FUTURE-PROOF

PROTECTING AUSTRALIANS THROUGH EDUCATION AND SKILLS

October 2017



Business Council of Australia

Business Council of Australia ABN 75 008 483 216

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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FOREWORD

This paper sets out the vision the Business Council of Australia has of creating a culture of lifelong learning and building a universal education system for Australians across schools, vocational education and training (VET), and higher education (HE).

The Business Council aspires to a society with greater equality of opportunity, where anyone – 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.

But to build and maintain such a society and economy in the modern world is a significant challenge. We are living through a period of change, the pace and scale of which is unprecedented. We are dealing with six key forces of change:

1. An ageing population and the economic pressures that come with that
2. Global competition, not only between companies but between countries
3. The growth of China, and the emergence of a middle class in Asia that equals the population of the European Union
4. Technology changing the way goods and services are produced
5. Consumers having unprecedented power
6. Work as we know it will be fundamentally altered by artificial intelligence (AI) and robotics.



To survive these seismic changes, Australia will need to be out in front across all major areas of public policy, but no more so than in our education system.

Australia's education system can be the ballast against the rising tide. The Business Council's vision is one of all Australians having the opportunity to fulfil their potential and our nation being the most skilled, best trained, best educated society in the world.

To achieve that vision, we will need to buckle down and build a collaborative and cooperative reform agenda across schools, VET and HE. We have had decades of reform in each sector but it is time that we take a step back and look at all three sectors as one system. The new world of work demands it.

There have been many reports over the last few years stating that anywhere between 40 to 70 per cent of jobs in the Australian economy will be lost as a result of technological change and AI.

While there is no doubt that AI and robotics will fundamentally change the working experience of all Australians, we believe that the commentary about overwhelming job losses fails to grapple with the complexity of the changes we are facing.

Most jobs will see a level of automation and a range of tasks simply disappearing. Jobs that are currently low-skilled will require people to have a good understanding of technology, and be able to interact with robots.

People will also need to upskill and reskill across their working lives. As AI and robotics is introduced across almost every industry and every role, it will augment the jobs in the labour market and people will need to learn to work with AI and robotics. They will also need to learn new skills.

The nature and types of jobs and careers that people will have are also shifting.

Digital peer-to-peer platforms will allow people to perform a range of jobs at once or pursue their own entrepreneurial ambitions in their spare time. There will also be growing demand and value placed on non-routine jobs such as carers that require intensive human interaction and interpersonal skills.

There will also undoubtedly be job losses, as has always occurred through big transformations in our history, and low-skilled workers will be the most vulnerable.

However, unlike our historical transformations, we have a tool that we can use to help all Australians adapt; our schools, VET and HE sectors. For the first time in our history we have a system that can be available to all Australians at any stage of their lives. But to help all Australians our education system, across all three sectors, will need to adapt.

Technical or professional knowledge will no longer be enough for people to be mobile in the labour market. In addition to knowledge, businesses will be looking for people with a set of values, behaviours and skills that will allow them to adapt to the changing world.

Schools are the beginning of that journey and our HE and VET sectors build on the foundation. If our schools are producing young people with poor literacy and numeracy, or failing to teach children the importance of a work ethic, and the need for resilience, those children and the tertiary education sectors will be starting with a handicap.

The education system, HE and VET in particular, will also need to become more flexible in their scheduling and content, and provide opportunities for learning that cater to workers. Once an Australian has a qualification and enters the labour market, they will need to be able to work and learn at the same time. They will also need the freedom to create their own 'qualifications' that give them the new knowledge or skills they need.

Australia has a long history of successful and innovative reform across our individual education sectors, but we have also experienced some failures. It is important we learn from past successes and failures, and be clear about what we need a universal education system to deliver for all Australians. This paper reviews the history of education in Australia, sets out a rationale for change, and makes a number of proposals to build an education system that will stand the test of time.

We know we do not have all the answers. We will consult on the proposals in this paper and work with anyone willing to join us.

The Business Council understands that this transition is one of those important moments in history that will make or break the potential of this nation, but we are ready to take this challenge on.

We want Australia to be the nation that gets out in front now. We believe we need systemic transformational change. That change can be done incrementally, but our first step is to get agreement from all levels of government that change is needed.



JENNIFER WESTACOTT
Chief Executive
Business Council of Australia

CHAPTER SUMMARIES AND BUSINESS COUNCIL PROPOSALS

CHAPTER 1
PREPARING FOR THE FUTURE OF WORK

Key points

- Technology will largely replace tasks and activities, rather than whole occupations.
- As technology reshapes the tasks and activities that people perform, our economy will increasingly become the domain of skilled workers who can harness and augment technology.
  - The very nature and type of jobs that people perform is changing.
  - Digital peer-to-peer platforms will allow people to perform a range of jobs at once or pursue their own entrepreneurial ambitions in their spare time.
- There will also be growing demand and value placed on non-routine jobs such as carers that require intensive human interaction and interpersonal skills.
- The future workforce is likely to be increasingly mobile across jobs, across employers and geographic boundaries.
- To prepare for the jobs of the future, our schools, VET and HE sectors will need to operate as one system, providing Australians with a strong foundation, and being available and responsive to Australians throughout their working lives.
- In this new world, a qualification based on technical skills and knowledge is unlikely to be enough. Employers will be looking for a mixture of values such as accountability, honesty and a work ethic, behaviours such as adaptability, collaboration and resilience, and skills such as business literacy, critical analysis and problem-solving.

CHAPTER 2
VISION FOR THE FUTURE

Key points

- Education is a lifelong journey that extends beyond formal institutional learning.
- Formal education can be the single biggest platform to promote equality of opportunity and share prosperity.
- Education gives people confidence and the freedom to make choices.
- All Australians should have the opportunity to create a working life that is flexible, meaningful and rewarding.

CHAPTER 3
THE HISTORY OF EDUCATION IN AUSTRALIA

Key points

- The importance of formal education in Australia has changed dramatically over the last 100 years.
- The overwhelming majority of young people are completing school, and tertiary education (VET and HE) has become the norm.
- Bipartisanship and collaborative federalism have built a universal education system.
- Australia has a national consensus formal education is a priority, but we do not have a national consensus on the purpose or priorities of universal formal education.

CHAPTER 4
THE PURPOSE OF UNIVERSAL EDUCATION

Key points

- Formal education was initially designed to prepare people to be good citizens, to teach them to think, give them confidence and independence, and prepare them for the future.
- The 21st century has seen a strong push for formal education to be focused on preparing people for work. This is a contested purpose.
- The labour market has changed over the last 30 years and job growth has been in roles that rely on tertiary education qualifications.
- The Business Council proposes that the purpose of Australia's universal formal education system be multi-faceted and include the traditional roles as well as the role of preparing people for work.

Proposals

BUSINESS COUNCIL PROPOSAL ONE

The Business Council proposes 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, including 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 to transition to new roles or industries.

CHAPTER 5
DESIRED OUTCOMES FOR EACH EDUCATION SECTOR AND THE CULTURE CHANGE REQUIRED

Key points

» Each sector should focus on achieving outcomes relevant to who they are educating, and the Business Council proposes specific outcomes for each sector.

» To achieve the outcomes, schooling, VET and HE will need to adopt cultural changes.

» Schools need to embrace five key cultural changes focused on genuinely embracing need-based funding, recognising multiple forms of intelligence, embracing multiple styles of engagement and learning, empowering and supporting teachers, and a new approach to help young people prepare themselves for the future.

» VET and HE need to embrace four key cultural changes focused on seeing the sectors as one tertiary system, breaking down the stigma attached to VET, genuinely embracing lifelong learning, and a new role of business.

Proposals

BUSINESS COUNCIL PROPOSAL TWO

Proposed outcomes of early learning and primary schooling:

1 Provides a strong foundation for all learners (including but not limited to literacy, numeracy, digital capacity)

2 Provides for community-wide values

3 Supports play, fun and development of creativity

4 Sets learners on a path for higher learning.

BUSINESS COUNCIL PROPOSAL THREE

Proposed outcomes of schooling

Note: this would apply to all formal qualifications (for example Year 10 qualification and Year 12 qualification)

1 A universal foundation that means graduates will:
- have the minimum levels of literacy, numeracy and technology in order to effectively communicate, interact and work
- have values of citizenship, the ability to think, participate and contribute in modern society
- have a depth of knowledge in core areas of English, the humanities, maths, sciences, and technology
- have a foundation for future learning
- be prepared for the world of work, not just prepared for a single job or employer
- be equipped with the behaviours needed in the modern world of work such as adaptability, resilience and the knowledge that no one wins all the time, self-awareness, collaboration and a customer focus.

2 Supports a range of pathways that mean graduates will be able to:
- go on to further study
- enter the labour market.

3 Caters to different learners:
- Traditional academic learning and assessment.

BUSINESS COUNCIL PROPOSAL FOUR

Culture changes needed in schools

1 Move beyond funding.

2 Be more learner-centred and recognise multiple forms of intelligence.

3 Embrace multiple methods of learning, starting with a trial on how to teach maths differently.

4 Empower and support teachers, starting by defining what we mean by ‘teacher quality’ and establishing a national index for teaching quality.

5 Adopt a new approach to help young people prepare themselves for the future that begins with the questions: ‘What am I good at?’ and ‘What do I like/am passionate about/inspired by?’

BUSINESS COUNCIL PROPOSAL FIVE

Proposed outcomes of tertiary education

Note: the first three outcomes would apply to all formal qualifications in VET and HE, except foundation studies, and the final two outcomes would apply at a sector level.

1 Provides a universal foundation that means graduates will:
- have values of citizenship, the ability to think and participate in modern society
- have a depth of knowledge and expertise for a specific occupation or industry
- have a foundation for future learning
- be prepared for the world of work, not a single job or employer.

2 Supports a range of pathways that mean graduates will be able to (noting some qualifications will not be able to offer each option):
- go on to further study
- enter the labour market
- be prepared for a specific employer
- continue in research or academic inquiry.

3 Caters to different learners (noting some qualifications will not be able to offer each option):
- Traditional academic learning and assessment
- Applied learning
- Workplace learning
- Combination.

4 Cater to different cohorts at their stage of life:
- Young people with school qualifications
- Adults (18 and above) who need LLN and foundation studies (only VET)
- Adults without school qualifications
- Adults without post-school qualifications
- Adults supplementing post-school qualifications
- Adults building expertise in post-school qualifications
- Adults choosing to change careers
- Adults needing to change occupations because of changed conditions.

5 Ensure skills sets/modules/short courses that are not formal 'qualifications' are available or can be constructed by learners and enterprises, so specific skills and knowledge can add to a person's foundational qualification.

BUSINESS COUNCIL PROPOSAL SIX

Culture changes needed in tertiary education

1 See VET and HE as a genuine tertiary system rather than two silos (see Chapter 7).

2 Break down the stigma attached to VET (see Chapter 7).

3 Genuinely embrace lifelong learning (see Chapter 7).

4 Enterprises need to support workers in lifelong learning.

CHAPTER 6
LESSONS FROM A DECADE OF EDUCATION REFORM

Key points

» This chapter analyses the last decade of reform in VET and HE to identify the strengths we need to build on, and the pitfalls we need to avoid.

» The analysis identifies eight key lessons for designing a tertiary system, and these inform the proposals in Chapter 7:

1. We need a universal entitlement that is sector-neutral.
2. A universal tertiary system needs to be funded by government and the individual, and the cost of the system needs to be calculated.
3. A demand-driven system is challenging to manage, and loans need to be designed around the student cohorts.
4. The tertiary education market needs changes before full fee deregulation can be effective across all cohorts.
5. The regulator needs to differentiate between providers, and the funder must put in place strong contract management.
6. Market information cannot remain in the 'too hard' basket.
7. The public provider must be supported, but private providers are also needed.
8. We need a collaborative governance model where each level of government controls their financial contribution.

CHAPTER 7
A TERTIARY EDUCATION SYSTEM FOR THE FUTURE

Key points

» This chapter proposes the introduction of a broad tertiary system that covers VET and HE.

» There are eight interconnected proposals that will need to be implemented to create a tertiary system.

Proposals

BUSINESS COUNCIL PROPOSAL SEVEN

Build a broad tertiary system that will:

1. Maintain a unique identity for the VET and HE sectors
2. Establish a single funding model that is sector-neutral
3. Build a single source platform of market information to help users make informed decisions
4. Have a shared governance model
5. Create a culture of lifelong learning.

ASQA and TEQSA continue to regulate the respective sectors.

BUSINESS COUNCIL PROPOSAL EIGHT

Lifelong Skills Account (LSA)

» Establish a single funding model that is sector-neutral.

» The centrepiece of the funding model is a Lifelong Skills Account, 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 income-contingent loan (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 seek approval to offer a subsidy, loan or both.

» A separate fund is established where businesses can directly access government support to develop their workforce.

BUSINESS COUNCIL PROPOSAL NINE

Build a single platform of market information

- Governments agree to build a single source of market information across tertiary education that is designed around a potential learner's decision-making process.
- To support this portal, new data sets will need to be created, including but not limited to:
  - the cost of delivering tertiary education, at a course level
  - the private return from tertiary education, at a course level
  - 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.

BUSINESS COUNCIL PROPOSAL TEN

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.

BUSINESS COUNCIL PROPOSAL ELEVEN

Split of funding responsibilities

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

- States and territories have responsibility for funding:
  - pre-accredited and foundation studies (note: this funding sits outside the tertiary system).
  - Certificates I–IV
  - any base funding needed to make the public provider sustainable.
- The Commonwealth has responsibility for funding:
  - diplomas, advanced diplomas, and bachelor degrees
  - income-contingent loans
  - research training and research more broadly, noting this funding sits outside the tertiary 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.

BUSINESS COUNCIL PROPOSAL TWELVE

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.

BUSINESS COUNCIL PROPOSAL THIRTEEN

Establish a tertiary 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.

BUSINESS COUNCIL PROPOSAL FOURTEEN

Create a culture of lifelong learning

- 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.
- Allows LSA funding to be used for self-constructed 'qualifications'.

CHAPTER 1
PREPARING FOR JOBS OF THE FUTURE

Key points

- Technology will largely replace tasks and activities, rather than whole occupations.
- As technology reshapes the tasks and activities that people perform, our economy will increasingly become the domain of skilled workers who can harness and augment technology.
  - The very nature and type of jobs that people perform is changing.
  - Digital peer-to-peer platforms will allow people to perform a range of jobs at once or pursue their own entrepreneurial ambitions in their spare time.
- There will also be growing demand and value placed on non-routine jobs such as carers that require intensive human interaction and interpersonal skills.
- The future workforce is likely to be increasingly mobile across jobs, across employers and geographic boundaries.
- To prepare for the jobs of the future, our schools, VET and HE sectors will need to operate as one system, providing Australians with a strong foundation, and being available and responsive to Australians throughout their working lives.
- In this new world, a qualification based on technical skills and knowledge is unlikely to be enough. Employers will be looking for a mixture of values such as accountability, honesty and a work ethic, behaviours such as adaptability, collaboration and resilience, and skills such as business literacy, critical analysis and problem-solving.

THE TRENDS SHAPING FUTURE JOBS

Young people entering education today will be navigating significant changes in workplaces in the future.

Technology is transforming tasks

We are already witnessing the impact of a number of enduring trends in automation, artificial intelligence and robotics that will reshape the tasks that people perform in their occupations. But contrary to many claims, some of the most detailed and rigorous evidence suggests that technology will largely replace tasks and activities, rather than whole occupations, as highlighted below. The pace of adoption is also likely to be uneven across different sectors.

Recent research and commentary on the impact of technology on jobs

'Given currently demonstrated technologies, very few occupations – less than 5 percent – are candidates for full automation today...'

McKinsey Global Institute,
A Future that Works: Automation, Employment and Productivity
JANUARY 2017.

'Overall, we find that, on average across the 21 OECD countries, 9 per cent of jobs are automatable.'

M. Arntz, T. Gregory & U. Zierahn,
The Risk of Automation for Jobs in OECD Countries – A Comparative Analysis, **OECD Social, Employment and Migration Working Papers,**
MAY 2016.

'When it comes to complete job replacement, it will be a very small percentage; when it comes to changing a job and what you do, it'll be 100 percent.'

Ginni Rometty,
IBM Chief Executive Officer,
Bloomberg, SEPTEMBER 2017.

Technology will need to be augmented

As technology reshapes the tasks and activities that people perform, there will be new demands on our workforce, and these demands will be constantly changing. For example, a recent survey of business by the World Economic Forum found that by 2020 more than one-third of the skills set for most occupations will be comprised of skills not considered crucial to the occupation today (World Economic Forum, 2016).

Therefore our economy will increasingly become the domain of skilled workers, who can harness and augment technology to solve problems, streamline processes and deliver a superior customer experience.

Technology will place increasing value and importance on the complementary human skills such as empathy, communication, persuasion, personal service, problem-solving and strategic decision-making.

The nature of jobs and careers are changing

The nature and types of jobs and careers that people will have are also shifting. By one estimate, 65 per cent of children entering primary school today will ultimately end up working in completely new job types that don't yet exist (World Economic Forum, 2016).

While some people may still choose a traditional 9 to 5 job, others will perform a range of jobs at once, or pursue their own entrepreneurial ambitions in their spare time. The creation of peer-to-peer digital platforms will allow workers to market themselves directly to a range of companies and individuals that place increasing value on specific niche skills to perform individual tasks, activities and projects.

There will also be growing demand and value placed on non-routine jobs such as caring that require intensive human interaction and interpersonal skills. For example, Australia's ageing population and the changing architecture of social services has seen health care and social assistance emerge as the biggest job creator in the last 30 years, creating over 1 million new jobs.[1]

The changing nature of employment in Australia – recent experience

In recent years economic and labour market commentators have emphasised the increasing role of part-time employment in Australia's economy.

The Reserve Bank of Australia (RBA) has recently examined the key trends in part-time work. Their findings included:

- Part-time employment now accounts for nearly one-third of total employment, up from around 10 per cent 50 years ago.
- Data from the Household, Income and Labour Dynamics in Australia (HILDA) survey suggest that the three most common reasons for working part time are to accommodate study, a preference for part-time hours and caring for children.
- Similar to many other countries, Australian part-time workers earn an average hourly wage that is lower than full-time workers. However, there is no evidence that part-time workers in Australia face a wage penalty once other factors such as industry, job tenure and education are taken into account.
- Despite the increasing part-time employment share, the share of casual employees in the workforce has been relatively stable since the 1990s at around 20 per cent.

Source: N. Cassidy & S. Parsons, *The Rising Share of Part-Time Employment,* RBA Bulletin – September Quarter 2017.

Workers will be increasingly mobile

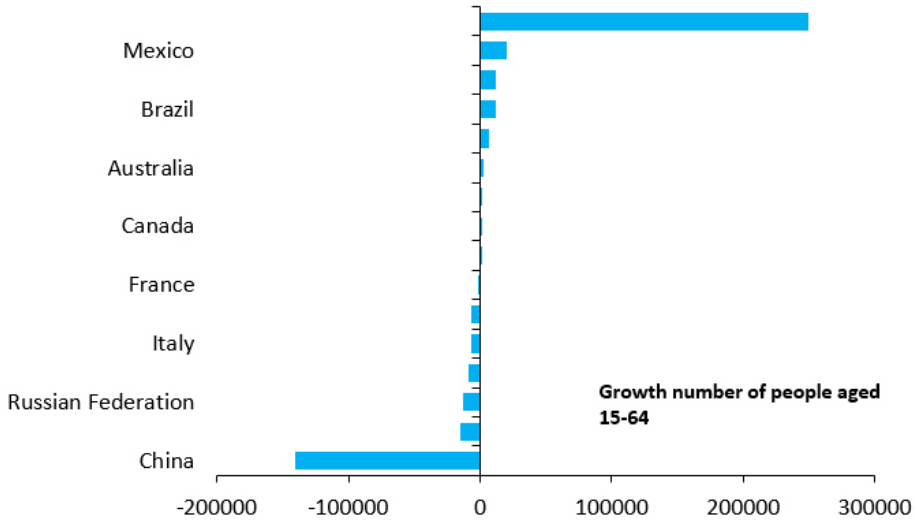
The future workforce is likely to be increasingly mobile across jobs, across employers and geographic boundaries.

Research undertaken by LinkedIn finds that over the past 20 years the number of companies people worked for in the five years after they graduated has nearly doubled. People who graduated between 1986 and 1990 averaged more than 1.6 employers, and people who graduated between 2006 and 2010 averaged nearly 2.85 jobs (Berger, 2016).

Recent surveys have also found a stronger preference from the increasing proportion of millennials in our workforce to work overseas as part of their career, compared to their colleagues.[2]

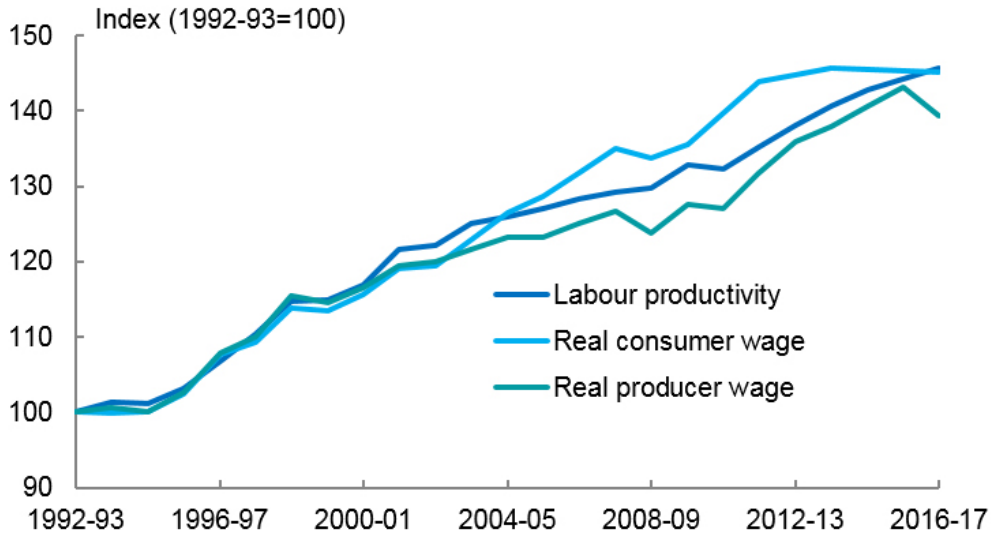
It is also likely that workers will be increasingly mobile across different roles within the same company over the course of a career. The ageing of populations across

Figure 1: Expected working-age population growth to 2040 ('000)



Source: Deloitte Access Economics

Figure 2: Labour productivity drives wages growth



Source: ABS, *Australian National Accounts: National Income, Expenditure and Product*; Business Council analysis.

Australia and other advanced economies will see slower growth in working-age populations. This will place pressure on companies to retain and utilise the skills and talents of their best workers across different opportunities in the company.

THE CRITICAL CHALLENGES

While technology will largely replace tasks and activities rather than whole occupations, sectors across the economy will still come under increasing pressure and there will be workers at risk of becoming displaced. There will be three critical challenges that Australia must address:

1 Getting Australians skilled and re-skilled to take advantage of technological change
As this paper shows, between the Baby Boomer and Y generations, the proportion of low-skilled jobs has decreased significantly, with growth shared between medium- and high-skill roles. Higher level skills will equip Australian workers to be successful and resilient in a changing economy.

2 Getting critical cohorts of Australians into new jobs – including young Australians and displaced workers
With youth unemployment hovering just under 13 per cent and running at over 20 per cent in many regions, finding appropriate education and career opportunities will be critical to ensuring the best future for these young people. Previous episodes of structural change in sectors like automotive manufacturing have also demonstrated that workers with higher-skill qualifications tend to find new employment in other sectors more easily.

3 Lifting productivity and wages
Wages growth in our economy remains at record lows. Through the year, wages growth remains at 1.9 per cent, below the 10-year average of 3.0 per cent. Increased labour productivity – this is, higher output per worker – remains the overwhelming driver of average real income growth, accounting for roughly three-quarters of real wage rises in recent decades.

Labour productivity and real wages growth were practically in lock-step for many years leading up to the resources boom of the early 2000s. During that boom, companies receiving higher prices for their exports could suddenly offer wage increases that vastly outstripped any productivity gains, while a higher exchange rate reduced the price of imports for everyone else. As a result, over the decade to 2011, the average Australian income rose a phenomenal 30 per cent in real terms.

However, the terms-of-trade boom couldn't and didn't last. Export prices eventually fell, while labour costs remained at boom levels, squeezing business competitiveness. As a result, we must now return to productivity growth as the most sustainable way of lifting wages growth.

If Australians have the skills to effectively complement and exploit rapid advances in technology, then this can support sustained productivity and wages growth in the future.

OUR EDUCATION SYSTEM CAN BE THE BALLAST IN PERIODS OF RAPID CHANGE

While these trends can ultimately present significant opportunities for Australians and our economy, we will not be able to capitalise on these opportunities without change.

Some jobs will disappear and some industries will decline, but others will emerge to replace them. The jobs of today will be different tomorrow, and different again in a decade. This has happened throughout history, and particularly when we have experienced industrial revolutions, as we are experiencing today.

Instead of fighting the change and holding on to models of work that reached their peak in the 20th century, we need to embrace a culture that accepts change and uncertainty as the foundation of the working lives of all Australians.

If we collectively accept that we are entering a new environment of work that will be in constant change and uncertain, we can then turn our attention to the institutions that can support Australians in such an environment, and orient our public policy to be adaptable around this new norm.

For individual Australians, our education system, across schools, vocational education and training (VET) and higher education (HE), will be the key to providing them the support to thrive in this new world of change and uncertainty.

Our education system has undergone significant reforms over the last 40 years, and Australians and our economy have prospered from these changes. However, in the face of this norm we will need systemic and transformational change.

Preparing young people and current workers with the technical skills and knowledge, as well as the values, behaviours and skills employers are looking for, will mean change for our education institutions, what they deliver and how they deliver it.

If our education system can equip Australians with the right skills, values, knowledge and tools to navigate these trends successfully, then Australians should enjoy better jobs, higher wages and an enviable standard of living.

The fundamental requirements for future education

- Our schools, VET and HE sectors will need to operate as one system. Schools must provide young Australians with a strong foundation, and our VET and HE sectors will need to be available and responsive to Australians throughout their working lives.
- A qualification based on technical skills and knowledge is unlikely to be enough.
- In addition to technical skills and knowledge, employers will be looking for a mixture of values such as accountability, honesty, work ethic, tolerance, respect and continuous improvement.
- Business will also be looking for behaviours such as adaptability, collaboration, and resilience, and skills such as business literacy, critical analysis and problem-solving.

[1] ABS 6291.0.55.003, Labour Force, Australia, detailed. May 2017.

[2] See for example: https://www.pwc.com/gx/en/hr-management-services/pdf/pwc-nextgen-study-2013.pdf

CHAPTER 2
VISION FOR THE FUTURE

Key points

- Education is a lifelong journey that extends beyond formal institutional learning.
- Formal education can be the single biggest platform to promote equality of opportunity and share prosperity.
- Education gives people confidence and the freedom to make choices.
- All Australians should have the opportunity to create a working life that is flexible, meaningful and rewarding.

WHY THE BUSINESS COUNCIL CARES ABOUT EDUCATION

This paper outlines the Business Council's vision for the future of education in Australia.

When the Business Council talks about education, we are talking about the lifelong journey every Australian has of learning and growth. Formal education in schools, VET and HE provide Australians with a strong foundation, but education is not limited to formal learning in institutions. People build on their formal education by applying and honing the skills and knowledge they gained in formal education, and they continue to learn in their workplaces, through informal and formal training, their colleagues and new experiences.

Formal education across schools, VET and HE can be the single biggest platform from which we can promote equality of opportunity and share prosperity across the nation. Education is also fundamental to our enterprises succeeding and our economy remaining competitive.

If the knowledge and skills of Australians are to be one of our competitive advantages, we need to get our education system right, from early learning through to research qualifications.

From the business community's perspective, the whole system is important, but given its close relationship with the labour market we are particularly concerned with tertiary education, and so the majority of policy proposals in this paper are focused on tertiary education.

EDUCATION IS THE FOUNDATION FOR THE FUTURE

Education is the foundation on which Australians build their careers and lives. The Business Council has a vision where all Australians have three key outcomes across their working lives:

1 A clear pathway into the labour market, for new market entrants, as well as those returning to work

2 The opportunity to continue building their knowledge and skills so they can adapt to change and move between roles and industries

3 Sustainable employment in meaningful and rewarding roles that provide them flexibility over their working lives

The first two outcomes will look similar for most Australians – completion of school and a tertiary qualification to develop their knowledge, skills and confidence to build their career and lives.

The third outcome will look significantly different across the Australian population.

This is because the third outcome is about an individual's choice. There is no single definition for 'meaningful', 'rewarding', or 'flexible'. All three concepts are highly individual, and Australians should have the freedom to apply their own definitions.

Running a large business, or building a business and creating jobs, is meaningful to some Australians. For others it is meaningful to deliver public good to the broader community through careers such as nursing, teaching or policing and emergency services.

'Rewarding' has many different meanings to people, and it is not limited to income, or defined by a specific salary. 'Rewarding' for some people means a job that is stable and enables them to build the life they wish for their family. For others it is about progression and opportunity for advancement. In addition to security and advancement, many people find work rewarding through the stimulation their work provides, the opportunity to engage with others, and the opportunity to grow and develop.

What people consider by 'flexible' is the most individual and varied. Flexibility is generally about a person's circumstances. The meaning changes when circumstances change; it is not fixed throughout a person's life.

When people are studying or have young children, flexibility is often about hours that work around their primary commitments, and casual work at night or on weekends is ideal.

For others, flexibility is about being able to choose the location for work, while for others it is about having the flexibility to take periods of leave to pursue other interests or travel.

EDUCATION GIVES PEOPLE THE FREEDOM TO MAKE CHOICES

These three concepts often involve trade-offs, which are also based around individual choice.

For example, some industries and sectors, such as the not-for-profit sector, prioritise their income or revenue to services rather than employee salaries. Australians who choose to work in such sectors are making trade-offs by determining that 'meaningful' is more important than 'rewarding'.

It is not the role of governments or public policy to intervene in a person's choice by imposing a standard for 'meaningful', 'rewarding' or 'flexible'. Nor is it the government's role to mandate an order of priority. These are decisions for each Australian throughout the course of their working lives.

The role of governments and public policy is in the education system and the labour market.

Governments need to create an environment and systems that allow all Australians the opportunity to develop themselves so they can strive for their ambitions and fulfil them, maintain their employability over their working lives, provide a safety net for workers, and encourage businesses to invest and create jobs.

When Australians are equipped for sustainable employment and are protected by a safety net, they can then create their preferred mix of 'meaningful', 'rewarding' and 'flexible'.

BUILDING A UNIVERSAL EDUCATION SYSTEM FOR ALL AUSTRALIANS

At the heart of the Business Council's vision and philosophy is a belief that all Australians should be able to access education and skill development throughout their lives. That means we need a schooling system that is available to all Australians, as well as a post-schooling or tertiary system that is available to all Australians.

The central thesis of this paper is that while universal access is a relatively modern phenomenon in Australia, particularly in tertiary education, we have a national consensus that education should be a national priority.

However, we do not have a much needed national consensus on what the purpose of a universal education system should be. We also have not moved beyond individual sectoral reform to acknowledge that in the fast-paced world of today, schools, VET and HE are components of one system – a universal learning system. Australians need the sectors to work as one system, and governments and policymakers need to consider reform agendas in the context of the whole system.

Chapters 3 and 4 of this paper analyse the history of education in Australia, and the significant changes that have occurred over the last three generations. In trying to identify what purpose our universal education system should have, they examine the question of why we educate, and the impact universal education has had on the transitions to work.

Drawing on this analysis, the Business Council proposes that as a nation we adopt five objectives for our education system.

Building on these five objectives, **Chapter 5** seeks to ground the philosophy in a real-world context, and proposes tangible outcomes that Australians should achieve from completing early learning and primary school, schooling, and tertiary education. It identifies the cultural changes that are likely to be needed before these outcomes can be achieved.

The remaining chapters of the paper are focused on tertiary education –VET and HE. This focus reflects the importance of tertiary eduction, and the need for a national focus on VET in particular.

Chapter 6 considers significant reforms to VET and HE over the last decade, all of

which have laid the foundation for a universal tertiary education system. The decade of reform has seen success and failure. This chapter considers the lessons we can learn from this decade of reform and how we can apply them in a future model.

Chapter 7 is the Business Council's proposed design for a tertiary education system that will deliver on our proposed outcomes and prepare Australians for the rapidly changing world.

CHAPTER 3
THE HISTORY OF EDUCATION IN AUSTRALIA

Key points

- The importance of formal education in Australia has changed dramatically over the last 100 years.
- The overwhelming majority of young people are completing school, and tertiary education (VET and HE) has become the norm.
- Bipartisanship and collaborative federalism have built a universal education system.
- Australia has a national consensus formal education is a priority, but we do not have a national consensus on the purpose or priorities of universal formal education.

This chapter examines the recent history of education in Australia, including some of the key policy changes that have occurred. In considering how we build a system that will enable Australians to be successful in the face of change, the Business Council believes it is important to reflect on where we have come from. Understanding our recent past and why we made policy decisions should also result in more informed decision-making for the future.

EDUCATION IS NOT A MODERN PHENOMENON

Education is not a modern phenomenon, but the way education was conceived in the early days of Australia's Federation was vastly different to how we conceive of it today. For example, in 1911 the census defined an individual's level of education by their ability to read and write, and compulsory education was a relatively new concept (Campbell 2013 and 2014).

Compulsory education was first introduced in Western Australia in 1871 and last enacted in Tasmania in 1916. It was initially focused on what we would now call primary years of schooling. The movement for compulsory education was built from the idea that education would decrease crime, and was focused on the three 'Rs' (reading, writing and arithmetic) and the development of good citizens (Campbell 2013 and 2014).

THE 'MINIMUM' LEVEL OF EDUCATION HAS SHIFTED DRAMATICALLY IN THE LAST 100 YEARS

While higher levels of education were available in the early 20th century, they were generally confined to those with wealth or the middle class. As Campbell notes, the idea that secondary schooling could be for all young people is a 20th century concept.

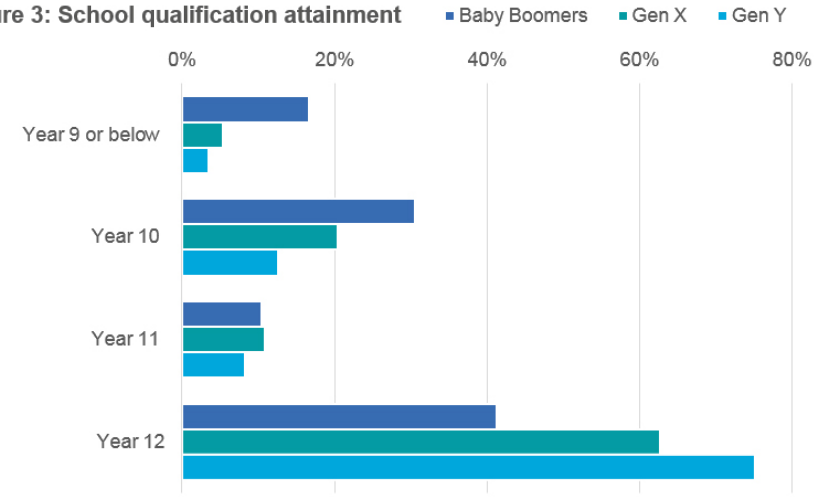
This concept coincided with emerging theories that adolescence was a stage of life that needed 'special treatment', and that young people needed additional support before entering the labour market. Campbell notes that governments and non-government institutions accepted these arguments, and the impact was the creation of institutions for adolescents – schools, as well as juvenile courts and reformatories.

The schools for adolescents – today's high schools – were to focus on the educational, psychological and social needs of adolescents. Additional policy changes accompanied this and the school leaving age was raised to 14, then 15.

We now live in a time where it is compulsory for young people to complete Year 12 or equivalent and therefore the majority remain in education until at least age 17.

The clearest indicator of changed expectations are school completion rates over the last three generations. As illustrated in Figure 3, educational attainment has increased with each generation.

Figure 3: School qualification attainment



Source: ABS, *Census 2011*; Business Council of Australia analysis.

Only 41 per cent of Baby Boomers completed Year 12 or equivalent, compared to 63 per cent of Generation X and 75 per cent of Generation Y.[3]

Governments have collectively agreed to make the completion of Year 12 or equivalent a benchmark in the National Education Agreement, 'Lift the Year 12 or equivalent or Certificate II attainment rate to 90% by 2015.' While the 90 per cent benchmark has not yet been reached, current reporting indicates the attainment rate is 88.4 per cent.[4]

This is a clear example of how policy matters. Governments decided completion of Year 12 or equivalent was important. They then designed policy to achieve that outcome, and made great gains in two generations.

TERTIARY EDUCATION HAS BECOME THE NORM

There is also an expectation from young people, parents, government and employers that most young people will go into tertiary education before entering the workforce. This tertiary education can take the form of an apprenticeship, a VET qualification or a bachelor degree.

Generational analysis of both tertiary education participation and attainment confirms these changed expectations.

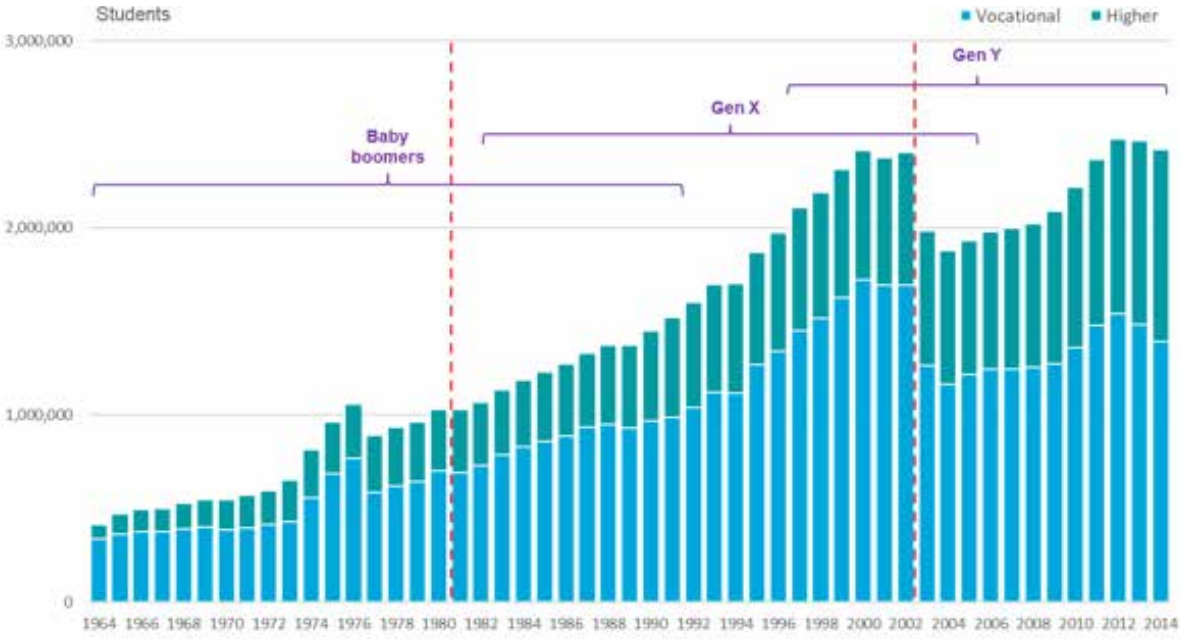
As illustrated in Figure 4, participation in both VET and HE has grown dramatically. While there were some sudden jumps in participation, the trend is largely an upward trend across the generations.

Consistent with increased participation rates, tertiary educational attainment has also increased significantly between generations.

As illustrated in Figure 5, tertiary educational attainment has increased from 48 per cent of the Baby Boomer generation to 65 per cent of Generation Y. While this is a smaller increase than school attainment, it is still a significant change in two generations.

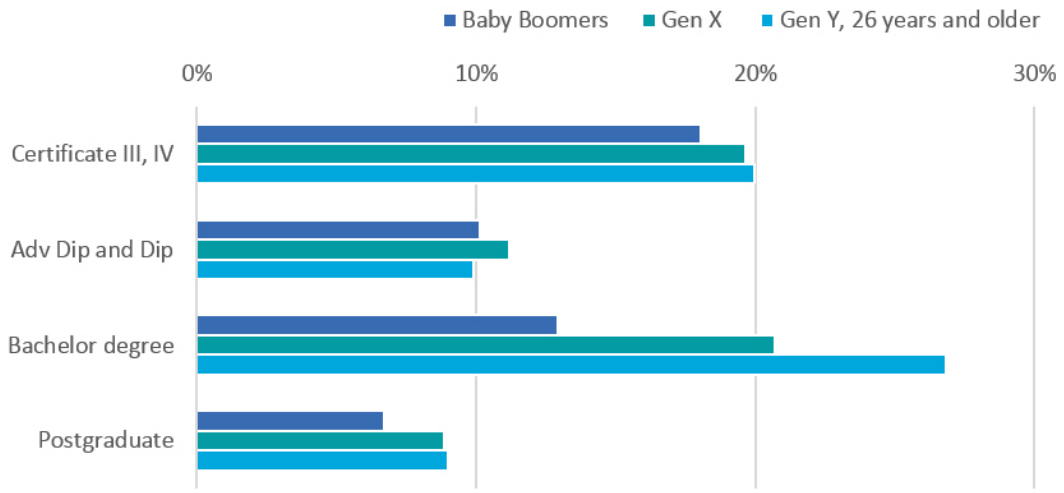
Again, this demonstrates how important policy can be, and how policy can make a difference. Governments wanted to make tertiary educational more accessible, and increased attainment demonstrates their policy achieved the intended outcome.

Figure 4: Tertiary participation



Source: ABS, *Year Book Australia 1963–2011*; Australian Department of Education, Higher Education Statistics; NCVER, Government-Funded Students and Courses[5]; Business Council of Australia analysis.

Figure 5: Tertiary qualification attainment



Source: ABS, *Census 2011*; Business Council of Australia analysis.

YEAR 12 SEEMS TO HAVE BECOME A PREREQUISITE FOR ANY TERTIARY STUDY

In addition to increased attainment at both a school and tertiary education level, there are two notable changes across the generations.

The first is the relationship between school attainment and tertiary attainment.

For the Baby Boomers, only 41 per cent completed Year 12 or equivalent, but 48 per cent completed tertiary education. This meant that it was possible to complete tertiary education without having completed school, and education was not a purely linear journey.

With Generation X and Y we see an emerging pattern of more people completing school education than tertiary education, suggesting that completion of school has become a requirement for all forms of tertiary education. Generation X have a 60 per cent completion rate for Year 12 or equivalent and a 65 per cent tertiary completion rate. This gap widened for Generation Y with a Year 12 or equivalent completion rate of 75 per cent, and a tertiary completion rate of 66 per cent.

The apprenticeship pathway is a good illustration of this change. Figure 6 shows the changes that have occurred over the last 20 years in the starting age of apprentices.[6]

The age at which an apprentice commences has steadily increased. In 1995 only 22 per cent of commencing apprentices were over the age of 19. By 2016, and in just one generation, it had more than doubled, with 49 per cent being over the age of 19 when they started their apprenticeship.

In earlier generations it was not uncommon for young people to leave school after completing Year 9 or Year 10 to go into an apprenticeship or work (close to 50 per cent of Baby Boomers did not go on to Years 11 or 12). Apprenticeships were also the domain of the young.

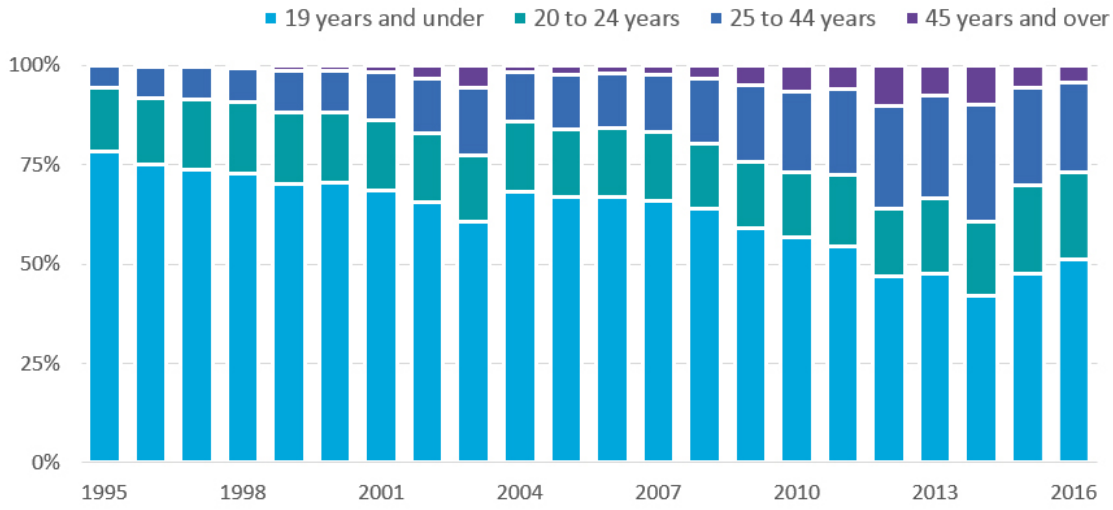
This no longer holds for the current generation. Completion of Year 12 has become common, and as illustrated in Figure 6 it has become more commonplace for older workers to commence an apprenticeship.

TERTIARY GRADUATES ARE BEGINNING TO FAVOUR HIGHER EDUCATION

The second notable change across the generations is the type of qualification completed.

There has been a significant change in the split of tertiary graduates between degree and other qualifications, which primarily reflects the split between HE and VET being the highest level of tertiary education completed.

Figure 6: Apprentices and trainees, age at time of commencement



Source: NCVER, Historical time series of apprenticeships and traineeships in Australia.

For Baby Boomers, only 41 per cent of tertiary graduates held a degree. This has changed significantly with 54 per cent of Generation Y holding a degree, a 32 per cent increase across two generations.

A UNIVERSAL SYSTEM IS AUSTRALIA'S MODERN EDUCATION PHENOMENON

This analysis demonstrates that educational access and attainment have changed dramatically since Federation. As a result Australia does have a modern phenomenon in education.

What is unique in the history of Australia education policy is a universal education system that includes compulsory government-funded education until adulthood, and universal access to tertiary (post-school) education.

How this system is designed and implemented varies across the country, as would be expected in a federation, where constitutional responsibility for education generally resides with state governments. Governments have designed and implemented education reform agendas to best suit the needs of their citizens and the circumstances of the region.

However, what is uniform across the Federation is a universal education system that covers early learning, primary and secondary school, and tertiary education including VET and HE. It educates more than 6 million[7] Australians each year, and receives close to $80 billion each year through government funding. It is also a shared responsibility between the nine governments in our Federation.

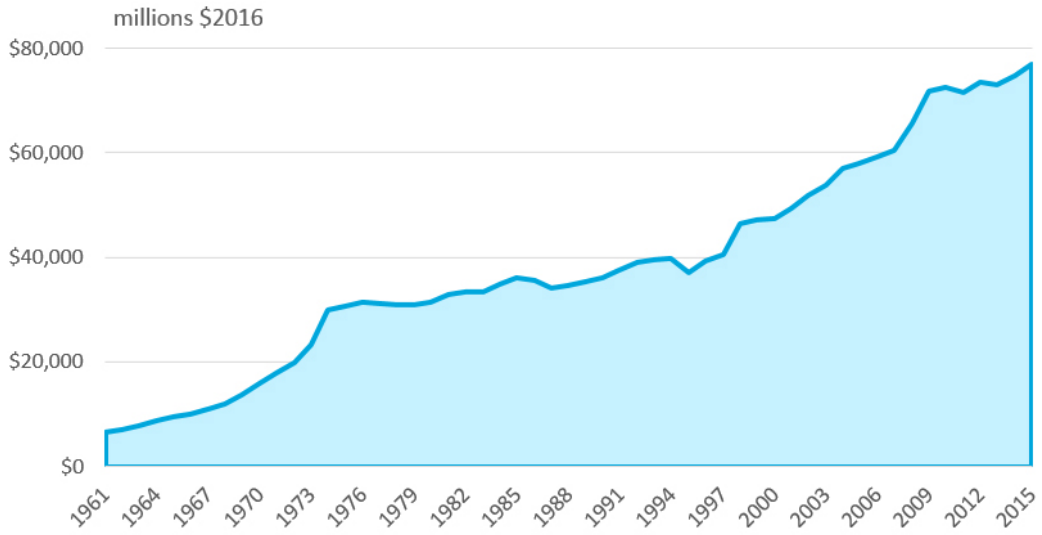
BIPARTISANSHIP AND COLLABORATIVE FEDERALISM BUILT OUR UNIVERSAL EDUCATION SYSTEM

This universal education system has been built over the last 40 years by successive governments across Australia, at both a Commonwealth and state and territory level, and is one of the greatest public policy achievements of modern Australian politics.

This achievement was built from a bipartisan and intergovernmental consensus that education underpins Australia's competitiveness, and that education at all levels should be available to Australians, regardless of their background or financial circumstances.

This collective commitment is clear when government expenditure on education is

Figure 7: Government expenditure on education



Source: ABS, Government Finance Statistics, Education; Business Council of Australia analysis.

examined. Figure 7 shows a steady increase of real government expenditure on education.

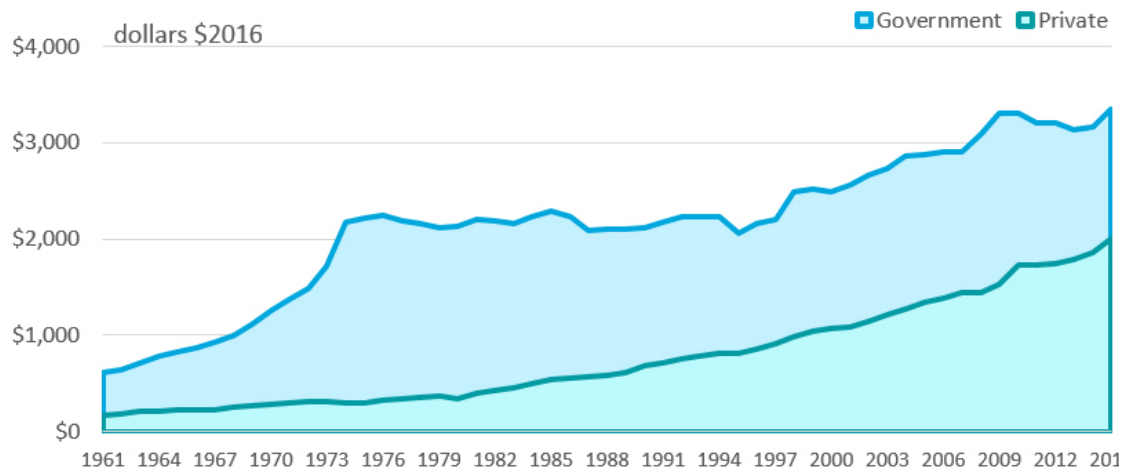
It is further illustrated when expenditure is examined on a per capita basis. As illustrated in Figure 8, total education per capita has increased by almost 600 per cent between 1961 and 2015.

Growth in expenditure on education is not limited to governments. As Figure 8 demonstrates, private expenditure per capita has grown tenfold since 1961, more than twice as much as government expenditure per capita over the same period.

A fair proportion of this increased private expenditure is from the income-contingent loans scheme operating in HE and parts of the VET sector. As illustrated in Figure 9, the current debt in the scheme is almost $48 billion.

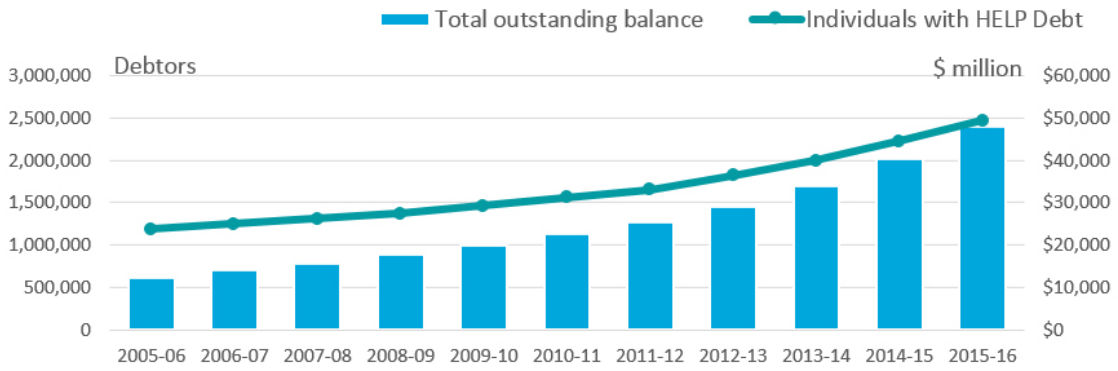
Close to 2.5 million Australians have a HELP debt, the average debt per person is just below $20,000.

Figure 8: Education expenditure per capita



Source: ABS, Government Finance Statistics, Education; National System Accounts[8]; Business Council of Australia analysis.

Figure 9: Individuals with HELP debt and total outstanding balance



Taxation statistics, Individuals, Outstanding HELP debt, by size of outstanding balance, 2005–06 to 2015–16.

AUSTRALIANS SUPPORT GOVERNMENT PRIORITISING INVESTMENT IN EDUCATION

Why have governments prioritised education in this way, and why do taxpayers support devoting close to $80 billion each year to our education system?

There are very good reasons for why taxpayers contribute to educating all citizens. Education is an intrinsic good, but it also benefits citizens, our society and our economy. A universal education system can deliver four key things for our nation.

1. Australia is a modern democracy with a clear social value of fairness and opportunity for all. A universal education system provides that opportunity by creating the single biggest platform to provide equality of opportunity and social mobility.
2. A universal education system facilitates economic participation and is our best shot at navigating periods of structural change and minimising the impact on people. This has never been more important when Australia is facing significant disruption and can expect serious changes to our economy and labour market.
3. The last 100 years has shown us that education helps us build cohesive societies. Knowledge replaces superstition, ignorance and prejudice. It also helps us deal with the fear of the unknown and the fear of change, something that many Australians are grappling with today in the face of the digital revolution and artificial intelligence.
4. Education can be catalytic for social improvement. Some of the greatest advances in science, maths and philosophy come from the simple statement: 'I do not know.' And seeking that answer can propel societies into a new era of progress and prosperity.

It is for these reasons that over the last 40 years we have had bipartisanship and a commitment to collaborative federalism to build a universal education system. These key points explain the 'why' – why we should have universal education, and why government should invest in it.

BUT WE DO NOT HAVE A CONSENSUS ON THE PURPOSE OR PRIORITIES OF UNIVERSAL EDUCATION

In this commitment to collaborative federalism and bipartisanship we have not agreed about the purpose of our universal education system and the priorities within it. This lack of agreement is not limited to the political sphere.

We have not as a nation discussed the 'what' and the 'how'. We have not talked about what we want this universal education system to deliver, how it should be delivered,

what parties have a stake in it, or how we sustain it.

As a result, we have a national consensus that we want a universal education system for all Australians, but we do not have a national consensus on the purpose of our universal education system or how it should be designed.

In schools we have national testing, national curriculum, and high-level government agreements such as the *Melbourne Declaration on Educational Goals for Young Australians*. However, if we were to survey parents about what the purpose of school education was, and what they expected their children to be able to achieve as a result of their schooling, it is highly doubtful we would have a national consensus.

That is one of the reasons why we end up in school funding wars, and debates about whether school performance is going backwards. We do not have a national consensus about what a young person finishing school should be equipped to do.

This lack of national consensus extends to tertiary education. The VET sector is the main vehicle for developing workers for some of Australia's biggest employers and industries, and 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.

Instead we end up mired in debates about 'returning' to the days of Whitlam and offering free university education, with no acknowledgement that free education was limited to a small subset of the population, and that a university setting is not the best learning environment for all Australians.

IT IS TIME FOR AUSTRALIA TO HAVE PURPOSEFUL POLICY ACROSS ITS UNIVERSAL EDUCATION SYSTEM

The Business Council strongly supports Australia continuing to build on the last 40 years of public policy achievement, and sustaining a universal formal education system that can meet the needs of all Australians.

A universal formal education system is in the interest of every citizen, enterprise and community in Australia. It is in Australia's national interest.

But for it to deliver, we need a national consensus on its purpose, design and priorities. This consensus must also include agreement on how we fund it so it is fair in the opportunities it provides, as well as ensuring it delivers value for money for the close to $80 billion invested annually by taxpayers.

We need to start from a point where we understand that each sector has a different role, but they need to operate as one system. Poor performance in the schooling sector has a flow-on impact to the VET and HE sectors. While the Business Council's strongest focus is tertiary education, we cannot ignore schools, because that is where the foundation begins. Reform of one sector also has an impact on another sector and can create significant issues. This is particularly the case between VET and HE.

Additionally, we need to recapture bipartisanship and collaborative federalism in education. We need to build on this successful history to ensure that the component parts of our universal education system work together as a coordinated and coherent system that meets the needs of Australians, our enterprises, and our economy more broadly.

The following chapters are a potential roadmap for Australia to achieve these outcomes. We may not have the perfect answers, but we put forward our proposals as a starting point from which to build a national consensus.

[3] See Appendix 3: Notes on the Data for a description of the method used to determine generational cohorts.

[4] March 2016, Council of Australian Governments, *Report of Performance 2016,* p. 7. Note: This data varies from rates of school attainment because the COAG report also includes completion of Certificate II. There may be further variance as the COAG data relies on the 2016 ABS Education and Work survey as opposed to the 2011 Census.

5 The series breaks in 1980 and 2002 refer to the vocational data set. Note: This data combines a number of data sources to get a broad understanding of the take-up off non-school qualifications, so the use of the term 'VET' is more encompassing than the generally accepted definition. For a detailed description of the analysis method see Appendix 3: Notes on the Data.

6 This data has not been analysed across the generational cohorts, as the longitudinal data on the age of commencing apprentices is only publicly available from 1995 onwards.

7 Australian Department of Education, Higher Education Statistics; NCVER, Government Funded Students and Courses; Australian Curriculum, Assessment and Reporting Authority. Note: only government funded VET students are included in this total.

8 Adding government and private expenditure does not equal total expenditure, as there is double counting, for instance of government grants to private schools.

CHAPTER 4
THE PURPOSE OF UNIVERSAL EDUCATION

Key points

- Formal education was initially designed to prepare people to be good citizens, to teach them to think, give them confidence and independence, and prepare them for the future.
- The 21st century has seen a strong push for formal education to be focused on preparing people for work. This is a contested purpose.
- The labour market has changed over the last 30 years and job growth has been in roles that rely on tertiary education qualifications.
- The Business Council proposes that the purpose of Australia's universal formal education system be multi-faceted and include the traditional roles as well as the role of preparing people for work.

WHAT DO WE EDUCATE FOR?

In Chapter 3 we argued we have a national consensus on why we educate, but we do not have a national consensus on what we are educating for.

At its most simple, education can be defined as the transfer of values, knowledge and skills. This was the case before the creation of writing systems and educational institutions, and remains the case today when we have highly advanced communication systems and robots that can learn how humans think.

In today's world, what are we educating for? Over the ages there have been many answers to this question from philosophers, educationalists, intellectuals and public commentators.

WE DO NOT EDUCATE FOR A SINGLE PURPOSE...

There is much in common among these commentators, with a strong focus on values and community, as well as training people to think, encouraging creativity and for people to have independence. There is also a focus on the role of education establishing foundations for a person's future.

The majority of these quotes come from a time in history when we did not have a universal education system, and education was limited to an elite, or mass education was limited to schooling.

It is therefore not surprising they do not deal with the world of work, and the role education has in preparing people for the world of work. It was not relevant in that time or place, but in today's world it could not be more relevant.

One of the reasons we now have a universal education system is to prepare people for the world of work. This is clearly articulated in the *Melbourne Declaration on Educational Goals for Young Australians,* signed by all Australians governments in 2008:

> Globalisation and technological change are placing greater demands on education and skill development in Australia and the nature of jobs available to young Australians is changing faster than ever. Skilled jobs now dominate jobs growth and people with university or vocational

Why we educate

- 'Education's primary mission is to produce good and virtuous citizens.' **Aristotle**
- 'Education breeds confidence. Confidence breeds hope. Hope breeds peace.' **Confucius**
- 'The purpose of education is knowledge of values, not facts.' **William Ralph Inge**
- 'The first objective of education is informed and intelligent citizens.' **Eleanor Roosevelt**
- 'Education is not the learning of facts, but the training of the mind to think.' **Albert Einstein**
- 'The purpose of education is not to fill a vessel but to kindle a flame.' **Alfred North Whitehead**
- 'Education without values, as useful as it is, seems rather to make man a more clever devil.' **C. S. Lewis**
- 'The purpose of education is to enable us to develop to the fullest that which is inside us.' **Norman Cousins**
- 'The purpose of education is to fit us for life in a civilised community.' **Anthony Burgess**
- 'Education is the passport to the future, for tomorrow belongs to those who prepare for it today.' **Malcolm X**
- 'The function of education is to teach one to think intensively and to think creatively. The true goal of education is intelligence plus character.' **Dr Martin Luther King Jr**
- 'The purpose of education ... is to create in a person the ability to look at the world for himself, to make his own decisions.' **James A. Baldwin**

education and training qualifications fare much better in the employment market than early school leavers. To maximise their opportunities for healthy, productive and rewarding futures, Australia's young people must be encouraged not only to complete secondary education, but also to proceed into further training or education.

In today's world we therefore educate not only for values and teaching people to think and contribute to their community as citizens, but also to prepare people for work and contribute to the economy.

...BUT EDUCATING FOR THE PURPOSES OF WORK OR ECONOMIC GROWTH IS CONTESTED

The idea that formal education should prepare people for work and economic contribution is a late 20th century and 21st century concept, and it remains a contested one. One of the most interesting observations presenting this view about the role of education and economic growth comes from American intellectual Noam Chomsky, who said:

> Education is discussed in terms of whether it's a worthwhile investment. 'Does it create human capital that can be used for economic growth?' It's a very distorted way to pose the question. Do we want to have a society of free, creative, independent individuals able to appreciate and gain from culture achievements of the past and add to them, or do we want people who can increase GDP. These are not the same thing.

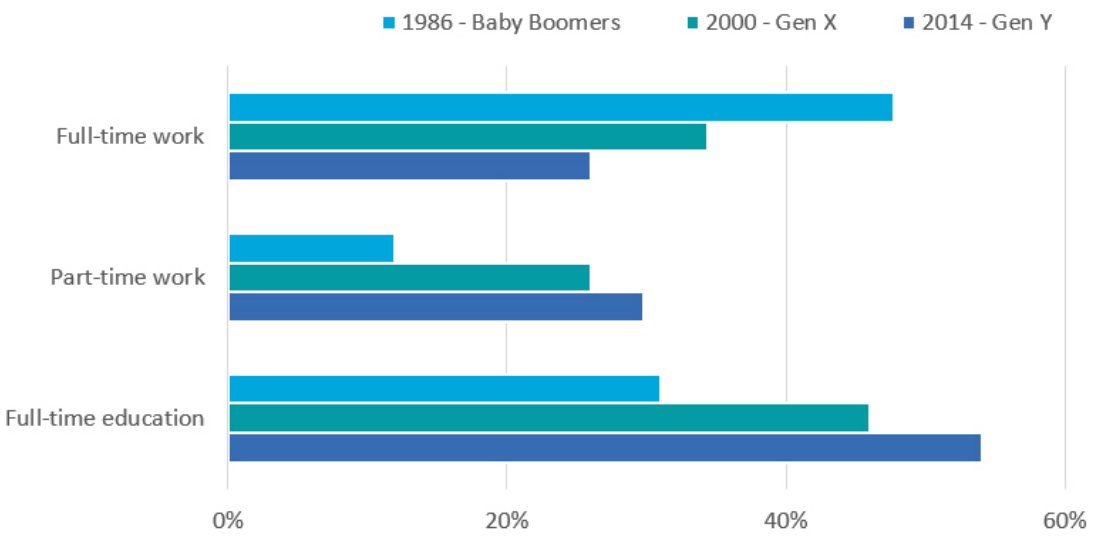
While Chomsky is right that these are not the same thing, this does not mean that the two cannot coexist as equally important purposes of education, or occur simultaneously and be complementary. We want people to have enriched lives – to have an education that allows them to achieve their potential, and have fulfilling and rewarding jobs and careers.

The Business Council supports the notion that education should develop free, creative and independent individuals. At the same time we support the notion that education should develop people for work and economic achievements.

People spend the majority of their lives working, and people working can contribute to economic growth. It also seems counterintuitive to suggest that people who add to the cultural achievements of the past cannot also add to economic growth.

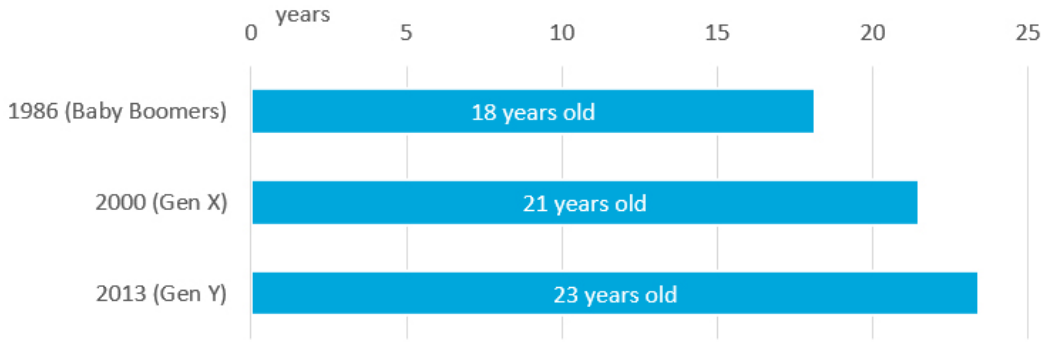
This notion that education should be limited to academic or creative endeavour may have been applicable when the amount of time spent in education was limited, in total years or to a small group of the population, but it is less applicable when we have a universal education system.

Figure 10: Engagement in work and study, 15–24-year-olds



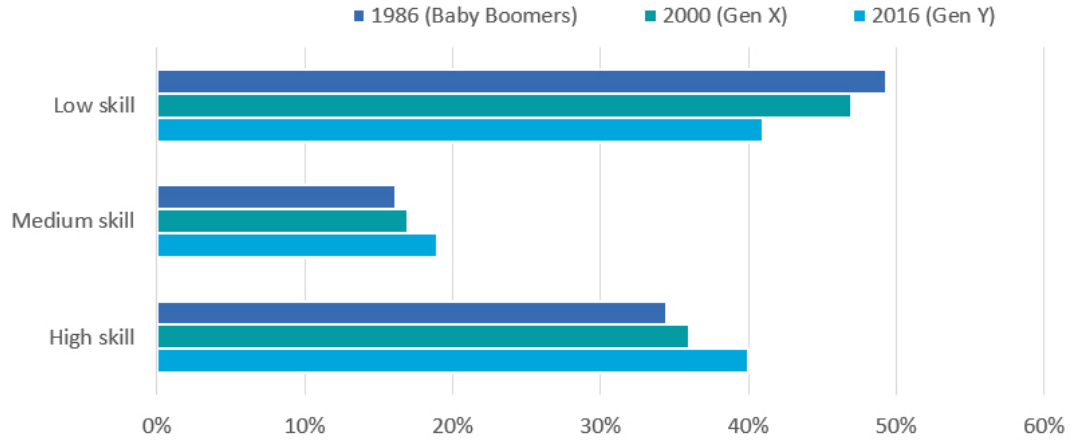
Source: ABS Labour Force, Detailed, Quarterly

Figure 11: Age commencing full-time employment (half of cohort employed full-time)



Source: ABS Labour Force, Detailed, Quarterly

Figure 12: Labour market composition by skill level



Source: ABS Labour Force, Detailed, Quarterly

As the earlier data analysis demonstrated, a large proportion of young people are now spending the first quarter of their lives learning in educational institutions. What is the purpose of all these additional years of education, if it is not to prepare people for work? Increasing educational attainment has been a policy priority for governments because people with higher levels of education fare better in the labour market.

A UNIVERSAL EDUCATION SYSTEM HAS IMPACTED TRANSITIONS TO WORK

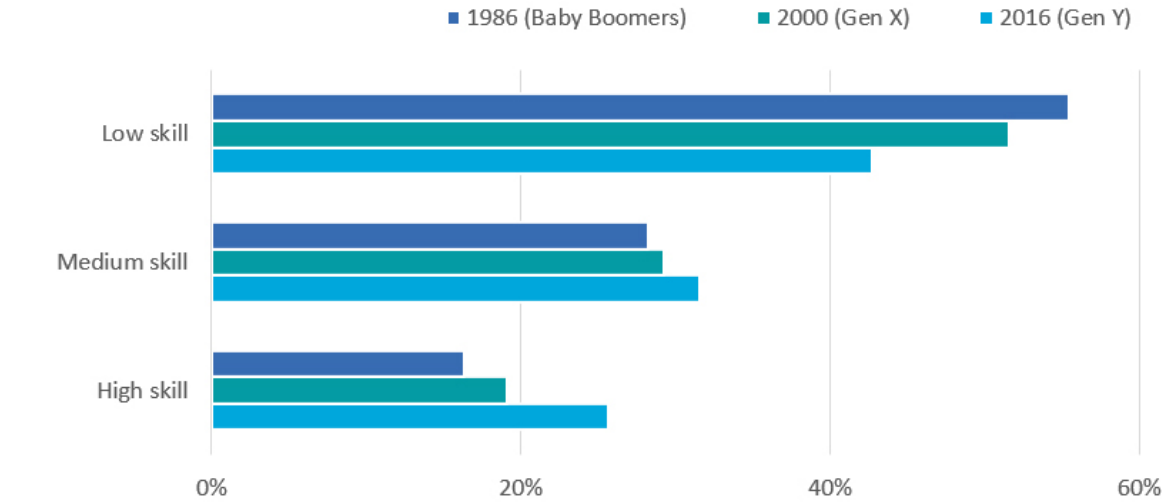
Not surprisingly, increased educational attainment has affected the labour market. As Denny and Churchill discuss,[9] there has been a significant decrease in the proportion of young people working full-time.

In 1988 two-thirds of young people aged between 15 and 19 were in full-time work. By 1998 it was only a third, and today it is 10 per cent.[10] This trend goes beyond 15–19-year-olds, to include the broader youth group of 15–24-year-olds where the distribution of young people between full-time work, part-time work and full-time education has been flipped on its head.

Young people are working in record numbers while they are studying,[11] but their entry into the labour market into a 'career' role is often now occurring in their mid-20s.

As demonstrated in Figure 11, Baby Boomers were only 18 when they commenced full-time work. Two generations later, another five years had been added, and Generation Y started full-time work at 23.

Figure 13: Composition of full-time labour market by skill level, 15–24-year-olds



Source: ABS Labour Force, Detailed, Quarterly

The increase in age is more than just a reflection of a focus on increased educational attainment. It reflects the changing nature of the labour market and the increasing skill level of jobs in the Australian market.

Between the Baby Boomers and Generation Y we have seen a significant change in composition of jobs in the Australian labour market. As illustrated in Figure 12, the proportion of low-skilled jobs has decreased significantly, and the growth has been shared between medium- and high-skilled roles.

When this data is then considered with a focus on young people, the shift is starker. Young people are significantly more likely to be employed in medium- to high-skilled roles than previous generations.

As illustrated by Figure 13, there has been over a 20 per cent decrease between Baby Boomers and Generation Y in the proportion of young full-time workers employed in low-skilled roles.

This means that without qualifications, entry into the labour market is more difficult for the current generation than previous ones.

There is no doubt that young people need their education to teach them to think, be independent individuals and ensure they have foundations to become a good citizen, but that is not enough.

Young people today also need their education to prepare them for a more skilled labour market and prepare them for the world of work.

Our universal education system is also not limited to young people. While it is paramount to them, it is also paramount to the working-age population. As illustrated in Figure 14, industries that have traditionally been large employers, such as manufacturing, have been declining in the share of the labour market.

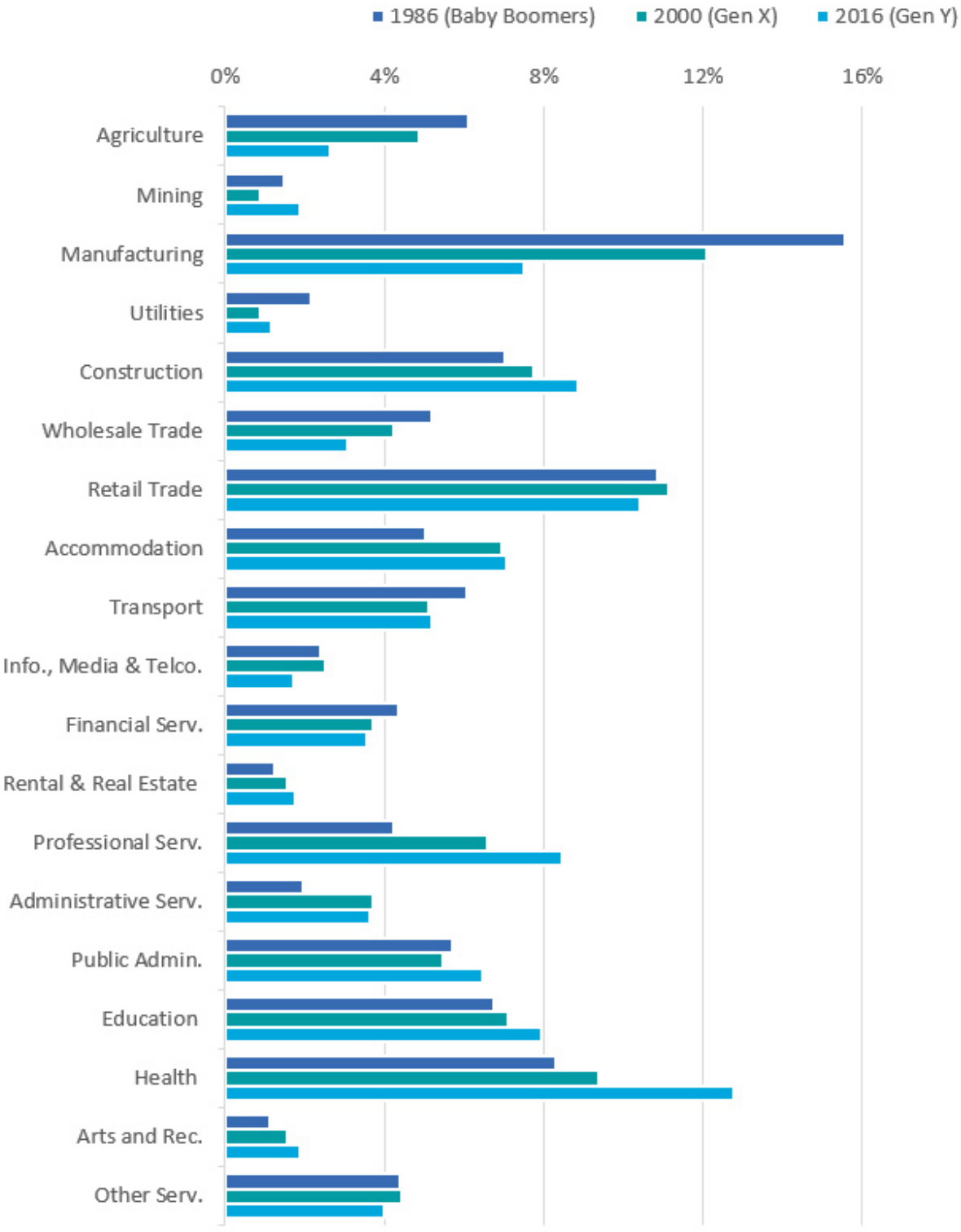
Workers within these declining industries or workers who lose their jobs need the opportunity to develop new or additional skills so they can transition to a new role or a new industry.

Additionally, as the educational attainment data demonstrated, older generations with a significant amount of time remaining in their working lives, are less likely to have tertiary qualifications.

However, as Figure 15 shows, over the last 30 years the growth in jobs has been in ones that are medium- and high-skilled and require tertiary qualifications. There is therefore a mismatch for older generations, noting Baby Boomers are reaching retirement age.

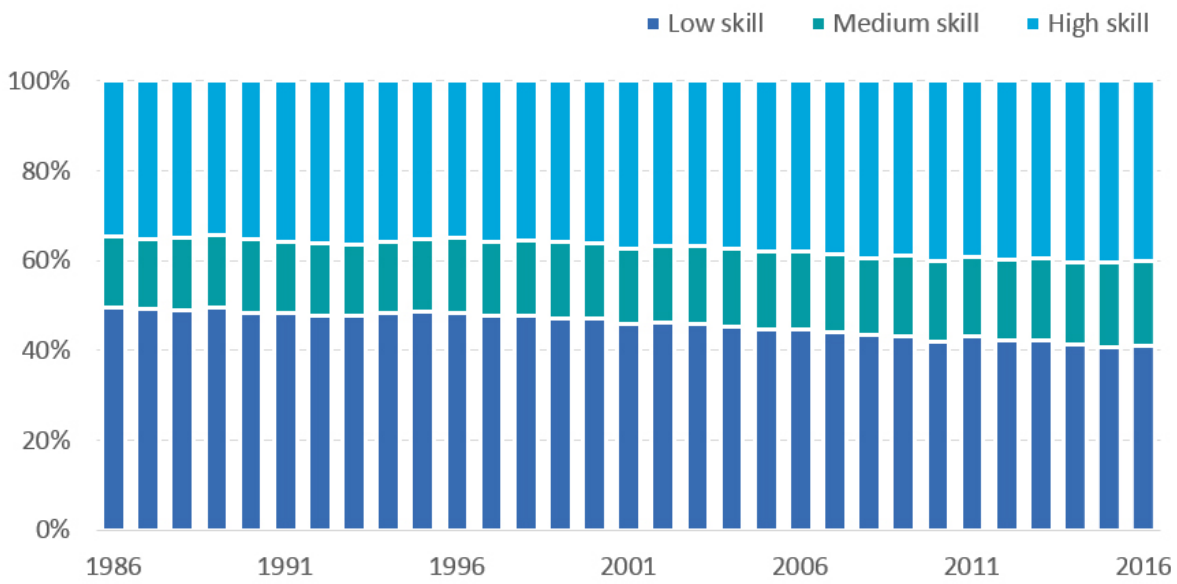
Fifty-two per cent of Baby Boomers do not have tertiary qualifications, but 59 per cent of jobs in the labour market now require tertiary qualifications.

Figure 14: Labour market composition by industry



Source: ABS Labour Force, Detailed, Quarterly

Figure 15: Change in labour force composition by ANZSCO skill level



Source: ABS Labour Force, Detailed, Quarterly

BUSINESS COUNCIL **PROPOSAL ONE**

The Business Council proposes 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, including 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 to transition to new roles or industries.

While some of this mismatch could be managed through workplace training, the reality is that our universal education system needs to be able to assist people to transition to new industries and roles. It therefore must have a purpose of preparing people for work.

AUSTRALIA'S UNIVERSAL EDUCATION SYSTEM CAN MARRY WISDOM WITH MODERNITY

Australia should take the wisdom of philosophers, educationalists, intellectuals and public commentators who have pondered the role of education, but we should also bring a modern context that focuses on the world of work and the fundamental role education now has in preparing people for work.

9 'Youth employment in Australia: a comparative analysis of labour force participation by age group', Lisa Denny and Brendan Churchill

10 ABS Labour Force Detailed Quarterly.

11 Approximately 40% of those aged 15–24 years in full-time education are also working part time. This trend has been consistent since the early 2000s. Source: ABS Labour Force, Detailed, Quarterly.

CHAPTER 5
DESIRED OUTCOMES FOR EACH EDUCATION SECTOR AND THE CULTURE CHANGE REQUIRED

Key points

- Each sector should focus on achieving outcomes relevant to who they are educating, and the Business Council proposes specific outcomes for each sector.
- To achieve the outcomes, schooling, VET and HE will need to adopt cultural changes.
- Schools need to embrace five key cultural changes focused on genuinely embracing need-based funding, recognising multiple forms of intelligence, embracing multiple styles of engagement and learning, empowering and supporting teachers, and a new approach to help young people prepare themselves for the future
- VET and HE need to embrace four key cultural changes focused on seeing the sectors as one tertiary system, breaking down the stigma attached to VET, genuinely embracing lifelong learning, and a new role of business.

Given the importance of Australia's workforce to the Business Council, our strongest focus is on the final years of schooling and tertiary education, and the latter part of this paper is focused on tertiary education. However, all education sectors are important, as they provide the building blocks from which Australians become confident, creative and independent individuals.

The Business Council's proposed primary objectives would be universal across the different sectors within our universal education system, but the emphasis would naturally change according to the sector.

For example, the provision of community-wide values would be emphasised in the earlier years of education, whereas the preparation for labour market entry would be a greater focus of the final years of school and a strong focus of tertiary education.

Taking a sector lens, the Business Council proposes that the universal education system is focused around the needs of the learner and their stage of life.

The remainder of this chapter proposes outcomes for each of the education sectors and discusses the cultural changes that each sector will need to undergo to achieve the proposed outcomes.

PROPOSED OUTCOMES FOR EARLY LEARNING AND PRIMARY SCHOOLING AND CULTURE CHANGES NEEDED

Early learning has become a prominent area of public policy over the last 10 years, and this confirms Australia's commitment to building a strong foundation for all Australians. For the early learning and primary school sectors, the Business Council proposes that this foundation include four outcomes.

BUSINESS COUNCIL **PROPOSAL TWO**

Proposed outcomes of early learning and primary schooling:

1. Provides a strong foundation for all learners (including but not limited to literacy, numeracy, digital capacity)
2. Provides for community-wide values
3. Supports play, fun, and development of creativity
4. Sets learners on a path for higher learning.

Given that early learning and primary school have been developed for the whole population, there is unlikely to be a significant cultural change to enable the sectors to support the different needs of learners.

PROPOSED OUTCOMES FOR SCHOOLING AND CULTURE CHANGES NEEDED

As noted in the earlier data analysis, governments have collectively agreed to make the completion of Year 12 or equivalent a benchmark in the National Education Agreement, *'Lift the Year 12 or equivalent or Certificate II attainment rate to 90% by 2015',* and the current reporting indicates the attainment rate is 88.4 per cent.

Building on this, the Business Council believes that, similar to early learning and primary school, it is important that the Year 10 qualification and senior secondary schooling provide a universal foundation for all students. This would build on learnings in primary school and develop depth in both knowledge and skills.

Additionally, it is important that the school qualifications are flexible enough to allow for multiple pathways, and to cater to different learners. The Business Council proposed outcomes for schooling are on the following page.

BUSINESS COUNCIL **PROPOSAL THREE**

Proposed outcomes of schooling
Note: this would apply to all formal qualifications (for example Year 10 qualification and Year 12 qualification)

1 A universal foundation that means graduates will:
- have the minimum levels of literacy, numeracy and technology in order to effectively communicate, interact and work
- have values of citizenship, the ability to think, participate and contribute in modern society
- have a depth of knowledge in core areas of English, the humanities, maths, sciences, and technology
- have a foundation for future learning
- be prepared for the world of work, not just prepared for a single job or employer
- be equipped with the behaviours needed in the modern world of work such as adaptability, resilience and the knowledge that no one wins all the time, self-awareness, collaboration and a customer focus.

2 Supports a range of pathways that mean graduates will be able to:
- go on to further study
- enter the labour market.

3 Caters to different learners:
- Traditional academic learning and assessment.

Cultural changes required in schooling

Australia's secondary schooling system needs five cultural changes to deliver these outcomes:

1 **Move beyond funding.**

2 **Become more learner-focused and recognise multiple forms of intelligence.**

3 **Embrace multiple styles of engagement and learning.**

4 **Empower and support teachers.**

5 **Adopt a new approach to help young people prepare themselves for the future.**

Move beyond funding

For many years now, our public debate on education has been focused on the funding of schools.

The Business Council supports schools being appropriately funded, but a focus on funding to the exclusion of all other issues is coming at the expense of outcomes and quality.

There seems to be a national consensus that Australian schools should be funded on a needs basis, and the Business Council supports this.

It is important, however, that we are clear about what we mean when we discuss a needs-based funding model.

1 Such a model has a dollar amount assigned to a learner, based on their disadvantage.

2 The dollar amount follows the learner, it is not assigned to a specific school.

Consequently, a school's funding starts with the number of learners and their needs, and not the funding the school got last year. That means, over time, some schools will get more money and some will get less. That is what a true needs-based funding model would do.

Such a model needs to be implemented in our schools so we can shift our attention to improving the outcomes in schools.

Our school system needs to be more learner-centred and recognise multiple forms of intelligence

Over 50 per cent of Baby Boomers did not complete senior secondary school, as it was primarily a pathway to higher learning. Now all young Australians are expected to engage with it, but it is not designed for all young Australians.

As Professor Sternberg states, our education system is *'very much oriented to favor traditional learners, those who are good memorizers and good at analytical reasoning'.*

Students who are successful in school, notwithstanding hard work, are predominantly those who are traditional learners or academically inclined. We have a culture that tells young people that academic success is an indicator of 'smart', and therefore those who struggle academically are not.

It is imperative that we ensure students who are traditional learners and academically successful are offered a learning environment where they can be challenged and thrive. However, it is equally important we value other forms of intelligence and offer those students environments where they can also be challenged and thrive.

It is unrealistic to think that a system oriented to one type of learning or intelligence could achieve positive outcomes for all learners. The reality is that there is not a single and homogenous form of intelligence or style of learning (Gardner 1998 and 2011).

Professor Howard Gardner from the Harvard Graduate School of Education created the theory of multiple intelligences in the late 1970s. In this theory he challenged the idea that there is a singular intelligence – the intelligence assessed in IQ tests, including linguistics, logical-mathematic intelligence and in some cases spatial intelligence.

In applying his theory to education, Professor Gardner said:

> As much as possible we should teach individuals in ways that they can learn and we should assess them in a way that allows them to show what they have understood and to apply their knowledge and skills in unfamiliar contexts.

It is important that our schooling system challenges young people, and that they learn some things in life are simply difficult and will require hard work and dedication to master. Permitting young people to avoid challenges will not enable them to thrive in the future; it is likely to lead to failure.

However, the hard work and dedication should also reap rewards; not be an endless grind because the young person is simply being taught in a way that is ill-suited to them. Embracing multiple forms of intelligence will enable young people to be in an environment where perseverance pays off and they can thrive. It will also provide the foundation from which to instil a love of learning for all young people.

We need to embrace multiple methods of learning

There is no question that educational authorities have endeavoured to broaden curriculum in recognition of the needs of different learners. They have also introduced programs, such as VET in Schools, to provide alternate pathways.

However, these initiatives have often been seen as add-ons or optional, rather than the core business of schooling. Additionally they have not changed the approach in curriculum design or instruction across the vast majority of content.

Take maths as an example. Our maths results are concerning, but for the most part we adhere to traditional methods of teaching in a classroom setting where students need to be roughly at the same level and keeping pace.

This is despite having numerous reports that tell us students find maths difficult and irrelevant to real life. These students are then in danger of disengaging early and convincing themselves that they are bad with numbers, and this is particularly the case with young girls.

This has a lifetime impact. Practical-life maths, and an understanding of numbers, is becoming essential in the majority of workplaces. A person who believes they cannot do maths will not only limit their future career options; they will also struggle to excel in many careers.

Inquiry-based learning is widely acknowledged to be an effective teaching method for maths, but it is relatively new and underutilised in schools in Australia. The Office of the Chief Scientist has repeatedly

called for inquiry-based learning to be scaled up significantly. While the Commonwealth Government has committed funding in two of the last three budgets to do some trials of inquiry-based learning, it is still a long way from being an option available to all students.

Being open to different styles of learning and experimenting with a wide range of methods is a cultural shift we will need if we are to deliver outcomes for all school students.

We need to empower and support teachers

We also need to shift our focus from arguments about funding models and classroom sizes to a discussion about how we can support different learners, including a strong emphasis on teacher quality.

At an OECD summit, Schleicher argued that it was the mix of pedagogical approaches that was important. He said:

> ... innovation is not about using a single new teaching method or one kind of technology, it is about employing a combination of approaches, including direct teaching and tools.

This, however, will also need to be accompanied by a strong focus on teacher quality. As noted in an OECD review, inquiry and design approaches to learning are highly dependent on the knowledge and skills of the teacher, and Barron and Hammond argue that 'Teachers need time and a community to support their capacity to organise sustained project work.'

Providing this time and community support will need a cultural shift in both the school and community setting.

It will also be important to define what we mean by teacher quality. A teacher can change a student's life, but we don't have a systematic approaching to determining what constitutes teacher quality. The creation of an index for teaching quality could enable schools to have the data they need to improve their performance.

Adopt a new approach to help young people prepare themselves for the future

When young people are thinking about their future today, it is far more complicated than when their parents were in school. Young people are expected to have multiple careers and even more employers, and will be expected to upskill and reskill countless times. For some young people, their tertiary qualification will become out-of-date a couple of years after they complete it.

A traditional model of career counselling is not consistent with this new world. In Chapter 7 we propose that governments establish a single platform for market information to enable people to make informed decisions about tertiary education.

The key to that proposal is that when people are considering tertiary education they start with two questions:

1. What am I good at?
2. What I do like/am passionate about/am inspired by?

And building from that, people then narrow down the kind of tertiary education they would like to do.

This process should be brought into the schooling system, and from a very early age. The way in which it would be applied would need to be cognisant of different age groups, but the concept could be applied from primary school.

Doing this would allow young people to really focus on their strengths, and learn from an early age where those strengths would be most suited in their future. It would also allow them to identify areas of weakness. This is important as there will be skills or knowledge all young people will need regardless of their future career choice, and knowing areas of weakness will enable young people to focus their development.

BUSINESS COUNCIL **PROPOSAL FOUR**

Culture changes needed in schools

1. Move beyond funding.
2. Be more learner-centred and recognise multiple forms of intelligence.
3. Embrace multiple methods of learning, starting with a trial on how to teach maths differently.
4. Empower and support teachers, starting by defining what we mean by 'teacher quality' and establishing a national index for teaching quality.
5. Adopt a new approach to help young people prepare themselves for the future that begins with the questions: 'What am I good at?' and 'What do I like/am passionate about/inspired by?'

PROPOSED OUTCOMES FOR TERTIARY EDUCATION AND CULTURE CHANGES NEEDED

As the data indicates, tertiary education has become a significant industry in Australia. Approximately two and half million,[12] Australians participate in tertiary education each year and 65 per cent of Generation Y already have a tertiary qualification.

More importantly, Australia's labour market is demanding more skilled workers, and therefore workers with higher level qualifications. Today, 59 per cent of the jobs in the Australia labour market require workers to have completed a qualification at least at a Certificate III level (e.g. Commercial Cookery, Engineering, Health Administration, Horticulture, Business Administration, and Financial Services).

The importance of this cannot be understated. This means that for two out of every three jobs, employers will expect potential employees to have a tertiary qualification.

While we cannot predict the future in terms of the specific jobs in the labour market or industry structures, we can predict that this trend will continue to grow. We can also predict that worker in the labour market will need to upskill and reskill more frequently as jobs change and industries adapt.

If the knowledge and skills currently developed through a tertiary qualification are to continue to grow in importance, it will be imperative that the tertiary education system stays relevant and can adapt to changing needs. The Business Council proposed outcomes for tertiary education are on the following page.

BUSINESS COUNCIL **PROPOSAL FIVE**

Proposed outcomes of tertiary education
Note: the first three outcomes would apply to all formal qualifications in VET and HE, except foundation studies, and the final two outcomes would apply at a sector level

1 Provides a universal foundation that means graduates will:
- have values of citizenship, the ability to think and participate in modern society
- have a depth of knowledge and expertise for a specific occupation or industry
- have a foundation for future learning
- be prepared for the world of work, not a single job or employer.

2 Supports a range of pathways that mean graduates will be able to (noting some qualifications will not be able to offer each option):
- go on to further study
- enter the labour market
- be prepared for a specific employer
- continue in research or academic inquiry.

3 Caters to different learners (noting some qualifications will not be able to offer each option):
- Traditional academic learning and assessment
- Applied learning
- Workplace learning
- Combination.

4 Cater to different cohorts at their stage of life:
- Young people with school qualifications
- Adults (18 and above) who need LLN and foundation studies (only VET)
- Adults without school qualifications
- Adults without post-school qualifications
- Adults supplementing post-school qualifications
- Adults building expertise in post-school qualifications
- Adults choosing to change careers
- Adults needing to change occupations because of changed conditions.

5 Ensure skills sets/modules/ short courses that are not formal 'qualifications' are available or can be constructed by learners and enterprises, so specific skills and knowledge can add to a person's foundational qualification.

Cultural changes required in tertiary education

Australia's tertiary system needs four cultural changes to deliver these outcomes:

1 Seeing VET and HE as a genuine tertiary education system rather than two silos

2 Breaking down the stigma attached to VET

3 Genuinely embracing lifelong learning.

4 Enterprises need to support workers in lifelong learning.

Breaking down the stigma of VET

The first, and the most important cultural change we need is to change the view that VET is a second-class citizen to HE, and that getting into HE is the pinnacle of success for a school student.

When young people are considering their futures and what they should study in tertiary education, we want them to start with two questions:

1 What am I good at?

2 What I do like/am passionate about/am inspired by?

For many, the attitude is: 'I want to go to university. What courses can I choose between?' This significantly narrows the options for many Australians. Additionally, a university or HE provider is not the right learning environment for all learners.

As discussed earlier in the schooling section, there are multiple forms of intelligence and multiple styles of learning. It is not reasonable to ask a single institution or a single sector to cater to all forms of intelligence and styles of learning.

However, it is reasonable to expect that our mass tertiary education system will cater to these multiple needs, but that there will be no stigma associated with choosing a VET course over a HE one, or vice-versa. This is the case in Germany, where VET is as important as HE.

Seeing VET and HE as a genuine tertiary system rather than two silos

The stigma is further exacerbated by VET and HE operating as two silos. As noted earlier in this paper, our universal education system has been built on collaborative federalism. However, the tertiary components of that system – VET and HE – have been repeatedly reformed in isolation of each other.

HE has become the domain of the Commonwealth Government, and the VET sector is primarily the responsibility of state governments, with Commonwealth involvement and management varying depending on the component of the sector.

Reforms at both a Commonwealth and state level have increasingly resulted in clashing agendas and perverse incentives.

For example, funding levels for providers are greater in HE than VET, and in some cases subsidies for students in HE are better than subsidies in VET. Moreover, demand-driven funding is not available across the VET sector, but is available for universities. These differences provide incentives to both providers and learners to prioritise HE over VET.

In proposing we move to a culture of a genuine tertiary system, the Business Council is not proposing that the sectors become interchangeable.

VET providers have a specific mission that includes applied learning and deep industry engagement. These functions are fundamentally important to the Australian economy, industries and people.

Higher education providers, and universities in particular, have a specific mission that includes academic learning and research. These functions are equally important to the Australian economy and Australian people.

The sectors should retain their identity, mission and functions, but our governments need to adopt a cultural change that would result in policy settings and design, particularly the funding model, to occur holistically so the two sectors are on a neutral footing.

It is important to be clear that a neutral footing means having a system that does not incentivise providers or students into one sector because the sector has better funding arrangements.

A neutral footing does not mean the same amount of funding for each qualification. The level of funding for each qualification needs to consider cost, and the benefits to individuals as well as the broader community benefits.

This cultural change will require genuine collaborative federalism and bipartisanship, and should result in a learner's aspiration being for tertiary education, not just HE.

Germany's dual training scheme demonstrates the value of a high-quality and respected VET system

The German 'dual-sector' system is often held up as a world-leading model of vocational education and training.

In Year 10 German students choose a vocational, academic or mixed pathway. Students who choose the vocational pathway split their time between participation in classroom learning at a vocational school and on-the-job training at a company. Students can complete this training in fields as diverse as manufacturing and hospitality to IT and banking.

The model has similarities to apprenticeships and traineeships in Australia. The training is subject to a regulated agreement between the student, employer and vocational school. There are 330 officially recognised training occupations and training content is continually updated through cooperation between government, industry and trade unions.

The system was formally introduced in 1969 through the Vocational Training Act, which formalised Germany's long tradition of developing highly skilled craftspeople through master and apprentice relationships.

Vocational training is a highly respected career path in Germany, reflected by the fact that 50 per cent of all students choose it. The system is successful at producing well-trained workers with technical skills, as well as work-ready values and behaviours; German youth have both high skill levels and low unemployment rates.

The system also delivers for employers. German companies offer work placements because it is considered the best way to attract talent, lower recruitment costs and develop a workforce with fit-for-purpose skills.

The training model has been a key source of skilled labour for industry and contributor to the German economy. A study by PricewaterhouseCoopers estimated that if all OECD nations could reduce youth unemployment to that of Germany it would add over a trillion dollars to total GDP.

Aspects of the German model may not be consistent with the Australian education system. In Australia students are now largely encouraged finish Year 12 before selecting a tertiary pathway.

While there may be concerns that German students could choose a pathway they later wish to change, this is addressed by a culture of 'lifelong learning' where workers are supported to return to training to switch career tracks, or to further specialise in their field.

The German model demonstrates the value of a VET system that prizes developing well-trained and work-ready students; that has a high-level of buy-in from government, industry and other vital stakeholders; and that rewards students for following their vocational interests.



Genuinely embracing lifelong learning

The third cultural change we need to adopt is to genuinely embrace lifelong learning.

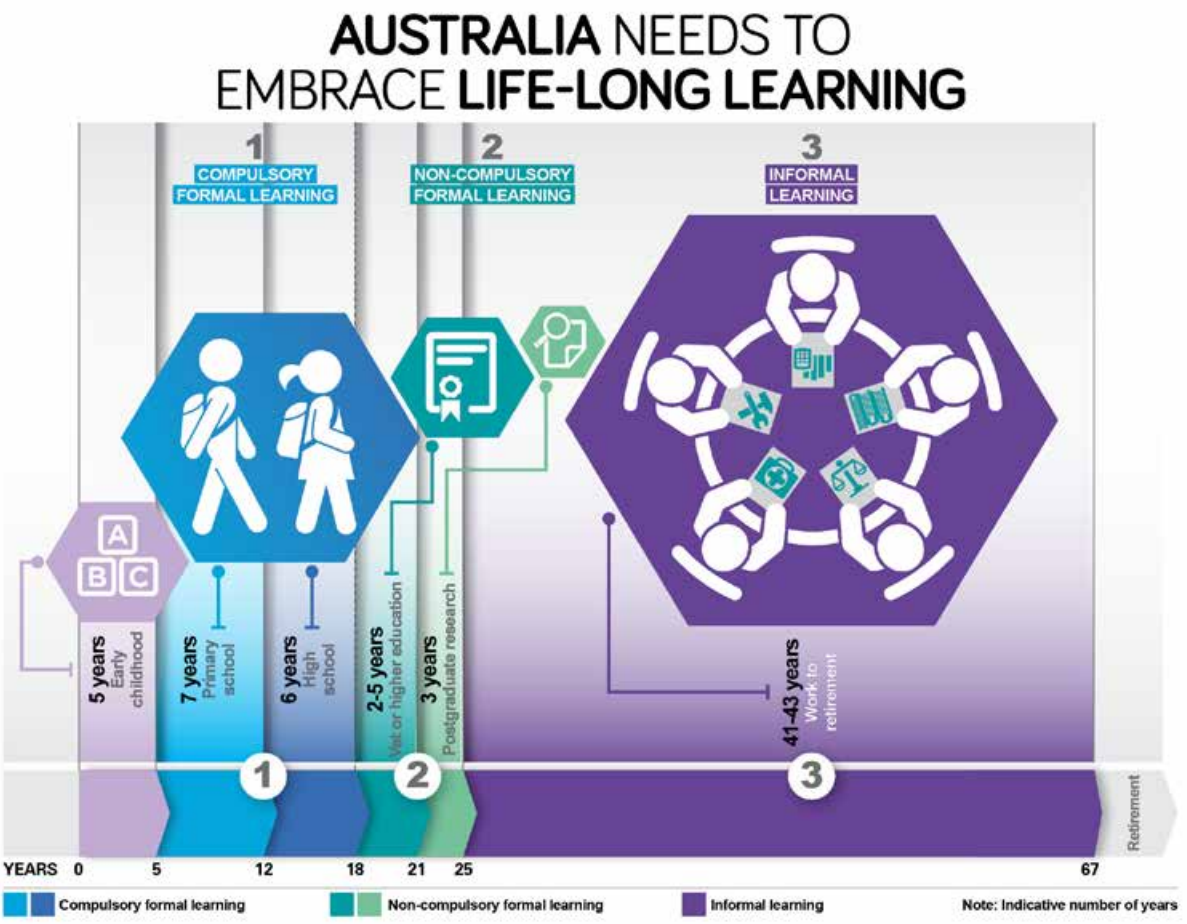
As the following diagram illustrates, our educational systems are not oriented towards lifelong learning. As already discussed in this paper, young people are spending almost the first quarter of their lives in educational institutions, but will then spend close to twice as long in the labour market.

While some workers move in and out of the tertiary education system during their working lives, our system is oriented towards formal learning before work.

One of the fundamental differences between schooling and tertiary education is that schooling provides a broad-based foundation for young people. Tertiary education is labour-market facing, and for the majority of learners is the beginning of a specialisation or a career.

Over someone's working life, that specialisation or career may change many times, and we need a tertiary education system that can support these workers without requiring them to leave the labour market.

The Business Council is not advocating that our tertiary education system move away from awarding qualifications and providing Australians with that foundation from which they can form a career. However, once that foundation qualification has been completed, be it a Bachelor of Science, an Advanced Diploma in Accounting, a Construction Apprenticeship or a Certificate III in Music Industry, it is important that graduates can build on the knowledge and skills they have already developed through their education and work.



It is also important that the 'qualification' construct does not reside solely with providers. Workers and businesses should be able to pick the skills and knowledge they need to supplement their foundational qualification and work experience, rather than fit in with a qualification constructed by an education provider.

Enterprises need to support workers in lifelong learning

A culture of lifelong learning is a rich and diverse one made up of both informal and formal learning.

INFORMAL LEARNING

For young people, formal learning provides the foundation from which they build fulfilling and rewarding careers. For workers with an already established foundation, learning and development often occurs in the workplace through informal, on-the-job and tacit learning.

The learning may be at a workshop or short course that a business runs for its staff. These will often be focused on transferable skills, such as management or leadership, but with the program tailored to the specific operational needs of the business.

People already in the workforce also develop through opportunities that come up in their organisation. Sometimes these experiences are designed specifically to develop people, and other times people are thrust into cover unexpected leave or emergency situations.

While these are often challenging experiences, especially the unplanned ones, they are also one of the main ways that people develop new skills and insights. These are genuine learning opportunities that allow people to experience new responsibilities and environments.

Tacit learning is also common in organisations, where people observe their colleagues and more senior staff, and learn how, or how not, to manage situations.

These types of learning and development are as important as formal learning, and are often overlooked when lifelong learning is discussed. These also tend to come at a cost to businesses that is not quantified, so generally not counted as a business contributing to development.

If we are to build a strong culture of lifelong learning, these forms of informal learning need to be acknowledged.

FORMAL LEARNING

For formal learning, the final impediment to lifelong learning is time. People who are working full-time, or have family commitments, struggle to find the time to focus on skill development.

Some businesses embrace skill development and support their workers. Others are not as committed, and workers are often expected to source their own professional development, and are not given time or a reduction in responsibilities to undertake the development.

This reflects a combination of culture and commercial realities. Some businesses will take the decision to prioritise investment in development, and this decision is based on both a culture of development as well as the economic return the business will derive from the development of their people. However, for some businesses the cost simply outweighs any benefits, or the business simply cannot afford the investment to generate the

BUSINESS COUNCIL
PROPOSAL SIX

Culture changes needed in tertiary education

1. See VET and HE as a genuine tertiary system rather than two silos *(see Chapter 7).*
2. Break down the stigma attached to VET *(see Chapter 7).*
3. Genuinely embrace lifelong learning *(see Chapter 7).*
4. Enterprises need to support workers in lifelong learning.

benefits, noting there are some industries where training costs and benefits are pooled in order to overcome such constraints.

Over the last few decades, governments have introduced a variety of programs to require or incentivise businesses to focus on professional development. None of these programs have proven to be successful. If Australian business culture is to change, it needs to come from within businesses, not from within government.

Introducing these outcomes across the three sectors of early childhood and learning, schooling and tertiary education will lay a strong foundation for lifelong development for all Australians. Creating the culture changes discussed throughout this chapter will be challenging and will take time, but the cultural changes are necessary.

The remaining chapters of the paper narrow the focus from the whole education system to focus only on tertiary education. This focus reflects the importance of tertiary eduction, and the need for a national focus on VET in particular.

12 Australian Department of Education, Higher Education Statistics; NCVER, Government Funded Students and Courses; this total includes government funded VET students as opposed to Total VET Activity.

CHAPTER 6
VET AND HIGHER EDUCATION REFORM – LESSONS FROM A DECADE OF REFORM

Key points

- This chapter analyses the last decade of reform in VET and HE to identify the strengths we need to build on, and the pitfalls we need to avoid.
- The analysis identifies eight key lessons for designing a tertiary system, and these inform the proposals in Chapter 7:
  1. We need a universal entitlement that is sector-neutral.
  2. A universal tertiary system needs to be funded by government and the individual, and the cost of the system needs to be calculated.
  3. A demand-driven system is challenging to manage, and loans need to be designed around the student cohorts.
  4. The tertiary education market needs changes before full fee deregulation can be effective across all cohorts.
  5. The regulator needs to differentiate between providers, and the funder must put in place strong contract management.
  6. Market information cannot remain in the 'too hard' basket.
  7. The public provider must be supported, but private providers are also needed.
  8. We need a collaborative governance model where each level of government controls their financial contribution.

REFORM FATIGUE CANNOT JUSTIFY MAINTAINING THE STATUS QUO

Over the last decade, the VET and HE sectors have both gone through significant reform (see breakout boxes on the following pages for summaries of key initiatives). This started with the Victorian package Securing Jobs for Your Future, followed by the Bradley Review and the introduction of demand-driven funding in HE in 2009, and then the 2012 National Partnership on Skills Reform, including expansion of VET FEE-HELP (VFH).

Some commentators would argue that reform fatigue is overwhelming, and that the best option would be to simply allow current policies to play out. However, the VET sector receives less funding now than it did a decade ago (O'Connell and Torii, 2016), funding for the higher education sector remains unresolved, and the sectors operate as silos.

The perverse incentives will remain, and students will continue to be treated unfairly. Students will be encouraged into HE over VET regardless of the suitability of the sector for the learner. In such cases students are likely to accumulate loans that may never be repaid, passing additional costs onto the taxpayers.

The VET sector will increasingly become residualised to trades training, and this will happen at a time when Australian industries desperately need tertiary education that is responsive to their needs.

In short, allowing the sectors to act as silos will come at an increased cost to taxpayers, and lead to uninformed decisions by learners and a lack of response to industry.

VET FEE-HELP

- The VET FEE-HELP (VFH) scheme was a component of the Australian Government's Higher Education Loan Program.
- VFH loans were incurred by the student and the course fees paid directly to the education provider. Students are required to repay the loan(s) once their income reaches a threshold.
- The VFH scheme was established in June 2008, primarily to increase participation in VET.
- Initially designed to support pathways to higher education, the scheme was subsequently expanded by allowing all eligible students to access a VFH loan, and abolishing the requirement for a pathway to higher education.

While it is not an excuse to do nothing, it is important to acknowledge there is reform fatigue, and it will be difficult to create real and long-lasting reform. It will take bipartisanship and collaboration between the different levels of government. It will also require compromise and commitment by all parties – governments, political parties, businesses and individuals.

But if we accept the premise that the Australian people will be our nation's competitive advantage, and that education can be the single biggest platform to promote equality of opportunity, we have no choice but to reform our system and build one that delivers for all Australians.

Demand-driven funding – higher education reforms

» In 2008 Professor Denise Bradley AC chaired a review of higher education and proposed a package of 46 reforms to '... reshape the higher education system to assist Australia to adapt to the challenges that it will inevitably face in the future'.

Recommendation 29 proposed the introduction of a demand-driven system:

That the Australian Government introduce a demand-driven entitlement system for domestic higher education students, in which recognised providers are free to enrol as many eligible students as they wish in eligible higher education courses and receive corresponding government subsidies for those students. The arrangements would:

- apply initially to undergraduate courses but then be extended to postgraduate coursework level courses subject to further work on the balance of public and private benefits at that level of study;
- apply initially only to public universities (Table A providers under the Higher Education Support Act 2003), but would be extended to other approved providers when new regulatory arrangements are in place;
- set no time or dollar limit on the value of the entitlement;
- allow eligible providers to set their own entry standards, and determine which, and how many, students to enrol;
- allow providers to change the mix of student load by discipline cluster in response to demand; and
- allow the government to exclude a course of study from the demand-driven system if it wished to regulate student or graduate numbers.

A subset of this recommendation was introduced in 2009.

Under the current system, all domestic students enrolled in public universities receive Commonwealth support through both a subsidy and access to an ICL for their student contribution, or fee.

FAIR REFORM DOES NOT MEAN THERE IS NO COST

Delivering for all Australians will also require us to accept the reality that the right policy direction does not mean improving outcomes for everyone, and this generally comes down to access to services and how services will be funded.

Our national debate on education has shied away from having a frank and open discussion about this issue. It is most prominent in the school funding wars and the notion that no school should be worse off, or the notion that it is feasible for our tertiary education system to be fully funded by the taxpayer with no contribution by the individual.

In designing a modern tertiary education system we must have a realistic conversation about the trade-offs between access to tertiary education and how it is funded, and how we ensure the system is fair and sustainable for all Australians.

Securing Jobs for Your Future – Skills for Victoria

In 2008 the Brumby Government announced a package of reforms for VET, with the centrepiece of a training entitlement and student choice. The reform package was built around learners and was focused on creating a more open and responsive training market.

The entitlement was the first of its kind. In essence, the Victorian Training Guarantee (VTG) was an entitlement to a government-subsidised place at an approved provider for literacy and numeracy, and any qualification higher than the qualification an individual already held.

The entitlement replaced a system where government allocated a certain number of places to specific courses, with the majority of places going to TAFEs. Individuals would need to compete for the places and access was generally managed on a first-in first-served basis.

The policy objectives of these reforms were articulated in the document *Securing Jobs for Your Future – Skills for Victoria.*

The new skills system will deliver better outcomes for individuals and employers, as well as the wider Victorian community. The new system will drive the following:

1. School leavers and adults without solid foundation skills in literacy, numeracy and language skills will be able to acquire them. This will greatly improve their employment and further education opportunities.
2. More people will be trained to get the skills required in their workplace.
3. In areas of high industry demand, the number of people undertaking and completing qualifications at the Diploma and Advanced Diploma level will rise, addressing the growing need for people qualified at higher levels.
4. People who continue to learn, and who undertake progressively higher level skills development, will continue to access government support. This will encourage ongoing participation in the training system, with significant benefits to individuals and to the businesses and industry areas in which they work.

THERE ARE INEVITABLE MISTAKES IN ALL PUBLIC POLICY REFORM

Public policy reform is difficult. There is no perfect design or implementation, and this is particularly the case when a government is a first mover in the type of reform, such as an entitlement to tertiary education.

Policy starts with a problem identification and a possible solution, and that solution is often predicated on assuming people will react in a specific way. Unfortunately, human behaviour is not always predictable, and the assumptions made in the theory of a policy design can prove to be false in implementation. That is why one of the stages of the public policy process is about managing any fallout, and learning from and correcting the inevitable design flaws and implementation failures.

The past decade of reform has seen some spectacular failures that have been widely publicised, but it has also seen some spectacular successes. In designing a tertiary education system for the future it is important we build on the successes and learn from the failures.

In learning from our mistakes, it is imperative we correctly diagnose the specific flaw that created the problem, rather than assuming additional regulation is the answer. It is also important we return to the underlying principles or intent of the reform and do not abandon the right policy direction because there have been failures, albeit costly and damaging ones.

LEARNER ACCESS TO TERTIARY EDUCATION

In many ways access to education is the most important component of system design. If we fail to offer access to all Australians, or complicates access, we are less likely to encourage people into tertiary education.

The value of entitlement and demand-driven funding

The one characteristic all three reforms have in common is they had an entitlement or operated as demand-driven. What that means is that when an individual meets the academic requirements for enrolment, and the provider has been approved by the relevant government, the individual can study what they want and where, and receive a form of government assistance.

When these packages of reforms are discussed, particularly the VET sector ones, they are rarely measured against the impact the entitlement had on a learner's likelihood to go into tertiary education, or the increase in enrolments and completion of higher level qualifications.

Instead, they are discussed in relation to the behaviour of providers, the cost blow-outs in state anda Commonwealth budgets, the lowering of ATARs, and the impacts on TAFEs.

These are important issues and must be factored into an effective future design to ensure the same mistakes are not repeated, but these issues should not be conflated as a necessary outcome of an entitlement model.

The key lesson of an entitlement model in terms of learner access, is that it can and will increase participation, including disadvantaged cohorts.

As the Kemp and Norton Review of the Demand Driven Funding System found, 'The demand driven system is a policy advance that needs to be preserved and enhanced in the interests of student opportunity, institutional flexibility and economic productivity.'

The concept of a government-supported entitlement to tertiary education works on two fronts:

1. The first and perhaps most important is that it removes barriers to access. In keeping with the concept of fairness, a well-designed entitlement model across the tertiary education system provides opportunities for education, regardless of someone's background or financial circumstances.
2. The second is that a well-designed entitlement model actively encourages young people and workers to equip themselves with the education they need to fulfil their potential.

Consistent with this, the Kemp and Norton review found uncapping places 'was immediately successful in increasing student numbers', and it created opportunities for a wide range of Australians, 'There are more students from the major cities and from regional and remote areas, more students from all socioeconomic backgrounds, and more Indigenous students.'

In thinking about a learner's access to education, the Business Council starts with the principle that all Australians should be able to access tertiary education over their lifetime. Our decade of reform has shown us that an entitlement model will do this, but it has also shown us that unless it is well designed there will be negative unintended consequences.

Multiple entitlement models can create perverse incentives and can be unfair

An entitlement is effectively a funding model, and a system's funding model drives the behaviour of all players – potential learners, current students, enterprises, providers, and to a lesser extent, governments.

A well-designed entitlement is one that does not privilege one sector above the other and therefore inadvertently influence the decisions of the players in the system.

In our current system two different levels of government are managing the entitlement and funding levers in isolation of each other. The states and territories are responsible for setting and providing the subsidies in VET

qualifications. The Commonwealth sets the subsidies in HE and determines the rules for all the loan schemes.

One of the most important lessons from the last decade of reform is that having multiple funding models across VET and HE that are not designed with the other sector in mind will result in an uneven playing field between the sectors. This uneven playing field leads to distorted incentives and influences behaviour.

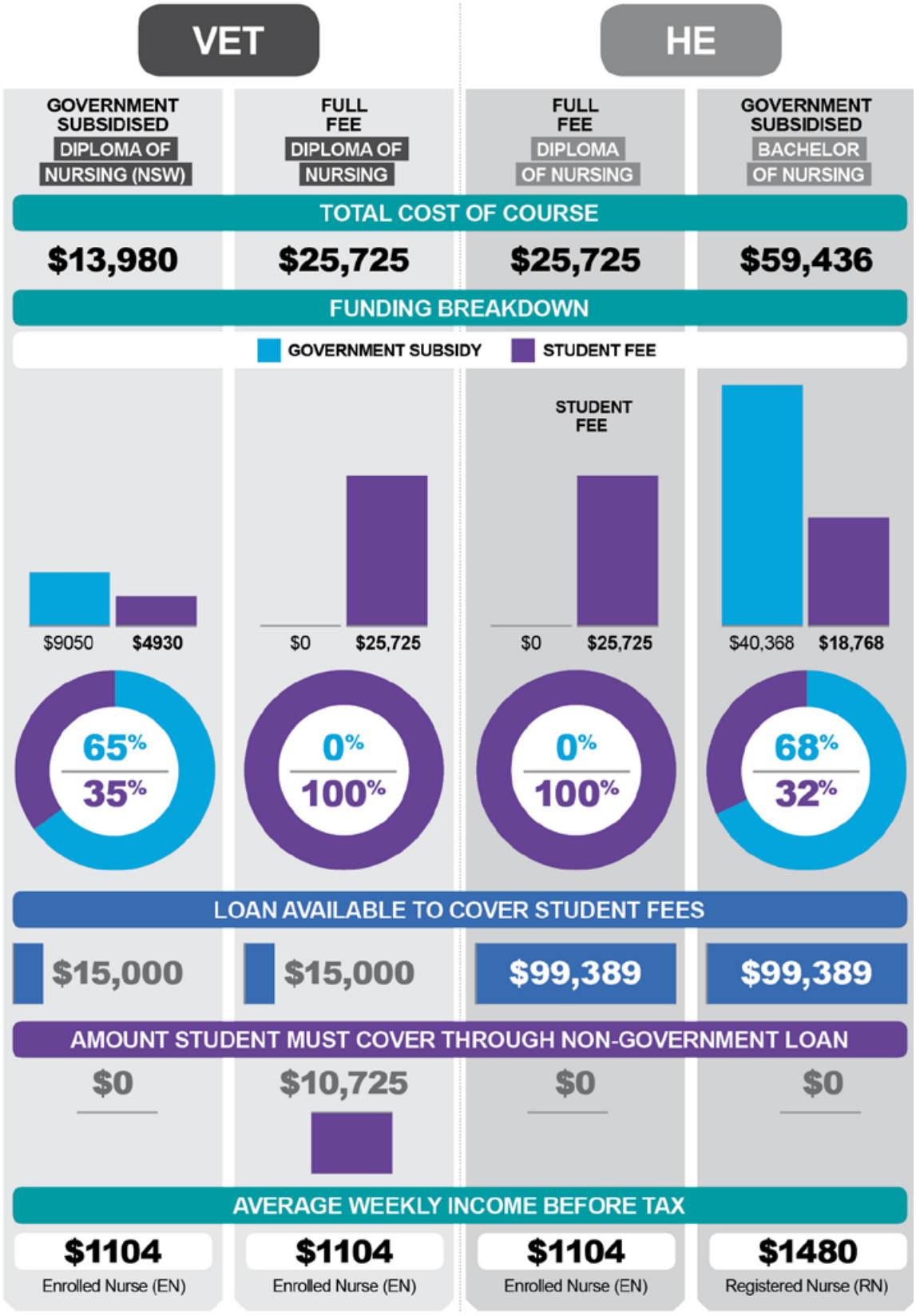
The following worked example and infographic of the funding models in nursing show that providers and learners are treated differently depending on the sector they are in.

Worked example of funding in nursing qualifications

CATEGORY	Diploma of Nursing (EN) NSW	Diploma of Nursing (EN) Victoria	Diploma of Nursing (EN) Vet Full Fee*	Diploma of Nursing (EN) HE Full Fee**	Bachelor of Nursing (RN) Commonwealth
Government subsidy	$9,050	$16,388	$0	$0	$40,368
Cost to student (student fee)	$4,930 Regulated	Set by provider Not regulated	$25,725 Not regulated	$25,725 Not regulated	$18,768 Regulated
Total	$13,980	Varied	$25,725	$25,725	$59,436
Loan available to cover student fees#	$15,000 (loan cap)	$15,000 (loan cap)	$15,000 (loan cap	$99,389 (no loan cap)	$99,389 (no loan cap)
Gap student must cover through non-government loan	$0	Depends on student fee, could be $0 or more	$10,725	$0	$0
Government direct contribution	65%	Depends on student fee	0%	0%	68%
Student contribution	35%	Depends on student fee	100%	100%	32%
Average weekly income before tax	$1,104	$1,104	$1,104	$1,104	$1,480

* This example is based on a reputable, high-quality private provider.
** Assumes providers convert their VET qualifications to HE qualifications.
# Assumes provider is approved to offer loans.

THE TERTIARY SYSTEM
NURSING QUALIFICATIONS – WORKED EXAMPLE



There are a number of differences in the treatment of learners and providers:

1. The fees a provider can charge are set by the Commonwealth for bachelor courses (both the direct government subsidy and the student fee), but are not regulated in all states and territories for VET.
2. The government subsidy for people studying to be an enrolled nurse in VET is lower than for people studying to be a registered nurse in HE, both in total dollars and percentage share.
3. The loan schemes have different rules:
   - **a** Students in VET have to pay a 20 per cent loan fee (i.e. if they borrow $1,000 they are charged a $200 loan fee) and students in HE pay no loan fee.
   - **b** There is a loan cap for each VET course ($15,000 for nursing), but no fee cap. In HE if the course gets a government subsidy there is a fee cap but no loan cap, and if a course does not get a government subsidy but is eligible for a loan, there is no fee or loan cap.
   - **c** If a provider charges more than the loan cap in the VET course, students have to find a private source of income to pay the difference. This could not happen in HE.

Some of these differences can be explained by different levels of government setting the policy. However, some differences, particularly in the loan scheme, are within the control of one level of government and are inexplicable. Why should a VET student pay a 20 per cent loan fee and a HE student pay no loan fee?

The differences are more confronting when potential earnings and employability are examined. As detailed in the table, there is a significant gap between earning potentials. A registered nurse (HE qualification) earns nearly $400 per week more than an enrolled nurse (VET qualification), or nearly 35 per cent more. That comes to $200,000 over a decade of work. A registered nurse receives the highest subsidy in both percentage and real dollars despite having the greater earnings.

The pay difference relates to the skill level and responsibilities of the different roles, and is not being debated. The issue is that, despite earning significantly less and therefore receiving less of a private return, the average enrolled nurse will have contributed more to their education than the average registered nurse.

If we assume that registered and enrolled nurses generate the same proportion of public and private return, and we accept the principle that the ratio of public and private return are used to determine personal versus government contribution, it is clear that the current system does not provide a level playing field.

Additionally, it is very difficult for people to find the relevant information and construct a relative comparison. At least seven different websites had to be accessed to construct the table above, along with calculations to determine the individual versus government contribution. No potential learner would know where to look for all the different sources of information, let alone have the time to construct a comparison detailed enough to make an informed decision.

Providing this information to learners is crucial, but the only way to provide a level playing field is to have a single funding system across the two sectors that does not provide perverse incentives for either learners or providers.

A single funding system does not mean a single level of government. It means governments working collaboratively to ensure the same principles are applied across both sectors (e.g. funding reflects public benefit), and one group of students are not privileged over another (e.g. VET students being charged a loan fee and HE students paying no loan fee).

DESIGN PRINCIPLE

A universal entitlement that is sector-neutral

- An entitlement model is a clear indicator of the importance of tertiary education, encourages participation by all groups, and should therefore be the central funding approach in a tertiary system.
- A well-designed entitlement needs to be sector-neutral, and this will require collaborative federalism in the design of a single funding system across the design of subsidies and loans.

FUNDING OF THE SYSTEM

There are two key lessons on funding from the last decade of reform.

The first is that a mass tertiary education system comes at a cost beyond current government income. While budget blow-outs were partly a result of rorting and mismanagement, they were also a result of more Australians participating in tertiary education. This was the intended outcome of all the reforms. However, it has become clear that the growth in participation cannot be funded solely by taxpayers unless governments are willing to increase taxes.

The second lesson is that, unless we reach a political and community consensus on how to fund a sustainable tertiary education system, we will continue in an endless cycle of debate on funding.

There are three components to funding the system that must be resolved:

1. The role of the individual
2. The role of government
3. The total quantum of funding.

The role of the individual

Education is an intrinsic good that delivers benefits beyond the individual. This is partly why we have compulsory school education, and why governments effectively ensure that young people can receive 13 years of schooling at no, or very little cost, to their families.

Basic levels of education deliver a significant private benefit, but because of the spill-over benefits, or broader societal benefits from basic education, the ratio of public benefit to private benefit is high. However, as an individual achieves greater levels of education, the balance of the benefit shifts in favour of the individual.

This is evident in the data that people who complete Year 12 or equivalent fare better than those who do not, and people who complete tertiary education fare better than those who do not study beyond schooling.[13]

Given the private benefit an individual receives from tertiary education, it is reasonable to ask that they make a personal contribution to it. The ratio of the personal contribution versus the government contribution, should reflect the ratio of the private and public return that is likely to occur as a result of the education.

It is important that the contribution starts with ratios, as the cost of education differs dramatically based on the content of the courses and how the content has to be delivered, the location, equipment required, and so forth.

Potential students should know both the cost of delivering education as well as the private benefit that it will deliver, so they know what that private benefit it is relative to the cost they will pay, and can therefore make informed decisions.

An approach like this would ensure that people make a fair and efficient contribution to their own education, rather than expecting other taxpayers who do not receive the private benefit to subsidise them.

Individuals making a private contribution to their tertiary education is not a new concept. It underlined the introduction of HECS and was a key component of the Victorian reforms.

It is also fundamental to opening up access to tertiary education. More people participating means greater cost. While

taxpayers can contribute more and, as shown earlier in this paper, government spending on education has increased significantly, they cannot cover all of the cost without the government cutting spending in other areas or increasing taxes.

There are some who argue that it is unfair to ask people, particularly young people, to make a contribution to their tertiary education, and point to Whitlam's reforms of free university as the model we should pursue in Australia.

This is problematic on two fronts. The first is that we now have a mass tertiary education system. Whitlam's reforms were very well intended, but they were never designed for all Australians. They were designed to ensure high-performing young people could study at university, regardless of their financial circumstances.

They were also designed for a time when a tertiary education was not a necessity for labour market mobility. That is not the case in today's economy.

The question then becomes, what is fairer?

1. A system that provides government support to all Australians, with people make a personal contribution that reflects the private return they receive.

OR

2. A system that provides full funding for a select group.

The role of government

While tertiary education results in a private benefit, it also generates a public benefit, and therefore suggests government has a role in funding tertiary education.

The funding by government can take two forms:

1. The first is a direct subsidy to reduce the cost of education. Governments have a finite amount of revenue, so this funding will be prioritised.
2. The second way governments can fund education is through an income-contingent loan (ICL). This was pioneered in Australia with the introduction of HECS and has been a public policy triumph in ensuring an individual's financial background is not a deterrent to tertiary education.

While the majority of loans may be paid back to the government, the loan still imposes a cost on the taxpayer. Additionally, as an ICL acts as an insurance scheme (i.e. you only pay the loan back once you reach a specific income) there will always be a percentage of the scheme that will not be paid back and those loans in effect become a direct cost to government.

Our decade of reform has shown this combination of government funding has worked well at a system level, and is an effective way of ensuring individuals make a contribution to their tertiary education. The difficult component is determining the ratio between the two. This is discussed in the following sections.

The total quantum of funding

The amount of funding needed to have a sustainable universal education system is a hotly contested subject, but no one has a clear answer on how much is needed or why that figure is the correct one.

From a pure logic perspective, the starting point for determining the total quantum should be cost. Costs for the same courses can be significantly different, reflecting the services provided or the efficiency of the organisation. In determining the total quantum, it is therefore important to assess how much it costs to *efficiently* deliver tertiary education.

Some courses require high-cost equipment and have limited class sizes, whereas others simply require a classroom and one teacher for 300 students. Regional or remote locations may cost more than metropolitan ones, and there are thin markets where courses would not be run if they were required to be cost-efficient. It is also complicated by the cross-subsidisation that happens within public providers in both VET and HE.[14]

A costing exercise across both VET and HE would be a substantial and lengthy piece of

work, and would not be able to account for every combination of special circumstances. However, a costing exercise that determines a benchmark price would provide a sound basis from which to determine the quantum of funding needed, and put some much needed facts on the table.

Once an efficient price has been established, government would need to consider the ratio of public and private benefit, to determine the ratio of contribution. This is discussed in more detail in the following section on providing the subsidy.

DESIGN PRINCIPLE

A universal tertiary system needs to be funded by government and the individual, and the cost of the system needs to be calculated

- To have sustainable and efficient universal education in Australia, individuals need to make a contribution to the cost of their education.
- Governments should fund tertiary education through two mechanisms – a subsidy and access to an income-contingent loan.
- Notwithstanding the size of the task, a costing exercise should be undertaken to establish a base from which to determine the efficient cost of tertiary education, and the ratios of private and public contribution.

MANAGING BUDGET EXPOSURE

One of the biggest lessons from the last decade of reform is that an entitlement model is a much more difficult funding model for governments to manage their budget exposure than an allocative model.

There are inherent risks and unknowns in an entitlement model, and one of the biggest criticisms of the Victorian reforms and VFH are around the budget blow-outs, and a top priority of the Commonwealth Government is to make the demand-driven funding in HE fiscally sustainable.

There is no doubt that governments suffered significant overspends in the Victorian reforms and VFH. However, governments have a range of other demand-driven models – e.g. public schools, health care, and prisons – that they manage, so an entitlement or demand-driven system will not inevitably result in a cost blow-out.

A government's budget exposure is impacted by a range of factors, and the three reform packages led to unexpected costs through a range of factors:

1. Poor provider behaviour, including illegal behaviour
2. Unchecked pricing increases
3. Poor contract management and monitoring
4. Poor market information
5. Higher rates of participation than anticipated.

Each of these issues are dealt with throughout this chapter, but this section is focused on how budget exposure can be managed through the mechanisms governments use to distribute their contribution, as well as their approach to contact management.

Government expenditure and cost recovery

In a system made up of a subsidy and an ICL, government expenditure comes in three parts:

1. Providing the subsidy to the learner (through the provider)
2. Providing the loan
3. Repaying the loan.

Providing the subsidy

Governments can manage expenditure through the percentage they choose to contribute in the subsidy.

As a starting point, the contributions should be based on the likely ratio of public and private return. Considering it as a ratio is important, as some courses generate both a high public and private return.

Take medicine as an example. Medicine is one of the top income-earning fields in Australia, but doctors also generate significant public benefit through their work.

If a medical degree costs say $200,000 to deliver and only the private benefit was considered, the government could charge the student say 80 per cent of the cost, leaving them to pay $160,000 for their course fees. However, when the public benefit is also factored in, the ratio of private contribution would decrease.

That is why the ratio between the public and private benefit is important. It is also important that governments have the flexibility to prioritise their funding, beyond the rate of private return. Governments may wish to provide high subsidies for some courses with low private return, but they will not want to do that for all courses.

Take millinery design as another example.

People working in millinery design earn less than 60 per cent of average earnings. Based on this, the worker is getting a low private return. This is not an argument for a higher rate of subsidy, as the public return is also likely to be low.

Millinery also has low expected job openings over the next five years, so governments may not wish to see large enrolments in this area. To manage this they may choose to cap enrolment and/or provide minimal if any subsidy. or provide no subsidy at all.

The most important factor here is that the decision-making process is transparent. Learners should be able to see what the subsidy would be based on the ratio of public and private return, any change the government makes, and why. Having the decision-making transparent helps potential learners make informed decisions.

Providing the loan

The provision of the loan is not a difficult process for government, and the current system works well. However, the worst excesses and biggest cost blow-outs across the three reforms occurred in the loan space in VFH.

The most important lesson from the VFH failure is that the loan product must be designed for the student cohort it is serving. This is supported by the ANAO review of VFH:

> While concerns about the application of legislative arrangements designed for higher education were identified in 2012, the expanded VFH scheme did not include adequate controls to manage risks specific to vocational education.

An example of problems that came about from this approach is around tax file numbers. Under HE legislation, providers could apply to the Australian Taxation Office (ATO) for a student's tax file number and then take out a loan for the student's course contribution. This same rule was carried across to VFH. While it seems self-evident that this option could lead to rorting and would be an easy fix to remove, this process continued until the end of September 2016, when the ATO changed its process at the request of the Department of Education (ANAO 2016).

Another example is fees and pricing. As discussed in more detail in the following section on student fees and pricing, the undergraduate market is tightly regulated.

The government sets the subsidy as well as the student fee, and therefore controls prices and the loan amount.

In VET, the student fee was unregulated, so the loan amount was effectively unregulated. Additionally, the loan was extended to the fee-for-service market, which had not previously received any government funding.

An unregulated fee can be managed, but it requires the funder to establish strong contract management from the beginning of the process. Strong contract management and monitoring did not occur, and this was noted as an issue by the ANAO:

> 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.

When design flaws were coupled with unregulated fees and poor contract management and monitoring, the worst excesses occurred.

It is important to note at this point that, while the loans should be designed around the student cohort they are serving, the design should be fair in the treatment of students. Fair treatment includes all loan schemes being demand-driven, and students being charged the same loan fee.

Repaying the loan

Governments can manage budget exposure by ensuring they recover as many loans as possible. They do this by establishing:

- a minimum income at which repayments commence
- a schedule for how the loan is repaid once the minimum threshold is reached
- interest charges.

The Commonwealth Government has undertaken a significant amount of work to identify how to change these levers to make the loan schemes more sustainable. The changes currently before the parliament to amend the income threshold and repayment rates appear to be fair and well designed, and should assist in managing budget exposure and making the demand-driven system more sustainable.

DESIGN PRINCIPLE

A demand-driven system is challenging to manage and loans need to be designed around the student cohorts

- The contribution by individuals and government should be calculated based on the cost, and the ratio of public and private benefit.
- Governments need flexibility to alter a subsidy to reflect their priorities.
- Government expenditure should be channelled through a subsidy and an ICL.
- Loans should be fair across the two sectors, but must be designed around the circumstances of the student cohort, including the regulation of fees.

STUDENT FEES AND PRICING

Two questions have emerged on fees and pricing from the last decade of reform.

The first is around a student's up-front contribution – is it good design to allow students to enrol without making any up-front financial contribution? The second question is around the regulation of pricing, and whether pricing deregulation will deliver improved outcomes.

A minimum fee – 'skin in the game'

In the first implementation of the Victorian reforms, a minimum up-front fee was included for each qualification. For example, in 2009 a student in foundation studies had to pay a minimum fee of $50, whereas a student in a diploma or advanced diploma had to pay $225.

The fee was included as part of the design, on the premise that if a student does not have to make some form of contribution they have, in colloquial terms, no 'skin in the game', and are less likely to make informed decisions. This minimum fee was removed in 2012, and removed any pressure for learners to take some time to consider their choices.

It also provided additional avenues for providers to behave badly. As was seen through VFH, if a provider does not have to pursue a student for any financial contribution, there is a greater chance of the provider 'rorting' the system.

In 2015 Bruce Mackenzie (Chair) and Neil Coulson conducted a VET Funding Review. In the Issues Paper released in July 2015 the minimum fee was discussed:

> The proliferation of zero and low fee training has allowed providers to attract students to courses without sufficient regard for the likely benefits of training.

Given that one of the principles of ICLs is that an individual's financial circumstances should not prevent them from enrolling in study, it can be contentious to propose that all learners pay a small up-front fee. However, this argument is not consistent across all of tertiary education.

ICLs are only available for diploma and above qualifications. Consequently, learners in certificate qualifications will often need to pay an up-front fee.

ICLs are also not available for all VET qualifications at a diploma or advanced diploma level, and as a result of the new VET Student Loans scheme the amount a student can borrow is capped, so students may have to cover a gap.

The fee does not need to be significant to be effective. The purpose of an up-front fee is two-fold. First, if a fee is paid by the learner, it is a strong indication the student is real and makes it more difficult for providers to rort the system. Second if a learner has to pay a fee, it will encourage most of them to stop and think about their decision. They will have some 'skin in the game'.

On balance, the potential disadvantages of charging of a small up-front fee are outweighed by the potential advantages of doing so.

Pricing

Funding and pricing are often used interchangeably in tertiary education, but it is important to differentiate between the two.

For the purposes of this paper, funding is the amount of government support provided, through a subsidy, an ICL, or a combination of both. Pricing is the amount a provider charges for a course and funding may not always be equivalent to pricing.

We have learned over the past decade that regulation of pricing, or deregulation of pricing, is very controversial in tertiary education.

The government's higher education reform package in 2014 included pricing deregulation for undergraduate courses. While this was supported by the universities, it was met with strong opposition by other political parties, students and the community more broadly, and the government has now moved away from this model.

The Business Council supported the reform package, but called for an oversight body to

CATEGORY	PRICING
VET student with a subsidy	Differs across states
VET student taking a loan	Loan is cap, so effectively regulated
VET student with a subsidy and taking a loan	Mixed form of regulation
Undergraduate student with a subsidy and taking a loan	Regulated
Undergraduate student taking a loan	Unregulated
Postgraduate student with a subsidy and taking a loan	Regulated
Postgraduate student taking a loan	Unregulated
Fee-for-service with no government support (VET and HE)	Unregulated

ensure the providers did not take advantage of deregulation and inflate prices with no additional benefit to students or the funder (Business Council of Australia, 2014).

This is the essential concern in regulating pricing in tertiary education. Competition should ensure that prices are not increased without additional value being added. However, getting the benefits of competition to flow can be difficult in a system that has significant taxpayer expenditure, with muted price signals resulting from an ICL and poor information.

In the case of tertiary education, there are currently a range of student categories and different approaches to pricing regulation, ranging from having the fee set by government to full deregulation

Deregulation works in the fee-for-service market

Fee-for-service students receive no government support in either a subsidy or a loan, and pricing is unregulated. Despite being unregulated, this market is not known for inflating prices.

If a potential learner must pay for their study out of their own pocket, with no assistance from government or their employer, they are unlikely to end up enrolled with a rogue or poor-quality provider. This is the case even in a system where the market information is poor.

This is because the learner bears the cost, and has no incentive to complete a poor-quality qualification, as their likelihood of maintaining employment without the knowledge or skills needed is very low. If a learner is having to pay out the cost, they have an incentive to pick a provider they believe is quality, and in a market with poor information people tend to rely heavily on word of mouth.

Loans distort a price signal making deregulation more challenging

The incentive is muted in the student categories that can access loans. The loan moderates the price signal and therefore reduces the necessity of cautious behaviour by the learner.

For undergraduate students, this often leads to poor decisions by learners in either their selection of course or the way they manage their enrolments. There is ample anecdotal evidence that many undergraduate students withdraw from subjects after the HECS census date, thereby incurring a fee for study they do not complete. This behaviour increases the cost to government, but this cost is contained because the price is regulated.

For VET students who have access to a loan but no subsidy, there is no equivalent control, so therefore no way to keep downward pressure on prices or minimise budget

exposure from poor decisions by learners. This also then creates a situation where providers can excessively price training, and additional costs are then passed on to learners and the government without any checks.

This was a key problem in the implementation of VFH, where the average cost of a loan per enrolment increased by 60.6 per cent between 2011 and 2014 (Business Council of Australia, 2016).

Information technology saw the highest growth rate in average loan costs of 219.1 per cent over three years, with a 74.3 per cent growth in a single year over 2011 and 2012. Engineering saw the second highest rate, with growth of 142.5 per cent over three years, and a growth of 55.8 per cent in one year (Business Council of Australia, 2016).

The average loan cost is a good indicator of prices, and price increases of such magnitude appear unjustified. They are not based on cost or providing additional value, they are simply price gouging. While the design of the system allowed this to happen, a future design cannot.

But loans and fee deregulation work for some cohorts

These problems have not been replicated for postgraduate students accessing a loan, despite there being no price controls. This is for a range of reasons. The learner pool is smaller because of high-level prerequisite requirements, and they are better informed.

Additionally, learners undertaking postgraduate studies often do so in an area related to their employment, and have to make specific sacrifices to complete their studies. In addition to having to meet a range of high-level entry requirements, these learners are generally more motivated to make informed decisions.

The tertiary system is not ready for full fee deregulation

The recent reforms, and attempts at reforms, have shown us that it is tricky to get fee deregulation right in a tertiary education market where access to an ICL dulls price signals and potential learners have no up-front direct costs do not have to make any initial payments.

It is also very difficult to have full fee deregulation where students do not have the data to make informed decisions. While there is a big market of providers, including in HE, learners cannot easily compare them in terms of quality, cost, employment outcomes or potential earnings. Market information in tertiary education is extremely poor, and is discussed in a later section.

The reforms have shown us that while in theory fee deregulation can deliver improved efficiency and outcomes for both learners and government, the tertiary education system is not currently designed to support deregulation across all groups.

Significantly improved market information, contract management and students having some ‘skin in the game’ should create an environment where fee deregulation can deliver improved outcomes.

DESIGN PRINCIPLE

The tertiary education market needs changes before full fee deregulation can be effective across all cohorts

- Fee deregulation works for some, but not all, student cohorts.
- Significant improvements need to be made in market information, contract management and price signals.
- Learners should be charged a small up-front fee.
- The size of this fee, and its application, should be flexible enough to ensure it does not prevent learners from studying.

REGULATION AND CONTRACT MANAGEMENT

Concerns about the quality of the education being delivered in a demand-driven system have been raised repeatedly. While concerns have been raised around quality in HE (Kemp and Norton 2014), the bulk of quality issues have arisen in the VET sector rather than the HE sector.

The quality issues in the VET sector came about through two design mistakes:

1. The government relied primarily on the quality standards to determine a provider's access to government funding.
2. Three incorrect assumptions were made:
   - Providers would only be in the market if they had a core mission or commitment to education.
   - Given the symbiotic nature of education – learners have to participate to learn, they are not simply purchasing a good or service – the risk of students paying for fake qualifications was low as they would derive little benefit (noting this was for local students only, so permanent residency incentives were not relevant).
   - Given the resources needed to set up an RTO and the rates of funding, the potential benefits were insufficient to incentivise rogue providers into the market.

The design did not focus enough on the risks of poor providers

On the face of it, relying on quality standards to allow entry into the market should have been legitimate. It is important that governments do not impose excessive regulation or unnecessary barriers to entry, and if a provider met the quality standards there should have been no reason to apply an additional regulatory burden.

Unfortunately, it was the combination of the reliance on the standards and the interaction with the incorrect assumptions that created the issue.

If the market had been limited to providers with a mission to educate, the quality standards would have been sufficient. If students had been unwilling to collude with providers to produce false qualifications the quality standards would have been sufficient. If the quantum of funding had been insufficient, the quality standards would have been sufficient.

However, if there was one provider focused more on profit that educating *and* students were willing to collude, *or* the possible funding was sufficient, then the quality standards became insufficient protection.

This was a serious design flaw that even perfect implementation could not have prevented. The assumptions were accurate for the vast majority of providers and learners, but were wrong for a small percentage. Unfortunately, that small percentage damaged the sector. It resulted in the creation of rogue providers who in some cases did not deliver education at all, as well as providers who delivered education but were focused primarily on profit, and the quality of education consequently suffered.

The current quality standards in VET are sufficient in a fee-for-service market

Standards and regulation are an important safeguard in an education system. If a provider is accredited by a government, such as an RTO, a higher education provider, or a university, then citizens have a reasonable expectation that the provider will meet the quality standards.

The quality of education only suffered in the government-subsided market. The fee-for-service market continued and continues to operate as it has for decades.

There are around 5,000 RTOs in the market and, while it is difficult to count how many providers are approved to offer loans or subsidies, it is safe to assume it is no more than 1,000 providers. Consequently around 80 per cent of providers are not getting government funding, which suggests that the quality standards are sufficient for entry into the market.

Public funding is not the only risk factor to quality in the tertiary market

As already discussed, access to government funding is a significant risk factor, and our first lesson is that providers with government funding need to be treated differently, and the different approach is outlined in the following section on contract management.

There are two other risks factors that need to be considered in a tertiary market:

1. Being approved to enrol international students
2. Being approved to offer high-risk or mandatory courses.

International students

While this paper is about the domestic tertiary education market, if a provider is approved to enrol international students, a new range of incentives for poor behaviour comes into play for both providers and learners.

Fees for international students are, on average, higher than those for local students, and are therefore more profitable for providers. From a student's perspective, completion of a qualification could ultimately lead to permanent residency in Australia.

Similar to access to government funding, these factors can incentivise rogue or poor-quality providers into the market, or incentivise providers and learners to collude in creating false qualifications.

High-risk or mandatory courses

As a rule, learners need to participate to gain value or benefit from education, so in most cases they are unlikely to collude in receiving false qualifications.

However, there are high-risk qualifications, including mandatory ones that people must complete before starting work in an industry, such as the White Card for the construction industry.

Providers who are approved to offer such qualifications carry a higher risk to quality in the market.

It is important to differentiate between regulating quality standards and contract management

As a result of the rorts in the VET sector, there have been many arguments made that the current quality and regulatory standards are insufficient. There have also been many arguments put forward that there are too many providers for the regulator to manage, and that the number of providers need to be significantly reduced.

This becomes an emotive debate, particularly given the excessive abuse in the VFH implementation, but it is vital we accurately diagnose the problem.

The quality standards are not robust enough to prevent poor provider behaviour in the government-subsided market, including both subsidies and loans, noting this unlikely to be no more than 20 per cent of the provider market.

The solution to this problem is not creating additional quality standards. It is having strong and effective contract management for the government funding.

The two other risk factors in the education market – international students and high-risk qualifications – cannot be dealt with through contract management. Consequently, the regulator should have the necessary powers to effectively regulate in these areas.

It is this group of providers that need extensive focus, not all providers. Those providers who limit their offerings to fee-for-service training do not present the same risk.

Strong contract management is essential when government funding is available

Contract management has two faces – the contract government has with the provider, and the contract the government has with a learner.

Contract with learner

The contract with a learner can establish the conditions under which the government will lend the money, as well as the conditions under which the loan will be repaid.

The most important lesson regarding the contract with the student is the need for the provider to demonstrate that the student is real when entering the contract, particularly with a loan scheme.

As discussed in the fees and charges section, it is also important that learners have some ‘skin in the game’, particularly as an ICL removes the need for a learner to find a funding source.

Contract with provider

Contract management is a tool that allows governments to be selective about where taxpayer funding can be used. It is also an additional mechanism for real-time monitoring of provider performance, and is a function for the funder rather than the regulator.

One of the most important lessons from all three reforms is that the funder’s role of contract management is as important as the regulator, and that the roles should not be confused.

A provider who establishes that they meet the minimum standard to enter a market is subject to the regulator. But if a provider wishes to access government funding they can be subject to both the regulator and the funder through contract management.

The regulator and the funder have different roles. The role of the regulator is to ensure that the provider meets the standards that allow them to offer tertiary education. The role of the

funder or contract manager is to ensure that taxpayers money is being spent appropriately.

In the tertiary education market it is not, and should not be, the role of the regulator to monitor government expenditure.

If from the beginning of the VET reforms, governments had been closely monitoring expenditure, and if they had had contract management conditions that required real-time data or gave the department the ability to freeze or remove government funds, budget exposure could have been minimised. The lessons of the last 10 years tell us that contract management needs to focus on three key issues:

1. Ensuring government has access to real-time data so the relevant agency can monitor expenditure and have an early warning of emerging problems
2. Ensuring government or the relevant agency has the new institution to remove government funding from the provider where issues have emerged, rather than relying on the regulator to go through the process of de-accreditation
3. Requiring providers to publish market information so informed decisions can be made (this is discussed in detail in the market information section).

The experiences of the last 10 years have also taught us that, when government money is available, there is a likelihood that unscrupulous providers will attempt to enter the market. This poses significant challenges for both a funder and a regulator.

There is a natural inclination to create a harsh regulatory regime to provide disincentives against such behaviour. However, this approach is poor regulation, as best practice regulation suggests that a risk-based approach is most effective.

If a risk-based approach is to be applied in the education market, then both the funder and the regulator need powers to immediately withdraw government funding and suspend operations when needed to protect consumers and government investment.

DESIGN PRINCIPLE

The regulator needs to differentiate between providers, and the funder must put in place strong contract management

- Quality is maintained through both regulation and contract management, and they are equally important.
- Contract management is the role of the funder, not the regulator.
- The availability of government funding, in either subsidies or loans, creates additional quality risks in the market. Strong contract management by the funder is needed to mitigate these risks.
- Contract management should give the funder access to real-time data, the ability to freeze or remove government funding, and the ability to require providers to publish market information.
- The regulator should have the appropriate powers to differentiate between high-risk and low-risk providers.
- Criteria for high-risk providers include approval to enrol international students or offer high-risk qualifications. Providers who limit their business to fee-for-service local enrolments are generally low-risk.
- If a risk-based approach is adopted, the funder and regulator should have the powers to withdraw government funding and suspend operations to protect consumers and government investment where warranted.

MARKET INFORMATION

In the Victorian government's publication announcing the reforms, there was a section focused on informed users with the statement:

> Finding your way through the Victorian training system's offerings is the crucial first step in using its services. Securing Jobs for Your Future – Skills for Victoria delivers $8 million for two key initiatives to provide users with easily accessible information about their current skill levels, their development needs and the training and recognition services available.
>
> This will include access to information about up-front costs and longer-term outcomes and benefits, so they can compare products and services offered by a range of providers.

This was an acknowledgement that the entitlement system needed good information to deliver the best outcomes. Unfortunately, it would be fair to say that although this was published in 2008, the training system remains very difficult to navigate and understand.

This lack of market information is not limited to Victoria or to the VET sector. It applies across the country and in HE, despite all governments acknowledging how important market information is.

A demand-driven education system should have seen a shift of power from providers to learners, but poor market information stymied this shift and contributed to poor decisions on the part of learners.

Without market information, potential learners and businesses cannot assess the quality of courses or providers and make informed decisions, thereby allowing poor-quality providers to thrive.

While market information, in and of itself, will not solve the problem of poor decision-making, it will, at a minimum, allow the funder to make better decisions, as well as equipping learners with the information they need to make informed decisions.

A demand-driven system cannot work effectively without sufficient market information that assists learners and funders to assess value for money and differentiate between providers.

If you consider a potential learner's decision-making process, there are two key decisions they need to make, and each decision should be based on substantial information.

1 What to study

To make this decision learners should identify:

1. What they are good at, where their strengths are, and what they are interested in or passionate about
2. The different roles available in different industries that would suit these strengths and interests
3. The VET or HE courses that are relevant to these roles
4. The professional bodies that are relevant to the particular industry or role, and which courses they accredit.

Once a potential learner has identified courses of interest, they need to consider a range of factors, including:

- The full cost of the course, including up-front fees and access to government support
- If government support is provided, how much the government is willing to subsidise the course, the potential cost to them and the length of time it will take them to pay back their loan
- The likely availability of roles relevant to the courses
- Graduate salaries and long-term potential earnings.

The answers to these questions will affect people differently. Some will be strongly motivated by potential earning capacity, while others will be focused on their passion regardless of cost or earning capacity.

2 Where to study

Once a learner has decided what to study, they need to determine where to study. To do this, learners need to be able to see:

- Which institution offers the course, and where the course is located
- If the costs are different between providers, a comparison of the costs across the providers, including up-front fees and access to government support
- A comparison across providers about how long the course will take, as well as the weekly time commitment
- A comparison across providers in terms of student outcomes, including employment and starting salaries
- A comparison across providers of the professional bodies that recognise or accredit their courses.

A potential learner should be able to follow this decision-making process through one website.

A great deal of this information is available, but it is scattered across a range of websites, including:

- MySkills for VET, which allows you to search for courses and includes some information on potential jobs and income
- QILT, which has some quality data indicators for HE providers
- JobOutlook which is a Commonwealth Government site that has quizzes to help people identify potential careers, and provides information on potential jobs and income.

Additionally, the information is generally not across VET and HE. For example, if someone was interested in engineering they would need to move between MySkills and QILT to look at the differences between the VET and HE qualifications, and they would then have to go to each provider's website to get additional information.

Similar to the funding model, the market information cuts across both levels of government, and the only way to create a site that encourages informed decision-making is a collaborative approach.

Some of the data can be provided by government, whereas other data needs to come from providers. As part of contract management, governments can mandate that if providers have government funding they must input specific market information into a national system that all potential learners could access.

DESIGN PRINCIPLE
Market information cannot remain in the 'too hard' basket

- Market information has to be a top priority for all governments, and they need to work collaboratively to build one source of information.
- A single site should be created that follow a learner's decision-making process.
- Governments can contribute general course level information well, such as an efficient price, subsidy rates, average loan repayment times, and broader labour market data such as job vacancy rates.
- If providers receive government funding, they should be required as part of contract management to contribute relevant data to the site.

PUBLIC AND PRIVATE PROVIDERS

The introduction of demand-driven funding in HE was limited to public providers. Consequently, the public providers had a significant increase in places, but did not have to compete with private providers for students.

In VET, however, through the Victorian reforms, the implementation of the National Partnership in other jurisdictions, and VFH, public providers had to compete with private providers. This was and remains controversial.

Private providers should have a role in an entitlement system

Private providers have always existed in the tertiary education 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 the public provider.

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.

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

Competition creates challenges for the public provider

An entitlement or demand-driven system significantly increases the size of the market. Take for example the Victorian reforms. These reforms committed an additional $316 million and an additional 172,000 training places.

TAFEs were and remain justifiably highly regarded, but prior to the reforms some TAFEs were returning their allocated funding for higher level qualifications because they could not find students interested in higher level qualifications.

Given that a reform objective was to increase the 'number of people undertaking and completing qualifications at the Diploma and Advanced Diploma level,' the government could not rely solely on TAFEs to deliver this outcome and opened the market.

The reforms changed the funding flows from a direct allocation of a block of funding to a provider to the subsidy following the student based on their choice of provider. This meant that TAFEs were not guaranteed funding for any students, and had to compete with private providers to convince students to enrol with them.

There was an expectation that TAFEs would lose some market share as a result of the increased competition, but maintain their funding levels by attracting a similar number of students to previous years.

Many TAFE institutes were slow to plan for the new system and did not capitalise on the growth opportunities created by the entitlement model. Additionally, the reforms were not supported by some staff and actively resisted.

As a result, although TAFE enrolments grew under the reforms, TAFEs' market share of government-subsidised training places reduced significantly from 48 per cent in 2008 to 25 per cent in 2014.

Despite additional funding and a phased implementation, TAFEs struggled with the full implementation of the reforms, and this remains a legacy issue today as clearly demonstrated in the most recent Victorian election.

The public provider needs a clearly defined role

The Business Council has long been a supporter and advocate of the important role TAFE plays in tertiary education and the community more broadly. An effective tertiary education 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. 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.

To maintain a sustainable TAFE network across the country governments should:

1. Define the role of the public provider in the system, including their obligations to learners, their local community, and the relevant government.
2. Articulate the specific community service obligations of each TAFE (e.g. second-chance education, offering inefficient courses in regional locations) and funding them appropriately.
3. 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.

DESIGN PRINCIPLE

The public provider (TAFEs and public universities) must be supported but private providers are also needed

- A well-designed tertiary education system needs both public and private providers.
- Any design of a tertiary system needs to clearly define the role of the public provider, be they TAFEs or universities, including their obligations to learners, their local community and the relevant government.
- Public providers cannot be allowed to become residual providers, and governments need to fund them appropriately to ensure they do not suffer this fate.
- Public providers have an obligation to taxpayers to ensure they have an effective business model so they can compete with private providers and deliver value for money.

GOVERNANCE

As discussed earlier, one of the most important lessons from the last decade of reform is the need to have a single funding model that is sector-neutral and a single source of information that will enable learners to compare within and across VET and HE. One of the current impediments to creating a single funding and information model is that the governance model is shared between two levels of government.

While the shared responsibility may be an impediment, the last decade of reform, and beyond, has taught us that the theory of one government taking responsibly for all tertiary education is an unlikely outcome. To do this, there would need to be agreement between the Commonwealth and all state and territory governments as to which level of government should take responsibility, and how funding should be allocated. In addition to it being an unlikely outcome, it is not necessarily going to deliver the best outcomes.

State governments are the majority funder of VET, have the best understanding of local needs and are the owners of public institutions across both VET and HE. They also have primary responsibility for schools, and they should have an incentive to ensure that young people graduate from school prepared for tertiary education or the labour market.

The Commonwealth is the major funder of HE, and has responsibility for the labour market and those Australians who are outside of the labour market. They therefore have a strong incentive to ensure the tertiary education system effectively prepares Australians for work.

The challenge then is to design the governance arrangements so that the responsibilities of both parties are clear, both levels of government can bring their expertise to the decision-making process and effectively manage their expenditure without creating perverse incentives, and make decisions relevant to their respective responsibilities.

DESIGN PRINCIPLE

We need a collaborative governance model where each level of government controls their financial contribution

- The tertiary system needs to be a shared responsibility between two levels of government, with responsibilities clearly delineated.
- The design must allow for each level of government to determine expenditure and priorities without creating perverse incentives.

13 The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 14 – The University of Melbourne; *Smart Australians,* National Centre for Social and Economic Modelling, Canberra University, 2012.

14 Within the VET sector, trades qualifications are often high-cost delivery, and TAFEs cross-subsidise them. Within the HE sector universities often use undergraduate funding to cross-subsidise research.

CHAPTER 7
A TERTIARY EDUCATION SYSTEM FOR THE FUTURE

Key points

- This chapter proposes the introduction of a broad tertiary system that covers VET and HE.
- The tertiary system will:
  1. Maintain a unique identity for the VET and HE sectors
  2. Establish a single funding model that is sector-neutral
  3. Build a single source platform of market information to help users make informed decisions
  4. Have a shared governance model
  5. Create a culture of lifelong learning.
- There are eight interconnected proposals that will need to be implemented to create a tertiary system.

Chapters 5 and 6 outline the culture change we need in tertiary education, and the lessons we can learn from the last decade of reform. These provide the roadmap for designing a sustainable tertiary education system for Australia.

For the last few years the Business Council has been calling on all governments to move to a broader tertiary model across VET and HE. We have been making this call because we believe that a broader tertiary model will begin to break down the barriers between VET and HE, remove the current funding distortions, and most importantly will be more fit-for-purpose to develop all Australians to fulfil their ambitions and potential in a modern world. But what exactly do we mean by a broader tertiary system?

BUSINESS COUNCIL **PROPOSAL SEVEN**

Build a broad tertiary system that will:

1. Maintain a unique identity for the VET and HE sectors
2. Establish a single funding model that is sector-neutral
3. Build a single source platform of market information to help users make informed decisions
4. Have a shared governance model
5. Create a culture of lifelong learning.

THE BUSINESS COUNCIL'S PROPOSED TERTIARY SYSTEM

FUNDING

Establish a single funding model that is sector neutral.

- The centrepiece of the funding model is an entitlement for learners made up of a subsidy and an ICL that can be used across a person's working life (Lifelong Skills Account)
- All accredited providers (public and private) can seek to become an approved provider to offer qualifications with a subsidy, a loan, or both
- Potential learners can use the funding in their Lifelong Skills Account at any approved provider across VET and HE

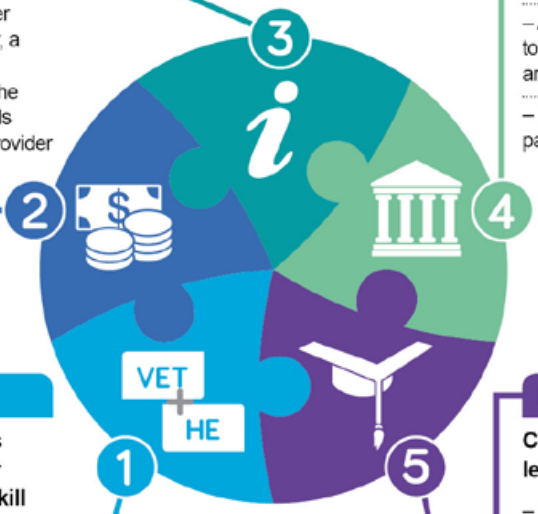
INFORMATION

Build a single source of market information where potential learners can find all the information they need to decide on a future career and select the best provider for their needs.

GOVERNANCE

Implement a shared governance model that clearly defines the roles and responsibilities of each level of government and industry. This model will:

- Establish an institution to manage the funding model and market information system
- Allow each level of government to manage their expenditure and priorities
- Facilitate industry leadership, particularly in the VET sector



STRUCTURE

Maintain the two sectors of VET and HE with their current approaches to skill development, and unique identity and mission.

LIFELONG LEARNING

Create a culture of lifelong learning.

- Maintain qualifications for people entering the labour market or a new industry
- Allow graduates to build on the knowledge and skills they have developed through their education and work, including by funding more modular learning

COMPONENT ONE
VET AND HE MAINTAIN THEIR UNIQUE IDENTITIES

A broad tertiary system is not about merging VET and HE providers into a single image where institutions are homogenous and interchangeable.

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, an essential second chance at education for Australians who have had their skill development disrupted, as well as qualifications that prepare people ranging from low-skilled to highly skilled workers for the labour market.

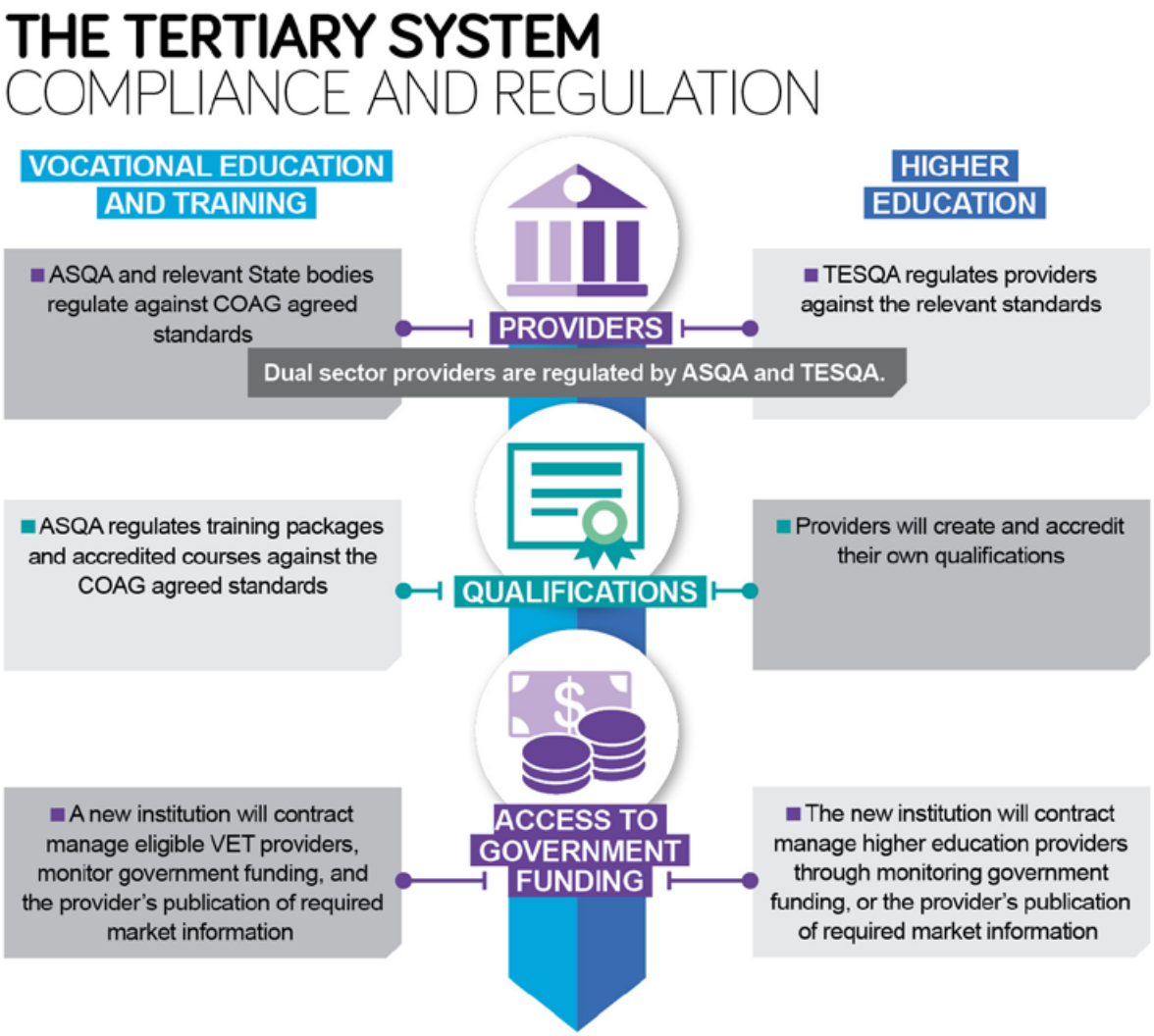
The HE sector also offers advanced qualifications that developed highly skilled workers, but the HE sector is not limited to preparing people for work. The sector has a broader remit that includes learning for the sake of learning, academic inquiry and research.

Both sectors are vital to Australia's social and economic fabric, and both sectors should retain their unique characteristics in a tertiary model.

A sector-specific approach to standards and regulation should continue

The current standards and regulations across VET and HE differentiate between the sectors, and reflect their different approaches and unique identities.

The Business Council's model proposes this differentiation continues in a broader tertiary system, and the different standards and regulators continue. We also propose that the regulators are reviewed to ensure they are operating on a level playing field for their respective sector.



BUSINESS COUNCIL **PROPOSAL SEVEN**

VET and HE maintain their unique identities

To support the sectors maintaining their unique identities the current framework for standards and regulation would continue.

- The Australian Qualifications Framework remains the only system-wide standard.
- Current standards in VET and HE would apply.
- ASQA and TEQSA continue to regulate the respective sectors, but are given the power to suspend operations to protect consumers where warranted.

COMPONENT TWO ESTABLISH A SINGLE FUNDING MODEL THAT IS SECTOR-NEUTRAL

This paper has argued that we need to replace the current siloed approach to funding with a single funding model that is sector-neutral.

In addition to removing the current perverse incentives, it will provide the foundation from which to start the culture change necessary to break down the stigma of VET being a second-class citizen to higher education.

The single funding model should be designed to deliver six outcomes:

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 life.
3. Financial circumstances are not a barrier to an individual undertaking tertiary education.
4. Individuals accept there is a financial cost associated with enrolling in accredited learning.
5. Individuals make a personal contribution to their tertiary education that reflects the cost of their education and the ratio of public and private benefit.
6. Thin markets, and disadvantaged learners, are reasonably catered for.

NATIONAL TERTIARY SYSTEM FUNDING MODEL



AUSTRALIAN GOVERNMENT



STATE / TERRITORY GOVERNMENTS

Both maintain their contributions to the National Training System Commonwealth Own Purpose Expenditure (NTS COPE), to maintain the national tertiary system (regulation, qualification standards and market information)

- Provide funding for Diploma and above
- Also funds income contingent loans (ICLs) for AQF 5-9 qualifications
- Commits to current funding levels for a minimum 10 years, with a review at 5 years

- Provides funding for Certificate I-IV
- Commits to current funding levels for a minimum 10 years, with a review at 5 years
- (NB: Also funds pre-accredited and foundation studies which are outside of the tertiary system)





NEW INSTITUTION

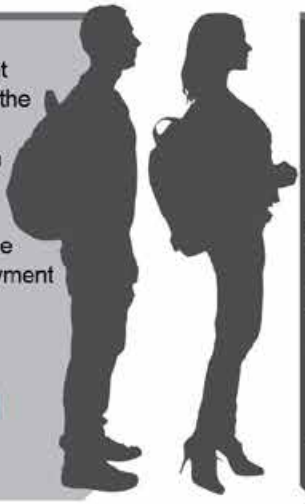
- The new institution determines the providers and qualifications / skill sets are eligible for government funding
- Accredited learning is funded through a learner's Lifelong Skills Account (LSA)



REPAYMENT

- As per current arrangements, the learner repays the ICL through their tax return once their salary meets the minimum repayment threshold

ato



LEARNERS

- Learners will be required to pay the provider a minimum charge up front for all courses
- The amount of funding available to the learner to cover the subsidy and ICL in the learner's LSA are both capped
- The learner pays for any cost not covered by the LSA

PROVIDERS

- At enrolment, the provider will apply to the new institution to release funds from the learner's LSA



The Lifelong Skills Account (LSA)

To deliver on these outcomes and create a sector-neutral approach, the Business Council proposes that the centrepiece of the funding model is an entitlement model – the Lifelong Skills Account (LSA).

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 learning, for example 10 years)

- **a** The subsidy will be based around the ratio of private benefit, so will not cover the full cost.
- **b** Some potential learners face greater barriers in skill development, so will get a loading in addition to the subsidy. The additional loading will be attached to the learner, not the course or the provider, thereby not limiting the learner's choice of provider.
- **c** All learners will be required to pay a minimum charge up-front, subject to a capacity to pay the up-front charge.
- **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 income-contingent loan (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 government has approved for their chosen qualification.

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

EXAMPLE 1

Home | Activity Statement | Messages

Student ID	123456789
Name	Sarah Johns
Date Of Birth	12/5/89
Address	24 Gold Street Fitzroy QLD 4065

BALANCE

Opening balance 8 years $150,000

Item	Year	Subsidy	ICL
1	2020	7 years	$139,915
2	2021	6 years	$131,582
3	2022	5 years	$123,249
4	2023	4 years	$114,916

Year	Activity	Subsidy used	Funded by	ICL used	Related balance item
2020	Bachelor of Law, **UQ** discontinued	1 year **$1,994** paid to UQ on 31/3/20	Commonwealth	**$10,085***	1
2021	Bachelor of Agriculture, **UQ**	1 year **$21,748** paid to UQ on 31/3/21	Commonwealth	**$8333***	2
2022	Bachelor of Agriculture, **UQ**	1 year **$21,748** paid to UQ on 31/3/22	Commonwealth	**$8333***	3
2023	Bachelor of Agriculture, **UQ**	1 year **$21,748** paid to UQ on 31/3/23	Commonwealth	**$8333***	4

*The Commonwealth funds all ICLs

AVAILABLE BALANCE **SUBSIDY** 4 years **ICL** $114,916

LIFELONG SKILLS ACCOUNT (LSA)
WHAT WILL THE LEARNER SEE?
EXAMPLE 2

Home | Activity Statement | Messages

Student ID	112345678
Name	David Smith
Date Of Birth	5/12/89
Address	42 Johnson Street Annandale NSW 2038

BALANCE

Opening balance 8 years $150,000

Item	Year	Subsidy	ICL
1	2020	7.25 years	$150,000
2	2021	6.25 years	$150,000
3	2025	6 years	$150,000

Year	Activity	Subsidy used	Funded by	ICL used	Related balance item
2020	Certificate III in Early Childhood Education and Care **ACCB Training**	0.75 year **$4950** paid to ACCB Training on 31/3/20	NSW Government	N/A	1
2021	Certificate III in Early Childhood Education and Care **ACCB Training**	1 year **$6660** paid to ACCB Training on 31/3/21	NSW Government	N/A	2
2025	Skillset: Running a small business, Early childhood compliance, Developing a child's creativity **ACCB Training**	0.25 year **$1000** paid to ACCB Training on 31/3/25	NSW Government	N/A	3

*The Commonwealth funds all ICLs

AVAILABLE BALANCE **SUBSIDY** 6 years **ICL** $150,000

LIFELONG SKILLS ACCOUNT (LSA)
WHAT WILL THE LEARNER SEE?
EXAMPLE 3

Home | Activity Statement | Messages

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

BALANCE

Opening balance 8 years $150,000

Item	Year	Subsidy	ICL
1	2020	7 years	$144,750
2	2021	6 years	$139,500
3	2022	5 years	$130,147
4	2023	4 years	$120,794

Year	Activity	Subsidy used	Funded by	ICL used	Related balance item
2020	Advanced Diploma of Engineering Technology **RMIT**	1 year **$7,085** paid to RMIT on 31/3/20	VIC Government	$5250	1
2021	Advanced Diploma of Engineering Technology **RMIT**	1 year **$7,085** paid to RMIT on 31/3/21	VIC Government	$5250	2
2022	Bachelor of Engineering (Electrical) Honours **RMIT**	1 year **$16,850** paid to RMIT on 31/3/22	Commonwealth	$9353	3
2023	Bachelor of Engineering (Electrical) Honours **RMIT**	1 year **$16,850** paid to RMIT on 31/3/23	Commonwealth	$9353	4

*The Commonwealth funds all ICLs

AVAILABLE BALANCE **SUBSIDY** 4 years **ICL** $120,794

Potential learners will choose their study and provider

A key component of the LSA will be potential learners having the choice about what they study and where they study.

All accredited providers in both the VET and HE sectors will be eligible to seek approval to offer a subsidy, a loan, or both (note: many providers are already approved under current arrangements).

In line with the lessons we have learned from the past decade of reform, all providers who access government funding will be subject to monitoring and contract management by the funder, and will also be required to publish market information.

The tertiary system includes proposals to safeguard against learners making poor decisions in using their LSA

One of the other lessons that has been learned about a demand-driven model is that governments need levers to enable them to manage their budget exposure, as well as encourage learners to make sensible choices.

The LSA gives learners the freedom to choose what they study and where they study, but it is not proposed it be an unregulated system. Proposals nine and twelve are designed to improve decision-making and support budget management.

One of the key lessons discussed in Chapter 6 is that market information can no longer remain in the 'too hard' basket. If market information is not improved, the LSA will not work effectively. Learners need to have good information to use their entitlement well. Proposal nine is focused on this issue.

While student choice is at the centre of the LSA, the LSA is not simply a fund of money that a learner is entitled to apply in whichever way they choose. Proposal twelve builds in levers that allow governments to prioritise their expenditure.

The costing exercise the Business Council has proposed be undertaken by the new institution (see Proposals twelve and thirteen) will establish a cost-reflective price for each qualification, as well as the ratio of public and private benefit derived from the qualification.

This would be the starting point for determining the subsidy, but only the starting point. Governments will still determine if they wish to subsidise the qualification, and then if they wish to pay the full subsidy that would flow if the cost-reflective price and ratio of benefit was used.

Governments should also establish a separate industry skilling fund

While the LSA will support all Australians, it is important that governments do not overlook the development needs of businesses and industries.

There will be cases where businesses need support from government to develop their workforce, and direct funding from government may be the most efficient approach. To facilitate this, governments will need to establish a separate fund where businesses can directly access government support to develop their workforce.

BUSINESS COUNCIL **PROPOSAL EIGHT**

Lifelong Skills Account (LSA)

- Establish a single funding model that is sector-neutral.
- The centrepiece of the funding model is a Lifelong Skills Account, 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 income-contingent loan (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 seek approval to offer a subsidy, loan or both.
- A separate fund is established where businesses can directly access government support to develop their workforce.

THE TERTIARY SYSTEM
WHO PAYS? – GOVERNMENT AND STUDENT CONTRIBUTIONS TO LEARNING

Government contribution

Student contribution that must be paid up front [15]

Student contribution to be deferred through an income contingent loan

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.

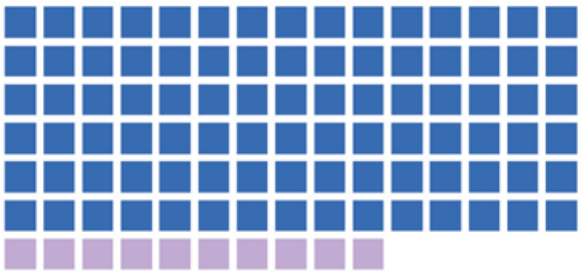


$900 **$100** **$0**

CERTIFICATE III
(High Priority Industry)

Total cost **$10,000**

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

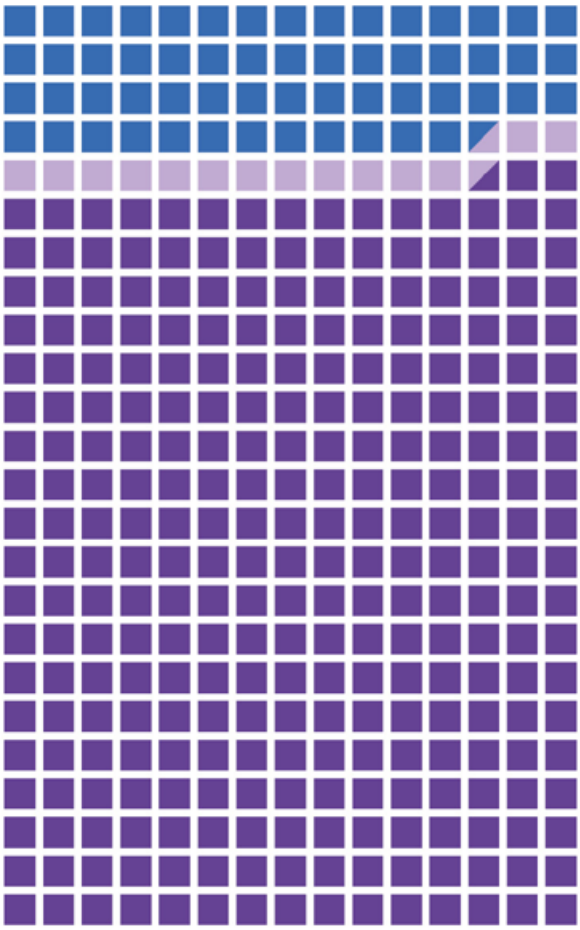


$2000 **$300** **$2700**

BACHELOR DEGREE
(Law)

Total cost **$36,000**

The total cost is estimated based on cluster funding and maximum charge rates to student 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).

[15] **Note: the Business Council is proposing that all students should have to pay a small up-front fee to ensure there is 'skin in the game.' This fee should be subject to the learner's capacity to pay.**

COMPONENT THREE
BUILD A SINGLE PLATFORM FOR MARKET INFORMATION

In the Business Council's proposed tertiary system, the LSA would be the centrepiece of the tertiary system, ensuring all Australians have access to tertiary education across their working lives.

However, an entitlement system cannot work effectively without market information that assists learners and funders to assess value for money and differentiate between providers.

Market information could be arranged in a number of ways, but the starting point should be what will be most useful for a potential learner. The most useful experience would be one that allowed them to go to one site and have all the information they need to support each stage of their decision-making process in the one place.

The data needed for a single platform of market information can be grouped into three categories in the current environment:

1. Data that does not currently exist, or is not consistently reliable – this would include items such as the cost of delivery, the private return by qualification.
2. Data that exists but is not publicly available in real time or on websites – this would include a lot of provider information around costs and student outcomes, and the distribution across providers of government subsidies and loans.
3. Data that exists and is publicly available, but is distributed across a number of sites – this would include items such as labour market information around average salaries and estimated future job vacancies, providers approved to offer loans, the subsidy rates of some governments. While this data is often publicly available, it can be difficult to find.

The data for the market information system will come from a range of government agencies and education providers. For the system to be robust, all parties will need to commit to building data sets for those areas that do not currently exist, and where the data currently exists, making it publicly available on the single site. Access to government funding should be conditional on education providers making this commitment.

This single platform should also allow for the provision of additional information beyond the basic requirements. This could then encourage future innovation in information provision.

BUSINESS COUNCIL **PROPOSAL NINE**

Build a single platform of market information

- Governments agree to build a single source of market information across tertiary education that is designed around a potential learner's decision-making process.
- To support this portal, new data sets will need to be created, including but not limited to:
  - the cost of delivering tertiary education, at a course level
  - the private return from tertiary education, at a course level
  - 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.

THE TERTIARY SYSTEM
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 including:
– Upfront costs, subsidy and ICL
– Future job prospects
– Graduate salaries and long-term potential earnings

WHERE TO STUDY

5 Identify providers of the course/skills sets and compare:
– 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 LSA

12 Return to step 1

COMPONENT FOUR
AGREE A SHARED GOVERNANCE MODEL

A shared governance model should define the roles and responsibilities of each level of government and industry, allow governments to manage their expenditure, and provide a mechanism to manage both the funding and market information systems.

Facilitate industry leadership, particularly in the VET sector

As discussed earlier, the VET sector has been designed to be an industry-led system. It is important that this industry leadership forms part of the governance of a broad tertiary system. In a new governance model, industry leadership covers two components: funding and policy.

The Business Council proposes that the current industry leadership around product development (Training Packages) should continue, and industry should also have a role in broader policy across the VET sector. In addition, industry could have a role in prioritising the funding of the proposed industry skilling fund.

BUSINESS COUNCIL **PROPOSAL TEN**

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.

Clearly define the roles and responsibilities of each level of government

As discussed in Chapter 6, both levels of government have a stake in the tertiary education system, and it is unlikely that either level of government will take sole responsibility.

Shared responsibility is common in a federation, but it is most effective if the roles of each government are understood and agreed. Subject to the outcome of the costing exercise, the Business Council proposes a split of funding responsibilities based on qualification level.

BUSINESS COUNCIL **PROPOSAL ELEVEN**

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

- States and territories have responsibility for funding:
  - pre-accredited and foundation studies (note: this funding sits outside the tertiary system).
  - Certificates I–IV
  - any base funding needed to make the public provider sustainable.
- The Commonwealth has responsibility for funding:
  - diplomas, advanced diplomas, and bachelor degrees
  - income-contingent loans
  - research training and research more broadly, noting this funding sits outside the tertiary 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.

THE TERTIARY SYSTEM
THE GOVERNMENT EXPERIENCE

	BOTH LEVELS OF GOVERNMENTS	AUSTRALIAN GOVERNMENT	STATE GOVERNMENT
FUNDING All tertiary funding distributed through a new national body 	■ Maintain contribution to the Training System Commonwealth for 10 years, with review at 5 years	■ Funds Diploma and above qualifications and income contingent loans (ICLs) ■ The Australian Taxation Office manages repayment of ICLs via the tax return process	■ Funds Certificates I-IV (AQF 1-4) ■ May chose to provide 'top up' payments to public providers (to help ensure they remain financially viable)
POLICY	■ National agreement on key policy issues: – design and management of the tertiary system – Lifelong Skills Accounts and associated rules – role and governance of the new institution	■ Policy responsibility for ICLs and HE	■ Policy responsibility for the public providers in their state
PROVIDERS 	N/A	N/A	■ Responsible for administration of public VET providers (TAFEs) ■ Continue to own the land which universities operate on and have responsibility for making appointments to university senates
REGULATION	■ No change	■ No change	■ No change
AUSTRALIAN QUALIFICATIONS FRAMEWORK (AQF) All VET and HE qualifications are assessed against the AQF Australian Qualifications Framework	■ As per current arrangements, education, training and employment ministers collectively own and are responsible for the AQF	N/A	N/A

In addition to the funding responsibilities, states and territories would retain responsibility for the ownership and governance of public providers (TAFEs and universities).

Allow each level of government to manage their expenditure and priorities

A joint governance model will only work if each level of government can manage their expenditure, and have the flexibility to direct funding to areas of their priority.

The Business Council believes it is important that the funding model has a consistent methodology. Such an approach would provide comparable information across the system, and would also provide transparency of decision-making. This should in turn improve market information and informed decision-making by potential learners.

It is important to acknowledge that a single methodology will not result in the same outcome. We have already proposed a costing exercise as a starting point for determining the required funding levels in the

BUSINESS COUNCIL **PROPOSAL TWELVE**

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.

system and the starting point for determining the level of subsidy.

This exercise is likely to show variances across locations, delivery methods and other factors. Additionally, the priorities of government will differ, so a qualification may receive a high level of subsidy in one jurisdiction, but no subsidy in another. This is a legitimate outcome.

The most important thing is that the potential learner can see what the cost, or cost-reflective price would be, and any changes the government makes through prioritisation.

Establish an institution to manage the funding model and market information system

It will be a substantial piece of work to establish the funding and market information systems, and significant ongoing work to distribute the funding and manage the systems.

No single government agency at either level of government has the capacity to manage these functions. The Business Council therefore proposes that a new institution is established to set up and manage both the funding model and market information system (see Appendix 1 for information on current bodies across VET and HE).

There are a range of governance models that could be used to establish such an institution, such as a ministerial company, establishment under Commonwealth legislation, or establishment under state legislation.

In considering the appropriate structure, given the cooperative nature of the tertiary system, it will be important that one party does not have substantially more power than another. This could suggest that a ministerial company would be one of the more appropriate structures.

BUSINESS COUNCIL **PROPOSAL THIRTEEN**

Establish a tertiary 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.

As discussed in Chapter 6, managing a demand-driven system is challenging and can lead to cost blow-outs. There can also be concerns about cost-shifting when two levels of government are involved in funding a system.

The governance model has been designed to manage these issue, with the following safeguards built into the Business Council's proposals:

- Each level of government commits to maintaining current funding levels for 10 years, with a review at five years.
- When a government transfers funds to the new institution, the new institution will quarantine the funds for each jurisdiction's use.
- Responsibility for qualifications eligible for ICLs rests with the same level of government that fund ICLs (the Commonwealth).
- The government that funds the qualification also sets the subsidy provided.
- Governments will determine the level of fee deregulation for each student cohort, including whether providers will be permitted to charge above cost-reflective price and margin.
- Ongoing monitoring of all funding will be conducted across the two sectors.

THE TERTIARY SYSTEM
GOVERNANCE

CURRENT BODIES

1 AUSTRALIAN SKILLS QUALITY AUTHORITY
- Regulate VET providers and accredited courses

2 INDUSTRY AND SKILLS MINISTERIAL COUNCIL
- Develop and implement policy reform for VET and HE under the remit of COAG

3 NATIONAL CENTRE FOR VOCATIONAL EDUCATION RESEARCH
- Collect, manage, analyse, evaluate and communicate VET research and statistics

4 TERTIARY EDUCATION QUALITY STANDARDS AGENCY
- Register and evaluate HE providers

5 PROPOSED NEW BODY
- See below

PROPOSED NEW BODY

THE NEW INSTITUTION
- Not-for-profit, company owned by the Commonwealth, State and Territory Ministers
- Overseen by board with industry representation
- Reports to the Ministerial Council

AND WHAT IT DOES FOR GOVERNMENTS



DETERMINE SUBSIDY RATE FOR COURSES
- Conduct costing and private return exercise
- Establish initial subsidy rate and contribution ratio for each qualification for consideration by government
- Publish final subsidy rate for courses set by governments

ONGOING MANAGEMENT AND REPORTING
- Distribute and monitor funding for learning.
- Publish cost model for all funded learning and report on government expenditure





AND WHAT IT DOES FOR STUDENTS
- Publish market information for students
- Manage Lifelong Skilling Accounts which provide student access to their available balance



AND WHAT IT DOES FOR PROVIDERS
- Determine providers eligible to offer subsidy and/or ICL
- Collect market information from providers
- Contract manage providers

COMPONENT FIVE
CREATE A CULTURE OF LIFELONG LEARNING

In many ways, creating a cultural shift to one that truly embraces lifelong learning will be one of the most difficult changes. As discussed in earlier chapters, our educational systems are not oriented to lifelong learning.

Some workers do move in and out of the tertiary education system during their working lives, but for many adult Australians cost, time and the way in which skill development can be accessed act as an impediment.

Maintain qualifications for people entering the labour market or a new industry

A qualification is an individual's signal to a potential employer that demonstrates their interest in a field, as well as their skills and knowledge.

For many Australians, a qualification is their pathway to their first significant employment role, and the foundation from which they fulfil their personal ambitions and potential. This is particularly the case for young people in their transition from school to work.

The Business Council is strongly committed to maintaining a tertiary education system that awards qualifications and provides Australians with that foundation from which to build their career and life.

Allow graduates to build on the knowledge and skills they have developed through their education and work, including by funding more modular learning

However, over someone's working life they may change their career or specialisation many times, and we need our future tertiary education system to cater for these Australians, as well as the ones who need a full qualification.

We need 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.

It is important to acknowledge that the VET sector, and HE to a lesser extent, already offer potential learners some form of modularisation. However, it can be difficult for potential learners to find a provider, let alone one that can fit in around work.

This is partly because funding is primarily focused on qualifications, rather than just accredited modules. This then incentivises providers to focus on qualifications rather than modules.

If we are to build a culture of lifelong learning, it will be important to empower graduates already in the labour market to create a 'qualification' that meets their needs, and allow them to use their LSA to fund the skill development.

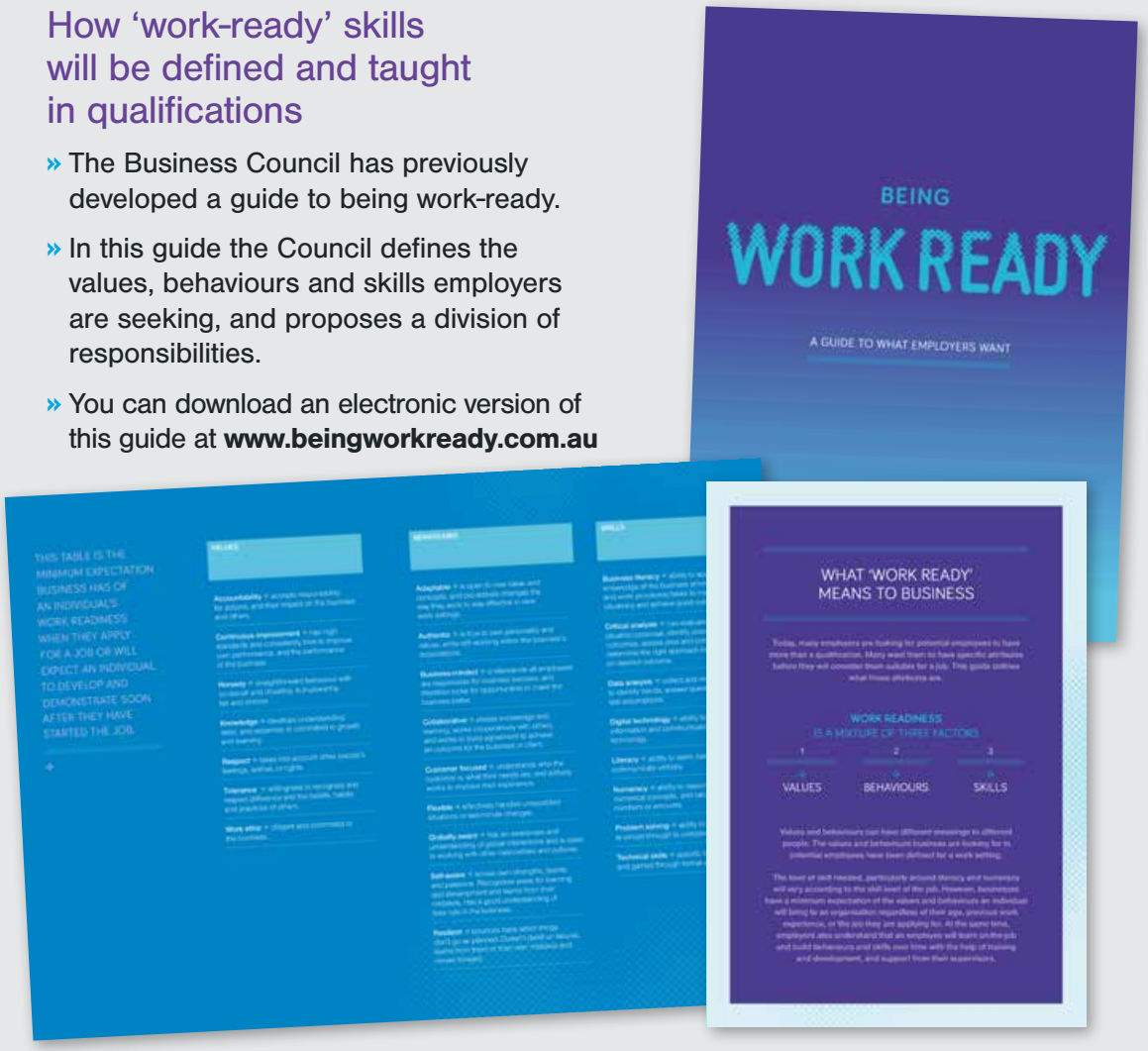
How qualifications would work in the Business Council's model

- The current accreditation arrangements for qualifications that exist in VET and HE would continue.
- In addition, learners would be able to construct their own 'qualifications'.
- To construct the qualification learners would look at the smallest unit of learning (generally a module in VET and a subject in HE) and put together the different units they would like to study.
- If the learner already has a qualification*, they will be able to apply to the new institution to use their LSA to cover the cost of the learning.
- The educational institution will be required to issue a formal certificate that learners can show potential employers to demonstrate their study.

**Note: people with no qualification, such as school leavers, would need to get an accredited qualification before using their LSA to construct their own to ensure the LSA is not wasted.*

How 'work-ready' skills will be defined and taught in qualifications

- The Business Council has previously developed a guide to being work-ready.
- In this guide the Council defines the values, behaviours and skills employers are seeking, and proposes a division of responsibilities.
- You can download an electronic version of this guide at **www.beingworkready.com.au**



BUSINESS COUNCIL **PROPOSAL FOURTEEN**

Create a culture of lifelong learning

- 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.
- Allows LSA funding to be used for self-constructed 'qualifications'.

If Proposal fourteen is adopted and implemented, it will make formal learning and skill development much easier for individuals, which will make it easier for businesses. Allowing graduates to construct their own qualifications will reduce their time commitment, and make it more attractive to businesses, as they will be able to focus the development on needs.

A culture of lifelong learning will need commitment and effort from both workers and businesses. Businesses will need to recognise that benefits start to flow from day one of learning, not just when it is completed, and support workers through time release or contributing to costs not covered by the Lifelong Skills Account.

At the same time, workers need to take responsibility for identifying where they want to develop rather than relying on their employer to develop a plan. They will also need to acknowledge the informal learning they receive in their workplace, and that they get a private benefit from development and will need to make a contribution to their development.

RELATIONSHIP OF THE PROPOSED TERTIARY SYSTEM TO OTHER PARTS OF VET AND HE

The Business Council's proposed tertiary system is centred around funding, governance and market information.

The VET and HE sectors are broader than this, and include the Australian Qualifications Framework, the apprenticeship system, Training Packages, research qualifications and research funding, and so on. These are all unique systems or processes within VET and HE.

While the tertiary system may intersect with these other systems or processes and make changes to the funding arrangements, it does not provide for wholesale reform of the unique system or process. Take apprenticeships as an example.

If a person wishes to undertake an apprenticeship they will still need to enter a contract of training and complete the relevant qualification. The proposed new institution would set the cost of the apprenticeship and the contribution the learner would make it. It would also manage the market information platform the learner uses to figure out that they want to do an apprenticeship.

The apprenticeship system itself is not fundamentally changed by the tertiary system and requires specific reform.

Reinvigorate and modernise the apprenticeship system

In April 2017, the Australian Chamber of Commerce and Industry, the Australian Industry Group and the Business Council jointly published a position paper calling for all governments to make 2017 the year when they renew their investment and reform focus on the VET sector, starting with apprenticeships.

Apprenticeships are a cornerstone of the Australian VET sector.

It is through the apprenticeship system that Australia has created a skilled community of tradespeople who contribute to our economic growth and living standards.

Tradespeople start small businesses, take risks, employ people, and are often the backbone of regional communities, and they begin their professional lives as apprentices.

But there remains a stigma that this very important pathway to work is of less value than a university qualification. This culture needs to stop. But we also need to modernise the system so it is fit for a modern economy and emerging industries.

In the joint paper, the three groups suggested governments use the next National Partnership to reform apprenticeships across six key areas outlined in the following diagram. (See Appendix 2 for the complete paper.)

The Business Council remains convinced that the reform agenda detailed in this paper is the best way forward to build a modern apprenticeship system that can serve as a pathway to work the traditional and emerging industries.

Governments are currently negotiating a National Partnership on apprenticeship reform, and the Business Council hopes the joint paper will inform the directions of this agreement.

However, the Commonwealth Government's financial contribution to the National Partnership comes from a levy being applied to businesses that hire international people on a skill-shortage visa. Consequently, the National Partnership is being funded by Australian businesses. Given this, the Business Council believes business should be at the centre of the decision-making process.

USE THE KNOWLEDGE AND KNOW-HOW OF AUSTRALIAN INDUSTRY TO CREATE A NATIONAL APPRENTICESHIP SYSTEM THAT…

1 IS EASY TO USE

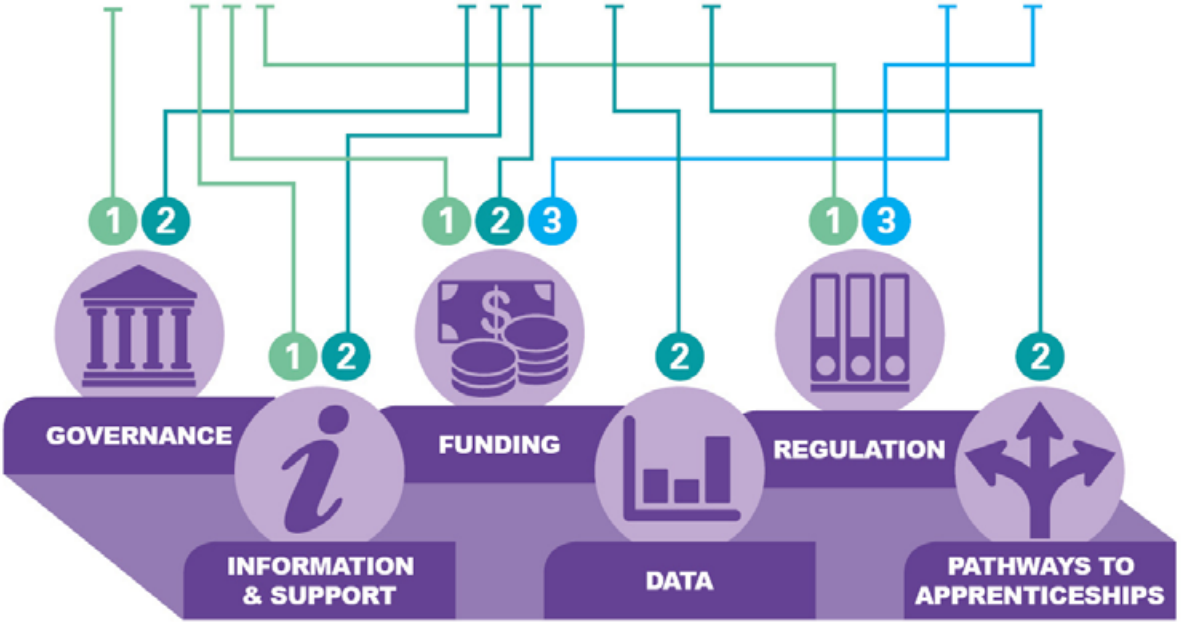
Create a national system that is easy for students and employers to use.

2 CREATES MORE APPRENTICES AND WORKERS

Increase the number of Australians starting an apprenticeship and moving into work.

3 REMOVES DUPLICATION

Remove duplication between governments and better align their programs, services, and funding.



TO ACHIEVE THESE THREE OUTCOMES, THE NATIONAL PARTNERSHIP SHOULD INCLUDE REFORMS IN THE SIX KEY AREAS ABOVE

IMPLEMENTATION

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

We could envisage five stages of implementation as detailed below.

PHASE ONE
COAG

» All governments agree on the creation of a tertiary system and the intended outcomes of such a system.

» All governments agree to the design elements of the system and market design, including the creation of the Lifelong Skills Accounts and the new institution.

» All governments agree to a timeline for transition and implementation.

PHASE TWO
INTERGOVERNMENTAL NEGOTIATIONS (2016)

» All governments agree to the rules and conditions of a Lifelong Skills Account.

» All governments agree on how to manage and fund pre-accredited and foundation studies learning outside the tertiary 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 to the establishment of a new national institution, including responsibilities of the body and governance and funding arrangements.

» All governments agree to the roles and responsibilities of each level of government in a national system.

» The new national institution is established.

PHASE THREE
ESTABLISHMENT AND RESEARCH

» The new national institution undertakes the costing exercise.

» The new national institution undertakes comprehensive financial analysis and modelling to establish the funding model and market information.

» The national body establishes the new market information platform.

PHASE FOUR
PROVIDER ENTRY

» Universities will be automatically eligible for entry into the market in HE provision. All other providers will need to apply to the new national institution to receive a contract to offer publicly funded training (note: universities will need to apply to offer VET provision).

» The new national institution assesses all providers, publishes a list of approved providers and enters into contracts.

PHASE FIVE
IMPLEMENTATION

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

» The new national institution will monitor funding in real time and assess performance of providers.

» Subject to implementation issues, the LSA will be rolled out to certificate-level courses in the following year.

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 change would have on other component parts.

NEXT STEPS
CONSULTATION

PURPOSE OF CONSULTATIONS

The Business Council will run national consultations with a broad range of stakeholders and interested parties to seek views on the proposed tertiary system, and work through and refine the elements of the proposed system.

The Business Council acknowledges there is a great deal of detail and complexity in the design and implementation of a tertiary system for Australia, and we do not have all the answers.

If Australia were to adopt a tertiary system, a significant proportion of the design will necessarily be negotiated between governments, and comprehensive modelling would need to be undertaken around the funding model. Additionally, extensive research would need to be done to do the costing exercise proposed in the paper, as well as labour market research and the merging of multiple data sources to establish the foundation for the proposed market information platform.

The consultations will therefore focus on three key issues:

1. Is there a broad consensus on the need to move to a tertiary system? If not, what is the alternative?
2. Will the five elements proposed for the tertiary system provide a strong foundation from which to build an effective, efficient system that will be able to adapt to changing learner needs and economic conditions?
3. Are the specific design proposals suitable or are changes needed?

CONSULTATION APPROACH

The consultation process will be run at arms-length from the Business Council to enable full and frank commentary by stakeholders.

The questions below will guide the consultations (note: not every consultation will cover every question).

OVERALL TERTIARY SYSTEM

1. What is your view on the proposal to move to a tertiary model and why?
2. If Australia were to adopt a tertiary model, do you think the proposed five elements of the tertiary system (structure, funding, information, governance and lifelong learning) are appropriate, and why?

COMPONENT ONE
STRUCTURE

3. Do you agree it is important that the two sectors (VET and HE) maintain a unique identity?
4. The continuation of sector-specific standards and regulators are designed to support each sector maintaining their unique identify. Do you think any other mechanisms are needed to ensure each sector maintains their own identify?
5. Do you think the proposed new institution (the body that will contract manage funding the LSAs and the market information platform) needs to differentiate between the two sectors?

COMPONENT TWO
FUNDING

6. What is your view on the proposal to create a Lifelong Skills Account, and why?
7. Do you support the principle that the contribution by learners should be based on the cost of the learning and the ratio of public and private benefit, and why?
8. Do you think there should be a cap on the subsidy and/or the income-contingent loans? If so, how should the cap be determined?
9. Do you the support the establishment of a separate fund that businesses can access to develop their workforce, and why?

COMPONENT THREE
SINGLE PLATFORM FOR MARKET INFORMATION

10. Market information has been an issue in tertiary education for at least a decade. What are the barriers to building a single platform, and how can they be overcome?
11. What new data sets will need to be created, and what current data sets will need to be accessed or linked?

12 What are your views on the Business Council's proposed approached for a learner's decision-making process (see infographic: The Tertiary System: helping learners make decisions)?

COMPONENT FOUR
AGREE A SHARED GOVERNANCE MODEL

13 Do you agree with the proposed split of funding responsibilities between the different levels of government? If not, what alternative approach would you propose and why?

14 There are some concerns that hard lines between levels of government in funding responsibilities can lead to perverse behaviour. If you have these concerns, what alternate model would you propose?

15 Do you support state governments providing base funding to TAFEs to ensure their sustainability? If not, what approach would you propose to ensure sustainability?

16 What are you views on the proposed methodology the determine subsidy rates (see Proposal six)?

17 The governance model has been designed with safeguards to prevent cost-shifting between levels of government (see Proposals five and six), as well as cost blow-outs. These include:

17.1 Proposing that each level of government commit to maintaining current funding levels for 10 years, with a review at five years

17.2 Proposing that when a government transfers funds to the new institution, the new institution will quarantine the funds for each jurisdiction's use

17.3 Proposing that responsibility for qualifications eligible for ICLs rests with the same level of government that fund ICLs (the Commonwealth)

17.4 Proposing that the government that funds the qualification also sets the subsidy provided

17.5 Proposing that governments will determine the level of fee deregulation for each student cohort, including whether providers will be permitted to charge above cost-reflective price and margin

17.6 The ongoing monitoring of all funding across the two sectors

Are these sufficient safeguards? If not, what additional safeguards would you propose?

18 The Business Council has proposed the creation of a tertiary system funding and marketing information institution to enact the decisions of government and a range of other responsibilities (see proposal thirteen)

18.1 Do you support the new institution being a not-for-profit company? If not, what governance would you propose and why would it be preferable?

18.2 Who should the Board be chaired by – industry or government, and why?

18.3 Should the Board have any policy responsibility, and why?

COMPONENT FIVE
CREATE A CULTURE OF LIFELONG LEARNING

19 What are your views on adopting a more modularised approach to skill development to support lifelong learning?

20 Do you support established workers being able to use their LSAs to fund self-constructed qualifications?

21 What role do you think business should play in creating a culture of lifelong learning?

DATA NOTES AND REFERENCES

NOTES ON DATA

FIGURE 3

The analysis is based on the ABS 2011 Census data with the age range of each demographic cohort used to infer results. For instance, those in Gen Y were aged between 17 and 31 at the time of the 2011 Census, therefore the Highest Year of School Completed (HSCP) for all those aged 17–31 is used calculate the cohort result. Gen X was calculated for those aged 32–46, and Baby Boomers for those aged 47–71. Those that did not state their highest level of school completed on the census have been excluded from the analysis.

Millennials were not included as an age cohort in this paper as an insufficient number of this cohort had completed secondary or tertiary education at the time of the 2011 Census.

FIGURE 4

The vocational data is based on two data sets. Years 1963 to 1980 are the number of students enrolled in technical education recorded in the ABS, Year Book of Australia, with the data provided by the Australian Department of Education. Technical education enrolments is used as it is the precursor to the current VET system.

The vocational data from years 1981 to 2014 is from the NCVER Government-Funded Students and Courses collection. A series break line is included at the year 2002 due to the change reporting scope that year, with program completions for fee-for-service students at private providers excluded. This is noted as this change in data collection reflects the data collection method rather than an actual decrease in participation.

The higher education data is a continuous time series from the Australian Department of Education, Higher Education Statistics.

FIGURE 5

The analysis uses the same method as Figure 3. 2011 Census data is used to calculate attainment for each cohort, in this instance the highest level of non-school educational attainment is used (QALLP). Those that did not state their highest level of non-school qualification completed on the census have been excluded from the analysis. Gen Y's under the age of 26 have also excluded from the analysis to capture a sample of Gen Y's old enough to have completed tertiary education.

FIGURE 7

The analysis is based on two data sets, years 1995/1996 to 2015/16 are based on total public expenditure on tertiary, primary and secondary education contained in the ABS Government Finance Statistics, Education.

Years 1981/62 to 1994/95 total public sector outlays on education from the ABS Government Finance Statistics with the time series data compiled by the Reserve Bank of Australia.

The data therefore includes the expenditure of funds from public universities that come from private sources, such as student fees and charges.

Analysis is in 2016 dollars using CPI deflator.

FIGURE 8
The analysis of government expenditure on education is the same as contained in Figure 7.

Private expenditure on education is based on household private consumption and private gross fixed capital formation on education from the ABS National System Accounts.

Please note adding public and private expenditure does not equal total expenditure, as there is double counting for instance government grants to private schools.

The total spend per capita is calculated using ABS population statistics.

Analysis is in 2016 dollars using CPI deflator.

FIGURES 10 & 11
The data presented is sourced from analysis contained in 'Trends in VET: policy and participation', NCVER 2015.

FIGURES 10–15
The analysis for each cohort selects data from a specific year to provide a snapshot for when each generation had entered the workforce and made up a substantial portion of the labour market. The approach for selecting each year is as follows:
- In 1986 Baby Boomers were between the ages of 21–45 and comprised 65% of the labour market
- In 2001 Gen Xs were 21–35 and comprised 35% of the labour market
- In 2016 Gen Y's were 21–35 and comprised 34% of the labour market

Analysis is based on the ABS Labour Force Detailed, Quarterly.

FIGURES 12, 13 & 15
Each figure that refers to low-, medium- and high-skill workers is based on the ANZSCO occupational skill level classification.

Due to public availability of data, two approaches have been used to classify occupations.

For Figures 12 and 15 the data is analysed to the six-digit ANZSCO code. The following approach is used to define the categories:
- **High:** all occupations at skill levels 1 and 2
- **Medium:** all occupations at skill level 3
- **Low:** all occupations at skill levels 4 and 5

For Figure 13 the data has been analysed to the two-digit ANZSCO code. The following approach is used to define the categories:

- **High skill:** Chief Executives, General Managers and Legislators, Farmers and Farm Managers, Specialist Managers, Hospitality, Retail and Service Managers, Arts and Media Professionals, Business, Human Resource and Marketing Professionals Design, Engineering, Science and Transport Professionals, Education Professionals, Health Professionals, ICT Professionals, Legal, Social and Welfare Professionals, Engineering, ICT and Science Technicians, Health and Welfare Support Workers, Office Managers and Program Administrators.
- **Medium skill:** Automotive and Engineering Trades Workers, Construction Trades Workers, Electrotechnology and Telecommunications Trades Workers, Food Trades Workers, Skilled Animal and Horticultural Workers, Other Technicians and Trades Workers, Protective Service Workers, Personal Assistants and Secretaries, Sales Representatives and Agents.
- **Low skill:** Carers and Aides, Hospitality Workers, Sports and Personal Service Workers General Clerical Workers, Inquiry Clerks and Receptionists, Numerical Clerks, Clerical and Office Support Workers, Other Clerical and Administrative Workers, Sales Assistants and Salespersons, Sales Support Workers, Machine and Stationary Plant Operators, Mobile Plant Operators, Road and Rail Drivers, Storepersons, Cleaners and Laundry Workers, Construction and Mining Labourers, Factory Process Workers, Farm, Forestry and Garden Workers, Food Preparation Assistants, Other Labourers.

Analysis is based on the ABS Labour Force Detailed, Quarterly.

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APPENDIX 1
DETAILED DESIGN OF A TERTIARY SYSTEM

This paper has presented an argument that Australia needs to move to a broad tertiary education system.

Chapter 7 outlines what the Business Council means by a broad tertiary system, and includes proposals about the high-level design of such a system.

This appendix provides a more detailed explanation of how each element of the potential system could be created, including the outcome of each component and the key design elements.

The appendix is for illustrative purposes, and the design elements are not drafted to enable immediate implementation. They are at a high enough level to establish a framework for a tertiary system, and intergovernmental negotiations will be needed to agree to the next level of detail required for implementation.

The 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 change would have on other component parts.

LEARNER'S ACCESS

Intended outcomes

- All Australians have access to develop the knowledge, skills and qualifications they need to be independent in the labour market.
- All Australians have access to retrain to adapt to changing labour market conditions, and continue to develop new skills throughout their life.

Design elements

- Access to tertiary education is constrained by one of two mechanisms: caps on government-funded places, or restrictions on eligibility requirements imposed by the learning provider.
- Consistent with the current system in higher education, and the Victorian VET market, there will be no cap on government-subsidised places.
- 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.
- Learners will choose their course or skill set from the list approved by the National Tertiary Funding and Market Information The new institution (a new national body to be established, see Governance below).
- Learners will choose their provider from the list approved by the new institution.
- Learning providers will continue to have the option of imposing eligibility criteria, or capping the number of places they offer.

FUNDING

Intended outcomes

- Financial circumstances are not a barrier to an individual undertaking tertiary education.
- Individuals recognise there is a financial cost associated with enrolling in accredited learning.
- Individuals make a personal contribution to their tertiary education that reflects the private return they will receive over their lifetime of earnings.
- Thin markets and disadvantaged learners are catered for.

Design elements

- The centrepiece of the tertiary system is a Lifelong Skills Account (LSA) for all Australians (this will replace the entitlements in VET and the demand-driven funding in HE).
- The Lifelong Skills Account is made up of two components:
  - Access to a government subsidy for accredited learning in VET or HE (lifetime cap of say 10 years of accredited learning)
  - Access to an income-contingent loan (ICL) for accredited learning at AQF Levels 5–9 (lifetime to be determined).
- The subsidy will not cover the full cost of accredited learning. All learners will be required to pay a minimum charge up-front, subject to a capacity to pay the up-front charge.

- Some potential learners face greater barriers in skill development and need additional support. For such learners, the new institution will approve an additional loading to the learner's LSA so the provider can offer the additional support.
- The additional loading is attached to the learner, not the course or the provider, thereby not limiting the learner's choice of provider.
- All jurisdictions commit to maintaining their current funding levels for a minimum of ten years, with a review at five years.
- States and territories have responsibility for funding pre-accredited and foundation studies, noting this funding sits outside the tertiary system.
- States and territories have responsibility for funding Certificates I–IV (see below for apprenticeships).
- The Commonwealth has responsibility for funding diplomas, advanced diplomas, bachelor degrees and ICLs.
- The Commonwealth also has responsibility for funding research training and research more broadly, noting this funding sits outside the tertiary system.
- There is a unique agreement between each government and the new institution confirming the financial arrangements for the tertiary model.

GOVERNMENT EXPENDITURE AND CONTRACT MANAGEMENT

Intended outcomes

■ Government expenditure is targeted and budget exposure is managed.

■ Government expenditure is monitored in real time, and contract management is used to limit government expenditure to quality providers.

Design elements

- The treasuries of all governments will distribute the agreed funding levels to the new institution.
- The new institution will quarantine state and territory funding to delivery funding for Certificates I–IV in the specific jurisdiction.
- The new institution will quarantine Commonwealth funding to delivery of qualifications at Diploma levels and above.
- The new institution will establish a set of conditions to determine:
  - The accredited learning (qualifications and skill sets) that can be funded through a Lifelong Skills Account (LSA)
  - The providers who are eligible to offer learning that will draw down on an individual's subsidy in their LSA
  - The providers who are eligible to offer learning that will draw down on an individual's loan in their LSA.
- The new institution will set the level of government subsidy that will be available for each qualification or skill set, noting:
  - The new institution's starting point for establishing subsidy levels will be a cost-reflective price, but this will be moderated by the jurisdiction's funding allocation
  - Each jurisdiction, including the Commonwealth, will provide advice to the new institution on their priorities for funding, and this advice will be an input to the new institution's work
  - The subsidy level may differ between jurisdictions, including the availability of any subsidy (reflecting both the overall funding levels and the jurisdictional priorities)
  - The final list will be subject to approval by the Ministerial Council.
- The subsidy rate set by the new institution will apply to all eligible learner providers.
- For all approved accredited learning, the new institution will determine and publish (on an annual/biennial basis) a cost and funding model including:
  - A 'cost-reflective' price for the qualification or skill set
  - The government contribution (percentage and dollar amount) based on public return
  - Minimum charge to the learner (providers cannot reduce this charge)

  - The final government subsidy (this may remain the rate based on public return, or be reduced or increased based on government priorities in thin markets or learner groups)
  - Final charge to the learner.
- When the learner enrols, the provider will apply to the new institution to release funds from the learner's LSA consistent with the rates published by the new institution.
- If the learner has an additional loading attached to their LSA, the new institution will also release this loading to the provider.
- Learners will be required to pay a minimum charge up-front, but will be able to finance the remainder of their individual contribution with an ICL (for AQF 5–9). Similar to the subsidy rate, the provider would apply to the new institution to release loan funds from the learner's LSA.
- Contract management (e.g. monitoring where government funding is being spent, monitoring provider's publication of market information) is the role of the new institution not the regulator.
- There will be a clear delineation between minimum standards and regulation, and eligibility for government funding and contract management.

PRICING

Intended outcomes

■ Providers have sufficient resources to deliver quality learning.

■ Learners are provided with comprehensive information about the up-front and deferred cost of their learning.

■ Learners and funders (government, enterprises) can assess value for money.

Design elements

- 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.
- For all courses/skill sets where the provider advertises they offer a government subsidy or ICL, the provide must publish:
  - The overall price they charge for the course/skills set
  - The institution's published 'cost-reflective' price
  - The difference between the two prices (where relevant) and what the learner will receive as a result of the difference in price
  - The total cost to the learner, including:
    - The up-front payment
    - The amount of government subsidy that will be deducted from the learner's LSA
    - The amount of ICL that will deducted from the learner's LSA.

MARKET INFORMATION

Intended outcomes

■ Consumers are supported to make informed decisions.

■ Government expenditure is transparent.

Design elements

- To be eligible to offer government-subsidised learning, a provider will be required to publish the following information for each approved course:
  - Course duration
  - Delivery mode
  - Eligibility for an ICL
  - Number of students in the course
  - Share of students in course between fee-for-service and government-subsidised
  - Completion rates
  - Employment outcome rate for the course
  - Number of students at the provider
  - Share of students at provider between fee-for-service and government-subsidised
  - Provider's overall completion rate.
- The new institution will publish general course level information on an annual basis including:
  - Funding information (as per the funding section above)
  - Average length of time a course takes to complete
  - Careers the course leads to
  - Average graduate pay and longer-term potential earnings

  - Employment/unemployment rate and job vacancy rate by field
  - Average length of time to repay an ICL
  - Total government subsidies paid
- The new institution will also publish market-wide information on an annual basis including:
  - Total loans paid
  - Amount and percentage of overall market share of subsidy by provider
  - Amount and percentage of overall market share of loans by provider
  - Amount and percentage of overall market share of subsidy by course
  - Amount and percentage of overall market share of loan by course

PROVIDERS

Intended outcomes

- The market for delivery is open to public and private providers, and there is no funding discrimination for standard market delivery based on provider type.
- All providers can cater to disadvantaged learners.
- Public providers deliver a community service obligation in their community, including delivering learning in thin markets.
- Public providers are managed efficiently, but have sufficient funding to be sustainable.

Design elements

- Ownership and governance of public providers (TAFEs and universities) are the responsibility of the relevant sate/territory government.
- The new institution establishes the price for funding delivery for all courses and skill sets, and all providers are awarded the same price for standard delivery.
- The new institution determines thin markets for course delivery, and establishes a unique contract with the relevant public provider for that delivery.
- Relevant state/territory governments can provide additional funding to public providers to support community service obligations.

STANDARDS

Intended outcomes

- Establish minimum educational benchmarks for accredited learning.
- Establish the technical requirements industry/employers require from accredited learning.
- Establish minimum financial benchmarks for learning providers.
- Established minimum behavioural benchmarks for learning providers.

Design elements

- Standards cover the behaviour and conduct of learning providers, as well as the learning they offer.
- System-wide standards will include:
  - The Australian Qualifications Framework
  - Market information and pricing requirements (only for learning providers offering government-subsidised learning or an ICL).
- VET standards will include:
  - The Standards for Registered Training Organisations (RTOs) 2015
  - The Fit and Proper Person Requirements
  - The Financial Viability Risk Assessment Requirements
  - The Data Provision Requirements
  - Training Packages.
- HE standards will include:
  - Higher Education Standards Framework.

REGULATION

Intended outcomes

- To ensure only legitimate learning providers are registered/accredited
- To give learners, enterprises, government, and the community confidence that learning providers are meeting the required benchmarks

Design elements

- Consistent with different sets of standards, there will continue to be two regulators: ASQA and TEQSA.

» ASQA will:
  – Register training providers
  – Register organisations on the Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS) to deliver training to international students on student visas
  – Ensure that organisations comply with the conditions and standards for registration, including by carrying out compliance audits
  – Accredit VET courses.

» TEQSA will:
  – Register and evaluate the performance of higher education providers against the Higher Education Standards Framework.

GOVERNANCE

Intended outcomes

■ To have clearly defined roles and delineation between the various bodies involved in the governance of the sector

Design elements

The current bodies that contribute to the governance of the VET and HE sectors will continue.

A new institution will also be established to manage the funding, and market information system.

See the table below for details on the tertiary system bodies.

BODY	ROLE	COVERAGE	GOVERNANCE
AUSTRALIAN SKILLS QUALITY AUTHORITY (current body)	Make sure the VET sector's quality is maintained through the effective regulation of: – vocational education and training providers – accredited VET courses	VET providers, and VET accredited courses	Independent statutory agency established under Commonwealth legislation
INDUSTRY AND SKILLS MINISTERIAL COUNCIL (current body)	Pursue and monitor priority issues of national significance and take joint action to resolve issues that arise between governments Develop policy reforms for consideration by COAG, and oversee the implementation of policy reforms agreed by COAG	All policy matters related to the tertiary system	Membership of the COAG Industry and Skills Council comprises ministers from the Commonwealth, state and territories with portfolio responsibility for Industry and Skills in their jurisdiction
NATIONAL CENTRE FOR VOCATIONAL EDUCATION RESEARCH (current body)	Collect, manage, analyse, evaluate and communicate research and statistics	VET sector	Not-for-profit company owned by the Commonwealth and State and Territory ministers responsible for vocational education and training
TERTIARY EDUCATION QUALITY STANDARDS AGENCY (current body)	Register and evaluate the performance of higher education providers against the Higher Education Standards Framework	HE providers	Independent statutory authority established under Commonwealth legislation

BODY	ROLE	COVERAGE	GOVERNANCE
NEW INSTITUTION	Determine and publish: ■ The accredited learning that will be eligible for a government subsidy ■ The government subsidy for each approved qualification/ skill set ■ Providers eligible to offer government-subsidised learning ■ Providers eligible to offer an ICL Publish an annual/ biennial cost and funding model for all learning eligible for a government subsidy or an ICL Manage Lifelong Skills Accounts (LSA), and provide real-time access for learners to monitor their LSA Contract manage providers eligible to offer government-subsidised learning or an ICL Monitor and report on government expenditure, including ICLs. Publish market-wide information	VET and HE providers that offer government-subsidised learning or ICLs Learners who access their Lifelong Skills Account	Not-for-profit company owned by the Commonwealth, State and Territory Ministers with portfolio responsibility for Industry and Skills in their jurisdiction Overseen by an industry-led board

APPENDIX 2
APPRENTICESHIP REFORM PAPER

Australian Chamber of Commerce and Industry

Ai GROUP

Business Council of Australia

GOVERNMENTS NEED TO MAKE 2017 THE YEAR OF VOCATIONAL EDUCATION AND TRAINING

The Australian Chamber of Commerce and Industry, the Australian Industry Group and the Business Council of Australia are calling on all governments to make 2017 the year when they renew their investment and reform focus on the vocational education and training (VET) sector.

The renewal is vital to ensuring Australia has a VET system that supports the growth of Australian industry, and offers opportunities to all Australians to fulfill their potential and be able to adapt and be successful in the global economy.

It is needed to address the malaise resulting from falls in investment in real terms, falling numbers of students, particularly apprentices, and abuse of VET FEE-HELP from poor quality providers.

The first step in this renewal should be the Commonwealth Government committing to establish a new National Partnership that continues their current investment of $1.75 billion over five years for VET reform.

The second step should be for all governments to come together and agree to the new National Partnership focusing on the apprenticeship system. Apprenticeships is the area of reform where government will get maximum return on their investment, and provide the greatest opportunities for young people and Australian workers.

The continuing investment of $1.75 billion over the next five years should use the knowledge and know-how of Australian industry to:

1. Create a genuine national system that is easy for students and employers to use.
2. Increase the number of Australians starting an apprenticeship and moving into work.
3. Remove duplication between governments and better align their programs, services, and funding.

To achieve these three outcomes, the National Partnership should include apprenticeship reforms in the six key areas of:

1. Governance
2. Funding
3. Regulation
4. Information and support
5. Data
6. Pathways to apprenticeships.

Further steps in the renewal of the VET system should be prioritised by the Council of Australian Governments as part of an ongoing reform agenda.

Australian Chamber of Commerce and Industry

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Business Council of Australia

The proposed National Partnership on Apprenticeship Reform

USE THE KNOWLEDGE AND KNOW-HOW OF AUSTRALIAN INDUSTRY TO CREATE A NATIONAL APPRENTICESHIP SYSTEM THAT…

1 IS EASY TO USE

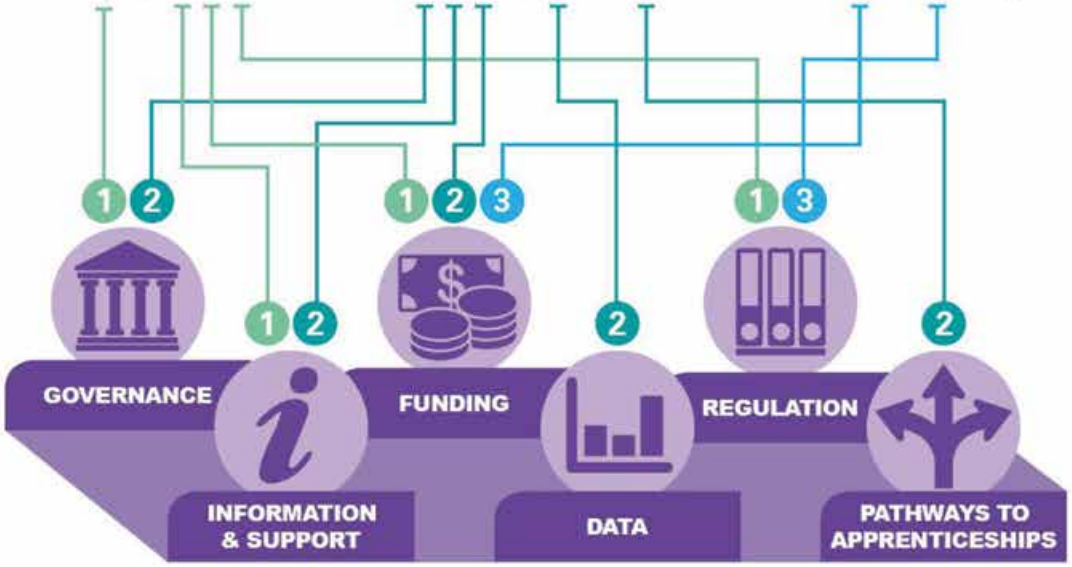
Create a national system that is easy for students and employers to use.

2 CREATES MORE APPRENTICES AND WORKERS

Increase the number of Australians starting an apprenticeship and moving into work.

3 REMOVES DUPLICATION

Remove duplication between governments and better align their programs, services, and funding.



TO ACHIEVE THESE THREE OUTCOMES, THE NATIONAL PARTNERSHIP SHOULD INCLUDE REFORMS IN THE SIX KEY AREAS ABOVE

Australian Chamber of Commerce and Industry

Ai GROUP

Business Council of Australia

The VET sector is vital to all Australians and our economic success

In the 21st century, the vast majority of Australians will need to complete a vocational education and training (VET) or higher education qualification to be successful in the labour market.

VET is a pathway to work for over 4 million[1] Australians a year and offers practical hands-on training across all industries. It gives young people and current workers the skills and knowledge employers are looking for in a fast-paced and dynamic global economy.

As a result, the VET sector is vital in providing a skilled pipeline of workers to Australian industries. The need for skills that the VET system delivers is stronger than ever, and employers regularly report skill shortages in areas of VET.

Despite its importance in offering opportunities to so many Australians, and building a skilled labour force for industry, the sector is facing a number of issues impacting on the supply of skills.

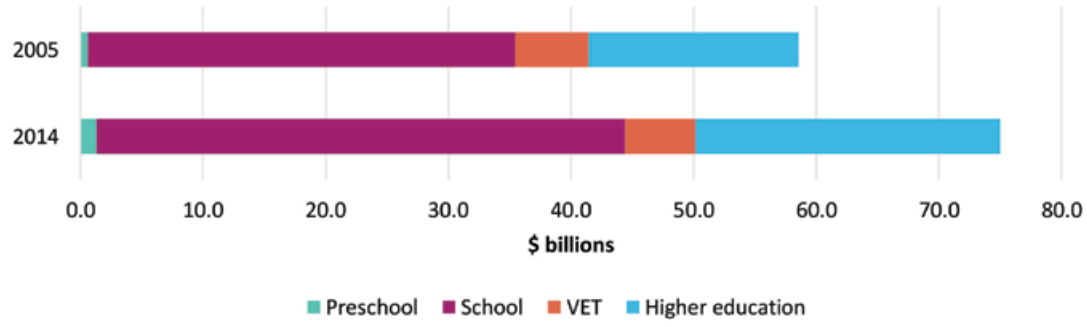
The VET sector is being left behind in government investment

Investment has grown in every education sector except VET

Expanding access to education for all Australians has been a central focus of successive governments in Australia for the last 40 years. As a result governments collectively now spend over 70 billion dollars each year on education.

However, when that expenditure is examined on a sector basis, over the last decade the VET sector has become the poor cousin of the higher education and schooling sectors.

Expenditure by sector, 2005-06 and 2014-15 ($ billions)[2]



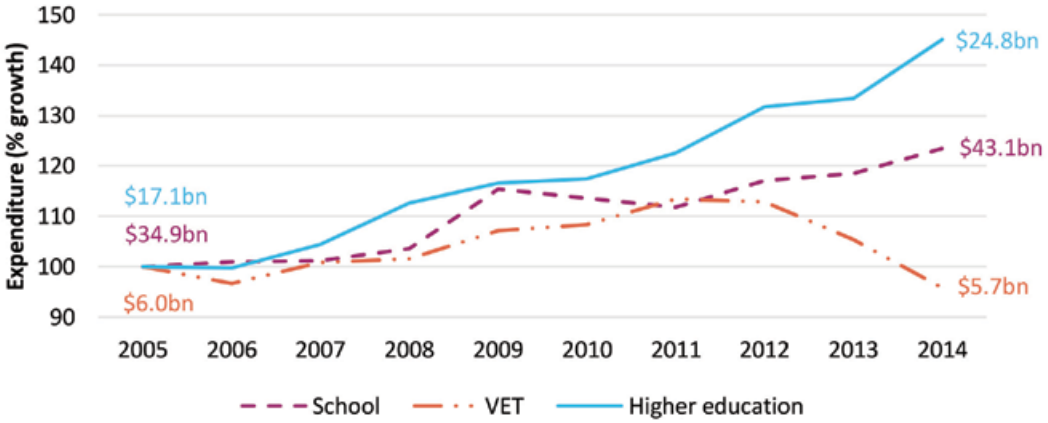
Source: ACIL Allen Consulting analysis based on Australian Bureau of Statistics data

[1] Total VET students and courses 2015, July 2016, National Centre for Vocational Education Research, July 2016.
[2] Megan O'Connell and Kate Torii, Expenditure on education and training in Australia, December 2016, Mitchell Institute (reproduced with permission).

As detailed in the Mitchell Institute's 2016 report *Expenditure on education and training in Australia, update and analysis,* investment in the VET sector has fallen in real terms, and government expenditure on VET is now lower than it was 10 years ago.[3]

In the decade to 2014-15 national government expenditure in VET fell by 4.2 per cent, compared to higher education where there was growth of 45 per cent.

Change in expenditure on education by sector 2005-06 to 2014-15 (base year 2005-06 = 100)[4]



Source: ACIL Allen Consulting analysis based on Australian Bureau of Statistics data

The decline is far more marked in the most recent reporting year, with a decrease of 9 per cent or $600 million in VET, again in stark contrast to a growth of $2 billion in higher education.

Investment increased in VET FEE-HELP but the sector's reputation was tarnished

While overall investment was falling, Commonwealth investment in the student loans scheme of VET FEE-HELP was growing.

Unfortunately, the student loans scheme of VET FEE-HELP was abused by a small group of poor-quality providers who took advantage of students and wasted taxpayers' dollars.

It is unknown how much of the investment growth in VET FEE-HELP was abused and how much of it was used to assist students to enrol in much-needed courses.

But what we do know is that as a result of the failures in the implementation of the scheme, the Commonwealth Government has felt compelled to create a new stringent regulatory scheme to ensure abuse is not repeated.

This includes an overall cap on the loans, which does not exist in higher education and has therefore created a two-tiered system between VET and higher education. The opportunity to implement a common student loan scheme for all tertiary students has been missed. We note the government had to act with urgency, but encourage them to ensure a common scheme remains on the longer-term agenda.

[3] ibid.
[4] ibid (reproduced with permission).

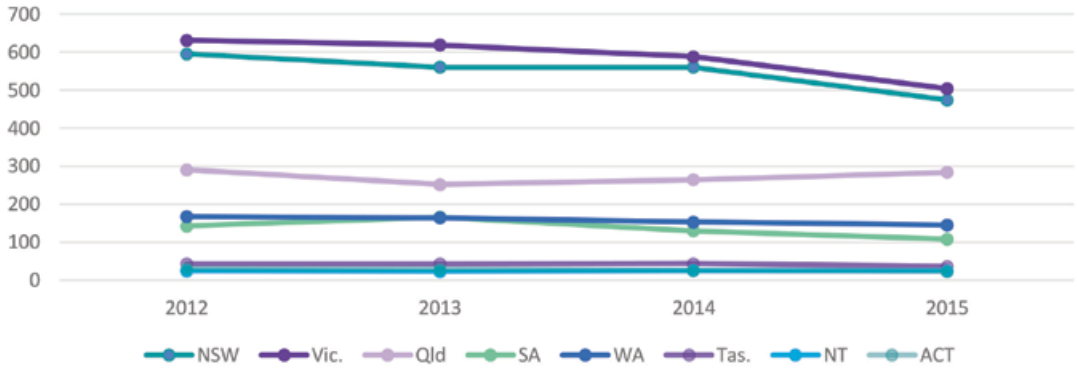
We also know that the behaviour of a small group of providers has tarnished the reputation of the sector as a whole, including the 4000 providers who were not involved in VET FEE-HELP.

The fall in investment has come at a cost

Over the last decade, the number of students enrolled in VET has fallen across the country, but most notably in NSW (a 13.3 per cent decrease), South Australia (an 8.6 per cent decrease) and Tasmania (a 7.9 per cent decrease).[5]

However, when the number of students is considered in tandem with the beginning of the real funding decline in 2012, the drop is significant.

Government funded students by state and territory 2012-15 ('000)[6]



Similar to the funding situation, the decrease in enrolments is particularly concerning for the last reported year, with a national drop of over 10 per cent in a single year.

Apprenticeships are under siege

Apprenticeships are a cornerstone of the VET system. It is through the apprenticeship system that Australia has created a skilled community of tradespeople who contribute to our economic growth and living standards.

Tradespeople start small businesses, take risks, employ people, and are often the backbone of regional communities, and they begin their professional lives as apprentices.

But when government investment and enrolment data is examined through the prism of apprenticeships, it is easy to argue there is a crisis in the apprenticeship system.

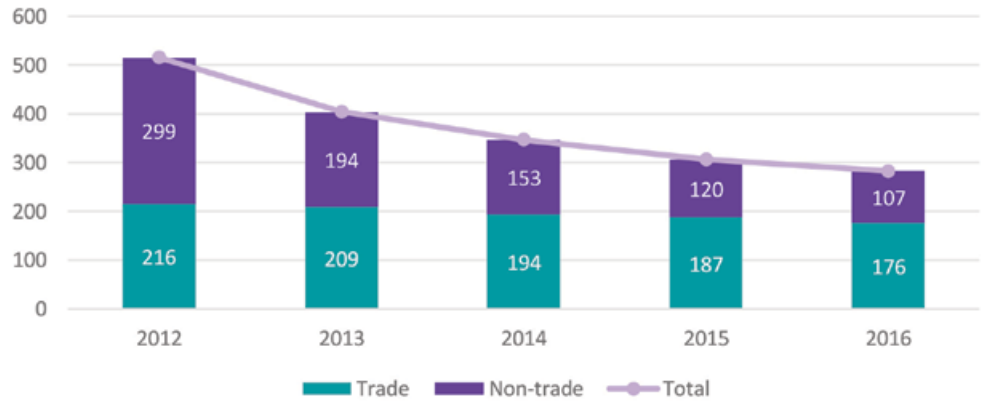
As illustrated in the chart below there has been a 45 per cent decrease in the number of apprentices in training between 2012 and 2016.

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[5]Analysis of NCVER 2016, Historical time series of government-funded vocational education and training in Australia, from 1981, NCVER, Adelaide.
[6] Ibid.

This decline is primarily for non-trade apprentices with a dramatic drop of 64 per cent, but trade apprentices have also experienced a worrying decline of nearly 20 per cent.

Apprentices in training by trade and non-trade 2012-16 ('000)[7]

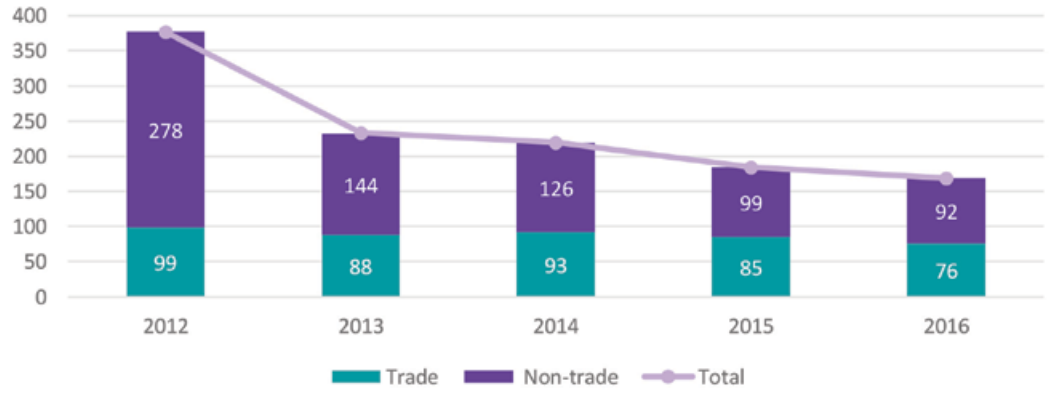


Commencements in the apprenticeship system tell a similarly stark story.

As illustrated in the chart below, between 2012 and 2016 the number of workers starting an apprenticeship dropped by more than half.

In 2012 close to 400, 000 Australians had the opportunity to start an apprenticeship and find a pathway to work. In 2016 this had dropped to less than 200,000 potential workers.

Apprenticeship commencements by trade and non-trade 2012-16 ('000)[8]



This loss of opportunity is across all age groups, but is particularly concerning for young Australians who struggle to transition from school to work, as evidenced by our youth unemployment rate, which is much higher than the overall unemployment rate.

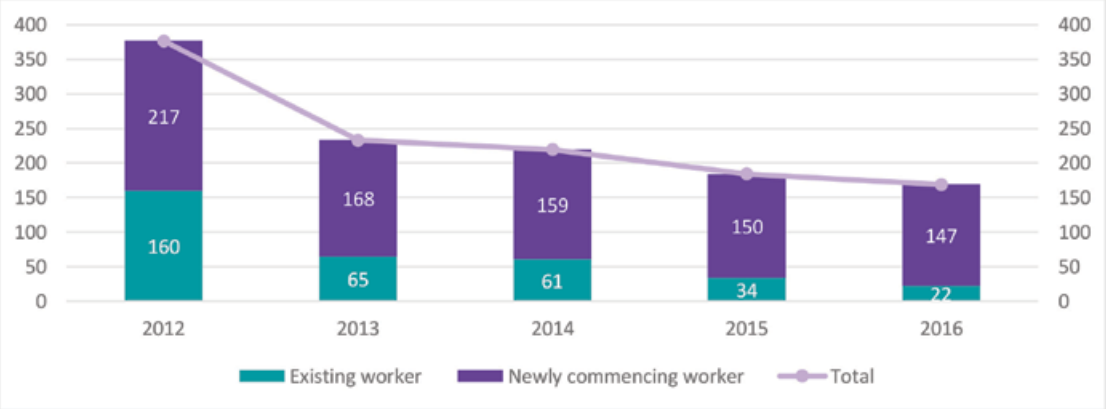
115,000 young Australians started an apprenticeship in 2012. This was down to 77,000 by 2016.

[7] Analysis of NCVER 2016, Historical time series of apprenticeships and traineeships in Australia, from 1963, NCVER, Adelaide.
[8] ibid.

The significant decline in apprenticeships for existing workers is equally concerning. As illustrated in the chart below, the number of existing workers commencing an apprenticeship fell by an astounding 86 per cent.

This was a significant loss in both absolute terms and the share of the market. Existing workers decreased from 43 to 13 per cent of the market, and had a drop of close to 140,000 apprenticeships.

Apprenticeship commencements by new and existing workers 2012-16 ('000)[9]



In a changing economy where workers have to adapt to new technology and industries, apprenticeships are a pathway for current workers to reskill and continue in the labour market, and these opportunities need to be enhanced rather than constricted.

Apprenticeships are also a model that can be expanded beyond the traditional trade base to include higher level qualifications, new occupations and emerging areas of the economy.

2017 must be the year all governments recommit to VET

Governments cannot allow this neglect of the VET sector to continue. This is not the problem of one level of government, but the problem of all governments. They have jointly committed to:

'... achieve a VET system that delivers a more productive and highly skilled workforce, enabling all working age Australians to participate effectively in the labour market and contribute to Australia's economic future.'[10]

The VET sector has traditionally been one of strong industry leadership, and it is time for that leadership to be explicitly acknowledged. We are calling on governments to meet their commitment to work in partnership with business and industry to develop the skills of the Australian people.[11]

It is clear that the VET sector needs a united effort from all governments and industry to rebuild it so it can support the growth of Australian businesses and jobs, and provide opportunities for all Australians.

[9] ibid.
[10] National Agreement on Skills and Workforce Development.
[11] ibid.







Governments can demonstrate their commitment through three steps.

Step 1 is for the Commonwealth Government to commit to continuing their $1.75 billion over the next five years for reform of VET in the form of a National Partnership.

Step 2 is for all governments to acknowledge that the apprenticeship system is on the tipping point of crisis, and use the National Partnership funding to reinvigorate and modernise this foundation of Australia's VET system.

Step 3 is for governments to work together with industry to build a vision and reform agenda for this vital sector.

Elements of a National Partnership on Apprenticeship Reform

In order to reform the apprenticeship system, the Australian Chamber of Commerce and Industry, Australian Industry Group and the Business Council of Australia urge the Commonwealth Government to continue its investment of $1.75 billion for VET reform over the next five years, and for all governments to commit to a National Partnership to reform the apprenticeship system.

This section lays out the elements required to achieve reform.

The National Partnership should use the knowledge and know-how of Australian industry to:

1. Create a genuine national system that is easy for students and employers to use.
2. Increase the number of Australians starting an apprenticeship and moving into work.
3. Remove duplication between governments and better align their programs, services, and funding.

The following section details the core reform elements industry would urge governments to adopt, and maps each element to the desired outcomes.

It is important to note that no single element will deliver the reform that is needed. Industry acknowledges that some of the proposed elements will present some challenges for governments, and that the challenges will be different depending on the State and Territory.

We cannot ignore these challenges, but nor can we allow the apprenticeship system to continue to deteriorate as a major training pathway in this country.

GOVERNANCE 1 2

Elements

1. The national apprenticeship and traineeship system should be led by a National Apprenticeship Board, which is established by and reports to the COAG Skills Ministerial Council, but is chaired by and comprised of industry representatives.
2. The Board will have responsibility for:
    - developing and issuing clear nationally consistent definitions of apprenticeships and traineeships and their pathways
    - determining which VET qualifications are suitable for apprenticeships and traineeships, including arrangements that bring in innovative approaches to blend vocational and higher education
    - identifying a nationally consistent approach to funding levels for each qualification, recognising that there will be a need for variation due to location and delivery mechanisms across jurisdictions.
3. The Board will review the qualifications list every six months, and will assess new qualifications for apprenticeship and traineeship pathways as they are developed.
4. The Board, supported by an independent secretariat, will also have responsibility for providing policy advice to the Ministerial Council on all matters related to apprenticeships and traineeships.

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What these elements will achieve

The current system has different rules in different states so it is difficult for students and employers to navigate. For example, a course can be classified as an apprenticeship in NSW, a traineeship in South Australia, and as neither an apprenticeship or traineeship in Victoria.

These inconsistencies are not limited to classifications; they extend to both the expectations on students as well as the funding.

The establishment of a National Board under industry leadership would empower industry to create a national system whereby each VET course was designated as an apprenticeship, traineeship or neither, along with the minimum level of funding.

This would create a system that potential students and employers could easily understand, and would take advantage of the depth of knowledge and know-how within Australian industry.

FUNDING 1 2 3

Elements

1. Funding for apprenticeships and traineeships will continue to be based on demand-driven approaches reflecting employment opportunities.
2. Delivery funding and course priorities are determined by each State and Territory, and funding is accessed from the National Agreement funding and jurisdiction-own revenue. Note: the minimum funding level for each qualification, as determined by the National Apprenticeship Board must be provided if a State or Territory funds the qualification.
   OR
   Delivery funding and course priorities are determined by the Commonwealth in consultation with the National Apprenticeship Board, with delivery funding provided out of the National Partnership.
3. A review is undertaken of the full costs associated with apprenticeships and traineeships (for employers, students, and government) and recommendations are developed to ensure funding is targeted at improving commencements and completions.
4. In addition to apprenticeship and traineeship delivery, all forms of support services need to be sufficiently funded. Apprenticeship support, incentive funding and trade support loans remain the responsibility of the Commonwealth.

What these elements will achieve

The continuation of demand-driven approaches will ensure that if an employer and potential apprentice are both willing to enter into a contract, a lack of funding will not prevent an apprentice starting.

Industry acknowledges governments do not have infinite resources, and will therefore need a form of rationing to ensure funding goes to priorities. As part of the National Partnership, governments will need to decide which level of government makes these decisions.

However, it is also important that the funding level of a course is relevant to the cost so funding does not act as a disincentive. The Board establishing a floor of funding for each qualification would achieve that.

A review of the full costs associated with apprenticeships and traineeships would provide independent advice about unnecessary duplication, the programs available and their relevance, and the true costs of the apprenticeship system.

This review would then allow the development of a streamlined system, ensure each party (employers, students and government) is contributing their fair share, and government funding is targeted to increase the number of apprentices.

REGULATION 1 3

Elements

1. The National Apprenticeship Board will oversee a shift to the national system removing national inconsistencies and unnecessary regulatory burdens that hinder participation.
2. The National Apprenticeship Board will develop a national set of standards for apprenticeship and traineeship regulation, and each State and Territory commit to adhering to the standards.
   OR
   The Commonwealth government assumes responsibility for regulation of the national apprenticeship and traineeship system.

What these elements will achieve

Regulation is an important tool for ensuring government funding delivers value for money for taxpayers, and to ensure learners acquire the skills they need to contribute to Australians businesses.

However, our current regulation does not deliver on this. Regulation is one of the hidden costs of apprenticeships, and one of the biggest barriers for students and employers in understanding and using the system.

Creating a national set of standards will return regulation to its core purpose and remove it as a barrier to the creation of more apprenticeship positions.

INFORMATION & SUPPORT 1 2

Elements

a) Student support

1. To develop a better informed market, government working with industry, should develop material in a suitable form which targets potential apprentices and that clearly outlines the functions of each role, what they can expect in each stage of their apprenticeship or traineeship, what employers 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.
2. A pre-intake process is developed and used for all potential apprentices and trainees that includes appropriate literacy and numeracy testing, aptitude testing, personality testing and career guidance.



3. On-going access and support is provided to students through third-party mentoring, including peer mentoring and utilisation of the group training framework as appropriate.

b) Employer support

1. Improved information is to be developed and distributed that better outlines the business case for taking on an apprentice or trainee to encourage more employers to engage.
2. Professional development is to be available for new employers taking on apprentices and trainees that provides a framework for the management of the roles.
3. There needs to be strong engagement by the training provider with employers, including linking the off-the-job training to the relevant workplace.
4. Engagement opportunities and support should be provided to participating employers including through support services and group training arrangements.

What these elements will achieve

Many young Australians and current workers do not know about the wide career opportunities available through the apprenticeship system. Filling this knowledge gap in the market should increase the potential supply of apprentices.

Apprenticeships require a great deal of commitment on behalf of the learner and the employer. The requirements on both parties are not always well understood, and this contributes to the high drop-out rate from the system.

Ensuring the apprenticeship system attracts both learners and employers who are willing to make the effort and commitment needed, should increase the number of apprentices qualifying and transitioning as permanent workers.

DATA 2

Elements

1. The implementation of the national apprenticeship and traineeship framework needs to be underpinned by a strong evidence base and data collection through the NCVER. This data needs to be available in a timely way to better inform policy and implementation.
2. An independent review be undertaken of apprenticeship and traineeship data to determine how to ensure government and industry have access to timely data to monitor the system, assess the costs of apprentices and trainees and assess value for money of government expenditure.

What these elements will achieve

Any reform agenda needs to be measured and evaluated to ensure the outcomes are being achieved.

Timely access to data will allow industry and government to work together to determine if adjustments are needed in the reform agenda.

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PATHWAYS TO APPRENTICESHIPS 2

Elements

1. Within the context of continuing levels of youth unemployment there is a need to clearly define and support pathways to apprenticeships and traineeships, including pre-apprenticeship arrangements and programs such as Youth JobsPaTH and other state and territory-based programs.
2. Increased opportunities need to be made available to assist employers to offer disadvantaged young job seekers apprenticeships and traineeships, and to support job seekers to access them.
3. Measures need to be adopted to facilitate greater participation by schools and employers to enable the wider implementation of the school-based apprenticeships and traineeships.

What these elements will achieve

Youth unemployment continues to be a concern in Australia, particularly in regional areas. Apprenticeships, as the only pathway of earning and learning, need to be a key focus of reducing youth unemployment.

The current pathways to apprenticeships are inconsistent and messy. Some programs act as a barrier to young people getting an apprenticeship because they have studied subjects in school, but do not have sufficient work-based skills.

Developing clear and consistent pathways will provide an ideal mechanism for young people to learn about the opportunities available, as well as act as a 'try before you buy' option. If managed effectively they can also provide a quicker pathway to work and reduce the drop-out rate.

ABBREVIATIONS

ABS	Australian Bureau of Statistics
AI	artificial intelligence
ANAO	Australian National Audit Office
ANZSCO	Australian and New Zealand Standard Classification of Occupations
AQF	Australian Qualifications Framework
ASQA	Australian Skills Quality Authority
ATO	Australian Taxation Office
COAG	Council of Australian Governments
CRICOS	Commonwealth Register of Institutions and Courses for Overseas Students
GDP	gross domestic product
HE	higher education
HECS	Higher Education Contribution Scheme
HELP	Higher Education Loan Programme
ICL	income-contingent loan
LLN	language, literacy and numeracy
LSA	Lifelong Skills Account
NCVER	National Centre for Vocational Education and Research
QILT	Quality Indicators for Learning and Teaching
RTO	registered training organisation
TAFE	Technical and Further Education
TEQSA	Tertiary Education Quality Standards Agency
VET	vocational education and training
VFH	VET-FEE HELP

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Business Council of Australia ABN 75 008 483 216

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