements, apprentices and new entrant trainee fees are much more heavily subsidised than other VET students. The IPART recommendation to move towards consistent arrangements will see large fee increases for apprentices and new entrant trainees, particularly those undertaking higher level qualifications in a high cost industry group. As stated in the draft report – *“Fees for almost all apprentices and three-quarters of trainees will increase by \$1,000 or more per qualification.”*⁵

The Chamber has expressed concern about recent apprenticeship commencement trends and there is a risk that further cost pressure on apprentices and employers will result in

⁴ The Allen Consulting Group (2011). *Competitive tendering and contestable funding in VET: approaches to supporting access and equity: policy research paper*. Report to National VET Equity Advisory Council.

⁵ Independent Pricing and Regulatory Tribunal (2013). *Pricing VET under Smart and Skilled*. Draft Report 2013. Page 92

further negative impacts. The removal of Commonwealth financial incentives in the previous two Federal Budgets and the Mid-Year Economic and Financial Outlook has resulted in a downturn in trade apprenticeship and traineeship commencements. The recent Fair Work Commission Full Bench decision to increase apprenticeship wages is also anticipated to have an impact on the system.

The Chamber notes that IPART has recommended that fee increases for apprentices and trainees be capped at \$3,000 per qualification in 2014 to ensure that no individual student faces a higher increase than this. The Chamber supports a phased approach to the introduction of these fees and adjustments (additional subsidy), where necessary, to reflect broader apprenticeship labour market conditions.

The Chamber would also support the introduction of income contingent loan arrangements for apprentices to cover course costs during the duration of their training. IPART should encourage the NSW Government to work with the Commonwealth to explore options for the introduction of such a scheme.

Yours sincerely

A handwritten signature in black ink that reads "Paul Orton". The signature is written in a cursive, slightly slanted style.

Paul Orton
Director, Policy & Advocacy
NSW Business Chamber