

CHAPTER 4

The effects of a competitive training market on TAFE

4.1 One of the central themes in the various changes to the delivery of technical and further education across the country is the introduction of an open market for the delivery of training. The exact market model being introduced differs across the States and Territories, but all jurisdictions have, or are in the process of introducing far-reaching changes to the TAFE system.

4.2 In New South Wales the 'Statement of Ownership' emphasises that TAFE will be placed in a more competitive funding environment, where it will be expected to 'compete for student entitlement places with private and community providers'.¹

4.3 In May 2012 the Victorian Government launched its 'Refocusing Vocational Training in Victoria' reforms that altered the way vocational training was delivered in Victoria. In March 2013 the Victorian Minister for Higher Education and Skills released the 'Next Steps for Refocusing Vocational Training in Victoria – Supporting a Modern Workforce'. The Next Steps publication strongly advocates a move to a more commercial footing and autonomous operation for individual TAFEs, and introduces competition in the workforce by giving each institution the power to negotiate enterprise bargaining agreements.²

Costs as the only factor

4.4 The evidence base for introducing a competitive market system was questioned by the TAFE Community Alliance amongst others. The Alliance argued that the reason for the changes to the delivery of VET services was purely cost and not a failure of the TAFE system to deliver high quality services:

It is not a failure to deliver that has led TAFE to the situation that it now finds itself in—in some states in quite dire circumstances. It is not failure to deliver at all; it is cost of delivery and the government's intention—successive governments of both political persuasions—to transfer the costs of training from the government purse, which is after all the public purse, to the individual and the business. That is what is driving this entire market agenda. It is not failure to deliver.³

4.5 The Alliance also contend that their argument is supported by there being little research or evidence that would suggest the RTOs can deliver a better service than TAFEs:

1 NSW Government, *TAFE NSW Statement of Owner Expectations, FAQs*, August 2013, p. 1. Available at: <https://www.tafensw.edu.au/about/assets/pdf/soe-faq.pdf> (accessed 5 May 2014).

2 Victorian Government, *Next Steps for Refocusing Vocational Training in Victoria – Supporting a Modern Workforce*, March 2013. Available at: <http://www.education.vic.gov.au/Documents/about/department/modernworkforce.pdf> (accessed 5 May 2014).

3 TAFE Community Alliance, *Proof Committee Hansard*, 9 April 2014, p. 22.

Unfortunately, at the moment, there is no research or evidence of this. There are plenty of concerns about providers, but there is no research or evidence to say that this market is producing a more skilled, productive and efficient workforce.⁴

4.6 According to Australian Vocational and Education Training Research Association (AVETRA) the situation whereby decisions about where to study are solely based on cost do not take into account the overheads that a TAFE may have when compared to those of a RTO. AVTRA also contend that RTOs 'cherry picking' low cost courses:

The question is: why hasn't TAFE been to be able provide courses at \$2.50 an hour per contact arrangement or \$3 or \$7 an hour? There is the quality of the educational provision. TAFE has been an established provider. It has an industrial structure whereby people are paid certain wages. It also has a way of delivering standard and guaranteeing standard, and a way of providing a program within a number of hours. If we look at the literature that is around, there are some really good private providers and there are some excellent registered training organisations in-house and also as enterprises in their own right. They do contribute to the overall effort and they are increasingly doing online courses. There is a cherry-picking arrangement that tends to happen.⁵

4.7 Many submitters argued that considering costs as the determining factor in a decision are only a valid comparison if all other factors are equal. The Victorian TAFE Association highlighted many of the other factors that a public provide such as TAFE has to consider when setting costs for courses:

[I]t costs more to operate as a public sector entity when you do provide and you want to provide a holistic learning experience for your students with libraries, counselling services, cafeterias and the like. But also there are the compliance costs of being a public entity, and they are quite significant. You have a governing board that is appointed by the government that is remunerated by the institute.⁶

4.8 The Australian Workforce and Productivity Agency (AWPA) argued that for there to be a level playing field, standards and regulation have to be equally applied:

I would say that the majority of our board believes that some competition raises standards. They take that as a viewpoint. However, they would also say that you should only have competition where you have quality and regulation sorted out first. For example, my board was very clear that

4 TAFE Community Alliance, *Proof Committee Hansard*, 9 April 2014, p. 24.

5 Australian Vocational and Education Training Research Association, *Proof Committee Hansard*, 9 April 2014, p. 39.

6 Victorian TAFE Association, *Proof Committee Hansard*, Tuesday 15 April, p. 18.

we should not move to a demand based funding system until quality had been established.⁷

4.9 The committee heard from witnesses who suggested that public and private training providers competing did not always produce the best training outcomes for the students and employers. Women in Adult and Vocational Education (WAVE) brought up the example of beauty therapy courses being advertised and not delivered,⁸ while witnesses in Melbourne referred to a high profile case in Victoria that saw 10 000 fitness instructors being trained with none were needed.⁹

4.10 The Victorian TAFE Association used the case of the over subscription of fitness instructors as an example of why there needs to be more sophisticated management of funding training providers beyond price alone:

[I]n that industry, everybody knew that that was going to happen. We said, 'There's going to be an explosion this year.' We actually encouraged people to enrol in those areas, because it was a profit-making area. And that is the environment you are in. You are in a market to make a profit, whether you are a public provider or a private provider. That is the perfect example of needing to have different market levers other than price or, if it is price, to have it so that it is moderate rather than up here and then down there, where the provider just about goes bankrupt because there is not enough support. The alternative is that you have caps, and you have a combination of a price cap and a places cap. If you are going to do it all by price, then it becomes a much more complex area with the diversity of qualifications involved.¹⁰

Regulation and Standards

4.11 The committee heard of the impact the changes to the delivery of VET services have had. The Australian Human Rights Commission (AHRC) spoke of their concerns about the consistent quality of training across the public and private sectors. The Age Discrimination Commissioner, the Hon. Susan Ryan discussed findings from a recent Australian Skills Qualification Authority (ASQA) report into the aged and community care training. According to AHRC the report found the standard of training delivered through the Registered Training Organisations (RTOs) and private training providers was substandard with 80 per cent failing to comply with existing national standards.¹¹

7 Australian Workforce and Productivity Agency, *Proof Committee Hansard*, 9 April 2014, p. 43.

8 Women in Adult and Vocational Education, *Proof Committee Hansard*, Wednesday 9 April, p. 54.

9 Community Services and Health Industry Skills Council, *Proof Committee Hansard*, Tuesday 15 April, p. 5.

10 Victorian TAFE Association, *Proof Committee Hansard*, Tuesday 15 April, p. 23.

11 Australian Human Rights Commission, *Proof Committee Hansard*, 9 April 2014, p. 17.

4.12 The ASQA report states that the implications of poorly delivered training are significant and this not just a problem in the aged and community care sector:

From ASQA's experience, this is not just a problem with training in the aged and community care sector. It has much wider application across the whole VET sector...

There are two key implications. First is that trainees and employees are not really being properly skilled. Second is that those RTOs that are trying to provide high-quality programs that are capable of delivering the skills and competencies required in a meaningful way are being faced with unfair competition (in terms of costs and prices) from those RTOs that are providing 'cheap' and unrealistically short training programs.

This creates an environment in the competitive training market where there is a 'race to the bottom' in terms of continually reducing course fees to attract students, reducing course times to attract students and reducing training and delivery effort to cut costs. Quality and sufficient time to enable adequate instruction, learning and assessment are the 'casualties' in this environment.¹²

4.13 The consistency of training delivered through the TAFE system was cited as one of the key points of difference between the TAFE and RTOs. The TAFE Community Alliance (the Alliance) argued strongly that the implications of the VET sector in general would be profound if consistent standards were not applied across the country:

[W]e will see the entire VET system flounder. The TAFE system offers the codification of training. It offers a quality standard. There is consistency across the country. If you see that disappear, you will see fragmentation and fracturing. I wonder about the quality and the sustainability of that market.¹³

4.14 When asked about tools to ensure that TAFE delivers high quality, agile and responsive training, the Alliance also cited regulation and standards as the key to ensuring that the delivery of training, be it by TAFE or RTOs, is consistent and of a high quality:

You create performance and outcome standards against which they need to report for the use of the money that they are allocated. It was done in the past. It is a proven method. If you are failing to deliver, that failure becomes apparent, because there are outcries from industry, commerce or business leaders or people out there in the community. If you are failing to deliver, you simply cannot continue.¹⁴

12 Australian Skills Qualification Authority, *Training for aged and community care in Australia*, September 2013, p. xi.

13 TAFE Community Alliance, *Proof Committee Hansard*, 9 April 2014, p. 20.

14 TAFE Community Alliance, *Proof Committee Hansard*, 9 April 2014, p. 22.

4.15 The Australian Industry Group (AIG) was also supportive of maintaining standards through a strong regulatory body to ensure quality of provision, particularly for those organisations seeking to enter the training sector:

We have also certainly been concerned about the quality of provision by training providers and we believe that there is a case for increased regulation with regard to entry into the field of training provision and also with regard to more regular audits of providers once they are installed.¹⁵

4.16 AIG were unequivocal in asserting that further regulation is required of the private RTOs rather than TAFEs. When discussing whether increased regulation would increase the regulatory burden on industry, AIG's view was that protection is required to ensure quality is delivered through private RTOs:

Mr Taylor: I see it as protection. What we had was a period of what I would characterise as 'light touch' regulation, which got us into a lot of problems in terms of the quality of registered training organisations.

Senator URQUHART: Okay. Are you talking more about private providers as opposed to the TAFE sector?

Mr Taylor: Oh yes.

Senator URQUHART: I just wanted that clarification, because I was not sure which group you were talking about.

Mr Taylor: There is nothing wrong with competition and having private RTOs competing against TAFE, but you need to weed out the problem areas. You need to raise the bar in terms of entry. It should be more difficult than it is to get registered, and then there should be regular audits—particularly in areas where it is known that there are problems. Certainly ASQA has been doing that. Of course, that provides protections and it provides confidence to employers. There is nothing worse than people turning up for employment with a qualification that was obtained on a weekend.¹⁶

Committee View

4.17 The committee is not opposed to the introduction of private training providers in the sector in theory, but acknowledges that TAFE provides an integral service to the community, and therefore should not be required to compete with private providers in some areas.

4.18 Further, the committee was very concerned to hear accounts of where private providers were flooding the system at the expense of quality and consistency. These accounts were supported by all stakeholders, including employers and students.

4.19 The impact of reduced quality of skills provision is felt by everyone. Employers reported graduates of some courses as being not work ready, while students told of losing their one chance of supported learning to a substandard

15 Australian Industry Group, *Proof Committee Hansard*, 15 April 2014, p. 31.

16 Australian Industry Group, *Proof Committee Hansard*, 15 April 2014, p. 34.

provider who did not provide them with either high quality skills, or appropriate skills and consequent employment opportunities.

4.20 The committee supports the view that the way to address inconstancies in terms of quality of skills provided, is by having a rigorous quality assurance regime. The Australian Skills Qualification Authority is the appropriate body to manage this regime, but it needs to be properly resourced and funding to develop, audit and enforce standards.

Recommendation 3

4.21 The committee recommends that resources and funding for the Australian Skills Qualification Authority be proportionally increased relative to the number of private providers entering the training market.

Recommendation 4

4.22 The Committee recommends the development of improved government standards for registration of training organisations, as the current regulatory environment provides no guarantee of quality for students.

The effects of the introduction of public funding contestability

4.23 AVETRA discussed the concept of a 'managed market' that could take into account the differences in delivery costs and procedures, while still having capacity for the RTOs to compete and challenge TAFEs for taxpayers' money:

[I]t still does really need to have in the managed market situation, to my way of thinking, a commitment of taxpayer's money so that what we have got is a strong, robust and capable public provider. It is a bit like somebody looking after the ports, looking after the railways, looking after transport or looking after health, that you have got a strong, confident, robust public provider but you also have that supplemented by and also challenged by and also collaborated with from a number of commercial providers as well. So my managed market situation is to have standards but also scale and also responsibilities allocated but also spaces for the private providers and business providers to work with that.¹⁷

4.24 AIG concurred with AVETRA in their position that a market has to be managed to ensure that the training provision meets the needs of employers, and to take account of the requirement for a holistic learning pathway for students:

If you are going to have it, it needs to be managed and monitored. Even here in Victoria, which led the way in terms of introducing this model, now has a monitoring unit within the Victorian department to keep an eye on the patterns of provision. You need that, at least. The model is based on the assumption of an informed choice. I think the system has struggled to provide that to the consumers of training. The training market is imperfect to begin with. There are thin market and fat markets. It is a difficult area in which to apply the market principle, we think. It does not

17 Australian Vocational and Education Training Research Association, *Proof Committee Hansard*, 9 April 2014, p. 39.

cover some things like, for example, foundation skills. You would wonder whether you need a competitive market around something like foundation skills. That should be more an entitlement or a right rather than the basis for competition between RTOs.¹⁸

4.25 AIG suggested that there should be a split funding model where public funding contestability was not applied across the board:

One of the ideas we had was that you could have a split funding model, where you had a base of provision, which could protect TAFE in thin markets, such as in regional areas, and then on top of that have a contestable model. In other words, there would not be contestability across the board, but a more managed approach to contestability.¹⁹

4.26 A group of retired TAFE educators, Concerned Vocational Educators, with a vast amount of experience between them, also opposed contestable funding being applied across the board. Their position is that contestable funding should only be applied under the auspices of national guidelines premised on quality and consistency:

We think that a national framework should be developed under which TAFE can be funded not only for the costs of training delivery but also for the other services that colleges provide to students and the community as a whole, chiefly in the regional areas. States should continue to make detailed funding decisions within that framework. Contestable funding must be carefully considered and managed according to agreed COAG national guidelines to ensure quality and consistency of standards.²⁰

4.27 Mr Rorris from the South Coast Labour Council highlighted what he said is the critical flaw in a contestability funding model. His argument is that contestability for the same funds, in an effort to drive competition and efficiency, can only work when there is a critical mass of students and capital assets to provide the services required:

In essence, this gets to the flaw in contestable models. Critical mass is critical to service provision. It is critical to efficiency and to the cost savings that governments hope to make by cutting those corners and by cutting costs. Quite simply, it would be ridiculous and totally ineffective to try and cover with two or three providers what one is covering in Batemans Bay, Bega or the Southern Highlands. Why? Because the simple maths and economics tell us so. You cannot do it. You would have to give it to one provider. This gives rise to chief flaw in the contestability model: how do you capitalise for the machinery and for the workshops?²¹

4.28 TAFE Directors Australia (TDA) described in their submission the financial impact that contestability is having in some States:

18 Australian Industry Group, *Proof Committee Hansard*, 15 April 2014, pp 32-33.

19 Australian Industry Group, *Proof Committee Hansard*, 15 April 2014, p. 33.

20 Concerned Vocational Educators, *Proof Committee Hansard*, 16 April 2014, p. 53.

21 Mr Arthur Rorris, South Coast Labour Council, *Proof Committee Hansard*, 9 April 2014, p. 28

As jurisdictions move towards contestability, pressure has intensified on TAFE through funding cuts and changed pricing for VET across jurisdictions. \$80 million was cut from TAFE budgets in NSW, \$79 million in Queensland and an estimated \$83 million in South Australia and eight different funding models currently exist as each jurisdiction has implemented its own approach to contestability.

For those most advanced in implementation (Victoria and South Australia), severe financial difficulties have impacted on TAFE, especially those institutes delivering core skills courses in regional areas (thin markets).²²

4.29 As a proportion of total funding the Australian Education Union (AEU) gave the example of South Australia that has seen the amount of contestable VET funding rise from 26 per cent in 2011 to 74 per cent in 2012.²³

4.30 TDA also quoted a number of industry groups it said have been critical of the speed of the changes to TAFE funding, and the impact it will potentially have on the long term skills base that industry requires:

Contestability models of VET reform under the NPA have dramatically reshaped the VET sector in Australia with Government spend on vocational education spread increasingly thinly. Various industry peak groups have expressed concern about the speed and seeming ad hoc nature of the roll out of national entitlement in some jurisdictions, and the lack of appropriate checks and balances with implementation. Innes Willox, Chief Executive, AIG in an address to the National Press Club in August 2012, noting the closures of dozens of courses at regional TAFE in Victoria, said:

It is of significant concern to industry that we won't be able to then drive the skills pool in the future and kids in regional Australia will miss out on opportunities to gain skills and then get into the workforce.

Jenny Lambert, Director of Employment, Education and Training at the Australian Chamber of Commerce and Industry, in an interview for *Campus Review* in 2012, commented that that in economic terms, this form of 'public funding' distorted the market and serves as an incentive for providers to follow the money trail.²⁴

Committee View

4.31 The committee heard from a great many stakeholders across the country who described the impact of public funding contestability on TAFE and skills provision as a whole. The committee heard no compelling evidence that opening TAFE up to full contestability benefits anyone but the private providers. If TAFE has to compete on a cost basis only it will not survive and will be diluted to the point that its assets, in terms of expertise and capital infrastructure, will be lost. Proponents of a managed

22 TAFE Directors Australia, *Submission 176*, p. 25.

23 Australian Education Union, *Proof Committee Hansard*, 16 April 2014, p. 30.

24 TAFE Directors Australia, *Submission 176*, p. 25.

market suggest weighting any comparison between TAFE and an RTO to take fully into account the added value that TAFE brings, and the costs that will be realised if TAFE cannot provide those services. The committee fully supports this approach.

Recommendation 5

4.32 The committee recommends that COAG work towards establishing a formula for use in contestable funding decisions that reflects the true costs of TAFE delivering those services, and establishing a 'managed market'.

Recommendation 6

4.33 The Committee recommends that COAG work collaboratively to develop a national workforce strategy for TAFE that addresses the level and quality of teaching qualifications in the sector, the unacceptably high rates of casual employment, and the allocation of adequate resources to enable TAFE teachers and institutions to develop and maintain close liaison with industry and local communities to assist them to meet their vocational and technical education needs.

The application and impact of the increase of fees

4.34 The committee heard accounts from many witnesses and submitters concerned by the rapid and substantial increase in fees for some courses across the country. A National Partnership Agreement (NPA) on Skills was agreed by COAG in April 2012 committed all States and Territories to a 'National Entitlement Scheme which would be partly funded by \$1.75 billion of Commonwealth funds over four years. However the Agreement didn't stipulate fees or define courses.²⁵

4.35 Witnesses at the committee's hearing in Perth described the impact that substantial increases in fees have had on students. Ms Ward from the Edmund Rice Centre in Perth described the situations where two of her clients could not embark or complete courses due to fee increases:

The effect increases in costs have made and will continue to make to our students, clients and their families is more than significant [...] I have some examples and short case studies such as the two Sudanese women, widows, who are very excited about completing their cert III in English and are applying to TAFE to do their cert III in aged care [...] They returned in tears because there was no way they could pay the fees. We knew there had been some rumblings about fee increases but we had not actually been informed of the level these increases were going to be. Like many of our clients, they have large families and are paying more than 50 per cent of their income on rent. If they paid the fees, they could not afford to feed the kids or to pay the rent.²⁶

4.36 Ms Ward also spoke of her discussions with the vocational education and training staff at a secondary school that had a VET program up to Certificate II. The

25 TAFE Directors Australia, *Submission 176*, p. 4.

26 Edmund Rice Centre, *Proof Committee Hansard*, 10 April 2014, p. 33.

staff reported that students that had completed their courses at high school were unable to continue their course due to the fee increases:

I also spoke at length to the vocational education and training staff at Mirrabooka High School. They are very upset about the effect the increases are having on students who completed cert IIs last year with them. The teacher told me that many have returned to speak to her about the situation and their disappointment in not being able to continue their studies because their parents just could not afford it. They have had that start and they cannot continue with it.²⁷

4.37 Unions WA provided examples of the scale of some of the increases that have occurred in Western Australian TAFE institutions, and the impact this has had on students and their families:

I did also want to speak about the increase in course fees, which is causing anger and distress to those people but also to those families who have young adults going to TAFE. In WA we have seen some very sharp increases in STP fees arising from the policies of the Barnett government. For example, in semester 1 this year, fees increased for a diploma of nursing from \$1,862 in 2013 to \$9,131 in 2014. That is a 390 per cent increase. Similarly, for a certificate III in aged care, there has been an increase from \$621 in 2013 to \$1,585 in 2014. That is a 155 per cent increase. These are significant increases and clearly many of the people who access TAFE come from lower socioeconomic areas and those fees are a considerable impost on the individuals who are studying or, from what we are hearing anecdotally, on the families.²⁸

4.38 Mr Bill Dudley, a parent of a TAFE student, provided a detailed account and series of figures to the committee that show the level of increase of a particular course run by the Canberra Institute of Technology (CIT). The total fee for the Advanced Diploma of Graphic Design course attended by Mr Dudley's son is \$22,440. According to Mr Dudley, his daughter completed the same course a few years earlier and the fees were just over \$1100. The CIT website recently stated that 'the average fees for full-time study for an Advanced Diploma are \$785-\$1 350 per semester.' Mr Dudley also quoted fees from the University of Canberra for a Bachelor of Graphic Design three year course that costs \$18 132.²⁹

4.39 One of the reasons reportedly given by CIT for the increase of fees was that in order for students to be able to access the VET FEE-HELP scheme it would have to be run as a 'full fee' course. The VET FEE-HELP scheme attracts a loan fee of 20 per cent.

4.40 Mr Dudley also provided the committee with figures outlining the fee levels for the same course across different states. These figures show a range of fees

27 Edmund Rice Centre, *Proof Committee Hansard*, 10 April 2014, p. 34.

28 Unions WA, *Proof Committee Hansard*, 10 April 2014, p. 26.

29 Mr Bill Dudley, *Submission 30*, p. 2.

between \$318 under certain circumstances in New South Wales, to the fees charged by CIT of \$26 928 including the VET FEE-HELP Loan Fee.³⁰

4.41 The manner in which the fees were increased was also subject to criticism from witnesses. One witness in Perth told the committee that there was no notice of the increase in fees until prospective students arrived to enrol:

I looked online all the time, up until the night before enrolment, to see how much I was to be up for, because I had to take a deposit in to enrol. There was nothing there until we went to enrol on that day.³¹

4.42 The late gazettal of fees in Western Australia was mentioned as one of the factors in the level of fees not being broadly disseminated prior to enrolments. Witnesses in Perth commented that although the institutions anticipated the increases and worked hard on the administration arrangements, the late notice of the level of fees was always to cause issues:

Much planning was done. Much consideration was given to how the increased fees, which we knew were going to happen, would impact on our delivery, on our students, on our administration and support—everything. I acknowledge that my institute did everything that it could possibly do to anticipate those things. They were certainly hamstrung at the end by the very late gazettal of the fees.³²

4.43 Employees of TAFE in WA also raised the prospect of fees increasing substantially again in 2015:

My committee had worked together and we had been working in whatever environments we could to put pressure on with regard to the funding model and how we saw that impacting. We believe that we played a role in having some of the caps instituted on those fees that previously were to be at a high level. The interesting thing about those caps is that they will only last for this year, so we will see massive jumps again in fees for 2015.³³

Committee View

4.44 The committee was distressed and concerned to hear of the impact substantial increases in fees have had on new and continuing students. The committee is extremely concerned that high costs will deter future students from enrolling. Expecting a young student 18 years of age to sign up to a debt of more than \$20 000 is unrealistic, given that many students then take up employment in industries where the initial and indeed continuing pay is comparatively low by market standards.

30 Mr Bill Dudley, *Proof Committee Hansard*, 2 May 2014, p. 4.

31 Ms Wilkinson, *Proof Committee Hansard*, 10 April 2014, p. 35.

32 Ms Jan Lau, *Proof Committee Hansard*, 10 April 2014, p. 37.

33 Ms Jan Lau, *Proof Committee Hansard*, 10 April 2014, p. 37.

4.45 Ultimately the reasons for these excessive fees are that state governments are failing to properly allocate appropriate funding to TAFE and this is being done from an ideological position rather than an attempt to try and improve the system.

4.46 The committee also has very real concerns that administration costs such as the 20 per cent VET FEE-HELP Loan Fee further inflate the costs for students.

4.47 This loading is far in excess of what the committee considers a reasonable administration cost. The committee was also concerned that accessibility to fee assistance programs was limited to full fee paying courses.

Recommendation 7

4.48 In light of the substantial increases in fees across the board, the committee recommends that COAG investigate these fee increases.

Recommendation 8

4.49 Further the committee recommends that criteria for access to assistance programs for fees be examined to ensure that access to VET training is not inhibited by upfront cost considerations.

Recommendation 9

4.50 The committee recommends that the VET FEE-HELP Loan Fee of 20 per cent be reduced significantly in line with comparable financial industry products.

Recommendation 10

4.51 The Committee recommends full and immediate reinstatement of TAFE funding cuts by State Governments.

Senator Sue Lines

Chair, References