

**The Select Committee of the
Legislative Council of South Australia**

**ACPET Submission to the Select Committee
on the Skills for All Program**

July 2015

Table of Contents	Page
<hr/>	
Introduction	3
Executive Summary	5
Key Points in Submission	9
Response to the Terms of Reference	
(a) The extent to which the objectives and goals of the South Australian Government’s <i>Skills for All</i> Program have been met	12
(b) The impact of the <i>Skills for All</i> Program on TAFE SA	14
(c) The impact of <i>Skills for All</i> on the South Australian training Market and Registered Training Organisations (RTOs)	15
(d) The financial impact and viability of <i>Skills for All</i> on the South Australian budget and government agencies	19
(e) The extent to which the needs of South Australian businesses were met by the <i>Skills for All</i> Program	19
(f) The manner and extent to which South Australian industry has been consulted in relation to <i>Skills for All</i>	21
(g) The efficiency and effectiveness of the South Australian apprenticeship and traineeship arrangements since the introduction of <i>Skills for All</i>	22
(h) The extent to which <i>Skills for All</i> complements or duplicates other initiatives and programs	22
(i) An assessment of key principles and operational arrangements in designing and implementing the <i>WorkReady</i> program	23
(j) The impact on training opportunities, choice and quality in South Australia as a result of changes to subsidised funding under the <i>WorkReady</i> program	26
(k) Other relevant matters.	26
References	27
ACPET Value Statement	28

Introduction

On 3 June 2015, the South Australian Legislative Council appointed the Select Committee to inquire into and report on the operation of the *Skills for All* program and the impact of the changes to subsidised training under the *WorkReady* program, announced on 21 May 2015. The Select Committee has called for submissions to be sent by 10 July 2015.

ACPET welcomes the Select Committee Inquiry and looks forward to considerations for an improved funding environment for the Vocational Education and Training (VET) sector in South Australia, in particular for ensuring student and employer choice, equity, effectiveness, quality and stability in funding arrangements.

This submission to the Select Committee has been prepared by the Australian Council for Private Education and Training (ACPET). Established in 1992 as the national industry association for private providers of post-compulsory education and training, ACPET is committed to supporting a diverse, flexible and competitive sector to drive quality and innovation. ACPET represents 1,100 members nationally and over 100 members in South Australia, comprising institutions that offer a diverse range of delivery in Vocational Education and Training (VET), higher education, English language, foundation studies and primary/secondary schooling. Members range from large publicly listed companies to small businesses that specialise in a particular industry or niche area. In South Australia, most member RTOs are small to medium businesses and not-for-profit organisations, many of which have been operating successfully for decades (for further information visit www.acpet.edu.au).

ACPET appreciates the opportunity to provide a contribution to the Select Committee and has responded to the Terms of Reference as outlined below:

- (a) The extent to which the objectives and goals of the South Australian Government's *Skills for All* Program, specifically in relation to employment and productivity growth in South Australia as outlined in the 2011 *Skills for All White Paper*, have been met;
- (b) The impact of the *Skills for All* Program and associated funding and policy changes on the financial and operational capacity of TAFE SA to deliver training and employment programs in South Australia, particularly in regional South Australia;
- (c) The impact of the implementation and operation of the *Skills for All* Program on the capacity, transparency, efficiency and viability of the South Australian training market, including on Registered Training Organisations;
- (d) The full financial impact, including long-term financial viability, of the introduction and ongoing operation of the *Skills for All* Program on the South Australian budget and government agencies;
- (e) The extent to which the current and anticipated future training and employment needs of South Australian businesses, including regional South Australian industry, were met by the *Skills for All* Program;
- (f) The manner and extent to which South Australian industry has been consulted in relation to the funding and training priorities under *Skills for All*;

- (g) The efficiency and effectiveness of the South Australian apprenticeship and traineeship arrangements since the introduction of *Skills for All*;
- (h) The extent to which the *Skills for All* Program complements or duplicates initiatives and programs undertaken by Commonwealth Government and non-government training and employment programs, particularly in regional South Australia;
- (i) An assessment of key principles and operational arrangements that must be taken into account in designing and implementing the *WorkReady* program; and
- (j) The impact on training opportunities, choice and quality in South Australia as a result of changes to subsidised funding under the *WorkReady* program announced by the State Government on 21 May 2015.
- (k) Other relevant matters.

Executive Summary

The private Vocational Education and Training (VET) sector plays a significant role in contributing to the South Australian economy, through the development of the state's workforce and supporting VET as a major export industry.

Research by ACPET has estimated that private tertiary education providers in Australia contribute \$5.8 billion per year to the national economy, employ almost 100,000 (equivalent full-time) people and provide training for more than 1.4 million (equivalent full-time) students¹. There are approximately 4570 private Registered Training Organisations (RTOs) in Australia, of which 1670 received government funding nationally in 2013 and 1641 in 2014². Data compiled by the National Centre for Vocational Education Research (NCVER) shows that government funded private providers enrolled 537,600 of 1.85 million students in 2013 and 582,500 of 1.79 million students (32.6 per cent) in 2014. In South Australia, 233 RTOs received government funding from various sources, including for apprenticeships, for delivering to 130,000 students in 2014³.

When considering the full fee-for-service delivery for non-government funded private RTOs, which is not covered by the statistics outlined here (since data on full fee-for-service delivery by all private VET RTOs will only become available from this year), the contribution of the private training sector is clearly a major component of the Australian education sector, including in South Australia.

Governments across Australia have adopted contestable funding models as the preferred approach under the National Partnership Agreement on Skills Reform, which has successfully increased participation rates (i.e. student numbers increased nationally by over 200,000 since 2009)⁴. In South Australia, VET participation rates increased rapidly in 2012-2013 immediately following the introduction of *Skills for All*, but have since declined just as rapidly (i.e. -26%) creating a boom and bust situation. In 2013, under *Skills for All*, 55,900 students were enrolled with private RTOs (i.e. 49%* of the subsidised training market)⁵. Under *WorkReady*, participation will continue declining to a mere 51,000 new places (i.e. well below 2013 levels). For students this means fewer training places and a 90% reduction in exercising their choice of provider. For private RTOs, this involves a drop in subsidised training delivery from a 49% share to just 10% with little notice.

The reasons for funding level reductions under *WorkReady* appear to be:

- 1 that Commonwealth funds under the National Partnership Agreement have been used far more quickly than anticipated due to a failure to manage market uptake appropriately early on; and
- 2 TAFE SA being unprepared for a contestable environment, necessitating the use of government funds to sustain the organisation.

The NCVER figures show that government funded VET students in SA numbered 165,700 in 2013, which dropped by 21.6 per cent to 129,800 in 2014, by far the largest drop of any state or territory. In SA in 2014, "student numbers declined by 35,900 students (21.6 per cent); subject enrolments declined by 421,800 (31.6 per cent); hours declined by 11.5 million (26.1 per cent); and full-year training equivalents (FYTEs) declined by 16 000 (26.1 per cent)"⁶. The SA government reduced funding to VET by 17% in the 2014/15 budget, at a time when Commonwealth Government VET funding had increased to SA from

¹ ACPET, ACPET At A Glance, 2012

² NCVER, Students and Courses, publicly funded training providers, 2014

³ NCVER, Students and Courses, publicly funded training providers, 2014

⁴ NCVER, Vocational Education and Training Provider Collection, 2009-2013

⁵ DFEEST, *Skills for All* Initial Evaluation Report, 2014

⁶ NCVER, Students and Courses, publicly funded training providers, 2014

* Note: Data may vary slightly depending on the source and time of year of data capture (This is 49% in some reports & 47% in others)

\$119.7 to \$129.8 million. The number of funded VET students is declining dramatically in the 2015/16 budget to a low of 51,000 new places, at a time when Commonwealth Government funding to SA is due to increase. These declines can be attributed to the mismanagement and over-expenditure of *Skills for All* funding during the 2012-14 period, resulting in course caps, frequent multiple disruptive changes to program structure (discussed elsewhere in this submission), and the extension of preferential treatment to TAFE SA, which has failed to adapt to a contestable environment, with the effect of removing student and employer choice.

207 RTOs were initially approved under *Skills for All* to access government subsidies, which later rose to 215, of which 76 were based interstate (later rose to 80). However, not all approved RTOs were able to capitalise on the resource, infrastructure and staff investments made, due to course caps imposed within just 3 to 4 months of program commencement leading to significant losses for some RTOs.

There were 76,578 enrolments under *Skills for All*, during Semester 2 alone in 2012, of which 29,035 (i.e. 38 per cent) were in private RTOs. During 2013 there were 134,900 enrolments under *Skills for All*, of which 62,700 (i.e. 47 per cent) were in private RTOs⁷. In 2013, 46 per cent of hours delivered in SA under a *Skills for All* subsidy were by private RTOs, while 54 per cent were by TAFE SA (ACIL Allen, 2015)⁸. The total number of enrolments in the first 6 months of *Skills for All* (i.e. 76,578) is far more than those proposed for the next 12 months under *WorkReady* (i.e. 51,000), of which private RTOs can access only 5,000. This is **57,700 places less** than those accessed by private RTOs in 2013 (2014 *Skills for All* figures unavailable). This represents a massive drop for small to medium businesses to adjust to, with just one week's notice. Consequently, many jobs were lost from RTOs at the end of the 2014-15 financial year and more are likely to occur. Please note that these figures do not include the potential for RTO funding under the *Jobs First* part of *WorkReady* since these are not yet known.

Government funded VET completion rates are currently 35.8 per cent nationally, which translated to 585,000 qualification completions, up from 394,000 in 2009⁹. In South Australia, 2013 completion rates under *Skills for All* were reported as being **48 per cent** for private providers and **24.7 per cent** for TAFE SA¹⁰.

The 2014 national student outcomes survey for domestic students for the publicly funded VET sector reported that 87 per cent of graduates and 84 per cent of module completers were satisfied with their training experience. 77 per cent of graduates were employed after undertaking training, and 80 per cent of those undertaking training for employment related reasons were employed after training. In terms of government funded training, results confirm that the VET sector, including both private and public providers, delivers quality education outcomes, with 86 per cent satisfied with their overall quality of training at private providers compared to 89 per cent for TAFE¹¹. Under *Skills for All*, satisfaction rates in SA were reported as being 91 per cent in the latter half of 2012 and 87 per cent in 2013¹².

In another measure of quality, in 2014, graduates from private providers were more likely to be employed after training compared to TAFE graduates (79 per cent versus 74 per cent) and were also more likely to gain employment after training (47 per cent compared to 42 per cent). SA figures are not available.

In the broader VET sector (i.e. government and full fee-for-service activities) private VET providers are consistently the preferred supplier of nationally recognised training, with over 45 per cent of employers choosing these providers. Only 16.7 per cent used TAFE as their main provider of nationally recognised

⁷ DFEEST, Skills for All Reports, December 2012, April 2013 and June 2014

⁸ ACIL ALLEN, Evaluation of Skills for All, 2015

⁹ Australian Vocational Education and Training statistics: Students and courses 2013, Table 17

¹⁰ DFEEST, Skills for All Initial Evaluation Report, (p. 20)

¹¹ NCVER, National Student Outcomes Survey, 2014

¹² DFEEST, Skills for All Reports, December 2012 and April 2013

training in 2013¹³. In SA, up to 85% of international VET students and up to 49% of subsidised students under *Skills for All* chose to study with a private RTO. Clearly industry and students are overwhelmingly selecting private RTOs as their provider of choice, due to their flexibility, responsiveness, strong relationships with employers, and effective balance between training in the workplace and campus delivery. The introduction of *WorkReady* effectively removes this choice of provider from students and employers in up to 90 per cent of cases, for which TAFE SA enrolment is required to access a subsidy.

Public funding of training delivery by private VET providers is an efficient and attractive investment for governments. In 2013, States and Territories spent \$6.4 billion in operating expenses to deliver training to 1.2 million students at TAFE. This equates to a cost of \$5,247 per student. States and Territories contracted \$1.3 billion of training delivery to non TAFE providers in the same year to service 686,000 students (including 133,500 community education students). This equates to a cost of only \$2,078 per student, some \$3,169 less per student or only 40 per cent of the cost of the TAFE equivalent, for the same or better student outcomes.

In South Australia, the public-private cost differential is even more pronounced, given the average subsidy paid to TAFE SA under *Skills for All* has been 2.5 times higher than for students enrolled in private RTOs, and in some cases triple. This combined with the fact that SA reduced the public funding hourly rate by 45 per cent¹⁴ compared to the national average reduction of 26 per cent, created an extremely difficult environment in which private RTOs were attempting to maintain quality delivery, while meeting the needs of increasing numbers of disadvantaged students. This enabled TAFE SA to charge students an average of \$10 less per hour¹⁵ than private RTOs, which is an indication of anti-competitive pricing by the SA government in managing Commonwealth funds that are intended for promoting student choice and full contestability. (*Between 2009 and 2013 the expenditure per adjusted FYTE¹⁶ dropped from \$13025 to \$9784 in SA. The largest drop occurred in 2012 (-25.1%) with the introduction of Skills for All*)¹⁷.

Under the National Partnership Agreement (NPA) on Skills Reform States and Territories must meet a number of requirements to receive funding, including the creation of “a more equitable and accessible training system through introducing and strengthening a national entitlement to a government subsidised training place ... accessible through any registered training organisation, public or private, which meets state-based criteria”¹⁸. The structure of *WorkReady*, in which 90 per cent of subsidised training places are guaranteed to TAFE SA, is inconsistent with this agreement (NPA) and risks losing \$65m to the State over the remaining life of the reform, 2015-2017.

In 2013, SA spent \$580 million in TAFE SA operating expenses to deliver training to 97,600 students at TAFE. This equates to a cost of \$5,942 per student compared with only \$1,708 per student for private RTOs, some **\$4,234 less per student** or only 29 per cent of the cost of the TAFE equivalent, for much worse student outcomes (i.e. **24.7 per cent** completion rates at TAFE SA and **48 per cent** at private RTOs). Students attending private RTOs cost the government 71% less, are almost twice as likely to complete and are much more likely to obtain a job on completion due to the strong relationships that private RTOs have with employers.

The *Australian Government Competition Policy Review Final Report* (Harper Review) released in March 2015 noted that the potential benefits of competition in human services included lower prices, greater efficiency in service provision, greater innovation and improved customer choice; features that are also sought after in the VET sector.

¹³ NCVER, *Employers Use and Views of the VET System 2013*, Table 14

¹⁴ Productivity Commission Report on Government Services, 2015

¹⁵ ACIL Allen Independent Evaluation of Skills for All, 2015 p.48

¹⁶ FYTE – Full Year Training Equivalents

¹⁷ NCVER, *Vocational Education and Training Provider Collection, 2009-2013*

¹⁸ National Partnership Agreement (NPA) on Skills Reform, 2012 (Clause 28)

The role of TAFE SA as a public service provider needs to be made clear, and aspects of its operation should be funded outside of the contestable market. Re-creating a government funded monopoly ignores the considerable progress the sector has made since the introduction of contestability. Community Service Obligations do need to be funded and supported from additional investment and TAFE broader operations exposed to national and international VET competition to help it remain a viable and innovative contributor to the sector. TAFE has an important role to play, but this role needs to be shaped by student and employer choice.

Currently, TAFE SA receives multiple funding lines from the SA government for effectively the same services. In addition to having had plant and capital funded from the public monies, which brings ongoing returns from hiring out facilities at commercial rates, and in addition to the differential subsidy level of 2.5 times that applicable to private RTOs under *Skills for All* and now *WorkReady*, it also receives the following¹⁹:

- payment for Community Service Obligations;
- payments for identified non-commercial activities stated in the Memorandum of Administrative Arrangement (MAA) for Community Services, including Learner Support Services (LSS) and Small Regional Communities training; and
- structural adjustment funding for “market transition risks during implementation”²⁰ of *Skills for All*.

Many students in receipt of *Skills for All* subsidies, who would otherwise require support covered by TAFE SA Community Service Obligations, have been choosing private training providers. The *Skills for All* Learner Support Services (LSS) Trial, which was unfortunately limited to TAFE and only four selected private RTOs, nonetheless showed that support services are provided both in the public and private sector. For TAFE SA, 5,774 hours of services were provided to the LSS students and for the private RTOs, 3,476 hours of services were provided to the LSS students²¹.

NCVER reported that in 2012²², of all Indigenous students in VET nationally, 36 per cent chose to attend a private RTO. Similarly 30 per cent of culturally and linguistically diverse students and 32 per cent of students with a disability attended private training institutions. This was also true for 42 per cent of students in rural and remote areas and 46 per cent of older students who chose to attend a private RTO. This demonstrates the need to balance the funding of community service obligations across the entire sector in a competitive market.

Private RTOs deliver across SA to regional and remote areas, to disadvantaged students and in a wide range of industry areas not reached by TAFE SA. They deliver value, flexibility, innovation, quality, diversity, much higher completion rates and higher job placement rates for completing students. In 2013, private RTOs offered 7200 subsidised student places²³ in regional areas (i.e. 30% market share), excluding fee-for-service activity.

The May 2015 *WorkReady* announcement by the SA Government to allocate only 5000 of 51,000 available funded new places to private RTOs and the remainder to TAFE SA, not only effectively removes funding from private providers with less than one week’s notice, it destroys some 20 years of progress achieved through National Competition Policy. It is also inconsistent with SA’s obligations under the National Partnership Agreement for Skills Reform with the Commonwealth government and effectively removes choice from students and employers.

¹⁹ ACIL ALLEN, Evaluation of Skills for All, 2015 (p. 43)

²⁰ DFEEST, Skills for All White Paper, 2011 (p.24)

²¹ DFEEST, Skills for All Initial Evaluation Report, (p. 54)

²² NCVER, Disadvantaged Learners and VET

²³ DFEEST, Skills for All Summary Report, 2014

In addition, *WorkReady* ought to complement other state policies and not work against them. For example, one SA Minister has announced an investment of \$5.7 million to boost international student numbers in 2015, whilst another drastically cut funded training allocations to the private VET sector under *WorkReady*. These funding cuts diminish the sector's capacity to respond to the call for increasing international student numbers, when up to 85% of international VET students studying in SA choose to do so with a private RTO. The State depends on private providers to do the heavy lifting to meet state international student targets and ought to support the sector and not undermine it.

The decision to allocate most of the funding to TAFE SA, with subsidies averaging 2.5 times that paid to private RTOs, protects inefficiency and inflexibility. This means that there will be about 27,000 fewer funded places for students in SA than if funding were fully contestable as intended by the national agreement, for half the student outcomes and a lower rate of employment on completion.

Key Points in Submission

TOR (a) The extent to which the objectives and goals of the South Australian Government *Skills for All* Program have been met.

Data reveals that the first two objectives of *Skills for All* regarding increasing participation rates have been met, but mostly in lower level qualifications, when the objective was to increase the number of people achieving Certificate III level and above. In addition, the training has failed to lead to increased employment levels, with the latest unemployment rate reaching 8.2 per cent and 21.9 per cent for youth.

A number of intentions stated in the *Skills for All* White Paper have **not** been implemented or achieved, for example:

- competitive neutrality and a level playing field
- a 'managed transition' for TAFE SA to full contestability
- student and employer choice and demand-driven funding, particularly under *WorkReady*
- value for money (i.e. TAFE SA is paid 2.5 times more than private RTOs, plus receiving other funding)
- high quality training outcomes (TAFE SA retention rates 24.7 per cent, private RTOs 48% per cent)
- ensuring price was not driven by competition
- third party access to public infrastructure (i.e. TAFE campuses)
- correct alignment with industry demand and strategic priorities
- the establishment of a coordinated, state-wide and professional network of career education, information, advice and guidance supported by co-investment by governments, individuals and industry
- adequate subsidy levels to support the higher costs of consumables and the cost of providing training in regional/rural areas
- simplicity of funding and reduced red tape
- transparency as a central feature of *Skills for All*

TOR (b) The impact of the *Skills for All* Program on TAFE SA

Given the much higher per capita cost of students attending TAFE SA when compared with private RTOs (i.e. \$10 more per hour) for far worse outcomes (i.e. 24% compared with 48% retention rate) and lower post-completion employment, it is clear that both *Skills for All* and particularly *WorkReady* are neither efficient nor viable in the use of limited funds available to meet the State's workforce development needs. Urgent reform of TAFE SA is needed for efficiency, responsiveness, viability and quality outcomes to be obtained, including a planned timeframe in the transition to full contestability.

TOR (c) The impact of *Skills for All* on the South Australian training Market and Registered Training Organisations (RTOs)

Skills for All has had the impact of damaging a formerly healthy fee-for-service market due to its poor planning, management, subsidy structure and extensive advertising of free courses. As a result, the cost of up to 80 per cent of former fee-for-service courses was transferred to government under *Skills for All*, as students and employers took up the free course offerings in much larger than anticipated numbers. The sudden introduction of course caps within 3 months of operation, after RTOs had invested in staff, resources and infrastructure, without a fee-for-service clientele to fall back on, damaged the business of the affected RTOs. The frequent operational and structural changes that were subsequently made further destabilised the sector, which will take some time to recover and restabilise.

Skills for All was initially transparent in the information provided, particularly in early reports, but as the program began to experience difficulties, information became more selective and less transparent, making it even more difficult for RTOs to plan effectively.

TOR (d) The financial impact and viability of *Skills for All* on the South Australian budget and government agencies

The very rapid decline in the state allocation of funding for subsidised VET training from 2012 into 2015/16, due to inefficient management of places and failure to transition TAFE SA to full contestability, has undermined the capacity of the VET sector to respond to the state's workforce development needs with two more years remaining under the national agreement. The implications are that the SA government is utilising remaining funds inefficiently, at a much greater per capita cost with lower student outcomes, in order to support TAFE SA at the expense of student and employer choice and the jobs of private RTO employees. It is difficult to see how the State's training needs can be adequately met when remaining funds are used so ineffectively.

TOR (e) The extent to which the needs of South Australian businesses were met by the *Skills for All* Program

There did not appear to be a logical or clear basis for the selection of qualifications to be subsidised or capped under *Skills for All* and this situation appears to be continuing under *WorkReady*. There needs to be a more consistent match between employer needs based on accurate, up to date workforce data and full consultation to ensure the needs of business are met.

TOR (f) The manner and extent to which South Australian industry has been consulted in relation to *Skills for All*

Initially there was little or no consultation in the establishment of *Skills for All* in the first 6 to 8 months of operation, until it was clear that the program was in trouble with much higher than expected take-up rates. Advice provided by ACPET to the department both verbally in meetings and in written correspondence in the early stages, was not taken up. Once broad consultation began in earnest through open forums and meetings of key stakeholders in 2013, about three of the suggestions that emerged from the collective consultations were taken up. These related to the introduction of price banding, reducing subsidies for Recognition of Prior Learning (RPL) and reducing selected subsidy levels, which did have some positive effects on slowing enrolments.

However, other key advice given by many parties, including by ACPET and the Minister's own Training and Skills Commission to introduce co-contribution and a quota-based system were ignored, among many other suggestions listed in the body of this submission.

TOR (g) The efficiency and effectiveness of the South Australian apprenticeship and traineeship arrangements since the introduction of *Skills for All*

Skills for All appears to have had a deleterious effect on Apprenticeships and Traineeships in SA, based on the latest NCVET data, which shows that Apprenticeship and Traineeship numbers dropped dramatically since the introduction of *Skills for All*, from 40,600 in June 2012 to 23,100 in December 2014. This represents a total drop of over 43 per cent.

TOR (h) The extent to which *Skills for All* complements or duplicates other initiatives and programs

With respect to national programs, the state-based funded training program appears to duplicate the purpose of the National Workforce Development Fund (NWDF). However, ACPET supports the continuation of state-based funded training programs since it should be possible, with improved management, for workforce training needs to be well met at the local level, provided there is also transparency, equity, accountability and efficiency,

With respect to state initiatives, the funded training program ought to complement other state policies and not work against them. For example, one SA Minister has announced an investment of \$5.7 million to boost international student numbers in 2015, whilst another has drastically cut funded training allocations to the private VET sector under *WorkReady*. These funding cuts diminish the sector's capacity to respond to the call for increasing international student numbers, when up to 85% of international VET students studying in SA choose to do so with a private RTO.

TOR (i) An assessment of key principles and operational arrangements in designing and implementing the *WorkReady* program

ACPET recommends in this submission, a list of principles and operational features that should underpin funded training under *WorkReady*, characterised by quality, equity, accountability, efficiency, value for money, flexibility, responsiveness to student and industry needs based on accurate data, advance notice for program changes, transparency, a managed transition to full contestability and a level playing field within a specific timeframe.

TOR (j) The impact on training opportunities, choice and quality in South Australia as a result of changes to subsidised funding under the *WorkReady* program

The sudden and dramatic reduction in the number of subsidised training places available in 2015/16 under *WorkReady* effectively removes student and employer choice and contestability, upon which the National Partnership Agreement is based. With one week's notice, the decision has devastated the private training sector, which will only receive 5,000 of 51,000 subsidised places or less than 10 per cent, without the safety net that has been handed to TAFE SA.

Student choice drives a quality market. Despite private RTO performance (i.e. \$4,234 less per student with much higher completions - 48%), TAFE SA has been allocated 90% of *WorkReady* places. As a result, students will miss out on some 27,000 places, will be almost half as likely to complete, less likely to obtain employment and, together with employers, student will lose their right of choice. Public funds are being used inefficiently to fund a TAFE system that has comparably lower outcomes and has not transitioned to contestability, despite preferential funding from numerous sources for many years. Students, employers and private RTOs are now forced to pay for this failure. Hence, 'training opportunities', 'choice', 'quality' and over 20 years of progress achieved under National Competition Policy are completely eroded by *WorkReady*.

Finally, *WorkReady* policy is inconsistent with the State's obligations under the National Partnership Agreement for Skills Reform and there is a risk of losing Commonwealth funding if the principles of

student choice and contestability are not adhered to in the structure of the *WorkReady* program. Both *WorkReady* and *Skills for All* policy settings are also inconsistent with the requirements of National Competition Policy.

TOR (k) Other relevant matters.

South Australia is known for quality in education and training, however, this will be difficult to maintain with the lowest dollar per hour training subsidies in the country. Action is needed to ensure that quality is upheld and improved, which will be a challenge in the current fiscal environment.

Response to the Terms of Reference

The following responses are presented by ACPET on behalf of its members to inform the report by the Select Committee to the South Australian Legislative Council on the *Skills for All* and *WorkReady* programs.

(a) The extent to which the objectives and goals of the South Australian Government's *Skills for All* Program, specifically in relation to employment and productivity growth in South Australia as outlined in the 2011 *Skills for All White Paper*, have been met.

Comments are made here in relation to the following objectives that are outlined in the 2011 *Skills for All White Paper*²⁴:

- raise the skills level of South Australians;
- increase the number of South Australians with post school qualifications; and
- increase employment participation. (p. 6)

In relation to the first two objectives, NCVET participation data shows that these have been met, but mostly in lower level qualifications, when the objective was to increase the number of people achieving Certificate III level and above. In addition, the current unprecedented rate of unemployment in SA (8.2% and 21.9% for youth) would suggest that the third objective has not been met. Without access to destination studies for students who accessed subsidies under *Skills for All*, it is difficult to make a completely accurate assessment of this.

In relation to other statements of intent made in the *Skills for All White Paper*, the following comments are made:

"Individuals will be able to **choose** what subsidised training they do and the provider they use. This means that the supply of training will be **demand driven** and the public training **subsidy will eventually be fully contestable**." (p.16)

Student and employer **choice** is by necessity often driven by price. Given the higher subsidy paid to TAFE SA, the public provider has the opportunity to charge lower fees, which mitigates against competitive neutrality. Under *WorkReady* both students and employers will effectively have little or no choice, for other than 5000 places. This means that Commonwealth funding will not be used for its intended purpose – i.e. demand-driven training.

The supply of training will be demand driven and the public training subsidy will **eventually be fully contestable** ... to ensure: **value for money** from its significant investment; the system is **stable, high quality** and has the **confidence** of all stakeholders; there is **competitive neutrality**." (p.16) "The department will work with the market to establish a subsidy price that supports sustainable delivery and quality, **value for money** training services." ... A subsidy price strategy will be developed to support **high quality training outcomes** according to market conditions and to promote innovative delivery approaches. While the subsidy

²⁴ Skills for All White Paper , 2011

price will be used as a mechanism for change, it will **not be solely driven by price competition** which would be to the **detriment of quality** of services provided. The subsidy price will be based on what is required **to sustain training services** that provide **value for money.**" (p.17)

Given that the SA subsidy level dropped to the lowest in the country, and even lower for private RTOs, it is difficult to understand how *Skills for All* would be contributing to 'high quality'. The higher subsidy level paid to TAFE SA appears a contravention of competitive neutrality principles and does not represent 'value for money'. Completion rates under *Skills for All* were **48 per cent** for private providers and **24.7 per cent** for TAFE SA²⁵. In 2013, SA spent \$580 million in TAFE SA operating expenses to deliver training to 97,600 students at TAFE. This equates to a cost of \$5,942 per student compared with only \$1,708 per student for private RTOs, some **\$4,234 less per student** or only 29 per cent of the cost of the TAFE equivalent, for much worse student outcomes and lower employment rates on completion.

"With the advent of increased contestability the development of **a level playing field is essential** to the VET market. ... a separation of the purchaser and provider functions undertaken by DFEEST will be implemented in the **interests of competition.**" (p.18) "To manage the financial risk associated with significant changes, a market adjustment risk management reserve will be established **for a limited period** to enable a managed transition for TAFE SA" (to Skills for All) (p.24)

Despite the separation of purchaser and provider, in which TAFE SA became an independent statutory authority, there was never a 'level playing field' under *Skills for All* and even less so under *WorkReady*, for reasons already explained. Initially, there were courses for which subsidies were available for TAFE SA only, while for other courses TAFE SA received an average subsidy of two and a half times greater than private RTOs and in some cases, three times greater, in addition to CSO and structural adjustment funding, and full use of publicly funded infrastructure across the state. In some cases, this consisted of new, state of the art facilities (i.e. Tonsley Park \$125m+). The 'interests of competition' have clearly not been served in this scenario.

"TAFE SA needs to change to be able to better compete and respond the market ... and be more flexible and entrepreneurial ... to make it more responsive to industry and student needs. To achieve this it will need increased flexibility and autonomy, as well as **greater commercial accountability.**" (p.23) "To manage the financial risk associated with significant changes, a market adjustment risk management reserve will be established **for a limited period** to enable a managed transition for TAFE SA" (to Skills for All) (p.24)

The *WorkReady* announcement in May 2015, in which 90 per cent of new places were allocated to TAFE SA (i.e. 46,000 out of 51,000 new places), clearly shows that the 'market adjustment risk' is extending well beyond the 'limited period' intended in the White Paper. Despite requests by ACPET since 2012, verbally in meetings and in written correspondence, for a timeframe to be placed on the transition to full contestability, no date was provided. However, under media pressure in June 2015 the Minister stated that the government was working towards 2018/2019 for full contestability and accountability for TAFE SA to be achieved, which is well after the end of the current funding agreement with the Commonwealth (i.e. June 2017), and beyond the term of the current SA government, effectively absolving the government of responsibility for the transition. Based on this, it is clear that the SA government has not achieved the goal of making TAFE SA 'commercially accountable' as intended in the White Paper.

"TAFE has an extensive portfolio of campuses and training facilities and in an increasingly contestable funding environment third party access to these facilities on commercial terms will be expanded and encouraged. The Government will actively explore innovative models which facilitate tenancy access by all RTOs including TAFE SA, to government-owned facilities in accordance with training needs." (p.26)

In addition to higher subsidy levels, CSO and structural adjustment funding, publicly funded infrastructure has also been available to TAFE SA, from which it has been able to generate an income from facility hire at premium rates. ACPET is not aware of any 'innovative models' of tenancy proposed, or of any instances in which access to TAFE SA facilities was enabled by the SA government. There have however, been

²⁵ DFEEST, Skills for All Initial Evaluation Report, (p. 20)

anecdotal reports of private RTOs rejecting offers of facilities hire by TAFE SA, at well above commercial rates. The facilities were therefore out of reach to RTOs considering the lower subsidy levels paid.

“Courses will attract the training subsidy where they align with industry demand and strategic priorities.” (p.13)

ACPET and industry bodies have unanimously supported the view that subsidies ought to align with industry demand and continue to do so. However, an analysis of the allocation and destination of funding subsidies compared with the recommendations made by the SA Training and Skills Commission in its five-year Workforce Development Plan (*Skills for Future*) show that subsidy course allocations have not always followed this advice. It is therefore not clear what basis was used to devise the ten Funded Training Lists that have been issued since July 2012.

“South Australia will build a coordinated, state-wide and professional network of career education, information, advice and guidance supported by co-investment by governments, individuals and industry. If *Skills for All* is to realise its potential then South Australia will need a career development system that:

- includes trained individuals with career management skills
- provides quality information, resources and advice to support informed decision making
- coordinates programs and strategies across the labour force and across the education and training system.

This system will be built in partnership with the Commonwealth, other jurisdictions, the schooling, training and higher education sectors and industry organisations through a phased implementation process.” (p.20)

No such career development system was developed, although a publication was produced that provided basic information about jobs. Instead the responsibility for providing career advice was placed on the shoulders of RTOs and Job Service Agencies (JSAs), while paying the lowest dollar per hour training subsidy in the country.

“Regional loadings - *Skills for All* providers will receive subsidies for delivery in rural locations that reflect the additional costs incurred due to thin markets, the higher costs of consumables and the cost of maintaining a regional/rural presence.” (p.26)

Information received by ACPET from private RTOs delivering in country areas indicated that the *Skills for All* subsidies were inadequate for the challenges faced in rural, regional and remote areas.

... simplicity of funding (and) improved access to training and greater ease in navigating the system ... reducing red tape and barriers (p.12). A central feature of *Skills for All* is transparency (p.33).

RTOs reported that the system was overly complex and that information and reporting was unnecessarily burdensome with duplication of information already provided to the VET regulator to obtain and maintain RTO registration. The data provided was, for the most part, not fed back to RTOs nor were RTOs able to generate reports for their own internal monitoring. Although early program reporting was transparent and comprehensive, data reported upon in subsequent reports was selective. It is still not known why some of the data was required since it did not appear to have been used.

(b) The impact of the *Skills for All* Program and associated funding and policy changes on the financial and operational capacity of TAFE SA to deliver training and employment programs in South Australia, particularly in regional South Australia;

While ACPET does not have access to internal organisational information about the impact of *Skills for All* on TAFE SA, there is little evidence that TAFE responded effectively to student and employer demand, nor adapted to the market, in order to maximise the opportunities presented by *Skills for All*. Given the preferential subsidy levels paid, the list of courses for which TAFE only could access a subsidy, in addition to CSO and structural adjustment funds, TAFE has been provided opportunity to reform and respond flexibly to the market and enable its course offerings to be shaped by it. Since large numbers of students and employers were choosing private RTOs, the opportunity for reform has been missed, together with the real chance to build a long-term sustainable TAFE SA. The consequence is that students are denied choice under *WorkReady*, since they are forced to select TAFE as their provider in order to access a subsidy in 90 per cent of cases.

(c) The impact of the implementation and operation of the *Skills for All* Program on the capacity, transparency, efficiency and viability of the South Australian training market, including on Registered Training Organisations (RTOs);

In its initial introduction, *Skills for All* provided important opportunities for training across all industry sectors in South Australia. Unfortunately, the subsidy settings were in some cases inadequate and inequitable (e.g. public/private subsidy differential and TAFE-only courses being funded), and in other cases over-generous (e.g. 100% payment of RPL), while the implementation was poorly structured (e.g. failing to provide upper limits on number of enrolments per individual), and the administration was over burdensome for RTOs in the amount of information and reporting required, thereby forcing the redirection of resources from quality services to unnecessary administration. For example, there was information required of RTOs, which duplicated that provided to the VET regulator ASQA (e.g. compliance around course structure and assessments).

Please find specific comments below to each aspect of this term of reference:

Capacity – Prior to the introduction of *Skills for All*, private RTOs had access to a sustainable fee-for-service market in which some RTOs had operated successfully for many years and others had thrived for decades. With the advent of *Skills for All* and the sudden introduction of about 70 new RTOs from large states, RTOs including TAFE SA, had to adapt to a level of competition never before experienced. However, TAFE SA received preferential funding arrangements and structural adjustment funding to adapt to this new environment. In addition, the introduction of widely advertised ‘free’ training, undermined the fee-for-service market and reduced the overall capacity of the sector.

In anticipation of increased enrolments under *Skills for All* being sustained over the 5-year duration of the national agreement, private RTOs understandably invested in staff recruitment, staff training and infrastructure, thereby creating jobs. For some of these small businesses, the sudden cap on funded places for certain courses after just 3 months of operation was financially devastating and jobs were subsequently lost. Unfortunately, due to the level of competition and the availability of free training in other qualifications, there was not the possibility, even at that early stage, of rebuilding their fee-for-service client base. The only choice for some was to diversify from their traditional offerings in attempts to survive.

Despite repeated advice from ACPET, from RTOs and other industry bodies in consultative forums and in written submissions, not to use course caps as a blunt instrument for managing the rollout of subsidies, due to the devastating impact it was having on the market, course caps continued to be applied. This continued for some 6 to 8 months or more until it was clear that the take-up rate of training places was accelerating well beyond anticipated levels, despite the imposition of course caps, whilst also damaging the fee-for-service market. It was then (2013) that formal consultation began (discussed elsewhere).

There were also numerous operational changes made to *Skills for All*, including ten versions of the Funded Training List in 3 years, in attempts to correct the initial inappropriate structure of the program, which served further to destabilise the sector.

Transparency – At the introduction of *Skills for All* there appeared to be a degree of transparency of information, particularly in the first 12 months of operation. The subsidy levels for TAFE SA and private RTOs, and the courses for which TAFE only received funding, although vastly different, were at least openly available. However, at that time, the amount of structural adjustment and CSO funding received by TAFE was not made available. Instead, TAFE Community Service Obligations (CSOs) were given as justification for the price differential, which is now found to be inaccurate. Additional funding was being provided for CSOs.

During the first year, the reporting on *Skills for All* (i.e. December 2012 and June 2013 Reports) was reasonably comprehensive. However, as the trend data on completion rates and student outcomes began to emerge, very little information was released, other than non-controversial, generic descriptive information about the program. It is still not possible for example, to find information on total completions under *Skills for All* for 2012-2014, by public and private provider, compared against number of enrolments. This is a question that should be asked. The information is available because private RTOs were required to provide extensive information to the Department.

It is also not possible to identify the number of students whose needs were met by TAFE SA under their Community Service Obligations. A comparison of this data against the funding received and also against the number of disadvantaged students enrolled by private RTOs would show that the private sector has fulfilled a significant role in this area, but without access to additional funding, other than a small number of specialist providers.

In another example of lack of transparency, on 4 September 2013, *Skills for All* announced that it had reduced the amount of all training subsidies by 5% across the board in an attempt to manage a dwindling budget. However, the TAFE SA subsidy calculator did not show that this had occurred despite insistence by the Department that this was the case.

Information about how many students remain in the pipeline from *Skills for All* at the commencement of the *WorkReady* program has not been provided. It would be important to know the number of students in the pipeline and the dollar value of these enrolments, how many of these are still 'active', and what will happen to the funding allocated to these when inactive enrolments cease. This is because the argument for reduced funding and fewer places for private providers under *WorkReady* has been the large number of students still remaining in the 'pipeline'.

This lack of transparency in recent times is evident in the published report of the ACIL ALLEN, *Evaluation of Skills for All* report (2015), in which there is no evidence of the information presented by ACPET to the external consultants, both during a two-hour meeting in December 2014 and in a substantial written submission.

In terms of transparency of information by RTOs, there has been an enormous amount of student and financial information provided by RTOs to the Department, most of which is not fed back to the sector. This data should be analysed and made publicly available for the purpose of identifying trends in the sector. If the information is not used, there is no sense in creating significant work for RTOs to provide it. RTOs have reported that they have had to employ additional staff just to meet the administrative requirements of *Skills for All*. Others have simply opted out of the program since the small amount of funding received would not cover the additional cost of administration. In this regard, ACPET welcomed the Minister's Red Tape Review.

Efficiency and Viability

If efficiency is defined as value for money, in terms of the number of students per dollar investment and the number of graduates who complete training and gain employment, then facilitating student and employer choice for a private RTO represents responsible use of public funds.

Completion rates under *Skills for All* for 2013 (later figures not available) were reported as being **48 per cent** for private providers and **24.7 per cent** for TAFE SA²⁶.

In 2013, SA spent \$580 million in TAFE SA operating expenses to deliver training to 97,600 students at TAFE. This equates to a cost of \$5,942 per student compared with only \$1,708 per student for private RTOs, some **\$4,234 less per student** or only 29 per cent of the cost of the TAFE equivalent, for much worse

²⁶ DFEEST, *Skills for All* Initial Evaluation Report, (p. 20)

student outcomes (see completion rates above). The subsidy paid to TAFE SA is 2.5 times more than that paid to private RTOs, and the public cost of supporting a TAFE enrolment is almost four times that of a private provider.

Of the 404 courses on the *WorkReady* Funded Training List, there are 74 courses and 3750 funded places allocated to Diploma and Advanced Diploma level courses, where it is doubtful that there would be sufficient eligible students with the requisite, entry level qualifications to enrol. At an average subsidy cost of \$10,000 per place, this represents a cost of \$37.5m. Even if half or less reach completion, this still represents an expenditure of about \$18.7m that could buy almost 11,000 places at private RTOs. These courses are more costly and funds would be better used in Certificate II and III level courses to enable job entry where there is a skill demand.

In 2014, graduates from private providers were more likely to gain employment after training (47 per cent compared to 42 per cent). The SA figures for the employment of public and private VET graduates do not appear to be available. These should be sought as they are important for evaluating efficiency in allocating subsidies to RTOs that are more likely to lead to an employment outcome.

The proposed allocation of only 5000 out of 51,000 new places under *WorkReady* for private RTOs, while the remainder is allocated to TAFE SA, is therefore **neither efficient, nor viable** given the limited funds available to meet the state's workforce development needs. For the same amount of public funding that is allocated to TAFE SA, the state could obtain over three times more VET graduates from private providers.

The state government's own independent review of *Skills for All* recommended "that VET funding for public provision be brought into line with that for private providers through clearer articulation and funding of the multiple roles: competing for general FFS (i.e. fee-for-service) training; competing for training as a contracted *Skills for All* provider; (and) bidding for contestable community services.²⁷" Urgent reform of TAFE SA is needed for efficiency, viability and quality outcomes to be obtained.

In terms of the viability of the training market, *Skills for All* forced a damaging downward fee shift on the market by not requiring a co-contribution or compulsory fee payment to be made by students and employers and by widely advertising fee-free training. In order to compete with the TAFE-only funded courses, and the public/private fee differential, RTO fees continued to drop. Consequently the take-up of enrolments was far greater than anticipated and a budget blow-out occurred.

The following points summarise some of the key impacts of the various iterations of *Skills for All* since implementation:

In introducing the skills reforms, basic economic principles were ignored as the government failed to take account of the impact of the state's training policy on the market, which was stimulated by the prominent advertising of 'free' courses. This created an artificial spike in demand followed by a sudden drawback after a short time in some areas. This led inevitably to the collapse of a healthy fee-for-service market, necessitating the laying-off of staff and the closure of some RTOs. In a fragile SA economy, it is vital to avoid such boom and bust cycles and to create greater certainty and continuity for individuals, employers and RTOs through the competent management of skill reforms.

RTOs had no choice but to respond to such training policy by advertising vigorously to survive in a more competitive market and to counteract the unfair advantages afforded to TAFE SA due to the large subsidy price differential and the initial 'TAFE only' list of subsidised qualifications.

The consequences of caps placed on qualifications on the ten versions of the Funded Training List (FTL), prior to and even since the introduction of banding were:

²⁷ ACIL ALLEN, Evaluation of Skills for All, 2015 (p.5)

- for individuals unable to afford qualifications in their chosen vocation, a different and less suitable choice being made for subsidised training rather than accessing the fee-for-service market. This particularly impacted on new job seekers and the unemployed trying to enter or re-enter the workforce;
- for industry needing to upskill staff to improve productivity and develop their business, less suitable staff training options being accessed, without sufficient cash flow in difficult economic times to pay full fees for appropriate staff training;
- for RTOs, there was a significant loss on investment in marketing, infrastructure, course development and staff recruitment to accommodate *Skills for All*, at a time when the formerly robust fee-for-service market had dropped by up to 80 per cent due to *Skills for All*;
- for RTO staff, jobs were lost as a result of market distortion created by government policy at a time of increasing unemployment in the state and even more are being lost with the introduction of *WorkReady*;
- for specific vocations, (including Hospitality, Retail, Sport and Recreation and Beauty), many of which were already facing staff shortages, a further decline in the volume and quality of applicants and the number of course completions; and
- for the State economy, a significant overshoot on the allocated budget, while continuing to undermine the fee-for-service market, as individuals and employers shopped around for ‘free’ courses.

Overall, there did not appear to be a logical or clear basis for the selection of qualifications to be capped. The high number of qualifications that were capped, clearly indicated that the initial pricing model was incorrect, which led to the decimation of the fee-for-service market in a number of areas by up to 80 per cent. The pricing should not have been calculated based on an average of what RTOs charged, but on skill gaps and State workforce development priorities. The budget overshoot could have been addressed, not by the sudden and total withdrawal of funding based on inaccurate employment data, but by careful and selective shaping, based on accurate, up-to-date job data provided by industry and guided by the State Strategic Plan, the Training and Skills Commission (TaSC) plan, and by Departmental workforce development planning.

With regard to qualifications that had been capped or removed from the Funded Training List (FTL), opportunities were effectively unavailable for students who aspired to those vocations, but who could not afford to pay full fees. The imposition of caps, reduced student and employer choice, contrary to the purpose of the skill reforms, adversely impacted on the diversity, flexibility, responsiveness and agility of the VET sector to respond to workforce development needs. Consistency, certainty, predictability and continuity had been continually sought by stakeholders, without damaging knee-jerk reactions and caps, while allowing for necessary adjustments.

While ‘upskilling’ was articulated as one of the main reasons for introducing the skill reforms, the vague term ‘substitution’ (i.e. for fee-for-service training) eventually provided apparent reasons for backing away from subsidies. The reason for imposing caps was more likely a way of managing a large *Skills for All* budget overshoot. Once the problem had been identified, it ought to have been resolved in ways that did not further damage the previously healthy fee-for-service market. The revision of subsidy levels, the reduction in subsidised RPL and the introduction of price banding, were three relatively effective measures that were eventually put in place, but more could have been done, such as the introduction of co-contribution and a quota-based system that still enabled student choice. The SA Government needs to be more aware of the distorting impact that ill-designed policy and operational settings have on the training market.

(d) The full financial impact, including long-term financial viability, of the introduction and ongoing operation of the *Skills for All* Program on the South Australian budget and government agencies;

ACPET does not have access to internal State government budget information. Nonetheless, it is clear from the very rapid decline in the state allocation of funding for subsidised VET training from 2013 to date (i.e. by 21.6 per cent in 2014 down to a low level of 51,000 new places in 2015/16), that the failure to:

- a) competently and efficiently manage the take-up rate of *Skills for All* since 2012; and
- b) ensure that TAFE SA was able to adjust to full contestability, has undermined the capacity of the VET sector to respond to the state's workforce development needs with two more years remaining under the national agreement.

The implications are that the SA government is utilising remaining funds inefficiently, at a much greater per capita cost, for lower quality outcomes. The consequences are that:

- a) about 27,000 less students will have subsidised access to training under *WorkReady* at a time of high and increasing unemployment, when the state most needs workforce development;
- b) student and employer choice of provider will be eroded by up to 90 per cent in some cases under *WorkReady*; and
- c) many RTOs are likely to fail without having been given the lead time to rebuild their fee-for-service clients (i.e. one week notice was given to RTOs before *Skills for All* registrations were closed). It is estimated that at least 2000 jobs are likely to be lost from the private sector as a result and many have already gone, at a time when state unemployment is rapidly rising (8.2% in July 2015).

In announcing preferential treatment to TAFE SA under *WorkReady*, the SA government has ignored the observation of the independent review by ACIL Allen commissioned by the Minister, which stated that:

"The majority of the \$1.15 per hour reduction in overall public subsidy between 2012-13 and 2013-14 is due to the shift from TAFE SA to non-TAFE private providers, and in effect has led to increased training places being offered than would otherwise have been the case"²⁸.

Given the difficult economic and budgetary environment in which the state government must manage the funded training program as efficiently as possible, it would be prudent to consider reducing the number of places allocated to existing workers for Diploma and Advanced Diploma level qualifications, for which students can access VET Fee Help, and where it is doubtful that there would be sufficient eligible students with the requisite, entry level qualifications to enrol in any case. These courses are more costly and funds would be better used in targeting unemployed and new workers for Certificate II and III level courses to enable job entry where there is a skill demand. Of the 404 courses on the *WorkReady* Funded Training List, there are 74 courses and 3750 funded places allocated to Diploma and Advanced Diploma level courses. At an average subsidy cost of \$10,000 per place, this represents a cost of \$37.5m. Even if half or less reach completion, this still represents an expenditure of about \$18.7m that could buy almost 11,000 places at private RTOs.

(e) The extent to which the current and anticipated future training and employment needs of South Australian businesses, including regional South Australian industry, were met by the *Skills for All* Program;

ACPET does not have full access to the information needed to make an informed comment in this regard. The SA Training and Skills Commission and the various sector industry bodies are better able to make an assessment of this.

Nonetheless, there did not appear to be a logical or clear basis for the selection of qualifications to be subsidised or capped. Here are some examples that have come to ACPET's attention, where there is a mismatch between funding allocation and training need:

Examples:

²⁸ ACIL ALLEN, Evaluation of Skills for All, 2015 (p. 4)

1. South Australian Broad Acre Agriculture is consistently one of the top three contributors to the State's domestic and export economy. Given this track record, it is clear that broad acre agriculture fits within the scope of *WorkReady* subsidised training. Promotional information states that, "*WorkReady aims to ensure the public investment in training is aligned to strategic industry sectors and growth areas such as **agriculture** and fishing, resources and construction, electrical and electronic engineering, childcare and aged care*" yet there are no related qualifications to Broad Acre Agriculture on the FTL nor for *JobsFirst*. Given that Broad Acre Agriculture is consistently one of the top three contributors to the State's domestic and export economy, this omission is difficult to understand.

2. Conversely, the TaSC December 2014 Workforce Development Plan, *Skills for Future Jobs*²⁹ projected between 201 and 430 job vacancies for Policing over a five year period, but 630 places have been allocated to TAFE SA for police training over one to two years.

3. In other examples, one might question why 480 subsidised places are allocated to the Certificate III in Information, Digital Media and Technology, 120 to the Diploma of Screen and Media (plus 40 to the Cert III and 50 to the Advanced Diploma), and 110 places to Makeup and Skin Care (all TAFE only), when there is little job demand in these areas. It is also questionable as to whether the state can create jobs for 1140 trained child care workers plus 750 at Diploma level (also TAFE only).

4 The Certificate III in Aged Care has 530 TAFE-only places listed on the Funded Training List with no conditions attached, whilst private RTOs have ASBA and TGSS-only conditions imposed (i.e. school-based) for this course. One might question what evidence the Department used to determine that high schools would be the best place for private RTOs to train future aged care workers and what consultation took place with aged care sector employers to inform this policy position.

To demonstrate another inconsistency, the Certificate III Disability has 200 TAFE-only places listed on the Funded Training List, whilst private RTOs can only offer under this course under *JobsFirst*, but with no ASBA/TGSS conditions attached in this case. One might question then why Disability would be treated differently from Aged Care, in that ASBA/TGSS conditions are not applied (i.e. school-based), and what consultation with disability employers took place to inform this policy position.

A close examination of the Funded Training List reveals that only 8 per cent of all places listed for TAFE SA have TGSS only conditions placed upon them, requiring them to be delivered to school-students only, compared with 51 per cent having such limiting conditions placed upon private RTOs. One might conclude from this that private RTOs are considered better able to meet the needs of school students or simply that it is another example of discriminatory policy.

5 Of the 404 courses on the *WorkReady* Funded Training List, there are 74 courses and 3750 funded places allocated to Diploma and Advanced Diploma level courses, where it is doubtful that there would be sufficient eligible students with the requisite, entry level qualifications to enrol. These courses are more costly and funds would be better used in Certificate II and III level courses to enable job entry where there is a skill demand.

There are many other such examples of anomalies and inconsistencies with industry demand that will no doubt emerge from the many submissions that the Select Committee is likely to receive from industry bodies.

(f) The manner and extent to which South Australian industry has been consulted in relation to the funding and training priorities under *Skills for All*;

In the first 6 to 8 months of implementation of *Skills for All* there was no apparent consultation process. However, the ACPET State Committee (comprising CEOs and senior managers of SA-based ACPET member

²⁹ TaSC, *Skills for Future Jobs*, 5-year Workforce Development Plan for SA, December 2014

RTOs) initiated meetings with senior DFEEST staff on numerous occasions and regularly invited senior *Skills for All* representatives to its regular committee meetings during 2012-13 to offer advice on *Skills for All* implementation and to express concerns about some aspects of implementation (summarised below).

ACPET also held several meetings and forums with private RTOs to seek their views and concerns to ensure these were communicated to DFEEST both verbally and in writing. Since 2012 ACPET has sent at least 10 submissions to DFEEST on various issues, and one to the 2015 Independent Review of *Skills for All* and more recently one to the Department and the Minister regarding *WorkReady*.

Regrettably, there was no evidence that ACPET's advice was taken in the first 8 months of operation, until it was clear that the program was in trouble, over-shooting the budget due to the high take-up rate of places. It was then that formal consultation began (2013) with the sector.

ACPET had repeatedly raised concerns about the proposed implementation of *Skills for All*, in particular the underlying assumption of low take-up rates, price modelling, payment by unit of competence, over generous RPL funding, market distortions created by the training subsidy, the very early and ongoing imposition of caps, constant changes disrupting the market and the failure to differentiate between job seekers and existing workers.

Among the expressed advice provided by ACPET was that:

- the underlying assumption that there may not be enough take-up of subsidised places was faulty;
- the introduction of a training subsidy was likely to distort the market in the first instance, with potential deleterious long-term effects on a previously healthy fee-for-service market if not managed well;
- low enrolments prior to the introduction of *Skills for All* in anticipation of the subsidies would lead to higher than expected subsequent enrolments requiring statistical comparisons (and subsequent decisions) to be made on a full year and not on a semester basis;
- the original pricing model was flawed, meaning that subsidies were set too high for some qualifications and too low for others, not necessarily based upon priority qualifications;
- the low prices set for higher level qualifications without a requirement that students and employers be required to co-contribute, would lead to undercutting prices, quality concerns and uncommitted or exploratory course choices in some cases;
- enrolment in all qualifications above Certificate I and II be required to attract a fee;
- no more than a 50 per cent subsidy be paid for RPL (100 per cent was initially being paid);
- provision needed to be made for subsidising the on-job training component, especially where specified in the Training Package or by licensing requirements;
- there was a need for simple, streamlined administrative processes and a reliable payment system to ensure regular cash flow, so essential for small providers;
- payments not be made by unit of competency completion due to the holistic nature of quality training and assessment;
- subsidies only be paid for the skill sets required for licensing purposes and not necessarily for the whole qualification, particularly for existing workers (except in priority areas);
- a distinction needed to be made between subsidies for jobseekers and for existing workers to enable entry to employment for the unemployed;
- price-banding would provide a more effective way of managing enrolments based on training areas that were of high priority to state workforce development plans (this was later adopted);
- special measures were needed to ensure the learning needs of the disadvantaged and disabled were adequately met;
- a quota-based system, if carefully-implemented, would create greater certainty and stability both for government and for the sector in managing enrolments, budgets and resources;

- subsidy levels appeared to be set based upon an over-riding concern for protecting a newly independent TAFE SA without a matching concern for industry needs, job opportunities and the impact on small training providers; and that
- greater certainty and stability was needed in the training market since the constant changes in settings and sudden caps imposed on courses were damaging the market.

The advice that was eventually adopted related to the introduction of price banding, which eventually had the desired slowing effect on enrolments, but by this time there was already a very large pipeline of students in the system. Also taken up was the suggestion to reduce the amount and extent of subsidy support for RPL, thereby not only reducing expenditure but also contributing towards improved educational outcomes. Subsidy levels were also reduced and some eligibility criteria were tightened.

The other suggestions made by ACPET were not adopted.

(g) The efficiency and effectiveness of the South Australian apprenticeship and traineeship arrangements since the introduction of *Skills for All*;

Skills for All appears to have had a deleterious effect on Apprenticeships and Traineeships in SA, based on the latest NCVER data, which shows that Apprenticeship and Traineeship numbers dropped dramatically since the introduction of *Skills for All*, from 40,600 in June 2012 to 23,100 in December 2014. This represents a total drop of over 43 per cent.

In the Building and Construction industry alone, the most recent NCVER Apprenticeship data³⁰ shows that there are only one third of the apprentices currently in the pipeline needed to meet current and future needs of the industry. “Unless there is a dramatic increase in the number of people in skills training, then the building and construction industry is heading for a skills crisis putting billions of dollars of investment at risk”³¹ Despite this advice from industry, there are few funded training places allocated to private RTOs for Apprenticeship level qualifications in Building and Construction under *WorkReady* for 2015/16.

(h) The extent to which the *Skills for All* Program complements or duplicates initiatives and programs undertaken by Commonwealth Government and non-government training and employment programs, particularly in regional South Australia;

In the current state economic climate, duplication of workforce development initiatives would not appear to make sense. It would be reasonable to assume that the State would know its local workforce development needs and would be able to allocate and manage funding in the best interests of the state economy, for the benefit of students and for industry. Regrettably, the local advice that was generously provided repeatedly by industry bodies and by individual providers in meetings and written submissions was not always heeded. Funding arrangements that had previously been operated by the Commonwealth government seem to have been better managed without having such damaging impacts on the market. Nonetheless, a state-based funded training program ought to continue, provided it is better managed, and is more efficient, transparent, consultative and responsive to local workforce development needs. The funded training program ought to complement other state policies and not work against them. For example, one SA Minister has announced an investment of \$5.7 million to boost international student numbers in 2015, whilst another has drastically cut funded training allocations to the private VET sector under *WorkReady*. These funding cuts diminish the sector’s capacity to respond to the call for increasing international student numbers, when up to 85% of international VET students studying in SA choose to do so with a private RTO. The private VET sector will be needed by the State to do the heavy lifting in meeting international student targets. However, if RTOs are forced to close due to sudden and massive funded training cuts, this will not only cause job losses but will also cause international reputational

³⁰ NCVER, Apprentices and Trainees, December quarter 2014. May 2015

³¹ Master Builders Association of SA Magazine, SA Builder (April-May 2015)

damage and reduce confidence in the stability of SA's institutions, thereby hindering the government's aspiration to increase SA's national share of international students.

(i) An assessment of key principles and operational arrangements that must be taken into account in designing and implementing the *WorkReady* program;

ACPET here reiterates the advice provided on numerous occasions to the Department regarding the key principles and operational arrangements that needed to be taken into account in designing and implementing *Skills for All* and now the *WorkReady* program:

1. the maintenance, and indeed the continuing improvement, of quality standards in subsidised vocational education and training in SA;
2. avoiding constant and sudden change of operational and FTL settings to deliver greater certainty and stability for RTOs (and for government), in order to enable strategic planning, budgeting and resource allocation, which are so essential in effectively running any business;
3. close monitoring of enrolment numbers with early notification of proposed changes to subsidy levels or allocations both to enable RTO planning and to avoid overshoot, but without sudden capping;
4. ample lead time and notice for RTOs before any **essential** changes are made to enable RTOs to make necessary adjustments to business plans, lodge tender applications where required and to rebuild their fee-for-service client base in response to market demands;
5. appropriately targeted government subsidies for training that is flexible, timely and responsive in meeting industry and individual needs for state economic development, innovation and growth;
6. ongoing genuine and responsive consultation with the VET sector and with industry bodies;
7. implementation of a genuine co-contribution regime involving employers and students for training and skills development at all qualification levels, including Certificate I and II, with special measures for disadvantaged students;
8. a requirement for RTOs to charge a fee beyond subsidy levels for Certificate III and above.
9. special measures for equity, SES and special needs groups to enable their access to the training provider of their choice;
10. a commitment to reducing red tape (in keeping with the State Minister's directive) by rationalising multiple reporting and simplifying administrative processes, which would entail requesting only essential information;
11. release of timely, relevant, accurate and transparent data to support the case for policy and operational change, if and when required, to enable full evaluation of *WorkReady* progress and the identification of problem trends early enough to make necessary adjustments with sufficient notice to the sector;
12. greater transparency and accountability for all parties by, for example, upgrading systems to facilitate reporting for both the implementing agency and participating RTOs, and in particular to evaluate the ongoing outcomes of *WorkReady* in terms of successful completions and employment;
13. greater accountability for the Department to manage its budget and resources effectively, measured against program outcomes;
14. a focus on rebuilding Traineeship and Apprenticeship numbers that have been decimated by recent policy settings;
15. introducing a transparent, allocation or quota-based, endorsed or preferred-provider system, in which RTOs are required to stay within their plan of projected enrolments, spread out over the period of their contract, with the certainty that a cap will not be imposed. If carefully-implemented, this would create greater certainty and stability both for government and for the sector in managing enrolments, budgets and resources;
16. a definite timeframe for working towards full contestability for TAFE SA and a level playing field among private and public providers in receipt of training subsidies;
17. the opening up of tenders for RTOs to deliver special learning services to identified equity groups;

18. opportunities for RTOs to seek additional subsidy assistance for 'special case' disadvantaged learners to enable student or employer choice of a private or niche provider, particularly where TAFE SA is not an option;
19. the mandatory discontinuation of any marketing by all parties that emphasises 'free' training and instead be required to refer to 'subsidised' training or 'support/assistance' with training;
20. implementing state-based career advice services as intended in the White Paper so that student course selections are based on genuine individual career aspirations rather than on availability of 'free' or subsidised training;
21. continuation of price banding but based on accurate, objective data, up-to-date industry advice and the priorities outlined in relevant state and TaSC workforce development plans and latest jobs forecasts. Subsidy levels could be incrementally adjusted rather than capped as enrolment levels match job vacancies, to enable a broader range of choice for individuals and employers;
22. where certain skill sets are required for licensing purposes, subsidies should only be paid for the skill set and not for the whole qualification, particularly for existing workers;
23. industry should be required to demonstrate their strategic plans for staff training and be able to access subsidies accordingly, but would need to put forward a case for accessing subsidies for staff training outside their strategic plan;
24. non SA-registered providers should be required to demonstrate a local presence, adequate support services and sound industry relationships, with emphasis on delivery in priority qualifications;
25. the payment and data collection system needs to be improved and streamlined to reduce the administrative burden on RTOs and to enable them to predict cash flow for greater certainty and sustainability; and
26. proposed changes should be made known well in advance for RTOs to prepare strategically for a new or adjusted training subsidy environment, with input from ACPET, industry bodies and involvement of the SA small business portfolio. Regrettably this did not occur before the *WorkReady* announcement.

One of the key recommendations made both by the Training and Skills Commission and by ACPET has been ignored, which is to secure greater commitment to student completion by implementing genuine **co-contribution**. Despite the fact that "sharing the costs" and "co-investment" are presented in the *WorkReady* brochure (p.7) as a "central plank of the *WorkReady* reforms", they are not made mandatory. Individuals and employers should be required to make a commitment with a co-contribution for qualifications beyond Foundation level, except potentially where there are equity issues for disadvantaged learners. The argument that the State cannot legitimately enforce payment of fees does not stand up, given that other states do impose a minimum fee payment, precisely to secure commitment to the training and to minimise anti-competitive behaviour. This could be very simply implemented by setting an across the board flat minimum fee of say 10 per cent of the value of the subsidy paid for each qualification, across all approved providers.

A stated outcome in the *WorkReady* promotional brochure is for "increased certainty about how much training will be subsidised", when in reality the only certainty that has been provided is for TAFE SA, which will receive 90 per cent of new subsidised places, thereby removing student and employer choice. It is understood that the State faces a tight fiscal environment, so a well-conceived and well-managed and equitable funded training program is essential for ensuring that the public dollar is used effectively in terms of positive outcomes for individuals, business and for the State. Based on 2013 figures (i.e. the latest available), SA spent \$580 million in TAFE SA operating expenses to deliver training to 97,600 students at TAFE. This equates to a cost of \$5,942 per student compared with only \$1,708 per student for private RTOs, some **\$4,234 less per student** or only 29 per cent of the cost of the TAFE equivalent. If *WorkReady* proceeds as envisaged, a 90 per cent allocation of *WorkReady* new places to TAFE SA could involve a loss of about 27,000 new subsidised training places that would otherwise be met by a private RTO, due to inefficient use of Commonwealth funds for poorer outcomes. This means that these students will miss out.

In addition, TAFE SA is specifically mentioned in the *WorkReady* brochure as continuing to be the “cornerstone” for quality training with no mention of private provider contributions to quality, which exceeded TAFE outcomes under *Skills for All*.

While the key concern regarding *WorkReady* has been overwhelmingly that TAFE SA is being guaranteed most of the subsidised places utilising Commonwealth funds intended for a contestable market based on student and employer choice, there are however, other concerns expressed below.

It is disappointing to see that the rebadged *WorkReady* scheme is not significantly different from the *Skills for All* system that was previously implemented, other than a considerably reduced Funded Training List (FTL) and the exclusion of private RTOs from 90 per cent of new subsidised places. This involved a periodic ‘ready-set-go’ dash for enrolments whenever course caps were imposed, thereby leaving no subsidised places for students who missed the small window of opportunity. The only difference is that this window will now occur twice a year. Private RTOs have rolling enrolments throughout the year to cater better for student needs. The proposed system is designed to suit inflexible SATAC enrolment intake practices designed for TAFE SA rather than to meeting student needs.

It is also disappointing that, despite the stated intention of a level playing field in a transition to full contestability, TAFE SA will continue to receive a differential subsidy for the remainder of the National Partnership Agreement and beyond. This is the case despite accessing three sources of public funding through the contestable subsidy, grants for CSO obligations and structural adjustment payments, which will continue under these arrangements regardless of performance. Given the huge investment in publicly funded infrastructure, the public provider should be made accountable and in future receive grants based on performance and not on automatic entitlement.

A comparison should be made of the number of disadvantaged learners who attend TAFE SA with private RTO enrolments to ascertain whether or not the amount of public funding allocated to TAFE SA for CSO obligations is justified. Private RTOs should then also receive a loading for providing learner support services for disadvantaged learners, given the very high and ever-increasing proportion of enrolments from students with special needs. The provision of such services should also be contestable.

The timing of provider approvals for *WorkReady* providers **at the same time** across the board is essential for meeting the requirements of competitive neutrality. However, this has not occurred. RTOs were given one week’s notice to complete enrolments under *Skills for All* before the transition to *WorkReady* on 1 July. By the second week in July 2015 RTOs had still not received the new subsidy calculator nor did they know what level of subsidy they would receive for the courses they deliver. In addition, most of the courses on the Funded Training List did not have number of places allocated other than for TAFE SA so RTOs remain uncertain as to whether or not there are places available in the courses they offer. This information is essential for planning, staff recruitment and for deciding whether or not to pursue *WorkReady* approval.

Another question that remains unanswered is whether the conditions imposed upon private RTOs for TGSS and ABSA places only (i.e. school-based), are also applicable to TAFE SA for the same courses. The FTL indicates that they are not, which would be another example of preferential treatment for TAFE SA and anti-competitive structure built into the *WorkReady* scheme.

It is noted that TAFE SA were advertising and taking enrolments for ‘free’ training already throughout June, which means that TAFE SA had obtained advance notice about the level of funding and subsidies that it would receive so that it could recruit for Semester 2. This is not competitive neutrality, nor a level playing field.

There are also concerns expressed by many across the VET sector, including by industry bodies regarding how specifically government will ascertain funding priorities to ensure that funding is targeted to industry

demand. TaSC recommendations, combined with industry and RTO input and state development priorities ought to be given due regard. It is understood that consultations are being planned for the 2015-16 year to ensure that this occurs in future.

(j) The impact on training opportunities, choice and quality in South Australia as a result of changes to subsidised funding under the *WorkReady* program announced by the State Government on 21 May 2015.

The sudden *WorkReady* launch on April 1 2015 appeared to be offering what the sector had been asking for in terms of co-contribution, however it was only later discovered that in reality co-contribution would not be enforced, thereby making it totally ineffective for ensuring commitment by employers and students to carefully selected training. The later announcement in May 2015 made it clear that a number of funding programs had been rolled into the one *WorkReady* scheme and that the training places available in 2015/16 would be drastically reduced. This reduction was even more dramatic for private RTOs who would only receive 5,000 of 51,000 subsidised places, effectively removing student and employer choice, upon which the National Partnership Agreement is based.

In addition, RTOs were given only one week's notice to complete enrolments under *Skills for All* and to adjust to a new scheme in which very few, if any, places would be available to them. Many were forced to lay off staff at the end of the financial year and others are waiting to see what emerges before making further staff cuts. It will take time to redevelop the fee-for-service market since students and employers have become accustomed to either free or heavily subsidised training.

The *WorkReady* announcement effectively decimates the private training sector without the safety net that has been handed to TAFE SA. The private sector is by far the more efficient and effective option (i.e. \$4,234 less per student with much higher completions - 48% - and better post-completion employment rates), yet TAFE SA has been rewarded for poor performance (i.e. 24% completions) while students and employers are the losers; missing out on some 27,000 places and losing their right of choice.

The government is knowingly using public funds irresponsibly and inefficiently to support a TAFE system that has failed to meet its obligations of transitioning to contestability despite generous, preferential funding from numerous sources for many years. Students, employers and private RTOs are now forced to pay for this failure. Hence 'quality', 'training opportunities' and 'choice' are completely eroded by *WorkReady* in a tight fiscal environment, with high and rising unemployment (8.2%), when workforce development is key to job creation and turning around the economy.

In terms of 'quality', it is clear that the state government is knowingly choosing to invest 90 percent of publicly funded subsidised places in an inefficient and ineffective TAFE system that has a documented record of 24 per cent student completions under *Skills for All* and lower post-completion employment rates. A program name change will not hide this fact.

(k) Other relevant matters.

It must be noted that SA has not experienced the quality challenges that other states have borne, in part due to the rigour of DFEEST in monitoring quality, both when it was the state regulator, prior to the establishment of ASQA (i.e. the national VET regulator), and under *Skills for All*, but also because there has been a long standing reputation in SA for quality in education and training more broadly. Unfortunately, the additional monitoring has created an additional and costly administrative burden for RTOs in providing information to the Department that duplicates what is provided to ASQA. It is hoped that the Minister's review of red tape and subsequent directives will alleviate this in ways that will not adversely impact on quality.

Thank you for the opportunity of submitting this paper to the Select Committee.

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ACPET Value Statement

The Australian Council for Private Education and Training (ACPET) is the national peak industry association for independent providers of tertiary education and training. ACPET is proudly celebrating its 23rd anniversary in 2015.

Our core purpose is to enhance and promote the role of the private tertiary education sector. In order to achieve the highest quality educational outcomes for individuals, their employers and the economy ACPET works with Government and industry at the highest levels. We use strong leadership and good relationships to open doors for our members and to advocate and drive change in our sector.

Membership provides opportunities to access a range of services including professional development, networking with peers and a chance to help lead the industry through participation in member only events. Our National Board, State Committees and sector specific working groups lead discussions on Higher Education, Vocational Education and Training (VET), International Education, English Language and Quality.

Our services extend to helping members grow their business through broadening access to industry and to developing their own people.

ACPET leads delegations to key international markets to promote members services to grow on and off shore enrolments.

We are fundamentally committed to quality in education and all our members must comply with a stringent Code of Ethics, which ensures we are able to advocate for our members as the best of the best.

Membership of an industry association is a true sign that our members are committed to quality in education and that they demonstrate a strong commitment towards quality and student outcomes.

Membership also ensures a commitment to professional development and that business; marketing and educational practices are monitored and ethically sustained.

ACPET nationally represents more than 1,100 members nationally that offer a diverse range of higher education, VET, English language and foundation studies courses to Australian and overseas students across all states and territories.