

Submission to the National Commission of Audit

1. Super Structure to Australia's vocational education and training (VET) sector

The technical and vocational education and training enrolls more students each year than the university sector, however also boasts (sic) a 'super architecture' of regulatory and support structures, laws and cross-jurisdictional complexity.

Increasingly national surveys (Ref NCVET) have tracked that while the satisfaction of public (TAFE) and private college providers remains high, the confidence of industry (and investment in the VET system) declines because of this complexity.

The recent decades of "VET Reform" which has opened Australia to open access for public funding of VET Registered Training Organisations (RTOs), and marketisation of VET funding with open competition between public and private, has been accompanied by an explosion of activity of national, state and territory agencies managing technical and vocational education, registrations and regulation, along with international education – on and offshore. This activity was not accompanied by a new quality structure base on a risk framework, and together this myriad of agencies and copious regulation has put tremendous pressure on TAFE institutes and RTOs, with no discernible improvement in the quality of outcomes, and souring confidence with industry.

In relation to the financial aspects of the reform process the technical and vocational education sector has a very confused and inconsistent funding regime. It can be argued that many students who could and would undertake a "VET course" are choosing a higher education course (at a university) because of the greater accessibility, higher subsidy, more favourable financial arrangements and greater community regard. This is a significant cost to the public purse.

The Commission of Audit is a unique opportunity to much reduce the bureaucracy and improve the financial return of government investment in tertiary education (VET and Higher Education). Much of this bureaucracy is directly under the Australian government, and the Commission of Audit may bring to the attention of the incoming Abbott government options for –

- (i) **Jurisdictional responsibility** -- That if vocational education and training remains a responsibility of state and territory jurisdictions, that current (and mature) management and regulatory systems and agencies should also be deemed responsibility for the states and territories;
- (ii) **Direct accountability for funding** -- That industry demands for higher technological skilled qualifications requires clearer split between direct funding from the Commonwealth, and states and territories, in regard to tertiary education (Higher Education and VET) delivery. This would bring more

accountability to tertiary education funding irrespective of Higher Education or VET provision.

In the post-Whitlam period, tertiary funding from Canberra was directly disbursed to universities, and the remainder for vocational education and training was disbursed to the states and territories. However, additional *ad hoc* funding was provided direct to VET providers and/or industry, e.g. PPP funding, National Workforce Development Fund, Apprenticeship Centres, apprenticeship and trainee employer incentives.

The Commission of Audit may consider that funding for diploma or above AQF level qualifications – irrespective of providers, Higher Education or VET - may best be directed from the Commonwealth to providers, while for lower level AQF qualifications directly from states and territories.

2. Commonwealth ‘un-costed’ initiatives producing unintended consequences

(i) National Entitlement to Training – Extraordinary reach of COAG National Partnership Agreement

The Council of Australian Government (COAG) agreement of April 2012, adopted a Commonwealth proposal under Prime Minister Gillard, for adoption nationally of a former Victorian Labor Government training entitlement scheme.

The ***National Entitlement to Training*** was adopted as a National Partnership Agreement (NPA) for Skills and Workforce Development. Its purpose was outlined as “*....will contribute to the reform of the Vocational Education and Training system to deliver a productive and highly skilled workforce which contributes to Australia’s economic future*”

The NPA Agreement identified a number of reform directions, including introduction of a national training entitlement for vocational education and training students.

There has however been no common agreement across Australia’s States and Territories about:

- the ***nature of entitlements*** for students,
- the ***quality criteria*** that should be applied to providers in receipt of public funds, and
- the ***governance arrangements for public providers***, nor recognition of the role of public providers in ***servicing local communities***.

Additionally the NPA Agreement proceeded without financial modelling. Instead, Prime Minister Gillard successfully offered Premiers and First Ministers bonus payments totalling \$1.75B over four years, to sign up to entitlement under the NPA Agreement.

(ii) Extraordinary costs and impacts on business

Where national entitlement has been introduced by State and Territory Governments the result has been a constantly changing and confusing situation for learners and for industry, and severe financial difficulties for a number of publicly funded TAFE institutes, especially for many delivering core skilled courses (recognised as ‘thin’ markets with high infrastructure and HR costs) in regional areas.

Innes Willox, Chief Executive, AIG in his address to the National Press Club in August 2012 when referring to 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.”*

Recently, writing in the *Australian Financial Review*, Innes Willox, further described the unacceptable pricing impacting apprenticeships and traineeship costs to employers, and the ad hoc approach across states and territories forced into National Entitlement.

Australian Industry Group (AiG), Business Council of Australia, and the Australian Chamber of Commerce and Industry (ACCI) spokespersons are on record as expressing their concerns about the **speed** of some State’s implementation of national entitlement, and the lack of appropriate checks and balances with implementation. There were also warnings on Registered Training Organisations (RTOs) in receipt of millions of dollars of government funds (federal, state and territory), with the record that many were later deregistered as non-compliant with the conditions of their contracts and with the quality standards.

Jenny Lambert, Director of Employment, Education and Training at the Australian Chamber of Commerce and Industry, pointed out in an interview for *Campus Review* in 2012 that in economic terms this form of ‘public funding’ distorted the market and can incentivise providers to head down and follow the money trail.

The unintended consequences of hasty and ill conceived National Entitlement implementation by States and Territories include:

- Implementation changes from State to State through significantly different fees and levels of subsidy for the same national courses
- Enrolment cappings applied to courses where there is strong industry demand for graduates leading to significant criticism of the various funding agencies
- Courses being taken out of the market by the funding agencies due to a lack of funding

- Enrolment limits being applied to RTOs (public and private) in what is meant to be an open and competitive market
- Some State Treasury Departments withdrawing funds from the market after the commencement of the entitlement model
- Entitlement model driving costs down with an adverse impact on quality of provision
- A one size fits all approach. Assumptions that the public benefit is equal across and within States is flawed
- Constant intervention by the government, with unreasonable expectations to implement change lead to existing contracts with industry based on a contract price underpinned by government subsidised training (an industry expectation in Victoria). Viable programs suddenly become unviable.

3. Agency overlap and APS Efficiencies

- (i) **Agency overlap in VET sector** – The devolution of responsibilities, and direct funding management of provider levels, would allow for considerable efficiencies in Commonwealth bureaucracy. Internationally, Australia’s competitor countries operate with far greater efficiency in agency oversight of VET, than Australia. For example –
- In Canada, the constitutional arrangements do not require federal bureaucracy for tertiary education, leaving responsibility to provincial governments
 - In the early 2000 period, the former Australian National Training Authority (ANTA) agency was disbanded under former Education Minister, Dr Brendan Nelson, yet in its place NATESE and a line of regulatory agencies including ASQA have evolved, while also the 11 Industry Skill Councils (ISCs) operate at considerable public cost.
 - TDA estimates the ISCs alone cost \$180M p.a., despite their original and primary mission of producing and updating Training Packages (curriculum). The Training Packages has now evolved to be largely a mature process, and already reliant on several key industry bodies. In the United Kingdom, Skill Councils have devolved to be operated directly under their own auspice. On such benchmark examples, many of these current Industry Department and associated agency functions could be easily devolved with substantial public saving

- (ii) **International education** – This has been identified as a priority service industry, with Trade Minister Hon. Andrew Robb describing how international education – led by VET and TAFE - may substantially lift Australia’s export potential beyond its current \$17B p.a. Yet this education sector has been drastically curtailed by draconian regulation and disperses agencies across more than EIGHT with uncoordinated bureaucracy across the APS.

This series of issues have been a serious obstacle to business growth across international education, affecting transparency for international students, and Australia’s competitors have grown considerably as a result. TAFE has been the most seriously affected by these problems.

TDA recommends streamlining the agency with Austrade appointment to lead overlap in international education, and bring equal emphasis across universities, skills (TAFE and private VET), and schools. This focused approach to the individual components of international education will be required to adequately bring quality expansion of the sector.

In addition –

- At a structural level, Austrade may lead with a *British Council* model to bring more coherent representation of international education abroad, and cohesive regulation at a domestic level
- That a transparent risk regulatory framework be introduced across tertiary providers (HEPs and VET), with the purpose to identifying financial risk and education capacity
- Dismantling Education Department overlap in regulators; EG the Tuition Protection Service (TPS) under ESOS legislation, could be devolved to an industry fund, given public and private peak bodies already operate Ministerially approved domestic level tuition assurance.

4. Industry-led & funded priorities

The Canadian model of public sector management in education is a useful case study for wider application to VET services in Australia. Like Canada, the technical and vocational education sector is primarily under state and territory jurisdiction. Like Canada, Australia has major peak education incorporated bodies representing the major public and private accredited education institutions. However in Australia, successive Labor governments have built up extensive bureaucracies which seek to regulate and create policy for and with the VET sector.

The Commission of Audit may consider a range of options for future Commonwealth administration of VET services. It is clear from many service industries in Australia, that outsourcing to incorporated industry peak bodies for administration can be both a

mainstream form of 'buy-in' by an industry sector to regulation, and more efficient controls. For VET, some applications may be trialled:

- (a) **ISCs** – Some outsourcing of Industry Skill Councils direct to specialist industry may be a useful alternate to direct Commonwealth operated agencies where independent administration by an industry peak may be guaranteed (see above). A key complaint about Industry Skill Councils has been their inability to bring together service protocols for their operation. For example, a practical problem outlined by public and private colleges has been the multiple and frequent changes or "churn" to Training Packages. This creates extraordinary costs of compliance, while also adding to frequent challenges for the Commonwealth's own auditors under the Australian Skills Quality Agency (ASQA).
- (b) **Tuition Protection Service for International Students** - The Tuition Protection Service was established under the ESOS Amendment Act (TPS Service) 2012, as an industry (RTOs, TAFEs and Universities) levy based structure to establish tuition assurance arrangements for international students enrolled at CRICOS registered institutions. Parallel with the Commonwealth's TPS International Scheme, two domestic student tuition assurances operate under Ministerial direction;
- the TAFE Directors Australia Tuition Assurance Scheme. The TDA TAS Scheme certifies authorised TAFE and major private RTO colleges, and divinity colleges registered with the Commonwealth to offer FEE HELP income contingent student loans.
 - Australian Council for Private Education and Training (ACPET) – This ACPET scheme offers private college members TAS certification.

Each tuition assurance scheme is underwritten by Australian and/or international insurers, and independently audited.

In 2013, within 12 months of establishment of the Commonwealth's TPS international Student scheme, to reduce risk of fund shortfalls, the TPS Scheme has now sought support from TDA and ACPET's insurers, to further underwrite the Federal Scheme.

This Commonwealth TPS process is an example of an APS-legislative scheme which could have been outsourced successfully to the industry itself, and avoid the expense and structure of a Canberra-based bureaucracy, seeking to manage international education student services. These services are ideally supported directly by peak education not-for-profit bodies, and with an innovative industry approach, devolution of such bureaucracies would be a progressive step towards reducing red tape and proceed to an industry-based solution.

(c) **Australian Workforce Productivity Agency** – This agency has been known as Skills Australia, and more recently the Australian Workforce Productivity Agency (AWPA). This has been established to oversee the administration of the National Workforce Development Fund, to process direct training grants to industry and SMEs, made through the 11 Australian Industry Skill Councils, and produce research on the VET sector. The National Centre for Vocational Education research (NCVER) also produces research, and its shareholders are federal state and territory governments.

The architecture of the AWPA, and possible duplication with NCVER, may be a further case of Canberra-based structures for advice and regulation, and raises wider questions as to state and territory jurisdictional issues in VET, and core support services.

(d) **Australian Apprenticeship Centres** – The Australian Apprenticeship Centre structure was established to oversee a brand created by the Commonwealth, called *Australian Apprenticeships*. The agency oversees federal input to apprenticeship contracts and payments to employers of apprentices and trainees. The downturn in apprentices and trainees has been a challenge in recent years, and tracked along with employment patterns in the building and construction sector, contractual shifts by industry to 457 visas for skilled workers, and decline in industry engagement in the formal training system.

A key question remains as to the appropriateness of the Commonwealth retaining this VET architecture, and under the circumstances, TDA argues for devolution of this function to states and territories.

(e) **Careers advice (MyFutures.gov.au)** – Unlike careers advice in Canada and related Federal markets, in Australia the Commonwealth operates such careers advice under a Canberra-based bureaucracy. These services remain distant to students and educationalists, and are a further example of areas available for outsource to specialist peak incorporated education bodies.

5. Asset utilisation – “Unleashing Our capability”

Technical and vocational education operates in Australia under shared funding from Commonwealth, state and territory governments. The technical and further education (TAFE) network comprises 61 TAFE Institutes, which include six dual sector universities with TAFE divisions. The TAFE Institutes operate across 1,300 campus locations, with an asset portfolio estimated at more than \$15 billion.

To date, the national Partnership Agreement's between the Commonwealth and states and territory governments has not extended to questions on how TAFE assets may be better utilised, apart from private sector access for classrooms.

This issue underscores wider issues of governance, under which asset management might be more leveraged.

Although the National Partnership Agreement on Skills (2012) prompted states and territories to support new structures or rationalisation of TAFES in most states and territories, the governance (eg statutory authorities) remain at odds with wider asset control and management potentially under more empowered TAFE boards.

By contrast, Australia's 39 public universities each operate under a more developed governance, with a view to capacity for property trusts and innovative asset utilisation. This feature has facilitated improved performance of universities in accessing non-government funding for capital works, student services and accommodation, and linkages with industry and science and technology-based corporations.

Under any further negotiations between Commonwealth and state and territory jurisdictions, this shared funding profile should extend to assets of the public provider (TAFE) network.

“Unleashing our Capability” was a key advocacy theme for TAFE Directors Australia for the 2013 Federal election. The issue of asset management is an example of areas in which more Federal focus on ‘TAFE’ as a sector, and collaboration with states and territories, may bring dynamic benefits to Australia, and clients of the technical and vocational education sector



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