

TAFE in the competitive training market

The competitive market

5.1 The 2001 National Centre for Vocational Education Research (NCVER) *The Development of TAFE in Australia*¹ report gives a history of the TAFE system in Australia and outlines the evolution of Government recognition, in the late 1980s and early 1990s, of the need for a broader and more diverse community training and education sector together with the need for competition within the sector. The 1988 Australian Government report *A changing workforce* recognised:

... the need for diversification, as well as the expansion and improvement, of Australia's training infrastructure through greater emphasis on industry-based formal training provision. This was seen to be a means of providing competition for TAFE and would act as a major spur to increased efficiency, quality and relevance of formal training provision.²

5.2 The focus on competition arose from a range of concerns including the dominance of TAFE and industry needs:

The arguments for a competitive training market were based on the view that the TAFE system had a monopoly on VET, there was a lack of responsiveness by TAFE to the needs of industry and there was a need to give greater attention to the 'demand side' of the market. The need for greater efficiency and for cost savings were also quoted.³

1 G Goozee, *The Development of TAFE in Australia*, 3rd edn, National Centre for Vocational Education Research (NCVER) Ltd, 2001.

2 G Goozee, *The Development of TAFE in Australia*, 3rd edn, NCVER Ltd, 2001, p. 67.

3 G Goozee, *The Development of TAFE in Australia*, 3rd edn, NCVER Ltd, 2001, p. 90.

5.3 The 1992 *National goals for vocational education and training* statement, approved by Commonwealth and state ministers, employed the term ‘national training market’ and identified the goal of developing ‘an efficient, effective, responsive and integrated training market’.⁴

5.4 Subsequently:

The second half of the 1990s saw efforts to develop a competitive market and increase the numbers of training providers expanded through the introduction of the concept of user choice and national priorities which explicitly stated that the level of contestable funding should be increased. This put considerable pressure on TAFE institutes across Australia.⁵

The focus on competition has continued. In 2008 the Australian Education Union noted that five policy documents from 2007–08 released by Commonwealth and state governments all ‘promote[d] greater competition and commercialisation of the VET and TAFE sector’.⁶

5.5 The focus on greater competition in the Vocational Education and Training (VET) sector is evident in Council of Australian Governments (COAG) agreements.

National Agreement on Skills and Workforce Development

5.6 Clause 25 of the National Agreement on Skills and Workforce Development (NASWD), set out in Chapter 3, lists a variety of reform directions. Two in particular deal with competition:

- encourage responsiveness in training arrangements by facilitating the operation of a more open and competitive training market;

4 G Goozee, *The Development of TAFE in Australia*, 3rd edn, NCVER Ltd, 2001, p. 91.

5 G Goozee, *The Development of TAFE in Australia*, 3rd edn, NCVER Ltd, 2001, p. 92.

6 Australian Education Union (AEU), *Discussion Paper – Competition, contestability and TAFE*, p. 1, <<http://www.aeufederal.org.au/Tafe/documents/ContDisc2008.pdf>> viewed 24 October 2014.

- enable public providers to operate effectively in an environment of greater competition, recognising their important function in servicing the training needs of industry, regions and local communities, and their role that spans high level training and workforce development for industries and improved skill and job outcomes for disadvantaged learners and communities.⁷

National Partnership Agreement on Skills Reform

- 5.7 Paragraph 29 of the National Partnership Agreement on Skills Reform, one of two National Partnership Agreements which support NASWD outcomes, provides that jurisdictions will improve the efficiency and responsiveness of the VET system.⁸
- 5.8 One element of this seeks to implement the NASWD reform direction of enabling public providers to operate effectively in an environment of greater competition cited above. Public providers are in the position of having to compete while also needing to support a broad range of community training needs.
- 5.9 There was some criticism of the COAG framework and the National Partnership Agreement on Skills Reform in the context of the competitive training market. For example, Dr John Mitchell, referring to compliance issues in the VET sector identified by the Australian Skills Quality Authority (ASQA) (see Chapter 3), commented that:

... it is COAG and the national partnership agreement where some of these problems stem from. If you look at the national partnership agreement, it pushes the state governments towards a simplistic notion of market design. That has been behind a lot of this. It is more than simple; it is facile. It is too easy. That has caused a lot of problems. I think the problems are intellectual problems. I think we have the intelligence in Australia to address them, but they are not being addressed at the moment. They are not being followed through.⁹

7 Coalition of Australian Governments (COAG), *National Agreement for Skills and Workforce Development*, Clause 25, <http://www.federalfinancialrelations.gov.au/content/npa/skills/skills-reform/national_agreement.pdf> viewed 24 October 2014.

8 COAG, *National Partnership Agreement on Skills Reform*, Clause 29(b), <http://www.federalfinancialrelations.gov.au/content/npa/skills/skills-reform/national_partnership.pdf> viewed 24 October 2014. This clause references much of the same material in the NAWSD Clause 25(d).

9 Dr John Mitchell, Managing Director, John Mitchell & Associates (JMA), *Committee Hansard*, Sydney, 8 April 2014, p. 12.

Views on the competitive training market

- 5.10 A number of inquiry participants expressed views on the competitive training market generally. Mr Tony Kennedy, Chief Executive Officer, IndustryLink, voiced his support for a competitive market-based sector:

If the public provider were great, there would never have been the squeeze. There lies the problem. My background is that I was a hotelier and restaurateur, and I came to Tasmania and discovered we had a very shallow pool of talent. I went to the government and I spent two years talking to them about the things we should do, and they just kept saying, 'Great,' but did not do anything about it. So I bought an RTO. I thought, 'I'll do it myself,' and now I am bigger than them, so it is working. When someone asks a question, it is, 'Leave us alone.' If they were doing a great job in the first place, no-one else would have come along. That is market force.¹⁰

- 5.11 Mr Peter Coyne, Acting Chief Executive Officer, Bendigo TAFE, also indicated his support for a competitive market despite some reservations about its implementation:

It is a business model that has been imposed on public institutions in an incredibly short period of time. I go back, though, to why I support the reform – because ultimately, had the reform been well and carefully implemented, it would have driven quality back into the system. Competitiveness brings quality brings innovation. But the rules have been fundamentally changed so quickly and there are these broader constraints that sit around public provision.¹¹

- 5.12 Mr Martin Riordan of TAFE Directors Australia (TDA) suggested that the proliferation of providers in the market has led to a large public compliance burden, even though a small minority of providers deliver the vast majority of funded qualifications:

... you have a lot of providers that the regulator is trying to manage and a lot of different types. As my colleague Adrian Marron said, you have more than 5,000 that now seem to be registered. Yet only about 100 deliver about 90 per cent of the qualifications that receive VET funding. When you look at that statistic, it is an incredible cost of compliance that we all face for the compliance of the 90 per cent that deliver only 10 per cent of

10 Mr Tony Kennedy, Chief Executive Officer, IndustryLink, *Committee Hansard*, Launceston, 30 April 2014, p. 48.

11 Mr Peter Coyne, Acting Chief Executive Officer, Bendigo TAFE, *Committee Hansard*, Bendigo, 16 April 2014, p. 6.

training. And it is a user-pays policy that was agreed. So, it is a bit of a double whammy.¹²

- 5.13 There was industry recognition that the competitive training market does not of itself cover the field with regard to the full suite of national training needs. The Construction and Property Services Industry Skills Council (CPSISC) stated that:

[T]here are some training needs that the competitive market ignores which are still important to the future economic needs of the country.¹³

- 5.14 There was also recognition from the TAFE sector that the operation of the competitive training market is necessary regarding the standing of VET qualifications and providers:

There is a crisis in public confidence in the outcomes of the VET system (qualifications). The integrity of VET qualifications cannot be allowed to diminish. Market interventions are required to restore confidence in the value of VET qualifications and VET providers including TAFE.¹⁴

Issues for TAFE in the competitive training market

- 5.15 As a public provider, TAFE faces complexities and challenges as it operates in the competitive training market. In a September 2014 speech to TDA, Ms Jennifer Westacott, Chief Executive, Business Council of Australia (BCA), acknowledged that:

[T]he VET market can never be a completely free market or competitively neutral. It has thin markets, in terms of location and qualifications, as well as learners who need additional support.¹⁵

- 5.16 Mr Peter Coyne noted some of the asset base challenges faced by TAFEs in the competitive environment:

We have moved from a monopoly based system with yearly capital funding and operational funding to an openly competitive

12 Mr Martin Riordan, Chief Executive Officer, TAFE Directors Australia (TDA), *Committee Hansard*, Canberra, 19 March 2014, p. 4.

13 Construction and Property Services Industry Skills Council (CPSISC), *Submission 19*, p. 2.

14 Victorian TAFE Association, *Submission 66*, p. 46.

15 Ms Jennifer Westacott, Chief Executive, Business Council of Australia (BCA), *Speech to the TAFE Directors Australia Vision 2020 Conference*, p. 2, < http://www.bca.com.au/docs/44afd346-f995-4092-a7e7-cb7ccb0c2558/JW_Speech_to_TAFE_Directors_Australia_Vision_2020_Conference_FINAL_4.9_2014.pdf> viewed 24 October 2014.

market ... You have public assets – beautiful assets built in 1864 – that no longer work. They have to be heated and lit and cleaned. You cannot put wireless connectivity into these places. And now we are expected to give a return on our asset base before we strike a profit.¹⁶

- 5.17 Ms Linda Simon, Member, Executive, Australian Vocational Education and Training Research Association (AVETRA), voiced concerns about the competitive training market and its overall impact on the role of TAFE:

AVETRA supports the view that we are educating students, both young and old, for an occupation and not locking them into a narrow skills space. TAFE has always had an important role in education and we are concerned that moves to a marketised VET system are removing this role and pushing vocational education and training to its lowest common denominator.¹⁷

TAFE's community support role

- 5.18 One particular complexity for the TAFE sector as it operates in the competitive market is its important role in providing opportunities for those in positions of disadvantage and vulnerability within the community; this role is explored in Chapter 4. The COAG framework recognises the position that public providers occupy in this context along with their broader role.
- 5.19 The TAFE Community Alliance stated that 'TAFE is not a business, it is a public institution. TAFE is not about super profit, it's about putting back into the community'.¹⁸ Box Hill Institute submitted that it is important that a market-based model of vocational education:
- ... does not impair the ability of disadvantaged members of the community to access opportunities for personal advancement and improved independence through education and training.¹⁹
- 5.20 Some inquiry participants suggested that TAFE resourcing should take account of its community role. The Australian Chamber of Commerce and Industry (ACCI) stated that it:

16 Mr Peter Coyne, Acting Chief Executive Officer, Bendigo TAFE, *Committee Hansard*, Bendigo, 16 April 2014, p. 6.

17 Ms Linda Simon, Member, Executive, Australian Vocational Education and Training Research Association (AVETRA), *Committee Hansard*, Sydney, 8 April 2014, p. 1.

18 TAFE Community Alliance, *Submission 68*, p. 2.

19 Box Hill Institute, *Submission 40*, p. 9.

... strongly believes that TAFE should be adequately resourced to maintain service delivery to disadvantaged groups and to regions where thin markets exist.²⁰

- 5.21 The CPSISC, noting that TAFEs are funded in relation to student profiles whilst private Registered Training Organisations (RTO)s are funded on contact hours, stated that:

A level playing field for public and private providers must be the focus with TAFE community service obligations potentially funded separately.²¹

- 5.22 In its submission the Victorian TAFE Association took the view that 'Quarantined government funding is required to meet TAFE community service obligations and oversight costs borne exclusively by TAFEs'.²²

Flexibility

- 5.23 As noted in Chapter 3, flexibility is a prerequisite for providing good training outputs. The ACCI noted that flexibility in training delivery:

... is essential for lowering the overall costs of training to both industry and the individual. Training that occurs on-the-job, or outside work hours, significantly reduces the burden of lost wages for individuals and lost productivity for business. More competitive market arrangements will encourage providers, including TAFE, to deliver more flexible options.²³

- 5.24 Flexibility in relation to TAFE was the subject of some comment. Mr Tony Kennedy of IndustryLink pointed to lack of flexibility on the part of TAFE encountered by employers in terms of the timing of training and the TAFE academic timetable:

Many employers, such as group-training organisations, find that TAFE lacks flexibility in scheduling training blocks, with a tendency to schedule training at times most convenient to TAFE rather than times convenient and economically relevant to employers, its customers. The impact of what may be described as a school-year operation with long holiday breaks also means that the TAFE timetable creates timing and cost difficulties for employers. A classic example would be in the building trades, where TAFE may be running block courses around perhaps painting and decorating. It tends to run those in the summer

20 Australian Chamber of Commerce and Industry (ACCI), *Submission 46*, pp. 2-3.

21 CPSISC, *Submission 19*, p. 3.

22 Victorian TAFE Association, *Submission 66*, p. 46.

23 ACCI, *Submission 46*, p. 2.

months because for some reason that suits TAFE. However, the best time, the most opportune time, for the trade to release painters and decorators will be in the winter months, when the weather is inclement and they are not able to spend so much time on the job or outside. The ability to get TAFE colleges to change their timetables to suit industry is something that frustrates us.²⁴

5.25 The Queensland Chamber of Commerce and Industry referred to the lack of employer confidence in the Queensland TAFE system as being:

... the direct result of an absence of client focus that, in turn, is a product of the lack of competition for funding. While TAFE has filled vacancies in difficult VET markets where private training providers have been unwilling to enter, particularly in regional Queensland, the rigid and centralised funding model has operated to entrench TAFE as the sole provider in some areas, even when improved conditions mean that new operators would be welcomed by the community.²⁵

5.26 Dr John Mitchell gave a positive account of the flexibility of Adelaide TAFEs:

The amount of innovation and the amount of what you are looking for – which is that you want TAFE to be flexible and dynamic and to shift resources – is happening. They have actually invented. That is the point of this: reinventing service delivery. They have reinvented themselves. TAFE Adelaide South and TAFE Adelaide North, in response to Redarc, said: ‘We’ll do it your way. Redarc, you want this mix. You want this specialist service from Adelaide South and this specialist service from Adelaide North. You want it flexibly.’ TAFE was brilliant.²⁶

5.27 Mr Craig Robertson, Head of Division, Skills Division, Australian Government Department of Industry, provided a useful sense of the overall position of the TAFE sector in terms of flexibility:

... they are on a journey and they are at various points in a continuum. You would put Victorian TAFEs more on the flexible scale because they have operated as statutory authority autonomous bodies for a long period of time – 20 years. Queensland is going down that path. So there are various means of governance. I would say where industry is coming from at the

24 Mr Tony Kennedy, Chief Executive Officer, IndustryLink, *Committee Hansard*, Launceston, 30 April 2014, p. 44.

25 Chamber of Commerce and Industry Queensland, *Submission 33*, p. 6.

26 Dr John Mitchell, Managing Director, JMA, *Committee Hansard*, Sydney, 8 April 2014, p. 14.

moment – and again, this is a bit of a reflection – is that TAFEs have had a funding flow and a delivery model focused on particular industry areas or cohorts and even delivery in regional and remote, and that has almost got some fixed cost structures, including their IR fixed cost structures. And they are being told to become more flexible and responsive, and that is the disjoin that is occurring at this point in time. They will just change their operating model to become responsive in the marketplace. I think it is a transition issue at this point in time.²⁷

- 5.28 Mr Peter Coyne noted that some governance requirements can militate against TAFEs providing greater flexibility:

As a public provider, I am responsible to a community based board, a skilled board. I am accountable in every way in terms of our financial performance. If I am a small private RTO, what is the governance structure there? Who oversees it? We then come to compliance. So we are going to control everyone through a compliance regime, which, again, as a public provider, costs me an enormous amount of money to run. As a public provider, I am being continually audited by all sorts of accounting firms to the most minute detail. It does not seem to take a balance. As a large public provider – and you have been speaking to them – the same rules apply to me as they do to someone in a small town who is employing one or two people. This does not demonstrate to a public institution – with really tight constitutions and governance structures and with various subcommittees that manage risk, manage audit and manage all sorts of things – that it applies the same rules. I do not think that is right either. It does not allow us the flexibility.²⁸

- 5.29 One inquiry participant, Mr Keith Thompson, went further, stating that the emphasis on regulation:

... inevitably takes the focus away from the most important part of the equation, the learner or industry client, and firmly locks it onto institutions and processes. TAFEs are a victim of this misplaced focus as are the people trying to get the skills they need. Governments and many of the “experts” have lost track of what learning is about. You can see it in the language of the training bureaucracy and training industry generally. Rather than talking

27 Mr Craig Robertson, Head of Division, Skills Division, Australian Government Department of Industry, *Committee Hansard*, Canberra, 6 June 2014, p. 3.

28 Mr Peter Coyne, Acting Chief Executive Officer, Bendigo TAFE, *Committee Hansard*, Bendigo, 16 April 2014, p. 8.

about people learning, we have constant reference to the delivery of training – as if it is something that is handed over according to a set of rules to a passive recipient, like a loaf of bread or a load of garden soil. The whole emphasis has moved from people learning skills to regulating TAFEs and other RTOs and rigidly defining what they “deliver” and how they “deliver” it. Governments talk about TAFEs being flexible but regulate away any possibility of real nimbleness and responsiveness.²⁹

- 5.30 One suggestion to ensure flexibility has been that funding, and control over training, be directed to employers instead of being provided to TAFEs. One employer with a long-term link with TAFE, Mr Anthony Kittel, characterised this as a ‘dangerous’ idea and went on to say that:

My concern is that we are going to this privatisation model and we will lose that long-term relationship we have developed with a provider that has got the facilities and the capital equipment to be able to provide for our needs.³⁰

Funding

- 5.31 As noted in Chapter 2, COAG agreements provide the foundation for Commonwealth involvement in VET, and through it, the operability of the TAFE sector. These agreements provide for the Commonwealth, in conjunction with states and territories, to fund the VET sector for the provision of specified outcomes. TAFE is not directly funded; rather, Commonwealth funding is provided through states and territories. It was noted in evidence that funding for VET providers comes from a range of sources including the state and territory governments themselves.³¹
- 5.32 As noted in Chapter 2 also, Commonwealth funding for VET is provided to the states and territories on an outcomes basis.
- 5.33 The current model of Commonwealth VET funding raises issues of accountability and continuity of state/territory funding. The Department of Industry noted these issues and indicated that state expenditure is tracked via the National Centre for Vocational Education Research:

That is always a dynamic tension in the system, and the current model of Commonwealth-state relations, albeit subject to review by the Federation green and white paper, will be, firstly, looking at

29 Mr Keith Thompson, *Submission 175*, p. 2.

30 Mr Anthony Kittel, Managing Director, REDARC Electronics Pty Ltd, *Committee Hansard*, 12 June 2014, p. 21.

31 Mr Rod Cooke, Chief Executive Officer, Community Services and Health Industry Skills Council, *Committee Hansard*, Sydney, 8 April 2014, p. 18.

roles and responsibilities but then looking at how you can get some assurance around Commonwealth contribution being used appropriately and achieving the outcomes you are chasing but also that it is not substituting or states and territories are not withdrawing funding ... the NCVET finance collection report details state expenditure by state as well as Commonwealth contribution, so we actually do know.³²

- 5.34 At the same time, the Department acknowledged that, beyond this, there is not stronger accountability regarding the use of Commonwealth funds.³³
- 5.35 As noted in Chapter 2, from 1 July 2007 to 30 June 2013 the Australian Government provided \$9.3 billion in VET funding to the states and territories for delivery of training, including funds for TAFE and other providers of subsidised training. In respect of quantifying Australian Government expenditure specifically on TAFE, the Department of Industry indicated that 'the available data do not break down state and territory governments' VET expenditures in a way that permits identification of expenditure on TAFE'.³⁴
- 5.36 TDA expressed the view that, although through the COAG framework Commonwealth, state and territory ministers have recognised the importance of a public provider network, funding for TAFE in respect of its community role has declined:

Federal and state ministers signed up to the view that there should be a public provider network. In fact, the industry advisory body of SCOTese also articulated that in a communique. So there was brief reference to a public provider network being a guarantee of that agreement. But, like the outcomes, there were, in our view, far less specific outcomes nominated within that agreement for it to be satisfactory.

So, as states and territories then went away after signing up to this agreement – with a \$1.75 billion bucket of money in the middle of the table that was taken – they had to work out how to cut the cake in terms of a national entitlement scheme. Everyone has had a go at trying to do it in their own way. TAFE has been impacted largely because the funding cake had to be worked out without funding increases. So previous margins that TAFE received as a

32 Mr Craig Robertson, Head of Division, Skills Division, Australian Government, Department of Industry, *Committee Hansard*, Canberra, 6 June 2014, p. 5.

33 Mr Craig Robertson, Head of Division, Skills Division, Australian Government, Department of Industry, *Committee Hansard*, Canberra, 6 June 2014, p. 6.

34 Australian Government, Department of Industry, *Submission 186.1*, p. 7.

public provider network to deliver a community obligation got whittled away.³⁵

- 5.37 TDA commented on the challenges that TAFE faces when operating in an open market, while being simultaneously susceptible to funding reductions:

The constant minimisation of funding levels (RE entitlements) means that RTO training providers are rewarded if they successfully find ways to minimise their expenditure ... This remains [sic] a major structural disadvantage to TAFEs which operate more frequently without price differentials in open market conditions. As ASQA has noted just in one review of one industry segment (aged care), delivery of high cost technical skills, requiring small class sizes and expensive equipment and facilities, essential for developing a productive society is being minimised or avoided. It also means that student support – so necessary for some young people, for people re-entering work or transitioning from one industry to another in response to industry structures, or people with disability [sic] - is also being minimised or avoided.³⁶

- 5.38 Indeed, more broadly, TDA further noted that current funding models across the jurisdictions constitute a significant issue:

The current funding regime across all states and territories is now generating disconnection not only with the needs of business and industry but the needs of student and governments.³⁷

- 5.39 In relation to this, impacts of current state/territory funding models on TAFE provision of pathways to employment and tertiary education were noted in Chapter 4.

Capital expenditure and access to facilities

- 5.40 A cursory inspection of a TAFE Institute will reveal the extent of capital investment that TAFEs require in order to ensure that equipment and facilities are maintained and kept current. Appendix C to this report contains photographic evidence of TAFE capital equipment and outlines the capital costs that TAFEs can face.

35 Mr Martin Riordan, Chief Executive Officer, TDA, *Committee Hansard*, Canberra, 19 March 2014, p. 3.

36 TDA, *Submission 70.2*, p. 2.

37 TDA, *Submission 70.2*, p. 2.

- 5.41 Mrs Anne Blythman, General Manager, VET, TasTAFE, noted the challenge of maintaining the necessary level of capital expenditure:
- ... having industry-relevant capital equipment and technologies that reflect the state-of-the-art position of a range of industry sectors is constantly challenging.³⁸
- 5.42 One inquiry participant stated that capital cost commitments disadvantage public providers in comparison to private RTOs:
- Even on strict cost comparisons, TAFE and other public providers are disadvantaged by requirements to include costs for capital facilities that most private RTOs do not provide ...³⁹
- 5.43 In its submission the Box Hill Institute suggested that:
- ... the Commonwealth Government works with States to ensure that as a Polytechnic Tertiary Education Institution (or a nationally agreed nomenclature), TAFE institutes will be eligible for triennial capital funding, access to higher education endowment funds and the ability to enter into finance arrangements, including borrowing in the same way as is available to public Universities.⁴⁰
- 5.44 There were also calls from industry for TAFE infrastructure and facilities to be available to private providers. Mr Tony Kennedy suggested that TAFE teaching facilities:
- ... such as workshops and teaching kitchens, should be available for rental to private training providers outside the hours of TAFE usage. They have, after all, been paid for by government in one way or another. In this regard, the rental fee should be no greater than the internal charge that a TAFE college may include in its own course costing. They are – in our opinion, at least – public assets.⁴¹
- 5.45 Ms Sally Neville, Chief Executive Officer, Restaurant and Catering Association of South Australia, echoed this view:
- Our view is that private providers and other providers should actually have access to infrastructure that is publically supported. That should be on a fee-for-service basis, but a realistic fee-for-service basis – that is, not hyped up so that it is too dear to actually provide the training. Again, our view is opening the market up

38 Mrs Anne Lorraine Blythman, General Manager, VET, TasTAFE, *Committee Hansard*, Launceston, 30 April 2014, p. 16.

39 Mr Al Svirskis, *Submission 140*, p. 3.

40 Box Hill Institute, *Submission 40*, p. 18.

41 Mr Tony Kennedy, Chief Executive Officer, IndustryLink, *Committee Hansard*, Launceston, 30 April 2014, p. 44.

and having it contestable right across the country. Just because you are in South Australia, even if a public provider comes in from another state to provide training here on a competitive basis where the employer wants it, that should be facilitated with access to the facilities, including places like Regency.⁴²

5.46 Mr Robert Paton, Chief Executive Officer, Manufacturing Skills Australia, also expressed support for private provider access:

... third-party access into public facilities should happen. It could be a negotiated commercial arrangement between the two. We have all paid taxes to put that infrastructure there. I think the public should get the best value for it.⁴³

Segmentation of the training market

5.47 A feature of the competitive training market that attracted some comment is a certain degree of market segmentation that has arisen due to the pattern of courses selected and offered by private providers as against courses offered by TAFEs. This has ramifications not only for TAFE budgeting and revenue, but also for the role of TAFE and the future of the 'further education' element of TAFE services.

5.48 In its submission the Blue Mountains Community Sector outlined the nature of the issue:

... the majority of RTOs tend to 'cherry-pick' their course offerings. They are more likely to offer courses which have low input/infrastructure costs (and thus relatively higher profits). TAFE has obligations to serve the needs of their local industry and community (quadruple bottom line), not just focus on the financial/income line. It is no accident that it is predominantly TAFE which offers vocational training in agriculture, hospitality, IT, design, environmental sustainability, and so on.⁴⁴

5.49 Mr Paul Gunner expanded on the factor of high infrastructure costs:

The private free market approach to training cannot by its very nature, provide for a quality training regime. Quality training provision in the Metals and Automotive trades have significantly high infrastructure costs such as required for high end fabrication, welding, machining, engine management and powertrain

42 Ms Sally Neville, Chief Executive Officer, Restaurant and Catering Association of South Australia, *Committee Hansard*, Adelaide, 12 June 2014, pp. 24-25.

43 Mr Robert Paton, Chief Executive Officer, Manufacturing Skills Australia, *Committee Hansard*, Canberra, 16 July 2014, p. 9.

44 Blue Mountains Community Sector, *Submission 35*, p. 6.

technology, and high end computerised technologies in automotive and metals. These costs for the private market are prohibitive and thus the only courses and training they will provide are the ones where there is low set up cost and high profit return.⁴⁵

- 5.50 Mr Paul Kniest, Policy and Research Coordinator, National Tertiary Education Union, described the financial impact on TAFEs:

One of the financial issues that TAFEs are now confronting – and probably part of the reason that, in Victoria at least, they are now in financial difficulty – is that they are being crowded out of the programs where they can actually make a few bob on the side. The private providers are cherry-picking the really popular and profitable programs.⁴⁶

- 5.51 The NSW Branch of the Australian Education Union stated that:

TAFE has to provide accessible pathways for disadvantaged youth, students with disabilities, students from non-English speaking backgrounds, Indigenous students, apprentices & trainees, addressing skills shortages and running high quality training in a wide range of industries. We can't compete with 'training' companies who can deliver out of the back of a truck, using TAFE syllabuses and cherry-picking the cheapest, easiest courses to deliver. TAFEs provide realistic vocational pathways, and TAFE qualifications are more than just pieces of paper.⁴⁷

- 5.52 In a September 2014 speech to TDA, Ms Jennifer Westacott of the BCA stated that:

What we don't want is a market where the public providers are left with the residual elements [private] providers don't want to operate in. That's why the design is so important.⁴⁸

45 Paul Gunner, *Submission 159*, p. 2.

46 Mr Paul Kniest, Policy and Research Coordinator, National Tertiary Education Union (NTEU) *Committee Hansard*, Melbourne, 15 April 2014, p. 17. See also NTEU, *Submission 38*, p. 5; Mr Lubomir Tchervenkov, *Submission 120, Attachment 4*, p. 10 and Mr Al Svirkis, *Submission 140*, p. 3.

47 AEU (NSW Branch), *Submission 8*, p. 9. See also TAFE Community Alliance, *Submission 68.1*, p. 19.

48 Ms Jennifer Westacott, Chief Executive, BCA, *Speech to the TAFE Directors Australia Vision 2020 Conference*, p. 2, < http://www.bca.com.au/docs/44afd346-f995-4092-a7e7-cb7ccb0c2558/JW_Speech_to_TAFE_Directors_Australia_Vision_2020_Conference_FINAL_4.9_2014.pdf> viewed 24 October 2014.

- 5.53 Ms Linda Simon of AVETRA noted the broader issue of the future role of TAFE that is raised by the nature of private RTO participation in the training market:

... those who come into the training market as for-profit providers are looking to make a profit. We have seen that play itself out with providers who are more concerned about money and have delivered very little in the way of education. We believe you need to maintain the regulation that ensures that does not happen – in the initial entry of those RTOs to the market and what they continue to do while they are in the market. But you have got to clearly work out what the role for TAFE is. If you want TAFE to be there and focusing on a whole lot of those skills shortage areas – the apprenticeships, the trades – then you have got to make sure it does actually have the government funding that enables it to do that.

I am not sure that making all funding contestable is the best way of getting that happening ... it does then lead to the fact that for-profit organisations will look at where they can go to make a profit without having those initial large outlays.⁴⁹

Marketing practices in the VET sector

- 5.54 One issue that was linked to market segmentation in the competitive training market was marketing practices in the VET sector. The National Tertiary Education Union linked the pattern of courses selected and offered by private providers with 'less than scrupulous' marketing practices:

In some cases private providers used less than scrupulous marketing tactics to attract new students, such as offering free iPads or holidays. TAFE colleges are not in a position to compete with many of these private sector providers who are not obliged to offer their students full services or to fulfil public sector obligations to their communities, such as offering training in less popular high cost areas of critical skills shortages.⁵⁰

- 5.55 In 2013 ASQA undertook a review of the marketing and advertising practices of over 400 VET RTOs. In its 2013 report, *Marketing and advertising practices of Australia's registered training organisations*, ASQA made the following key findings:

49 Ms Linda Simon, Member, Executive, AVETRA, *Committee Hansard*, Sydney, 8 April 2014, p. 5-6.

50 NTEU, *Submission 38*, p. 5.

- Up to 45% of the registered training organisations were marketing and advertising misleading information
- Some practices breach the standards required to be met to offer national training qualifications;
- Organisations that are not registered training organisations are acting as brokers for those that are, which in many cases is misleading consumers;
- Consumers, including students and employers are often provided with ambiguous and/or insufficient information to make informed training choices.⁵¹

5.56 The Hon Michael Lavarch, Commissioner, Risk Analysis and Investigation, ASQA, elaborated on some of the specific advertising practices ASQA found in surveying the RTOs:

About 11 per cent of providers were still advertising superseded quals – things which had fallen off their scope were still on their scope – and quite a disturbing number, something like 50 per cent, had marketing qualifications that looked like you could get the outcome in unrealistically short time frames. That report did indicate a lot of the concerns that had been expressed. There is some foundation in empirical work that we have done to support those claims.⁵²

5.57 In its report ASQA made the following recommendations:

- making RTOs' 'marketing and advertising a very high priority in [ASQA's] regulation of registered training organisations';
- 'future and periodic random sampling of web sites [by ASQA] to identify potential non-compliance with the standards for the national regulation of VET and ... conduct[ing] national workshops to reinforce and explain to registered training organisations the requirements of the standards;
- that the then NSSC 'enhance the standards for the national regulation of VET that relate to marketing and advertising';
- that the then NSSC and VET regulators 'work together to address volume of learning concerns identified in the ... review in order to feed into the NSSC's review of the standards for the national regulation of VET'; and

51 Australian Skills Quality Authority (ASQA), *Marketing and advertising practices of Australia's registered training organisations*, p. ii, <http://www.asqa.gov.au/verve/_resources/Strategic_Reviews_2013_Marketing_and_Advertising_Report.pdf> viewed 24 October 2014.

52 The Hon Michael Lavarch, Commissioner, Risk Analysis and Investigation, ASQA, *Committee Hansard*, Canberra, 6 June 2014, p. 21.

- that ‘consideration to be given to identifying what measures might be necessary to ensure that consumers using VET brokers are fully protected’.⁵³

5.58 One inquiry participant, Ms Aliesje Kolovis, provided specific examples of poor marketing practices within the VET sector. Ms Kolovis has worked with those who can be particularly vulnerable to these practices:

Example 1.

This client who is a vulnerable and at risk young mum, came to me ... excited as she was enrolling into a Diploma of Community Services course with an online provider. When I explored this, she informed me that she met a man in public, who advised her that he was an employee of a college ... and he could enrol her into a Diploma of Community Services for \$13,000 and she would also be given a laptop/tablet. I immediately advised her against this, and provided her with education around alternative, cheaper options. Not only is this an outrageous cost for a Diploma, but my client has had no prior experience or education in Community Services. I believe the lack of regulation is not only deceiving to potential students, but it will have a negative impact on the quality of staff employed in the industry. State TAFEs (to my awareness) all possess entry requirements to Diploma courses, generally a minimum Certificate IV or equivalent in experience.

Example 2.

An at risk young mum was researching education options recently through Open Universities. She was attempting to enrol into a \$10 000 Diploma in counselling. Prior to me providing information, this client did not know that \$10 000 for a Diploma was an unreasonable amount, and that she could do the same course for approximately \$2500 at State TAFEs.

Example 3.

[One private provider] provide[s] [a] Diploma in Child care for \$15 000. Prior to my commencement, existing staff were unaware that State TAFEs provided this course (and many others) at much lower costs. [The private provider was] providing tailored information workshops to the young, vulnerable and at risk mothers advertising their courses accompanied by VET FEE HELP payment options, highlighting the conditions of repayment (only

53 ASQA, *Marketing and advertising practices of Australia's registered training organisations*, p. ii, <http://www.asqa.gov.au/verve/_resources/Strategic_Reviews_2013_Marketing_and_Advertising_Report.pdf> viewed 24 October 2014.

required once earning over a certain wage) with full awareness of their financial difficulties.⁵⁴

Inducements and other practices of concern

5.59 The Committee also received evidence relating to inducements offered by some RTOs and other practices of concern. The Victorian TAFE Association informed the Committee that:

Victorian TAFE providers have been adversely affected by the diminished reputation of VET qualifications once the public became aware of the behaviours of unscrupulous training organisations. 2011 and 2012 saw Victoria awash with numerous, well publicised, shonky, fly-by-night private providers delivering qualifications in a fraction of the time it takes at reputable providers and offering financial and other inducements to students and employers to enrol in courses.⁵⁵

5.60 Also in relation to Victoria, one inquiry participant, Mr Al Svirskis, stated that:

There have been allegations that some private providers in Victoria have offered iPods and iPads as inducements for enrolling. Private RTOs, to my knowledge, are not required to make available publicly information on their staff-student ratios or the qualifications of their staff; many are small businesses or consortia, not required to disclose annual reports and financial statements. Such information is readily available to governments regarding TAFE.⁵⁶

5.61 Ms Patricia Forward, Federal TAFE Secretary, Australian Education Union, provided evidence on the effect that inducements can have on the decision making of people entering the VET market:

I question very significantly the capacity of people to make proper choices in the system when in fact in many cases they are not paying for it at all. What is happening is that hugely subsidised qualifications are being offered by private providers and often with inducements. What we are dealing with here is that they are young people who are required, often at a very early stage in their lives, now to make choices. Initially, at least for many of them, it is a heavily subsidised qualification, which I think is a good thing; people should have access to publicly funded qualifications. But

54 Unions WA, *Submission 49.1*, p. 17.

55 Victorian TAFE Association, *Submission 66*, p. 51.

56 Mr Al Svirskis, *Submission 140*, p. 9.

the issue here is that they are being offered those inducements and they are being offered, basically, heavily subsidised training in providers where the quality settings in the system not only, in my view, are too low but also are not clear.⁵⁷

- 5.62 The Hon Michael Lavarch, Commissioner, Risk Analysis and Investigation, ASQA, noted specific practices of concern relating to fee collection identified by ASQA in its 2013 review of the marketing and advertising practices of over 400 VET RTOs:

A third of them had websites that allowed the collection of fees in advance. This could have potentially seen students clicking on for fees and paying fees in excess of the threshold level of fees in advance where there is a protection area there.⁵⁸

- 5.63 In its 2013 *Marketing and advertising practices of Australia's registered training organisations* report ASQA found that:

Some complaints about RTO advertising related to the offering of inducements or incentives to purchase training services. Examples of this were also identified during web searches included:

- free iPad upon enrolment;
- two qualifications for the price of one; and
- half-price or discounted course fees.

Such incentives, which aim to attract clients in a competitive market place, are not necessarily misleading and/or deceptive or a breach of the marketing standard, but would become a concern if the incentive led to poor quality of services. If the discounts were so large that they compromised the RTO's [sic] capacity to provide quality training and assessment, this would be a concern.⁵⁹

- 5.64 In addition, ASQA identified issues of concern in relation to the following:

- Arrangements for transitioning from superseded courses;⁶⁰ and,
- Course duration—courses or programs that appear to be of such short duration as to be ineffective.⁶¹

57 Ms Patricia Forward, Federal TAFE Secretary, AEU, *Committee Hansard*, Melbourne, 15 April 2014, pp. 11 – 12.

58 The Hon Michael Lavarch, Commissioner, Risk Analysis and Investigation, ASQA, *Committee Hansard*, Canberra, 6 June 2014, p. 21.

59 ASQA, *Marketing and advertising practices of Australia's registered training organisations*, p. 11, <http://www.asqa.gov.au/verve/_resources/Strategic_Reviews_2013_Marketing_and_Advertising_Report.pdf> viewed 24 October 2014.

60 ASQA, *Marketing and advertising practices of Australia's registered training organisations*, p. 16, <http://www.asqa.gov.au/verve/_resources/Strategic_Reviews_2013_Marketing_and_Advertising_Report.pdf> viewed 24 October 2014.

Collaboration with industry and universities

- 5.65 Chapter 3 of this report deals with industry and TAFE linkages and Chapter 4 deals with partnerships, particularly between industry and TAFE, which form an important part of the provision of pathways to employment for TAFE students.
- 5.66 Similarly, collaboration between industry and TAFE in a competitive environment is important. The South West Sydney Institute gave evidence on the importance of collaboration in this context:

In the rapidly changing VET landscape South Western Sydney Institute (SWSi) will need to operate in a highly competitive environment, based on an entitlement and outcomes funded model that is market driven and has the imperatives of customer service, collaboration, partnerships and graduate outcomes.⁶²

- 5.67 The TAFE Community Alliance informed the Committee of the 'outstanding outcomes' that collaboration can have in disadvantaged Local Government Areas (LGAs):

Intergenerational approaches often in collaboration with key community partners and taking advantage of TAFE as the complete package, are achieving outstanding outcomes with a number of groups. TAFE NSW runs effective programs in some of the most disadvantaged LGAs in New South Wales --- at Brewarrina, Walgett, Bowraville, Kempsey and Fairfield.⁶³

- 5.68 TAFE SA informed the Committee of the wide ranging, collaborative agreements in place with three state public universities and the importance of raising its profile in this area:

TAFE SA has entered into Head Collaboration Agreements with each of the three State public universities: Flinders University, The University of Adelaide and the University of South Australia. These Head Collaboration Agreements provide a framework within which TAFE SA and the universities develop specific agreements such as co-delivery, dual offers, articulation, and credit transfer agreements from a TAFE SA qualification to a university program. Importantly, reverse credit transfers are also being discussed with universities to give those students who no longer wish to continue studying at university the opportunity to

61 ASQA, *Marketing and advertising practices of Australia's registered training organisations*, p. 20, <http://www.asqa.gov.au/verve/_resources/Strategic_Reviews_2013_Marketing_and_Advertising_Report.pdf> viewed 24 October 2014.

62 Mr Paul Wilson, *Submission 141, Attachment A*, p. 6.

63 TAFE Community Alliance, *Submission 68.1*, p. 10.

use their studies to gain a TAFE SA qualification or to gain dual qualifications.

TAFE SA is aware of the need to raise the profile of its collaborations with universities. To this end TAFE SA's Noarlunga Campus in Adelaide's outer southern suburbs has welcomed Flinders University (based in the mid-southern suburbs) on to the campus with a dedicated 'shop front'.⁶⁴

- 5.69 However, CQ University pointed to the relatively poor level of collaboration in Australia:

The Australian Innovation System Report Card 2013, chapter 2 states:

'collaborative innovation with research organisations more than triples the likelihood of business productivity growth ... [but] despite the benefits, Australia's overall levels of collaborative business innovation and business-to-research collaboration on innovation continue to compare poorly with other OECD countries. Relative to other OECD countries, Australia's level of collaborative innovation between industry and research is [also] at or below average, depending on firm size.'⁶⁵

- 5.70 Dr John Russell suggested that this could be due to the competitive environment:

Operating a competitive training system means that a collaborative and cooperative training system is foregone. Many nations enjoy the benefits of a holistic education and training system based on collaboration and cooperation and their outcomes are the envy of the world. Similarly cooperation and collaboration are then reflet in such nation's industrial base.

The origin of competitive training systems resides in the application of a 'market driven' idealology [sic] to education and/or the inability of managers and accountants to understand the importance of collaboration and cooperation in the nurturing of a nationally integrated education system.⁶⁶

64 SA Government/Department of Further Education, Employment Science and Technology, *Submission 195*, p. 13.

65 Industry, Vocational Training & Access Education Division, CQ University, *Submission 183*, p. 7.

66 Dr John Russell, *Submission 165*, p. 2.

Committee comment

- 5.71 Evidence received regarding unscrupulous marketing practices and other questionable practices is of concern to the Committee. Such practices can endanger both the experience of students and the reputation of training providers generally.
- 5.72 The Committee is encouraged by ASQA's identification of a number of practices of concern in its 2013 *Marketing and advertising practices of Australia's registered training organisations* report and its associated recommendations.
- 5.73 The Committee is of the view that the Australian Government should continue its current actions through ASQA, other regulators, national Training Standards and any other involved parties, to take suitable action to address loopholes that are allowing high-risk and unscrupulous practices to endanger the experience of students and the reputation of training provision.

Recommendation 4

The Australian Government should continue its current actions through the Australian Skills Quality Authority, other regulators, national Training Standards and any other involved parties, to take suitable action to address loopholes that are allowing high-risk and unscrupulous practices to endanger the experience of students and the reputation of training provision.

- 5.74 The Committee views collaboration, particularly between industry and TAFE, as crucial in meeting the training needs of the Australian economy. Collaboration can also lead to innovation. Collaboration between TAFEs and industry and TAFEs and universities is to be encouraged.
- 5.75 As this report demonstrates, TAFE plays an essential role in the vocational and further education of Australians. It is integral to the development of skills for the Australian economy and provides crucial pathways to employment and tertiary education. TAFE also fulfils an important community support role as a provider of opportunities for those in positions of disadvantage and vulnerability. In discussions of the competitive market encompassing VET, the significant capital required by TAFE to carry out these functions is sometimes missed.
- 5.76 The substantial investment in TAFE capital-intensive courses and training facilities is a public asset. It is an asset at the state/territory level in respect of individual TAFE institutes and, more broadly, it is a significant asset for Australia.

- 5.77 Calls from industry for TAFE infrastructure and facilities to be available to private providers are supported. However, given that TAFE operates in the competitive training market, such arrangements should be on a commercial basis. It should not be the case that TAFEs provide their facilities on a 'cost' basis, thereby in effect providing a form of assistance to private providers.
- 5.78 It is a concern that Australian Government funding for TAFE cannot be quantified. The Australian Government should put in place reporting, via the NCVER, that captures the exact federal financial contribution made to TAFE and its application by state and territory governments.

Recommendation 5

The Australian Government should put in place reporting, via the National Centre for Vocational Education Research, that captures the exact federal financial contribution made to TAFE and its application by state and territory governments.

- 5.79 It is also a concern that the current outcomes-based Australian Government VET funding structure does not appear to take into account the specific capital requirements of TAFE, or its important role in supporting the training needs of local and disadvantaged communities.
- 5.80 The Australian Government should, through the COAG framework, seek to ensure that VET funding takes into account TAFE capital requirements.

Recommendation 6

The Australian Government, should, via the Council of Australian Governments, seek to ensure that VET funding takes into account TAFE capital requirements.

- 5.81 The Australian Government should also, through COAG, seek to ensure that VET funding takes into account TAFE's particular role in providing opportunities for those in positions of disadvantage and vulnerability.

Recommendation 7

The Australian Government, should, via the Council of Australian Governments, seek to ensure that VET funding takes into account the particular role of TAFE in providing opportunities for those in positions of disadvantage and vulnerability.

Ewen Jones MP

Chair

22 October 2014

