

# CHAPTER 2

## The role and funding of private VET providers

### Vocational education and training in Australia

2.1 The University of Sydney Business School Workplace Research Centre reported in January 2015 on the 'Capture of Public Wealth by the For-Profit VET Sector', describing the mission of vocational education and training (VET):

to provide Australians with vocationally-oriented, post-school qualifications. These qualifications serve three broad purposes: to provide entry or progression in the labour market, to move to higher level studies, and to contribute to social inclusion and social mobility.<sup>1</sup>

2.2 Vocational education and training (VET) therefore encompasses a broad range of education and practical training that is designed to provide workplace-specific skills and knowledge.

2.3 VET in Australia is provided in multiple ways, including through the public system, via technical and further education (TAFE) institutes, community groups, industry, enterprise or union based groups and private providers.<sup>2</sup>

2.4 VET qualifications are issued under the Australian Qualifications Framework by Registered Training Organisations (RTOs).

2.5 The Department of Education and Training noted in its submission:

The Australian Government provides significant funding to state and territory governments for the operation of the training systems. State and territory governments have legislative responsibility for training within their jurisdiction, including responsibility for student eligibility, access to government subsidies, setting of strategic priorities for delivery of courses and qualifications, and operation of TAFEs.<sup>3</sup>

2.6 Although largely a state and territory responsibility, the Commonwealth government has increasingly played a role in both the funding and the regulation of vocational education and training and the current system provides an example of responsibilities shared by different levels of government, as well as between government and non-government bodies of different types:

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1 Workplace Research Centre, appendix to Australian Education Union, *Submission 62*, appendix p. 8, drawing on Gallacher, J, Ingram R & Reeve F (2012) 'Are vocational qualifications vocational?', in: Pilz, M (ed) *The Future of Vocational Education and Training in a Changing World*, Springer VS, Wiesbaden.

2 Australian Skills Quality Authority website, 'Australia's VET sector', <http://www.asqa.gov.au/about/australias-vet-sector/australias-vet-sector.html> (accessed 5 August 2015).

3 Department of Education and Training, *Submission 48*, p. 2.

Vocational education and training is provided through a network of eight state and territory governments and the Australian Government, along with industry, public and private training providers. These organisations work together to provide nationally consistent training across Australia.<sup>4</sup>

2.7 The Commonwealth increased its presence in the VET sector beginning with the National Training System's introduction in the early 1990s, which also led to the first user-choice funding arrangements in the sector.<sup>5</sup>

2.8 Writing in the Australian Financial Review, Mr Peter Noonan described the split in responsibilities between the Commonwealth and the states and territories as:

a somewhat messy, shared responsibility between the Commonwealth and the states. The Commonwealth funds about one-third of VET through the states. It regulates VET except for state-based providers in Victoria and Western Australia. It operates an income contingent loans scheme for VET diploma and advanced diploma students but the states control public subsidies and fees for VET courses. The Commonwealth provides substantial funding for employer incentives for apprenticeships and traineeships, but the states regulate them.<sup>6</sup>

2.9 The Australian Skills Quality Authority – the government body responsible for the regulation of standards for VET providers – argues that:

...the VET sector is crucial to the Australian economy; both for the development of the national workforce and as a major export industry.<sup>7</sup>

2.10 Thus, it is of utmost importance that Australia's VET sector is well-regulated, meets the needs of both students and employers and provides value for money for students and the Commonwealth alike.

2.11 Regulation and funding must have as its end point the provision of a strong and sustainable skills base for the Australian economy and communities. Government funding in VET must ensure that investment in training is properly targeted, contributes to economic growth and productivity, supports lifelong learning and addresses disadvantage.

2.12 The committee is of the view that there is considerable doubt as to whether Commonwealth activities – particularly as regards the regulation of the sector and its funding through VET FEE-HELP – are achieving these objectives.

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4 Australian Skills Quality Authority website, 'Australia's VET sector', <http://www.asqa.gov.au/about/australias-vet-sector/australias-vet-sector.html> (accessed 5 August 2015).

5 Australian Education Union, *Submission 62*, p. 8.

6 'First move to clean up mess in vocational education', *Australian Financial Review*, 26 July 2015. (Available at: <http://www.afr.com/news/policy/education/first-move-to-clean-up-mess-in-vocational-education-20150724-gijtry>; accessed 7 October 2015).

7 Australian Skills Quality Authority website, 'Australia's VET sector', <http://www.asqa.gov.au/about/australias-vet-sector/australias-vet-sector.html> (accessed 5 August 2015).

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## **The recent introduction of government funding for private providers**

2.13 The majority of Australia's VET training has until recently been provided by the state-run TAFE institutes. However, non-TAFE providers, including private profit-based institutions have also long existed alongside the TAFE system.

2.14 While contestable public funding in the VET sector had existed across the states before then, in April 2012 the Council of Australian Governments (COAG) made two agreements relevant to the vocational education and training sector: the National Agreement for Skills and Workforce Development (NASWD) and the National Partnership Agreement on Skills Reform (Skills Reform NP).

2.15 The National Partnership Agreement for Skills Reform sought to:

contribute to the reform of the Vocational Education and Training system to deliver a productive and highly skilled workforce which contributes to Australia's economic future and ... enables all working age Australians to develop skills and qualifications needed to participate effectively in the labour market.<sup>8</sup>

2.16 The Agreement identified a number of reform directions, including:

- introduction of a national training entitlement and increased availability of income contingent loans;
- improving participation and qualifications completions at higher levels;
- encouraging responsiveness in training arrangements by facilitating the operation of a more open competitive market;
- recognising the “important function of public providers “ in servicing the training needs of industries, regions and local communities” and their “role that spans high level training and workforce development”; and
- assuring the quality of training delivery and outcomes.<sup>9</sup>

2.17 At the heart of these reforms is the adoption of the Commonwealth proposal for a national training entitlement and a more open and competitive training market.

2.18 At the same time COAG also agreed the National Agreement for Skills and Workforce Development. The Agreement identifies the long-term objectives of the Commonwealth and State and Territory Governments in the areas of skills and workforce development, and recognises the interest of all governments in ensuring the skills of the Australian people are developed and utilised in the economy.

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8 Council of Australian Governments, *National Partnership for Skills Reform*, p. 1.

9 Council of Australian Governments, *National Partnership for Skills Reform*, p. 6.

2.19 As part of the Agreement, COAG allocated certain roles and responsibilities to the Commonwealth and the State and Territories. Some of these responsibilities will be shared between the two levels of government.

### ***Commonwealth responsibilities***

The Commonwealth will:

- (1) provide funding contributions to States and Territories to support their training systems;
- (2) provide specific interventions and assistance to support:
  - (a) industry investment in training;
  - (b) Australian Apprenticeships;
  - (c) literacy and numeracy; and
  - (d) those seeking to enter the workforce.
- (3) coordinate the development and publication of the Annual National Report as legislated under the Skilling Australia's Workforce Act 2005; and
- (4) ensure data is provided as required.

### ***State and Territory responsibilities***

States and territories will:

- (1) determine resource allocation within their State/Territory;
- (2) oversee the expenditure of public funds for, and delivery of, training within states and territories; and
- (3) ensure the effective operation of the training market.

### ***Shared responsibilities***

Develop and maintain the national training system including:

- (1) developing and maintaining a system of national regulation of RTOs and of qualification standards;
- (2) ensuring high quality training delivery;
- (3) supporting and implementing the reform directions;
- (4) establishing priorities and developing strategic policy initiatives to deliver the objectives and outcomes of this Agreement, including through the Standing Council on Tertiary Education, Skills and Employment (SCOTESE) and supporting groups;
- (5) ensuring RTO compliance with data requirements as specified through regulation and contractual arrangements for public funds, with improved access to data by students and others, including the release of data on a national website such as MySkills and on RTOs' own websites;
- (6) supporting industry to engage directly with RTOs; and

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(7) commitment by both levels of government to the sharing of an agreed set of data on the training system and the labour market.<sup>10</sup>

2.20 This meant that all jurisdictions committed to pursue these reforms in the sector, with the objective of:

- Improving training accessibility, affordability and depth of skills, including through the introduction of a national training entitlement and increased availability of income contingent loans; and
- Encouraging responsiveness in training arrangements by facilitating the operation of a more open and competitive training market.

2.21 The Skills Reform NP also introduced the National Training Entitlement, which guarantees a subsidised place for all working-age Australians for at least a Certificate III at a provider of their choice.

2.22 Contestability in the VET sector drew a broad range of responses from across relevant stakeholders.

2.23 TAFE Directors Australia (TDA), for instance, while broadly supporting the existence in the marketplace of private providers, noted that:

some of the example of private market behaviour have not enhanced competition, boosted skills or increased the nation's productivity. Perhaps worst of all the trust of the community in the brand of Vocational Education and Training has diminished.<sup>11</sup>

2.24 The National Tertiary Education Union (NTEU), representing staff at universities, research institutes and in non-teaching roles at TAFE institutes, criticised the introduction of contestability by pointing to what it called 'The Failed Victorian Experiment':

The evidence and analysis presented in this submission demonstrates that fully contestable markets have undermined the financial and education viability of many of Victoria's TAFE institutes while simultaneously also failing to meet their policy objectives.

In 2008 the Victorian state Brumby Labor government introduced its Securing Jobs for Your Future reforms which, amongst other things, made all public VET funding fully contestable between TAFE institutes and private VET providers. These reforms led to a massive increase in VET student enrolments, growing by 31% in Victoria (compared to only 7.3% for the rest of Australia) over the period 2008 to 2012. The growth in enrolments was predominantly in private research and training organisations (RTO's). This growth is reflected in the startling increase in the number of RTOs in Victoria, more than doubling from 201 in 2008 to 421 by 2013, and whose share of total enrolments increased from 14% to 48% over the same period.

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10 Council of Australian Governments, *National Agreement for Skills and Workforce Development*, pp. 7-8.

11 TAFE Directors Australia, *Submission 12*, p. 2.

While the deregulated system has led to very impressive growth in student enrolments, it also has had negative consequences, particularly in terms of meeting skills shortages and in workforce training and productivity.<sup>12</sup>

2.25 In contrast, the Australian Chamber of Commerce and Industry argued that contestability in the VET sector has benefited students, employers and TAFEs alike:

The opening of the VET market has led to greater access to training for a broader array of students, including substantial numbers of international students. Increased competition has also led to greater flexibility in RTOs offering courses beyond the old TAFE model of four ten week terms with training delivered between 9am and 4pm on campus. Employers and individual learners can now access training outside of standard working hours, over weekends, during slow times for business and increasingly training and assessment is being conducted in the workplace rather than on campus. The traditional technical learning model based around modular learning programs taught in four to ten week blocks during standard working hours at the local TAFE campus in many cases no longer fits the needs of students or employers. Importantly, TAFE itself has responded favourably to competition, with many colleges offering a more responsive and competitive service. This change in offering would not have occurred without the sector being opened to competition.<sup>13</sup>

2.26 Further commentary on the effects of a competitive training market in the VET sector can be found in this committee's 2014 inquiry into Technical and Further Education in Australia.<sup>14</sup>

2.27 The Skills Reform NP also expanded access to the income-contingent loan scheme to students undertaking Diploma or Advanced Diploma qualifications.<sup>15</sup>

2.28 The Department of Education and Training reports that, as of 1 January 2015, there were 4,609 registered training organisations in Australia, 3,440 of which were privately operated.<sup>16</sup>

2.29 The Department provided the following figures for the number of RTOs by type with at least one student in the public VET system as of 2013:

- TAFEs: 57
- Private RTOs: 1368
- Enterprise RTOs: 96

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12 National Tertiary Education Union, *Submission 29*, p. 2.

13 Australian Chamber of Commerce and Industry, *Submission 36*, p. 8.

14 Education and Employment References Committee, *Technical and further education in Australia*, May 2015.

15 Department of Industry and Science, About the skills sector: National Partnership Agreement on Skills Reform (available at <http://www.industry.gov.au/skills/About/NationalPartnership/Pages/Access.aspx>; accessed 10 September 2015).

16 Department of Education and Training, *Submission 48*, p. 1.

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- Schools: 35
  - Universities: 13
  - Adult and Community Education Providers: 329
  - Other: 26
  - Total: 1924<sup>17</sup>

### **Good intentions: how VET FEE-HELP was introduced and operated**

2.30 Introduced in 2008, VET FEE-HELP is part of the Commonwealth's Higher Education Loan Programme (HELP) and provides loans to eligible students undertaking higher level (diploma and above) VET qualifications.

2.31 The intention behind VET FEE-HELP was to make available for students options which otherwise they might not have, particularly for financial reasons. The Department of Education and Training explained that:

VET FEE-HELP makes study possible for students who would not otherwise be able to undertake training due to the upfront costs.<sup>18</sup>

2.32 VET FEE-HELP provides the same level of financial support to VET students as has been provided to university students since the 1980s when the former Higher Education Contribution Scheme (HECS) program was introduced. It allows access to education, where access might otherwise be impossible because of the cost of further education.

2.33 As with other components of the HELP system, loans are repaid through the taxation system once a compulsory repayment income threshold is reached.<sup>19</sup>

2.34 Individuals also have lifetime limits for the total amount of VET FEE-HELP loans they can access.<sup>20</sup> While this lifetime limit can protect students from accruing unmanageable debts, the committee noted that this may also cause problems for students who access VET FEE-HELP while attaining qualifications which ultimately have little worth in finding or improving employment and thus have limited access to VET FEE-HELP loans to later supplement their training.

2.35 Access to VET FEE-HELP is not available to all students undertaking VET courses; providers must be approved by the Department of Education and Training to become eligible to offer access to VET FEE-HELP to their students.

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17 Department of Education and Training, *Submission 48*, p. 2.

18 Department of Education and Training, *Submission 48*, p. 13.

19 In 2015-16, this was \$54,126; see Department of Education and Training, *VET FEE-HELP Information for 2015*, p. 24.

20 In 2015, this was \$97,728; see Department of Education and Training, *VET FEE-HELP Information for 2015*, p. 15.

2.36 In order to become a provider eligible to offer VET FEE-HELP courses, an RTO applies to the Department of Education and Training. The Department outlines the requirements for an organisation to be considered eligible:

Your organisation must:

be a body corporate—this is not a requirement for organisations that are a specified body and are applying in the VET sector

pass the ‘fit and proper person’ test—this is not a requirement for specified bodies

have its business, management and control in Australia

have, or be taken to have, education as its principal purpose

be a registered educational organisation.<sup>21</sup>

2.37 In addition, to be considered as a VET FEE-HELP provider, RTOs must:

- offer at least one eligible course, and provide tuition assistance for all eligible courses
- be, and be likely to remain, financially viable
- meet the requirements to ensure it treats its students fairly and meets the privacy requirements
- administer its fees correctly
- be able to administer the loans scheme once approved and provide data to the Department.<sup>22</sup>

2.38 In 2013, just over 100,000 students accessed VET FEE-HELP loans, totalling \$699 million worth of loans.<sup>23</sup>

2.39 Notably, in recent years the number of students accessing VET FEE-HELP loans has increased significantly, as the following table illustrates:

	2009	2010	2011	2012	2013
<b># Students accessing VFH</b>	5 262	26 112	39 124	55 115	100 035
<b>VFH loans (\$m)</b>	26	118	205	325	699

21 Department of Education and Training, *FEE-HELP and VET FEE-HELP Provider Application Guide*, May 2015, p. 9, <http://docs.education.gov.au/node/34293>, accessed 7 October 2015.

22 Department of Education and Training, *FEE-HELP and VET FEE-HELP Provider Application Guide*, May 2015, pp. 9-10, <http://docs.education.gov.au/node/34293>, accessed 7 October 2015.

23 Department of Education and Training, *Submission 48*, p. 13.

<b>Average loan per student (\$)</b>	4861	4503	5247	5890	6990
<b># VFH providers</b>	39	55	85	105	156

Department of Education and Training, *Submission 48*, p. 13.

2.40 As demonstrated in the table above, the numbers are rising across all categories: number of students enrolling in courses financed by VET FEE-HELP loans, the average size of those loans, the corresponding overall cost of the VET FEE-HELP programme from the Commonwealth's perspective and the number of providers of VET courses who are opting in to the VET FEE-HELP system.

2.41 The Department of Education and Training Portfolio Budget Statement reveals that 225,500 students will access a VET FEE-HELP loan in 2014-15. Although this will be moderated by recent changes and fall back to 128,000 in 2015-16, the expectation is that growth in this program will accelerate to again reach 225,000 students in 2018-19.<sup>24</sup> Consequently Higher Education Loan Program expenses will increase from \$2.4 billion in 2015-16 to \$4.4 billion in 2018-19.

2.42 As of 2013, Government subsidised students fell into the following provider types:

	TAFEs	Private RTOs	Enterprise RTOs	Schools	University	ACE providers	Other	Total
<b>Government funded</b>	800,569	457,353	24,900	45,606	52,603	107,153	14,037	1,502,221
<b>Market share</b>	53%	30%	2%	3%	4%	7%	1%	100%

Department of Education and Training, *Submission 48*, p. 2.

2.43 In 2014, 1.79 million students were enrolled in government-funded VET courses. Broken down by provider type, there were:

- 1.08 million (60.6%) students at TAFE and other government providers;
- 95,500 (5.3%) at community education providers;
- 582,500 (32.6%) at other registered providers, such as private for profit providers, industry and union organisations and other specialist groups; and

24 Budget 2015-16: Portfolio Budget Statements 2015-16, Budget Related Paper No. 1.5, Education and Training Portfolio, p. 50.

- 26,300 (1.5%) attending various provider types.<sup>25</sup>

2.44 The Australian Education Union noted in its submission:

The remarkable expansion of the VET “market” has taken place very quickly. Between 2008 and 2013, expenditure on payments to non-TAFE (private) providers increased by \$839.4 million, or 160 per cent.<sup>26</sup>

2.45 Yet despite TAFE enrolling nearly twice as many government-funded students in VET courses as were enrolled with other providers, as the Australian Education Union notes, ‘More than 75 per cent of VET FEE-HELP funding goes to private for-profit providers’.<sup>27</sup>

2.46 While TAFEs have a considerably higher market share than private/enterprise RTOs, a reflection of the broader remit TAFEs have and the variety of types of RTOs, which range from small providers focused on specific industries to multi-campus organisations with thousands of students across a variety of courses.

2.47 There is concern that if the Victorian experience of contestability is reflected nationally, then the role of TAFE could become residual as private providers skim low cost, high volume courses from the public provider – supported by the implicit subsidy offered by VET FEE-HELP.

2.48 To date much of the attention has been on predatory behaviour within the private RTO industry – both in terms of misleading practices and strategic behaviour.

2.49 However, many private RTOs do not fall into this category. The committee has heard evidence of quality private RTOs with a long history in providing excellent educational offering relevant to industry and their communities.

2.50 Market reform – which must come if the private vocational education industry is to have a future in Australia – must involve consolidating and recognising the excellence that has long existed in the industry.

2.51 The committee is of the view that the hyper competitive reality of unrestricted contestability must give way, and ways in which both TAFE and private RTOs can complement each other to provide a more complete range of training.

2.52 Mr Martin Powell, Victorian Executive Officer of the Australian Council for Private Education and Training commented:

I think that is where the private providers complement the TAFE delivery because they have certain community service obligations and they run larger overheads with infrastructure et cetera having a full service model, so the flexibility of our members and any of the state training authorities being

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25 National Centre for Vocational Education Research, *Australian vocational education and training statistics: Government-funded students and courses 2014*, Report, p. 5.

26 Australian Education Union, *Submission 62*, p. 5.

27 Australian Education Union, *Submission 62*, p. 23.

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able to provide some training dollars via that other means not only adds choice to the student but gives probably a broader scope of delivery.<sup>28</sup>

### **Education for profit or need?**

2.53 Throughout this inquiry, the committee heard that a fundamental problem with private provision of VET courses is that educational priorities are sometimes at odds with the profitability considerations central to the operation of a business.

2.54 The Consumer Action Law Centre commented:

Corporate private VET providers are obliged to act in the interest of the company, which means generating returns for shareholders is a priority. While not mutually exclusive to teaching and learning, scholarship and quality education, this clearly creates a tension between acting in the best interests of students (which often involves capital expenditure on support services) and maximising profits.<sup>29</sup>

2.55 Concerns were raised by submitters that one of the most direct effects of opening the VET sector up to contestable government funding has been that providers have based their course offerings on access to government funding and not on training students for areas in which skills shortages exist. Given the VET sector exists, primarily at least, to prepare students for employment, this may represent a critical problem with the sector as it currently stands.

2.56 The Australian Council of Commerce and Industry noted:

There is no doubt that course offerings and training behaviour is driven by government funding provision, and although this does not always deliver a bad outcome, there is sufficient evidence that the needs of students and employers are not always the top priority for some training providers... Basing training course offerings on what funding is available has led to a distinct disconnect between the types of courses being offered by RTOs and the types of skills in demand by employers.<sup>30</sup>

2.57 The submission from the Australian Council of Trade Unions (ACTU) noted that one of the shortcomings of the expansion of government funding to private providers is that there was no corresponding focus on ensuring that the courses attracting such funding options represented value for money in terms of public expenditure:

Evidence [has been reported] of courses and qualifications that attract VET FEE-HELP funding but which appear to be of doubtful value for the overall economy and which are not linked to any assessment of current and future

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28 *Committee Hansard*, 16 July 2015, p. 15.

29 Consumer Action Law Centre, *Submission 13*, pp. 6-7.

30 Australian Chamber of Commerce and Industry, *Submission 36*, p. 6.

skill priorities and job opportunities. This includes courses in hypnotherapy, aromatherapy and Christian proselytising.<sup>31</sup>

2.58 Service Skills Australia noted that:

A common and significant concern has been the practice of 'rogue' providers opportunistically 'chasing funds'. Therefore, when subsidies were reduced in some areas, providers would quickly redirect into new, better-funded areas, which industry reported were often providers with minimal connectedness or expertise in these fields.<sup>32</sup>

2.59 As businesses, private providers are primarily motivated by their own profitability. Correspondingly, provision of VET courses by for-profit providers is likely to be driven at the provider level by the desire to maximise margins by minimising the costs inherent to offering courses.

2.60 Thus, when considering which courses to offer, private providers may look to courses which can be run in a cost-efficient manner, qualifying students in courses which may not necessarily correspond to identified skills shortages or industry needs.

2.61 In her evidence to the committee, Ms Sue Boyd, Head of the Guild Pharmacy Academy, argued that one of the principal negative effects of the growth of contestability in the VET sector has been the development of an environment where 'providers, rather than industry, drove the training agenda'.<sup>33</sup>

2.62 Examples of courses driven more by cost efficiency and profitability criteria than industry need include management and business courses, as noted by the Consumer Action Law Centre:

'Management and Commerce' was the most common field of education undertaken by students accessing VET FEE-HELP loans in 2013, representing 44 per cent of total course enrolments. One example of a provider specialising in these kinds of low cost courses is the Australian College of Training and Employment (trading as Evocca College), the largest single recipient of VET FEE-HELP loans. The Workplace Research Centre reported that Evocca's website indicates it solely caters for diploma studies in business, information technology and media, community services, and tourism.<sup>34</sup>

2.63 In discussing the business strategies of private for-profit providers, the Workplace Research Centre noted:

As a business model, for-profit training provision is currently supported by strong demand-side factors, driven by the continued rollout of VET entitlement funding and extension of VET FEE-HELP, and underpinned by

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31 Australian Council of Trade Unions, *Submission 38*, p. 17.

32 Service Skills Australia, *Submission 27*, p. 3.

33 *Committee Hansard*, 2 September 2015, p. 33.

34 Consumer Action Law Centre, *Submission 13*, p. 7.

educational policy targeting higher levels of skills and qualifications, and increasing credentialism across the labour market. [...]

The profit maximisation principles of these providers (and the primacy of shareholder and owner interests) provide strong incentives to offer training which attracts the highest subsidy, at the lowest cost.

These low cost strategies may include delivering training online, within abbreviated time periods (as there is no minimum duration requirement for a given course of study), as well as by minimising the cost of teaching staff, the rent attached to physical campuses, and the investment in equipment needed for certain courses.<sup>35</sup>

2.64 The data suggests an incredible growth in costs in both the state government subsidised market and the full fee paying market. According to the Department of Education and Training's VET FEE-HELP Statistical Report 2013, the take-up rate of VET FEE-HELP loans for state subsidised enrolments increased by 18 points in one year from 56.8 percent of students studying a state subsidised course in 2012 to 74.3 percent in 2013, suggesting that cost shifting from the states to the Commonwealth is occurring.<sup>36</sup>

2.65 In 2013 the Commonwealth provided VET FEE-HELP loans to 93.3 percent of student in eligible courses, including 95.8 percent of students in full fee paying eligible courses.<sup>37</sup>

2.66 The behaviour of private providers – especially for profit private providers is altering as a result. Australian Careers Network – to cite just one example – has flagged to investors that VET FEE-HELP is a growth opportunity”.<sup>38</sup>

2.67 Government funded vocational education is seen as a significant opportunity for profit. According to the Workplace Research Centre at the University of Sydney,

Based on the results of the publicly-listed for profit providers, the for-profit VET sector appears to sustain profit margins of around 30 percent. This indicates that every dollar of public subsidy paid results in 30 cents of profit for distribution to the company's shareholders. It is estimated that in Victoria in 2013, about \$277 million in profits was generated across the for-profit VET sector, based on over \$799 million worth of training subsidies. Just three companies are estimated to have extracted at least \$18.3 million in profits from Victorian taxpayers in 2013. This rate of return well exceeds

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35 Workplace Research Centre, commissioned by Australian Education Union, *Submission 62*, appendix p. 26.

36 Department of Education and Training, *VET FEE-HELP loan Tables – 2013*, Table 4: VET FEE-HELP loans by fee type, 2010 to 2013.

37 Department of Education and Training, *VET FEE-HELP loan Tables – 2013*, Table 4: VET FEE-HELP loans by fee type, 2010 to 2013.

38 Australian Careers Network, FY15 Results Presentation: Investor Roadshow, September 2015, p. 11, <http://www.asx.com.au/asxpdf/20150915/pdf/431b54yd4d7tpg.pdf>, accessed 7 October 2015.

benchmark norms set by comparable industries, such as child care and transport.

2.68 As will be discussed in later chapters, the impacts on quality are hard to quantify. The Workplace Research Centre suggests that ownership structures of large for profit RTOs are oblique, with unclear lines of accountability, and a prevalence of third party sub-contracting of the delivery of training which has to date fallen outside the jurisdiction of the national regulator – ASQA.<sup>39</sup>

2.69 The committee notes concerns have been raised that private VET providers base course offerings on profitability rather than identified needs and that this suggests the for-profit sector may undermine one of the key elements of VET provision, which is preparing students for employment.

2.70 The committee is of the view that VET FEE-HELP, while well intentioned, has distorted and damaged the private training market, with the lure of government funded student loans being too great for private for profit companies to ignore. There is a strong case to continue to restrict and consolidate approved providers.

### ***Costs for students are out of control under VET FEE-HELP***

2.71 An issue raised during this inquiry is that costs of courses have increased steadily as a consequence of the extension of the Commonwealth's loan scheme to VET courses. This has substantially increased the size of the debt students may be obliged to incur in order to attain the qualifications they need.

2.72 This can be explained primarily because the introduction and expansion of access to VET FEE-HELP substantially raised the amount of money students were able to spend on their chosen course: access to a loan scheme enabled students to pay more, which in turn allows providers to charge more with the knowledge that the Commonwealth Government is ultimately responsible for the loan paying for the course.

2.73 The College for Adult Learning argues that this was not the immediate effect, as greater contestability originally had the result it was intended to have, which was to lower the cost of training:

Initially, the implementation of contested funding and a user pays market had a significant effect on the price of a Diploma – it dropped dramatically. While this has ultimately had an adverse effect on TAFE presumably private providers were surviving and thriving. After all, with online training especially, they had low operating costs with lean management structures. Yet, with the growth in VET FEE-HELP the price of a Diploma has skyrocketed to \$18,000 in some cases. Sure, the cost of administering the strict reporting requirements of VET FEE-HELP would add some

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39 Workplace Research Centre, appendix to Australian Education Union, *Submission 62*, appendix p. 28.

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additional costs to the price but, it is hard to justify a price increase 2, 3 or even 4 times the original advertised price.<sup>40</sup>

2.74 The Australian Council of Trade Unions (ACTU) made a similar point in their submission:

Invariably, [income-contingent loans] also result in course fees being increased. This was evident from the early experience in Victoria where VET-Fee Help was first introduced. Standard fees for diplomas tripled to \$2500 when loans were introduced there in mid-2009, while government-subsidised diplomas in other jurisdictions were less than half that amount in most cases (\$990 a year in Tasmania, \$1212 in Western Australia, \$1350 in the ACT and \$1570 in NSW).<sup>41</sup>

2.75 The trend of rising costs for VET FEE-HELP eligible courses was also noted by the Consumer Action Law Centre, who provided the following illustration:

Given that private VET providers with access to VET FEE-HELP and government funding have near-guaranteed income, we consider that many private VET courses (particularly online courses) are excessively expensive. For example, the Double Diploma of Business & Management from Careers Australia costs \$23,250 in most Australian states. The Double Diploma of Business & Management course at TAFE Queensland South West costs just \$6,800.<sup>42</sup>

2.76 Asked about this price discrepancy and whether it was a consequence of the VET FEE-HELP loans scheme, Mr Patrick McKendry, CEO of Careers Australia, responded that:

The government loans scheme is the mechanism by which the cost of the tuition fees becomes affordable and accessible. That is no question. I suspect that the reason there is a price difference between the public and the private provider in that circumstance again goes to the public provider's ability to offset some of the costs of operating a business, whether it is operating expenditure or capital expenditure. Our approach is simple: to factor in all the inputs and to operate on a reasonable return. It does not always work that way—for example, in trades apprentices we do not get anywhere near the 20 per cent margin [Careers Australia aims for]. In nursing we do not get near the 20 per cent margin. Our pricing in those areas again takes a range of factors into account, including what the market is charging.<sup>43</sup>

2.77 Course costs are not just increasing over time as a consequence of VET FEE-HELP. As noted in the submission from the University of Melbourne Graduate School of Education, they are also increased compared to courses paid for in ways other than via VET FEE-HELP loans:

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40 The College for Adult Learning, *Submission 32*, p. 3.

41 Australian Council of Trade Unions, *Submission 38*, p. 15.

42 Consumer Action Law Centre, *Submission 13*, p. 7.

43 *Committee Hansard*, 2 September 2015, p. 16.

The average fees paid by students accessing VET FEE-HELP are higher than average fees paid by students who were eligible but did not access the income contingent loan.<sup>44</sup>

2.78 Data on average loan debts at some major VET private providers shows the degree of course cost inflation: in response to questions during Budget Estimates in June 2015, the Department of Education and Training reported to the committee that the average VET FEE-HELP loan debt in 2012 was \$8607. In 2013, it was \$10,621 – an increase in average VET FEE-HELP loans of 23 per cent from 2012 to 2013.<sup>45</sup>

2.79 Like the ACTU, the Melbourne Graduate School of Education noted that course costs vary dramatically across the states.<sup>46</sup>

2.80 Another point raised regarding students paying for their course via VET FEE-HELP was that completion rates for students paying for their course up front are higher than those for students who are doing so through VET FEE-HELP. This was noted to be particularly true for Aboriginal and Torres Strait Islander (ATSI) students, students aged 25-44 and students outside major cities.<sup>47</sup>

2.81 This evidence suggests that the current loans system enables students to incur large debts, possibly in courses with minimal employment benefits, while correlating with a decreased likelihood of course completion. It also raises questions about the extent to which VET FEE-HELP is fit for purpose and whether it can further disadvantage students from disadvantaged backgrounds.

2.82 Completion rates will be more fully discussed in chapter 4 of this report, but the National Centre for Vocational Education Research's (NCVER) data demonstrates that completion rates across all levels of program total 34 per cent:

	2009	2010	2011	2012	2013
<b>Diploma and above</b>	37.9	42.8	43.8	44.7	42.2
<b>Certificate IV</b>	38.9	41.3	41.8	44.4	40.9
<b>Certificate III</b>	37.8	39.2	41.2	40.3	38.0
<b>Certificate II</b>	22.3	24.6	26.8	25.9	26.1

44 University of Melbourne Graduate School of Education, *Submission 47*, p. 6.

45 Senate Committee: Education and Employment, Budget Estimates 2015-2016, June 2015: Question on Notice SQ15-000361.

46 University of Melbourne Graduate School of Education, *Submission 47*, p. 6.

47 University of Melbourne Graduate School of Education, *Submission 47*, p. 6.

<b>Certificate I</b>	20.9	17.6	18.2	20.1	19.9
<b>Total</b>	32.1	33.8	35.7	36.0	34.0

National Centre for Vocational Education Research, *The likelihood of completing a government-funded VET program, 2009-13*, Table 3.

2.83 The opportunities for profitability for private VET providers also encourage the predatory marketing practices seen in the sector, as will be discussed in Chapter 3.

### **Are we getting what we are paying for? The consequences of contestability and VET FEE-HELP on the Commonwealth budget**

2.84 In the 2014-15 financial year, the Commonwealth Government allocated \$3.2 billion directly to VET provision, made up of \$1.81 billion for states and territories and \$1.4 billion through the Commonwealth's own programmes.<sup>48</sup>

2.85 The combination of contestability and student access to VET FEE-HELP has encouraged the market to maximise profits, as discussed above. Yet, as the AEU points out, the consequence is massively increased government spending in the area:

There has been a huge increase in low-cost, high volume courses. This is because the market settings that governments have put in place are designed to encourage the growth of private providers in the sector in order to stimulate competition, based on the logic that this will simultaneously drive down costs and drive up quality. Low-cost, high volume courses are the ones that make most profit – but they also lead rapidly and inevitably to cost blow-outs, as the experience of Victoria and South Australia has shown.<sup>49</sup>

2.86 A consequence is that, while some students are given the opportunity to undertake courses they could not otherwise afford, VET providers can consider student enrolments as risk-free:

Training providers sign up students with the fees covered by VET FEE-HELP. The risk of the loans never being repaid is borne by the Australian Government not the training provider. Less reputable operators have an incentive to sign up students irrespective of their capacity to complete the course or the appropriateness of the qualification.<sup>50</sup>

2.87 Mr Andrew Norton, Higher Education Program Director at the Grattan Institute, submitted that vocational education qualification holders are less likely to

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48 Department of Education and Training, *Submission 48*, p. 3

49 Australian Education Union, *Submission 62*, p. 12.

50 The University of Melbourne Graduate School of Education, *Submission 47*, p. 5.

repay VET FEE-HELP debt than higher education qualification holders because of their lower earnings profiles, and estimated that :

40 per cent of VET HELP money lent to people with diploma and advanced diploma qualifications will not be recovered, compared to 21 per cent of HELP lent to people holding bachelor degrees.<sup>51</sup>

2.88 Mr Norton detailed gender and field of education that contribute to the non-payment of VET FEE-HELP debt, and suggested that ‘the high rate of non-completion in vocational education and among VET FEE-HELP borrowers may exacerbate doubtful debt problems’.<sup>52</sup>

2.89 As Mr Norton pointed out, students not repaying their VET FEE-HELP loan – for any reason – places substantial financial burden on the Commonwealth:

HELP is an expensive program. Aside from administrative expenses, the main costs are interest subsidies and debt not expected to be repaid, commonly known as doubtful debt... The Department of Education has provided projections on doubtful debt costs. These are forecast to escalate significantly, reaching \$2.3 billion in 2017-18.<sup>53</sup>

2.90 While this figure encapsulates all HELP debt, not just VET FEE-HELP, Mr Norton notes that:

It is likely that VET FEE-HELP is contributing disproportionately to HELP doubtful debt. This is because vocational education diploma and advanced diploma students on average will earn less over their careers than higher education students.<sup>54</sup>

2.91 The rate of doubtful debt borne by the Commonwealth is further influenced by two factors identified by the Melbourne Graduate School of Education: that average fees have risen in recent years – increasing the size of VET FEE-HELP loans and therefore debt – and that completion rates for students accessing VET FEE-HELP loans for their courses are lower than for students who pay upfront.<sup>55</sup>

2.92 Evocca College argues that, while VET FEE-HELP has brought equity to the education system by extending to vocational students the types of loans previously confined to university-based students, the high threshold for compulsory repayments of the loan can have negative effects:

Accordingly, many students do not have 'skin in the game' and can take the attitude that they will never have to repay their debt. Accordingly, they may not take their studies as seriously as they otherwise would.<sup>56</sup>

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51 Andrew Norton, *Submission 11*, p. 1.

52 Andrew Norton, *Submission 11*, p. 1.

53 Andrew Norton, *Submission 11*, p. 3.

54 Andrew Norton, *Submission 11*, p. 5.

55 The University of Melbourne Graduate School of Education, *Submission 47*, p. 6.

56 Evocca College, *Submission 20*, p. 11.

2.93 Mr Norton suggests that, for the Commonwealth:

A lower threshold for vocational education students would reduce the cost of doubtful debt. The threshold proposed in the Higher Education and Research Reform Bill 2014 would reduce doubtful debt from 40 per cent to 30 per cent... this savings measure should be reintroduced in the interests of HELP's long-term cost effectiveness.<sup>57</sup>

2.94 The committee is deeply concerned about the escalating cost to the Commonwealth of the VET FEE-HELP scheme, and the consequences for the Commonwealth budget.

2.95 Given the numerous concerns expressed to the committee and in the national media about the quality and relevance of the education and training students accessing the scheme are receiving there are grounds to conclude that much of this additional investment in vocational education that VET FEE-HELP represents is currently being wasted, or milked for profit. This is a tragedy not just for the Australian taxpayer, but for individual students, many of whom are left without a qualification – or worse a useless qualification – and a debt to the Commonwealth.

2.96 The committee is not convinced by arguments that policy reform that asks students at below or near the minimum wage to pay back loans is fair or efficient. Serious attempts must first be made to ensure that VET FEE HELP operates as a distinct scheme, fit for purpose, and that those who sign a student up to a course – be they a provider or a third party broker – are held responsible not just for marketing behaviour but outcomes for the student, industry and the Commonwealth.

2.97 The Mitchell Institute for Health and Education Policy (the Mitchell Institute) at Victoria University is an independent think tank with a focus on improving the connection between evidence and policy reform. In 2014, it published a policy paper (the paper) examining Australia's expenditure on education and training over the last decade.

2.98 The paper indicated that a disjointed approach to funding of education and training existed across Australia, and suggested that this was counterproductive to the notion that investment in people, their skills and their ideas, is fundamental to competing and prospering in a global economy.

2.99 More recently, the Mitchell Institute labelled the approach to funding settings across education in Australia, as 'piecemeal':

Australian governments are prioritising their investment in some aspects of education over others - with schools and universities the beneficiaries and VET in real decline. Further, this is occurring in the absence of an explicit, or even apparent, policy logic or rationale.<sup>58</sup>

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57 Andrew Norton, *Submission 11*, p. 12.

58 Mitchell Institute, *Expenditure on education and training in Australia: Update and analysis*, Mitchell Policy Paper No. 08/2015, August 2015, p. 1, <http://www.mitchellinstitute.org.au/reports/expenditure-on-education-and-training-in-australia-update-and-analysis/>, accessed 7 October 2015.

2.100 Clearly, this approach has the potential for serious and long term consequences to areas of education that fail to attract policy attention or funding. The Mitchell Institute noted specifically:

In Australia we tend to foster expertise in schools, VET and higher education respectively, with these divides often reflected in the portfolio arrangements of governments. Analysis confined to one sector is the norm, with broader thinking the exception

Of course, this disjointed approach is encouraged by the division of responsibilities under our federal system. As recent experience and attempts at reform have highlighted, a tricky web of historical precedent, national objectives and broader Commonwealth/State relations can combine to thwart or distort attempts at policy development.<sup>59</sup>

2.101 The paper outlined a summary of key findings which are useful in comparing with the 2015 results:

- Comparative analysis of expenditure on education across the three sectors shows a clear trend – while spending on schools and universities has risen significantly over the last decade, there has been a much lower rate of growth in VET spending;
- Total expenditure grew only 15 per cent for VET over the ten years to 2012-13, while schools and higher education experienced growth of 23 and 40 per cent respectively over the same period;
- Expenditure on VET amongst the states and territories is uneven. In Victoria, expenditure on VET grew at an average of 4.2 per cent per year over the ten years to 2012-13, whereas New South Wales and Queensland averaged zero and negative growth over the same period; and
- Analysis of expenditure per student also saw VET falling short. In higher education, expenditure per student has been relatively stable, while spending per student in government secondary and primary schools has increased 20 per cent 30 per cent respectively. Meanwhile expenditure per hour of training in VET actually decreased around 25 per cent over the same period.<sup>60</sup>

2.102 In light of these findings, the issue was revisited. In doing so, it was observed that there has been a 'national disinvestment in VET' that, rather than improving over

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59 Mitchell Institute, *Expenditure on education and training in Australia: Analysis and background paper*, Mitchell Policy Paper No. 03/2014, October 2014, p. 1, <http://www.mitchellinstitute.org.au/reports/expenditure-on-education-and-training-in-australia/>, accessed 7 October 2015.

60 Mitchell Institute, *Expenditure on education and training in Australia: Analysis and background paper*, Mitchell Policy Paper No. 03/2014, October 2014, p. 1, <http://www.mitchellinstitute.org.au/reports/expenditure-on-education-and-training-in-australia/>, accessed 7 October 2015.

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time, has 'intensified' with expenditure on the sector dropping in the year between the two reports.<sup>61</sup>

2.103 In contrast to the earlier report, the Mitchell Institute's 2015 paper focussed specifically on income contingent loans and private contributions to non-government schools, with analysis indicating:

- Government payments to tertiary education and training providers for income contingent loans have grown rapidly, rising from \$3.3 billion in 2008 to nearly \$6 billion in 2013; and
- Growth in private contributions to school education, with non-government school income from private sources increasing by over 20 per cent from 2005 to 2011, to \$7.9 billion.<sup>62</sup>

2.104 To summarise, the 2015 paper found that while expenditure on higher education has grown over 40 per cent over the eleven years to 2013-14, and expenditure on schooling has grown approximately 25 percent during the same period, expenditure on VET has grown much more slowly, by around 15 per cent until 2012-13. Alarmingly, the 2015 paper found that in the most recent year, expenditure has experienced a sharp decline, with total VET expenditure in 2013-14 around 5 per cent higher than 2003-4 levels.<sup>63</sup>

2.105 The committee notes the Mitchell Institute's conclusion that 'education funding in Australia needs to be coherent and integrated, rather than the current ad hoc and piecemeal approach'. Further, the committee is of the view that such an approach is more likely lead to expenditure in the areas that will better prepare the Australian labour market for the future.

2.106 The demand driven nature of funding for providers – both in the state and Commonwealth jurisdictions – has come under question. During a public hearing, Mr Rod Camm, CEO of the Australian Council for Private Education and Training was asked whether he agreed with the assertion made by the review that a demand-driven VET system is vulnerable to a range of market failures and equity issues. He responded:

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61 Mitchell Institute, *Expenditure on education and training in Australia: Update and analysis*, Mitchell Policy Paper No. 08/2015, August 2015, p. 1, <http://www.mitchellinstitute.org.au/reports/expenditure-on-education-and-training-in-australia-update-and-analysis/>, accessed 7 October 2015.

62 Mitchell Institute, *Expenditure on education and training in Australia: Update and analysis*, Mitchell Policy Paper No. 08/2015, August 2015, p. 1, <http://www.mitchellinstitute.org.au/reports/expenditure-on-education-and-training-in-australia-update-and-analysis/>, accessed 7 October 2015.

63 Mitchell Institute, *Expenditure on education and training in Australia: Update and analysis*, Mitchell Policy Paper No. 08/2015, August 2015, p. 2, <http://www.mitchellinstitute.org.au/reports/expenditure-on-education-and-training-in-australia-update-and-analysis/>, accessed 7 October 2015.

If it is not designed. It is all about how you design the marketplace. You cannot just put money out there and hope for the outcome. It comes back to your original questioning. We want state governments to make sure that they design the market and make sure they monitor the market, and if a provider grows incredibly quickly, then bring them to the table and look at it closely.<sup>64</sup>

2.107 The committee is of the view that VET FEE HELP differs from other Commonwealth income contingent loan programs in two respects. Firstly, that the control on the number of providers has been unacceptably loose and secondly that there is no effective price control. In the absence of both of these the committee is of the view that the current policy settings of VET FEE-HELP pose an unacceptable risk to the Commonwealth.

2.108 The nature of this type of demand driven program, which in theory should be driven by student and industry demand (end users), has in practice been driven by supplier behaviour. This is, in the committee's view, a major flaw in the policy design of VET FEE HELP.

#### **Recommendation 1**

**2.109 The committee recommends that, given the evidence of rampant abuse, accelerating costs, and doubling of bad debt the government launches an immediate review into the operation and regulation of VET FEE-HELP.**

#### **Recommendation 2**

**2.110 The Committee recommends that this review considers the most effective way to control costs of courses for students under VET FEE-HELP by either instituting a lower and separate loan limit or a cap on student loan amounts.**

#### **Recommendation 3**

**2.111 The Committee further recommends that this review considers the most effective way to limit provider access to VET FEE-HELP so that only providers with the highest reputation for quality have unfettered access to the scheme. The Committee recommends that the government mandates minimum entry standards of year 12 completion or equivalent for access to VET FEE-HELP loans for Diploma level courses and above.**

#### **Recommendation 4**

**2.112 The Committee opposes suggestions to lower the repayment threshold to \$30,000 or \$40,000. Asking lower income earners to pay for the failure of government to properly regulate the operations of VET FEE-HELP – and for the rampant and unethical misbehaviour of some private providers – fails both the practical and ethical test.**

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64 *Committee Hansard*, 16 July 2015, p. 11.