

## The Operation, Regulation and Funding of Private Vocational Education and Training (VET) Providers in Australia

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### Summary

Approaching 20 years of inquiries, consultants, policy shifts, increasing regulations and changes of regulator have demonstrably failed to achieve quality, consistent training outcomes in the competitive VET sector. This strongly suggests that at some time, now or in the future, a conclusion will have to be reached that the problems lie significantly in the competitive market VET delivery model rather than in the execution.

This submission explores the model and its components, specifies the problem and identifies the essential strategic component of a real and lasting solution.

**The key point of the submission is that there is a substantial imprecision in purchasing, that regulation has proven both inefficient and inadequate in managing the consequences of the purchasing imprecision, and that incorporating a direct outcome strategy is the only viable way to correct the problem.**

The submission does not pretend to provide advice about the implementation of the solution. However, it is important to consider that private RTOs who are responsibly and ethically fulfilling their tasks have only advantage to be gained from the changes advocated. Conversely, RTOs that have pursued profit over delivery have not earned the right to extraordinary protection from the effects resulting from required changes to the model.

### Primary Submission (dominantly addressing Terms of Reference i, iii and v)

The training outcome consistency from private VET has been a seemingly intractable issue for government since inception. Born in the last years of the Hawke-Keating era, the competitive market, CBT and training packages have proven impossible to regulate satisfactorily as is evidenced by continuous and ongoing regulation and compliance changes leading up to the current enquiry. I believe there is no need to over-work the problem. Suffice it to say that RTO performance has varied over this period from excellent to abysmal, at times possibly sufficiently deficient as to be arguably fraudulent.

In view of this history, the enquiry must make a clear choice: **either to make another effort to optimally arrange the deck chairs on the assumption that close to 20 years of effort has lacked either insight or commitment, or, to face the fact that there are obvious, structural problems with the model which must be addressed if Australia is to have a competent, if not a world class, VET system.**

An analysis of the current VET system reveals the problems clearly. This can best be explained by analysing the essential components:

## The Need

Australia needs world class VET outcomes if it is to continue to thrive in an increasingly small, global competitive world. In our high-cost environment, excellence in education and training is essential to our economic and social well-being.

Within the various activities of VET: sign-up, training, assessment and completion, support, compliance and auditing, the benefit to the nation and therefore the reason for input of government funds is vastly in the realm of training in skills and underpinning knowledge. It is only through the accumulation of these training outcomes at the individual level that national skills are enhanced, productivity improvement can be achieved and notions such as “Knowledge Nation” and “Clever Country” become possible. (This point is enlarged upon in Appendix 1)

Therefore, the need is to maximise value in the VET system, especially in so far as government expenditure is involved, and this value is dominantly achieved through the cultivation of skills and underpinning knowledge (training) in VET participants.

## The Opportunity

The opportunity is to have a vibrant, competitive, innovative, public and private VET system relying on funding from government, employers and students, producing graduates of a high standard with vocational skills to underpin the social and economic future of Australia.

There is general acceptance that a regulated market economy is the best way we have found to effect business outcomes, both socialism at one end and unfettered capitalism at the other having been found seriously wanting. Therefore, a public-private competitive market should be the best overarching model. Achieving the opportunity is about efficiently applying funds, from any source, to maximise the desired outcome which is to quite specifically enhanced knowledge and skills and this only equates to qualifications if they are backed up by the knowledge and skills, which is clearly often not the case or this enquiry would not exist.

## The Market

In an economic sense, the VET market is essentially composed of purchasers (funds), providers (RTOs) and students. The model is that funds are provided by the purchaser (student, government, industry) to RTOs to deliver training according to training packages and that the funds provided will facilitate and result in training outcomes in terms of skills and underpinning knowledge. Outcomes in VET are notoriously variable but it is not unreasonable to assert that we have spent well over 15 years trying to make the market model work with limited success, certainly not enough success to avoid the need for this enquiry.

Experience in the market economy informs us that the market has little if any "morality". In reasonably civilised countries like Australia, businesses will generally remain "legal" but they will constantly search for ways to minimise cost and/or maximise price and therefore maximise profit within the confines of the terms of their contract. If there is any "looseness" in the terms, it will generally be exploited. Outside of VET, surely the "pink bats affair" is one of our more recent and graphic examples of that.

A more general aspect of the market, applying much more broadly than VET, is the desirability in the private sector of business underpinned by government funds. Business underwritten by government has virtually no risk of payment default and generally has reasonable profit built into the pricing structure. Further, government can often be persuaded to modify contract conditions merely in response to persuasion by their RTO clients. While the differences with private-private business engagement is only a matter of degree, the presence of substantial government funds in VET purchasing creates a great attraction for private engagement in the VET process. Also, governments have a history of being out-manoeuvred by private enterprise.

VET experience also shows that opportunistic interpretation of training packages and assessment affects the entire system over time. This is because in the market economy the RTO that uses a lower cost model can offer cheaper courses or more service and this attracts clients, forcing cost cutting in the competitors.

## The Problem

**The problem is, of course, complex but it can be simplified down to this: The purchasers are not buying exactly what they want i.e. the purchasing is not precise.**

As noted above, the purchaser generally, and certainly when it is government funds in question, is wishing to purchase training in skills and underpinning knowledge. However, this is not what is purchased. The funding flow to RTOs is for student start-ups and student completions. Therefore, the economic imperative is for the RTO is to start students and complete them.

This may not matter if the purchase was for an easily specified and assessed item such as a bolt. However, the VET environment is inevitably imprecise with difficult to specifically define training packages one the front end and difficult to specifically define assessment standards on the other end. There is no readily definable point against which funding flows can be regulated. Consequently, there has been unacceptable variability in output from VET providers since inception and despite nearly 20 years of regulatory effort, still appears to continue.

## The Failed Strategy

The standard model of government in recent decades for regulating private enterprise has been one of self-regulation / compliance / auditing. This fits neatly with the CBT model and has been the model for the period since the introduction of the competitive market. Because of its failure to achieve quality and consistency in VET output, the regulatory, compliance and auditing burden has continually increased. By 2007 after nearly 10 years of increasing regulation, we still suffered national embarrassment over exploitation of international students. More recently, the federal government in a seeming act of desperation took VET regulation from all states except Victoria and WA in an effort to do a better job. Now some years after that event we have this enquiry.

The problems with trying to ensure quality in an imprecisely defined market via regulation are more than just the fact that it does not work at all well. Efforts over nearly 20 years to gain consistency and quality in VET outcomes have resulted in increasingly onerous levels of regulation and compliance such that the cost of the regulation and compliance is a significant component of the training cost and thus a detriment in itself to optimal training outcomes in that it consumes resource that could and should have been used for training.

## The Solution

If the arguments in this paper are clear, the solution is conceptually obvious, if not easy. **There must be significant changes to the way VET works such that there is a real link between funding and the desired purchase of training in skills and underpinning knowledge.** I believe the last 15-20 years has clearly demonstrated that the self-regulation of the assessment decision through evidence gathering and systems auditing processes has comprehensively failed. Therefore, it is not unreasonable to assert that achieving a solid funding-outcome link cannot be achieved without one of a range of strategies directed at actually assessing whether the student has the skills and underpinning knowledge as defined in the training package.

There are a range of ways this could be achieved in various guises from revolutionary to evolutionary. Some suggestions in decreasing order of their revolutionary nature are listed below. This list is not considered exhaustive, but a real and lasting solution to the problem appears to lie in a variant of one of these suggestions:

- Decide that the complexity of VET is such that sufficiently precise purchasing is impossible, the market economy model is not appropriate to VET and effectively subsume private VET into the public system
- Separate the funding and activity of VET training from VET assessment such that the completion payments to training RTOs are conditional on external assessment. It is implicit in this suggestion that an individual organisation or affiliate will not operate in both spheres, otherwise it is likely to become a "deck

chairs" exercise. In fact, the best way to be reasonably sure that this solution will work is to put the assessment into public sector or independent management as I understand is the case in Finland.

- Make RTO ability to train and assess a privilege based on demonstrated performance in student competence, the default and starting position being external assessment. RTOs with demonstrated standards of output will be given the opportunity to add assessment to their business model thus expanding their business. This model would allow RTOs to graduate from external assessment through to internal assessment with variations in frequency of "output auditing" (random assessment of the skills and underpinning knowledge of recently graduated individual students). Administrative compliance should be kept to an absolute minimum, possibly as low as a single digit percentage of the current burden. This change is justified simply on the basis that evidence and compliance have not been shown to ensure VET outcomes and also that it comes at the cost of potential training activity. Compliance over and above generic business issues should be restricted to areas such as student safety.
- Move from an evidence and compliance model for RTO performance to an output model based on random assessment of the skills and underpinning knowledge of recently graduated individual students. This, of course, needs to be linked to real risk for RTOs that repeated poor performance will result in the loss of their RTO registration. All outcome audit assessments will feed into an assessment audit frequency algorithm. This is unapologetically the least radical of the solutions offered. In fact, although this has been my advocated position in the past, it is not necessarily radical enough to be guaranteed to deliver consistent VET outcomes.

Additional to a solution contained somewhere in the above suggestions, another poorly performing aspect of the VET model needs addressing, namely the concept of competence. The notion of competent, rather than a graduated result such as pass, distinction etc. appears to be a relic of an ideology rather than a broadly valuable measurement. It under-achieves in adding motivation to the student, contains poor signals for the existing or future employer and gives little credit to the RTO. Overall, it is substantially sub-optimal in the signals provided to all parties, including the funders of VET.

## Additional Specific Responses to the Terms of Reference

### (i) The access private VET providers have to Commonwealth and state public funding

If it is agreed that we should have a competitive public-private VET market then it is difficult to make a case to exclude the private sector from government funds. The funds are not the problem. It is the demonstrated difficulty in achieving correlation between the funding mechanism and the desired skills and underpinning knowledge outcome that is the problem as explained. There should be no discrimination against private RTOs that use government funds to deliver high quality training in skills and underpinning knowledge.

However, at risk of labouring the point, government should specifically be funding training as defined. A lot of current VET “training”, especially at the lower AQF levels, is little more than the inevitable accumulation of knowledge from being at work. Learning from simply being at work is fine but it need not, and therefore should not be funded through the VET system. VET training should involve significant, conscious, very obvious value-adding activity. Government should work to exclude itself from funding on-the-job VET where the RTO activity is substantially limited to administration, travel and assessment.

### (ii) The cost of education at private VET providers,

VET must be re-oriented to a primarily focus on training outcome as measured by graduate competence in skills and underpinning knowledge. This must be achieved by changing the economic drivers in VET to reflect the new focus.

It may well be that this re-focus will increase the cost of VET. However, the market economy responds quickly and innovatively to market settings and technology solutions abound so such an outcome is not guaranteed.

Current on-the-job training is significantly achieved through moving the training responsibility from RTO to trainee and employer. This has allowed the “delivery” of VET at much cheaper cost than RTO delivery. There are significant problems with this approach as outlined in Appendix 2.

### (iii) The regulatory regime private VET providers operate within

The stifling regulatory burden imposed on RTOs has clearly not produced the intended outcomes and so a totally different approach is required as outlined above.

### (iv) The operation of VET-FEE-HELP,

It is extraordinary that in the face of a systemically failing VET regulatory system the government would see fit to add another substantial source of funds for VET which would predictably be abused by at least a proportion of RTOs. Worse is the fact that in VET-FEE-HELP the funder being exploited is ultimately the relatively powerless student.

Further, there appears to be anecdotal evidence of RTOs deliberately signing up students with little chance of completion in higher AQF level courses.

The government should seriously consider suspending VET-FEE-HELP until stable, consistent, quality VET output performance can be demonstrated.

#### (v) The quality of education provided by private VET providers, volume of learning requirements and graduate outcomes

The quality of VET outcomes is intrinsically linked to the history of the development of the competitive VET market. From the outset, in the mid-late '90s, a significant proportion of private VET providers made it clear that they would only “do their best” with regards to quality training within the confines of available funds and reasonable profit. At no stage did the government purchasing/regulating sector require more. They no doubt requested or even demanded more but penalties was another issue.

This beginning where the extra costs of on-the-job training and flexible delivery were not recognised in extra funding set the scene for the problems in output from the private VET sector that hitherto will not go away.

Having made the above point, it must be stressed that there are excellent, innovative, ethical private RTOs in the marketplace delivering high quality training. The nearly 2 decade old problem is finding a means of easily and clearly identifying these from those whose performance is not adequate. The quality VET providers would be expected to welcome the changes proposed in this paper as they would receive marketable recognition for their achievements concurrently with a significant cost saving through a reduction in administrative and compliance burden.

## Appendix 1 “Value” in the VET Process

I do not apologise for my emphasis on skills competency and underpinning knowledge. It is only through the accumulation of these training outcomes at the individual level that national skills are enhanced, productivity improvement can be achieved and notions such as “Knowledge Nation” and “Clever Country” become possible.

Employees, business and governments all have motivations for funding training. I submit that government, as the representative of the taxpayer, must have as the priority enhancing the productive potential of the nation in so far as the expenditure of taxation dollars is concerned. Employees and employers are always free to engage in any form of accredited or non-accredited training at their own expense. However, the government expenditure should seek to maximize the greatest value to the nation. I submit that it is not difficult to attribute value to the activities involved in the VET process as outlined below:

**Training:** This is by far the most valuable activity in the entire VET process. It is as a result of training that the productivity of the nation is enhanced. However, training has to be conscious, directed activity. A lot of current VET “training” is little more than the inevitable accumulation of knowledge from being at work. Learning from simply being at work is fine but it should not be funded through the VET system. VET training should involve significant, very obvious value-adding activity.

**Assessment:** Completion assessment has some value but far less than training. Assessment leads to employee fulfilment and employment mobility, and, if performed as intended, underpins future training. However, it does little to make the nation more productive. I do argue, however, that substituting external assessment for the current self-regulation compliance regime will be vastly more efficient and focus the industry on skills and underpinning knowledge rather than on bureaucratic processes and assessment.

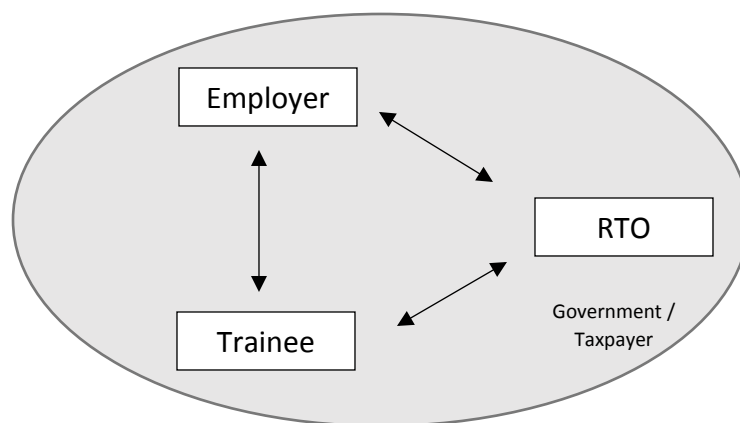
**Auditing, Compliance, Evidence:** These activities have little if any value to the nation. They are simply means to an end. As a small percentage of the total VET investment they would be seen as a reasonable necessity. No doubt this was the original vision. However, from the mid-90s to 2014 the compliance burden has grown and grown through successive governments, not due to bureaucratic insanity (believe it or not) but due to the appalling quality of too many outcomes in the VET sector. ASQA was simply the latest government response to a system that was not working properly at any point since inception and most probably never will until government adopts the resolve to implement effective change. Because the resourcing of this part of the RTO/ASQA/State Training Authority budget is so large, there is a reasonable expectation that training outcomes (value) is significantly compromised by this activity which is meant to ensure it.



Sign-Up, Monitoring: The establishment of a competitive market has, like anything, good and bad features. Certainly on the benefit side has been innovation in training and delivery and, despite the general tenor of this submission, sometimes excellent quality. As well, of course, competition is generally a positive market force. On the cost side is, however, the institutions required to create the “market”. Early in the competitive market arrangements it was found necessary to form New Apprenticeship Centres (NACs) which became Australian Apprenticeship Centres (AACs) to separate the sign-up from the RTO. This does do something to level the playing field and does provide an independent care role for the trainees but it comes at a high cost for relatively low value. The AAC sits very awkwardly with an innovative, market focused RTO since the motivated RTO cannot go out and find customers and sign them up. Also, the paperwork and time clutter resulting from effectively double sign-ups to the AAC and RTO is not welcomed by either the trainee or the employer. It should be noted that the cost of the AAC and the costs of auditing, compliance and evidence are all a direct negative result of the creation of the competitive market. Despite that, this submission is not suggesting that a competitive market was a mistake. It does, however, raise a worthwhile rhetorical question to ponder: *Was the creation of the competitive market worth the cost?*

## Appendix 2 The Training Partnership

One principal way that the VET regulators and the RTOs responded to the endemic problems in the VET delivery model was to increase the demands on the employer in terms of training. That is, the RTO, being unable to afford much training in the on-the-job environment, placed significant responsibility on the employer to train the trainee instead. Also, employers were often requested to assist in the assessment of the employees. This transfer/sharing of the training responsibility from qualified, accredited RTO trainers to busy employers with inconsistent skills in teaching was a very variable fix for a deficient system.



The government / taxpayer involvement is usually ignored. However, there is often government money oiling the system.

It is surely reasonable for the taxpayer to expect quality training outcomes from invested expenditure.

The training partnership (diagram above) in on-the-ground reality is an interesting construct. At its best, it is probably the ultimate training situation with engaged employer, trainee and RTO all working towards a common end, namely a well skilled employee enhancing business success. The problem with the construct, however, is that the ideal situation is a rarity. For a good outcome, all three bonds must hold well and this usually is not the case. This is because:

- The employer is very busy and has numerous “today” pressures which often take precedence over training which can be relegated to a “tomorrow” imperative, and in any event lacks training skills
- The extra cost of delivery of on-the-job training was not recognised in extra funding so the RTO cannot deliver substantial training to the trainee and is relegated to the position of training facilitator and is extremely reliant on the trainee and employer to progress the traineeship
- Because of the above constraints, the relatively powerless trainee risks being inadequately supported by the RTO and the employer and, in the absence of a high level of personal ownership of the process, flounders

In other words, the training partnership, on which the delivery of good on-the-job training relies, is intrinsically unstable.

#### About Me (VET related):

- B Ag Sc (hons) Tas 1975
- flowerbulb (tulip) farmer in North West Tasmania, mainly domestic, some export
- 7 permanent employees with cert 3,4,5 qualifications, approx. 14 FTEs total
- NW College of TAFE: Member of College Council 1983-1987
- TAFE Tasmania: Director on first Board 1998-2000, acting Chairman '88-89
- Skills Tasmania: Director on first Board 2008-2010
- “Partnerships in On-the-Job Training: Reflections of a Tulip Farmer” delivered to the ANTA Spotlight on the Provider Conference, Hobart 2000. The full text of this address can be sourced at the following address: <http://www.voced.edu.au/content/ngv24589>
- Submission into the House of Reps. Inquiry into the Role of the TAFE system March 2014 (Submission No. 177) N.B. Appendices 1 and 2 are lifted from this submission.