FUTURE-PROOF

AUSTRALIA'S FUTURE POST-SECONDARY EDUCATION AND SKILLS SYSTEM

August 2018



Business Council of Australia

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ABOUT THE BUSINESS COUNCIL OF AUSTRALIA

The Business Council of Australia gathers chief executives from Australia's leading companies to help develop and promote solutions to the nation's most pressing economic and social policy challenges.

For more than 30 years, the Business Council has promoted public policies that have contributed to Australia's strong record of economic growth and social harmony.

By any measure, Australia is one of the best places in the world in which to live, learn, work and invest. Our vision is for a more inclusive and prosperous society that embraces the challenges of this century to create opportunity for all Australians.

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INTRODUCTION

When I got up at the National Press Club in October 2017 to call for a national reform agenda across post-secondary education, I believed there was a burning platform for change.

While I discussed the whole of the education and skills system, my primary focus was the post-secondary education and skills system, and we have continued that focus in this report: *Future-Proof: Australia's future post-secondary education and skills system.*

The problems to solve

The post-secondary education and skills system is our greatest asset as rapid technological and digital change alters the tasks and capabilities required to stay in work and lead successful and fulfilling lives.

In October 2017, I argued that we have a system that is not fit-for-purpose and that there are fundamental problems we need to solve in the post-secondary education and skills system.



JENNIFER WESTACOTT

- The first problem is the approach potential learners take to making decisions about their future, and the lack of information available to help them make good decisions. This starts in schools with career counselling and the information we give young people, but is even more prevalent for adults in the labour force or looking for work, who struggle to find relevant and helpful information.
- Second, funding is distorted. It creates the wrong incentives and it is basically unfair. In many industries, a student in vocational education and training (VET) will get less government support than a student in higher education (HE).
- Third, our occupational structures are too rigid and qualifications take too long for the changing nature of work. In this changing world, people are going to have to dip in and out of learning and regularly update their skills, not drop out of the workforce to obtain a full qualification. This will require us to move beyond the rhetoric of supporting lifelong learning, and make actual policy changes that will create a culture of lifelong learning.
- Fourth, there is a cultural problem of VET being a second-class citizen to HE, which is reinforced by a funding bias.
- Fifth, governance between the Commonwealth Government and the states is confused, accountabilities are blurred and there is constant cost-shifting.

In my speech, I laid out the Business Council's vision for a future post-secondary education and skills system that has at its centre a learner and employer focus and a culture of lifelong learning. This would be built through an entitlement for all Australians to skill and knowledge development throughout their working lives. This entitlement would be accompanied by a new approach to the way that learners decide on their future study, supported by significantly improved market information. I also highlighted governance changes that would be needed to implement this reform agenda.

Ambitious reform is needed

Our vision for a future system is ambitious, but we need to be ambitious.

The Business Council aspires to a society with greater equality of opportunity, where everyone – regardless of their upbringing – has every chance to realise their potential. We also want a society with a strong business community that can employ more Australians on higher wages and attract the best talent and investment from around the globe.

To achieve these things, we need to be ambitious. Ambitious for individual Australians, ambitious for our economy, ambitious for our society. And we need to be unashamedly ambitious about the system that will help us achieve these outcomes – our post-secondary education and skills system.

There is broad agreement on what we need to achieve

Following my speech and the launch of *Future-Proof: Protecting Australians through education and skills,* we hired Nous Group to manage a national consultation process to work through our reform proposals.

We had extensive engagement through this consultation process, and I would like to thank those who gave their time and provided constructive feedback. We have used that feedback to improve our proposals, and our final agenda is outlined in the body of this paper.

While some stakeholders had a poor understanding of our reform agenda and were not supportive of some proposals, what was most interesting to me was the near unanimity that there is a need for a comprehensive reform agenda across post-secondary education and skills.

There was little disagreement with our rationale for change, the outcomes we thought a post-secondary education and skills system should deliver, and the problems we need to solve to deliver these outcomes. This therefore provides a strong foundation from which to build a comprehensive reform agenda. We cannot afford to squander this opportunity.

Building a culture of lifelong learning is vital, and also our biggest challenge

In October 2017, I believed there was a burning platform for change, and that belief continues to grow. What also continues to grow is my conviction that truly placing a culture of lifelong learning at the centre of our post-secondary education and skills system is the most important thing we can do. This remains our most significant challenge.

The world is going through a significant transition. We cannot begin to imagine what the world of work will be like in 10 years' time, let alone what our children who are starting school now will face when they look for their first serious job, or what their children will face.

What we do know is that the knowledge and skills all Australians have will be their ticket to thriving in this changing world. And that means we need a system that helps every Australian get the knowledge and skills they need to succeed at each stage of their lives.

Such a system can only be successful if it is personalised. Where is each Australian at in their knowledge and skill attainment? What do they need to succeed? We have a very strong focus on the development of young people, but what about Australians already in work?

People will be working for up to 50 years and they will need to continue to upskill and reskill over those years. People in their forties now will be working for another 20 years, and they will need to upskill and reskill. Sixty-five per cent of Generation Y have already completed a tertiary qualification, but will that be enough?

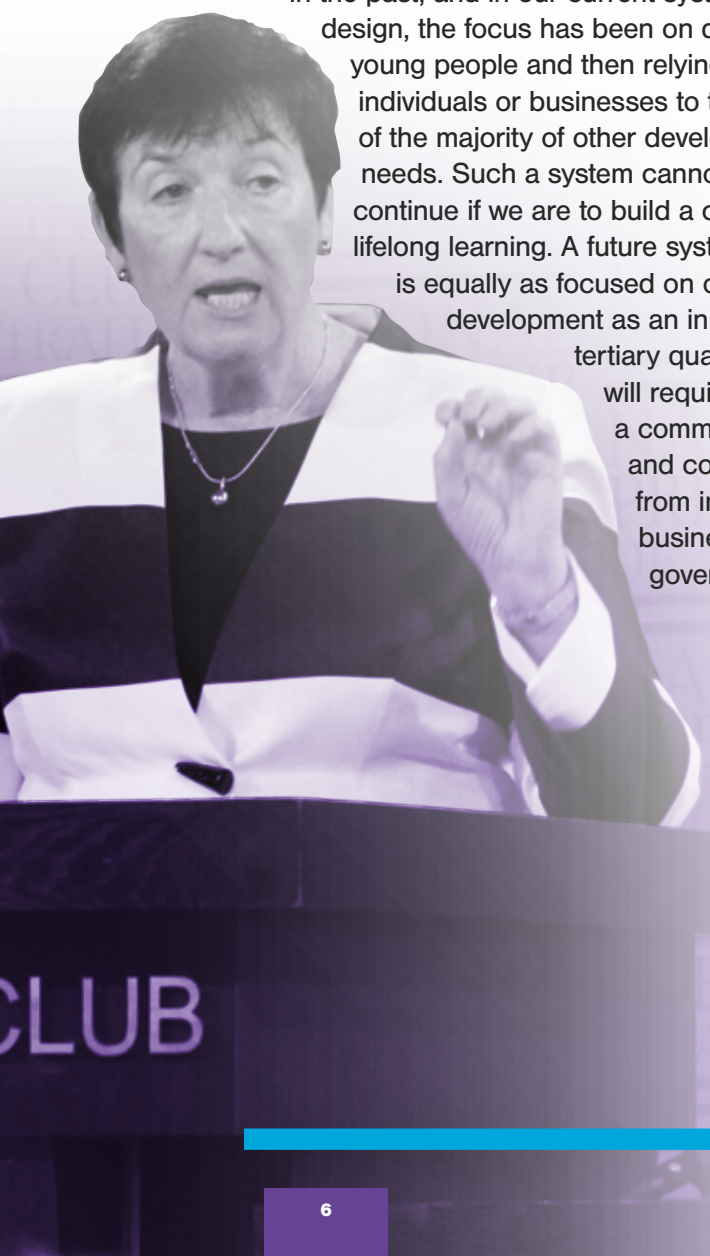
People will be working in industries where their daily tasks change, and they will need to learn new skills. There will also be people working in industries where some jobs will be replaced, and those workers will need to upskill or take their current skills and adapt them to a new industry. How will they get the information they need so they can adapt?

Where will they learn the new skills? How will they pay for them?

Our post-secondary education and skills system is not ready to help Australians manage this transition. We need to seriously rethink how we develop people in the workforce, and how we make sure all Australians have choices about their working lives.

A post-secondary qualification is the foundation, but for most Australians it will not be enough across their working life. They will need to learn new skills and work with emerging technology, and they should not have to leave the workforce or complete another tertiary qualification to get that development.

In the past, and in our current system design, the focus has been on developing young people and then relying on individuals or businesses to take care of the majority of other development needs. Such a system cannot continue if we are to build a culture of lifelong learning. A future system that is equally as focused on ongoing development as an initial tertiary qualification will require both a commitment and contribution from individuals, businesses and government.



What our future system should look like

We need to shift from a provider-centred system to a learner- and employer-centred system. A successful future would be providers operating across a network that workers, young people and employers can access at every stage of their lives, so they can build the knowledge and skills they need to thrive.

The future system would be underpinned by important infrastructure – the building blocks that allow the individual or employer to easily navigate and access the post-secondary education and skills system:

- a guidance and information system that allows individuals to identify their strengths and interests and relevant industries or career paths, and the right education and training options to support them on that path
- a funding model that ensures individuals and employers can access knowledge and skill development when they need them, from the right provider
- a system that allows an individual to produce a record of their skills and knowledge development, regardless of where the skills and knowledge were developed.

Governments must come together

A number of stakeholders argued that reforming the post-secondary education and skills system would require a level of cooperation that was beyond the capability of our current federation. That is simply not acceptable, nor is it a justification to do nothing. *Future-Proof* has started a national conversation, but it is time our two levels of government move beyond talk and place reform of post-secondary education and skills at the top of COAG's list.

Our proposals in the following pages provide a blueprint for reform. This paper is the final iteration of our proposals, but our work does not stop with this publication. We will continue to work with any individual,

organisation or government that wants to reform post-secondary education and skills, and we will continue to advocate for reform.

Our top priorities for change are improved market information and the concept of a Lifelong Skills Account (LSA) to begin building a culture of lifelong learning and micro-credentialing. We will work with our member companies to identify industries, sectors and occupations where we can trial some of these ideas, and we will continue with our broader agenda on the future of work. We will also focus on the apprenticeship system and the need to modernise it.

But at this point it is important we acknowledge that it will be governments that need to take that next step to design and implement this much-needed reform agenda. The Business Council stands ready to work in partnership with governments and co-design the future system for post-secondary education and skills.

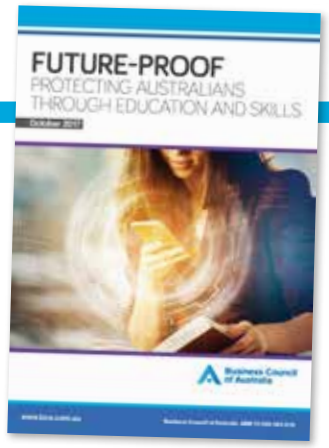
This reform agenda can also not be left to education providers, or any individuals or bodies that earn income from the current system. Such organisations and individuals have a vested interest in the current system and a natural desire to protect that interest.

We can no longer ignore our responsibilities

Governments need to start now, collaborate and take on this challenge so all Australians have opportunity and choices and can thrive in this changing world.

Change is difficult, and good public policy change requires vision, thoughtfulness and a clear plan for achieving meaningful results. We can get things done incrementally, providing we know what the purpose of the change is and the steps that need to be taken.

Australia's many years of economic success have been built off the back of governments having the courage to put forward a vision and the commitment to do the hard work that was required, supported by oppositions who have put the long-term interests of the nation above ideology and point scoring.



Change is harder today, but that is no excuse to do nothing.

We have become experts at diagnosing the problems, but we have lost our ability to solve them. The famous saying by Hillel the Elder, 'If I am not for myself, who is for me? And when I am for myself, what am "I"? And if not now, when?', has been popularised and paraphrased by many politicians and speechmakers over the last century, but at its heart it is about duty, overcoming delay and acting.

Collectively, we have a duty to our children and future generations. Unstoppable forces of change are on the horizon and we must start preparing now to deal with them.

The Business Council has mapped out a clear vision and a blueprint for change that will get us on a path to building the type of modern and responsive post-secondary education and skills system all Australians need.

Our system is not failing, but if we continue to postpone what is necessary it will. And that failure will be a failure to equip Australians for the future. That failure will lead to a greater need for skilled migration, and that failure will lead to jobs going offshore to other countries that were prepared to fix their systems. And we will fail existing and future generations.

Critically, a failure will let down our most vulnerable people.

My question to all governments is, if not now, when?



JENNIFER WESTACOTT AO
Chief Executive
Business Council of Australia
August 2018

THE RATIONALE FOR CHANGE

The workplaces of the future will look very different. They will be driven by major social, cultural and economic forces of change. We expect four forces of change will be particularly significant:

- developments in technology
- changing demographics in society
- changes in global economic patterns
- shifting preferences of consumers and workers.

Developments in technology

Digitalisation, artificial intelligence and automation have the potential to transform many industries and occupations.

Adoption and deployment of these technologies will improve labour productivity, which is the major driver of average real-wages growth. Higher productivity and wages will lift Australians' living standards. This is a compelling case for encouraging the take-up of emerging technologies. The cumulative benefit to Australians could be worth as much as $2.2 trillion.

As with previous waves of technological development, machines will be able to perform tasks currently done by humans. For the first time, both cognitive and manual tasks are in scope. This has triggered some concern in parts of the community about jobs that could be entirely undertaken by machines, possibly displacing workers.

Undoubtedly, there will be some job losses. The education and skills system (along with the welfare system) will need to be able to assist people to adapt and remain in the workforce, or return to it quickly.

However, the Business Council believes recent estimates have exaggerated the scale of the problem. The Business Council generally concurs with the view of IBM's Ginni Rometty, McKinsey and the OECD: the biggest change will be the tasks someone does in their role, rather than jobs that are eliminated altogether (this is a relatively small number, estimated between 5 and 15 per cent over multiple decades).

Rather than machines replacing humans, the future workplace will see humans and machines working together, each doing what they do best.

Changing demographics in society

Australia's population is becoming older, and our working-age population will become smaller.

In 2014-15, around 15 per cent of the population was 65 or older. By 2054-55, this is projected to increase to almost 25 per cent of the population. The ratio of working age Australians to Australians over 65 is projected to decrease from 4.5 in 2014-15 to 2.7 in 2054-55.

As McKinsey has highlighted, rather than experiencing a surplus of labour (as some suggest), it is more likely that Australia's priority will be overcoming demographic ageing trends to address potential shortages of labour.

We will need to direct significant efforts towards encouraging workforce participation: designing workplaces and organisations that cater for a more diverse working population, a skilled migration system that helps deliver the talent we need, and an education and skills system that can help people upskill and reskill en masse.

An older consumer base will also increase demand for products like health services, aged care and personal services. Employment growth in the services sector has already been strong (with more than one million Australians now working in services) and this demand would contribute to continued growth in services sector jobs.

Changes in global economic patterns

Our ability to deliver higher living standards depends on how we tap into the global flows of goods, capital, data and people. Value chains are increasingly specialised, complex and spread across multiple countries.

This means Australia's future economy – and our workforce – will need to be able

to respond quickly to changes in global economic patterns, to stay ahead of our international competitors.

However, fragmented supply chains provide many opportunities for Australia to be competitive in the production of highly specialised goods and services. A growing middle class and rapid urbanisation – especially in China and India – provide many opportunities for Australian services and premium Australian goods.

Realising these opportunities requires a highly skilled workforce, and a flexible employment system, that allows Australian companies to be internationally competitive and respond to global change.

Shifting preferences of consumers and workers

Job growth and wages are a function of the value that consumers assign to goods and services.

There has been strong growth in occupations with increasing consumer demand. For example, over the last 20 years, there has been strong growth in occupations like software programmers, fitness instructors and massage therapists (which grew 121, 445 and 696 per cent respectively), while the overall workforce grew 48 per cent.

In coming years, consumers are predicted to increasingly value products like health and wellness, convenient personal services and entertainment experiences, which will drive employment growth in these areas.

Companies and organisations will also operate differently, in response to changing working preferences of their workforces. The growth of part-time employment is one example. Fifty years ago, part-time employment comprised 10 per cent of the workforce; it now accounts for nearly one-third of total employment.

We expect that full-time employment will remain the dominant form of employment for the foreseeable future. Full-time employment has declined marginally over the last decade, with 71.5 per cent of working Australians full-time in May 2008 and 68 per cent in May 2018. Over the same period, the percentage of Australians in casual work or independent contracting work remained much the same.

However, different forms of work will probably emerge in specialised situations where they are most suitable. The gig economy is emerging as a form of employment that suits the circumstances of some individuals, especially as a supplementary source of income. Although the gig economy is currently estimated to comprise as little as 1–4 per cent of the current workforce, the number of gig economy workers may grow if workers increasingly value the flexibility and autonomy.

A diversity of forms of employment enables increased workforce participation by people whose circumstances make it impossible for them to pursue full-time work.

In sum, the major forces of change will have a substantial impact on the Australian labour market: the jobs we do, the tasks we do within each job, and the nature of our employment relationships.

The industries and jobs that employ Australians are changing

Over the last 20 years, the overall workforce grew 48 per cent and employment growth was strongest in mining (171 per cent), health care and social assistance (109 per cent) and professional, scientific and technical services (95 per cent).

The Department of Jobs and Small Business predicts that over the next five years the strongest-growing sectors will be health care and social assistance (16 per cent), professional, scientific and technical services (12.5 per cent) and education and training (12 per cent).

In response to the four major forces of change, we anticipate that workforces will increasingly need to be:

- more highly skilled
- capable of working with technology
- more diverse and capable of attracting and retaining workers from different sources

- internationally competitive
- capable of adapting to rapid change
- responsive to the preferences and needs of consumers.

We cannot predict exactly how the labour market will continue to change. But, whatever comes, an education and skills system that prepares people for the modern workforce will be our best defence in the face of change.

Skills and knowledge will be crucial for all Australians

These forces of change are challenging, both individually and collectively, and the interplay of these changes mean we are dealing with significant complexity. In the face of these challenges, how do Australians, our businesses and our economy thrive?

What do we need in an environment where the nature and types of jobs and careers that people have are shifting? In an environment where people will need to upskill and reskill across their working lives? And in an environment where there will undoubtedly be job losses (which has always occurred during major transformations in our history)?

These challenges all lead to the same conclusion. The skills and knowledge of all Australians will be the key to our people, businesses and economy thriving. To thrive in this complex world, we will need an education system that provides opportunities to all Australians, so they are able to fulfil their potential.

We will need a universal education system that is available to all Australians at any stage of their lives. This naturally means that we need an education system that caters to children, teenagers and adults, as well as catering to different learning styles. In effect, a universal learning system where schools, VET and HE are all components of one system.

Such a universal system needs to deliver five outcomes.

1. Equip people with functional competencies to enable them to communicate effectively, interact and work. This includes, but may not be limited to, minimum levels of literacy, numeracy and technology.
2. Prepare people to be good citizens and provide community-wide values of citizenship: honesty, compassion, respect, responsibility and courage.
3. Give people the capacity to think as well as absorb knowledge, including the knowledge we should have as good citizens, such as history and our place in the world.
4. Equip people for entry into the labour market and the world of work.
5. Support people in the labour market to improve their knowledge and skills and transition to new roles or industries.

In the school system, that means we need to move beyond the funding debate and focus on what really matters. We need to become more learner-focused and recognise multiple forms of intelligence. We need to embrace multiple systems of engagement and learning, and we need to empower and support teachers.

This new approach to schooling does not move away from the fundamentals that all Australians require to adapt to the forces of change. If someone has poor literacy, numeracy or technology skills, they are going to struggle to find their first job, let alone adapt to changes in the labour market. However, the way that we engage young people and teach them the fundamentals like mathematics needs to change.

We also need to adopt a new approach to help young people prepare for their future. We need young people to gain an understanding of the world of work and what work readiness means. And we need young people to be able to see clear pathways to future careers. This starts in schools but extends into the VET and HE sectors and the labour market.

But this new approach is not limited to young people. Australians will be working for 50 years and the idea that they will stay in

one job or industry, or that their schooling and first qualification will keep their skills current, is at odds with reality. The idea that businesses will not need their current employees to develop new skills is also unrealistic.

The most important change we therefore need to make is to create a system that allows people to continue to develop over their 50 years in the workforce. We need a system that is designed for people to develop knowledge and skills for life.

Young people deciding on their future, and workers wanting to upskill, change careers or re-enter the workforce, need to have the right information so they can make the best choices for their future. Where will the jobs be? What industry or role will best suit their strengths and interests? What provider is best suited to them? Who will help them develop the skills and knowledge they need?

Such a system needs to be designed around the learners, whether they are young people transitioning from school or workers, as well as employers. At its centre should be an information system that gives individuals and employers all the information and guidance they need to make the right decision. It should provide information about industries, the labour market, career prospects, as well as education providers and their offerings. But the information should not be limited to facts. It needs to be holistic and tell a story about the facts so people can understand about industries and careers that would suit them.

Such a system would have a funding model that has the right set of incentives across VET and HE – incentives that encourage learners into courses that suit them, rather than incentives that encourage them into a sector because of higher levels of funding.

Such a system also needs to have the right set of incentives for VET and HE providers – incentives that ensure the education product they are offering to learners and employers will give learners the skills and knowledge they need for their future.

For young people, that means an undergraduate qualification that will enable them to transition to the labour market and get their first career job, not a qualification that requires them to immediately undertake more study.

For people in the workforce or those wanting to re-enter the workforce, that means offering learners and employers the option of picking modules from VET or HE to enable them to quickly upskill or retool.

The funding model needs to incentivise this behaviour in both public and private providers across VET and HE.

Today's system needs to change

Today's post-secondary education and skills system is not designed this way and is not fit-for-purpose.

The current system has some inherent problems that need to be fixed regardless of the forces of change (see Appendix 1: The problems to solve in post-secondary education and skills), but if Australians are to truly thrive through these forces of change, our system is not ready.

We need a broad post-secondary education and skills system, and we have two silos of VET and HE. We want the learner to be at the centre of the system, and we have a system built around providers. We need good information and guidance so learners and businesses can make informed decisions, but we still have people struggling to find the information they need, or finding it is siloed into information on VET or HE.

We want the funding model to be sector-neutral, but it incentivises one sector over the other, regardless of what is best for the potential learner. Our funding incentives are for a mass university system, when we need a mass post-secondary education and skills system. And we need providers to have the right incentives to offer the product that learners need so they can get their first career role or upskill without leaving the labour market.

Comprehensive reform is needed to build such a system, and that reform needs to start now.

THE WAY FORWARD IN POST-SECONDARY EDUCATION AND SKILLS

This chapter focuses on the Business Council's proposals in *Future-Proof*, the relevant feedback from the consultations, and the Business Council's final proposals, which incorporate the feedback.

As is always the case in public policy, there is more than one answer to the problems we are trying to solve, but the Business Council has sought to provide a roadmap for how post-secondary education and skills reform could be progressed.

Submissions and the consultation report are available on the Business Council's website.

A BROAD POST-SECONDARY EDUCATION AND SKILLS SYSTEM

The problems across the post-secondary education and skills system are complex, and the problems are often intertwined. Fixing one problem, such as funding, will not deliver the outcome needed if governance remains a problem. In considering the way forward, the Business Council is looking at the systemic change that is needed to create a system that will allow all Australians to fulfil their potential.

What we proposed

The Business Council proposed a new post-secondary education and skills model, consisting of five components that would enable workers to more easily retrain and reskill over their lives.

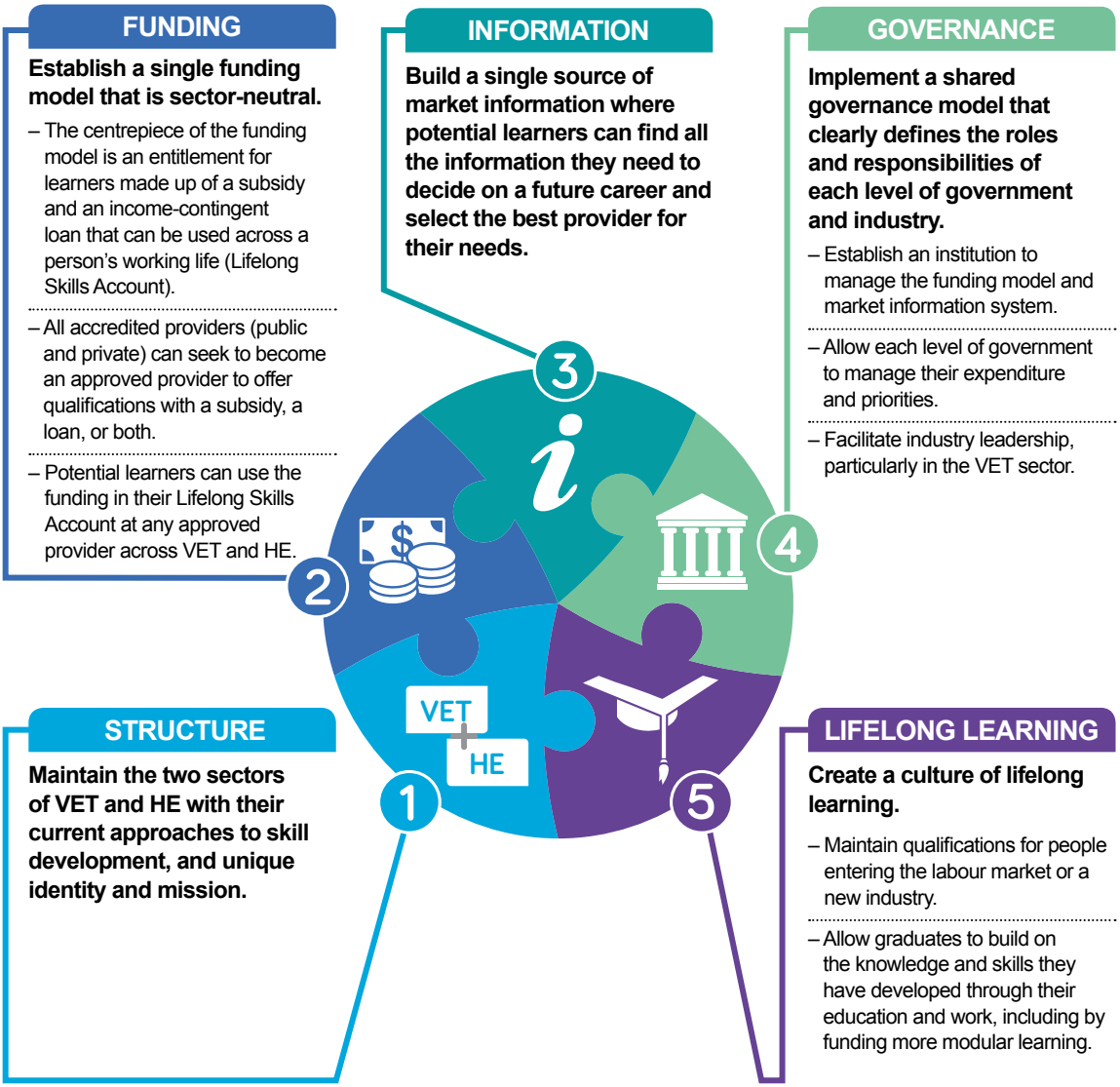
ORIGINAL BUSINESS COUNCIL PROPOSAL

To build a broad post-secondary education and skills system that:

1. maintains the unique characteristics of both the VET and HE sectors – VET as an industry-led sector based around competency-based training and applied learning, and HE offering advanced qualifications to developed highly skilled workers, as well as a broader remit of learning for the sake of learning, academic inquiry and research
2. moves from the current siloed approach to funding and the perverse incentives between the sectors to a single, sector-neutral funding model
3. has at its foundation a single-source platform of market information that provides the right kind of information and guidance to help learners, workers and employers make the best decision for their future
4. creates a shared governance model that stops the ongoing arguments about which level of government has responsibility
5. creates a culture of lifelong learning to enable workers to upskill and reskill throughout their lives.

Figure 1

THE BUSINESS COUNCIL'S PROPOSED POST-SECONDARY EDUCATION AND SKILLS SYSTEM



Feedback from the consultations

While there was some concern from stakeholders that the proposed reform agenda was too broad, most stakeholders agreed that the five core elements of structure, funding, information, governance and lifelong learning were appropriate.

Some stakeholders argued for the reform agenda to include a number of additional elements, such as product, quality, the role of employers and research. Others argued that the key challenges could be fixed without the wholesale reform proposed in the paper.

Most stakeholders strongly agreed with the need to have a dynamic and well-connected post-secondary education and skills sector that provides a diversity of options for students, with multiple entry and exit points and the flexibility to move easily between HE and VET.

Most stakeholders also strongly agreed on the requirement for a strong VET sector that can compete on an even playing field, noting that the status of VET relative to HE had diminished in recent years. The causes for this were seen to include concerns about VET quality, a strong push at the school level towards HE and a relative decline in funding.

Many HE providers saw a risk that a more integrated view of the post-secondary education and skills system might lead to the 'problems in VET' transferring to HE. Further, many HE providers were wary that the proposed reforms might hinder the success of the HE sector, rather than advance the VET sector.

Our final position

The primary purpose of *Future-Proof* was to place the learner at the centre of the post-secondary education and skills system and design a system that offers suitable lifelong learning to all Australians in VET, HE or both.

The Business Council agrees with stakeholders that there are other areas across the education spectrum that should be examined, but we also acknowledge that all the problems in the system cannot be solved with one reform agenda.

We have not moved away from our fundamental design proposal covering structure, funding, information, governance and lifelong learning, because we strongly believe the current system is not workable.

There is a lot of discussion about there being insufficient funding across the two systems. At this stage, we have no evidence base to prove or disprove this theory. However, even if there is not sufficient funding, more funding will not solve the systemic or structural issues we must confront. More money will not remove the perverse funding incentives. It would simply make the current problem bigger. More money will not get learners and employers the information they need, and more money will not result in a learner-centred system.

Designing a new system must be our first priority. The Business Council notes that, as with all systems, it should be designed to prevent undesirable or unintended consequences.

One area that has become more prominent since the publication of *Future-Proof* is the area of product (i.e. Training Packages, qualifications) and, in particular, micro-credentials. *Future-Proof* did not discuss product, but the discussion around lifelong learning and the LSA specifically addressed the need for workers to be able to upskill and reskill without leaving the labour market or getting a full qualification. Given the recent focus on this area, the Business Council has added additional content on product in the section on lifelong learning.

FINAL BUSINESS COUNCIL PROPOSAL

Build a broad post-secondary education and skills system that will:

1. maintain the unique characteristics of both the VET and HE sectors – VET as an industry-led sector based around competency-based training and applied learning, and HE offering advanced qualifications to develop highly skilled workers, as well as a broader remit of learning for the sake of learning, academic inquiry and research
2. move from the current siloed approach to funding and the perverse incentives between the sectors, to a single funding model that is sector-neutral
3. have at its foundation a single-source platform of market information that provides the right kind of information and guidance to help learners, workers and employers make the best decision for their future
4. create a shared governance model that stops the ongoing arguments about which level of government has responsibility
5. create a culture of lifelong learning to enable workers to upskill and reskill throughout their lives.

How would this work in practice?

The post-secondary education and skills systems includes the individual components of the system (structure, information, funding, lifelong learning and governance) and each area is discussed in detail in the remainder of this chapter.

Issues to be resolved by governments

The Business Council's proposed post-secondary education and skills system cannot be implemented overnight. It will require collaboration and cooperation between different levels of government, and a staged approach to allow governments to work through the finer details of a post-secondary education and skills system.

The first thing governments need to do is agree on a shared vision for the post-secondary education and skills system. A foundation of this vision is governments committing to a strong and robust VET sector.

The VET sector is the main vehicle for developing workers for some of Australia's biggest employers and industries. It will be the mainstay of preparing workers to adapt to the changing economy. Despite this, the VET sector has been neglected on both a funding and policy front by all levels of government, and debate has been overly focused on whether competition has a role in the VET sector. Without agreement on the role of VET, this situation is unlikely to change and the sector's ability to help deliver the skilled workforce Australia needs will be undermined.

The second step is for governments to be clear on what they expect the post-secondary education and skills system to offer to potential learners, workers and employers. What skills and knowledge do Australians need to be adaptable and resilient in this changing labour market?

The third step is for governments to put together a plan to transition our current VET and HE sectors to a new post-secondary education and skills system that is modern, learner-centred, has room for public and private providers and is focused on quality.

The final chapter of this paper provides a roadmap for this kind of implementation.

STRUCTURE

The main thrust of this component of the post-secondary education and skills system is to ensure that the unique missions and characteristics of the VET and HE sectors are maintained.

The Business Council acknowledges the important role the HE sector plays in education for the sake of education, academic inquiry and research, as well as the crucial role VET plays as an industry-led system built around applied learning.

The Business Council is not questioning the primacy of universities in research, and we very clearly stated that the HE sector's role includes academic inquiry and research.

While the Business Council is advocating for structural and systemic change, we do not suggest that the fundamental mission of the sectors should change. Providers may need to change their business model in the face of some of the proposed systemic changes, but their missions and role should remain the same.

What we proposed

To ensure that VET and HE maintain their unique identities, the Business Council proposed that the current standards and regulatory arrangements for VET and HE continue.

ORIGINAL BUSINESS COUNCIL PROPOSAL

VET and HE maintain their unique identities

- To support the sectors maintaining their own identities and unique characteristics, the current framework for standards and regulation will continue.
  - The Australian Qualifications Framework (AQF) will remain the only system-wide standard.
  - Current standards in VET and HE will apply.
- The Australian Skills Quality Authority (ASQA) and the Tertiary Education Quality and Standards Agency (TEQSA) will continue to regulate the respective sectors but will be given the power to suspend operations to protect consumers where warranted.

Feedback from the consultations

Unique identities

Similar to the elements of the broad post-secondary education and skills system, most stakeholders supported the need for VET and HE to maintain their unique identities.

A few stakeholders noted the growing convergence of the two sectors and the need to support greater flexibility for providers to develop education products without sector constraints.

Regulation and standards

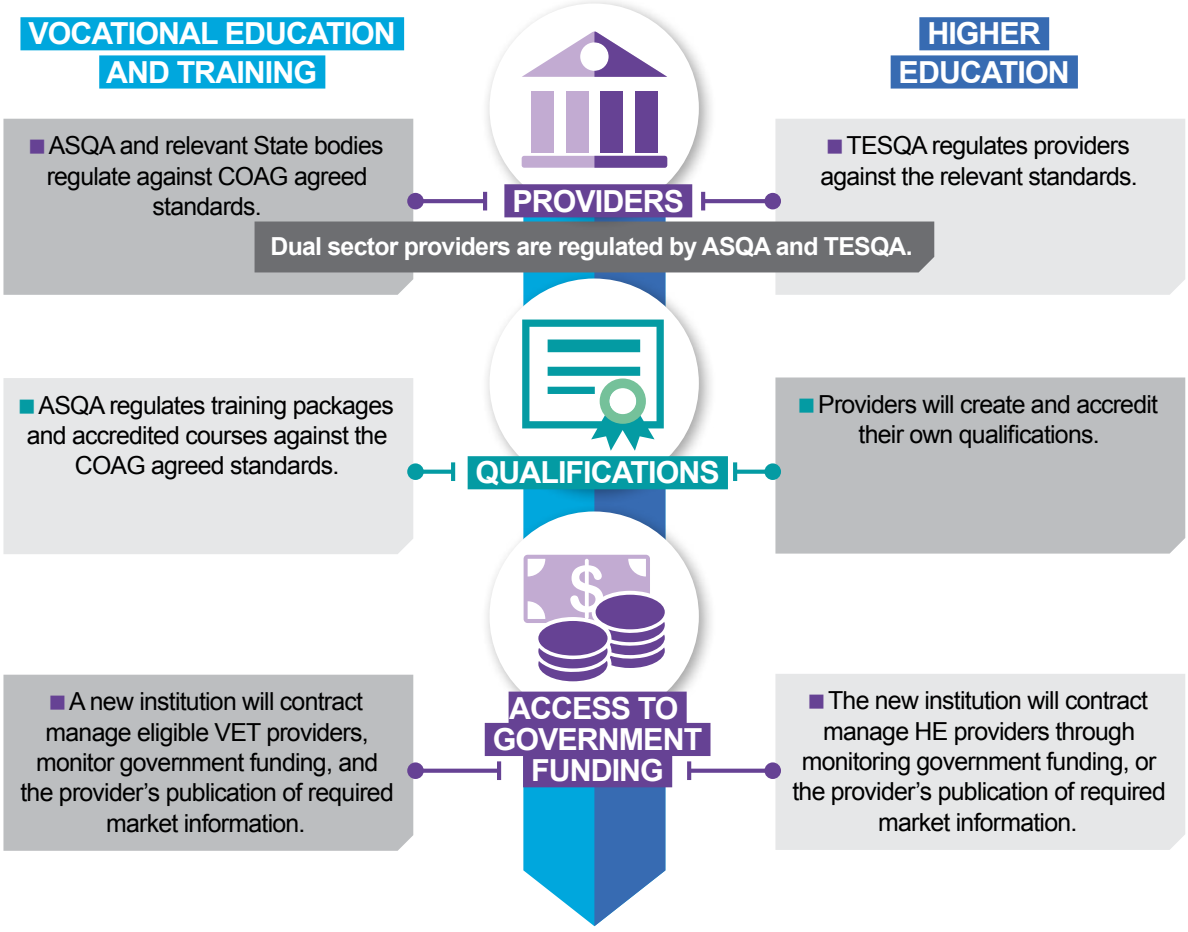
While stakeholders agreed that the current arrangements can be challenging for providers who operate and offer pathways between the two sectors, there was not a strong argument to move away from current standards.

Many stakeholders from both sectors supported the simplification of regulatory requirements. One provider peak-body representative said that attention needed to be given to providing a fit-for-purpose regulatory regime that supports and does not stifle a high-quality, responsive post-secondary education and skills sector.

Our final position

Figure 2

COMPLIANCE AND REGULATION



Unique identities

Given there was little or no evidence that the sectors should move away from their own identities, the Business Council has not changed the current content of the proposal.

However, for the sake of clarity, the proposal has been expanded to include the articulation of the unique identity of each sector previously published in *Future-Proof*.

Regulation and standards

The Business Council agrees that the regulatory regime should be fit-for-purpose, and that governments should consider if improvements could be made.

The Business Council can see the benefits of maintaining a regulator for each sector, as well as the benefits of moving to a single regulator. Over the short term, the Business Council supports maintaining the two regulators to ensure a sufficient focus is maintained on each sector and that quality is the priority.

In keeping with a focus on quality, the Business Council has also proposed that the regulators are given adequate powers to suspend operations to protect consumers where warranted, and to ensure that if rogue providers enter the market they can be dealt with immediately.

Both public and private providers are needed

Private providers have always existed in the post-secondary education and skills market. They offer fee-for-service courses and have developed the skills of many Australians. The controversial question is whether private providers should be able to access government funding, or if government funding should be limited to public providers.

The Business Council supports market reform and encourages the use of contestability in markets. Contestability drives innovation, a stronger customer focus and efficiencies. This is to the benefit of learners, and in the case of a government-subsidised market, is also of benefit to taxpayers through value for money.

There is a tendency to blame failures that occur in an open system on contestability. It is important to be clear that contestability is not, and was not, the problem in the failure of VET FEE-HELP. It was the poor design of the program and the paucity of regulation or contract management that allowed rogue providers to enter the market and flourish.

The Australian National Audit Office made it clear there were failures from the beginning: *'Weaknesses included insufficient safeguards for students from misleading or deceptive conduct, and inadequate monitoring, investigation and payment controls for poor or non-compliant providers... Within Education, until 2016 there was little analysis or internal management reporting of the VFH scheme to identify emerging problems.'*

While the Business Council supports market reform, we also recognise that there are inherent challenges for the public provider in a contestable model. Contestability in and of itself should not be a reform objective. The improved outcomes that contestability can deliver should be the reform objective.

Public providers need a clearly defined role

The Business Council has long been a supporter and advocate of the important role the public provider (TAFE) plays in post-secondary education and skills, and the community more broadly. An effective post-secondary education and skills system needs a sustainable and strong TAFE network across the country, in the same way it needs a strong public university network.

However, a monopoly for TAFEs or public universities, is not the answer. As discussed, contestability and student choice incentivises a stronger focus on the needs of students and encourages providers to specialise in their areas of strength and innovate. Removing this incentive will not deliver a good long-term outcome.

TAFEs becoming residual providers will also fail to deliver a good long-term outcome. Governments need to put TAFEs on a good footing to compete with private providers, but TAFEs must also operate efficiently and deliver value for money.

FINAL BUSINESS COUNCIL PROPOSAL

Structure – VET and HE maintain their unique identity

- The VET sector is an industry-led sector that is based around competency-based training and applied learning. It offers foundation studies for adults with little or no education and an essential second chance at education for Australians who have had their skill development disrupted, as well as qualifications that prepare people from low-skilled to highly skilled workers for the labour market.
- The HE sector also offers advanced qualifications that develop highly skilled workers, but the HE sector is not limited to preparing people for work. The HE sector has a broader remit that includes learning for the sake of learning, academic inquiry and research.
- Both sectors are vital to Australia's social and economic fabric, and both sectors should retain their unique characteristics in a post-secondary education and skills system.
- To support the sectors maintaining their own identities, the current framework for standards and regulation should continue.
  - The AQF will remain the only system-wide standard.
  - Current standards in VET and HE will apply.
- ASQA and TEQSA will continue to regulate the respective sectors but will be given the power to suspend operations to protect consumers where warranted.
- Both public and private providers are integral to the post-secondary education and skills system, and all quality providers are able to operate in the system.
- To maintain a sustainable TAFE network across the country, governments should:
  - define the role of the public provider in the system, including their obligations to learners, their local community and the relevant government
  - articulate the specific community service obligations of each TAFE (e.g. second-chance education and offering inefficient courses in regional locations) and fund them appropriately
  - ensure each TAFE has the relevant skills through a board or senior staff to create and run an effective business model that delivers value for money.

How would this work in practice?

As there is no change from the current approach, the current practice would continue.

Issues to be resolved by governments

Given that the proposal is for the current regulatory arrangements to remain, there are few issues to be resolved by government.

A great deal of work has been done to empower the regulators, but governments should ensure that regulators have sufficient power to suspend operations and protect consumers.

INFORMATION

The Business Council has repeatedly argued that insufficient market information is one of the biggest weaknesses of the national post-secondary education and skills system.

In *Future-Proof*, the Business Council argued that learners need a new and comprehensive system to help make decisions about their future and that market information should be a top priority for all governments.

What we proposed

ORIGINAL BUSINESS COUNCIL PROPOSAL

Build a single platform of market information

- Governments agree to build a single source of market information across post-secondary education and skills system that is designed around a potential learner's decision-making process.
  - Such a platform would have the information people need to make good decisions, but it would also join up the dots to allow them to identify what they enjoy and what they are good at, the industries those skills and interests would suit, as well as potential career pathways.
- To support this portal, new data sets will need to be created including but not limited to:
  - the cost of delivery at a course level
  - the private return at a course level
  - the average length of time it takes learners in a course to repay loans.
- Government funding (subsidy or income-contingent loan (ICL)) is conditional on providers making a core set of data for each qualification available on the website or portal.

Learner decision-making model

The Business Council advocated that governments adopt a new approach to career counselling that is built around the learner's decision-making process (refer to Figure 3). This would shift career decision-making from 'I want to go to university, what courses can I do?', to 'What do I like, what am I good at?'

To support this approach, young people deciding on their first ongoing job would then need access to good information that starts with industries and jobs. What industries and jobs are relevant to their strengths or interests? What qualifications or skills sets are needed for those industries or jobs? What will it cost to study? Are there a lot of jobs in the field? What are the salary prospects?

Once a potential learner has decided on their preferred field, they would then look at education providers and compare them before deciding on their study.

The platform would not be limited to young people. It would also be relevant to workers and businesses. Workers would follow the same steps as young people, and businesses would use the platform to identify the training they need to keep their workforce up to date.

Figure 3

HELPING LEARNERS MAKE DECISIONS



WHAT TO STUDY

1 Figure out strengths and passions
– Use self-assessment tools on the portal to help.

2 Review roles and industries that suit strengths and passions

3 Identify the relevant VET and HE courses/skills sets

4 Compare the courses/skills sets:
– Upfront costs, subsidy and ICL.
– Future job prospects.
– Graduate salaries and long-term potential earnings.

WHERE TO STUDY

5 Identify and compare providers of the course/skills sets:
– Location.
– Costs.
– Length of course.
– Student outcomes.
– Professional body recognition.

6 Apply for selected course/skills set

7 Enrol with provider
– Approve provider access to subsidy and/or ICL.
– Pay upfront fee.

8 Complete study

LIFELONG LEARNING

9 Find a job and start to repay ICL

10 Ongoing self-assessment of skills or knowledge gaps

11 Check balance of LLA

12 Return to step 1

Single platform of market information and available data

To make the required information available to learners, the Business Council proposed that governments work together to build a single source of information across VET and HE that follows a learner's decision-making process.

The types of information the Business Council believes a learner requires to make informed training decisions, and which should therefore be found on the platform, are listed in Figure 3.

To address gaps in the information available, the Business Council proposed that new data sets be created, and that government require providers to publish course-level data on price, training quality and labour market outcomes so there is clear and transparent market information across the post-secondary education and skills system.

Feedback from the consultations

Learner decision-making model

Many stakeholders welcomed the explicit focus on lifelong learning and agreed that learners needed support in their decision-making.

The feedback illustrated a strong focus on school-leavers and there was limited engagement on the detail of the learner decision-making process. Most stakeholders referred only indirectly to the Business Council's proposed approach for a learner's decision-making model.

Single platform of market information and available data

While there was broad agreement that more could be done to make VET data accessible and useful to learners, the proposal to create a single platform for VET and HE market information was not supported by the majority of stakeholders. Reasons included:

- The volume and diversity of VET providers and their offerings would create confusion when combined with HE provider information.
- The assumed costs involved to establish the platform would outweigh any benefits.
- There would be duplication of information already made available by individual providers.
- The complexity of the sectors would make it difficult to reach agreement on common metrics.
- Increased information would not directly lead to improved learner decision-making.

There was general agreement that market information has been an issue in the past. However, the extent to which it remains an issue today was contested by HE stakeholders, citing Quality Indicators for Learning and Teaching (QILT) and improved admissions transparency. Additionally, many stakeholders questioned the value of information alone.

A few stakeholders said more could be done to provide useful information to consumers, particularly on longer-term employment outcomes from study and potential employment opportunities overseas.

Most stakeholders were resistant to the idea of collecting more data.

A few stakeholders suggested that improved timeliness of data would be of equal or greater value than the addition of new data sets. An example would be real-time, or at least more timely data, on provider performance and outcomes, as well as on adverse findings on regulatory matters.

Our final position

Learner decision-making model

Given stakeholders' support for the explicit focus on lifelong learning and agreement that learners needed support in their decision-making, the Business Council has not amended its proposed new approach to decision-making, and the model remains unchanged.

Single platform of market information and available data

The Business Council acknowledges the lack of support from stakeholders on the need for a single market information platform and accepts that the issues raised by stakeholders would need to be worked through as part of design and implementation, but we do not believe that the concerns justify maintaining the status quo.

The creation of QILT, the My Skills website and the Commonwealth Government's Job Outlook website are a step in the right direction in increasing the information available to learners, but they are not enough. While these data sources should be the starting point for improving market information, they require potential learners to engage with multiple sites and do not have a broad industry perspective, nor do they cover the breadth of post-secondary education and skills offerings.

Take as an example someone in their early thirties who has previously completed a bachelor degree but has decided they want to change careers and work as a counsellor. Using the search term 'counselling' in QILT takes the user to a degree in social work and does not even show the option of a Bachelor of Counselling, which is an HE qualification. If a potential learner in this situation relied on QILT, they would not get the information they needed to make a good decision.

If we are to truly adopt a better decision-making process, young people, current workers and adults looking to reengage in the labour market need to first have a good understanding of what kind of careers they can build, what study will cost and the potential income they can earn. It is also important that they can look across an industry, not just look at VET or HE.

Businesses also have a role to play to help young people and workers understand how industries and businesses operate and what their working life would be like if they followed a career path in a particular industry.

Once a potential learner determines which course they wish to study, the focus should shift to being able to compare providers. The comparison should also be easy. It should not require potential learners to go and visit a provider's website to get the information they need to make an informed decision.

The Business Council agrees that career counselling needs to improve. However, without good information there is no good career counselling. Additional initiatives such as enhanced career counselling will be beneficial, but they are not a substitute for information. Further, career initiatives are rarely accessible to workers, so their impact is primarily limited to young people.

The Business Council understands concerns from stakeholder that collecting additional data could result in unnecessary costs and regulatory data.

The proposed data sets were specifically aimed at providing information to young people and current workers to enable them to make good decisions. Having information about the cost of delivery, the private return of study and how long it takes to pay back a loan would at least provide a potential learner with an understanding of the implications of selecting a particular course.

It is clear there remains a disagreement about the level of market information needed. Consequently, rather than specify a new set of data to be collected, the Business Council has amended the proposal to start with identifying the current market information, and then identify any additional data required.

FINAL BUSINESS COUNCIL PROPOSAL

Information – Build a single platform/ tool

» Governments agree to prioritise market information and identify an appropriate platform/tool for potential learners where they can start with the proposition, 'What do I like, and what am I good at?'

- Such a platform would have the information people need to make good decisions, but it would also join up the dots to allow them to identify what they enjoy and what they are good at, the industries those skills and interests would suit, as well as potential career pathways.
- As part of this process, governments agree if market information should be managed within government or outsourced.

» Governments identify all of the information sources where relevant market information is kept, including labour market information, and pool the information as a starting point for the single platform/tool.

- As part of this process, governments identify any additional data sets that are needed, with a specific focus on practical data sets that inform decision-making, such as the cost of delivering post-secondary education and skills at a course level, the private return from post-secondary education and skills at a course level, and the average length of time it takes learners in a course to repay loans.

» Government funding (subsidy or ICL) is conditional on providers making a core set of data for each qualification available on the website or portal.

How would this work in practice?

Learners would follow the steps in the learner decision-making model using the single platform/tool (refer to Figure 3).

Issues to be resolved by governments

As previously discussed, there is disagreement on the level of data needed to support learners to make informed decisions.

Governments need to:

1. agree to adopt a new approach to learner decision-making and build the tools needed to support this
2. agree on the minimum set of data required to support a learner to make an informed decision, i.e. to give them a broad perspective on VET and HE offerings and the ability to determine which provider is best for them
3. commit to building data sets for those areas where they do not currently exist, and making existing data publicly available on a single site
4. agree on the preferred model and governance arrangements for the single platform/tool.

FUNDING

One of the primary arguments the Business Council made in *Future-Proof* was that we need to replace the current siloed approach to VET and HE funding with a single funding model that is sector-neutral and places the learner at the centre of the system.

What we proposed

ORIGINAL BUSINESS COUNCIL PROPOSAL

A single funding model across VET and HE

- Establish a single funding model that is sector-neutral.
- The centrepiece of the funding model is an LSA, including:
  - access to a government subsidy for accredited learning in VET or HE (lifetime cap of a set number of years of accredited learning, for example, 10 years)
  - access to an ICL for accredited learning at AQF Levels 5–9 (lifetime cap to be determined).
- Potential learners will have the choice about what they study and where.
- All accredited providers can see approval to offer a subsidy, a loan or both.
- A separate fund is established where business can directly access government support to develop their workforce.

A sector-neutral model that is equitable

The Business Council proposed six key outcomes to guide the development of the single funding model for the post-secondary education and skills system. The outcomes were focused on beginning to change the culture necessary to break down the stigma of VET being a second-class citizen and remove the current perverse incentives.

The outcomes also focused on giving access to all Australians, providing opportunities for Australians to retrain to adapt to changing labour market conditions and develop new skills throughout their life, and creating equity as far as possible in the contribution that individuals make to their education.

The six outcomes were:

1. All Australians have access to develop the knowledge, skills and qualifications they need to be independent in the labour market.
2. All Australians have access to retrain to adapt to changing labour market conditions and continue to develop new skills throughout their lives.
3. Financial circumstances are not a barrier to an individual undertaking post-secondary education and skills.
4. Individuals accept there is a financial cost associated with enrolling in accredited learning.
5. Individuals make a personal contribution to their post-secondary education and skills that, where possible, reflects the cost of their education and the ratio of public and private benefit.
6. Thin markets and disadvantaged learners are reasonably catered for.

Lifelong Skills Account

To place the learner at the centre of the system, the Business Council proposed the creation of an LSA made up of a subsidy and an ICL, as well as the allocation of responsibilities between the two levels of government.

Under the Business Council's proposal, the LSA would be made up of two components:

1. Access to a government subsidy for accredited learning in VET or HE (lifetime cap of a set number of years of accredited full-time equivalent learning, for example, 10 years).
   a. The subsidy will be based around the ratio of private benefit, so it will not cover the full cost (see the next section for further detail on how the subsidy would be calculated).

b. Some potential learners face greater barriers in skill development, so they will get a loading in addition to the subsidy. The additional loading will be attached to the learner, not the course or the provider, and will not limit the learner's choice of provider.

c. All learners will be required to pay a minimum charge upfront, subject to their capacity to pay.

d. While there will be no cap on the number of government-subsidised places, and a focus on consumer choice, not all accredited courses will be eligible for a government subsidy.

2. Access to an ICL for accredited learning at AQF Levels 5–9 (lifetime cap, to be determined).

- While each LSA will have a set amount of subsidy and ICL allocated, the amount learners can draw down from the account for each qualification will be based on the amount the government has approved for their chosen qualification.

Subsidy rates and the ratio of contributions

ORIGINAL BUSINESS COUNCIL PROPOSAL

Methodology to determine subsidy rates

» The level of government subsidy that will be available for each qualification is set by:

- identifying a cost-reflective price (derived from the costing exercise undertaken by the new institution) and the ratio of public and private benefit
- overlaying the relevant government priorities, including managing budget exposure.

» The subsidy level may differ between jurisdictions, including the availability of any subsidy (reflecting both the overall funding levels and the jurisdictional priorities).

» Governments will determine for each student cohort the level of fee deregulation, including whether providers will be permitted to charge above a cost-reflective price and margin.

» The final list will be subject to approval by the Ministerial Council.

» The new institution distributing the funding will quarantine each jurisdiction's contribution to ensure appropriate expenditure.

In *Future-Proof*, the Business Council argued that there should be a transparent and equitable method to determine subsidy rates, and therefore a ratio of personal versus government contribution that would be consistent across VET and HE.

The proposal included running a costing exercise to establish a 'cost-reflective' price, and then using the ratio of public and private benefit as the starting methodology.

Figure 4 gives illustrative examples of how the model would work and who would pay.

Figure 4

WHO PAYS?

Government contribution

Student contribution that must be paid up front [15]

Student contribution to be deferred through an ICL

Note: ICL only available to Diploma level and above

VET CERTIFICATE II *(Labour Market Entry)*

Total cost **$1000**

The government contribution is a large proportion of the total cost because the learner will receive a low rate of private return from the qualification.

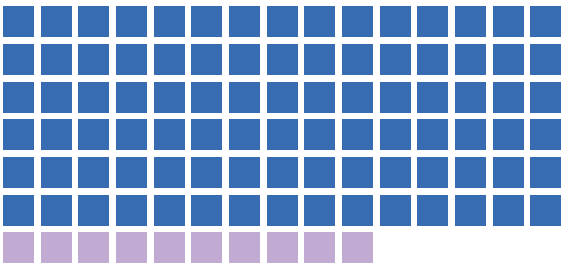


$900 **$100** **$0**

CERTIFICATE III *(High Priority Industry)*

Total cost **$10,000**

The government contribution is a large proportion of the total cost because it has been deemed to be a 'high priority' qualification.

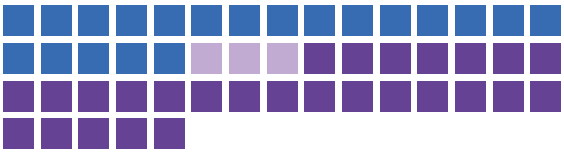


$9000 **$1000** **$0**

VET DIPLOMA

Total cost **$5000**

The government contribution is a smaller proportion of the total cost because the learner will receive a higher rate of private rate from the qualification.

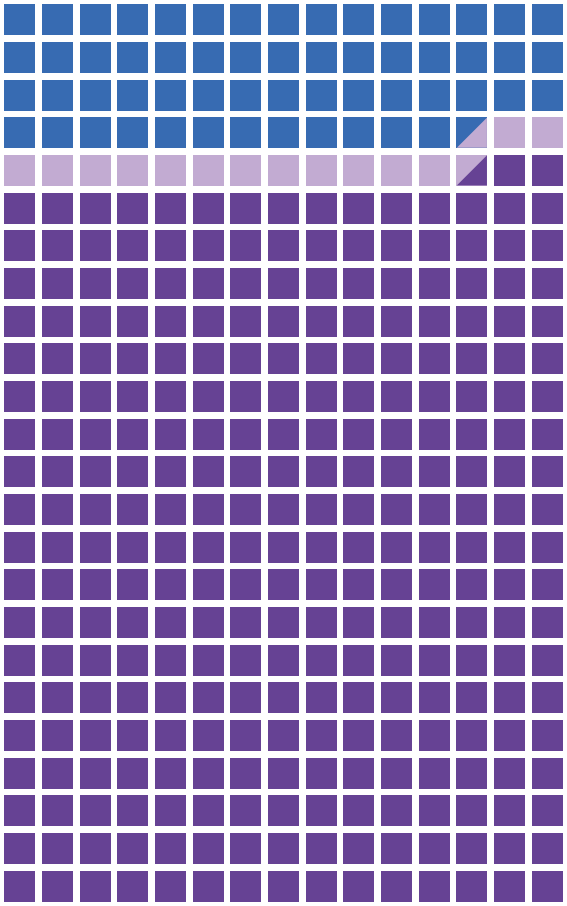


$2000 **$300** **$2700**

BACHELOR DEGREE *(Law)*

Total cost **$36,000**

The total cost is estimated based on cluster funding and maximum charge rates to students in 2014.



$5760 **$1500** **$28,740**

NB: The total upfront amount a learner must pay is 10 per cent of the maximum student charge, capped at $500 per year (e.g. a Bachelor student would pay $1,500 up front over 3 years).

Feedback from the consultations

A sector-neutral model that is equitable

Some stakeholders raised concerns about individuals making any upfront contribution.

There was limited engagement on the remaining proposed outcomes for a sector-neutral funding model.

Lifelong Skills Account

Most stakeholders agreed with the concept of a lifelong entitlement to support learning across VET and HE, and that any entitlement be comprised of some mix of subsidy and ICLs.

Many thought that implementation of the LSA would be difficult given the nature of Australian federalism and the diversity of views on what the LSA should or should not include.

Many expressed scepticism that governments would sustain a long-term funding and policy commitment.

It was the next level of detail where stakeholders expressed concern, specifically the proposed caps on subsidies and ICLs, as well as the difficulty in implementation given the nature of Australian federalism.

Caps

There was a suggestion that caps on the subsidy or ICL were contrary to lifelong learning.

Many stakeholders opposed the proposal of a capped limit on accessible funds within an ICL scheme for two main reasons.

- Financial caps on ICLs might disadvantage learners who make a 'false-start' to their education.
- Capping loan support could inhibit learners from pursuing advanced qualifications, which would run counter to the objective of lifelong learning.

Most argued that, if there were to be caps on the ICL component, learners should be able to recharge their credit once they had fully or partly repaid incurred debts.

Opposition to any time limit (e.g. the 10-year limit offered as an example in the paper) diminished once it was understood that it was not 10 consecutive years but rather 10 years of full-time equivalent training within the AQF 1–9 levels.

That said, most stakeholders argued that most students were unlikely to exploit the entitlement and that costs to the sector of regulating for outliers would outweigh benefits. For that reason, they did not support the concept of a time limit.

A few stakeholders saw merit in caps to:

- encourage learners to optimise their spending
- provide downward pressure on prices charged by providers
- ensure government spending remains within a sustainable range.

Subsidy rates and the ratio of contributions

There was no consensus on how the contribution of learners should be calculated.

Most stakeholders considered the proposed method for subsidy calculation as fair and reasonable, but not practical. Specifically, they argued that:

- metrics of public benefit and private benefit are highly subjective and cannot accurately be determined in a consistent manner
- public/private benefit calculations may not be meaningful at a regional or local level
- the cost of design and implementation would be too great.

Alternative approaches to calculating the contributions were not offered.

There was also no consensus on the merits of a cost-reflective price, though most stakeholders agreed on the value of determining what resources were typically required to deliver quality education.

A few HE stakeholders questioned the merits of demand-driven funding based on the potential for an oversupply of students in some fields. To better align supply with economy-wide demand, they argued for much stronger links between price and margin on the one hand, and industry demand on the other.

Many providers across sectors were concerned that a cost-reflective price would not appropriately account for the costs of educating different types of learners, delivery in different locations and the need to adequately support research. A few observed that an unintended consequence of a cost-reflective price could be a less diverse sector.

Some government stakeholders argued that a cost-reflective price was too complex to implement, noting that they currently follow a similar model but were looking for alternatives.

Our final position

A sector-neutral model that is equitable

As noted in the desired outcomes, the design of the model should ensure that financial circumstances are not a barrier to post-secondary education and skills. Consequently, the design of the model is deliberately focused on ensuring potential learners are not disadvantaged. If a small upfront fee, for example a maximum of $200, proves to be a barrier to an individual student, it could be waived.

The proposed outcomes for the single sector-neutral funding model appeared to have been missed by many stakeholders so the proposal has been amended to include these outcomes.

Lifelong Skills Account

The Business Council believes there is strong support for an LSA or equivalent, and it therefore remains the centrepiece of the funding proposal.

While the Business Council's proposed LSA is our preferred form of a lifelong entitlement, it is a concept that can take many forms and be easily modified or adapted. However, having general agreement that an entitlement be made up of a combination of subsidy and loan is a good starting point.

It is important, however, that if an LSA or something similar is adopted, it retains the whole of post-secondary education and skills perspective. The LSA combines all the current entitlement models across VET and HE in one expanded entitlement that is accessible in either sector. Learners can access VET, HE or both sectors with their account across their working lives. This key design feature seems to have been overlooked by many stakeholders, with providers understandably focusing on their sector alone.

Having an entitlement that can be used in either sector is one of the main mechanisms to remove the distortions between VET and HE, provide a level playing field for learners and remove the 'second-class' citizen status of VET.

Caps

The Business Council recognises that funding design will have greater longevity when governments have control mechanisms, such as caps, in place to manage their expenditure.

Given that the Business Council's proposal was to give all Australians an entitlement to post-secondary education and skills across VET and HE – something that does not exist now – the strong reaction against caps and the suggestion that it would prevent learners from studying was unexpected.

It is difficult to understand the logic that underpins the suggestion that providing an entitlement to all citizens that has a specific number of years of learning and a loan attached to it will prevent lifelong learning.

The Business Council believes an entitlement is the most important foundation of a post-secondary education and skills funding system. However, an entitlement or demand-driven system cannot exist without some control mechanisms.

Caps may not be the most effective mechanism for governments to manage their expenditure, but there were no alternative options suggested. However, we have amended our proposals to reflect that there are a range of mechanisms governments can use to manage budget expenditure.

In terms of the ICL cap, the Business Council's initial proposal was for a lifetime cap – once the cap is reached, no future loans can be accessed. Some stakeholders suggested that if a loan is repaid, the learner should be able to draw down on the loan again. The Business Council believes this suggestion is an improvement to its current proposal, and if a cap is introduced for loans this model should be adopted.

FINAL BUSINESS COUNCIL PROPOSAL

Funding – The Lifelong Skills Account

- The centrepiece of the funding model is an LSA, including:
  - access to a government subsidy for accredited learning in VET or HE
  - access to an ICL for accredited learning at AQF Levels 5–9.
- Governments will need mechanisms or levers that enable them to manage budget exposure. Within an entitlement model, these mechanisms can include:
  - having a narrow definition of learner eligibility
  - caps on subsidies, loans or both
  - limiting government financial support to specific sectors or courses
  - specifying a cap on enrolments in specific sectors or courses
  - limiting choice of providers.
- In determining the mechanism, the starting point should be learner-centred, and give learners the opportunity to choose what they study and where.

Subsidy rates and the ratio of contributions

The Business Council retains the view that starting with the cost and the ratio of public and private benefit is one of the fairer ways in which to calculate the learner versus government contribution.

The simple fact is that taxpayers contribute $20 billion annually to fund the post-secondary education and skills systems.

It is important that this money is prioritised fairly and delivers value for money. It is also unacceptable that such a significant level of taxpayer investment is not transparent.

However, the Business Council also acknowledges the concerns raised by stakeholders that the pure application of such a model could be time-consuming, costly and potentially impractical.

Given no alternative methodologies were proposed that the Business Council could adopt, the proposal around subsidy rates and ratio of contribution has been revised to focus on the principles that should underpin the methodology.

While some stakeholders argued the costing exercise would be redundant, the Business Council remains of the view that the approximate cost of courses should be transparent and readily available to governments, businesses and potential learners so they can understand the different costs and subsidies across industries and between the education sectors.

The Business Council therefore believes this exercise is still needed. The suggestion for such a piece of work has now been included in the final proposal (in *Future-Proof* it was one of the design principles).

FINAL BUSINESS COUNCIL PROPOSAL

Governance – Subsidy rates and the ratio of contributions

- As a first step, a costing exercise should be undertaken to establish the base costs of post-secondary education and skills.
  - The terms of reference would need to be agreed between governments but should allow for sufficiently disaggregated information to provide some transparency for potential learners.
- Using the costing exercise as a starting point, governments should agree on a methodology to determine the overall subsidy for VET and HE qualifications and agree that the subsidy information is publicly available and easy for potential learners to understand.
  - The subsidy level may differ between jurisdictions, including the availability of any subsidy (reflecting both the overall funding levels and the jurisdictional priorities).
- Governments should agree to adopt a single methodology across VET and HE to determine the ratios of government and learner contribution.
  - The ratio should ensure a level playing field between the two sectors.
- Where possible, the share allocated to the learner should consider the ratio of public and private benefit.

How would this work in practice?

Figure 5

LIFELONG SKILLS ACCOUNT (LSA)
WHAT WILL THE LEARNER SEE?

Home | Activity Statement | Messages

Student ID	122957632
Name	Jane Brown
Date Of Birth	16/5/89
Address	87 Heron Court Taylors Lakes VIC 3099

Year	Activity	Subsidy	Funded by	ICL
2020	Advanced Diploma of Engineering Technology **RMIT**	**$5,500** paid to RMIT on 31/3/20	VIC Government	**$6,885**
2021	Advanced Diploma of Engineering Technology **RMIT**	**$5,500** paid to RMIT on 31/3/21	VIC Government	**$6,885**
2022	Bachelor of Engineering (Civil and Infrastructure) (Honours) **RMIT**	**$9,352** paid to RMIT on 31/3/22	Commonwealth	**$14,448**
2023	Bachelor of Engineering (Civil and Infrastructure) (Honours) **RMIT**	**$9,352** paid to RMIT on 31/3/23	Commonwealth	**$14,448**

*The Commonwealth funds all ICLs

CASE STUDY – THE LEARNER EXPERIENCE

Jane is considering her options. When she finished school, she decided to go straight into the workforce. Now she's looking for a new challenge and is contemplating studying a post-secondary qualification.

Jane visits the post-secondary education and skills market information platform to examine her options. She's always been good at maths and loves working on practical projects. Using the information on the platform, she thinks an engineering qualification would be a good choice for her because it aligns with her interests and has strong job prospects.

The information on the market information platform indicates that Jane can study an HE engineering qualification or a VET qualification.

Jane has always preferred learning new skills and knowledge in a practical setting. Since Jane hasn't studied in a while, she is nervous about how demanding it will be. She thinks it will be better to do the qualification at a VET provider because she will be able to study in a more practical, applied learning environment.

She also uses the information on the platform to decide which VET provider she would like to study with. After looking through the VET course options, she decides that an Advanced Diploma of Engineering Technology at RMIT is the best fit for her.

Jane visits RMIT to get more information. She is told that she is eligible to enrol in the course and that the total cost of the two-year qualification is $25,170. The Victorian Government will subsidise $11,000 of the qualification and she is eligible for an ICL, paid by the Commonwealth Government, to cover most of the remaining amount. This means Jane will only have to pay a small upfront fee of $200 if she enrols.

Jane thinks this is a good deal and decides to enrol.

RMIT applies to have the funding for the qualification released from Jane's LSA.

At the end of her first year, Jane checks her LSA to see how much her ICL debt is. Using the information online, she can see that the Victorian Government has paid $5,500 to RMIT for her first year of study and that she has a loan debt of $6,885.

Jane understands that she will start paying this back through the tax return process once she earns enough to meet the minimum payment threshold.

By the time Jane completes the Advanced Diploma after two years, she has the basic knowledge and technical skills needed to be a design drafter and support the work of a professional engineer. Jane really enjoyed studying the qualification and received great scores for each of its units. This experience confirmed that she'd love to take the next step and become an engineer.

She discusses her options with RMIT.

They advise her that graduates of her course are able to apply for their Bachelor of Engineering (Civil and Infrastructure) (Honours). This course will enable her to become an engineer who specialises in civil infrastructure projects, transport or water resources. The course runs for four years full-time and costs $96,000. The Commonwealth Government will subsidise around $10,000 each year and she is eligible for an ICL, paid by the Commonwealth Government, to cover most of the remaining amount. This means Jane will only have to pay a small upfront fee of $200 if she enrols. Also, since she received good marks for her Advanced Diploma – having a grade point average over 3.0 – she may receive up to 1.5 years of credit if she is offered a place.

Jane considers her options. Her positive experience and good grades have helped her overcome her nervousness about studying. She's confident she'll succeed in a university environment too, so she decides to apply.

A few months later, Jane receives an email from RMIT. She's been accepted into the Bachelor of Engineering and will receive credit for some of the unit. She looks forward to starting it.

Issues to be resolved by governments

There are several design issues that need to be resolved by governments before the LSA can be implemented.

- Who can access the LSA? Is it universal, as proposed by the Business Council?
- If the LSA is universal, what conditions are placed on workers who already have a post-secondary education and skills qualification (e.g. if caps are used, their cap would need to be substantially lower than a school student)?
- What are the set of conditions for accessing LSA funding?
  - Which courses (modules and qualifications) can the LSA fund?
  - Which providers can access LSA funding?
- How will the two funding components (subsidy and ICL) be distributed to the provider?
- What is the preferred option for managing budget exposure (e.g. caps, limiting eligibility)?

These issues need to be resolved before the model could be applied across the whole post-secondary education and skills system, but they do not preclude governments from piloting the funding model for a specific cohort.

In determining subsidy rates and the loan amounts, governments need to decide:

- What are the base costs of delivering post-secondary education and skills?
- What is the preferred methodology for determining the overall subsidy of VET and HE qualifications?
- What is the preferred methodology for determining the ratio of government and learner contribution to post-secondary education and skills?

LIFELONG LEARNING

In *Future-Proof*, the Business Council argued that while some workers move in and out of the post-secondary education and skills system during their working lives, our system is oriented towards formal learning before work, as illustrated in Figure 6.

The focus of this component of our post-secondary education and skills system is to support the development of a lifelong learning culture by reforming our system, to allow workers to more easily upskill and reskill over their working lives.

What we proposed

ORIGINAL BUSINESS COUNCIL PROPOSAL

Create a culture of lifelong learning

- Move away from a culture of formal learning that is primarily focused on young people and build a system that recognises Australians will need to upskill and reskill throughout their working life.
- Maintain the current approach to qualifications for people entering the labour market and people moving into new industries.
- Empower graduates in the labour market to create a qualification that meets their skilling needs.
- Allow LSA funding to be used for self-constructed qualifications.

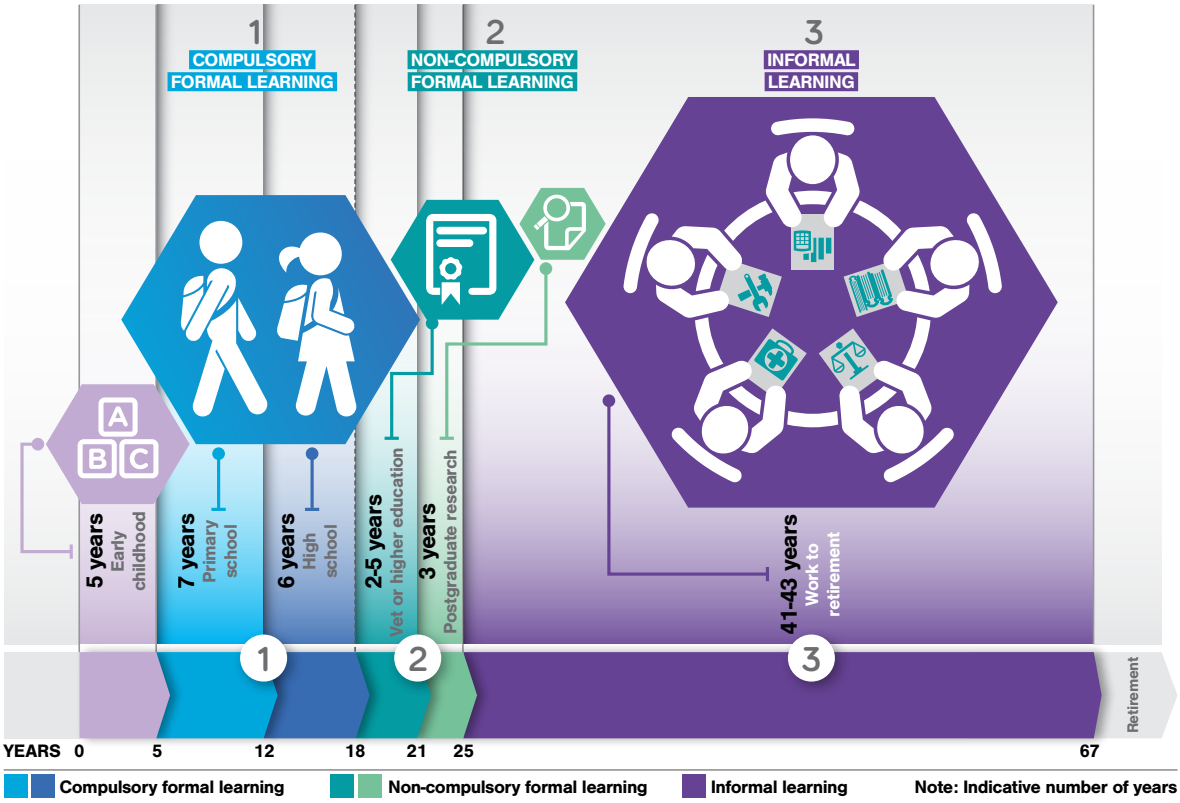
To support the development of a lifelong learning culture, the Business Council proposed that Australia have a more modularised approach to skill development – an approach that allows adults to gain new skills or knowledge to supplement their earlier studies and what they have learned in their work.

Currently, VET, and to a lesser extent HE, offers potential learners some form of modularisation, but under current settings, public funding is primarily limited to full qualifications. Subsequently, there is no incentive for providers to scale up their delivery of new, modular learning options.

To solve this, the Business Council proposed that people in the workforce who already have a base qualification should be empowered to create a qualification that meets their skilling needs and should be able to use the LSA to pay for their 'self-constructed' qualification.

Figure 6

AUSTRALIA NEEDS TO EMBRACE LIFELONG LEARNING



Feedback from the consultations

The need to embrace lifelong learning was strongly supported. Most stakeholders agreed that modular and abbreviated qualifications, or micro-credentials, are an important component of the lifelong learning concept and becoming increasingly evident in VET and HE.

Most stakeholders supported the use of LSAs to fund partial qualifications or components of accredited programs from a single provider.

Role of business

There were concerns expressed that business needed to play a stronger role in lifelong learning.

Many stakeholders noted that work placements (work-integrated learning, internships and cadetships) reflect successful partnerships between HE and industry, but the scope and scale of these should increase.

Many stakeholders suggested business could take steps to create more overt market demand for what it regards as important in terms of outcomes from the post-secondary education and skills system.

A few stakeholders suggested industry could directly support lifelong learning through more active support of professional development, providing flexible support and time for employees to upskill.

Our final position

When the Business Council published *Future-Proof* we were focused on the design of the system and how to build a culture of lifelong learning, rather than the content of the system; that is the product.

However, since publication of *Future-Proof*, the issue of product – formal learning through qualifications, short courses or skills sets and micro-credentials – has attracted a lot of attention and has become an even more important issue.

While a reform agenda on product would require more work, the Business Council believes there are two fundamental questions that need to be answered when considering the product:

1. What is the purpose of the education and skill development?
2. What is the content of the learning?

There are additional questions that impact on product, such as how it is funded, but these are already dealt with in the funding model.

Purpose of education and skills development

In *Future-Proof*, the Business Council proposed five objectives for our education system.

1. Equip people with functional competencies to enable them to effectively communicate, interact and work. This includes, but may not be limited to, minimum levels of literacy, numeracy and technology.
2. Prepare people to be good citizens and provide community-wide values of citizenship: honesty, compassion, respect, responsibility and courage.
3. Give people the capacity to think as well as absorb knowledge, including the knowledge we should all have as good citizens, such as history and our place in the world.
4. Equip people for entry into the labour market and the world of work.
5. Support people in the labour market to improve their knowledge and skills and transition to new roles or industries.

As we are focused on the post-schooling system, the third, fourth and fifth objective should be the primary focus of post-secondary education and skills learning. However, these would be further defined based on the stage of a learner's life.

For example, in *Future-Proof*, the Business Council argued that for learners coming from school or workers looking for a change of industry or profession, full qualifications should remain the way in which skills and knowledge are developed in VET and HE.

It is through these initial qualifications that learners further develop their capacity to think, as well as prepare for the labour market. A full qualification should equip learners for a career, not just a single job, and it should be broader than the technical skills an industry requires. In short, any learner completing a qualification should be both ready to start work and resilient in the face of changes in the labour market.

However, for those workers who already have a base qualification, the idea that another full qualification is always needed is out of step with the modern world. Some people working in academic fields may need to study a postgraduate degree or a PhD, and others may wish to undertake a full qualification for their own enjoyment, but many workers will only need to pick up a set of skills or knowledge or even pick up a single unit.

In such cases, workers need to be able to find a product that suits their needs, noting that, unlike learners looking to establish themselves with a broad qualification, many older learner's needs will be unique.

A product that is individualised to suit the need of each learner, or a micro-credential that modern workers and businesses will need to keep up with the changes in the world of work, is the key to building a culture of lifelong learning. That is why the Business Council proposed in *Future-Proof* that people be empowered to 'create a qualification that meets their skill needs', and be allowed to access their LSA to fund the qualification.

The content of the learning

In the case of learning content, the Business Council argues that form should follow function, and the learning content should be built around delivering on the purpose of the education and skill development.

The content of a qualification will be different to the content of a micro-credential.

Qualifications

Most qualifications across VET and HE prepare learners for a specific occupation or industry, with a small subset such as a Bachelor of Arts or Science focused on a broad academic field. As such, while qualifications can be personalised in terms of the electives learners select, qualifications tend to be designed for large cohorts of learners.

Across all qualifications, the Business Council believes that, in addition to the technical skills relevant to the industry or occupation, all learners should be equipped with a set of values, behaviours and skills, as set out in our 2016 publication *Being Work Ready* (refer to Figure 7).

The technical skills content – the knowledge and tasks learners need to be successful in a specific occupation – is the foundation of all qualifications and should be designed to meet the needs of relevant businesses and industry. While the content of the learning product cannot be expected to be solely responsible for creating the behaviours or values in each learner, it should reinforce the values employers are looking for in a work setting, and include expected work behaviours in learning, social and sport environments.

Qualifications across both VET and HE should produce well-rounded learners who have a foundation from which to enter the labour market, and a foundation that will hold them in good stead as they develop across their working lives.

For HE qualifications, that means providers need to work closely with industry and professional bodies to identify their needs in both technical skills and broader behaviours, such as an understanding of customer focus and self-awareness.

For VET qualifications, that means keeping the centrality of industry in the development of Training Packages (TP), but also broadening the content of TP. The occupational standards as defined by industry should remain the centrepiece of TP, but learners should also develop the broader skills of business literacy, critical analysis and problem-solving.

Figure 7

WHAT IS WORK READINESS?

VALUES

Accountability ⇨ accepts responsibility for actions and their impact on the business and others.

Continuous improvement ⇨ has high standards and consistently tries to improve own performance and the performance of the business.

Honesty ⇨ straightforward behaviour with no deceit and cheating. Is trustworthy, fair and sincere.

Knowledge ⇨ develops understanding, skills and expertise. Is committed to growth and learning.

Respect ⇨ takes into account other people's feelings, wishes, or rights.

Tolerance ⇨ willingness to recognise and respect difference and the beliefs, habits and practices of others.

Work ethic ⇨ diligent and committed to the business.

BEHAVIOURS

Adaptable ⇨ is open to new ideas and concepts and pro-actively changes the way they work to stay effective in new work settings.

Authentic ⇨ is true to own personality and values, while still working within the business's expectations.

Business-minded ⇨ understands all employees are responsible for business success and therefore looks for opportunities to make the business better.

Collaborative ⇨ shares knowledge and learning, works cooperatively with others and works to build agreement to achieve an outcome for the business or client.

Customer focused ⇨ understands who the customer is, what their needs are and actively works to improve their experience.

Flexible ⇨ effectively handles unexpected situations or last-minute changes.

Globally aware ⇨ has an awareness and understanding of global interactions and is open to working with other nationalities and cultures.

Self-aware ⇨ knows own strengths, talents and passions. Recognises areas for learning and development and learns from their mistakes. Has a good understanding of their role in the business.

Resilient ⇨ bounces back when things don't go as planned. Doesn't dwell on failures, learns from them or their own mistakes and moves forward.

SKILLS

Business literacy ⇨ ability to apply knowledge of the business environment and work processes/tasks to manage situations and achieve good outcomes.

Critical analysis ⇨ can evaluate a situation/proposal, identify possible outcomes, assess pros and cons and determine the right approach based on desired outcome.

Data analysis ⇨ collect and review data to identify trends, answer questions and test assumptions.

Digital technology ⇨ ability to use information and communication technology.

Literacy ⇨ ability to learn, read, write and communicate verbally.

Numeracy ⇨ ability to reason and apply numerical concepts and calculate numbers or amounts.

Problem solving ⇨ ability to find solutions to simple through to complex issues.

Technical skills ⇨ specific to the job and gained through formal education.

Additionally, given the adult rates of literacy and numeracy in Australia, there will be students in VET who need the opportunity to further develop those skills, and VET qualifications should provide that opportunity to learners.

Micro-credentials

A micro-credential can take many forms. At its smallest, it is a single module, subject, skill or competency, but it can also be a suite of skills or knowledge, or a skill set.

For example, if someone becomes a Company Secretary and does not know how to read a balance sheet, they could complete a training module that would teach them how to do it.

Another example is a technical expert, like a mechanic, who is promoted to managing a team of mechanics. Leadership and management may not be skills they have learned or developed so they may need to do some leadership micro-credentials such as those offered at Deakin University like *Adaptive mindsets, Driving strategic results, Empowering others or Leading and developing people*.

Another example is someone who has a qualification in Fine Arts in either VET or HE. They may have the artistic skills to deliver good products but are not good at building a client base because they do not know how to develop detailed and well-considered quotes. They could do a micro-credential with two units offered by a VET provider of *Provide a quotation and Engage the customer*.

Some micro-credentials may have a form, such as skill sets defined within a TP, while others could be specific to an individual company or an individual learner.

In a world where there are both qualifications and micro-credentials, a micro-credential would always be smaller than a full qualification.

Unlike qualifications, however, the point of a micro-credential would be to meet the unique needs of an individual learner. As each learner's needs are unique, the content of the micro-credential would also be unique.

The micro-credential would be responsive to the stage a worker is at in their career and what their employer needs from them as well as their developmental needs. Consequently, the content of the product would be customised to the learner, rather than there being a list of approved micro-credentials that learners would choose from.

This is not to say that providers could not create and publicise a micro-credential in response to demand or include micro-credentials in a qualification. If an industry identified the need for a single micro-credential, providers could respond.

For example, the University of Melbourne has partnered with Learning Machine, a US-based company associated with the Massachusetts Institute of Technology Media Lab, to pilot a blockchain-based micro-credentialing system. RMIT launched a pilot to create a university-wide credentials program that allows students to create their own portfolio of micro-credentials to complement their qualification. Several of the RMIT credentials have been co-created with industry.

The Business Council believes that micro-credentials provide the best opportunity for the future of skill and knowledge development for workers who have to adapt in a rapidly changing world. The key to micro-credentials being successful is that the learner and businesses remain in control of the content. Micro-credentials should complement the current qualifications framework but should not seek to replicate it.

Postgraduate qualifications versus micro-credentials

While the Business Council believes micro-credentials should complement the qualifications framework, this also raises the issue of workers undertaking coursework postgraduate qualifications (not research qualifications) when micro-credentials may be more suitable.

Some learners will want to undertake full postgraduate qualifications, but others will not. In a system designed around the learner, that should be the learner's choice.

Governments are naturally concerned about how to fund micro-credentials and the role of the individual and business contributions to the funding. These are legitimate concerns that will need to be worked through in the design of an LSA.

However, in working through these issues, it will also be important to take a step back and look at how postgraduate qualifications are funded and apply a level playing field between the two.

From a public policy perspective, it would seem irrational to allow funding of full qualifications, albeit through a loan scheme, and not micro-credentials that would allow workers to get the knowledge and skills they needed more quickly and at a lower cost.

Role of business

The Business Council agrees business has a responsibility in continuing to develop workers, noting that industry and businesses offer work placements, internships, cadetships and other graduate programs. They also hire apprentices and trainees, bring training providers into their organisations to upskill workers, provide workers with time off for training and provide funding for employees enrolled in formal study.

The Business Council also believes that businesses should identify the transitional requirements of their workforces. Workforce planning that maps the skills of their current employees, where employees need to develop and where they could be more valuable in the business should be a standard approach. When businesses then need to develop new skills in the face of technological or other changes, they will be able to identify who in their workforce could be reskilled or redeployed, or help their employees with a transition plan.

While business has an important role to play in the upskilling of their staff, it is also important that governments work with business to assist workers. SMEs in particular will often not have the resources to identify the right training for their staff or the cashflow to send staff for upskilling. In such cases, the LSA and micro-credentialing will become very important, as illustrated in the case study below.

CASE STUDY – HOW AN SME COULD USE THE LSA AND MICRO-CREDENTIALS TO UPSKILL THEIR WORKERS

Maria owns a small Sydney-based whitegoods company with 15 employees.

Maria is increasingly worried about the cyber security of her IT systems and products. She has heard stories about competitors who have been targeted in cyber attacks.

She knows that her three IT consultants do not currently have the knowledge or skills to prevent her systems from being infiltrated, so she would like them to undertake training on cyber security.

Maria's company doesn't have the scale to develop the training inhouse and she can't afford to pay for any training at the moment, but she is happy to give her employees paid time off to do the training.

Luckily, Maria knows that every Australian is entitled to use the funding in their LSA for short courses to help them upskill, on the proviso that the learner already has a post-secondary qualification.

Maria knows that the three IT consultants all have post-secondary qualifications, so this isn't an issue.

Maria visits the post-secondary education and skills system information platform and discovers that TAFE NSW offers a Statement of Attainment of Cyber Security, which is made up of two modules. This training runs for five hours per week over a year.

Maria rings TAFE NSW to find out more information. She is told that the three employees are eligible to enrol in the modules and that the total cost of the two modules will be $645 per person. They

will be able to use their LSA to pay for the majority of the fee, but they will have to pay a small upfront fee of $65 each if they enrol.

She discusses the idea with her employees. They are excited to do the training and happy to pay the upfront cost.

While this is a big commitment for the employees and Maria, they all recognise that it will be valuable and worth the time. The IT consultants will learn valuable new skills and Maria's business will directly benefit from the new knowledge and skills the employees will learn.

The three employees enrol in the course and pay the upfront fee.

TAFE NSW applies to have $580 released from the three employee's LSAs to fund the training.

The three IT consultants start their course the following month.

Currently, one of the biggest issues in determining what role business should play is that there is no regular data source to measure the contribution of businesses or industries. The Business Council's proposal has been amended to propose that the Australian Bureau of Statistics (ABS) or National Centre for Vocational Education Research (NCVER) run a regular report on business contribution to education, training and development.

Noting the concerns raised by stakeholders, the proposal has also been amended to require a quid pro quo from business if someone in their organisation wishes to use LSA funding for self-constructed qualifications or micro-credentials.

FINAL BUSINESS COUNCIL PROPOSAL

Lifelong learning – Create a new culture

- Maintain the current approach to qualifications for people entering the labour market and people moving into new industries.
- Empower graduates in the labour market to create a qualification that meets their skilling needs.
- Allow LSA funding to be used for self-constructed qualifications or micro-credentials.
  - If the individual is in employment and the self-constructed qualification is relevant to their employment, the employer must provide the worker with time off to attend the study.
  - Governments will expect businesses and individuals to focus their micro-credentials on skills that are needed, and will not provide funding for micro-credentials that are simply an area of personal interest.
- The ABS or NCVER is tasked with establishing a reliable data source that calculates the contribution of business to education, training and development.

How would this work in practice?

The case study below provides an overview of how LSA funding could be used to fund micro-credentials from the learner's perspective.

CASE STUDY – THE LEARNER EXPERIENCE

Thanh has worked in a marketing role at a small Adelaide-based food-manufacturing company for over a decade.

His role has changed considerably since he started. Now his company captures a lot of data about the customers that visit the company's website and Thanh is increasingly expected to use this data to identify trends and consider possible new product offerings.

Thanh thinks it would be helpful to do some training in this area, but he's not interested in doing a full qualification. He's already got a Bachelor of Marketing and he doesn't have the time or interest in spending a long time studying again.

Thanh's manager is supportive of him doing some training. The organisation is unable to pay for the training, but his manager has agreed to give him paid time off work to undertake the study.

Thanh visits the post-secondary education and skills system platform and discovers that there are a number of data analytics modules offered by VET and HE providers. He decides he would prefer to study in VET because it seems to be more flexible and is more likely to fit in better with his work schedule. He also sees some VET modules on social media marketing that interest him.

After reading through the provider information on the platform, he decides that Benchmark Training, a private provider, is the best fit for him. It's close to work and offers data analytics essentials training and social media strategy training.

Thanh phones Benchmark Training to get more information. He is told that he is eligible to enrol in the modules and that the total cost of the two modules will be $600. He can use his LSA to pay for majority of the fee and will only have to pay a small upfront fee of $60 (10 per cent) if he enrols.

Thanh thinks this is a good deal and decides to enrol.

Benchmark Training applies to have $540 released from Thanh's LSA to fund the modules.

Since Thanh is doing modules from Certificate III level VET qualifications, the South Australian Government is responsible for providing the funding to Thanh's LSA.

Thanh pays the upfront fee and starts studying the two modules.

Issues to be resolved by governments

The most important issue to be resolved is allowing government funding to be used for non-accredited micro-credentials. The creation of an LSA along the lines proposed by the Business Council would achieve this. The issues to be resolved by government to create the LSA are discussed in the funding section.

As previously noted, the literacy and numeracy rates of adults in Australia is concerning. Literacy and numeracy are prerequisites for labour-market mobility and progression, and governments must ensure adults across the country have access to good literacy and numeracy services.

The other key issue to be resolved by government is the content of the product. While the Business Council supports the construct of HE and VET qualifications, there is an open question about how relevant today's qualifications are to the Australian labour market.

As discussed in the content of learning section, the Business Council believes qualifications should produce well-rounded learners who have a foundation from which to enter the labour market, and that this foundation should hold them in good stead as they develop across their working lives.

While concerns from the business community about the outcomes of both VET and HE are anecdotal and generally not supported by survey data, there remains a question about whether the many years most young people are now spending in post-school education is delivering the skills that businesses and industry need.

The Business Council believes it is time to begin a conversation between learners, government, businesses and education providers about the current qualification model and how to have greater flexibility.

GOVERNANCE

The focus of this component of the system is to define the different roles and responsibilities the Commonwealth, state and territory governments and industry would have in the post-secondary education and skills system, and the governance model to underpin it.

What we proposed

ORIGINAL BUSINESS COUNCIL PROPOSAL

Split of funding responsibilities

Note: This is subject to the outcome of the costing exercise.

- States and territory governments have responsibility for funding:
  - pre-accredited and foundation studies (Note: This funding sits outside the post-secondary education and skills system)
  - certificates I–IV
  - any base funding needed to make the public provider sustainable.
- The Commonwealth Government has responsibility for funding:
  - diplomas, advanced diplomas and bachelor degrees
  - ICLs
  - research training and research more broadly, noting this funding sits outside the post-secondary education and skills system.
- To ensure there is no cost-shifting, all governments should commit to maintaining their current funding levels for a minimum of 10 years, with a review at five years.

Split of funding responsibilities

To clearly define governments' roles in the post-secondary education and skills system, the Business Council proposed a split of funding responsibilities based on qualification level.

The proposed split recognised the current funding responsibilities of state and territory governments owning and funding TAFEs, and the Commonwealth Government funding research.

The split at an AQF level was aligned to the loan schemes to minimise cost-shifting and was roughly equivalent to the current spend of each level of government if the Commonwealth Government were to retain the funding in the National Agreement to fund qualifications at AQF5 or higher.

To further minimise the risk of cost-shifting, the Business Council proposed that all governments should comment to maintaining their current funding levels for at least 10 years, with a review at five years.

A new institution to manage funding and market information

ORIGINAL BUSINESS COUNCIL PROPOSAL

Establish a post-secondary education and skills system funding and market information institution

» The new institution would have responsibility for:

- running the costing and private return exercise
- establishing the initial subsidy rate and contribution ratio for each qualification (Note: These may be changed by governments)
- managing the funding system, including the LSA
- distributing and monitoring all funding
- establishing and maintaining the market information
- determining which providers are eligible for government funding (subsidy or ICL)
- contract management of providers
- reporting to the relevant Ministerial Council.

Given that the Business Council was proposing the post-secondary education and skills system be a shared responsibility between two levels of government, a consequential proposal was the creation of an institution to manage the new approach to funding and market information.

In designing a new body, the Business Council was conscious of the challenges each level of government faces.

» The Commonwealth Government Department of Education and Training is too removed from providers and local labour market needs and does not have the necessary expertise or skills in market design or contract management.

» State and territory governments do not have sufficient revenue, and the relevant departments lack the necessary expertise on HE.

The Business Council also recognises that cooperative bodies are often fraught, so the proposal was focused on creating governance arrangements that allowed the different levels of government to work cooperatively, while still maintaining responsibility for their own expenditure.

Industry leadership

ORIGINAL BUSINESS COUNCIL PROPOSAL

Facilitate industry leadership, particularly in the VET sector

» Industry retains responsibility for product development in VET and has a role in broader policy across the sector.

» Industry prioritises the funding in the proposed industry skilling fund.

The VET sector is designed to be an industry-led system.

To recognise this feature, the Business Council proposed that industry leadership form part of the governance model of a broad post-secondary education and skills system, specifically in relation to funding and policy.

In addition, the Business Council proposed industry could have a role in prioritising the funding in a proposed industry skilling fund.

Feedback from the consultations

Split of funding responsibilities

Most stakeholders agreed that avoiding cost-shifting should be a priority in any post-secondary education and skills system reform and thought that the proposed safeguards were sensible and sufficient.

Many agreed with the proposed delineation of Commonwealth and state government

responsibilities for AQF Levels 5–9 and 1–4 respectively, thinking it would provide useful simplification and clarification. Some providers saw the proposal as largely reflecting the current situation, despite shared arrangements for the funding of VET AQF 5 and 6 levels (i.e. Commonwealth through VET student loans, and state and territory governments through training subsidies).

However, many providers also noted that any split of funding responsibilities would perpetuate the current challenges of inconsistency in policy and funding decisions between the two levels of government. This would be most particularly an issue for providers that operate across both sectors and/or multiple AQF levels.

Alternative propositions raised by individual stakeholders included having:

- the Commonwealth Government assume responsibility for all post-secondary education and skills to provide more generous and stable funding
- the Commonwealth Government 'run TAFE'
- funding aligned to educational sectors rather than levels of government to maintain sector independence.

Many HE providers and a peak HE body were concerned about the proposal to 'lock in' funding models for 10 years, as they were wary of reallocation between sectors being done on a zero-sum basis.

A few stakeholders expressed a strong interest in the need for regional discretion and control, but were uncertain about how this could be made to work within a national framework.

A few stakeholders expressed approval for the proposal that government promote sustainability and consistency by committing to funding levels for 10 years. Such comments were made in the context of broader agreement that current funding levels are insufficient.

Most stakeholders agreed that each level of government should manage their own expenditure and priorities, with the exception of VET providers who operate across jurisdictional boundaries. These providers seek greater consistency across jurisdictions.

There was limited engagement about the proposal that state governments be responsible for providing base funding for TAFEs.

A new institution to manage funding and market information

Most stakeholders opposed the creation of a new institution, seeing it as being either unnecessary or too large. Key reasons cited were that:

- contract management should not be done centrally
- there is sufficient oversight of information
- funding is a matter for governments.

A few stakeholders supported the concept of a separate body to handle costing and pricing functions.

Most stakeholders who supported a new institution said that it should have a policy role, providing independent advice to government, and that it should be chaired by someone with national credibility from government or the education sector.

One HE provider thought the new institution could be established as a federal government agency. Another thought it should be modelled on the (defunct) National Board of Employment, Education and Training.

Few stakeholders engaged with the question of whether the new institution should differentiate between the sectors when it managed LSA funding, and when they did, responses varied.

Industry training fund

Most stakeholders did not support the creation of a separate fund to support businesses. Reasons included:

- Business already benefits from public investment in education through the skilled graduates they employ.
- There is no policy basis for diverting funds in the proposed manner.

A few accepted that there was value for SMEs to be able to access assistance to train their workforces. They saw it as a potential complement to demand-driven funding by targeting specific skills shortages or needs not currently met by the post-secondary education and skills system.

One stakeholder argued that a separate fund was not simply a 'gift' to the business community but did in fact support the concept of lifelong learning and sustainability in the labour market.

Our final position

Split of funding responsibilities

The post-secondary education and skills system is complicated by being a shared governance responsibility between two level of governments. While some stakeholders argued for one level of government taking over one or both sectors, the Business Council does not believe this is practical as it would require that all governments agree to transfer powers and responsibilities.

Given previous failed attempts, it is doubtful this would be successful. A focus on this approach could consume a lot of time and still fail to resolve the problems that need to be fixed.

There are always boundary issues that exist within federations, but over the last decade these boundary issues have become excuses to do nothing, and Australia's public policy agenda has become gridlocked.

The Business Council therefore remains of the belief that post-secondary education and skills should be a shared responsibility, but it is important that there is a clearer split of responsibilities.

There has been an ongoing debate about whether the Commonwealth Government should take over higher-level qualifications. If that were to occur now, without a mechanism like the LSA, there would be a further residualisation of VET, as the focus would be on qualifications at a diploma level or above.

The Business Council's proposal to put all the funding in the LSA but allow governments to control their respective funding removes that risk, along with potential cost-shifting.

The Business Council recognises this proposal is simply one of many ways funding responsibilities could be split. However, in the absence of an alternative option, the Business Council has maintained its proposed funding split.

The need for transparency in base funding for the public provider has been added to the proposal.

FINAL BUSINESS COUNCIL PROPOSAL

Governance – Split of funding responsibilities

Note: Funding responsibilities will need to be split between the two levels of government. This proposal is designed to minimise cost-shifting, but there are a range of other options governments may consider.

- State and territory governments have responsibility for funding:
  - pre-accredited and foundation studies (Note: This funding sits outside the post-secondary education and skills system)
  - certificates I–IV
  - any base funding needed to make the public provider sustainable, noting this funding should be transparent.
- The Commonwealth Government has responsibility for funding:
  - diplomas, advanced diplomas and bachelor degrees
  - ICLs
  - research training and research more broadly, noting this funding sits outside the post-secondary education and skills system.

To ensure there is no cost-shifting, all governments should commit to maintaining their current funding levels for a minimum of 10 years, with a review at five years.

A new institution to manage funding and market information

The Business Council acknowledges concerns that the role of the institution would be significant and potentially too much for one agency to manage. Suggestions that the body could focus on pricing functions would be one way to reduce the scope of the organisation.

Noting concerns that contract management is a role of government, it is important to remember that the proposed institution would be an agent of governments. Under the proposal, contract management would move from the relevant departments to the new agency.

Putting contract management for all funding functions (e.g. state-funded subsidies and Commonwealth funded ICLs) into one agency would allow for better tracking of behaviour and early intervention.

While many stakeholders are attracted to the idea of public policy being removed from government and the bureaucracy, the Business Council believes that policy is the domain of government and the foundation from which all government decisions are, or should be, made.

Organisations such as the Business Council, think tanks and other institutions can propose reform agendas, but deciding on the final design and implementing public policy cannot be outsourced to an independent agency.

Ultimately, the proposal for a new institution was designed specifically to create a less combative and fraught space from which governments could manage the new post-secondary education and skills system cooperatively. An independent body, such as a Ministerial Company, does not have to be established under any government's legislation, and can therefore be a genuinely shared responsibility between levels of government.

The Business Council's final proposal has been amended to focus on a cooperative approach rather than the details of how such a model would work.

FINAL BUSINESS COUNCIL PROPOSAL

Governance – A cooperative model

» Governments establish a cooperative governance model that can in the first phase:

- commission or undertake a project around costings of post-secondary education and skills system and, if possible, the ratio of public and private benefit from delivery
- commission or undertake a project to bring together the relevant market information and identify gaps in current information.

Industry training fund

Given the reaction against the proposal to establish a separate fund for business, the Business Council has removed it from the final proposal.

FINAL BUSINESS COUNCIL PROPOSAL

Facilitate industry leadership, particularly in the VET sector

» Industry retains responsibility for product development in VET and has a role in broader policy across the sector.

How would this work in practice?

The Business Council believes, both from a principled and pragmatic point of view, that a post-secondary education and skills system would be best managed cooperatively.

In *Future-Proof*, the Business Council provided a very detailed model for how this would work in practice. However, given the feedback, the Business Council has moved to a recommendation that is at a more principled level. Consequently, the way in which the governance would work in practice is subject to governments making decisions on some key factors.

At this stage, there are several issues to be resolved by governments before it will be clear how the post-secondary education and skills system could be governed or how each level of government will determine expenditure and priorities.

If the Business Council's proposal for the split of funding responsibilities is adopted, the post-secondary education and skills system will continue to be funded under the current arrangements. If governments agree to lock in funding levels over the next decade, it will prevent cost-shifting and provide some surety to the HE and VET sectors.

Issues to be resolved by governments

The most significant governance design issue to be resolved by governments is to agree on the preferred model for shared governance of the post-secondary education and skills system.

ROADMAP TO REFORM

The reform agenda proposed by the Business Council is ambitious, but reform can be phased and implementation could occur over five to 10 years.

It is important to note that the proposed component parts are interconnected and have been designed as such. Changes to design elements in one component should therefore be considered in light of the impact on the overall outcomes, as well as the impact the changes would have on other component parts.

The Business Council acknowledges that design and implementation would require intergovernmental agreement in design, if not in operation.

To illustrate how this could work, the following section outlines the potential phases and provides examples of how to implement different components of the system, such as the market information platform or the LSA.

How to design the system

PHASE 1: COAG

- All governments agree on the creation of a post-secondary education and skills system and the intended outcomes of such a system.
- All governments agree on the design elements of the system and market design, including the creation of the LSAs and the preferred approach to governance.
- All governments agree on a timeline for transition and implementation.

PHASE 2: INTERGOVERNMENTAL NEGOTIATIONS

- All governments agree on the rules and conditions of an LSA.
- All governments agree on how to manage and fund pre-accredited and foundation studies learning outside the post-secondary education and skills system.
- All governments agree on funding arrangements for their jurisdictions. The Business Council does not believe this needs to be a single agreement. Jurisdictions have different levels of investment, particularly in the VET sector, and states and territories will want to protect their investment.
- All governments agree on the roles and responsibilities of each level of government in a national system.
- All governments agree on the establishment of national governance arrangements, including the allocation and distribution of funding.
- The market information platform will not start from a blank piece of paper. The Commonwealth Government has QILT, My Skills and Job Outlook, and state and territory governments have a range of information sources.
- The new national governance arrangements are established.

PHASE 3: ESTABLISHMENT AND RESEARCH

- In accordance with the agreed governance arrangements, a costing exercise is scoped and agreed on by governments and assigned to a relevant body/agency.
- Governments assign a relevant body to undertake comprehensive financial analysis and modelling to establish the funding model and market information.
- The new market information platform is established under the new governance arrangements.

PHASE 4: PROVIDER ENTRY

- Universities are deemed eligible for entry into the market in HE provision. All other providers apply to receive a contract to offer publicly funded training. (Note: Universities will need to apply to offer VET provision.)

» The relevant body under the new governance arrangements assesses all providers, publishes a list of approved providers and enters into contracts.

PHASE 5: IMPLEMENTATION

» Students wishing to study diplomas through to undergraduate degrees access their LSA and commence study.

» The relevant body under the new governance arrangements monitors funding in real time and assesses the performance of providers.

» Subject to implementation issues, the LSA is rolled out to certificate-level courses in the following couple of years.

The phases outlined above are the main phases governments would need to follow to design the whole system. The following section focuses on the more detailed design governments would need to consider for the component parts of the system.

Building the market information platform

PHASE 1: SCOPING

» Governments identify all of the current data sources, including QILT, My Skills and Job Outlook and the mechanisms for keeping them current.

» Once the current data sets are identified, governments identify the gaps and the best way to collect the additional data using the 12 steps in the learner decision-making model (LDMM) (refer to Figure 3 on page 24) as a guide for the information needed.

» Concurrently, governments identify the potential diagnostic tools that learners could use in Step 1 of the LDMM.

- These tools should be self-assessments that help learners determine their strengths and passions.
- The career quiz on the Job Outlook website is a good start, but a more sophisticated diagnostic tool is needed.

» Governments identify the data that all providers would need to provide to the future system and notify providers of the new requirements.

» Governments agree on the preferred platform/tool to host the data and the relevant governance arrangements.

PHASE 2: RESEARCH

» Governments commission or undertake a project to collect the additional data identified in Phase 1.

- Note: The cost project proposed in governance would feed into this work when completed.

» New data sets are created and merged with currently available data.

PHASE 3: BUILD AND TEST THE PLATFORM

» The data is grouped around the 12 steps in the LDMM.

» A test site is built around the LDMM and tested with a range of cohorts, including school students, VET and HE students and current workers across all skill levels.

» Providers will only appear in searches and be eligible to offer subsidised delivery if they have provided the required data.

PHASE 4: GO LIVE

» User testing is incorporated into the platform and, subject to feedback, the LDMM is adopted as the organising framework for the site.

» The site is launched with the readily available data, with the site specifying the new data sets to be included and noting data collection is continuing.

» Governments review the usability of the new site and gradually remove all the current sites.

PHASE 5: EMBEDDING THE LEARNER DECISION-MAKING PROCESS IN THE EDUCATION SYSTEM

- Expand the scope of the platform to include the information associated with apprenticeships and traineeships.
  - Governments to commission or undertake a project to develop material that targets potential apprentices and trainees.
  - This information should clearly outline the functions of each role, what people can expect in each stage of their apprenticeship or traineeship, what employers can expect from their apprentice or trainee, wages for each stage of their training and potential future earnings, and future career options associated with the apprenticeship or traineeship.
- Consider options to embed the LDMM in the schooling system.
  - The way the process is applied would need to be cognisant of different age groups, but the Business Council believes it could be applied from primary school.

Designing and implementing the Lifelong Skills Account

There are a significant number of design features that go into developing an entitlement model like an LSA. The Business Council's model has a proposed approach, but governments would need to work together to agree on the following features, at a minimum.

- What is the purpose of the entitlement? Is it the six outcomes proposed by the Business Council or something different?
- Who is eligible for the entitlement? Is it universal, as proposed by the Business Council, or are other eligibility requirements added?
- What is the form of the entitlement? Is it a subsidy and loan, as proposed by the Business Council, or does the entitlement take a different form?
- What is the entitlement for each recipient? Are there caps on the subsidies in the form of a maximum number of years studied and a dollar cap on the loan, as proposed by the Business Council, or does it take a different form?
- How does the entitlement differ for those already in the labour market with post-secondary education and skills qualifications and those still in school?
- How does the entitlement interact with the funding? Is it like the Business Council's proposal that the subsidy received starts with costs and is roughly based around the ratio of public and private benefit, or is another methodology adopted? Does it differ between jurisdictions?
- What can the entitlement be used for? Is it available for qualifications and micro-credentials, as proposed by the Business Council, or is it more limited?
- Where can the entitlement be used? How does a provider become approved to offer education or training that can be funded by the entitlement?
- What does each level of government fund, and what are their decision-making parameters?
- How is the entitlement administered? Is it virtual, as proposed by the Business Council, and triggered by someone wishing to enrol, or are accounts opened for each citizen?
- What organisation manages the entitlement and flow of funds? Is it a new body, as proposed by the Business Council, or a current entity?

- What organisation monitors the expenditure and ensures integrity of the system?

These are a sample of standard design features for an entitlement model, but answering these questions requires cooperation and would take a number of years to work through.

If one level of government wished to pursue a version of the LSA, or governments want to work through the issues in a real-world setting, they could pilot the LSA concept for a priority sector or cohort.

PHASE 1: DECIDE ON THE PILOT AREA

- A single level of government decides to pilot the LSA and selects a sector or cohort (e.g. learners undertaking qualifications related to the National Disability Insurance Scheme, or workers with no qualifications working in declining industries).

OR

- All governments agree to work together on a pilot and select the relevant sector or cohort.

PHASE 2: ENTITLEMENT DESIGN

- The relevant government(s) agrees on:
  - the purpose of the entitlement
  - the form of the entitlement
  - eligibility requirements
  - what the entitlement can be used for
  - where the entitlement can be used
  - how the entitlement will be managed and distributed.

PHASE 3: IMPLEMENTATION

- The sector or cohort are notified about the entitlement and are provided with all relevant information.
- Enrolments in the relevant qualifications and/or micro-credentials commence and government funding is distributed.
- If micro-credentials are included in the pilot, employers provide the workers with time off for the study.
- Additional support is given to participants in the pilot to ensure they are aware of the opportunities available to them.

PHASE 4: EVALUATION

- An independent evaluation is undertaken that measures the implementation against the purpose of the entitlement, the take-up rate and the success of the learners.
- Each design element is reviewed and, where relevant, adjusted to improve outcomes.
- The evaluation report is published.

PHASE 5: BROADER APPLICATION

- Subject to implementation issues and the success of the pilot, the entitlement is rolled out to other sectors and/or cohorts.
- Design work, as per the parameters discussed above, is undertaken to roll out the entitlement model as the primary funding mechanism across post-secondary education and skills.

APPENDIX 1:
THE PROBLEMS TO SOLVE IN POST-SECONDARY EDUCATION AND SKILLS

PROBLEM AREA	SPECIFIC ISSUE
Structure	» VET and HE have a different role to play in Australian education and society, but VET is often seen as the second-class citizen. » While having different roles to play, it is important that reform agendas are complementary, but the last decade of reform has been focused on silos.
Information	» A demand-driven or entitlement system cannot work effectively without sufficient market information that assists learners and funders to assess value for money and differentiate between providers. » Career advisers (in schools) can have limited understanding of VET pathways and focus on HE as the preferred option, regardless of its suitability for young people. » While work has been done on market information (QILT and My Skills) they are siloed into the two sectors of VET and HE. Additionally, the information is limited – information that should be readily available and comparable includes course level information such as price, subsidy rates, average loan repayment times and broader labour market data such as job vacancy rates. » According to the ABS, there are over 1000 different jobs in the Australian labour market, but there is no single site a potential learner could go to look at these jobs and their educational requirements.
Funding	» The entitlements (subsidies and loans) are inconsistent between the sectors, unfair and incentivise learners and providers into HE over VET. » Governments, both at a national and state level, have found it difficult to effectively manage entitlement or demand-driven systems. » Inappropriate reliance on regulation in place of contract management has allowed poor provider behaviour and contributed to cost blowouts. » ICLs distort price signals and reduce the necessity of cautious behaviour by the learner. » The move to allow learners to enrol with no upfront cost, not even a minimal cost of $50, means learners have no initial ‘skin in the game’.

PROBLEM AREA	SPECIFIC ISSUE
	» There is no consistent approach to the way that post-secondary education and skills are funded, and a move to a universal system has not been accompanied by a dialogue on how Australia can fund a system for everyone, including the role of government and the role of the individual. » The real cost of educational delivery is unknown and funding is not transparent (e.g. cross-subsidisation of trades training by TAFEs, or research by universities). » Fee deregulation works for some but not all student cohorts, and full fee deregulation will not deliver improved outcomes in the current market. » Demand-driven funding has the potential for public providers to become residual providers.
Lifelong learning	» While support for lifelong learning is strong, there has been little to no change in policy settings to encourage lifelong learning. » A lot of Australians undertake their learning immediately post-school, and the educational system is still built around this paradigm. » Career advice for adults in the workforce is very difficult to find, with services generally focused on young people. » Public funding is focused on full qualifications. While this is necessary for young people, it does not provide the necessary flexibility for workers who need to pick up a group of skills or a suite of knowledge, also called micro-credentialing. » Funding focused on qualifications presents a disincentive to education providers to offer micro-credentials to workers. » Businesses believe they make a significant contribution to training and development through on-the-job training, unaccredited short courses, time off work for formal learning and contributing to the cost of formal learning. However, the contribution is contested because there is no reliable data collection on the total contribution.

PROBLEM AREA	SPECIFIC ISSUE
Governance	» The funding model for VET is designed and managed by each state and territory governments, and the funding model for HE is designed and managed by the Commonwealth, but the Commonwealth contributes to funding for VET and universities are subject to state legislation. » While many stakeholders argue one level of government should 'take over' one or both sectors, that would require all governments to agree on a division of responsibilities, which is highly unlikely. » Shared responsibilities result in accusations of cost-shifting.

BUSINESS COUNCIL OF AUSTRALIA
42/120 Collins Street Melbourne 3000
T 03 8664 2664 F 03 8664 2666
www.bca.com.au

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