

VET Funding Review

Issues Paper



Vocational Education and Training Funding Review

Issues Paper

Bruce Mackenzie (Chair) and Neil Coulson

July 2015



VET Funding Review

Introduction

The **Vocational Education and Training (VET) Funding Review** (the Review) is pleased to present this Issues Paper, as part of the Review of the VET funding system in Victoria. It outlines the Review's research and analysis to date, and provides an overview of the reform directions that are being considered. As part of preparing the Final Report to Government, the Review will seek feedback on these future directions from the VET sector and the general public.

The work of the Review so far

A significant part of the Review's work to date has been undertaking the consultation process. The Review met with dozens of stakeholders, and received hundreds of submissions as part of this consultation. The Review has heard from Technical and Further Education Institutes (TAFEs), universities, private providers, community providers, industry groups, Local Learning and Employment Networks (LLENs), peak bodies, employee representatives, social service groups and schools, as well as individual TAFE staff, VET teachers, students and parents.

The level of interest and volume of submissions has been remarkable, and highlights to the Review the importance of the VET system to the Victorian community. An overview of issues raised in submissions to the Review is in Chapter 5.

The Review found this to be a valuable process, and intends to undertake a further round of consultation to inform its Final Report (discussed further in Chapter 8), focussing specifically on future reform directions.

In undertaking this work, and consistent with the Terms of Reference, the Review has been guided by a number of underlying principles and objectives.

The Review recognises the value and importance of vocational education and training. VET makes an important contribution to our society, in terms of both social and economic outcomes. A sustainable VET system, delivering high-quality training, is an essential part of achieving Government's ambition of Victoria becoming the Education State.

As discussed in Chapter 4, VET provides young people with a pathway to work or higher education, and gives everyone opportunities to retrain, expand their skills, or have a second chance at education, through a system for lifelong learning. It provides a skilled workforce to industry, supporting economic and productivity growth.

What the Review is trying to achieve

In order to achieve these objectives, and for government to get the best value for its significant investment in the sector, the Review has identified some broad directions that will guide its future work and, ultimately, the advice in the Final Report.

Consistent with the Terms of Reference, the Review assumes that a contestable system will continue and will need to operate within the existing budget. If properly implemented, contestability has the ability to drive innovation, efficiency and improvement, and empower students and industry to choose their training and provider.

Funding should be targeted towards education and training that is high quality, meets Government's objectives, and is delivered by capable providers. The design of the system should place greater emphasis on quality and less emphasis on the number of providers. A provider classification system could help government prioritise its investment in VET to fewer, capable providers. Government funding could be directed to areas of labour market need.

The Review has had the benefit of considering the *Review of Quality Assurance in Victoria's VET System*, which was separately commissioned by Government, and its findings are consistent with what the Review has observed. The Review considers that its work is complementary to it, and will continue to consider it as the Final Report is developed.

Students need to be better protected and supported, to make informed training decisions that have the best chance of meeting their needs, and to avoid being overly influenced by providers. This could include more and better information and support services, and tighter regulation of marketing, brokers and aggregators. Reintroducing a compulsory student contribution to training (with appropriate concession arrangements) may also assist student decision making by making them more conscious of the costs of their VET choices.

The Review considers a sustainable TAFE sector is essential to the provision of VET. However, arrangements for TAFEs need to be reconsidered to ensure they are reasonable and allow TAFEs to survive and thrive in the future. Such arrangements could include an additional funding stream that recognises their contribution and costs. In the longer term, the establishment of polytechnic universities in key areas to improve educational and economic outcomes could also be considered. For example, a regional polytechnic could deliver a broad range of qualifications, including at bachelor degree level, across the state.

VET must meet the skill needs of industry. Most students undertake VET in order to get a job, or a better job. But the training is not matching industry skill needs to the extent that it could or should, and this is limiting the potential of the system. There is scope for the funding system to better reflect priorities, and for greater cooperation and information sharing between employers, training providers, government and students.

Finally, VET has an important role in **providing training and access to further education by vulnerable, disadvantaged and high needs groups**, and the funding system should ensure that this is recognised and supported. This could include a new way of thinking about community service obligations, changes to loadings and concessions, and creation of a new preparatory year to provide students with foundational skills.

A list of changes the Review is considering is on the next page.

Next steps

In Chapter 7 of this Paper, the Review has outlined its thinking on these themes in more detail, as well as a number of specific changes being considered. There are also a number of specific questions on which the Review intends to undertake further consultation to inform its recommendations. This will form the basis of the Final Report to Government later in 2015.



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Summary of changes being considered by the VET Funding Review

Better targeting funding

1. Establish a training provider classification system
2. Clearly articulate to the market the role and objectives of VET
3. Retain the student entitlement but ensure investment is targeted
4. Improve teacher training
5. Reduce the number of funded courses
6. Fund courses based on labour market and industry priorities

Supporting and protecting students

7. Reintroduce a compulsory or minimum student fee
8. Provide more support for students to make training choices
9. Tighten restrictions on the type of marketing activity a provider can use
10. Regulate or ban brokers and aggregators
11. Tightly regulate subcontracting
12. Introduce protocols for online learning
13. Introduce protocols for work-based training
14. Greater use of summative testing
15. New regulatory options for private providers

Sustainable and supported TAFEs

16. Clearly articulate the role of TAFE
17. Fund TAFE fairly and sustainably
18. Use TAFEs to expand access to higher education

Supporting jobs and industries

19. Increase industry input in setting labour market priorities
20. Establish a workforce training innovation fund
21. Encourage specialisation in industry training
22. Limit funding of courses at Diploma level to skill shortage areas

Supporting training for vulnerable, disadvantaged and high needs groups

23. Reform the funding of Certificates I and II
24. Clearly articulate community service activities, and move toward outcomes-based funding
25. Consider reforming loadings and use other mechanisms to address areas of high need
26. Consider changes to rural and regional training arrangements
27. Consider changes to the administration of concession arrangements

These reform directions are explored in further detail in Chapter 7.

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1. About the Review

Establishment of the Review

The VET Funding Review (the Review) was established by the Minister for Training and Skills, the Hon. Steve Herbert MP, on 19 February 2015 under section 93(2) of the *Inquiries Act 2014*. Mr Bruce Mackenzie and Mr Neil Coulson were appointed to conduct the Review, with Mr Mackenzie appointed the Chair. A small secretariat was established to support Messrs Mackenzie and Coulson.

The full Terms of Reference for the Review are on page 7.

The Review commenced its work on 23 February 2015. Under the terms of appointment, the Review has been directed to deliver to the Minister for Training and Skills and the Premier:

- an interim report (in the form of this Issues Paper), that outlines directions for reform, after 100 days; and
- a Final Report later in 2015.

In order for the Review to consider the findings of the Quality Review, Government provided an extension to the deadline for delivering this interim report.

Process for undertaking the Review

First phase

A series of consultations were held with key stakeholders across the VET sector that included:

- the TAFE sector, including individual institutes, peak associations, and employee organisations;
- private and community training providers and peak associations;
- industry and employer groups; and
- other interested parties, as well as rural and regional stakeholders.

A series of briefings was also held with the Department of Education and Training's Early Childhood and School Education Group and Higher Education and Skills Group, the Victorian Curriculum and Assessment Authority, and the Victorian Registration and Qualifications Authority.

In addition, the Review called for written submissions, from all interested individuals and organisations, addressing the Terms of Reference.

Several other projects were also commissioned by the Review, undertaken by technical experts to help inform the Review's findings and recommendations.

Key projects included:

- understanding and quantifying the costs, constraints and obligations of TAFEs that relate to their status as public sector bodies;
- developing an understanding of community service obligations and possible future models for their definition and funding; and
- developing a classification framework to distinguish between providers on the basis of quality and risk.

These projects are at varying stages of progress, and will also be used to inform the Final Report.

The Quality Review was a separate piece of work commissioned by the Government. The Quality Review complements the VET Funding Review, and its findings and recommendations informed this Paper, and will also be considered in the Final Report.

Second phase

Following completion of this Issues Paper, the Review will move to its second phase. This will include:

- a further consultation process, specifically on the issues and questions outlined in this Paper;
- further refining options for reform, including the broad directions outlined in Chapter 7; and
- development of a series of recommendations for the Final Report for consideration by Government.

The Review may also commission additional pieces of work, such as further development of alternative funding models, to help inform the Final Report.

Acknowledgements

The Review appreciates the efforts and cooperation to date of everyone it has worked with, in particular the hundreds of individuals and organisations that took the time to meet with the Review and make written submissions. The Review also appreciates the briefings, information and cooperation provided by the Department of Education and Training, particularly the Higher Education and Skills Group.



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2. Terms of Reference

The Review is to inquire and report on, and make any necessary recommendations about, how to improve the quality, stability and sustainability of the Victorian training market.

1. The Review shall do this by recommending alternative Vocational Education and Training (VET) funding models and settings that:
 - a) match training delivery to the growing job opportunities in Victorian industries;
 - b) ensure all government subsidised training is high quality;
 - c) allow rural and regional communities to access training that meets their local needs;
 - d) meet community service obligations to support vulnerable and higher needs learners to complete training and transition to employment;
 - e) build a strong and responsive public Technical and Further Education (TAFE) sector;
 - f) manage training expenditure within the existing vocational training budget while preserving a framework of student-driven choices;
 - g) recognise the public and private benefits of training and ensure fees and student costs are not a barrier to participation; and
 - h) ensure eligibility to access subsidised training is fair and well-targeted.
2. The Review is also asked to comment as necessary on:
 - a) How other government policy levers may be used to support the quality, stability and sustainability of the Victorian training market. This could include the regulation of training providers; requirements for government contracted training provision; information and decision support tools for students; and implications for national training policy.
 - b) The implications of recommended reforms for other directly related areas of education in Victoria (including secondary schooling and the roll out of new Tech Schools, and the higher education sector).

The Review is also to consider any other matters incidental to the matters specified in paragraphs 1 and 2.

3. Victorian VET system snapshot

Key statistics

In 2014:

There are around 1,000 RTOs delivering vocational education and training in Victoria, of which around 500 are contracted to deliver government-funded VET

443,687 students were enrolled in government-funded training courses across both 1,000 AQF qualifications and 300 short and secondary education courses.

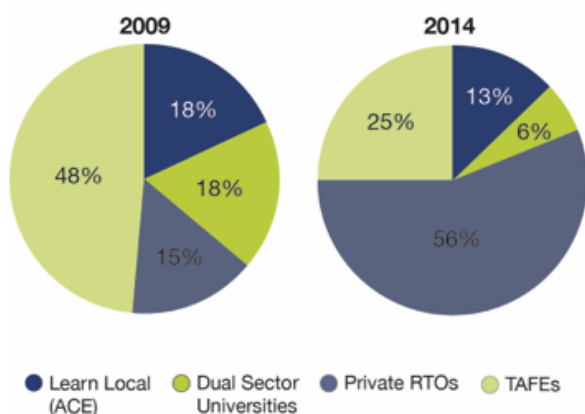
Approximately **58%** were employed at the time of their enrolment, **31%** were unemployed and **10%** were not in the labour force.

Approximately **70%** of government-funded training was classroom based, **16%** was workplace based, and **4%** online.

Increase in training providers

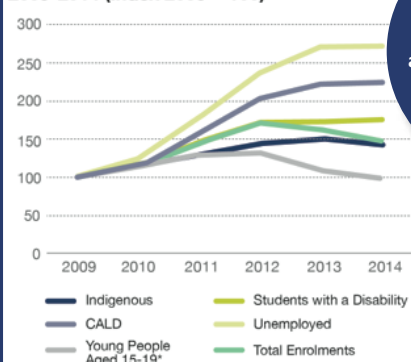
Since the introduction of the VTG, there has been an almost 50 per cent increase in the number of providers offering government-funded places.

Percentage share of government funded course enrolments by provider type, 2009 vs 2014



Source: Victorian Training Market Report 2014

Change in students enrolled in government funded training by selected learner groups 2009-2014 (Index 2009 = 100)



Source: Victorian Training Market Report 2014

Learners facing barriers

Growth in enrolments for young people aged 15-19 and Indigenous students since 2009 has been slower than enrolment growth across the system.

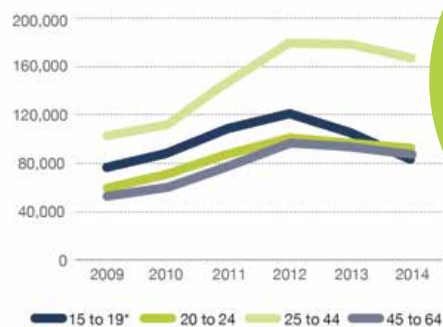
Government versus student contributions
TAFEs tend to charge higher fees than private training providers.

Government contribution to the cost of training provided in 2014 compared with *Securing Jobs for Your Future* objective

Qualification type	Subsidy proportion of course revenue			Original policy objectives
	System total	TAFE	Private	
Foundation	93%	90%	97%	90%
Certificate I-II	84%	82%	86%	85%
Certificate III	88%	84%	90%	80%
Apprentice	84%	83%	87%	80%
Trainee	82%	78%	85%	80%
Certificate IV	84%	81%	89%	80%
Diploma	61%	56%	74%	60%
Advanced Diploma or above	51%	52%	73%	60%

Sources: DET data

Government funded student enrolments in VET by age group, 2009 to 2014



Source: Victorian Training Market Report 2014

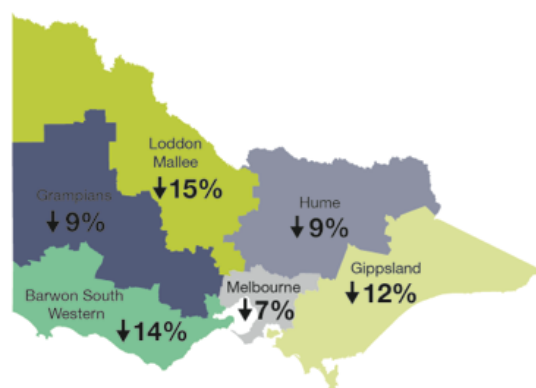
Student enrolments by age group

All age groups experienced significant growth in students enrolled between 2009 and 2012, but all groups experienced a decline in enrolments in the past two years, most notably for 15 to 19 year olds (by 29 per cent).

Training in regional areas

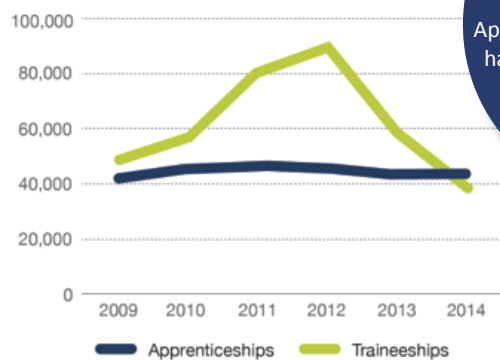
Between 2013 and 2014 there was a 12 per cent decline in the number of students living in regional Victoria enrolled in government subsidised training. This compares with a 7 per cent decline in metropolitan Melbourne.

Change in government funded student enrolments in VET by residential Area – region, % change 2013 to 2014



Source: Victorian Training Market Report 2014

Government funded apprentice and trainee course enrolments, 2009-2014



Source: Victorian Training Market Report 2014

Apprenticeship and traineeship enrolments

Apprenticeship course enrolments have remained relatively stable; however, enrolments in traineeships have fallen dramatically since 2012.

The VET sector comprises:

280

Learn Local organisations delivering community-based short courses under the ACFE Board. Around a third of these are also contracted to deliver VTG.

12

TAFE institutes & 4 dual sector universities.

411

private RTOs, the majority of which are contracted to deliver VTG-funded training. Private RTOs include school-based and industry association training organisations, not-for-profit and for-profit companies.

Most

providers of government-funded training are relatively small. Around 80 per cent had fewer than 1,000 enrolments in 2014. All the TAFEs and dual sector universities and around 10 private RTOs had over 5,000 enrolments in 2014.



4. The importance and purpose of VET

Chapter summary

- Vocational education and training is essential to a growing and productive Victorian economy.
- VET should support lifelong learning, in particular helping people adapt to the changing needs of the economy.
- VET has a key role in lifting educational attainment and improving employment opportunities for people from disadvantaged backgrounds.
- Engaging students throughout their training is essential to sustained learning outcomes.

The importance of VET

The twenty-first century economy demands businesses and their workplaces keep pace with rapidly changing technology, and the demands of competitive and quality driven domestic and international markets.

Industry requires of its employees strong analytical skills, the ability to adapt quickly to this changing economy, and a broad set of soft skills to enable effective collaboration with their colleagues. Most of all, they need technical skills which are based on strong conceptual foundations, are up to date, and honed to meet needs of the modern workplace.

Workers require from their employer opportunities to continually develop and refine their skills so that, regardless of their age or occupation, they can quickly adapt to the changing needs of the labour market.

For these reasons, high-quality and accessible vocational education and training has never been more important than it is today. A strong, stable and accessible VET system is an important driver of growth, and the foundation of a responsive and adaptable economy.

It supports business with a capable and highly skilled workforce, and it gives employers the opportunity to gain high-skill, high-wage jobs.

It provides the young with a stepping stone into work. It helps older Victorians reskill to support Victoria's traditional industries, or transition into new and emerging sectors of the economy.

It also has a key role in supporting those experiencing all forms of disadvantage, and helping them toward greater economic and social participation.

It is the sector of tertiary education that must be accessible to all, and work as an equal partner with Victoria's schools and universities to foster a culture of lifelong learning and skill development.

Victoria's VET system must be able to adapt to rapidly changing technology and the demands of competitive and quality-driven global markets

Key objectives of VET

Provide a strong and sustainable skills base for the Victorian economy

The interaction between industry and the VET sector is crucial to ensuring that Victoria's VET qualifications are current, responsive to industry demand, and provide students with the full range of skills needed in the modern workplace. This includes a mix of conceptual and applied learning, practical skills and the ability to adapt to changing business needs.

To achieve this, the government-funded VET system must operate in the context of labour market priorities. It must ensure that investment in training is properly targeted and contributes to economic growth and productivity.

A VET system must give every opportunity for industry to engage directly and constructively with government so that VET funding is well targeted. It must also ensure a direct line between industry and providers of VET, so that the design of training, how it is delivered, and the quality and reliability of qualifications, all support employment, productivity and growth.

Industry must play its part in supporting VET to achieve these goals. In fact, its contribution is fundamental. No one understands the needs of their workplace better than an employer and their workers.

Industry also has a role in supporting a vibrant and creative VET system by employing young people out of training, giving students the opportunity to gain workplace experience, and assisting their employees to undertake training both within and outside the workplace to improve their skills.

Lifelong learning was the underlying philosophy behind the creation of technical and further education

Support lifelong learning

Lifelong learning has always been at the centre of vocational education and training - from Mechanics' Institutes helping skill workers during the industrial revolution, to the philosophy of the *Kangan Report on Technical and Further Education* in 1974 upon which the modern VET sector is built, through to the need for the community to adjust to modern challenges of the global information revolution.

The role of VET in providing opportunities for lifelong learning is crucial today. In 2014 more than half of VET students were aged 25 years or over, and most students had a prior education of Year 12 or lower. Nearly 60 per cent of all students undertaking VET were already in employment.

VET should be more than a pathway into employment. It needs to ensure a workforce which can adapt as the economy changes. The need for Victoria's workforce to respond quickly to structural adjustments in our economy was never clearer than during the decline of the automotive industry and supply chain workers in recent years.

Address disadvantage

Vocational education and training is the sector of tertiary education that must be accessible to all.

It must give everyone access to skills which help them toward sustained employment, regardless of socio-economic background or level of prior education. Ideally, for the VET system to be truly successful, it should actively lift participation among disengaged or marginalised groups, and improve their chance of obtaining and sustaining employment.

However, the VET system must also work effectively with other government and non-government bodies so that services are not duplicated, or result in a complex or disjointed range of services.

Vocational education and training must be the sector of tertiary education accessible to all

A funding approach that supports quality training

Government funding of VET should aim to maximise the benefits of training to individuals and businesses.

While attracting students into training is one key element, engaging and retaining students throughout VET is also fundamental to building a broad set of skills that they can take with them no matter where they are employed.

Funding for VET should reward quality training

The funding system should reward students completing their training, and giving them the best opportunity to progress into new or more highly skilled work.

Funding for VET should encourage the system to support a student through the full education and training life cycle, by:

- **attracting** students and workers into training with the course and training provider that is right for them, and ensuring a high rate of participation in education and training across the Victorian community and workforce;
- **engaging** students through a variety of hands-on, practical and conceptual learning models and so that they are motivated to acquire new skills that will expand their employment opportunities and contribute to the productivity of their workplace;
- **retaining** students through their training and making sure they develop the full range of skills their course has to offer, and that these skills are transferable between employers and where possible industries;
- **graduating** students with a breadth of knowledge that is valuable in the labour market, and a qualification that is recognised as high quality and gives employers confidence that they have acquired a full set of skills; and
- **transitioning** students effectively from training to sustainable employment, to more productive, highly skilled work, or to further education.



5. Summary of consultations

Chapter summary

The Review undertook a wide range of consultations during the initial stages of the Review to gain an understanding of the experiences of users of the system. Key concerns related to:

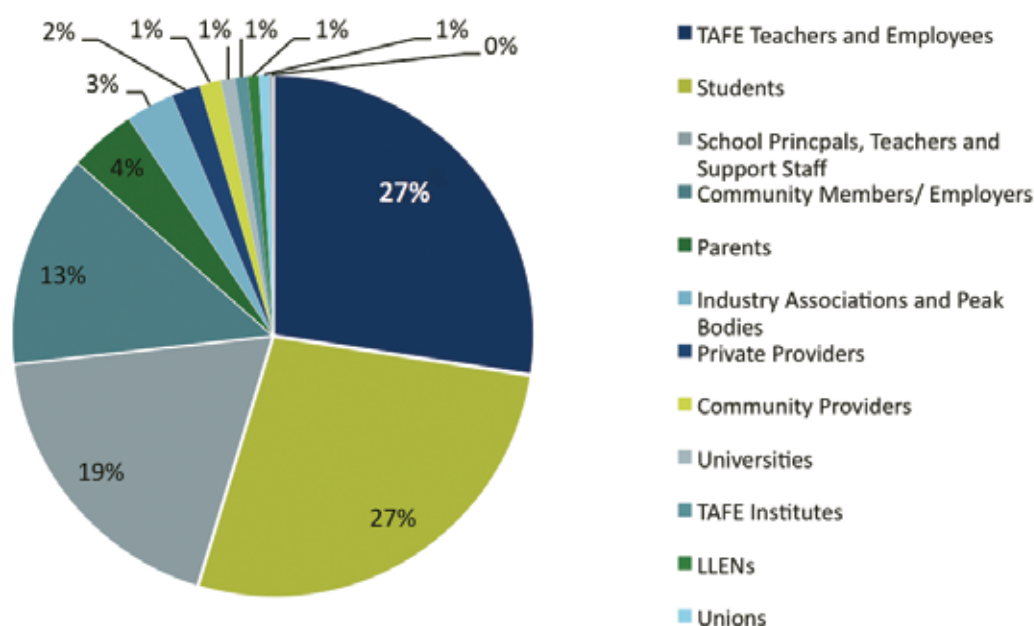
- clarity about the role and purpose of VET;
- the quality of VET delivery;
- meeting the needs of industry and choices made by students;
- access and equity in the system;
- the complexity and instability of the funding model;
- the regulatory environment; and
- the role of the public provider in VET.

Consultation process

The Review has held over 80 targeted consultation sessions across metropolitan, rural and regional Victoria, and has met with a number of TAFEs, private and community providers, national peak associations, industry representatives and interested parties, including rural and regional stakeholders.

The Review also called for written submissions addressing the Review's Terms of Reference, and received over 900 submissions.

Figure 1 Breakdown of submissions by type of submitter



Key themes from the consultations and submissions

The feedback from the consultations centred on a range of concerns about the extent to which the VET system has met the needs of its users – individuals undertaking training and industry needing to employ skilled workers. These concerns related to:

- clarity about the role and purpose of VET;
- the quality of VET delivery;
- meeting the needs of industry and choices made by students;
- access and equity in the system;
- the complexity and instability of the funding model;
- the regulatory environment; and
- the role of the public provider in VET.

The Government needs to go back to the purpose of the VET system... 'bolt-on' solutions have been used for system faults and issues

Quote from consultations

The following section provides an overview of the views and feedback on these areas from the consultations and submissions, but does not reflect the views of the Reviewers. While it is not possible to represent every view heard, the Review has tried to capture the general or prevailing view from stakeholders.

Due to the nature of a consultation process, stakeholders commented predominantly on issues and areas for improvement in the current system, rather than addressing in detail the areas they think are functioning well, and the summary below reflects this.

Purpose of VET

A consistent theme in the consultations was the desirability of Government articulating a clear purpose for the VET sector.

Each stakeholder brought their own perspective and priorities to what this is. Not surprisingly, industry groups would often emphasise the importance of the VET system to the economy in providing a skilled and productive workforce, whereas community groups placed greater emphasis on VET's role as a social safety net and the importance of serving disadvantaged communities.

Overall, however, there was general recognition that VET serves a number of important purposes, principally:

- development and maintenance of a skilled workforce that meets the needs of industry (in terms of both type of skill and quality), and that serves as an important contributor to economic growth and productivity;
- acting as an important social safety net or alternative education system;
- providing ongoing education and skills for both skill deepening, as peoples' careers progress, and skill broadening, when they change careers; and
- as a pathway to further and higher education, including to universities.

Quality of delivery

Throughout the process, concerns were raised with the Review about the quality of VET delivery.

It is critical that the Review takes the time to analyse what the components and 'costs' of stable, high quality education and training are

Australian Education Union

Mode of delivery and quality of teaching

A number of concerns were raised with the Review about quality, and reputational damage to the system by the behaviour of some providers in the market. This includes claims by industry, peak bodies and unions, that courses are being delivered in short duration (e.g. over weekends), fully on the job, with limited face-to-face teaching (to reduce costs) and by third party providers (that are not quality assured by the partnering RTO).

Students and the LLENs also mentioned concerns about larger class sizes and lack of mandated nominal hours. TAFE institutes were critical of fully on the job training. Employers and industry felt qualifications were too easy to obtain as a result of contact hours being reduced.

A range of submissions from TAFE teachers, employees, school principals, teachers and unions were concerned about training delivery modes, particularly reductions in face-to-face delivery and a move to online delivery.

Some raised concerns about the stress TAFE staff were under as a result of recent staff reductions, and a number of submitters reflected that this was impacting on quality VET provision.

In its submission to the Review, the Australian Education Union (AEU) wrote that “surveys conducted by the AEU have found that TAFE teachers increasingly feel pressure to pass students who have not met competencies and are delivering courses with less face-to-face teaching time”.

Third party delivery and qualification recalls were raised as further examples of factors contributing to the devaluing of VET qualifications by employers, and of VET more broadly.

Many considered damage had been done to Victoria’s VET and TAFE reputation nationally and internationally.

Quality of VET qualifications

A number of employers expressed the view that students completing training were lacking basic skills, with many losing confidence in qualifications. There were also concerns that poor quality training was leading to safety risks in some vocations, as students lacked basic skills.

Some industry and employers reported more confidence in training conducted by TAFE institutes, although not without reservations. Some also reported that small, specialist providers with close links to industry can result in better quality training.

Industry needs and student choice

There was agreement that a core goal of the VET system is to provide students with skills that will lead to positive employment outcomes by meeting industry needs, and that well informed student decision making was essential to achieving this goal in a contestable system.

Students are now faced with a much more complex and unwieldy system than ever before

Holmesglen
Institute

ACPET believes the value of VET qualifications are devalued with employers and the community when qualifications are recalled as a result of short cuts being taken...

ACPET advocates for outcome based moderation where students and trainers are independently assessed.

Australian Council for Private Education and Training (ACPET)

The VET market is an imperfect market. Individual consumers are not readily provided with adequate information upon which to base a training decision

Ai Group

Mismatch of training and labour market need

"Young people often make decisions too early, commence courses that they are not well matched to, or end up with qualifications that hold little weight with employers"

Brotherhood of St Laurence

There was broad consensus across employers, peak associations and some providers that students and industry were not effectively influencing the VET market. As a result, the system has been led by course offerings by providers, resulting in mixed success in matching industry needs and training. Improving avenues for industry involvement in training to improve responsiveness to the needs of industry was regularly raised with the Review.

A number of stakeholders urged a renewed focus on making accurate and independent information about job opportunities, industry growth and career pathways available to students. This would assist them to make more informed decisions about training.

For example, Food Innovation Australia raised the importance of accurate information on likely career opportunities. They cited the recent drought in Australia, which deters students from gaining skills and qualifications in agriculture despite ongoing demand for skilled farm workers as a result of the ageing farming population.

"Course information and careers guidance services have experienced reductions in recent years, despite growing complexity of the student decision making environment"

Victorian TAFE Association

Lack of support for students

The lack of consumer information tools available to students and employers was a strong theme emerging through the consultation period.

The Review received strong feedback about the lack of support and protection for students in the highly competitive VET market. Examples of aggressive and arguably unethical marketing practices and the significant incentives available to brokers and aggregators to recruit students were raised.

The Review was particularly concerned about claims that vulnerable groups (such as youth, the unemployed and migrants living in particular residential locations) were being targeted and signed up for unnecessary and unrealistic training.

"We receive numerous complaints of students being signed up to completely inappropriate courses"

Consumer Action Law Centre

Examples of marketing practices provided to the Review included:

- cold calling students to sign up for training over the phone;
- marketing on car windscreens offering incentives for signing up to training, including offers of 'free' iPads;
- training sign-ups being conducted in shopping centres, outside schools, and in front of Centrelink offices; and
- monetary incentives offered to employers and community groups (such as football and netball clubs) for signing individuals up to training.

Encouraging students into significant VET FEE-HELP loans to undertake unsuitable courses was also a widespread concern and is currently the subject of a Commonwealth Senate Inquiry.¹

¹ The Senate Education and Employment References Committee's inquiry into The operation, regulation and funding of private vocational education and training (VET) providers in Australia is due to report by 16 September 2015. See: http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Education_and_Employment/vocational

Some stakeholders contended that the large number of providers saturating the market made it difficult for students to make informed decisions, particularly given the absence of quality information. Some were also concerned that the existing barriers to entry — comprising registration with a regulator and a financial health check — were not providing sufficient assurance of quality.

A number of TAFE institutes were concerned that the highly competitive market was creating incentives for public providers to “cannibalise” one another to increase their own enrolments. This meant that the public sector was not delivering its services in a coordinated way, or focusing on how to deliver an effective service in their local area.

The Review heard that the resources currently available to students — such as the Victorian Government’s Skills Gateway and Rate Your Trainer — were steps in the right direction. However, these were not widely used as they were not well known, well designed or easy to access. Students are not getting information when they need it, and the information available is not linked to platforms such as smart phone applications or social media that could improve accessibility.

Potential areas for reform recommended to the Review included: treating student information tools as a community service obligation; providing better training market data and labour force projections; establishing independent vocational hubs; and providing independent careers advice.

Access and equity

Eligibility rules

While students were sensitive to the direct and upfront cost of VET, the Review heard that students were not sufficiently aware that their training entitlement could be exhausted.

There was also a view that the eligibility rules were causing unintended and perverse outcomes. The ‘two course’ rule in particular was the subject of widespread criticism, both for its complexity and its impact on students.

The rule (limiting students to two course commencements in one year, two enrolments at the same level in their lifetime, and undertaking a maximum of two courses at the same time) was designed to reduce low value training being undertaken and manage the overall VET budget.

However, when combined with aggressive provider enrolment behaviour, the rule was resulting in students ‘burning’ their entitlement to VET by commencing but not completing courses, preventing them from undertaking more appropriate training at a later time.

Examples provided to the Review include:

- students enrolling in a full certificate to complete only the small number of modules needed for a qualification (such as a responsible service of alcohol certificate or forklift licence), and therefore burning part of their lifetime entitlement;
- students being initially enrolled in two courses, so that the provider could claim the government funding for common units at the higher rate, before dropping the second course and transferring credit to the first; and
- students being unaware that these practices were happening, or not realising the long-term implications of using their entitlement.

Feedback from training stakeholders suggests that in some cases Koorie learners, in order to avoid having to pay course fees, are being encouraged to take on higher-level courses before they may be ready to do so

Victorian Aboriginal Education Association Inc

Young people who have arrived as refugees or migrants ... are not likely to have many of the skills and experiences, and much of the knowledge and information specifically needed to effectively access and participate in Australian post-school context

AMES

"Student support services are essential ingredients in high quality learning outcomes and completions. They are not simply 'nice to have'"

Victorian TAFE Association

Other concerns about restrictions imposed by the eligibility rules included:

- workers in declining industries being prevented from retraining and therefore remaining in the workforce, due to out-of-date qualifications that nonetheless limit their eligibility;
- some migrants being unable to access government funding because they hold higher qualifications from overseas institutions, but they require training in foundational skills (including English literacy), or a new skill;
- women re-entering the workforce looking to retrain for work/life balance reasons, or to refresh knowledge after a long absence, but unable to retrain due to the upskilling requirement; and
- workers with existing qualifications being unable to broaden their current skills, for example a chef looking to develop greater pastry skills.

Some noted that a person's entitlement to government supported VET was affected even if they had paid for the existing qualification themselves. The introduction of an 'expiry date' on qualifications restricting eligibility was regularly suggested, in order to allow a person to retrain at the same or lower level in a more current qualification.

Literacy, numeracy and foundation skills

The importance of students with adequate literacy, numeracy and foundation skills as a prerequisite to undertaking training, and to meet the needs of employers, was regularly drawn to the Review's attention. This can be addressed either during training, or before other training commences.

South Gippsland Bass Coast LLEN mentioned that "there are significant numbers of early school leavers, long term unemployed and people returning to the workforce after a long absence, who need to build their capability in literacy, numeracy, computer skills and the generic work skills that underpin the ability to be a successful learner and productive worker. Notwithstanding their inclusion in Training Packages, these skills are generally not well addressed".

Industry representatives expressed particular concern that too many students were completing courses while lacking sufficient basic skills. At the same time, some providers expressed disappointment that rule changes to prevent the concurrent enrolment of a student in foundation and vocational courses (designed to address over-servicing students to maximise revenue) restricts the integration of basic skills in day to day teaching.

Conversely, the process undertaken by government to use an independent third party to assess potential foundation skills providers was widely supported and some considered that this process could be used to assist future funding decisions.

Training in rural and regional areas

A number of regional stakeholders noted the importance of VET to support local industries and contribute to economic growth, but the challenge of training provision in rural and regional areas was a concern.

Demand for courses can be low and dispersed over a large area, restricting the ability of providers to deliver greater volume and reduce their per-student costs. A number of stakeholders identified the Wimmera as an area that had less than optimal VET provision.

Stakeholders also raised the issue of regional differences in skill needs not being reflected in state-wide funding rates. For example, several local areas cited the need for more training to support tourism and hospitality in their regions. However, a state-wide over-supply of hospitality training had resulted in government reducing the funding level; this resulted in training becoming uneconomic for local providers to deliver.

Participation in training in rural and regional communities was also regularly raised, with attention drawn to evidence that a significantly higher proportion of metropolitan students completing year 12 go on to further education than their non-metropolitan counterparts.

The regional loading offers inadequate compensation for the additional cost of delivery arising from smaller populations, lower population density (smaller class sizes) and the difficulty of generating economies of scale for smaller providers only delivering in regional locations

ACFE Board

Students facing barriers or disadvantage

Stakeholders recognised the important social contribution of VET to students facing barriers or disadvantage. However, there were concerns that support for disadvantaged students had dropped in recent years as a result of funding changes that reduced providers' ability and willingness to cross-subsidise higher needs students.

The Review received feedback that there were greater costs associated with training higher-needs students, and current funding arrangements are not effectively targeted.

The current funding system provides a loading for young people aged 15–19 without Year 12 or equivalent and not at school, Indigenous, and rural and regional students. However, Community Colleges Australia argued in its submission that for organisations dealing with more challenging students — such as long term unemployed or people with disabilities — there were additional costs and “funding policy must recognise the special needs of some learners”.

Other stakeholders noted that the multiple layers of support and assistance provided by other government departments and services to disengaged or high needs learners added to the complexity of the system for the student.

The Review has also heard that financial barriers to training were still an issue for the system, and more effort was required to provide a coordinated approach and avoid service duplication. For example, for young people at risk or in out of home care, those requiring drug and alcohol support, or people experiencing homelessness.

The Brotherhood of St Laurence wrote in its submission to the Review that “a well-chosen education pathway towards meaningful employment is critical to maintaining housing and economic independence, and avoiding long term social exclusion. In light of the multiple barriers that children [in out of home care, in the youth justice system or accessing homelessness service] face, it is essential to address their financial barriers to engaging with education and training.”

Students ...referred to VET courses offered by private providers by Job Services Australia organisations without an adequate assessment to determine whether they have the skills to complete the course successfully... Students are not informed of the implications of enrolling and completing these courses.

AEU Melbourne Polytechnic Sub Branch

Price-driven behaviour has damaged Victoria's reputation as a leading VET provider and resulted in poor quality training delivery.

VECCI

Complaints from providers have been that subsidy changes are too late and too frequent

From consultations

Funding Model

The Review heard a great deal of concern that the current funding model has created a provider-led market that is not sufficiently responsive to industry needs. Practices of substitution, 'rorting' and charging zero or low fees have impacted the market, negatively affecting students, employers, VET providers and the government purse.

Moving to an outcomes-based payment was suggested by a number of stakeholders. This payment method could potentially act as an incentive to reduce poor attrition rates and support employment outcomes for training conducted by providers accessing government funds.

Funding changes and frequency

Feedback was unanimously critical of repeated and erratic funding changes on short notice by the government, and the disrupting effect this has had on the ability of providers to plan and invest.

There was a general acceptance that funding changes, and other policy and contract interpretation changes, were in response to poor provider behaviour. However, a number of stakeholders likened government's response to the 'whack-a-mole' game, where the latest example of undesirable behaviour is 'whacked' by the government, only for other undesirable behaviour to pop up elsewhere.

In this context, stakeholders understood (and often supported) Government action to stop undesirable provider behaviour. However, these changes affected the entire sector, not just the providers displaying this behaviour. In addition, the speed of the changes gave providers little time to adjust, impacted on business planning, and in some cases undermined the sustainability of other, established providers.

A number of stakeholders felt this 'one size fits all' approach was undermining the stability of the VET sector in order to respond to the behaviour of a small number of providers.

One example provided to the Review detailed a regional provider in outdoor education, which had established strong links with local industry and student demand for training, but whose business model became unsustainable when funding levels changed. The provider was forced to reorganise and amalgamate with another provider.

Further to this, examples were provided to the Review of funding changes affecting hospitality and tourism qualifications, which caused skill gaps in some rural and regional locations.

Substitution

The Review heard examples of providers enrolling students in a course with a higher funding rate, when the training that the student needs is in a different qualification, which attracts a lower funding rate.

This practice, known as substitution, utilises the broad training packages and flexibility built into the funding system to select units from alternative training packages to receive higher funding rates.

In one example mentioned, providers switched units relating to the responsible service of alcohol, commonly delivered under a hospitality qualification (which attracts a low funding rate) to higher-funded units delivered under health support services.

[Importing units from other training packages] These are within the rules of the Health Services package, HESG are not too happy about it. We saw it as being within the rules

From a VTG subsidised training provider

Zero and low course fees

The prevalence of zero and low fees caused concern that students were not valuing training they did not directly pay for, with price driving decision making in many cases, rather than employment outcomes or training quality. The Review has heard that zero-fee courses also place pressure on other providers, including TAFE institutes, to significantly drop their fees.

This was also interpreted by some as a positive response from the market in driving efficiency and accessibility, with zero and low fees being a good thing for vulnerable and disadvantaged people, as a way of maximising their ability to participate in VET.

The imposition of a minimum fee or other type of mandatory student contribution fee was often supported (including by TAFE institutes, some private providers, LLENs and industry peak bodies and associations) as a way of improving student decision making and addressing the drive for efficiency at the expense of quality.

Regulatory burden

Some providers were concerned that regulatory burden, red tape and student administration were excessive, or not effectively targeted at addressing problems in the system.

A common complaint about regulation was the flow-on effects to students. Student intake staff in TAFE institutes provided feedback that the concession and eligibility rules were contributing to onerous enrolment procedures, and compliance audits focused on inadvertent administrative errors rather than substantive cases of enrolling ineligible students.

Regulation in Victoria was seen to be unnecessarily complex due to the operation of two regulatory authorities (Victorian Registration and Qualifications Authority (VRQA) and Australian Skills Quality Authority (ASQA)) as well as the VET funding contract. Some stakeholders suggested Victoria should consider referring the responsibilities of VRQA to ASQA for simplicity and consistency purposes.

The regulators were reported as focussing on the ability of an RTO to meet the requirements of training packages and RTO standards, rather than student experiences or employment outcomes. TAFE institutes and community providers admit that they have struggled with getting their paperwork right and have been required to return funds to government due to non-compliance, saying they have put student outcomes and training quality above regulation based paperwork requirements.

These stakeholders felt private providers were good at getting their paperwork right first and placing student outcomes and training quality second. A risk-based regulatory approach was suggested as a more efficient and effective means of auditing government-funded VET providers.



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"The decision by government to remove minimum fees for students has resulted in an expectation by the general public that courses must be free... all students should be required to make some contribution to course fees to encourage meaningful consideration to the commitment required as well as the type of training they will undertake"

ACPET

"Private providers are really good at system processes, paperwork. TAFE's and ACE didn't cope as well; many had to give money back to HESG for non-compliance"

Quote from consultations

*It's harder to enrol
in a training course
than it is to get a
shooters' licence*

Quote from
consultations

Government as purchaser, policy maker and regulator

Not surprisingly, there was feedback about the role and actions of government through the introduction of greater contestability.

The regular funding level changes, and what was perceived as a largely reactive approach (discussed above), were common themes. Many throughout the sector, including both public and private providers, shared the view that full contestability and the subsequent policy adjustments were poorly implemented. During its consultations the Review witnessed what could be described as a high degree of 'change fatigue', particularly in TAFEs at both an organisational and individual level.

Many felt that the administrative, audit and compliance requirements on providers were both overly burdensome and of limited value, being too focussed on inputs and paper-based checks, rather than concern for the quality of training provided.

Providers and staff from all sectors felt this represented a significant cost and required a diversion of resources to manage. Some providers felt audits were overly focussed on minor compliance and paperwork issues, with the action taken in response being disproportionate to small, good-faith errors made by staff trying to navigate a complex system. Many TAFEs felt particularly burdened as both large providers and public sector bodies.

Conversely, there was also a broad view that government should take a greater or more active role in some areas, with quality regulation and student protection featuring prominently. For example, some parents and unions were concerned about protecting students from being exploited by unscrupulous providers and aggressive marketing activities.

There was also general agreement that there is a role for government in addressing what might be considered market failures. For example, in concessional arrangements for disadvantaged students, or in helping ensure students have better access to information.

Some, including private providers, thought it was important that government clearly distinguish its roles as policy maker, regulator and provider.

Many of these issues manifested in what could be described as a broad and deep feeling of exasperation with government. For example, some TAFEs considered that government's involvement in the sector could be improved if Department of Education and Training (DET) had a greater understanding of providers' business and operations. A secondment program between DET and TAFEs (in both directions) was suggested as a way to improve both parties' understanding of each other's operations.

Public Provision

Throughout the process, there has been broad and strong recognition of the value of, and need for, a strong and sustainable public provider in the VET sector. The pressure experienced by TAFEs in recent years has put this at risk.

Similar to comments made regarding the VET sector generally, many remarked it would be helpful for Government to clearly outline its expectations of TAFEs, and what their role in the VET system is.

The important roles of TAFEs in ‘thin markets’ (where private providers may not operate due to a lack of scale and therefore opportunity) and as significant parts of communities (especially in regional Victoria) were also noted and supported by many.

In addition to general issues described elsewhere in this section, the TAFEs themselves frequently commented about:

- the challenges of their legacy cost base, in terms of maintaining assets and employment arrangements;
- their duty and expectations, as a public provider, to provide a broad range of courses and services to all Victorians, even when not commercially viable to do so, as part of their general role in the community but in conflict with expectations that they act commercially and compete in a contestable system;
- the restrictions placed on them as a public provider, including in financial, marketing and other decision-making flexibility;
- the level of regulatory and reporting burden placed on them as both large providers and public sector bodies; and
- the undesirability of TAFEs ‘cannibalising’ one another for students.

TAFEs acknowledged that irrespective of the results of this Review, they need to continue to improve their internal capability, efficiency and offerings to students. TAFEs are at different stages of a transition and structural reform process, and some TAFEs considered that a degree of consolidation would be either necessary or desirable in the medium term to ensure the viability of the TAFE sector.

Some stakeholders raised concerns about the quality of training by TAFEs. For example, some teachers, unions and industry were concerned about the impact of funding pressures (including staff reductions, increased class sizes, reduction in student contact hours, and using higher-funded courses to cross-subsidise other operations).

Industry raised concerns about the degree to which TAFE teachers have relevant and contemporary industry knowledge that they can pass on to students, and that TAFE staff were not undertaking sufficient professional development.

Need to level the playing field; private RTOs are able to be more nimble

From 31 LLENs

“There are a number of constraints on TAFE institutes that are not shared by all providers that are currently operating in the Victorian market”

Chisholm Institute

There were a number of different views as to how TAFEs should be funded, taking into account their unique value, role and challenges, and the desire for funding to be sustainable and on a reasonable basis in a contestable setting. Options presented to the Review included:

- reinstating funding loadings for TAFEs to reflect their additional costs;
- some form of ‘block’ or base funding for TAFEs each year;
- funding additional services outside the contestable market; and
- allocating a proportion of the VET funding pool (60 per cent or 70 per cent were suggested) to public providers, with the remainder to be contestable and open to other providers.

“Lack of VET expertise amongst secondary teachers [is] leading to quality and compliance issues”

Victoria University

Vocational Education and Training in Schools (VETiS)

VETiS can be delivered by schools themselves (where they are also registered as training providers), or commissioning others (such as a TAFE) to deliver the training in the school. A range of perspectives about VETiS were raised from across the sector. For TAFE institutes, VETiS being delivered by schools raised a number of quality and compliance issues, as VET delivery is not core business for schools.

School principals and teachers expressed concern that VETiS was underfunded, with many ceasing to deliver VET themselves due to the costs and compliance issues. Many moved to be purchasers of VET in order to continue to offer VETiS for their students. Private providers considered VETiS to be an area of high interest and value to young people.

Employers felt VETiS was complex and difficult to navigate. Areas needing improvement from the perspective of employers include clear expectations for outcomes, simple and consistent regulation of delivery programs, minimal paperwork obligations, exposure to jobs and work environments, development of relationships between schools and employers, and education for employers on creating a positive work experience. Other views included a need for a focus on vocational learning rather than VET qualifications.

6. The case for change

Chapter summary

- The current VET system needs to change.
- While it does much that is of great value, it is not meeting the needs or expectations of students, government or industry, and is unsustainable in its current form.
- This chapter draws together evidence and feedback received by the Review, and outlines the areas in which the system is failing to achieve its potential.

An economy in transition

Victoria's economy continues to undergo structural change, and government plays a key role in supporting Victorian industry to transition to areas of opportunity, encouraging growth in key employment sectors and contributing to a more dynamic and productive economy.

In a transitioning economy, an effective VET system committed to providing lifelong personal and skills development can support vulnerable workers by providing industry and thus the economy with a pool of skills to help the community through economic changes – with the most vulnerable being young people aged 15 to 24, those entering the workforce for the first time, the long-term unemployed, redundant workers and unskilled workers.

The VET system also supports industry through this change, by improving productivity and competitiveness, leading to economic and jobs growth.

The Review has heard from students and industry who are satisfied with both the effectiveness of training provided and the pathways it provided into new or better employment.

But the current system is failing in a number of areas and there are many concerning issues which demonstrate a clear need for improvements to the system.

Participation in training has declined dramatically (from 12.9 to 10.9 per cent) since the training bubble reached its height in 2012.²

In 2014, course completions rates remain broadly at 2009 levels³ and there are 29 per cent fewer 15–19 year olds enrolled in government-funded training than in 2012⁴, despite rising youth unemployment.

There is also evidence that the current system is not achieving optimal access to training by vulnerable and high needs groups as loadings are not well targeted. Groups with funding loadings designed to encourage greater participation (Indigenous, youth and regional students) have generally seen smaller participation growth than the overall market, and in some cases

The Government has identified growth industries: medical technology and pharmaceuticals, new energy technology, food and fibre, transport, defence and construction technology, international education and professional services.

² DET, *Victorian Training Market Report 2014*, Figure 1.7. Available online at: <http://www.education.vic.gov.au/Documents/training/providers/market/vtmr2014.pdf>

³ DET, *Victorian Training Market Report 2014*, p. 19. Note that in 2014, 27 per cent of government-funded training was still in progress. Given an annual average completion rate of around one-third over the period 2009 to 2013, this would increase the reported completion rate in 2014 by around 9 per cent.

⁴ DET, *Victorian Training Market Report 2014*, Table 1.12.1.

participation has fallen⁵. Outside Melbourne, the regions have shown diverging performance, with some showing growth since 2010, and others a decrease in training. Overall, since 2010, around 94 per cent of the growth in government-funded training has occurred in metropolitan Melbourne, vastly disproportionate to its population share.⁶

And while other groups without specific loadings (such as students with a disability, the unemployed and culturally and linguistically diverse (CALD) backgrounds) have experienced increases in training volumes,⁷ including with non-government providers, concerns were raised with the Review about the level of support able to be provided on an ongoing, sustainable basis (without cross-subsidisation).

Addressing the challenges of an economy in transition is a priority for the VET system.

An unreliable system and falling satisfaction

In 2014 and 2015 to date, approximately 8,000 qualifications have been withdrawn due to quality concerns relating to VTG funded and fee for service training by four RTOs.⁸

The withdrawal of qualifications on such a scale is unprecedented, and highlights a broader concern about the quality of training. In too many cases, the VET system is not delivering the outcomes or standards expected by the community, by industry or by government.

VET in Victoria has been subjected to a number of scandals and crises to do with the quality of qualifications. The adverse publicity has reinforced a perception of a system that is not delivering the outcomes expected of it by the community.

The proportion of Victorian VET graduates who improved their employment circumstances after training has declined significantly, from 65.0 to 57.7 per cent between 2011 and 2013. This is below the national average of 60.3 per cent in 2013.⁹

Employer satisfaction with the way VET is providing employees with skills required for the job has declined significantly, from a high of 89.4 per cent in 2011 to 77.1 per cent in 2013 for nationally recognised training.¹⁰

Restoring confidence, satisfaction and stability in the VET system remains imperative so that students and industry are confident it can deliver on its principal purpose and government can be sure that its funding is directed toward reliable qualifications.

A proliferation of VET providers contributing to quality concerns

Recent changes to the VET system have been aimed at increasing the level of competition in the sector by reducing the barriers to entry to increase the number of providers in the system. In a narrow sense, this has been achieved. The number of non-TAFE providers delivering government-funded training has increased, as has their share of the market. Private providers delivered 15 per cent of government-funded enrolments in 2009, and 56 per cent in 2014.

Employer satisfaction with VET dropped by over 12 percentage points in two years

⁵ DET, *Victorian Training Market Report 2014*, Tables 4.2.2 (Indigenous), 4.6.2 (youth) and 1.18.2 (regional).

⁶ Review analysis of data in DET, *Victorian Training Market Report 2014*, Table 1.18.1.

⁷ *Victorian Training Market Report 2014*, Tables 4.23.2 (disability), 4.5.2 (unemployed) and 4.4.2 (CALD).

⁸ DET advice to Review.

⁹ Productivity Commission, *Report on Government Services 2015*, Table 5A.41. Available online at: <http://www.pc.gov.au/research/recurring/report-on-government-services/2015/childcare-education-and-training/vocational-education-and-training/rogs-2015-volumeb-chapter5.pdf>

¹⁰ Productivity Commission, *Report on Government Services 2015*, Table 5A.92.

What these statistics fail to convey, however, is the quality of training being provided. It may have originally been hoped that as the existing provider, TAFEs would serve as a minimum quality standard for the system. This has not occurred.

The reasons for this are complex, and include a lack of quality assurance, the dearth of information for students making decisions, and that VET education is largely a one-off experience where students do not necessarily know if they are receiving good training. The sheer number of providers in the system has also contributed, as they compete for students and make adequate oversight challenging for government and the regulators.

Taken together, the result is that there is no effective quality floor in the market that provides assurance for students, industry or government that the training being provided is of a consistent, high standard. Even a small number of unscrupulous or poor quality providers can have a significant impact on the system and its reputation.

To a degree, some of these issues are also playing out at a national level.

ASQA, in its review of aged care, identified a raft of issues associated with inadequate standards including:

- providers delivering courses of 1200 hours in duration in less than 200 hours;
- the marketing and advertising of 45 per cent of the RTO's provided misleading information; and
- insufficient information provided to students to make informed training choices.¹¹

Elsewhere, ASQA has also raised the lack of protection for VET students, many of whom are vulnerable to exploitation,¹² and cited instances of low quality online learning and questioned the paucity of workplace training by RTO's in vital subjects such as safety on building sites.¹³

Recently in Victoria, there has been greater enforcement activity by government to impose a basic minimum standard. The results have highlighted some of the problems with the system. In addition to the withdrawal of qualifications, in 2014, \$32.5 million of government funds was recovered from providers for a range of compliance issues and eight contracts were terminated, with a further two contracts surrendered, in light of identified non-compliance.¹⁴ A number of providers have also had restrictions placed on their VET Funding Contracts for periods during which they have not been permitted to enrol or commence students.

The scale of these problems suggests systemic issues, not isolated incidents. In many cases, these are courses that should never have been delivered, by providers that should never have been allowed in to the market.

While it can be challenging to specify quality standards for education, the Quality Review highlighted that the funding contract is not being effectively used to ensure quality training is being provided. There are specific steps that could be taken to improve this.

The proliferation of providers does not appear to have been matched by an increase in resources to regulate the expanded market— DET has been left to act primarily in response to provider behaviour, and usually then only in response to the most extreme examples of poor behaviour. This can also add to complexity in the system, as new rules and process are introduced to address aberrant behaviour.

¹¹ ASQA, *Training for aged and community care in Australia* (2013), available online at: http://www.asqa.gov.au/verve/_resources/Strategic_Reviews_2013_Aged_Care_Report.pdf

¹² ASQA, *Marketing and advertising practices of Australia's registered training organisations* (2013), available online at: http://www.asqa.gov.au/verve/_resources/Strategic_Reviews_2013_Marketing_and_Advertising_Report.pdf

¹³ ASQA, *Training for the White Card for Australia's Construction Industry* (2013), available online at: http://www.asqa.gov.au/verve/_resources/Strategic_Reviews_2013_Marketing_and_Advertising_Report.pdf

¹⁴ DET advice to Review.

Impact on students

The VET system is designed with the student at the centre of the system, so their choice of course and provider is crucial to the sector. In theory, students are supposed to be attracted to quality training, in courses that lead to good employment outcomes, fuelling competition between providers to deliver training that leads to new or better employment.

The current system is not working as intended.

Employment outcomes and training quality are difficult to determine, especially for students who may be vulnerable or inexperienced. Instead, the Review heard that providers often compete on price (which is easily discernable), rather than quality, and provide training in courses that offer higher profits, rather than reemployment outcomes. Some providers cut corners, cutting back on teaching hours or quality facilities to save costs.

A provider driven ‘sales competition’ has led to reports of financial inducements being paid for encouraging students to enrol in courses, and iPads being offered to students for enrolling in VET. This type of behaviour suggests that an education leading to greater social and economic participation — the principal purpose of VET — is being undermined by commercial imperatives.

In the worst cases, students have simply been the vehicles by which providers access government funding. Those students have lost their entitlements without gaining anything of value in return.

Meeting the needs of industry

One of the intended outcomes of a more contestable system was a VET system that was more responsive to industry needs. Student and industry decision making was supposed to support those objectives, and the most commonly cited reasons for undertaking a course include “getting a job” and “developing the skills needed by my employer”.

Matching training to skills needs is always going to be imprecise, but the key purpose of VET is to give people training that will equip them for new or more highly skilled employment.

Some well-organised industries are receiving effective training, and play a key role in assuring quality in their industry areas. However, in other areas industry engagement is limited, contributing to a lack of oversight of VET.

The demand-driven system, combined with significant variability in funding rates has led to mismatches between training and industry need. For example, in 2013, in courses where there was an estimated oversupply of training, enrolments exceeded labour market needs by over 188,000. In areas of undersupply, enrolments were nearly 150,000 less than estimated labour market needs.¹⁵

The over-supply of some qualifications, such as aged care, appears to be driven by the provider’s capacity to attract students, to deliver a course at low cost to the student, and to maximise returns to the provider. There are not sufficient incentives or controls based on the needs of the labour market or the employment prospects of the student.

Similarly, the undersupply of trained workers in some areas is not driving students to training in areas where there is a higher likelihood of sustained employment.

The Review considers that this must change; industry and students should be able to exert greater influence over, and be encouraged to invest in, the quality and volume of VET to support productivity and growth.

¹⁵ DET analysis provided to the Review.

TAFEs are not sustainable

TAFE plays an important and distinctive role in Victoria's tertiary education architecture. A strong, dynamic and sustainable TAFE sector is vital to Victoria's economy and to ensuring a complementary, strong and quality driven non-government VET sector.

The Review's consultations and submissions have reinforced the importance of the public provider. Universally strong and stable TAFE institutions are seen as critical to the effective continuation of the VET system in Victoria.

The current system does not fully recognise the unique obligations on the TAFEs, or the value they provide. The current funding arrangements have had a significant impact on the TAFEs, which are not sustainable. It puts at risk the delivery of more expensive but highly valued courses such as apprenticeships, and programs for the disadvantaged.

TAFE plays an important and distinctive role in Victoria's tertiary education architecture. The current system marginalises TAFE.

Ensuring that TAFE can deliver on this will form a key part of the Review's final recommendations.

An unstable policy framework

The current system has encouraged a counter-productive cycle of provider behaviour and government response leading to an unstable system.

With so many providers in the market, some will inevitably chase the 'easy' money from government funding, exploiting inefficiencies, gaps in the rules and other opportunities. In response, government changes the rules and funding rates to limit exploitation and manage the budget. The entire sector then has to adjust to the changes, while some adeptly follow the 'easy' money elsewhere in the system. This prompts government to act again, so the system is driven by the undesirable behaviour of a small number of providers.

This instability, which flows from the design of the system, comes at a cost. Providers and their staff complain of 'change fatigue' and find it difficult to plan over even the medium term because rules and funding levels may change on short notice. This lack of certainty also discourages investment, and the sort of long-term commitment to high-quality provision that would be of long-term benefit to Victoria.

A more stable system would inspire greater confidence, leading to better planning and investment, and better outcomes.

Curriculum design

There are compelling reasons for nationally consistent minimum standards in training packages. However, as the system currently operates, there may be some perverse outcomes.

The funding mechanism is based around payment for a student's completion of competencies (also called units or modules) identified within a training package.

Providers can manipulate the content of a course by importing modules from one training package to another (called substitution). The same module can be included in different training packages, but funded at different rates (because funding rates are set at a course level, not an individual module level). This arguably gives providers too much scope to use the inconsistencies in funding rates. It also increases the complexity of the system, and the number of electives creates uncertainty about the cost of a course to a student.

In addition, training packages are competency based. Well designed and properly delivered training provides the student with transferable skills, and industry with tailored sets of skills. However, in some cases narrowly focused training is not meeting the needs and demands of the modern labour market and does not provide the broader, transferable skills required in a modern, dynamic workplace.

Training packages may also limit investment and innovation in education. All providers are mandated to use the same occupational packages, so there is limited incentive or capacity to invest in developing curricula or innovating in educational design to better meet industry and student needs.



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7. Future directions for VET

Chapter summary

The Review has identified options to create a sustainable and stable VET funding system, aimed at:

- better targeting funding to fit for purpose training by capable providers;
- improving protection and support for students;
- ensuring a sustainable TAFE sector;
- better matching training with industry needs; and
- supporting training for vulnerable, disadvantaged and high needs groups.

Options for change

The following chapter presents a series of changes currently being considered by the VET Funding Review. Although discrete options, the Review is mindful that it is dealing with a VET system and changes must be considered as a whole. Changes to some settings will impact other areas. For example, introducing a minimum student fee and more directly setting course funding rates based on labour market priorities may reduce the need for tight eligibility requirements as a demand management tool.

Changes will also need to be considered in reference to the available funding provided by government. Some options to be considered are likely to increase the cost to government, while others will probably lead to savings. The timing of the changes will also need to be considered, both in terms of feasibility and the disruption to the sector. Implementation and fiscal issues will be evaluated by the Review in the preparation of the Final Report.

The Review is seeking feedback from the Victorian community on the changes being considered.

The costs of change

In considering future reforms, the Review recognises the significant change that the VET sector has endured in recent years, particularly for students affected by the collapse of some providers and the recall this year of qualifications found by regulators to be inadequate.

Any recommendations made by this Review will be mindful that further change will prolong the difficulties associated with reform, and the uncertainty within the sector about the future of vocational education and training.

Given the problems we have observed, the Review does not support the continuation of the system in its current form. There is a strong case for changes to the system as it currently operates.

The Review will be mindful when considering changes to the system that the benefits of the specific change outweigh the costs of further disruption to the system.

Better targeting funding

1

Establish a training provider classification system

- A new provider classification system could be used to regulate access to government funding, and provide an incentive for continuous improvement by providers
- It could also be used to provide more and better information to students on the capability of providers

While government undertakes financial health checks prior to entering a contract with a provider, there is limited information available to government about provider capability. This limits the ability of government to make decisions about the minimum level of quality it is willing to fund (other than the limited level of quality which is currently assured by state and Commonwealth regulators).

The number of providers also means students and industry face a confusing range of choices without good information to make enrolment decisions. To address these concerns, the Review is investigating the feasibility of a training provider classification system.

The Review is considering the feasibility of classifying providers based on their financial stability and capability as educational organisations.

A classification system for providers would aim to:

- ensure a stable, transparent and ethical VET system;
- assist government to make decisions about which providers are awarded VTG contracts;
- ensure training delivers fit for purpose outcomes for the student, employer and the public;
- provide incentives to RTOs for improvements in quality training provision; and
- assist members of the public and industry to make decisions about which providers to purchase training from.

Data to assess or classify providers (which is currently available) could include a mix of quality and capability measures, and financial stability measures as outlined in the table below:

Possible capability measures	Possible financial measures
The scope, range, or specialisation in programs which are offered	Previous audit results
The academic credentials of teaching staff	Diversity of funding streams
The level of student satisfaction with teaching quality, and satisfaction with the course	Financial ratios (eg. liquidity, EBITDA)
Employer feedback on the training provided for its staff	Third party arrangements in place for training delivery
Whether students go on to new or better employment or higher study	
International reach or reputation	

Measures could be further developed over time to improve the system, and might include course completion rates, casual-to-permanent staff ratios, and provision of language, literacy and numeracy training.

Role of a classification system

A classification system could be used by:

- government, to identify and target funding to those providers with the capability to deliver courses to vulnerable students or students with specific needs;
- industry and employers, to identify those providers that are stable, and have a demonstrated ability to provide training that is up to date and provides students with skills valuable in the workforce;
- students, in making decisions on the basis of demonstrated employment outcomes from their choice of provider, or the support services available; and
- providers, as an incentive to improve outcomes and benchmark their performance against the rest of the system.

There are recent examples of the introduction of classification or assessment of providers to improve the quality of government-funded services; the National Quality Framework for Early Childhood Education, for example, aims to raise quality and drive continuous improvement in children's education and care. Likewise, the MySchool website provides detailed information about the performance of all schools across Australia, including comparison with schools of a similar socio-economic makeup.

While it could be argued that this work could be undertaken by an existing regulatory body (e.g. ASQA), the evidence has led the Review to the conclusion that current arrangements are not providing sufficient assurance of the quality of providers and training in the market. The speed at which the market expanded has left students exposed, and the Review considers that government has a role in taking a stronger approach to setting a minimum level of training quality.

2

Clearly articulate to the market the role and objectives of VET

- **Government could make a statement about the role of VET, sending a clear message to the sector about Government's priorities**

The Review has heard from many stakeholders that Government should articulate a clear purpose for VET, including what it sees as the purpose of the sector, and what the role of government is.

Articulating Government's objectives for the sector will provide a clear framework for future policy and regulatory decisions, and better enable providers to work towards those same goals. The Review has outlined a possible statement on this in Chapter 4.

3

Retain the student entitlement but ensure investment is targeted

- **The student entitlement forms the basis of the contestable system, and allows students and industry to exercise choice of training provider and course**
- **Eligibility under the student entitlement could be targeted according to clear government priorities**

The student entitlement, including the upskilling eligibility criteria, is the cornerstone of the existing VET funding system. However, its broad eligibility means that funding may not have been effectively targeted.

The student entitlement could be refined so that:

- fewer courses are eligible for VTG funding;
- funding rates target labour market priorities;
- in some circumstances — such as foundation courses and training for high-needs or complex students — the student entitlement could only be used at approved providers; and
- for key target groups, such as those identified earlier, the upskilling requirement and two course rules could be relaxed at approved providers.

This would retain the right to publicly funded training, but more clearly target funding at areas of need.

The benefits of contestability could be retained, giving students and industry choice, and making providers directly responsive to their needs.

4

Improve teacher training

- **A key characteristic of a high-quality training system is the effectiveness of its teachers, and robust teacher training can support long-term improvements in the training system**
- **There could be greater oversight and regulation of teacher training, including limiting delivery of the Certificate IV in Training and Assessment to providers with a high classification rating**

High-quality VET teachers must have a combination of up-to-date technical skills, relevant industry experience, a strong conceptual foundation in their teaching area, and the ability to engage and teach students with a variety of backgrounds and learning styles.

The Quality Review recommended that there be a panel of providers approved to deliver the Certificate IV in Training and Assessment. The Review supports this recommendation.

The provider classification system (see page 34) could also include the level and breadth of qualifications held by the teaching staff to create incentives for more highly qualified teaching staff.

5

Reduce the number of funded courses

- **Victoria funds every course accredited under the Australian Qualifications Framework**
- **Reducing the number of courses eligible for government funding could better target VET funding to training that supports economic growth and productivity and government objectives**

Other states and territories have significantly reduced the number of courses that are eligible for government-funded training, including New South Wales, which only funds 744 out of a possible 2,925 courses (as at May 2015).¹⁶ The NSW funded course list is updated regularly and reviewed annually to meet the changing needs of industry. In Western Australia, the course list has two parts, uncapped (around 30 per cent of courses) and capped places (around 70 per cent).¹⁷

In 2014, approximately 40 per cent of funding in Victoria was provided to just 20 courses.¹⁸ Reducing the number of courses eligible for government funding could make the system simpler, reduce the ability of providers to chase profit by chasing funding rates, and set clearer government priorities on the skills it wants for the Victorian economy.

In addition to restricting the number of courses funded, government funding for VET could be better targeted to address substitution. For example, establishing more consistent funding rates for similar courses could assist. Other options that could be explored include limiting the flexibility of units within a training package or importing of units between training packages, or funding elective units at a lower rate than core units.

6

Fund courses based on labour market and industry priorities

- **The setting of funding levels (also known as subsidy rates) in the current funding model appears to have been for a variety of purposes**
- **A simpler rationale, or 'pricing framework', could be used to target funding at the highest labour market need**

Under the initial design, subsidy rates were based on qualification level. Low level courses attracted a high subsidy rate (up to 90 per cent of the course price), while higher level courses (diploma level) attracted a lower subsidy rate (75 per cent).¹⁹ However, they appear to have been used for a variety of reasons including:

- budget management;
- ensuring the government and student contributions reflect the public and private benefits of training; and
- targeting funding at labour market needs.

Given the feedback that constant changes in subsidy levels were erratic and complex, and government funding was not addressing the right areas of skill need, government could refocus subsidy rates to match the level of skill need, consistent with the option of reducing the number of funded courses.

¹⁶ The list of funded courses in NSW can be found at: http://www.training.nsw.gov.au/smartandskilled/nsw_skills_list.html Total number of possible courses (2,925) includes 1,670 training package qualifications and 1,255 other state or nationally accredited qualifications, see: <http://training.gov.au/>

¹⁷ For further detail on the WA system, see: <http://www.futureskillswa.wa.gov.au/Pages/default.aspx>

¹⁸ DET analysis provided to the Review

¹⁹ Victorian Government, *Securing Jobs for Your Future – Skills for Victoria* (2008), p. 34. Available online at: <http://www.education.vic.gov.au/Documents/training/providers/rto/securingfuture.pdf>

Funded courses and their subsidy levels would be selected based on clear objectives, such as the current and future skills needs of the Victorian economy, the likelihood that the course will provide improved employment opportunities for students, or other social policy objectives. This could inform the level of government subsidy for a particular course in the coming year.

Labour market priority for course	Funding level (example only)
High labour market priority (skills shortages)	90 per cent subsidy
Medium labour market priority	75 per cent subsidy
Low labour market priority	40 per cent subsidy
All other courses	0 per cent subsidy

In addition to setting subsidy rates based on labour market need, the Skills Commissioner or other independent body could provide advice to government on a periodic basis, following appropriate consultation with industry, on a funded course list.

Subsidy levels could also vary between regions, allowing the VET system to respond to different needs in specific regions. For example, the need for tourism-related training may be greater in regional Victoria than in metropolitan Victoria.

While some of the rapid increases in training in some courses would be prevented by limiting the number of providers in the system, a ‘smoothing’ mechanism could also be included to limit growth in enrolments (for example, limiting growth for larger providers or in specific courses to 10 or 20 per cent over the previous year’s enrolments).

Supporting and protecting students

Reintroduce a compulsory or minimum student fee

- **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**
- **A student contribution to training could help ensure that students are conscious of their choices, and that fees better reflect the private benefits that are likely to flow from training**

The reintroduction of a minimum fee was suggested by a number of stakeholders as a way to make students or their employers more conscious that their training entitlement is limited and is not free. Students are making an important choice based on the benefits that will flow to them from training, such as increased income and greater employment options.

Importantly, it could also remove the ability of providers to attract students with promises of free training, and place greater pressure on them to compete for students on the basis of the quality and benefits of the VET they provide. It is also likely to improve the competitiveness of TAFEs.

In order to preserve access to VET, student fees would be supported by appropriate equity measures, such as concession arrangements, funding pools for high-needs students, and income contingent loans. In addition, it would be expected that in some cases employers would pay the fee if they want their employee to undertake training.

7

8

Provide more support for students to make training choices

- **VET students are not always well equipped to make training choices**
- **A range of supports could be made available to help students make training decisions, including simplifying the system**

There could be far greater support for students to help them make choices about the course and training provider that is best for them. The Victorian Skills Gateway, Rate Your Training and Training Market Report are steps in the right direction; however, these consumer information tools have not been effective.

Other online information support services such as the 'MySkills' website have not been well received. A number of organisations have suggested that information hubs be established across Victoria to assist students in their decision making. This could be a partnership with different specialist agencies. The Review will explore this notion as part of its consideration of community service obligations.

The Review will also consider ways to improve existing online information, so that it clearly shows the rating or quality of the provider and the likely employment and earning outcomes from undertaking the training. This is also in accordance with the Quality Review's recommendations about improving consumer information support tools.

9

Tighten restrictions on the type of marketing activity a provider can use

- **Marketing behaviour of providers can undermine the integrity and reputation of the VET system, and distort student decision making**
- **As part of the tighter oversight of contracted providers, more stringent restrictions on provider marketing could be introduced**

Incentives to undertake government-funded training are banned under the VTG funding contract, but the fee for service market does not operate under this provision. This means, for example, inducements can continue to be offered.

More active regulation could include much greater control over the sort of marketing activity a VET provider can engage in, or the information providers must give students on the impact of drawing on their training entitlement.

10

Regulate or ban brokers and aggregators

- **Brokers and aggregators may not always act in the best interest of the student, and can distort their decision making**

Brokers and aggregators can focus on gathering volumes of students rather than helping them to make training decisions.

Consideration could be given to the feasibility of banning them altogether to remove the potential for students to be taken advantage of.

Alternatively, the use of brokers and aggregators could be more tightly regulated. Government could require them to be licensed, undertake ethics training at their own expense, provide a bond or surety to operate in Victoria, and to disclose to students their financial interest in enrolling a student in a course in a specific form. This is consistent with some international jurisdictions.

11

Tightly regulate subcontracting

- **Sub-contracting training, or third party training provision, has resulted in poor oversight of training provision and the withdrawal of qualifications**
- **The prohibition on third party arrangements should continue, subject to exceptions**

The government recently announced a halt on any new third party arrangements by all providers, in response to a series of inappropriate arrangements leading to the withdrawal of qualifications.

The Review acknowledges that third party arrangements need to be more tightly regulated to ensure that the needs of students are protected, that government has a clear understanding of who it is purchasing from, and that the student understands who is delivering the training.

However, the Review considers that third party arrangements may be appropriate in cases where the training would not otherwise be provided, such as in small, specialised industries or locations where ongoing demand is low. If this were the case, a declaration by the provider could be required, and a bond posted.

12

Introduce protocols for online learning

- **There are specific risks associated with training delivered through online learning**
- **While the system needs to adapt to new forms of training, protocols could be introduced to ensure it is delivered appropriately and at an acceptable level of quality**

Concern has been raised in consultations and through the Quality Review about inappropriate training volumes and modes, particularly in relation to online training.

Some courses may be appropriate to deliver online, so that students can learn at flexible times and locations. However other qualifications, particularly practical or skill-based competencies, require more face-to-face training.

Protocols could be developed to ensure that online learning meets the needs of a diverse student population; this may include standards for what can be provided online and how much, and requiring providers to develop support services for students experiencing difficulties with online delivery.

13

Introduce protocols for work-based training

- **Work-based training is a unique form of training in VET that presents particular benefits and risks**
- **Protocols may be of benefit to ensure training outcomes are achieved**

Work-based training is an important part of the VET system. However, the quality of this training can be variable, depending on the nature of the industry and employer hosting the student. High-quality work-based training has strict guidelines in place. For example, clinical placements in nursing have guidelines to ensure:

- the role of each of the participants and their qualifications;
- student safety in the workplace;
- that risks to patients are managed; and
- the skills students develop are up to the standards of the health sector.

The Review considers that protocols could be developed to ensure that the standard for work-based learning meets the same standards as expected for classroom or workshop delivery.

14

Greater use of summative testing

- **Concerns about the quality of training undermine the reputation of the VET system, and reduce industry confidence in the system**
- **Greater use of testing could regulate the quality of training provision and ensure that students can demonstrate the competencies included in the qualifications**

Qualifications should provide a strong assurance that students have achieved the competencies. Increasing the use of external testing may be a way of improving confidence in the level of training conducted fully in the workplace or as a combination of recognition of prior learning and 'gap' training. The use of independent assessors such as VET ASSESS is an important component of this concept.



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New regulatory options for private providers

- **Further regulatory steps could improve quality assurance and student protection**

One option the Review is considering is differentiating between public and private providers for some regulatory and assurance arrangements. For example, the Canadian province of Ontario has separate regulatory and quality assurance regimes for public and private providers.

Three options that could form part of a segmented regulatory and assurance system are outlined below.

A superintendent for private providers

The management of private providers could be facilitated through a superintendent, a civil servant who manages aspects of private provider registration. The office could be responsible for activities such as registration of providers who access government funds, program approval, registration of brokers, and other compliance matters.

In addition it could provide private operators with a key access point within the overall education bureaucracy. It could also work on standards and protocols, and developing continuous improvement strategies associated with private providers. The cost could be met by a mix of government contribution and annual registration fees.

Annual access fee

This fee could be required as a condition of obtaining a VTG contract, and would be additional to the annual registration fee. The funds could be used for a variety of purposes associated with VET, especially in providing greater information about the performance of private RTOs.

Student completion fund (tuition assurance)

A further option would be to require all private providers to pay into a student completion fund, which would provide tuition protection. It would provide compensation to students and the government if a provider defaults. Registered providers could make ongoing monthly contributions to the fund based on the previous month's tuition fees (e.g. one per cent). The fund could be administered by DET or outsourced to the market.

Sustainable and supported TAFEs

Clearly articulate the role of TAFE

- **As public providers, there is a special role for TAFEs compared to other VET providers**
- **ACFE also provides an important and specialised education service to the community**

Similar to the suggestion the Government make clear the role of the VET system, it has been suggested to the Review that Government should articulate the role of TAFEs in the VET system. As part of this articulation, the Government could clarify what it wants TAFE to do over and above regular VET provision.

The move to a fully contestable system, with no differential treatment for TAFE, has led to confusion over Government's expectations. On one hand, TAFEs provide training on the same basis as other providers. However, they are subject to additional operational restrictions, expectations and policies that do not apply to other providers. As entities within the Victorian public sector, they are expected to be inclusive, offering a broad range of courses to a diverse student body, even if not commercially viable (for example, in regional markets). Other issues facing TAFEs as public bodies include the need to seek central government approval for significant decisions, and the requirement to adhere to government workforce policies and to maintain campuses as public assets, irrespective of training need.

Individual TAFEs could also take responsibility for certain geographic areas or training priorities. This could help avoid situations where one TAFE competes with another TAFE or other public providers (such as Adult Community and Further Education (ACFE)), or duplicates their offering or facilities, at the expense of the quality and efficiency of the overall system of public provision.

Articulating the role of TAFEs, and the expectations of them, will enable a greater clarity of purpose for the institutes, and provide the basis of a funding system that is fair and sustainable.



Fund TAFE fairly and sustainably

- **TAFEs are not currently on a financially sustainable path**
- **A new approach to funding TAFE is required, that recognises Government's expectations on TAFE in a contestable system**
- **Ongoing support is needed for the critical role played by the Adult, Community and Further Education sector in supporting adult education in Victoria**

Despite the vital role of TAFE in VET provision, the current system threatens their long-term viability. A recent Auditor-General's report concluded that the financial position of the sector is in decline, with six of the ten TAFEs examined having high short-term financial sustainability risks, and nine of the ten having longer-term financial sustainability risks.²⁰

A large part of this financial pressure can be traced to a decision of government in 2012 to withdraw, on short notice, around \$270 million per annum of additional funding provided to TAFEs (including dual sector universities) that recognised their role and obligations as public providers, including differential funding.²¹

The Review considers greater financial support for TAFE is necessary and reasonable, but it should be targeted to government objectives, preserve contestability in the VET system, and ensure TAFE continues to innovate and undertake continuous improvement.

Assuming government continues to impose additional restrictions and obligations on TAFEs, an additional stream of funding could be developed that acknowledges the additional expectations and restrictions on TAFEs as public entities. This could address, for example, any additional costs on TAFEs as a result of being subject to broader government workforce policies, the role of TAFEs in maintaining public assets, and any additional reporting or governance obligations TAFEs face over and above those of comparable private providers. Government could also consider relaxing or removing some of these restrictions and obligations.

As a general principle, the Review considers that where government imposes a material additional burden on TAFEs, or has expectations greater than those on private providers, the Government should consider an appropriate way of compensating TAFEs for the additional cost.

²⁰ Victorian Auditor-General, *Technical and Further Education Institutes: 2014 Audit Snapshot* (28 May 2015), p. vii. Available online at: <http://www.audit.vic.gov.au/publications/20150528-TAFE/20150528-TAFE.pdf>

²¹ DET analysis provided to the Review.

Further funding could be provided to TAFE to assist with their ongoing transition, targeted to specific initiatives. This could include, for example, funding TAFEs to support the negotiation of new employment arrangements.

The quantum and design of such funding streams will be the subject of further work by the Review.

The Adult, Community and Further Education sector also plays a critical pathway to further training and/or employment for Victorian adults. The Review considers that the ongoing viability of the sector should continue to be a priority for the government.

18

Use TAFE to expand access to higher education

- **TAFEs are an important part of ensuring broad access to both VET and higher education**
- **Polytechnic institutes in higher-needs regions could improve social and economic outcomes through greater participation in tertiary education**

VET, and TAFEs in particular, play an important role in improving social and economic outcomes by providing training and a pathway to higher education. Increasingly, TAFEs are also providing higher education themselves.

While Victoria has a number of high-quality universities, they are geographically concentrated, especially compared to the coverage of TAFEs across the state. 'On Track' data on the motivations of school leavers who choose not to participate in further education suggests that for some potential students, local access is important.²²

The Review believes that if it is an important objective of government to try and ensure that all Victorians have access to tertiary education, there could be merit in creating a regional polytechnic university and a metropolitan polytechnic university. The Review acknowledges this could be a significant, long-term undertaking, but it could be worthy of exploration as it may offer significant benefits.

A regional polytechnic, with broad course offerings over a wide geographic area, could:

- deliver a mix of VET and bachelor degrees, with the bachelors focussed on applied scholarship in industry-focussed areas (such as accounting or building and construction);
- maintain a strong brand allowing greater international marketing of the institute as a quality provider in an important and growing export market; and
- better support the development and retention of highly professional and capable management.

This could be supported by existing TAFEs and TAFE infrastructure, operating under a federated model, maintaining autonomy and identity as part of their local communities.

Similarly, a metropolitan polytechnic could be established in areas with higher needs but lower current provision of higher education. Similarly to Victoria University's role in western Melbourne, there may be an opportunity in growth areas in the south-east for greater provision of higher education pathways to improve outcomes, given the population growth and socioeconomic challenges in the area.

²² Department of Education and Early Childhood Development, On Track 2014 *The Destinations of School Leavers in Victoria – 2014 – Statewide Report*, Figure 4. Available online at: <http://www.education.vic.gov.au/Documents/about/research/2014%20OnTrack%20statewide%20report.pdf>

Supporting jobs and industry

19

Increase industry input in setting labour market priorities

- **Funding has not been effectively targeted at training that supports industry and economic growth. Government can play a greater role in targeting training at labour market priorities**
- **An independent body, like the Skills Commissioner, could provide advice to government on the training needed to support industry**

Government could direct an independent body, like the Skills Commissioner, to provide advice on areas of skill need. This would be particularly helpful if funding rates were set according to labour market need.

This body would use consultative mechanisms with industry to obtain market intelligence to clearly identify Victorian labour market priorities and skill shortage areas. This would complement existing labour market forecasting tools.

20

Establish a workforce training innovation fund

- **The inflexibility of curriculum in training packages may limit the level of innovation in training delivery**
- **Seed funding could be provided to industry in partnership with VET providers to develop new and innovative training delivery that supports Victoria's economic priorities, particularly in high growth and emerging industries**

The development of training packages takes significant time and investment.

Traditionally, training packages have been developed by Industry Skills Councils to meet the training needs of specific industries and sectors. They differ from other education and training courses in that they must be created with industry involvement and extensive national consultation. Training packages are then endorsed by the Australian Government and state and territory governments, and approved for use throughout Australia.

A proportion of VET funding could be set aside for the establishment of a new workforce training innovation fund, whereby businesses in new and emerging industries may co-invest with government to establish innovative training packages to meet their growing needs.

The objectives of the funding could include:

- increasing competitiveness and productivity of Victorian industry;
- targeting funding for new and emerging growth industries or high value-added industries;
- developing new and innovative best practice workforce development models for industry application; and
- supporting research into developing more innovative and effective models and protocols for workplace training.

21

Encourage specialisation in industry training

- **Specialist providers can provide high-quality, industry-specific training**
- **The Review would like to hear more about the value of these providers, and whether additional steps need to be taken to facilitate them**

The Review heard positive feedback about the training provided by smaller RTOs that specialise in training for a specific industry. Offering a narrower scope of training, rather than focussing on the volume of students trained, may assist providers to build closer relationships with industry, and develop deeper industry expertise. This also allows the industry to take a more active part in the training, and responsibility for ensuring their current and future workforce receives the training industry thinks they will need. While such a training model may not be appropriate for all courses or students, it could make a valuable contribution to the overall VET system.

22

Limit funding of courses at Diploma level to skill shortage areas

- **Diploma level qualifications have access to funding support for students through the VET FEE-HELP program**
- **Funding for Diploma qualifications (except in skill shortage areas) could be redirected to other priorities in the VET system**

As part of prioritising its expenditure, the government could limit funding at Diploma level to those areas with a skill shortage. Students have access to VET FEE-HELP unlike most other students in VET.

There can be risks and adverse impacts in increasing reliance on VET FEE-HELP. For example, students may heavily discount future debts, allowing providers to increase fees. These could be monitored and addressed.

Supporting training for vulnerable, disadvantaged and high needs groups

23

Reform the funding of Certificates I and II

- The outcomes for students undertaking Certificate I and II training are currently poor²³
- Targeting Certificate I and II funding as a preparatory year designed to improve literacy and numeracy, employment skills and work readiness, could improve employment outcomes for some students

There may be a case for reforming the way courses at these levels are funded to encourage the right students to undertake a specially designed, broad-based VET preparatory year.

This course could include a mix of literacy and numeracy skills, personal skills, practical training or hands-on learning, and workplace learning. Students would not be required to choose an occupational pathway, but instead focus on getting core skills that make them ready to be productive in the workplace. It could also be designed to provide students a pathway into higher levels of training.

The students undertaking this training pathway are likely to be more vulnerable and require more intensive, specialist training support.

Funding for a VET preparatory year might be limited to only the highest quality providers that have the necessary infrastructure to support building students' capacity. It would also increase the focus on Certificate III and IV courses.

In considering this option, the Review will be mindful of the range of alternative pathways available, for example VETiS.

24

Clearly articulate community service activities, and move toward outcomes-based funding

- Community service activities (currently known as community service obligations) are currently undefined. They create expectations on providers — particularly public providers — that are not funded in the existing model
- Government could fund providers — or providers in partnership with other community service organisations — to achieve specific and measurable outcomes in areas of identified need

While the government funding is intended to provide (in whole or part) a minimum training outcome, government may often want additional services provided. For example, it may want additional support programs for high needs learners. Where government requires this to occur, it is often considered to impose a community service obligation (CSO) on a provider.

The Review considers that the name of those things previously described as CSOs could be changed. The word 'obligation' implies that there is an un-funded obligation on some providers — especially public providers — to deliver services that others are not. The Review prefers student support initiatives or community service activities but will continue to refer to CSOs here for convenience.

²³ DET analysis provided to the Review.

There are a range of definitions and approaches across Australia for those things that have been described as CSOs.

The Review does not support the reintroduction of the previous ‘full service provider’ funding for TAFEs. Reasons for this include a lack of transparency and clarity as to what was funded, and the absence of any element of contestability.

Based on the commissioned work, and the Review’s consultation and submission process, the outline of a scheme for government funding of CSOs has been developed.

A new model for CSOs in VET could:

- fund a mix of services specified by government, and those nominated by providers (having, for example, identified a particular regional need);
- be open only to higher-quality and trusted providers;
- allow providers to partner with other providers, or non-training organisations, to support better coordinated service provision for students, cohorts, or geographic areas; and
- be scaled up over time, as the value of the scheme is proven.

CSOs could operate as a two-tiered scheme, with a mix of annual and multi-year agreements between government and providers, allowing for a mix of certainty for providers and students, and flexibility to respond to changing needs.

The ultimate design of a CSO scheme will depend on other aspects of the funding model, such as concession arrangements and loadings.

Consistent with a contestable system, CSOs would be reported clearly and transparently, and not be used to prop up inefficient providers, thereby allowing the indefinite continuation of inefficient or archaic practices, or as additional payment for core services and facilities. They would be bona fide payments for additional services and value provided to students or the community.

Targeting outcomes and complex needs

Training outcomes are often influenced by factors other than the quality of training or provider. Through CSO funding, government could specifically fund appropriate training providers, or providers in partnership with other service providers, to provide leadership to the system, or focus on achieving specific outcomes in a specific area.

In addition to delivering training through VTG funding, they would take responsibility for agreeing on and delivering economic and social outcomes in their region. For example:

- lifting rates of education, training and economic participation in disadvantaged areas;
- supporting transition from VET into employment; and
- investing in training innovation in their area of industry speciality.

Moving the system more generally to payment for outcomes may not be achievable in the short term. However, there is an opportunity to pilot funding models aimed at desired outcomes through CSOs, such as reductions in attrition, improved participation rates, or improved employment outcomes. While care would need to be taken to avoid funding or service duplication, this could help training funding to complement other social services.

25

Consider reforming loadings and use other mechanisms to address areas of high need

- **Current loadings may not be achieving improved outcomes in areas of disadvantage**
- **Alternative ways to fund priority training areas could be considered**

Currently, there are funding loadings designed to incentivise providers to train specific cohorts (essentially Indigenous, youth and regional).

It is not clear that these are well targeted or effective in improving access to VET by the targeted groups. For example, they do not cover students with disabilities, CALD students, or people who are long-term unemployed.

It is also unclear whether additional loadings are effectively being used to deliver improved outcomes for high needs groups; these may be better achieved through targeted funding of particular needs in order to improve training outcomes.

26

Consider changes to rural and regional training arrangements

- **Training outside metropolitan Melbourne has not grown strongly**
- **Additional measures may be needed**

A number of possible future directions could improve training provision in rural and regional Victoria, including varying funding rates geographically to reflect local labour market needs; sustainably funding TAFEs; a regional polytechnic university; community service obligation arrangements targeted at geographic areas; and reviewing the loading for regional courses.

The Review is keen to hear whether these initiatives, individually or collectively, will be sufficient to address the challenges of provision in rural and regional Victoria, or whether additional measures are required.

27

Consider changes to the administration of concession arrangements

- **The administration of concessions eligibility may be unintentionally limiting access to VET for some students in need**

The current concessions policy has largely achieved its policy intent to support participation by individuals in overcoming financial barriers to training.

There may be an opportunity to improve its administration. For example, reassessing the requirements regarding proof of eligibility to ensure the system is sufficiently flexible for students in need of concessions to be given every opportunity to undertake training.

The Review will also consider any changes necessary in light of other recommended changes to the broader funding system. For example, if minimum student fees are introduced, changes to concession arrangements may be desirable to ensure that access to VET remains affordable for those who need it the most.

Consultation questions

These questions are issues the Review would like to specifically hear about from stakeholders as part of the further submission and consultation process.

Better targeting funding

1. Would a classification system help lift the quality of training? What measures provide an effective measure of provider capability?
2. Can the number of providers be limited in some areas of training? How can this be done while preserving the benefits of contestability?
3. What factors should be considered in targeting funding to courses?
4. What would be appropriate exemptions to the upskilling requirement or two course rule to preserve incentives to meet Government's objectives for VET?
5. Should labour market priorities be the primary basis for the level of government investment in training?
6. What should the student or employer contribution be to training?

Supporting and protecting students

7. Would a minimum student fee lead to students giving greater consideration to their training choices? At what level should such a fee be set?
8. What support could be given to students making training decisions?
9. What additional steps are required to regulate marketing practices?
10. How can brokers and aggregators be effectively regulated?
11. Under what circumstances should subcontracting be allowed?
12. What should protocols for online learning include?
13. What should protocols for work-based training include?
14. What are the merits of a separate regulatory regime for private RTOs?

Sustainable and supported TAFEs

15. How can the role of TAFE be articulated? Does it vary between TAFEs or other public providers such as ACFE?
16. What should be expected of TAFEs that isn't expected of other providers?
17. Could a regional polytechnic university, or federation of TAFE institutes, help improve educational outcomes in regional Victoria?

Supporting jobs and industries

18. What are the most effective ways to obtain industry information?
19. How could a workforce training innovation fund be designed in a way that ensures all parties contribute, and get value from it?
20. How valuable are smaller, industry specialist providers?

Supporting training for vulnerable, disadvantaged and high needs groups

21. What would be the core characteristics of a VET preparatory year, and what sort of training providers might be best placed to deliver it?
22. What services could be included in a CSO scheme?
23. Are the current loadings properly targeted? Are they at the right level?
24. Are the reforms under consideration sufficient to address regional delivery challenges?
25. Are changes to concession arrangements required?

8. Next steps for the VET Funding Review

Chapter Summary

Following the release of this Issues Paper, the Review team will move to phase two.

The second phase of the Review will include a further consultation and submission process with key industry stakeholders and the broader community on the potential reform directions detailed in this Issues Paper.

Phase Two

The Review team will hold a further consultation and submission process with a wide range of key stakeholders and the broader community about the potential reform directions outlined in this Issues Paper.

Sector consultations

Targeted sector consultation sessions will be arranged with stakeholders including industry, peak bodies and associations, employers and industry representatives.

These sessions will focus on Government's priority sectors for economic growth: medical technology and pharmaceuticals, new energy technology, food and fibre, transport, defence and construction technology, international education and professional services.

Further information on how to get involved in the industry consultation sessions will be available on the Review's website: <http://vetfundingreview.vic.gov.au>.

Community Consultations

Community consultation sessions will be arranged with stakeholders including: public and private providers, community providers, parents, students, community members and other interested parties.

Consultation sessions will be held in metropolitan and non-metropolitan areas across Victoria including: Mildura, Swan Hill, Bendigo, Shepparton, Wodonga, La Trobe Valley, Geelong, Ballarat, Warrnambool and Melbourne.

Further information on how to get involved in the community consultation sessions will be on the Review's website: <http://vetfundingreview.vic.gov.au>.

Call for Submissions

The Review team is calling for further submissions addressing consultation questions on the future directions outlined in this Issues Paper. Submissions should be brief, and focussed on some or all of the future directions and questions.

For detailed information on how to make a submission, including confidentiality of submissions, you may wish to visit the Review's website: <http://vetfundingreview.vic.gov.au>.

Submissions can be provided online to: submissions@vetfundingreview.vic.gov.au.

or posted to:

VET Funding Review
C/-
Level 2, 41 St Andrews Place
East Melbourne Victoria 3002

Submissions close on 7 August 2015.

Final Report

A Final Report is due to be provided to Government later in 2015.

9. Glossary

ACFE	Adult Community and Further Education.
ASQA	Australian Skills Quality Authority. The Commonwealth regulator of training providers.
Brokers and aggregators	Third parties that recruit students for providers, in exchange for payment.
Contestability	Usually used to describe a system that introduces a degree of competition into government service delivery. In the case of VET in Victoria, this competition stems from giving students the ability to choose their course and provider, and allowing both government and non-government providers to provide government-funded training.
CSO	Community Service Obligation.
DET or the Department	Department of Education and Training (Vic), formerly the Department of Education and Early Childhood Development (DEECD).
Dual sector universities	Universities that offer higher education and VET qualifications. The dual sector universities in Victoria are Federation University, RMIT University, Swinburne University of Technology and Victoria University.
Education State	For more information about the Education State see: http://educationstate.education.vic.gov.au/education-state
Eligibility	<p>The rules that govern a student's eligibility to access government-funded training. It includes the requirement that the student be a citizen of Australia or New Zealand, or an Australian permanent resident, and any of the following:</p> <ul style="list-style-type: none"> • under 20 years of age; • seeking to enroll in a Foundation Skills List course (and do not hold a Diploma or above qualification or are receiving core skills training in other sectors); • seeking to enroll in Victorian Certificate of Education or Victorian Certificate of Applied Learning; • seeking to enroll in an apprenticeship; or • 20 years and older and seeking to enroll in a course at a higher level than their existing qualification (known as upskilling). <p>The 'two course rule' (see below) also applies.</p> <p>School-enrolled students are funded separately, and not eligible to receive a government-funded training place for a course through the VTG unless the course is undertaken as part of a School-Based Apprenticeship or Traineeship.</p>
HESG	Higher Education and Skills Group, the area within DET that supports government on VET.
LLEN	Local Learning and Employment Network. A partnership, within a geographic area, between groups such as training organisations, schools, businesses, industry, community groups, and parent and family organisations.
Loadings	<p>In addition to the base funding rate, supplementary funds are provided for specific learner cohorts. Current funding supplements are:</p> <ul style="list-style-type: none"> • Indigenous (50 per cent) • Youth 15–19 years without Year 12 or Certificate II or higher qualification and are from a low SES background (30 per cent) • Regional (10 per cent)
Quality Review	Review of Quality Assurance in Victoria's VET System, a separate report commissioned by government. It is available at: http://www.education.vic.gov.au/training/learners/vet/Pages/qareview.aspx
Recognition of prior learning	A system that allows students' existing skills to be recognised through credit towards a qualification.
RTO	Registered Training Organisation.
Student entitlement	An entitlement to access a government-funded training place.
TAFE	Technical and Further Education. Also referred to as institutes. There are 12 standalone TAFEs in Victoria: Bendigo Kangan, Box Hill, Chisholm, Federation Training, Gordon, Goulburn Ovens, Holmesglen, Melbourne Polytechnic, South West, Sunraysia, William Angliss, and Wodonga. In addition, there are four dual sector Universities (see above).
Training Packages	The resource that underpins the VET system, it specifies the units of competency and assessment guidelines for qualifications.
Two course rule	<p>Additional rules governing student eligibility for government-funded training.</p> <p>Two in a Year: students may undertake a maximum of two government-funded commencements in a calendar year.</p> <p>Two at a Time: students may undertake a maximum of two government-funded courses at any one time.</p> <p>Two at Level: students may undertake a maximum of two government-funded commencements at level across the lifetime of the student.</p>
Upskilling requirement	Upskilling by enrolling in a course at a higher level than an existing qualification. For example, if an individual holds a Certificate II level qualification, they would need to enroll in a Certificate III level qualification.
VET	Vocational Education and Training.
VET ASSESS	Independent assessment provider for vocational education and training.
VET FEE-HELP	Also referred to as income contingent loans. Available to both full-fee-paying and government-funded students to cover course tuition fees. VET FEE-HELP is available for Diploma and Advanced Diploma qualifications, and on a trial basis for a small number of specified Certificate IV qualifications.
VRQA	Victorian Registration and Qualifications Authority. The Victorian regulator of training providers.
VTG	Victorian Training Guarantee.



