VET FEE AND FUNDING REVIEW

VOLUME II:
TECHNICAL ANALYSIS
An appropriate citation for this paper is:

## Abbreviations

V

## Glossary

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<th>ABBREVIATIONS</th>
<th>EXPLANATION</th>
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<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
</tr>
<tr>
<td>ACE</td>
<td>Adult Community Education</td>
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<td>ACFE</td>
<td>Adult and Community Further Education</td>
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<tr>
<td>ACPET</td>
<td>Australian Council for Private Education and Training</td>
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<td>AEUVB</td>
<td>Australian Education Union Victorian Branch</td>
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<tr>
<td>AMES</td>
<td>Adult Multicultural Education Service</td>
</tr>
<tr>
<td>ANHLC</td>
<td>Association of Neighbourhood Houses and Learning Centres</td>
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<tr>
<td>ANTA</td>
<td>Australian National Training Authority</td>
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<tr>
<td>AQF</td>
<td>Australian Qualifications Framework</td>
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<tr>
<td>ASQA</td>
<td>Australian Skills Quality Authority</td>
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<tr>
<td>ATV</td>
<td>Automotive Training Victoria</td>
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<tr>
<td>AQTF</td>
<td>Australian Quality Training Framework</td>
</tr>
<tr>
<td>AWCC</td>
<td>Albury Wodonga Community College</td>
</tr>
<tr>
<td>CAE</td>
<td>Centre for Adult Education</td>
</tr>
<tr>
<td>CMM</td>
<td>Curriculum Maintenance Managers</td>
</tr>
<tr>
<td>COAG</td>
<td>Council of Australian Governments</td>
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<tr>
<td>CSO</td>
<td>Community Service Obligation</td>
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<tr>
<td>DEEWR</td>
<td>Department of Education, Employment and Workplace Relations</td>
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<td>DHS</td>
<td>Department of Human Services</td>
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<tr>
<td>DIPDC</td>
<td>Dairy Industry People Development Council</td>
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<tr>
<td>HECS</td>
<td>Higher Education Contribution Scheme</td>
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<tr>
<td>Abbreviation</td>
<td>Description</td>
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<td>--------------</td>
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<tr>
<td>HELP</td>
<td>Higher Education Loan Program</td>
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<tr>
<td>HESA</td>
<td>Higher Education Support Act 2003</td>
</tr>
<tr>
<td>IBSA</td>
<td>Innovation Business Skills Australia</td>
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<tr>
<td>ITAB</td>
<td>Industry Training Body</td>
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<tr>
<td>JSA</td>
<td>Job Services Australia</td>
</tr>
<tr>
<td>LL&amp;N</td>
<td>Language, literacy and numeracy</td>
</tr>
<tr>
<td>MINTRAC</td>
<td>National Meat Industry Training Advisory Council</td>
</tr>
<tr>
<td>NATESE</td>
<td>National Advisory for Tertiary Education, Skills and Employment</td>
</tr>
<tr>
<td>NCDEA</td>
<td>National Centre for Dairy Education</td>
</tr>
<tr>
<td>NCVER</td>
<td>National Centre for Vocational Education Research</td>
</tr>
<tr>
<td>NSSC</td>
<td>National Skills Standards Council</td>
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<tr>
<td>RTO</td>
<td>Registered Training Organisation</td>
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<tr>
<td>SCH</td>
<td>Student Contact Hour</td>
</tr>
<tr>
<td>SCOTese</td>
<td>Standing Council for Tertiary Education, Skills, and Employment</td>
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<tr>
<td>SJYF</td>
<td>Securing Jobs for Your Future</td>
</tr>
<tr>
<td>SVTS</td>
<td>Skills Victoria Training System</td>
</tr>
<tr>
<td>TESOL</td>
<td>Teaching English as a Second Language</td>
</tr>
<tr>
<td>UYCH</td>
<td>Upper Yarra Community House</td>
</tr>
<tr>
<td>VCAL</td>
<td>Victorian Certificate of Applied Learning</td>
</tr>
<tr>
<td>VCE</td>
<td>Victorian Certificate of Education</td>
</tr>
<tr>
<td>VET</td>
<td>Vocational Education and Training</td>
</tr>
<tr>
<td>VFH</td>
<td>VET FEE HELP</td>
</tr>
<tr>
<td>VCE</td>
<td>Victorian Certificate of Education</td>
</tr>
<tr>
<td>VRQA</td>
<td>Victorian Registration and Qualifications Authority</td>
</tr>
<tr>
<td>VSC</td>
<td>Victorian Skills Commission</td>
</tr>
</tbody>
</table>
VTG            Victorian Training Guarantee
VTS            Victorian Training System
WTH            Weighted Training Hour
<table>
<thead>
<tr>
<th><strong>Accreditation</strong></th>
<th>The formal recognition of a vocational education and training course by the State or Territory course accrediting body, in accordance with the Standards for State and Territory Registering and Course Accrediting Bodies.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accredited Course</strong></td>
<td>A course that leads to an Australian Qualifications Framework qualification or Statement of Attainment that is nationally recognised. The accredited course has been endorsed by either a state or national authority responsible for accrediting courses against agreed principles of accreditation. In Victoria, the statutory authority is the Victorian Registration and Qualifications Authority.</td>
</tr>
<tr>
<td><strong>Australian Qualifications Framework</strong></td>
<td>The national framework for all qualifications in post-compulsory education and training.</td>
</tr>
<tr>
<td><strong>Australian Quality Training Framework</strong></td>
<td>The nationally agreed set of regulatory arrangements that ensure high quality vocational education and training services in Australia.</td>
</tr>
<tr>
<td><strong>Apprenticeship/Traineeship</strong></td>
<td>A Training Contract between an employer and an employee where the employer provides training and the employees learns the occupation/trade.</td>
</tr>
<tr>
<td><strong>Course</strong></td>
<td>A structured and integrated program of education or training, usually consisting of a number of modules (subjects) or shorter programs, and leading to the award of a qualification.</td>
</tr>
</tbody>
</table>
| **Eligibility Criteria** | In 2011 an individual is eligible for a government subsidised training place if you meet one of the following citizen/residency status:  
  - Australian citizen  
  - Australian Permanent Resident (holder of a permanent visa)  
  - holder of a Special Category Visa (sub-class 444, New Zealand citizen)  
  - East Timorese asylum seeker, or  
  - holder of a Temporary Protection Visa. |
And are any of the following:

- a young person under 20 years
- an applicant seeking a Foundation skills course
- an applicant who is an Apprentice
- an applicant seeking a higher qualification than the highest qualification already held.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fee-for-service training</td>
<td>Training for which most, or all, of the cost is borne by the student or a person or organisation on behalf of the student.</td>
</tr>
<tr>
<td>Foundation Courses</td>
<td>Basic general education, English language, literacy and numeracy courses up to Certificate IV level, and the Victorian Certificate of Applied Learning – Foundation level – as defined on the Foundation Skills Category Course List.</td>
</tr>
<tr>
<td>Module</td>
<td>A distinct component of the vocational training curriculum, comprising specified learning outcomes, assessment criteria and other information to support the delivery of training and conduct of assessment.</td>
</tr>
<tr>
<td>Nominal Hours</td>
<td>The anticipated hours of supervised learning or training deemed necessary to adequately present the educational material. These hours must not be zero. These hours are generally specified in the curriculum documentation of courses, or the implementation guides for training package qualifications.</td>
</tr>
<tr>
<td>Private Provider</td>
<td>A non-government training organisation, including commercial providers (providing courses to industry and individuals for profit), community providers (non-profit organisations, funded by government or community sponsors), enterprise providers (companies or other organisations providing training mainly for their own employees), and industry providers (organisations providing training to enterprises across an industry).</td>
</tr>
<tr>
<td>Qualification</td>
<td>Certification awarded that recognises the successful completion of a course that has prepared a person for employment and or further education and training.</td>
</tr>
<tr>
<td>RTOs Registered Training Organisations</td>
<td>Training organisation registered by a registering body (e.g. Skills Victoria) in accordance with the Australian Quality Training Framework, within a</td>
</tr>
</tbody>
</table>
defined scope of programs.

Scheduled Hours  Supervised hours timetabled for a specific group of clients in a module or unit of competency. They are often the same as nominal hours specified for a module, unit of competency or course. Training organisations are required to provide details of the scheduled hours for each client enrolment in each module or unit of competency.

Skills Building  This category comprises all qualifications accredited as Certificate III and IV other than those classified as Foundation Skills and except when undertaken as an Apprenticeship or Traineeship. It also includes Single modules, units or a ‘Course in...’ undertaken as stand-alone training for the purpose of meeting licensing requirements for a trade or an extension of trade licensing.

Skills Creation  This category comprises all qualifications accredited as Certificate I and II other than those classified as Foundation Skills and except when undertaken as an Apprenticeship or Traineeship. It also includes State accredited VCAL and VCE programs as well as selected single modules or units of competency undertaken as stand-alone training to meet regulatory or industry requirements.

Skills Deepening  This category comprises all qualifications accredited as Diploma or Advanced Diploma, except when undertaken as an Apprenticeship or Traineeship. It also includes qualifications accredited as vocational Graduate Certificates and vocational Graduate Diplomas. Graduate Certificates and Graduate Diplomas accredited as Higher Education qualifications are not included in this category.

Training Package  A document that sets out the training framework determined by industry for an industry sector. National competency standards, assessment guidelines and national qualifications form the endorsed components of training packages. Assessment materials, learning strategies and professional development materials may support these as non endorsed components.

Unaccredited Training  Training that does not lead to a nationally recognised qualification. The training activity must have a specified content or predetermined plan designed to develop employment related skills and competencies. It does not include apprenticeships.
and traineeships and other nationally recognised training.

### Up-skilling
An eligibility criterion under the Victorian Training Guarantee. Accessing training at a higher qualification level than any qualification currently held.

### Vocational Education and Training
VET provides skills and knowledge for work through nationally recognised courses that range from certificate I to advanced diploma level and are provided by Registered Training Organisations. VET is generally practical, hands-on and industry focused.

### VET FEE-HELP
A new student loan programme for eligible full-fee paying VET students. The programme is open to full-time or part-time students studying a diploma or advanced diploma course with an approved VET provider and covers part or all of their tuition fees. Students who access the loan will repay the amount, including a 20 per cent loan fee, through the tax system via compulsory and/or voluntary contributions.

### Victorian Training Guarantee
An entitlement to government subsidised training to achieve a higher qualification. It entitles every Victorian who meets the Australian citizen/residency requirement to a subsidised training place in an accredited course, if they are applying for a course at a higher level than the highest qualification level they already hold. It is also available for Australian residents under 20 years of age and/or Foundation category courses; and/or apprentices
1.1 Overview of VET reforms

The vocational education and training (VET) system delivers education and training to enhance employment-related skills and qualifications across a wide range of occupations. It plays an important role in providing participants with the skills to enter the labour force, retrain for a new job, or upgrade skills for an existing job.

In recent years, reforms to the VET sector at both the state and Commonwealth level have been driven by a shortage of skilled labour and an increasing recognition of the importance of skills and qualifications in enhancing Australia’s future productivity and social outcomes.

Victoria has made significant changes to the fee and funding arrangements for government subsidised training. Reforms that commenced in 2009 introduced new arrangements for funding, fee structures and eligibility for government subsidised VET places. The stated goals of the reforms are to:

- increase the number of people undertaking training in the areas and at the levels where skills were needed for Victoria’s economic and social development;
- develop a training system that engages more effectively with individuals and businesses and is easier to navigate;
- ensure the skills system is responsive to the changing needs of Victoria’s industry and workforce; and
- creates a culture of lifelong skills development.

These reforms mean that, in Victoria, government funding of VET has moved away from a planned purchasing arrangement to a demand-driven entitlement based approach. Under the Victorian Training Guarantee (VTG) there are no caps on the number of subsidised places available, but eligibility for a subsidised place is limited to students meeting certain requirements. The eligibility arrangements were phased in and were not fully implemented for all qualifications until 1 January 2011.

Funding for government subsidised places is available to training providers who apply and are approved for funding in relation to eligible students. Hourly funding rates are determined on the basis of the type of provider, level of qualification and a weighting. The weighting recognises that the cost of training delivery may be higher in some industry sectors or for some types of students.

Student tuition fees are based on the number of hours enrolled, and the level of qualification undertaken. Minimum and maximum tuition fees are specified for each level of qualification, and training providers have flexibility to charge within this range. Students in government subsidised places studying at diploma or advanced diploma level also have access to income contingent loans.
1.2 About the review

It is within the context of these recent reforms that the Essential Services Commission (the Commission) has been asked to examine the extent to which the design of the Government’s funding mechanisms and fee structures contribute to the objectives of the Victorian training system.

The Commission has also been asked to examine the efficiency and effectiveness of the Government’s funding mechanisms and fee structures, including student eligibility for subsidies, including:

• rationing mechanisms (eligibility), concessions and income-contingent loan arrangements;
• relative funding levels for TAFE institutions and registered training organisations;
• prescribed minimum and maximum tuition fee levels;
• the weighted training hour approach based on estimated costs of delivery;
• the balance between government, student and employer contributions; and
• funding structures for higher-need learners.

A copy of the full terms of reference can be found in Appendix A.

The review covers the provision of government funded VET in TAFE institutes, private registered training organisations and adult and community education providers, but excludes VET in schools. It covers only tuition fees for students in government subsidised training places. Other fees such as administration or materials fees or fees paid by full-fee paying students (including international students) are outside the scope of the review.

The terms of reference require the Commission to focus on fee and funding models at a broad level, and not to make recommendations about actual fee or funding levels, relativities or weightings.

Any options presented by the Commission are to be affordable and prudent within the context of the state budget.

1.3 Commission’s approach

Public consultation has been an important element of the review. An Issues Paper was released in May 2011 seeking comments and views from stakeholders on which aspects of the current arrangements are working well and where improvements could be made.

Submissions were invited and public forums were held in Bendigo and Melbourne to give interested stakeholders an additional opportunity to contribute. All non-confidential submissions are publicly available on the Commission’s website (and are listed in Appendix B). The Commission also met with a range of key stakeholders, including training providers and representatives from Skills Victoria.

Key milestones for the review are set out in Table 1.1.
### Table 1.1 Key milestones for the review

<table>
<thead>
<tr>
<th>Date</th>
<th>Milestone</th>
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<tbody>
<tr>
<td>30 May 2011</td>
<td>Issues paper released</td>
</tr>
<tr>
<td>24 June 2011</td>
<td>Deadline for submissions to the issues paper</td>
</tr>
<tr>
<td>22 July 2011</td>
<td>Bendigo public forum</td>
</tr>
<tr>
<td>26 July 2011</td>
<td>Melbourne public forum</td>
</tr>
<tr>
<td>30 September 2011</td>
<td>Final report submitted to Minister for Finance</td>
</tr>
</tbody>
</table>

The Commission has relied on both qualitative and quantitative information and the views expressed in submissions to assess how well the current arrangements are meeting the objectives of the training system. We have also considered the incentives created by the current arrangements for students and training providers, and had regard to funding models applied in other sectors.¹

### 1.4 Structure of the report

Chapter 2 provides an overview of the VET sector in Victoria and Chapter 3 sets out stakeholder views on the effectiveness of the current arrangement in meeting the objectives of the training sector. Chapters 4 (Eligibility), 5 (Tuition Fees) and 6 (Funding) set out the Commission’s analysis and recommended changes to the current fee and funding arrangements. Chapter 7 takes a longer term view and discusses how the model might evolve and adapt over time.

The recommendations are consistent with the longer term framework that is ste out in Volume I.

¹ For example, funding in the university sector and case mix funding in the health sector.
Key points

- There are both private and public benefits arising from vocational education and training. Private benefits can accrue to individuals in terms of higher wages and improved labour market opportunities. However, there are also broader public benefits that accrue to the broader economy and society as a whole that justify government intervention.

- The Vocational Educations and Training (VET) sector serves over 200,000 Victorians in government subsidised training annually, and extends across a diverse range of courses, qualifications and training providers. While the majority of students are served by TAFE institutes and universities with TAFE divisions, there are also many private sector and community based providers.

- There is a wide range of state and Commonwealth stakeholders in the VET sector.

- The Victorian VET sector has recently undergone significant reforms. Under the new fee and funding model, students who meet eligibility criteria are guaranteed a publicly subsidised place in any course (through the Victorian Training Guarantee (VTG)). Public and private training providers offering equivalent courses can now also compete for students and public funding.

- The staged implementation of the reforms means that it is still too early to draw definitive conclusions about the impacts of the reforms to date. However, preliminary data indicate that total enrolments in government subsidised places have increased significantly, particularly for courses at higher qualification levels.

- The number of providers offering government funded training has increased dramatically since the introduction of the VTG. There are now over 500 providers providing government subsidised places, an increase of almost 50 per cent compared to 2009). Most of this increase can be attributed to growing numbers of private providers, who have increased market share.

2.1 Introduction

Australia’s national training system brings together students, employers, governments and registered training organisations in the delivery of vocational education and training (VET). VET sits alongside the final years of schooling and undergraduate level higher education. It incorporates: entry level training such as apprenticeships, traineeships, basic literacy, numeracy and work skills; advanced vocational training including training for paraprofessionals; and diploma and advanced diploma courses.

The aim of the VET system is to provide students with knowledge and skills to:
• enter the labour force for the first time;
• re-enter the labour force after absences;
• train or re-train for a new job; and/or
• upgrade their skills.

A distinctive characteristic of VET is its flexible course delivery compared to traditional classroom-based approaches to teaching and learning. The vocational emphasis of VET means that training often takes place in workplace environments as well as classrooms, and through combinations of work and learning. Due to the variety of organisations delivering VET courses, delivery may occur in corporate training rooms, onsite at the workplace, traditional classrooms, online and in community-based facilities. VET teachers and trainers are often sourced directly from their industry, and typically bring a practical and applied approach to training.

Course delivery can also range in dates and times and does not typically align with the traditional school or university calendar year. In fact, the overwhelming majority of VET students in Victoria are part time and over one third are between 25 and 44 years of age. A typical VET course can range significantly in its subject breadth, delivery setting, length and qualification level. This reflects the range of industries and occupations served by the VET sector. VET can be government subsidised or full fee-for-service, and courses can be either accredited (formal) or non-accredited.

In line with the terms of reference, review only examined government subsidised VET for accredited courses. In Victoria, VET is delivered by technical and further education (TAFE) institutes, universities with TAFE divisions (dual sector) and private providers including adult and community education (ACE) providers. In 2010, Victoria had 212,715 students in government subsidised accredited training.

This chapter will begin with a justification for government intervention in the VET sector. It will then provide an overview of VET in Victoria including recent changes to the sector, an outline of the current fee and funding model, and a brief examination of VET in Victoria since the implementation of the Victorian Training Guarantee.

2.2 Why do Governments care about VET?

Governments have invested in technical education in Victoria for well over a century. The basis of government intervention into this sector is driven by twin objectives: economic development and social progress.

The notion of technical education providing an avenue of social progress for the ‘working man’ was a key plank of liberal democratic reform in Victoria. It was a key driver in the establishment of technical schools and colleges, most notably through

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2 2010 National Centre for Vocational Educational Research (NCVER) Vocstats.
3 This number does not include apprentices and trainees because of differences in the way they are recognised by Skills Victoria and NCVER.
the foundation of the Working Men’s College (later RMIT) at the end of the nineteenth century.

A more contemporary economic rationale for government support of VET emerges from the long-established concept of human capital development. Public investment in education and training is seen as an essential input into economic growth by ensuring that firms have access to skilled labour. Meanwhile, recent ‘new growth’ theories of economic development emphasise the importance of knowledge as a factor driving economic performance.

There are both private and public benefits arising from education and training. This distinction is important in the context of the review of Victoria’s VET fee and funding arrangements. Private benefits arising from VET justify the payment of tuition fees by students (or their employers), while the broader public benefits are seen as the basis for the government to provide subsidies.

In an efficient fee and funding arrangement, the combination of the tuition fee (which covers the private benefit) and the government subsidy (public benefit) would be equal to the remuneration required by a training organisation in order to provide a given course to an, as yet, unidentified student. This remuneration can be considered as the ‘price’ for VET delivery, and can be represented as follows:

\[
\text{Price of VET delivery} = \text{Tuition fee} + \text{Subsidy}
\]

Private benefits are those that accrue to the recipients of education and training. In the case of individuals, these benefits represent improved labour market prospects and higher income. Research undertaken by the Productivity Commission on the link between VET and higher wages showed that, compared with a person with a Year 11 education or less, a man with an Advanced Diploma, Diploma or Certificate III or IV earns on average about 14 per cent more, and a woman earns about 11 per cent more.\(^4\)

Private benefits can also accrue to enterprises through increased productivity (and hence profits) arising from either providing training and education directly to their own employees or purchasing it on their behalf from VET providers.

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Public benefits are the broader benefits to the economy and society more generally that stem from the provision of education and training (these are also sometimes known as ‘positive spillovers’ or positive externalities’. For example, higher educational attainment increases labour force participation, which is an important driver of economic growth. The availability of a skilled workforce supports higher rates of productivity, stimulates innovation and helps the diffusion of new ideas. Meanwhile, higher education attainment has been linked to a range of social benefits, including greater social cohesion and unity, and lower crime rates.

If investment in VET is left purely to private decisions by individuals and enterprises, there is a high risk of market failure. Investment in education and training is likely to be sub-optimal because private decisions will not take into account the broader public benefits outlined above.

For individuals, there is likely to be sub-optimal investment in training because the full costs of training in many courses are not seen as likely to result in reasonable private rates of return, particularly given the high upfront costs. Firms are also likely to invest less than the economically efficient level. A ‘free rider’ problem can exist because of the risk that other firms who do not invest in workforce training will use their cost advantage to recruit skilled workers from those firms that do invest.

Government investment in VET is also sometimes justified in support of the pursuit of equity and distributional objectives. This factor has led governments to direct public investment to those with the greatest need, and to increase private contributions required from those with the capacity to pay and/or gain a greater benefit (i.e. those with more advanced qualifications can be expected to earn higher wages and/or enjoy more secure employment). Equity considerations are also dealt with through a system of concessions seeking to address income disadvantage (this is further discussed in Chapter 5).

2.3 Structure of VET in Victoria

In Victoria, the fundamental elements of the VET system include:

- registered training organisations (RTOs);
- the Australian Qualifications Framework (AQF);
- national training packages and accredited courses;
- the Australian Quality Training Framework (AQTF);
- Victorian Registration and Qualifications Authority (VRQA); and
- Australian Skills Quality Authority (ASQA).

The following sections outline the role and relationships between these elements.
2.3.1 Registered training organisations (RTOs)

VET courses are delivered by a wide range of registered training organisations, including:
- TAFE institutes;
- education and training business or centres;
- community-based adult education providers;
- industry associations;
- non-government enterprises (e.g. McDonalds, Qantas);
- government enterprises;
- government, independent and Catholic schools; and
- professional associations.

In Victoria, RTOs can be placed within three categories: TAFE institutes, private RTOs, and adult and community education (ACE) providers.

TAFE institutes are public statutory bodies governed by TAFE Institute Councils. They service the majority of students across Victoria and are the largest providers of VET qualifications. In 2010, approximately 69 per cent of students were enrolled in TAFE institutes (see Table 2.1).

Private RTOs and ACE providers are small institutions compared to TAFE institutes with regards to course breadth, student numbers and capital assets. Private RTOs are privately owned and operate as businesses. They are often specialised within a particular industry. In 2010, over 21 per cent of VET students were enrolled in private RTOs. ACE providers are generally small not-for-profit organisations focused on low level qualifications and foundation skills. In 2010, they made up over 9 per cent of VET enrolments.
Table 2.1  
Provider type by number of students, Victoria, 2006-2010
Delivering government subsidised training\textsuperscript{a}

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>AQF qualifications</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>
| TAFE and other govt providers | 130 086 | 134 343 | 136 060 | 141 194 | 146 351 | 68.8  
| Community education providers\textsuperscript{b} | 19 164  | 20 212  | 20 591  | 24 021  | 20 536  | 9.6  
| Other (private) registered providers\textsuperscript{b} | 7 966  | 10 192  | 11 687  | 20 130  | 45 828  | 21.5  
| Total                | 157 216 | 164 747 | 168 338 | 185 345 | 212 715 | 100  
| Non AQF qualifications |        |        |        |        |        |  
| TAFE and other govt providers | 18 970  | 10 316  | 10 543  | 5 272   | 5 125   | 17.6  
| Community education providers\textsuperscript{b} | 31 167  | 29 600  | 28 138  | 22 972  | 22 237  | 76.3  
| Other (private) registered providers\textsuperscript{b} | 1 325   | 1 604   | 887     | 2 271   | 1 773   | 6.1   
| Total                | 51 462  | 41 520  | 39 568  | 30 515  | 29 135  | 100   
| Students in govt subsidised places | 208 678 | 206 267 | 207 906 | 216 009 | 241 887 |  

\textsuperscript{a} The Commission excluded apprentices and trainees due to differences in recognition by Skills Victoria and NCVER.  
\textsuperscript{b} From 2009, Victoria provided one consolidated submission, in place of the three previous submissions (TAFE institutes, ACE and private providers). As a consequence of the way some adult and community education and private RTOs are scoped, there may be some slight reporting differences in 2009 compared with previous years.  
Source: 2010 NCVER Vocstats.

\textbf{2.3.2 Australian Qualifications Framework (AQF)}

Only RTOs can issue VET AQF qualifications. The AQF defines all nationally recognised qualifications, incorporating qualifications from each education and training sector into a single comprehensive national framework. The AQF was first introduced in 1995.

The AQF levels define the relative complexity and depth of achievement and the autonomy required of graduates to demonstrate that achievement. There are ten levels, with level 1 having the lowest complexity and AQF level 10 the highest. Under the AQF, the VET sector delivers the following eight qualifications:

\begin{itemize}
  \item Certificate I;
  \item Certificate II;
\end{itemize}
• Certificate III;
• Certificate IV;
• Diploma;
• Advanced Diploma;
• Vocational Graduate Certificate; and
• Vocational Graduate Diploma\(^5\).

In Victoria in 2010, 30 per cent of students were enrolled in Diploma or higher courses as shown in Table 2.2.

### AQF Qualifications

In the VET sector, a RTO can provide nationally recognised AQF qualifications either through accredited courses or from training packages. A course will only be accredited if a community need has been identified and there is no training package equivalent. Increasingly, VET qualifications are derived from Training Packages. In 2006, 70 per cent of students were undertaking Training Packages. By 2010, this had increased to 80 per cent.\(^6\)

Table 2.2 **Students by major courses and qualifications, Victoria, 2006–10**

<table>
<thead>
<tr>
<th>AQF Qualifications</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma or higher</td>
<td>43 622</td>
<td>45 104</td>
<td>47 258</td>
<td>55 361</td>
<td>61 795</td>
</tr>
<tr>
<td>Graduate Diploma</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td>Graduate Certificate</td>
<td>121</td>
<td>215</td>
<td>265</td>
<td>523</td>
<td>240</td>
</tr>
<tr>
<td>Advanced Diploma</td>
<td>12 985</td>
<td>12 406</td>
<td>12 184</td>
<td>14 088</td>
<td>13 799</td>
</tr>
<tr>
<td>Associate Degree</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>83</td>
<td>55</td>
</tr>
<tr>
<td>Diploma</td>
<td>30 516</td>
<td>32 483</td>
<td>34 809</td>
<td>40 665</td>
<td>47 684</td>
</tr>
<tr>
<td>Certificate IV</td>
<td>28 804</td>
<td>30 069</td>
<td>29 770</td>
<td>35 329</td>
<td>45 058</td>
</tr>
<tr>
<td>Certificate III</td>
<td>33 678</td>
<td>33 690</td>
<td>35 731</td>
<td>38 503</td>
<td>48 436</td>
</tr>
<tr>
<td>Certificate II</td>
<td>35 704</td>
<td>37 778</td>
<td>38 791</td>
<td>44 273</td>
<td>45 178</td>
</tr>
<tr>
<td>Certificate I</td>
<td>15 408</td>
<td>18 106</td>
<td>16 788</td>
<td>11 879</td>
<td>12 248</td>
</tr>
<tr>
<td><strong>AQF Total</strong></td>
<td><strong>157 216</strong></td>
<td><strong>164 747</strong></td>
<td><strong>168 338</strong></td>
<td><strong>185 345</strong></td>
<td><strong>212 715</strong></td>
</tr>
</tbody>
</table>

\(^a\) The Commission excluded apprentices and trainees due to differences in recognition by Skills Victoria and NCVER.

Source: 2010 NCVER Vocstats.

\(^5\) AQF Level 9 Masters Degree and AQF Level 10 Doctoral Degree are not VET.

\(^6\) 2010 NCVER Vocstats.
2.3.3 Training Packages

Training packages are a key resource for RTOs in the delivery of structured, accredited training. They group the competencies at the various levels into national qualifications (Certificate, Diploma etc) that align to the AQF. Each training package has two parts: endorsed components and support materials.

There are three compulsory endorsed components:

1. **National Competency Standards**: the skills and knowledge a person must be able to demonstrate.

2. **Assessment Guidelines**: the framework for valid, reliable, fair and consistent assessment of the applicable Competency Standards.

3. **National Qualifications**: the qualification awarded when a student has been assessed as achieving a combination of units of competency.

**Support materials** are designed to support the delivery and assessment of the training. Generally, they can be learning strategies, assessment resources, or professional advice.

Training packages do not prescribe how students should be trained. As a consequence, RTOs have the flexibility to design their courses to deliver the competencies outlined in the package.

**Endorsing and implementing training packages**

Training packages are developed by national Industry Skills Councils. The Industry Skills Councils consult with relevant industry or enterprises to obtain national endorsement from the National Skills Standard Council. Before the completed package is endorsed, the Industry Skills Council (the developer) must validate it and show that it has broad industry support.

In Victoria, purchasing guides assist RTOs with the implementation of training packages. The purchasing guides outline:
- transition arrangements;
- relationships between qualifications;
- registration processes for training organisations;
- apprenticeship and traineeship pathways; and
- nominal hours of units and qualifications.

Curriculum maintenance managers (CMM) prepare these guides and provide advice to various stakeholders on training and delivery, support teacher networks and maintain Victorian Crown copyright curriculum. In addition, the CMM estimate the nominal hours for the various units of competency set out in the packages.

In 2010, training packages in government subsidised delivery were largest in business services and community services with over 26,000 students enrolled in

---

7 The Victorian Registration and Qualifications Authority along with Skills Victoria review new and revised training packages.
each package as Table 2.3 illustrates. The largest growth rates have occurred in manufacturing, the fitness industry and beauty. Compared to 2008, participation in these training packages have more than trebled. Other packages that have grown substantially include: hairdressing; health; communications services; and construction, plumbing and services integrated framework.

Table 2.3  Students in top 20 training packages, Victoria, 2006–2010

<table>
<thead>
<tr>
<th>Package</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Services (BSA, BSB)</td>
<td>21 659</td>
<td>24 189</td>
<td>24 227</td>
<td>26 805</td>
<td>36 452</td>
<td>13.5</td>
</tr>
<tr>
<td>Community Services (CHC)</td>
<td>18 290</td>
<td>20 186</td>
<td>19 624</td>
<td>25 030</td>
<td>31 222</td>
<td>11.5</td>
</tr>
<tr>
<td>Tourism, Hospitality and Events (SIT, THH, THT)</td>
<td>23 371</td>
<td>22 428</td>
<td>23 910</td>
<td>28 885</td>
<td>29 457</td>
<td>10.9</td>
</tr>
<tr>
<td>Construction, Plumbing and Services Integrated Framework (BCF, BCG, BCP, CPC)</td>
<td>10 888</td>
<td>12 712</td>
<td>15 662</td>
<td>17 170</td>
<td>21 508</td>
<td>7.9</td>
</tr>
<tr>
<td>Retail Services (SIR, WRP, WRR, WRW)</td>
<td>15 905</td>
<td>14 660</td>
<td>16 257</td>
<td>14 562</td>
<td>17 757</td>
<td>6.6</td>
</tr>
<tr>
<td>Transport and Logistics (TDT, TLI)</td>
<td>9 997</td>
<td>8 458</td>
<td>10 408</td>
<td>14 777</td>
<td>15 583</td>
<td>5.8</td>
</tr>
<tr>
<td>Health (HLT)</td>
<td>3 528</td>
<td>3 648</td>
<td>6 914</td>
<td>9 088</td>
<td>10 894</td>
<td>4.0</td>
</tr>
<tr>
<td>Electrotechnology (UEE, UTE, UTL)</td>
<td>9 144</td>
<td>9 768</td>
<td>10 405</td>
<td>9 272</td>
<td>10 530</td>
<td>3.9</td>
</tr>
<tr>
<td>Financial Services (FNA, FNB, FNS)</td>
<td>6 593</td>
<td>6 898</td>
<td>7 071</td>
<td>7 571</td>
<td>8 111</td>
<td>3.0</td>
</tr>
<tr>
<td>Automotive Industry Retail, Service and Repair (AUR)</td>
<td>8 197</td>
<td>7 239</td>
<td>7 756</td>
<td>7 405</td>
<td>7 576</td>
<td>2.8</td>
</tr>
<tr>
<td>Information and Communications Technology (ICA)</td>
<td>8 013</td>
<td>7 695</td>
<td>7 606</td>
<td>7 065</td>
<td>6 774</td>
<td>2.5</td>
</tr>
<tr>
<td>Metal and Engineering (MEM)</td>
<td>7 788</td>
<td>7 718</td>
<td>8 072</td>
<td>6 463</td>
<td>6 553</td>
<td>2.4</td>
</tr>
<tr>
<td>Hairdressing (WRH)</td>
<td>2 927</td>
<td>3 168</td>
<td>3 644</td>
<td>4 100</td>
<td>5 137</td>
<td>1.9</td>
</tr>
<tr>
<td>Rural Production (RTE, RUA)</td>
<td>4 448</td>
<td>4 269</td>
<td>4 798</td>
<td>4 798</td>
<td>5 076</td>
<td>1.9</td>
</tr>
<tr>
<td>Amenity Horticulture (RTF, RUH)</td>
<td>4 754</td>
<td>4 666</td>
<td>4 223</td>
<td>4 148</td>
<td>4 712</td>
<td>1.7</td>
</tr>
<tr>
<td>Training and Assessment (BSZ, TAA)</td>
<td>2 849</td>
<td>3 771</td>
<td>3 721</td>
<td>4 570</td>
<td>4 470</td>
<td>1.7</td>
</tr>
<tr>
<td>Manufacturing (MSA, MCM)</td>
<td>385</td>
<td>855</td>
<td>1 007</td>
<td>1 530</td>
<td>4 027</td>
<td>1.5</td>
</tr>
<tr>
<td>Beauty (SIB, WRB)</td>
<td>808</td>
<td>1 011</td>
<td>1 146</td>
<td>2 014</td>
<td>3 764</td>
<td>1.4</td>
</tr>
<tr>
<td>Fitness Industry (SRF)</td>
<td>692</td>
<td>702</td>
<td>633</td>
<td>916</td>
<td>3 456</td>
<td>1.3</td>
</tr>
<tr>
<td>Food Processing Industry (FDF)</td>
<td>5 193</td>
<td>6 120</td>
<td>4 719</td>
<td>3 092</td>
<td>3 067</td>
<td>1.1</td>
</tr>
</tbody>
</table>

a These numbers refer to students undertaking training packages. The coverage of training packages is constantly changing, as new training packages are developed and existing training packages are reviewed, to meet emerging requirements across industries. Source: 2010 NCVER Vocstats.
Recent changes

Since July 2011, changes to training packages have been progressively implemented. The motivation behind the introduction of the Flexible Rules for Training Packages was that training packages were seen to be too complicated, too rigid, and in some areas industry expectations were not being met. In response, the following new rules were established:

• at least one third of the total units are to be electives,
• students can choose units from within the host Training Package, from other Training Packages, and from accredited courses, and
• up to one sixth of the total units can be imported from other sources.

These new rules aim to give employers and students more choice and RTOs greater ability to customise qualifications to meet industry and student needs.

There have been a number of other recent changes at the national level that will have implications for the operation of VET in Victoria. These are summarised in Box 2.1.
<table>
<thead>
<tr>
<th>Box 2.1</th>
<th>Recent changes to Commonwealth involvement in the VET sector</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In July 2011, a number of VET governance bodies were established. Below is a brief summary of these bodies and their role.</td>
</tr>
<tr>
<td></td>
<td><strong>Standing Council for Tertiary Education, Skills and Employment (SCOTese)</strong></td>
</tr>
<tr>
<td></td>
<td>The successor of the Ministerial Council for Tertiary Education and Employment, SCOTese is one of a number of Standing Councils that report to the Council of Australian Governments.</td>
</tr>
<tr>
<td></td>
<td><strong>National Skills Standards Council (NSSC)</strong></td>
</tr>
<tr>
<td></td>
<td>A committee of SCOTese, its role is to provide advice on national standards for regulation on VET. This role was previously undertaken by the National Quality Council (NQC) which was dissolved in late June 2011.</td>
</tr>
<tr>
<td></td>
<td><strong>Principal Committee on Regulation, Quality Assurance and International Engagement</strong></td>
</tr>
<tr>
<td></td>
<td>A committee of SCOTese, it provides advice on matters related to the maintaining the quality and international reputation of tertiary education in Australia and the regulatory framework across the tertiary education sector, including agreement to national VET standards.</td>
</tr>
<tr>
<td></td>
<td><strong>Data and Performance Measurement Principal Committee</strong></td>
</tr>
<tr>
<td></td>
<td>A committee of SCOTese it provides advice on matters related to performance against national tertiary education targets, improving data collection and broadening measurement.</td>
</tr>
<tr>
<td></td>
<td><strong>National Advisory for Tertiary Education, Skills and Employment (NATESE)</strong></td>
</tr>
<tr>
<td></td>
<td>Provides the secretariat structure to facilitate and support the key advisory committees of SCOTese. NATESE also provides support to:</td>
</tr>
<tr>
<td></td>
<td>• the National Senior Officials Committee;</td>
</tr>
<tr>
<td></td>
<td>• National Skills Standards Council;</td>
</tr>
<tr>
<td></td>
<td>• Flexible Learning Advisory Group; and</td>
</tr>
<tr>
<td></td>
<td>• National VET Equity Advisory Council.</td>
</tr>
<tr>
<td></td>
<td><strong>Australian Skills Quality Authority (ASQA)</strong></td>
</tr>
<tr>
<td></td>
<td>ASQA is the national regulator of RTOs and courses for Australia’s VET sector.</td>
</tr>
</tbody>
</table>
2.3.4 The Australian Quality Training Framework

In order for a training organisation to become a RTO, it must meet the Australian Quality Training Framework (AQTF) Essential Conditions and Standards for Initial Registration.\(^8\)

This includes complying with conditions related to: governance; interactions with the Registering Body; compliance with legislation; insurance; financial management; certification and issuing of qualifications; statements of attainment; recognition of qualifications issued by other RTOs; accuracy and integrity of marketing; and transition to training packages/expiry of accredited courses.

The RTO must also have the following standards: strategies in place to provide quality training and assessment across all of its operations; strategies in place to adhere to the principles of access and equity and maximise outcomes for its clients; and management systems that will be responsive to the needs of clients, staff and stakeholders, and the environment in which the RTO operates.

2.3.5 Victorian Registration and Qualifications Authority

Once a RTO has met the conditions and standards outlined above, its registration must be renewed with the relevant state registering authority at least every five years. This is to ensure that a RTO continues to deliver quality training and assessment. In Victoria, the relevant registering authority is the Victorian Registration and Qualifications Authority (VRQA).

Once a RTO is registered, it is expected to report annually to the VRQA. If a RTO fails to submit its required reporting data, this may affect its risk rating and registration status. In addition to its registration function, the VRQA can audit the RTO at any time during its period of registration.

Since July 2011, the VRQA registers VET providers who deliver courses to domestic students only and who only offer training in Victoria or only Victoria and Western Australia. The VRQA is also responsible for the registration of education and training providers in:

- higher education;
- school education;
- senior secondary education;
- homeschooling; and
- overseas secondary student exchange organisation.

However, the VRQA does not regulate providers in Victoria who deliver:

- to international students (other than schools);
- in another Australian state or territory (other than Victoria and Western Australia), including online or by distance education; and
- English language intensive course for overseas students and Foundation Studies courses (other than courses delivered by schools).\(^9\)

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8 A more detailed explanation can be found at www.training.com.au.
As part of this new arrangement, 576 Victorian VET providers are being transferred to the Australian Skills Quality Authority.\(^9\)

### 2.3.6 Australian Skills Quality Authority

The Australian Skills Quality Authority (ASQA) was established as the national regulator for Australia’s VET sector on 1 July 2011. ASQA regulates courses and training providers to ensure nationally-approved quality standards are met. Its functions include:

- registering training providers as RTOs;
- recommending RTOs as providers that can enrol international students;
- accrediting VET courses; and
- ensuring that RTOs comply with the conditions and standards for registration, including by carrying out compliance audits.

ASQA may also collect, analyse and publish information on the VET sector and VET providers.

### 2.4 Other key agencies

There are a number of other agencies, such as the Victorian Skills Commission, Skills Victoria, and the National Skills Standards Council that also have a role within the Victorian VET sector. The roles and functions of these agencies are described in Appendix C.

### 2.5 Government subsidised VET in Victoria

In 2008, significant VET policy changes were announced under the auspices of the *Education and Training Reform Act 2006*. This policy was introduced in recognition that services and knowledge industries are becoming increasingly important to the Victorian economy and that, by 2015, Victoria is projected to have a shortfall of about 123,000 Diploma and Advanced Diploma qualified workers.\(^11\) These reforms were staged over four years, from 2009 to 2012.

#### 2.5.1 VET Policy

As part of the 2008 policy package, a number of reforms were introduced (see Box 2.2). The reforms made two key changes to the VET system in Victoria:

- First, under the VTG, **funding is available for anyone who is eligible for a government subsidised training place.**\(^12\) This means that there are no limits to

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\(^10\) Victorian Registration and Qualifications Authority, Annual Report 2010-11, p. 22.


\(^12\) The eligibility criteria are discussed in detail in Chapter 4.
the number of places that can be offered, subject to the eligibility criteria being met.

- Second, private providers meeting certain requirements are able to compete with public providers to deliver government subsidised training. Under the previous arrangements, government subsidised training was determined by Skills Victoria allocating funding to predominantly public providers (TAFE institutes) to deliver a set number of training places in a set number of courses. These places were then allocated to students on a first come, first served basis.

The 2008 policy package also outlined a number of proposals aimed at stimulating demand for VET training under a student demand-driven model. In addition to a public marketing campaign, a number of initiatives were introduced to provide information to students, employers and industry to facilitate appropriate choices. These included:

- **Skills Pledge**, 13;
- **Skills for Growth** program, and
- partnership with industry.

**Skills for Growth**

The *Skills for Growth: the Workforce Development Program* aims to address the skills and training needs of small to medium sized business with less than 200 employees. Under the Program, businesses can, free of charge 14, get assistance with identifying business objectives and priorities; assessing the skill needs of the business and their employees; establish a customised workforce training and development plan; and place staff into accredited training.

**Partnership with industry**

Industry Training Advisory Bodies (ITABs) provide advice to the Victorian Skills Commission and contribute to the development of training packages. As part of the reform policy, ITABs play a greater role in promoting skills development, providing information to employers and employees, and operating as a source of information to the industry sectors. 15

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13 *Skills Pledge* was a commitment by business to train and skill staff. In return, businesses could list their business name and details on the Victorian *Skills Pledge* register. Skills Victoria stopped promoting *Skills Pledge* at the end of November 2010 and there have been no new signatories since.

14 However, any vocational education and training undertaken must be paid by the business.

Box 2.2  **Key features: 2008 VET policy reforms**

The 2008 VET policy reform package changed the fee and funding model for government subsidised training in Victoria.

The reforms:

- introduced the Victorian Training Guarantee which is an entitlement to a government subsidised training place. Access to the entitlement is subject to eligibility criteria related to residency, age and previous level of qualification held;\(^a\)
- decreased fees for foundation courses (literacy, numeracy and language);
- increased fees for diploma and advanced diploma level qualifications requiring students to make a proportionate contribution to their training;
- removed concession fees for diplomas and advanced diplomas; \(^b\)
- allowed for fee flexibility, enabling providers to set fees within a minimum and maximum fee band;
- provided diploma and advanced diploma students with access to the Commonwealth Government’s income contingent loan (VET FEE HELP);
- introduced contestable access to government funding. Any registered training provider (RTO) can enter into a contract with Skills Victoria to offer government subsidised training;
- uncapped government funding. There are no limits to the number of places that can be offered, subject to the eligibility criteria being met. RTOs are able to increase delivery in areas of demand;
- provided funding in arrears for training delivered. Previously, training was purchased in advance; and
- provided full reimbursement for concession enrolments. Previously, government only reimbursed a proportion of concession fee enrolments.

\(^a\) There are limited number of exemptions available to those students who might otherwise find themselves ineligible for a government subsidised place because of the up-skilling requirement. \(^b\) In 2011, concessions were re-introduced for diplomas and advanced diplomas.

In addition to the above policies, two on-line tools were proposed to assist with student decision making: the State Register and the Qualifications Navigator.

Maintained by the VRQA, the **State Register** provides information on all of the providers registered under the VRQA and the accredited courses they deliver. The VRQA State Register contains VET courses based on national classifications in the following areas: agriculture, environmental and related studies; architecture and building; creative arts; education; engineering and related technologies; food, hospitality and personal services; health; information technology; management and commerce; mixed field programmes; natural and physical sciences; and society and culture.
The **Qualifications Navigator** was introduced in March 2010 and allowed individuals to search for accredited qualifications, courses and units and find a local provider registered to deliver them; build a learning profile to see the accredited courses and qualifications that these units can lead to; and see how learning completed in one qualification and sector compares and relates to learning in another. A number of subsequent national policy changes impacted the ability of the VRQA to maintain accurate information about courses and therefore it removed the Qualifications Navigator from its website on 27 June 2011.

### 2.6 VET system funding

#### 2.6.1 Overview

In Australia, VET activity is funded chiefly from three sources: government, employers and individuals. Ongoing Commonwealth funding is provided to the State through the **National Agreement for Skills and Workforce Development**. In 2010-11, the Commonwealth Government committed $333.3 million as part of this Agreement. This money is conditional on achieving targets in the following areas:

- enrolments;
- course completions;
- unit/module completions;
- course completions by Indigenous Australians; and
- enrolments by Indigenous Australians in higher level qualifications

The current targets are shown in Table 2.4.

Commonwealth funding was also provided to Victoria through an Intergovernmental Agreement for additional training delivery under the Productivity Places Program, which is a national partnership for the delivery of training places as part of the Commonwealth Government’s **Skilling Australia for the Future** initiative. In 2010-11, the Commonwealth Government committed $105.2 million to Victoria under this partnership.

#### Table 2.4 Victoria’s targets under the National Agreement for Skills and Workforce Development 2009-2012

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrolments in VET</td>
<td>314 689</td>
<td>314 689</td>
<td>314 689</td>
<td>314 689</td>
</tr>
<tr>
<td>Course completions in VET</td>
<td>81 259</td>
<td>81 259</td>
<td>81 259</td>
<td>81 259</td>
</tr>
<tr>
<td>Unit/module completions in VET</td>
<td>1 692 975</td>
<td>1 692 975</td>
<td>1 692 975</td>
<td>1 692 975</td>
</tr>
<tr>
<td>Course completions by Indigenous Australians in VET</td>
<td>527</td>
<td>527</td>
<td>527</td>
<td>527</td>
</tr>
<tr>
<td>Enrolments by Indigenous Australians in higher level VET qualifications</td>
<td>1 930</td>
<td>1 930</td>
<td>1 930</td>
<td>1 930</td>
</tr>
</tbody>
</table>

2.6.2 Victorian VET funding delivery

As part of the 2008 reforms, state government funding for the delivery of VET is now provided on a demand-driven and contestable basis. That is, both public TAFE institutes and private non-TAFE providers can compete for government funding if they satisfy a number of criteria including registration as a RTO, financial viability, a satisfactory registration audit record, and compliance with data provision requirements.\(^{16}\)

Funding is allocated to providers on the basis of base funding rates, a weighting based on the relative costs of training or the characteristic of the student, and the number of scheduled student contact hours. This can be expressed using the following simplified formula:

\[
\text{Funding per Student} = \text{Base Funding rate} \times \text{Industry or Student Weighting} \times \text{Student contact hours}
\]

The total amount of government funding has not been capped.

Despite the fact that subsidised places are available to both TAFE institutes and non-TAFE providers, the hourly funding rate differs between the two, except in the case of skills deepening courses. The additional base funding for public TAFE institutes was in recognition that such institutes provide the ‘full range of training services’ in their areas.\(^{17}\) The gap between these rates has lessened since 2009 funding rates. The base funding rates for 2011 are shown in Table 2.5:

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\(^{16}\) RTOs receive payment based on the training activity they report to Skills Victoria on a monthly basis. This model replaces the previous arrangement where TAFE institutes and contracted RTOs received regular payments against planned activity. Skills Victoria undertakes separate auditing to ensure that government funded RTOs fulfil their contractual obligations. This audit process occurs every one to two years.

### Table 2.5 2011 Base funding rates for government subsidised places

<table>
<thead>
<tr>
<th>Funding structure</th>
<th>Award</th>
<th>TAFE institutes (per hour)</th>
<th>Non-TAFE (per hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation skills</td>
<td>Foundation Level and</td>
<td>$9.75</td>
<td>$7.99</td>
</tr>
<tr>
<td></td>
<td>Pre-Accredited Courses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skills creation</td>
<td>Certificate I and II</td>
<td>$9.32</td>
<td>$7.70</td>
</tr>
<tr>
<td>Skills building</td>
<td>Certificate III and IV</td>
<td>$8.99</td>
<td>$7.70</td>
</tr>
<tr>
<td>Skills deepening</td>
<td>Diploma and Advanced</td>
<td>$7.04</td>
<td>$7.04</td>
</tr>
<tr>
<td></td>
<td>Diploma</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apprenticeships</td>
<td>Various</td>
<td>$9.67</td>
<td>$7.91</td>
</tr>
<tr>
<td>Traineeships</td>
<td>Various</td>
<td>$8.99</td>
<td>$7.70</td>
</tr>
</tbody>
</table>

**Note:** Industry sector and student weightings also apply. These can be found in Appendix E. Source: *Securing Jobs for Your Future*.

In addition to the hourly funded rates, a Weighted Training Hour (WTH) rate per student contact hour (SCH) is also applied to reflect the relative costs incurred in delivering training to different industry sectors and population groups.

The WTH model was introduced to TAFE Performance Agreements in 2006. The WTH model takes into account that the cost of training delivery may be high in some sectors and relatively low in other sectors. Each industry sector and certain population cohorts attract one of seven weightings based on the underlying costs of training delivery. Weightings are between 0.8 and 1.5. This model replaced the previous practice of paying an average price for training. A more detailed examination of the funding model and weightings are provided in Chapter 6.

#### 2.6.3 Other government funding

As public providers, Victorian TAFE institutes are also able to access funding for capital and infrastructure. In 2010-11, the Victorian Government committed $35 million to TAFE upgrades.\(^1\)

RTOs are also able to generate income from their own fee-for-service delivery. If a student is not eligible for a government subsidised training place, a RTO can offer full fee based courses. Further discussion on the eligibility criteria can be found in Chapter 4.

2.6.4 Tuition fees

Under the 2008 policy package, tuition fees are differentiated based on the level of training qualification undertaken with the intention that fees would vary in line with the expected private benefits individuals and businesses get from training (i.e. there appears to be an implicit assumption that private benefits increase as the level of qualification increases). See Section 2.2 for a discussion of private benefits.

A key feature of this framework is the flexible fee arrangement. RTOs are given a minimum and maximum fee scale within which they can set their price, providing some limited flexibility to compete on the price of tuition fees. The tuition fee is calculated based on the number of hours of enrolment, at a rate that varies depending on the course category.

As with the funding model, all VET courses have been classified into one of the six course categories. The fee structure for 2011 is set out in Table 2.6. For each course category there is a set minimum and maximum total amount that students pay with an annual maximum tuition fee of $2,000.

A more detailed examination of the fees is found in Chapter 5.

Table 2.6 2011 Tuition fees for government subsidised places

<table>
<thead>
<tr>
<th>Course category</th>
<th>Award</th>
<th>Fee per student per hour</th>
<th>Min Fee(^a)</th>
<th>Max Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation skills</td>
<td>Foundation Level and Pre-Accredited Courses</td>
<td>Up to $1.08</td>
<td>$50</td>
<td>$500</td>
</tr>
<tr>
<td>Skills creation</td>
<td>Certificate I and II</td>
<td>Up to $1.51</td>
<td>$105</td>
<td>$875</td>
</tr>
<tr>
<td>Skills building</td>
<td>Certificate III and IV</td>
<td>Up to $1.84</td>
<td>$187.50</td>
<td>$1 250</td>
</tr>
<tr>
<td>Skills deepening</td>
<td>Diploma and Advanced Diploma</td>
<td>Up to $3.79</td>
<td>$375*</td>
<td>$2 000</td>
</tr>
<tr>
<td>Apprenticeships</td>
<td>Various</td>
<td>Up to $1.40</td>
<td>$58</td>
<td>$923</td>
</tr>
<tr>
<td>Traineeships</td>
<td>Various</td>
<td>Up to $1.84</td>
<td>$187.50</td>
<td>$1 250</td>
</tr>
</tbody>
</table>

\(^a\) Concession fees are set at the minimum for each course category except for Diplomas and Advance Diplomas delivered by TAFE institutes, where the concession fee is $100.

Source: Securing Jobs for Your Future.
2.7 Response to the reforms

The staged implementation of the VTG (it was not fully implemented until 1 January 2011) makes it difficult to draw strong conclusions about how the reforms have impacted on the VET sector in Victoria. However, it is still possible to analyse how the sector has responded to the reforms by concentrating on the areas where VTG has been in place. This section provides a high level analysis of the VET sector since the reforms.

2.7.1 Student response (demand)

In July 2009, the VTG commenced for Diplomas, Advanced Diplomas and Skills for Growth referrals. In 2008, there were 55,408 enrolments in Diploma or Advanced Diploma courses. After the introduction of the VTG, this figure grew to 65,850 in 2010, a 19 per cent increase compared to 2008.

On 1 January 2010, the VTG was extended to all aged between 15 and 19 years old; 20 to 24 year olds who up-skill; and retrenched workers 25 years or older. In 2009, there were 38,823 students aged 15 to 19 year olds in VET training. By 2010, this number increased to 52,000, a 34 per cent increase.

On 1 January 2011, the VTG was fully implemented. This meant that all students between 15-19 years old, all students undertaking foundation courses, apprentices for trades, and any applicant wishing to up-skill were guaranteed a training place. At this stage, complete data for 2011 are not yet available to examine the impact of these changes. However, data published by Skills Victoria for the first half of 2011 shows a 24 per cent increase in course enrolments in government subsidised places compared with enrolments in the first half of 2010.

2.7.2 RTO response (supply)

Similar to the student response, the number of providers offering government funded training has increased since the introduction of the VTG. In 2011, 510 providers reported providing government subsidised places compared to 349 in 2009, an increase of 46 per cent (see Table 2.7). Most of this increase can be attributed to growing numbers of private RTOs.

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19. In addition, data are inconsistent across agencies which make comparisons difficult.
20. Skills Victoria. This is the revised figure. This revision follows a re-casting of the 2008 data using a course enrolment definition consistent to that used from 2009 onwards.
22. Skills Victoria.
Table 2.7  
**Number of VET providers in Victoria**  
Delivering government subsidised training

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAFE institutes</td>
<td>18</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>ACE</td>
<td>166</td>
<td>148</td>
<td>126</td>
</tr>
<tr>
<td>Private RTOs</td>
<td>165</td>
<td>280</td>
<td>366</td>
</tr>
<tr>
<td>TOTAL</td>
<td>349</td>
<td>446</td>
<td>510</td>
</tr>
</tbody>
</table>

Source: Skills Victoria.

Not only has the number of private RTOs increased, but so too has their market share in providing higher qualification (i.e. Diploma and above) courses. private RTOs had over 4,400 enrolments in government subsidised Diplomas or (a 7 per cent market share). By 2010, private RTOs had over 17,200 course enrolments at this level or almost a 28 per cent market share. By contrast, although overall total TAFE course enrolments have increased from 2009 to 2010, there was a 14 per cent (7,651 enrolments) decline in Diploma and above course enrolments at TAFE institutes.

Table 2.8  
**Market share in the Victorian VET Sector by course enrolments**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAFEs</td>
<td>15,208</td>
<td>18,001</td>
</tr>
<tr>
<td>Private RTOs</td>
<td>396</td>
<td>635</td>
</tr>
<tr>
<td>ACE</td>
<td>7,681</td>
<td>18,001</td>
</tr>
<tr>
<td>Private RTOs</td>
<td>1,431</td>
<td>6,863</td>
</tr>
<tr>
<td>Foundation skills</td>
<td>2009</td>
<td>2010</td>
</tr>
<tr>
<td>Certificate I</td>
<td>4,077</td>
<td>5,194</td>
</tr>
<tr>
<td>Certificate II</td>
<td>320,42</td>
<td>36,834</td>
</tr>
<tr>
<td>Certificate III</td>
<td>29,154</td>
<td>33,090</td>
</tr>
<tr>
<td>Certificate IV</td>
<td>35,649</td>
<td>36,834</td>
</tr>
<tr>
<td>Diploma and above</td>
<td>55,457</td>
<td>47,806</td>
</tr>
<tr>
<td>Apprenticeships/traineeships</td>
<td>49,072</td>
<td>51,252</td>
</tr>
<tr>
<td>Total Course Enrolments</td>
<td>220,659</td>
<td>233,326</td>
</tr>
</tbody>
</table>

a Includes Diploma, Advanced Diploma and Graduate Diploma and Graduate Certificate courses

Source: Skills Victoria.
3.1 Introduction

As part of its terms of reference, the Commission has been asked to assess the extent to which the design of the fee and funding mechanisms contribute to advancing the following core objectives of the Victorian training system:

- produces the skills needed by the Victorian economy;
- is competitive, efficient and student centred;
- assists the unqualified gain qualifications;
- helps the already qualified access qualifications that support their advancement in the labour market;
- encourages key cohorts to complete their qualifications; and
• caters for higher-need learners, such as equity groups, Victorians with a low socio-economic status and students with poor prior records of educational achievement.

In response to the Issues Paper released by the Commission in May 2011, submissions were received from a diverse range of stakeholders about how well (or otherwise) the current VET arrangements were meeting the objectives of the Victorian training system. The issues raised by stakeholders are considered in the remaining Chapters of this Volume.

3.2 Overview of stakeholders’ views on meeting objectives

The Commission received 70 public and 19 confidential submissions (see Appendix B for a list of public submissions). These raised a number of issues regarding the current VET fee and funding arrangements and their alignment with the objectives set out in the terms of reference.

A number of key issues relating to the objectives emerged from these submissions. These are:
• whether the current arrangements are delivering the skills required in the economy;
• the possible negative impact of the VTG’s up-skilling requirement on the delivery of objectives;
• whether increased competition in the VET sector has delivered quality or efficiency benefits;
• the challenges of identifying and catering towards the requirements of higher need learners; and
• the appropriate balance between student, employer and government contributions.

These issues are discussed in the remainder of this chapter. Subsequent chapters on eligibility (Chapter 4), tuition fees (Chapter 5) and funding (Chapter 6) also include stakeholders views.

3.3 Meeting the skill needs of the economy

Several submissions to this review expressed the view that the fee and funding model was meeting the intent of skills deepening by explicitly linking VET participation rates with the delivery of skills required by the Victorian economy. The flexibility granted to education providers resulting from reform was also generally regarded as having had a positive impact on student numbers — and subsequently skills deepening — within the Victorian economy.

For instance, Box Hill TAFE stated that ‘the current funding model has increased the number of people undertaking training, and that much of that training is in the..."
areas and at the levels where skills are needed’. A similar perspective was provided by the private sector. The Australian Council for Private Education and Training (ACPET) noted that:

it is clearly evident that there is: more choice of providers; more Victorians in training and re-training; the population is up-skilling; more training in areas of need; and of particular significance, the private VET sector has made a marked and substantial contribution to the overall increase in VET delivery between 2008-201.

This view was also reflected by Albury Wodonga Community College (a private ACE provider), which indicated that the reforms had delivered ‘improvements in increased numbers of people undertaking training. Flexibility to providers and other enabling outcomes including ‘ease of enrolment, closer connection to industry, promotion of ongoing learning and student enthusiasm.’

However, the Association of Neighbourhood Houses and Learning Centres (ANHLC) expressed concern that participation and qualification attainment alone do not equate to delivering on this objective:

The current system adopts a simplistic approach to skills acquisition by assuming a direct relationship between qualifications obtained and skills acquired. In practice it is more complex. Whilst training may be delivered and qualifications awarded, there is no effective system that ensures that the standard of skills and knowledge acquired are either consistent, or meet the needs of industry.

Similar views were also expressed by the Australian Education Union Victorian Branch (AEUVB), Automotive Training Victoria (ATV), the McCullough Institute, and the Dairy Industry People Development Council (DIPDC).

3.4 Impact of the up-skilling requirement

While some stakeholders questioned the linkage between participation and skills attainment, an issue of wider concern was the impact of the up-skilling requirement.25

Stakeholders generally believed that the up-skilling requirement was not enabling students to pursue further skills broadening, and had contributed to a reduced potential for the VET sector to meet the changing skill needs of the economy.

Many stakeholders suggested that the up-skilling criteria acted as an impediment to individuals developing skills sought by industry and business which reduced the VET sector’s ability to be competitive, efficient and student centred.

25 Students are only eligible for a government subsidised place under the VTG if they undertake training at a level higher than that previously attained. Chapter 4 examines the eligibility criteria in more detail.
The submission made by Swinburne University of Technology TAFE is representative of the views presented by several education providers:

*Economic prosperity is underpinned by a philosophy of lifelong learning and skills development. The current reforms really only support a very linear view of skills and career development. This is not consistent with current models of employment and the needs of a workforce that will require new skills many times in their working life. Productivity will be impacted if workers only get one chance at a government supported place which is underpinned by this upward and linear approach to employment. Not all changes to employment include an upward movement in responsibility or qualification level.*

Similarly, Box Hill TAFE stated that:

*It is Box Hill Institute’s contention that the current eligibility model focuses on depth rather than breadth of knowledge and comprehension. Both are important particularly in areas where industry requires multi-skilling.*

The Victorian TAFE Association supported this stance. In its submission, it stated:

*In relation to helping already qualified people access qualifications that support their advancement in the workplace — vertical and horizontal movements can be equally relevant to meeting Victoria’s skills needs through re-skilling and up-skilling.*

Submissions from industry reflected the sentiment expressed by training providers. These also expressed concern regarding the impact that the up-skilling criteria had on the ability of the already qualified to both advance their career and support industry through the pursuit of qualifications at an equivalent level. For example, the National Meat Industry Training Advisory Council (MINTRAC) and ATV both expressed their concern at the restrictions the up-skilling criteria imposed on individuals and industry to address areas of need.

The McCullough Institute captured the sentiment of many submissions made by industry and business:

*...eligibility criteria is based on the assumption that the only way to increase skills and acquire knowledge is by climbing the ladder of qualifications. This system fails to acknowledge that people do sometimes need to step sideways and even backwards at times to increase their skills. This is especially true with technology.*

Specific concerns raised in submissions related to the recognition of Certificate II as being equivalent to VCE and the impact on qualified workers returning to the workforce. 26

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26 See submissions from AgriFood Skills Australia, ANHLC, BRACE Education Training and Employment, Brotherhood of St. Laurence, Campaspe College of Adult Education, DIPDC, Marjorie Milner College, Odyssey House Victoria, Old Courthouse Community ESSENTIAL SERVICES COMMISSION VICTORIA VET FEE AND FUNDING REVIEW VOLUME II 3 OBJECTIVES: VIEWS OF STAKEHOLDERS 30
Anecdotal evidence provided during our consultation process also indicated that the up-skilling criteria was potentially resulting in individuals not completing their training or education, an outcome at odds with the objective in our terms of reference about encouraging key cohorts to complete their qualifications. For instance, some discussions identified that individuals were deliberately not finalising training courses in order to provide them with the flexibility to undertake several courses of an equivalent level while also ensuring ongoing funding under the VTG. This outcome was briefly noted in submissions made by the McCullough Institute, Box Hill TAFE and Swinburne University TAFE.

3.5 Impact of competition on efficiency and quality

Several submissions indicated that competition has delivered a number of significant advantages to students, including increased opportunities for training and greater choice in terms of the quality, content and flexibility of the training offered.

Others expressed the view that increased competition between providers was not necessarily delivering benefits associated with quality and/or efficiency. Two broad themes emerged from the submissions:

• competition has delivered an increase in quantity, but not necessarily an improvement in the quality, of courses; and
• the administrative burden associated with the fee and funding model was impacting on quality and delivery of services.

Some stakeholders were also concerned that the funding model was resulting in training providers seeking to profit from targeting the delivery of low cost/high turnover (or high margin) courses, while reducing the quality of those courses.

Others specifically expressed the view that training and education quality was being impacted by the fee and funding model. ANHLC identified an inherent tension within the student funding model that, in its view, serves to undermine the objectives of the wider VET sector altogether:

There is some evidence that competition drives down quality where there is an inadequate quality control regime... the attempt to increase choice under the current regime may in fact undermine their goals. Students are seeking a qualification and will often seek the cheapest, quickest and easiest pathway and provider. They are not in a position to understand how their choice of provider and delivery method may impact on the adequacy of their learning or their employability...
The submission from the AEUVB supported this opinion:

*Increased competition does not necessarily lead to more efficiency and a greater, genuine customer focus. The AEUVB is concerned that rather than providing the range and quality of skills required by the economy, the current contestable funding model based on payment for nominal hours delivered is likely to see more enrolments in courses that can be delivered cheaply and quickly.*

Consistent with the recommendations of Skills Australia, Box Hill TAFE identified that a solution to improving the perceived quality deficiencies inherent to the student funding model is greater transparency and compliance assessments:

*Skills Australia recommended, among other items, mandatory independent validation of a sample of assessments and increased transparency, essential for the market to work, by the publication on the MySkills website of a range of verified information similar to that already required for all schools on the My School website.*

While this appears to advocate addressing a perceived reduction in quality through additional scrutiny and transparency, other training providers identified that administrative costs associated with the new student funding model are having a negative impact. It was suggested that compliance requirements, are directly impacting on the ability of training providers to deliver a quality course in a flexible and efficient manner.

For instance, Russell Masterton (a teacher in the plumbing trade) noted frustration at the impact that documentation associated with funding is having, particularly in light of the flexibility required to meet the needs of students:

*It seems whoever is making the decisions on the funding model, including the onerous paperwork involved has no idea how we in the trades deliver or what we have to deliver to our students.*

The administrative complexity of the model was also raised by the Goulburn Ovens Institute of TAFE, which drew a direct correlation between the compliance costs and quality of service delivery:

*Our experience is that the current Victorian Training System has imposed a high cost of compliance, particularly in the Non Teaching areas. An example is the introduction of VET FEE-HELP which required the introduction of Unit of Study requirements, and massaging of existing Diploma and Advanced Diploma courses into a University driven semester model. This model does not take into account the flexibility usually offered by TAFE Institutes in relation to enrolments throughout the year, required extensive work by our Teaching areas to develop the Units of Study into formats which were meaningful for students, and also required up skilling in the Non Teaching areas to implement the VET FEE-HELP and Unit of Study requirements. These costs were absorbed by us within existing government funding and we question the extent to
which they added value to the quality of the education delivered and the experience of our students.

3.6 Catering to higher need learners

A number of submissions suggested that recognition of the additional resources required to meet the needs of the unqualified and higher need learners is inadequate. For example, the AEUVB noted that it was particularly difficult to determine and target the training requirements of higher need learners as:

One of the main flaws of the current funding system is that it does little to ascertain who high-needs students are and little to fund the type of course or course delivery that they require above that of lower-needs students.

Although there does not appear to be a comprehensive definition of a higher need learner, the needs of this student cohort were identified in a number of submissions (e.g. Box Hill TAFE, Brotherhood of St. Laurence, Goulburn Ovens Institute of TAFE, Inclusion Melbourne and McCullough Institute). Needs identified ranged from education-related activities (such as language and writing skills), mentoring, support services and case management to less specific (but equally valid) activities associated with confidence building, trust development and the development of self-motivation. According to Box Hill TAFE:

Higher need learners are not supported with sufficient funds for the smaller groups and mentoring that they need.

The view that the fee and funding model was not meeting the objectives for a range of higher need student cohorts was identified by the Brotherhood of St. Laurence, which stated that the lack of explicit consideration of equity had directly resulted in ‘an imbalance between the respective stakeholders’ contributions in the implementation of the fee and funding model:

The Brotherhood notes the absence of equity in the list of stated objectives of the training system... We regard this as an important oversight whose likely effect is to increase social exclusion for many disadvantaged people. If equity were given due recognition as a guiding principle and objective, the funding arrangements would provide more exemption places for the most disadvantaged learners and improve the capacity of RTOs to offer effective support programs, as well as professional development for trainers of high needs learners.

ACE providers, in particular, noted that meeting the needs of this cohort relies significantly on the time and dedication of volunteers which makes it difficult to accurately gauge the ‘actual’ cost of providing services (for example, see the ANHLC submission).
Upper Yarra Community House (UYCH) noted that the constraints on funding associated with this cohort:

… places organisations, such as UYCH, delivering programs for people who fit these categories (that is unqualified and high-needs) in a position where they have to make decisions about the quality of what they deliver (which has repercussions for student outcomes), to run the programs at significant loss (which has implications for organisational viability) or to cut the program completely (which will significantly decrease the opportunities for those most in need of supported education and training opportunities).

Nevertheless, despite the perceived difficulties, the DIPCD indicated that, through collaboration, beneficial outcomes can be achieved for both higher needs learners and employers:

As the joint initiative between West Vic Dairy, West Vic Staffing Solutions (a JSA provider and RTO) the NCDEA [National Centre for Dairy Education] and the Brotherhood of St Laurence has demonstrated it is possible to recruit high needs learners at the entry level of dairy with great success.

With the exception of the up-skilling criteria (discussed earlier in Section 3.4), stakeholders’ assessment of the reform of the fee and funding model and its impact on assisting the unqualified gain qualifications was generally positive.

Several stakeholders identified that the current system has delivered positive outcomes. The Victorian State Agriculture Provider Network (SAN)’s view was:

It is agreed that the Victorian Training System assists the unqualified to gain qualifications quite well as the current eligibility criteria provides government funded training for these participants.

ACPET stated in its submission that:

…the VTG supports the Government’s social inclusion strategy, through enabling more people from disadvantaged backgrounds to enrol in training.

The AEUVB identified that ‘uncapping enrolments for those without basic qualifications is a positive move although there is not much evidence that there was a high level of unmet demand’. Holmesglen TAFE noted that, while the system was supporting this cohort, ‘the unqualified in the community have always had the opportunity to access government funded training through TAFE and have always been subject to tuition fees’.
3.7 Balance between government, student and employer contributions

The terms of reference ask the Commission to consider the balance between government, student and employer contributions.

The Issues Paper sought views on whether:

- stakeholders — individuals, employers, education providers — consider that the contributions each make under the fee and funding model have achieved a balance that promotes the likelihood that objectives are met; and

- the contributions that each stakeholder makes under the fee and funding model have contributed to achieving objectives with reference to individual student cohort groups.

A number of responses were received, representing a range of views across individual, employer, and education provider groups.

Three submissions were received from current students within the VET sector. These highlighted that there are differences between institutions with regard to fee collection timing and amounts, as well as information available regarding concessions or exemptions.

Each expressed a degree of uncertainty and confusion with regard to how fees were determined and how entitlements and/or concessions could be accessed. They also indicated that the confusion and cost associated with attending VET sector courses acted as an impediment to participation. These views were also expressed by the Brotherhood of St. Laurence.

With respect to fee setting, Box Hill TAFE questioned the efficacy of the policy assumption that students studying higher level courses will benefit from higher wages. It noted that this assumption does not hold across a range of industries, including community services and nursing. Consequently, Box Hill TAFE considered it appropriate to review the fee and funding model to ensure that the system does not discourage individuals from pursuing qualifications in careers that do not offer high remuneration and/or are facing a (potential) skills shortage.

Submissions received from employers and industry representatives also expressed particular concern that the fee and funding model was introducing barriers to individual participation, up-skilling and industry investment in training and development.

For instance, MINTRAC noted that the combination of recognition of VCE as equivalent to Certificate II, the requirement to up-skill and the recent federal budget had negative implications for the industry to attract, retain and invest in the training and development of individuals.

*The 2011 Federal May budget removed the Certificate II Traineeship Incentives from companies located in metropolitan Melbourne, thus exacerbating the impact of the Victorian new policy on fees eligibility in this industry…Average publicly-funded Australian Apprenticeship enrolments in Victoria are about 1,400 annually. Of these, about 650 annually are Traineeships in*
Certificate II in Meat Processing (Abattoirs), which is the entry level qualification for the meat processing sector. For Melbourne companies to now have to pay full training fees whilst no longer receiving the federal traineeship incentive per employee is a major resourcing issue.

Other submissions, including those of training providers, expressed the view that the current funding model’s focus on the individual does not necessarily recognise the costs associated with training and development incurred by employers and businesses. Swinburne University TAFE stated:

Employers make contributions by employing apprentices and trainees, providing sites for practical placement and through fee for service training. Employers also make significant contributions to the economic prosperity of the state and maybe that is an acceptable contribution to training.

Some submissions indicated that this imbalance could be redressed through the funding and fee model by reviewing qualification weightings and increasing funding to individuals and industry particularly in areas of skills shortage. According to the Housing Industry Association:

It is important…that funding allocation takes into account the need to skill workers in the jobs where there is a skill shortage. It is therefore recommended that a mechanism is developed that retains the focus of the current policy to fund eligible individuals but also is able to provide the necessary funding to attract and deliver skills development for the skill shortage occupations.

The ANHLC supported the view that Victoria should implement the recommendation of Skills Australia to fully fund all VET provision to Certificate III level.

While industry and employer submissions identified the costs associated with the training and development of an individual, others acknowledged the benefits that employers and industry gain from VET. The ANHLC noted that it must be recognised that industry and businesses stand to benefit from any investment in skills, whether that investment is taken on by individuals or employers.

Other stakeholders commented that, in some cases, there is an expectation from industry and employers that the costs of training should be met by government and the individual.

Swinburne University TAFE was less concerned with the balance struck with regard to its funding arrangements, and was more concerned with questioning the notion that fees be based on the assumption that only individuals realise the benefits of education:

The current fee and funding arrangements are increasing the contribution required by individuals and the notion of public-private benefit upon which the student contributions are based does not truly reflect the economic benefit realised by students through their qualifications. The approach takes a short term view of the benefits.
of education and training to the economy and the state’s prosperity.

Swinburne University TAFE identified that the fee model was having a negative impact on particular student cohorts — for example ‘exit school leavers, older students, students from non-English speaking backgrounds and especially women returning to study respond’ — and noted that:

*These students are also less prepared to access VET FEE Help and take on a long term debt for their family. The notion of private benefit is a concept that does not reflect their thinking or personal situation.*

Box Hill TAFE also indicated that the fee and funding model was not achieving a balanced outcome for certain cohorts — indigenous students, students in the 15 to 19 year age bracket and those in the VCAL and VCE categories — as the 1.3 weighting used in the model ‘is not sufficient for TAFEs to provide the extra level of support and care for such students, to succeed’.
4.1 Introduction

Students undertaking VET in Victoria can be divided into two streams: those in full fee-for-service places and those in government subsidised places. Training providers can only access government funding for the delivery of training to students in government subsidised places, who as a result, pay subsidised tuition fees that are regulated.

Under the Victorian Training Guarantee (VTG), which was phased in between July 2009 and January 2011, only students meeting certain criteria are eligible for a government subsidised training place. There are no caps placed on the number of subsidised places available as long as the eligibility criteria are met.

Prior to the introduction of the VTG, the government targeted its funding of VET delivery by restricting the number and type of government subsidised training places that it was willing to fund. This system was described as a capped, purchaser-provider model in that, each year, the government would determine the
number of training places it would fund for each qualification and enter contracts with training providers to deliver this training.\(^{27}\) Students could then access these places on a first-come, first-served basis. Once the provider had allocated all of the government subsidised places in a course, any additional students they enrolled would not be subsidised but would be enrolled in a full fee-for-service place.

This Chapter outlines the arrangements for government subsidised training places under the VTG, and analyses the key features of the VTG in terms of achieving the stated objectives of the Victorian training system.

### 4.2 The Victorian Training Guarantee

The VTG outlines the criteria that students must meet to be eligible for a government subsidised training place. Students who meet the criteria are guaranteed a government subsidised training place. The VTG eligibility criteria (see Figure 4.1) relate to citizenship, age, the nature of the course being undertaken and whether the student is an apprentice.

#### Figure 4.1 Eligibility criteria under the Victorian Training Guarantee

- **Is the student an Australian citizen or an asylum seeker or a holder of a permanent or temporary protection visa?**
  - Yes: Eligible for subsidised training place
  - No: Not eligible for subsidy

- **Is the student under 20 years of age on 1 January in the year the course commences?**
  - Yes: Eligible for subsidised training place
  - No: Not eligible for subsidy

- **Is the student seeking entry to a Foundation Skills course?**
  - Yes: Eligible for subsidised training place
  - No: Not eligible for subsidy

- **Is the student an Apprentice?**
  - Yes: Eligible for subsidised training place
  - No: Not eligible for subsidy

- **Is the student seeking entry into a course that is a higher level than the highest qualification already held? (ie. Is the student up-skilling?)**
  - Yes: Eligible for subsidised training place
  - No: Not eligible for subsidy

\(^{a}\) Only specified courses are included in the Foundation Skills category. See section 4.2.3 for further details. \(^{b}\) See section 4.2.4 for the definition of an apprentice.

Source: Skills Victoria.

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\(^{27}\) The government relied on advice from industry through the various Industry Training Advisory Bodies (ITABs) to determine the qualifications needed by industry and the number of places it would need to fund.
4.2.1 Citizenship criteria

Only students who meet certain citizenship criteria are eligible for a government subsidised training place under the VTG. To be eligible under the VTG, a student must be one of the following:

- an Australian citizen;
- an Australian Permanent Resident (holder of a permanent visa);
- a holder of a Special Category Visa (sub-class 444, New Zealand citizen);
- an East Timorese asylum seeker; or
- a holder of a Temporary Protection Visa.

If a student does not meet one of the above citizenship criteria, they can only undertake VET on a full fee-for-service basis.

4.2.2 Applicants under 20 years of age

All students who are under 20 years of age on 1 January in the year in which the course commences are entitled to a government subsidised training place under the VTG. Students meeting this age criteria are eligible for a government subsidised place regardless of the course they are enrolling in and the qualifications they have already obtained.

This part of the VTG has been in place since 1 July 2009 in accordance with the Compact for Young Australians agreed to by the Council of Australian Governments (COAG) in April 2009. Under the compact, all people aged 15 to 19 have an entitlement to an education or training place for any government subsidised qualification, subject to admission requirements and course availability. This is designed to achieve COAGs education attainment target of 90 per cent of people aged 20 to 24 having a Year 12 or Certificate II qualification by 2015.

Access to a government subsidised place for persons aged 20 and over is restricted subject to other VTG criteria.

4.2.3 Foundation level courses

The VTG provides anyone meeting the citizenship criteria with unlimited access to courses identified by Skills Victoria as foundation level training, which are listed in the Foundation Skills category. The foundation skills list currently includes courses in language, literacy and numeracy, self-management and job-readiness, up to Certificate IV level. The category also includes the Victorian Certificate of Applied Learning (foundation).

Unrestricted access to foundation skills courses commenced with full implementation of the VTG on 1 January 2011.

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28 New arrangements introduced in 2011 also enable students who have been confirmed as Asylum Seekers or Victims of Human Trafficking to access training under the VTG.
4.2.4 Apprentices

Under the VTG, anyone meeting the citizenship criteria can access a government subsidised place to undertake training as part of an apprenticeship. An apprentice is defined as a person who has entered into a registered training contract seeking to undertake a qualification defined as an apprenticeship in a relevant Victorian approved scheme. (An apprentice, for the purposes of the VTG, does not include a person who has entered into a training contract registered interstate.)

The automatic eligibility of apprentices to government subsidised training was included from 1 January 2011, following a review undertaken in 2010 by Ernst & Young for the then Department of Innovation, Industry and Regional Development which recommended:

*that the Victorian Government examine the feasibility of exemptions for apprenticeships, traineeships and pre-apprenticeship courses from the VTG, and providing funded training for all enrolments in this category.*

In making this recommendation, Ernst & Young noted that there was a risk that the VTG in its original form may not be as effective as it could be in driving demand for apprenticeships and traineeships. However, the review warned that further data were needed on any adverse impacts on apprenticeship and traineeship enrolment before any changes should be made to the VTG. The VTG was amended to provide those apprentices commencing in 2011 and 2012 with automatic access to government subsidised training.

Although Ernst & Young recommended examining the feasibility of exemptions for pre-apprentices and traineeships, the VTG was not amended for these categories of student.

4.2.5 Up-skilling

If a person is not under 20 years of age, is not enrolling in a foundations skills course, and is not an apprentice, they will only be eligible for a government subsidised training place if they are accessing training that is at a higher qualification level than any qualification they currently hold — in other words, if they are up-skilling.

This final element of the VTG was phased in between July 2009 and January 2011:
- 1 July 2009 — all new enrolments in diploma and advanced diploma courses and for students receiving training through the Skills for Growth program were required to meet the up-skilling requirement.

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29 Ernst & Young, Department of Innovation, Industry and Regional Development, August 2010, p.13.
30 The Skills for Growth program assists small to medium enterprises identify the training needs of their workforce and develop training plans to address these needs (see Chapter 2 for further detail).
• 1 January 2010 — all new enrolments of people aged 20 to 24, or retrenched workers were required to meet the up-skilling requirement.

• 1 January 2011 — full implementation of the VTG, with all persons aged 20 and over, who are not apprentices or enrolling in foundations training, required to satisfy the up-skilling requirement.

In outlining the VTG, the 2008 VET policy package noted that:

People who continue to learn, and who undertake progressively higher level skills development, will continue to access government support. This will encourage ongoing participation in the training system, with significant benefits to individuals and to the businesses and industry areas in which they work.

The discussion paper that preceded the reforms31 also explained that ‘to drive productivity growth, Victoria also needs individuals to acquire higher level qualifications in order to move to higher skilled employment’. The paper also outlined a concern that the previous allocation method did not provide an incentive for people to continue to undertake training at higher levels, with more than 40 per cent of students enrolled in Certificate II courses already holding a Certificate II or higher qualification.

4.2.6 Exemptions

When the VTG was introduced, $10 million was allocated over 2 years (from July 2009 to July 2011) to fund a limited number of government subsidised places for people who did not meet the up-skilling requirement. In 2010, an additional $10 million was provided to fund case-by-case exemptions from the up-skilling requirement. In June 2011, the Government committed a further $10 million per annum for four years to fund exemption places.32

From the available pool of funds, Skills Victoria determines the number of exemption places it can fund and allocates these among training providers contracted to deliver government subsidised training.

A training provider then has discretion to give a student who is not up-skilling an allocated exemption places if it has established that the student is unable to access appropriate alternative funded training (that is, enrol in a course that is up-skilling) and is:

• seeking training in a specified area of critical skill shortage; or

• unemployed as a result of a redundancy or retrenchment; or

• disadvantaged in the labour market because of factors that constitute a barrier to employment or re-employment.


32 The Hon Peter Hall MLC, ‘Vic Coalition Govt delivers on promise to expand access to government subsidised training’, Media Release, Minister for Higher Education and Skills, 30 June 2011.
The Victorian Skills Commission has endorsed areas of critical skill shortage in its guidelines for exemptions. The guidelines state that ‘skill shortages have been assessed on the basis of their persistence and expected severity and the significance of the industry that typically employs the occupation with skills shortage.’ Critical skill shortages are considered to be those persistent skill shortages within occupations that support essential and emergency services or infrastructure priorities, or those that are linked to the supply chain of key industries in Victoria. 

Occupations that may currently be considered within the exemptions criteria are listed in Box 4.1.

Since July 2009, just over 2,000 exemption places have been granted by training providers to students. However, as discussed in Section 4.3.2, this represents only around two thirds of the places that have been allocated by Skills Victoria to training providers, suggesting there is significant under-utilisation of these places.

Box 4.1  Critical skill shortage occupation categories

The Victorian Skills Commission has endorsed the following occupation categories for the purpose of determining areas of critical skill shortage in relation to the exemption criteria:

• Agricultural professionals and skilled agricultural workers
• Building and engineering professionals and associate professionals
• Construction tradespersons
• Electrical and electronics tradespersons
• Food processing workers
• Hospitality related food managers and tradespersons
• Nursing and health professionals and associate professionals, carers and aides
• Social welfare professionals and associate professionals
• Transport managers, administrators and clerks; with high level logistics and supply chain management skills, and road and rail transport drivers

Source: Victorian Skills Commission’s guidelines for exemptions.

In the past, the government sought to achieve the objectives of the training system by controlling the types of training delivered. Under this model, achievement of the objectives relied on the government being able to accurately determine, predict and appropriately prioritise industry needs. Further, the government did not attempt to influence who was able to access a government subsidised training place because it was on a ‘first come, first served basis’. Consequently, the allocation of

34 Skills Victoria, personal communication, 22 August 2011.
subsidies was not aligned with the training or retraining needs of individuals nor the objectives of the training system related to targeting particular student cohorts.

The VTG seeks to direct the allocation of subsidised places to particular students (those meeting certain criteria) to better align government funding with the objectives of the training system. In focusing subsidies on the demand (student) side of the training market the types of training being delivered is now outside the control of government. Although the government continues to influence the level of qualifications undertaken by requiring students to up-skill, the sectors where training is undertaken are determined by the market (students, employers, industry and providers).

The following sections examine the impact of the VTG in terms of the amount and types of training being undertaken, student access to VET, and how these impacts may be affecting the achievement of training system objectives.

4.3 Impact on training undertaken

The VTG provides eligible students with guaranteed access to a government subsidised training place in their chosen field of study. Therefore, the skills produced by the training system (in terms of sector and level of qualification) will be determined by the choices made by students who are automatically eligible, and the choices made by students in order to meet the eligibility criteria.

As outlined below, the VTG may have an effect on the training undertaken in terms of:

• affecting overall participation levels;
• influencing the level of qualifications being undertaken; and/or
• increasing or decreasing demand for training in particular sectors.

4.3.1 Overall participation levels

One indicator of whether the fee, funding and eligibility arrangements are producing the skills needed by the Victorian economy is the level of participation in VET, as measured by student enrolments. Although the VTG may provide a higher number of people with the opportunity to undertake VET in a government subsidised place, not all eligible people will make use of the opportunity.

The VTG’s effect on overall enrolments will be determined by the decisions made by students in different circumstances. Some students who did not enrol in VET under the previous system will enrol, while others who would have enrolled previously may no longer consider VET study. The different enrolment possibilities under the previous system and under the VTG are illustrated by the matrix shown in Figure 4.2.

Under the previous system (left), students may have been enrolled in a government subsidised place or on a full fee-for-service basis, or may not have been enrolled at all. If they were not enrolled, this may be because they wanted to enrol but either missed out on a subsidised place or could not afford the tuition fees, or simply because they had no interest in undertaking VET.
Under the VTG (top), students may also be enrolled in a government subsidised place (if eligible) or on a full fee basis, or may not be enrolled at all. If they are not enrolled, this may be because they had no interest in study, or because they could not afford the tuition fees (government subsidised if eligible under the VTG, or full fee if not eligible).

**Figure 4.2  Enrolment scenario matrix — before and after the introduction of the VTG**

<table>
<thead>
<tr>
<th>Enrolment scenarios after the VTG</th>
<th>Enrolled in VET</th>
<th>Not enrolled in VET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible under VTG (subsidised place)</td>
<td>Not eligible under VTG (full fees)</td>
<td>Eligible under VTG</td>
</tr>
<tr>
<td>Enrolled in VET</td>
<td>Subsidised (capped) place</td>
<td></td>
</tr>
<tr>
<td>Paying full fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unable to get a subsidised place</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No interest in study</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The shaded areas of the matrix show that, for some students, the decision to enrol or not enrol in VET would not be changed by the move away from the previous capped allocation system to the entitlement based VTG. These decisions will not change overall enrolment.
Students who would not previously have enrolled in VET but who do enrol following the introduction of the VTG will create new, additional enrolments in the system (shown by vertical stripes). However, students who would have enrolled under the previous system but would not enrol following the introduction of the VTG, represent reduced enrolment in the system (shown by horizontal stripes).

The main groups affected are likely to be (as shown in the matrix):

- **Cell A** (increase in VET enrolments from previous unmet demand) — students who missed out on a government subsidised place under the previous system, and who did not enrol on a full-fee-for-service basis, who are now eligible for a government subsidised place.

- **Cell B** (increase in VET enrolments from new demand) — students who did not attempt to enrol under the previous system, but who have since been attracted to VET by increased marketing and competition among providers, who are eligible under the VTG.

- **Cell C** (decrease in VET enrolments due to eligibility criteria) — students who were able to access a government subsidised place under the previous system who are now ineligible under the VTG and have not enrolled in a full fee place.

There will only have been an increase in enrolments following the introduction of the VTG if the number of students falling within the vertical striped area (new enrolments) more than offsets the number of students falling within the horizontal striped area (reduced enrolments).

We are limited in our ability to analyse data and determine the net effect on VET enrolments for a number of reasons, including:

- the VTG was only fully implemented in January 2011, meaning a full year of enrolment data are not yet available; and

- data are only reported by training providers who offer government subsidised places, meaning that we do not know the full extent of any increase or decrease in enrolments in full fee places.

Data published by Skills Victoria show a 24 per cent increase in enrolments in government subsidised places in the first half of 2011 compared with enrolments in the first half of 2010.  Over the same period, Skills Victoria report an 8 per cent decline in TAFE domestic full-fee-for-service enrolments. Combining the two sectors (government subsidised and TAFE domestic full-fee-for-service), Skills Victoria cite an increase in enrolments of 15 per cent in the first half of 2011 compared to the first half of 2010. However, it is not possible to conclude that overall VET enrolments increased following the introduction of the VTG. It is not known if the increase in enrolments reported by Skills Victoria was offset by a reduction in full fee-for-service enrolments with non-TAFE providers.

The full fee-for-service market and the government subsidised market are related. An increase in VET promotion may have led to an expansion in both markets or enrolments shifting from the full fee-for-service market to the subsidised market.

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35 *Victorian Training Market Quarterly Report, Q2 2011, Skills Victoria, August 2011.*
Government needs access to better information if it wants to fully understand the impact of its policies. Skills Victoria currently only collects information on full fee-for-service provision from providers who also offer government subsidised places. It does not collect any information on providers only offering full fee-for-service places. Provision of this information should be a requirement of training providers being registered to provide courses.

Recommendation 4.1
The Government should collect data on all domestic students undertaking VET qualifications (including from providers that offer only full fee-for-service courses) to provide decision makers with a more complete picture of the sector and the training being undertaken.

4.3.2 Qualification levels

As noted in Section 4.2.5, one of the key policy motivations underlying the introduction of the VTG was that the Victorian economy needed more people to acquire higher level qualifications. This focus on higher level qualifications has also been endorsed by Council of Australian Governments (COAG) in the National Agreement for Skills and Workforce Development, which aims to halve the proportion of working age Australians without qualifications at Certificate III or higher, and double the number of Diploma and Advanced Diploma completions by 2020.

If the labour market needs more people with higher qualifications, then it is important to assess the extent to which the VTG is encouraging students to undertake higher level qualifications. The VTG requires students aged 20 and over to undertake higher level qualifications to be eligible for a government subsidised place. As a result, an increase in the overall skill level of the population over time would be expected. However, as the VTG was only fully implemented in January 2011 and due to the data limitations about full fee-for-service enrolment, it is too early to draw any conclusions about the overall level of qualifications being undertaken.

While the focus on up-skilling is clear in both the state and national policies, a number of submissions cautioned against this focus. These submissions suggested that, in some sectors, this may lead to over-skilling, increased pressure on wages and a devaluing of qualifications.

For some industries and occupations, it was argued in submissions that a breadth of skills was more important to industry or more valuable to an individual than depth of skills. The up-skilling criterion may push students to study at qualification levels where they are not confident or for which they are not suited, and therefore may not result in the best outcome. This is more likely to occur in a workplace, where an employee does not necessarily have the option not to study.
There are a range of occupations where it is necessary for a person to hold a higher level qualification and then obtain supplementary skills through a lower (or equal) level VET qualification. For example, the Community College Gippsland noted that:

*in small business there is often a need for employees to hold two or more integrated sets of skills, the first being related to the vocation in which the business operates and the second in business management itself [such as the Certificate IV in Small Business]*.

In many submissions, the Certificate IV in Training and Assessment was another example of a qualification that often supplements higher qualifications. For example, Living Learning Pakenham wrote:

*All our literacy trainers have a Bachelor of Education, Diploma in Education and or a Post Graduate qualification in TESOL [Teaching English as a Second Language]. Because of this, none of them are entitled to a [subsidised] place to complete a Cert IV in Training and Assessment [which is a VET employment requirement].*

### 4.3.3 Demand for training in particular sectors

Under the VTG, the sectors where training is undertaken are determined by students (or their employers) rather than by the government. In the now contestable market, training providers have a strong incentive to offer as many courses as demanded by students and in the areas they demand. Although industry can make arrangements with training providers and both can try to attract students to enrol in particular courses or train in certain sectors, it is the student who ultimately decides what (if any) training they will undertake. If students’ training choices do not align with the skills needed by the economy, there will be an under- or over-supply of skills in particular sectors.

Where students choose the qualifications they will undertake based on personal interest or without regard to employment opportunities, there may be more students undertaking this training than is needed by the economy. During the Commission’s consultations, fitness and beauty qualifications were given as examples of courses where employment opportunities may be limited, however these claims have not been tested by this inquiry.

From 1 January 2010, people under the age of 20 have had a guaranteed entitlement to a government subsidised training place. Comparing enrolments in 2010 with enrolments in 2009 for this age group shows a 12 per cent increase in enrolments (see Chapter 2). Similarly, as the VTG was implemented for diplomas and advanced diplomas in July 2009, comparing 2008 enrolments with 2010 enrolments by sector shows a 26 per cent increase (see Chapter 2). Where training has increased in areas where the skills are needed by the economy, it is contributing to the achievement of the training system’s objectives.
However, many submissions raised concerns about the level of awareness of the VTG eligibility criteria and the consequences that completing a qualification in an area with limited job opportunities will have for both employment outcomes and access to future government subsidised training. Providing students with more information about the VTG, the training system and potential career paths and opportunities is fundamental to ensure the VTG facilitates students making choices that align with the needs of the economy.

The Commission’s assessment is that, in order for the demand-driven VET system to produce the skills that are needed by the economy, students need to be better informed about labour market opportunities and, in particular, key areas of current and emerging skills shortages in the Victorian economy. It is not yet clear the extent to which the introduction the VTG has resulted in students choosing to undertake VET courses in areas that are most sought after by industry. In any case, making such an assessment is difficult because of the lack of information about the areas of skill shortages.

The Commission also believes it is important that individuals and employers are fully informed about the implications making specific choices within the VET system. For example, a requirement by an employer for an employee to complete a particular qualification may make that employee ineligible for a subsidised place in a preferred area of study at a later date. During our consultations, we were provided with anecdotes of students undertaking VET courses, unaware that this may prevent access to a subsidised place in a more appropriate course under the VTG in the future if the latter course does not meet the up-skilling requirement.

In the Commission’s view, both industry and government have a role to play in improving information available to students to help them make appropriate decisions in a demand-driven model. Students and employers need easily accessible information on the VTG’s eligibility criteria and the implications of study choices for future eligibility. Students also need information on employment opportunities. The Commission did not undertake an exhaustive review of the information that is currently available to students. However, information on career paths and employment opportunities does not appear to be readily available.\textsuperscript{36}

The Government should review the information that is currently available to students and employers with a view to making it more relevant and accessible.

\textsuperscript{36} As discussed in Chapter 2, the Victorian Registration and Qualifications Authority recently removed the Qualifications Navigator from its website because of changes in the way that training is developed, assessed and delivered throughout Victoria and Australia. Part of the role of the Qualifications Navigator was to provide information about qualifications and available courses.
Recommendation 4.2
The Government should improve the availability of information to students on career paths, training outcomes, employment opportunities, and skill shortage areas. In doing so, the Government should consider the accessibility of information, how it could be improved and the appropriate roles of industry, training providers, employers and the government. Information coordinated and available at a national level should also be considered.

Recommendation 4.3
The Government should improve the availability of information to students on the VTG, including the difference between subsidised and full fee places, and the consequences of training for future access to subsidised places. In doing so, the Government should consider the accessibility of information, how it could be improved, the timing of information provision, and the appropriate roles of training providers, employers, agencies like Job Services Australia and the Government.

The VTG may also have led to a reduction in the training undertaken in some locations or sectors, either by reducing the number of eligible students or giving students a greater choice about the training they undertake.

A number of regional training providers, particularly ACE organisations, submitted that, in order for some courses to be financially viable, the net needed to be cast as wide as possible to attract a sufficient number of participants. Now that government subsidised numbers are constrained by the eligibility criteria, these organisations claim they have been unable to enrol enough students paying full fees to deliver courses and provide the skills that are needed by their local economies (i.e. the VTG has created a ‘thin market’). For example, the McCullough Institute noted that many of its courses ‘cannot even get off the ground due to lack of viable numbers’, which meant, that even those who are eligible under the VTG, do not receive training.

One of the main criticisms of the VTG that emerged from our consultations was the effect the up-skilling criterion may have on sectors or occupations where, historically, a higher proportion of people undertaking training have not been up-skilling. Examples given include occupations such as aged care, nursing, library studies and engineering, which are attractive occupations for ‘career changers’, or people re-entering the workforce after a period of absence.

Although the delivery of courses in these areas may remain viable, there may be an insufficient number of students undertaking them to meet the skill needs of the economy. For some sectors, stakeholders raised concerns that, by locking some potential students out of subsidised training, the up-skilling criterion actually

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37 See Chapter 6 for a discussion about thin markets.
worked against other mechanisms that were designed to attract students to study in particular areas. For example, in its submission, Swinburne University of Technology TAFE noted that:

Some of the ways that the eligibly criteria apply are ridiculous. The most critical example of this is in children’s services. Swinburne was advised during its re-registration audit of 2009 that students must have completed a Certificate III in Children’s Services before they were able to enrol in the Diploma of Children’s Services. The Diploma is fee exempt through a Commonwealth initiative and has no eligibility requirements.38

Improving the information available to students about their training options and career paths would help ensure that training continued to be in an area where skills are needed by the economy. Information about the training being provided and in particular how that training relates to the skills needed by the economy will assist the Government in developing appropriate policy responses. Where training isn’t meeting the needs of the economy the Government can seek to influence provision by reviewing and adjusting its subsidy levels accordingly (see Chapter 7).

**Recommendation 4.4**

The Government should monitor and publish information on the training provided to identify trends and work with industry to identify any areas of skills under- or over-supply.

Another way in which the VTG may impact on the skills needed by the economy is by changing the demographics of the qualified workforce in particular sectors. Prior to the VTG, some sectors attracted a higher proportion of mature aged students seeking to enter the industry after changing careers or re-entering the workforce after a period of absence. Mature aged students are more likely to be ineligible for government subsidised training under the VTG due to the up-skilling criterion. Stakeholders have suggested that the age distribution of students is shifting toward younger students who are not subject to the up-skilling criterion. By preventing mature aged people retraining and entering an industry, the VTG may affect the quality of workforce entrants who are no longer able to bring with them the same level of life experience.

As noted above, following the Ernst & Young Review in 2010, the Government amended the eligibility criteria to provide all apprentices with access to a government subsidised place in 2011 and 2012. This extension of the VTG,

38 The Commonwealth Government’s Aged Care Education and Training Incentive Program is another example of a policy that may not be supported by the up-skilling criterion. Skills Victoria has reported that ‘the Certificate III in Children’s Services and in Aged Care together accounting for one in seven exemptions commencing in 2011’. See Victorian Training Market Quarterly Report, Q2 2011, Skills Victoria, August 2011, p. 59.
combined with the decision to maintain tuition fees for apprentices at around 2010 rates, was welcomed by a number of participants in our review. These policy decisions were seen as important to attract people to apprenticeships, which are generally in areas of skills shortage.

However, some submissions noted that, although students undertaking apprenticeships were automatically eligible for a government subsidised place, students seeking to enrol in pre-apprenticeship courses were not. If a student is aged 20 or over, this means that they would have to satisfy the up-skilling criterion. Several submissions outlined how, in practice, many students were not eligible for a government subsidised place for a pre-apprenticeship (generally Certificate II) because they had successfully completed Year 12. Holmesglen TAFE argued that extending the VTG to apprentices but not pre-apprenticeships was ‘illogical because in most trades a pre-apprenticeship is a pre-requisite to gaining employment as an apprentice’.

A number of submissions suggested that allowing automatic eligibility to a government subsidised place to an apprentice but not to a trainee was also inequitable. For example, RMIT wrote that, in its experience:

\[\text{the system is promoting inequity between similar student cohorts}\]
\[\text{... Only apprenticeships are exempted from the up-skilling criteria.}\]
\[\text{However, like apprenticeships, traineeships provide students with}\]
\[\text{work-placed training, strong employment outcomes and frequently}\]
\[\text{represent an entry into a skills shortage area. Subjecting potential}\]
\[\text{trainees to the eligibility criteria is blocking people from this}\]
\[\text{training.}\]

It is not clear why apprenticeships and traineeships are treated differently under the VTG. The different treatment contributes to the complexity of the eligibility criteria and the Commission believes that the Government should consider whether traineeships and apprenticeships should be treated consistently under the VTG.

**Recommendation 4.5**
The Government should treat trainees and apprentices consistently with other students under the VTG.

### 4.4 Impact on student access and participation

The previous section focused on whether the VTG was helping to achieve the objectives of the training system in terms of producing the skills needed by the economy. This section examines the role of the VTG in meeting the needs of individuals and particular groups, in particular, whether it contributes to achieving the training system objectives by:

- assisting the unqualified gain qualifications; and
• helping the already qualified access qualifications that support their advancement in the labour market.

Although the VTG determines who is eligible for a government subsidised place and who is not, this is not necessarily the determinant of whether they receive training, or if that training is appropriate.

This section examines the outcomes for students eligible under the VTG and attempts to categorise those who are ineligible, as well as outline the options available to the ineligible. It also includes an analysis of the operation of exemptions.

4.4.1 Outcomes for students eligible under the VTG

As illustrated in Figure 4.1, certain groups of students are eligible for a government subsidised place under the VTG without having to meet any additional criteria. These groups are people:

• aged under 20;
• who lack basic language, literacy, or numeracy skills who are seeking to enrol in a foundation skills course;
• who do not have any qualifications (meaning any VET qualification they sought to enrol in would be an up-skill); and
• who have a prior qualification that is not taken into account for the purpose of applying the up-skilling criterion of the VTG.

During the course of this review, some stakeholders noted that, even when an eligible student enrols and completes a VET qualification, the qualification may not meet their needs in terms of training or employment outcomes. Specific concerns included:

• the course delivered may not be of a high quality;
• the course delivered may not meet student or employer expectations;
• the course may be in an area with limited employment prospects (see Section 4.3.1); and/or
• the course may have provided appropriate vocational skills, but has not addressed shortcomings relating to employability such as language.

39 Attachment 1 of Schedule 2 of the 2011 Service Agreement states that VCAL (Senior); VCE; International Baccalaureate Diploma; and senior secondary school certificates from other states are qualifications equivalent to Certificate II.

40 Attachment 1 of Schedule 2 of the 2011 Service Agreement states that this includes qualifications listed in the Foundation Skills category; any VET certificates completed as part of a senior secondary qualification; qualifications with the title 'Course in …' which are not aligned to a specified level within the Australian Qualifications Framework (AQF); non-Australian qualifications, except where equivalency has been formally established with a qualification within the AQF; and VCAL (Intermediate).
In regard to the last of these points, a number of submissions noted the important role of foundation skills courses in developing basic language, literacy and numeracy (LL&N) skills. However, some providers felt that more needed to be done to integrate language, literacy and numeracy training into existing vocational qualifications. For example, Careers Australia stated ‘greater uptake of LL&N training would be considered by students if it were offered as an adjunct to their existing VET training — for example, by offering units within an existing VET qualification’. While Careers Australia noted that new flexible packaging rules may address this issue, student needs may be better addressed by encouraging students to enrol in and complete full foundation skill qualifications, rather than replacing specific vocational electives with just one or two units of a foundation course.

The breadth of courses included in the foundation skills list was also raised in several submissions, with additional courses suggested including basic computer and IT literacy, basic business skills (such as communication, work organisation and time management), and active volunteering courses.

Other concerns about the adequacy of foundation skills included the appropriateness of the nominal hours and funding levels. The importance of pre-accredited training and concerns about the current funding cap on pre-accredited courses were also raised.

In April 2011, ‘the National Quality Council agreed to develop a Foundation Skills Training Package as part of a national, systemic approach to developing foundation skills units of competency, qualifications and skill sets’. In the Commission’s view, this process should encompass many of the issues outlined above relating to foundation skill courses and it would be worthwhile for the Government to revisit its list of foundation level courses once the process is complete.

Recommendation 4.6
The Government should review the courses and qualifications on the foundation skills list after the national foundation skills training package has been developed.

4.4.2 Options for people who are not eligible under the VTG
If a student seeking to enrol in a qualification is not eligible for a government subsidised training place due to the up-skilling criterion of the VTG, there are other

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options they could pursue that could enable them to complete a relevant qualification. These include:

- Reconsidering the course of study — a student may be able to enrol in an alternative qualification that is at a higher level than their previous highest qualification. If a student is able to up-skill, they would be eligible for a government subsidised place.

- Enrolling in a higher education institution — from 1 January 2012, there will be an uncapped number of government subsidised places in higher education courses. If a student is seeking to enrol in a diploma or advanced diploma, and is able to meet any relevant admission requirements, they may be able to study at a higher education institution.

- Enrolling in a full fee VET place and deferring tuition fees through VET FEE HELP — a student enrolling in a diploma, advanced diploma, graduate certificate or graduate diploma on a full fee basis will be able to defer fees through the Commonwealth Government’s VET FEE HELP scheme if their training provider has been approved to offer access to it.

- Enrolling in a VET place and paying full fees — if a student has the capacity to pay, or has financial support from an employer, they may be able to enrol in a full fee course and pay tuition fees on enrolment or, where offered by a provider, through a payment plan.

- Requesting an exemption from the eligibility criteria from the training provider. These places are limited, and can only be offered under certain circumstances. (see Section 4.2.6)

Who is ineligible?

In assessing whether the current eligibility arrangements contribute to advancing the objectives of the training system, we must consider whether the already qualified are able to access qualifications that support their advancement in the labour market.

Some who are ineligible may not be seeking to enrol in a qualification for the purpose of advancing in the labour market. Other reasons why people may seek a VET qualification include, recreational purposes or to pursue personal hobbies and interests.

Government may still want to have a role in assisting people to undertake VET training where they are not seeking to advance in the labour market. These non-labour market objectives should be considered outside of the training system fee and funding arrangements and, if appropriate, be funded separately. For example, the Government may wish to encourage certain cohorts to participate in VET for social inclusion purposes or it may want to consider funding training to support volunteer organisations train their volunteers.  

In a submission to this review, Volunteer Fire Brigades Victoria (VFBV) noted the impact the VTG would have on its ability to train volunteers, many of whom will not be able to access government subsidised places. The VFBV submitted that ‘changes to the eligibility criteria should be considered for approved and registered emergency service
In the Commission’s view, the VTG is more efficient than the previous system in that the allocation of funds is more targeted. Prior to the VTG, the Government purchased a set amount of training each year and if demand outstripped the number of places available, people missed out. Under this capped system, government funds were not targeted to individuals who needed training to advance in the labour market.

Although the VTG is more targeted, by excluding a particular student cohort (those not up-skilling), those who miss out are identifiable and may appear to be marginalised. Unlike the previous system where a person who missed out on a place in one enrolment period could apply in a subsequent period, people who miss out under the VTG are effectively locked out (unless they obtain an exemption) or can afford to pay full fees.

A number of participants argued that qualifications at the same or a lower level as existing qualifications may still support a person’s advancement in the labour market where:

- They are seeking enrolment in an entry level (Certificate II) vocational qualification but are ineligible under the VTG because they have a Year 12 (VCE or VCAL) qualification.
- They are unable to find work based on their existing qualification and wish to retrain in another area where there are better employment opportunities. People who have been adversely affected by improvements in technology, industry downsizing, or factory closure may fall into this category if there are not alternative employment opportunities in the same region.
- They are unable to find work or remain in employment based on their existing qualification because it no longer meets regulatory requirements or is not accepted by industry as current. Women returning to work after a period of absence raising a family may be particularly affected as they have not had the opportunity to maintain the currency of their qualification through employment.
- They are unable to use their existing qualification for employment purposes due to health issues. For example, they are unable to perform the physically demanding tasks required, or they have suffered an accident or illness that has left them physically or mentally impaired and unable to perform the same duties.
- They wish to retrain or move sideways within an industry for lifestyle purposes, including to move into a role that has more flexible hours or less shift work to support raising a family.
- They wish to broaden their skill set within the area of their existing qualification or move to another area at the same level or below to access better opportunities for career advancement.

Volunteers to attain subsidised training places in selected courses, where it can be demonstrated that the completion of the course by volunteers will advance Victoria’s emergency service capabilities. Providing funding to emergency services organisations to train volunteers would achieve the same goal without adding further complexity to the VTG.
They require a VET qualification to supplement existing higher education qualifications to gain employment or improve employment opportunities. This may include training in areas such as management or business administration.

One of the difficulties in assessing the impact of the VTG on access and participation is that there is no information on what happens to those who are ineligible for a government subsidised place. Providers do not systematically collect information on whether these potential students undertake training on full fee-for-service basis, seek and obtain an exemption from another provider, or choose to not study at all. In the Commission’s view, a survey conducted at the next peak enrolment period would provide important information on the impact of the VTG.

**Recommendation 4.7**

To be able to assess the impact of the VTG on VET participation the Government should conduct a survey during the next peak enrolment period (end of 2011 to start of 2012) to gather information on those people who are ineligible under the VTG, including the demographics of this group, whether they enrol in study, and what were the reasons they were seeking to enrol in the qualification for which they were ineligible.

One of the assumptions that underpin the VTG’s approach to targeting funds is that those who have an existing qualification are more likely to be able to use this qualification to work. If they are working, they are more likely to be able to afford to pay full fees. Similarly, if they are employed, they may be able to get an employer to pay full fee tuition.

The reforms clearly intended a role for employers in supporting employees to access training. One of the intended outcomes of the reforms was to better align the contributions made by individuals and businesses to the benefits they receive from training. The reforms recognised that there are benefits of training not just to individuals, but to also industry, which has improved access to skills.

Looking at the circumstances outlined above, where students are ineligible under the VTG, employers may be able to assist by paying full fees in a number of cases. For example, someone seeking to retrain to move into a job with more flexible hours, or who is seeking to broaden their skills within their current industry, may be able to obtain assistance from an employer.

Although a person may have a job, their employer may not be willing to support training that is not directly related to their current job, particularly if broadening their skills or retraining may increase the likelihood of the employee finding employment elsewhere. Other groups who may be able to retrain include those affected by company restructures or industry downsizing as they may be able to receive assistance from employers or industry assistance packages.

Those people who are seeking to train at the same or lower level to advance in the labour market and who, after considering all alternatives, and are still unable to
enrol in study, may be able to access an exemption place. The availability of eligibility exemptions was discussed in Section 4.2.6 and is assessed below.

The terms of reference for this review require the Commission to provide options that are ‘affordable and prudent in the context of the State’s budget position’. Any relaxing of the eligibility criteria could impose significant budgetary risk to the Government, and so we are reluctant to recommend significant broadening of the VTG. There are however, two areas where there is a strong case for some revision of the VTG:

- the treatment of VCE and VCAL; and
- the treatment of individuals with qualifications that might be considered to be outdated.

In the Commission’s view, VCE, VCAL and VET undertaken in schools should not be considered as being equivalent to a Certificate II qualification for the purposes of determining eligibility. While VCE may indicate a level of educational attainment, it does not provide the vocationally specific skills of a VET qualification. In addition, students undertaking VCAL and VET in schools are unlikely to have a broad choice about the units that are undertaken and may not make decisions with future employment and training needs in mind. A number of submissions to our review indicated that VCAL was intended to provide students with a ‘taster’ of VET to encourage them to remain in the education and continue into VET study. This would appear to be inconsistent with the current eligibility criteria.

**Recommendation 4.8**

The Government should revise the operation of the VTG so that VCE, VCAL and VET undertaken in school is not taken into account for the purpose of determining whether a student is up-skilling.

There are many circumstances where a person may be seeking to undertake a qualification at the same or lower level than their existing qualification in order to advance in the labour market. The more out dated a person’s qualification, the more likely they will be disadvantaged in the labour market.

A number of submissions commented on the impact of the VTG on those with outdated qualifications. For example, Goulburn Ovens TAFE suggested that:

_The current eligibility criteria appear to be ‘at odds’ with the concept of vocational currency and relevancy, and also with modern career transition patterns where people might change career every 5-7 years. On average training packages are revised every 5-6 years, so there may be the opportunity to introduce a ‘close out clause’ on Vocational Competence. In terms of previous AQF qualification ineligibility — an ‘across the board’ time period of 7 years could be an option. It is our view that if a mature aged student wishes to undertake further study at the same AQF level_
as a previous qualification 7 years after completion of that qualification, they should have access to government funding.

The VTG currently excludes these people from subsidised VET unless they are able to obtain one of a limited number of exemptions or choose to pay full fees. Providing access to a partially subsidised place for those with older qualifications (for example older than seven years) would improve participation for this cohort. Partial subsidies might also help address any thin market problems that may have arisen because of inadequate student demand caused by eligibility constraints.

The Government should consider allowing people, whose highest qualification is between 7 and 15 years old, to access a partially subsidised training place for enrolment in a qualification at an equivalent level. The Government subsidy could be half the level of the full subsidy.

The up-skilling criterion assumes to some extent that people who hold a qualification (regardless of its currency) are able to use that qualification to gain employment and provide income support and fund further training. This is less likely to be true where the current qualification is not recognised as having any value in the workplace. Many vocational qualifications lose currency over time as workplace technologies and practices advance. Thus, in the Commission’s view, the VTG should be expanded to provide a full subsidy to those holding VET qualifications greater than 15 years old.

**Recommendation 4.9**
The Government should consider allowing people whose highest qualification is between 7 and 15 years old access to a partially subsidised training place for enrolment in a qualification at an equivalent level.

**Recommendation 4.10**
The VTG should be expanded to provide people with a VET qualification that is greater than 15 years old access to a government subsidised training place for enrolment in a qualification at an equivalent level.

### 4.4.3 The eligibility exemptions process

The exemptions process should aim to assist those who are unable to access alternative training (either higher education or full fee VET) whose advancement in the labour market would be supported if they were able to access a government subsidised training place.

In submissions to this review, we received many suggestions for improving the exemptions process to achieve this goal. While some participants recommended expanding the VTG criteria to remove the need for exceptions altogether, many criticised the exemptions process for lacking consistency and transparency, calling for more guidance on how to apply the criteria.
Under the current arrangements, providers are given discretion to interpret the criteria and grant exemption places as they see fit. Considering the types of people who may be seeking an exemption, it is clear that all would be eligible if they were ‘seeking training in an area identified by the Victorian Skills Commission as an area of critical skills shortage’ or were ‘unemployed as a result of a redundancy or retrenchment’. However, determining if they are ‘disadvantaged in the labour market because of factors that constitute a barrier to employment or re-employment’ would be much more subjective.

While some providers may assess applicants against criteria and allocate on a first-come basis, it is foreseeable that others may prefer to assess applicants only on the first two criteria, which are less subjective and easier to administer. This may result in different outcomes for the student depending on which provider they approached. Further, a number of submissions raised concerns that if exemptions were allocated on a first-come, first-served basis, they may not be allocated to the students most in need, with students enrolling mid-year inevitably missing out altogether.

As noted by the Adult, Community and Further Education (ACFE) Board, the current exemption criteria appear to have two different (although not necessarily conflicting) goals: to address skills shortages, and to assist people who are disadvantaged in the labour market. These twin goals may have created some uncertainty for providers and difficulty for them in developing internal policy guidelines to assess and prioritise applications. Swinburne University of Technology TAFE suggested:

*If the exemptions are going to continue, which is still unclear, a proportion of them should be specifically allocated to retraining if that is the government’s objective. Providers should not be placed in the position of making these choices. It is impossible to determine whether one person’s need is greater than that of someone else.*

Of the 1,285 exemption places granted between 1 January and 30 June 2011, Skills Victoria report that:

*Over 720 are in courses related to occupations identified as in shortage. Over 350 (27 per cent) have been for enrolments in specialised occupations, with approximately 290 being in occupations that are both specialised and in shortage.*

The difficulty some providers have had in prioritising the different goals and choosing between multiple applicants may have contributed to an under-utilisation of exemption places (particularly where only one exemption place has been allocated to the provider). Another reason may be a lack of awareness among students about the exemption places, particularly where a provider relies on a student to initiate an exemption application. Skills Victoria reports that only 57 per

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43 Victorian Training Market Quarterly Report, Q2 2011, Skills Victoria, August 2011, p. 59. However, these reported areas of skills shortage do not necessarily correlate with the list of critical skills shortage occupations published by the Victorian Skills Commission.
cent of exemption places allocated in 2011 had been utilised by 30 June, with a much lower utilisation rate among non-TAFE providers (26 per cent) than TAFE institutes (70 per cent). In 2010, when the VTG was only partially implemented, the utilisation rate was even lower at 36 percent (39 per cent for TAFE institutes and 29 per cent for non-TAFE providers).

Despite the apparent under-utilisation of exemption places, a large number of submissions argued that there were an insufficient number of exemption places available to meet demand. In the first half of 2011, TAFE institutes were allocated 1,587 exemption places and 681 places were allocated to non-TAFE providers.

During the review process, providers indicated that they had difficulty determining who to allocate exemptions because there were many potential students who met the criteria, and they did not want to be in the position of saying that one student was more worthy than another one. This was particularly a concern for providers serving small communities. The broad criteria and the discretion given to providers result in an inconsistent allocation of exemptions to students, such that two students in exactly the same circumstances may have different outcomes depending on whether the provider has any exemptions to offer and their interpretation of the criteria.

Another issue relating to exemptions that was raised in submissions is the process for allocating exemption places among providers. This process is not transparent or clear to providers. Discussions with various providers and Skills Victoria suggest that there is there is misinformation and confusion about how exemptions are allocated. Submissions indicated that exemptions have typically been allocated at the start of the year. If providers use their allocation during the enrolment period at the beginning of the year, students seeking to enrol mid-year (or later) may be disadvantaged. Providers, who ‘hang on’ to exemption places for enrolments later in the year may end up under-utilising them.

In the Commission’s view, the current system of administering exemptions lacks clarity, transparency and accountability. To address the inadequacies in the exemption process, the Commission proposes:

- introducing better ways of administering exemptions under the existing framework; and
- re-assessing and modifying the framework to better deal with the problem that exemptions are designed to address.

These approaches are discussed below. While the Commission believes that the second of these options is the preferred approach, it recognises that this may take some time to be implemented, and so is also recommending modifications to existing arrangements for administering exemptions to take effect in the meantime.

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44 Victorian Training Market Quarterly Report, Q2 2011, Skills Victoria, August 2011, p. 61.
45 Skills Victoria, personal communication, 22 August 2011.
46 Of these, 1,206 are exemption places that were not utilised in 2010 and have been carried over to 2011 (787 for TAFE institutes and 419 for non-TAFE providers). Skills Victoria, personal communication, 22 August 2011.
Better ways of administering exemptions under the current framework

Ideally, under a student demand-driven model, the pool of available eligibility exemptions should be allocated directly to students. This would improve consistency and would mean that the exemption followed the student regardless of the provider chosen. Which is consistent with the objective of a training system that is student centred. This could be done centrally by Skills Victoria. However, given the number of students involved, the Commission recognises that this may not be practical due to the additional administrative burden that would be placed on Skills Victoria.

If exemptions continue to be administered by providers, the Commission’s view is that the Government should provide additional guidance on how exemptions should be allocated. In particular, the intention (or objectives) of the exemptions process should be made clearer (noting that there may currently be dual objectives relating to skill shortages and labour market disadvantage). Additional guidance should improve consistency of allocation and help address the issue of under utilisation.

Furthermore, the Commission believes that allocating exemption places twice during the year may lead to a more equitable allocation among students. Exemptions should be allocated to providers on the basis of market share. Although not a perfect indication of the spread of students who are ineligible, market share is a reasonable indicator of a training provider’s ‘reach’. This would help ensure exemptions were allocated in a way that reflected potential student numbers. Doing so is also likely to reduce the number of providers receiving just one exemption place and may reduce the current level of under-utilisation.

Following the full implementation of the VTG in January 2011, and the application of the up-skilling requirement to all qualification levels, the cost of each exemption place will vary significantly depending on the level of the qualification and the number of hours delivered. This will create difficulties for the Government in attempting to allocate a fixed number of exemption places to providers on an annual basis. If the average cost of an exemption place is under-estimated, the committed funds will be insufficient in that period, while over-estimating the average cost of an exemption place will lead to an under-utilisation of the committed funds.

One way of limiting the government’s exposure to risk while facilitating maximum usage of available funds would be to allocate exemptions on the basis of value, rather than number of places. Although it appears from the Quarterly Report released by Skills Victoria in August 2011, that some TAFE institutes are already allocating exemptions based on value, this does not appear to be the practice across the board. For example, in its submission to our review, Swinburne University of Technology TAFE stated:

Skills Victoria advised verbally that they were going to change the exemptions to a dollar value rather than a headcount. However, they have never made this statement in writing and so it is difficult for providers to put such an arrangement in place without clear written instructions.
Recommendation 4.11

The pool of available eligibility exemptions should be allocated directly to students by Skills Victoria. However, should the Government decide that providers should retain administration of exemptions, the Government should provide additional guidance on how they should be allocated (e.g. by clarifying the objectives of the exemptions process).

Recommendation 4.12

If the exemptions continue to be administered by providers, exemptions should be allocated twice a year — reflecting peak enrolment periods (in proportion to enrolment numbers between these two periods).

Recommendation 4.13

If the exemptions continue to be administered by providers, the available funding should be allocated to providers based on market share of training in the preceding 12 month period.

Recommendation 4.14

If the exemptions continue to be administered by providers, the Government should move toward allocating exemptions to training providers based on value, rather than a defined number of places. Appropriate data reporting and tracking systems would need to be in place.

Re-assessing and modifying the exemptions framework

Looking beyond the short term, the Commission is advocating a more radical change to the system of exemptions.

The policy problem that the exemptions process appears to be attempting to address is to support certain individuals in gaining access to subsidised training, where they are ineligible under the VTG, in order to improve their chances of advancement in the labour market. The particular life circumstances of the individuals concerned may mean that they are unable to self fund their training, not without some form of support. In all likelihood, these circumstances are related to matters regarding income (which could be either personal or household income) or employment history (which is ultimately also an income-related issue). For example, someone who has been out of the labour market for some time, and is ineligible for a subsidised place under the VTG, may have insufficient funds to access training on a full fee-for-service basis.

47 The Commission recognises that exemptions are also designed to address skill shortages — more appropriate ways of achieving this objective are discussed in Chapter 6.
In the Commission’s view, the objectives that the current exemptions processes are trying to meet represent distributional/equity objectives and, as such, they are more efficiently addressed through a (targeted) concessions policy framework which, as discussed in Chapter 5, may require negotiations with the Commonwealth Government.

**Recommendation 4.15**

As soon as is practicable, the Government should remove the VTG’s exemption arrangements, and replace them with better targeted concession arrangements.
5 TUITION FEES

Key points

- Student tuition fees for government subsidised training places increase at higher qualification levels, which is designed to reflect the greater private benefit accruing to the student.

- The current fee arrangements are complex. The actual amount paid by students will depend on the level of qualification, the units of competency being undertaken, the scheduled student contact hours for those units, the hourly rate (subject to minimum amount and maximum hourly rate) levied by providers, the maximum cap for the course category, and whether the student is eligible for a concession.

- In the Commission’s view, removal of the annual maximum and minimum fee caps will facilitate greater price signalling, and the move towards a more competitive pricing model. Where training provision is not competitive the cap on maximum hourly fees would be retained.

- The Commonwealth’s VET FEE HELP scheme does not appear to be working well, partly because of the administrative burden it places on providers. The Commission has made a number of suggestions to improve its operation and coverage.

- Concession fees are available across all six VET course categories to various recipients. The Commission believes the system for calculating concession fees and the administration of reimbursements to providers could be improved. Looking ahead, the Commonwealth should assume responsibility for the administration of concession arrangements pertaining to students enrolling in VET.

- The use of incentive payments outside the tuition fee structure could be utilised to encourage training in areas of identified skills shortages.

5.1 Introduction

Fees charged to students enrolling in government subsidised training places are regulated by the Ministerial Directions about Fees, which outline the types of fees that providers may charge, the level of tuition fees, and requirements to charge concession fees in certain circumstances. In addition to the Ministerial Directions, which are determined by the Victorian Government, students may be able to

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access fee waivers or income contingent loans through arrangements with the Commonwealth Government.

There are a number of different types of fees that may be paid by students in government subsidised places, including:

- tuition fees;
- recognised prior learning fees — fees for assessment of recognition of prior learning;
- services and amenities fees — fees collected and expended for the sole purpose of providing facilities, services or activities of direct benefit to students at the institution; and
- material and equipment fees — fees to cover the cost of incidental goods and services provided in support of a student’s tuition, or fees to cover the actual cost of goods or materials sold to the student.

The type of fees a student is charged will vary depending on the provider, the circumstances of the enrolment, and the course the student is enrolling in. Although each of the above fee types may be significant for some students, only the arrangements relating to tuition fees are within the scope of this review.

This Chapter does not examine fees paid by students who enrol on a full fee-for-service basis as the terms of reference exclude such fees from the scope of our review.  

5.2 Tuition fees and private benefit

A key principle underpinning the reforms to the Victorian VET system is that the cost of delivering VET should be shared between the government, students, and employers in a way that reflects the different levels of benefit obtained by each group. The concepts of private and public benefit within the VET system were outlined in Chapter 2 of this report (see Section 2.2).

The current tuition fee structure has been designed to reflect the variation of public and private benefit at different course levels, with the share of total funding contributed by students (or employers on behalf of students) increasing for higher level courses. There is some evidence to show that people who undertake training at higher qualification levels gain ongoing benefits, through more secure employment and higher wages, with progressively higher rates of return for higher level vocational qualifications.

It is important to note that tuition fees for apprenticeships and traineeships do not vary according to the level of qualification being undertaken. In 2011, the maximum

49 Paragraph 9 of the Ministerial Directions about Fees, which apply to all providers of government subsidised training, states that ‘providers must charge for fee-for-service enrolments on a full cost recovery basis’.

50 Securing Jobs for Your Future, (p. 23).
hourly tuition fee rates were $1.40 for apprenticeships and $1.84 for traineeships, irrespective of the level of qualification.

When *Skills for Victoria* was introduced in July 2009, apprentices and trainees had the same maximum hourly tuition fee rate ($1.37). A lower maximum hourly tuition fee rate for apprentices was only introduced in January 2011. At the same time, the Victorian Training Guarantee (VTG) was amended to enable *all* apprentices to access government subsidised training.

### 5.3 Current tuition fee structure

Tuition fees are calculated based on the number of scheduled hours a student enrols in within a calendar year, and the category of qualification enrolled in. Training providers are free to determine the hourly rate up to a prescribed maximum, subject to the application of specified fee course category minima and maxima. Increases in maximum hourly rates have been phased in from 2009, with further increases outlined for 2012 (see Table 5.1).

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<td>1.84</td>
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</tr>
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*na.* Maximum hourly rates for apprenticeships and traineeships for 2012 have not been determined.


At the commencement of the VTG tuition fees for apprentices and trainees were outlined for the first two years, with fees for 2011 and 2012 subject to a review in 2010. As a result of this review, fees for apprentices in 2011 have remained roughly the same as in 2010, while fees for traineeships have increased to be equal to the skills building rate.

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51 Scheduled hours are the supervised hours timetabled for a specific group of students in a module or unit of competency.

52 Until the end of 2012, students who enrolled prior to July 2009 will pay tuition fees in accordance with fee maintenance arrangements.
The current fee arrangements are complex (see Figure 5.1). The actual amount paid by students will depend on the level of the qualification, the units of competency being undertaken, the scheduled student contact hours (SCH) for those units, the hourly rate (subject to a maximum) levied by providers, the minimum and maximum cap for the course category, and whether the student is eligible for a concession. A further annual fee cap applies if the student is enrolled in more than one course category.
Figure 5.1  Overview of tuition fee arrangements

Is the student enrolling in a Diploma or Adv. Diploma?

Foundation Skills, Cert I, II, III or IV, Grad. Dipl., Grad Cert.

Is the student under 25 and holds a Health Care Card?

Is the student enrolled at a TAFE?

Does the student hold a HCC, PCC, DVA gold card (incl. dependents)?

How many student contact hours (SCH) will the student be undertaking this calendar year?

Foundation < 47
Cert I & II < 70
Cert III & IV < 102
Diploma + < 99

What hourly rate is the RTO charging? (maximums rates apply)

What is the dollar figure for SCH multiplied by the hourly rate charged by the RTO?

Foundation < $50
Cert I & II < $105
Cert III & IV < $187.50
Diploma + < $375

> $500
> $875
> $1250
> $2000

Minimum Fee applies

Fees = SCH x hourly rate

Maximum Fee applies

Concession fee equals $100
5.3.1 Minimum and maximum tuition fees

Providers can compete on price as long as the tuition fees charged in respect of a student’s total enrolments within a course category and calendar year are not below the category minimum or above the category maximum, as shown in Table 5.2. 53

Where a student is enrolled in a course with a low number of scheduled hours, such that the calculated fee would be below the specified minimum, the provider must charge the student the minimum tuition fee, resulting in a higher per hour rate. If the maximum hourly rate is charged, the minimum category fee will apply where the scheduled hours are fewer than shown in Table 5.2. Under lower hourly rates, the minimum will apply up to a higher number of hours. For example, a student enrolled in a Foundations Skills course doing 40 hours would be charged the minimum fee of $50 rather than $43.20 (40 hours multiplied by $1.08, the hourly maximum rate for 2011). The minimum fee results in an effective hourly rate of $1.25.

Where the number of hours a student is enrolled results in a tuition fee that would be above the maximum for the course category, the fee paid by the student is capped at the maximum. If the maximum hourly rate is charged, the maximum category fee will apply where the hours of enrolment are greater than shown in Table 5.2. Under lower hourly rates, the maximum will apply from a higher number of hours.

Table 5.2 Application of category minimums and maximums

<table>
<thead>
<tr>
<th>Category</th>
<th>Minimum category fee</th>
<th>No. hours before minimum is reached&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Maximum category fee</th>
<th>No. hours before maximum is reached&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation</td>
<td>$50</td>
<td>46</td>
<td>$500</td>
<td>46</td>
</tr>
<tr>
<td>Skills Creation</td>
<td>$105</td>
<td>69</td>
<td>$875</td>
<td>527</td>
</tr>
<tr>
<td>Skills Building</td>
<td>$187.5</td>
<td>101</td>
<td>$1250</td>
<td>679</td>
</tr>
<tr>
<td>Skills Deepening</td>
<td>$375</td>
<td>98</td>
<td>$2000</td>
<td>527</td>
</tr>
<tr>
<td>Apprenticeships</td>
<td>$58</td>
<td>41</td>
<td>$923</td>
<td>659</td>
</tr>
<tr>
<td>Traineeships</td>
<td>$187.5</td>
<td>101</td>
<td>$1250</td>
<td>679</td>
</tr>
</tbody>
</table>

<sup>a</sup> Based on maximum hourly rates set out in Table 5.1.

Source: Securing Jobs for Your Future, Skills Victoria, p. 34. The Victorian Training Guarantee from 1 January 2011, Skills Victoria, p. 20.

53 There are currently two exceptions where a provider may charge below the specified minimum category fee. These are: when a provider grants a student a discretionary concession in circumstances of extreme financial hardship (in which case the provider may charge a fee lower than the relevant minimum and even waive the fee entirely), or when a student is entitled to a concession for a Diploma or Advanced Diploma (in which case the concession fee is $100).
In addition to the maximum fees specified for each course category, there is also an annual maximum tuition fee cap that applies where a student enrols in courses in different course categories within the same calendar year. In these circumstances, the tuition fees for each course are calculated separately, but when combined must not exceed a specified annual cap ($2,000 in 2011). By limiting the total fees payable by a student, the maximum category fee and annual cap can increase the affordability of tuition fees. However, the minimum category fee means that some students (who undertake courses with a low number of scheduled hours) will incur higher fees than they otherwise would if the hourly rate was applied. By ensuring students pay at least a minimum fee for the training they undertake, the minimum category fee arguable signals to students that the government subsidised training they receive has a value, and creates a ‘buy-in’ that gives students more incentive to complete their training.

The minimum category fee can also help providers recover costs incurred prior to enrolment, which may not be recovered through funding if a student withdraws early.

5.3.2 Fee concessions

The current tuition fee structure for government subsidised places includes concession fees in all course categories. Concession fees are currently calculated based on the characteristics of the student. For all course categories except skills deepening, concessions are available to holders of Commonwealth Health Care, Pensioner Concession or Veterans Gold Cards, and for persons who are dependant partners or children of these card holders.

When the new fee structure was first introduced for diplomas and advanced diplomas in July 2009, concession fees were not available to students studying these types of qualifications unless they were Indigenous or an apprentice or trainee.

In January 2011, concession fees for diplomas and advanced diplomas were reintroduced for a subset of students studying at this level. As a consequence, a concession fee for diploma and advanced diploma students is now only available to students enrolling in TAFE institutes who are aged 15 to 24 and who hold an applicable concession entitlement. There are no concessions for students enrolled in other courses within the Skills Deepening category (i.e. vocational graduate certificates or vocational graduate diplomas). In 2010, there were around 250 government subsidised enrolments in these courses.

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54 Increasing to $2,500 in 2012.
55 Ministerial Directions about Tuition Fee Youth Concessions for 2011, 18 January 2011.
56 To be entitled to a concession students must either hold a Commonwealth Health Care, Pensioner Concession or Veterans Gold Card, or be a dependant partner or child of a person holding one of these cards.
Concession fees are equal to the minimum fee shown in Table 5.2 for the relevant course category, with the exception of diplomas and advanced diplomas, where the concession fee is $100. Indigenous students are only required to pay the minimum fee in the relevant category (or $100 if aged between 15 and 24, and enrolled in a Skills Deepening course at a TAFE institute).

The Ministerial Directions about Fees also enables training providers to grant discretionary concessions to students in situations of extreme hardship. Such concessions may take the form of a reduced fee or a fee waiver.57

The concession fee arrangements are summarised in Table 5.3.

<table>
<thead>
<tr>
<th>Course category</th>
<th>Concession fee</th>
<th>Availability of concession feea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation</td>
<td>$50</td>
<td>Holders of Commonwealth Health Care, Pensioner Concession or Veterans Gold Cards and for persons who are dependant partners or children of these card holders, and Indigenous students</td>
</tr>
<tr>
<td>Skills creation</td>
<td>$105</td>
<td></td>
</tr>
<tr>
<td>Skills building</td>
<td>$187.50</td>
<td></td>
</tr>
<tr>
<td>Apprenticeships</td>
<td>$58</td>
<td></td>
</tr>
<tr>
<td>Traineeships</td>
<td>$187.50</td>
<td></td>
</tr>
<tr>
<td>Skills deepening (diploma and advanced diploma)</td>
<td>$100</td>
<td>Students enrolling in TAFE institutes who are aged 15 to 24 and who hold a Commonwealth Health Care, Pensioner Concession or Veterans Gold Card or who are a dependant partner, or child of a person who holds one of these cards (including Indigenous students who meet these criteria)</td>
</tr>
<tr>
<td>Skills deepening (Graduate Cert. and Graduate Dip)</td>
<td>$375</td>
<td>Indigenous students not meeting the above criteria</td>
</tr>
</tbody>
</table>

Source: Skills Victoria.

Data from the Department of Human Services (DHS) indicates 1 394 780 Victorians held relevant concessions cards at June 2010. This represents around 30 per cent of the Victorian population aged 15 years and above. In 2010, 24 per cent of VET enrolments were eligible for a concession fee (see Table 5.4). The lower percentage reflects the fact that most of the concessions administered

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by DHS are for pensioners, while the majority of VET students are aged under 25 years.

Table 5.4  **Application of concessions 2010**

<table>
<thead>
<tr>
<th>Concession</th>
<th>Total Enrolments</th>
<th>Concession %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation Skills</td>
<td>27 338</td>
<td>41</td>
</tr>
<tr>
<td>Apprentice/Trainee</td>
<td>99 936</td>
<td>21</td>
</tr>
<tr>
<td>Skills Creation</td>
<td>61 678</td>
<td>22</td>
</tr>
<tr>
<td>Skills Building</td>
<td>106 569</td>
<td>25</td>
</tr>
<tr>
<td>All</td>
<td>295 521</td>
<td>24</td>
</tr>
</tbody>
</table>

*In 2010, no concessions were applicable for Skills Deepening enrolments.*

Source: Skills Victoria.

Reimbursement arrangements are in place where training providers are required to charge a concession fee. However, training providers are not reimbursed where a concession has been granted on a discretionary basis.

*Executive Memorandum 2009-67* issued to TAFE chief executive officers on 3 July 2009 states that full reimbursement for concessions would be progressively implemented in line with the roll-out of the Victorian Training Guarantee, and would apply to qualifying concessions on all enrolments in all courses from 1 January 2011.

Prior to 1 January 2011, providers were reimbursed for concessions from a pool of funds allocated for this purpose. The amount reimbursed to each provider was based on their market share and amounts received were not reconciled with the number of concessions granted. The amount of reimbursement was well below full reimbursement.

From 1 January 2011, full reimbursement was scheduled to commence. As the level of fees foregone may vary between individual students enrolling in identical courses due to the operation of the maximum category fee and the ability of providers to charge an hourly rate below the specified maximum, determining ‘full reimbursement’ for each provider would be complex. To simplify the reimbursement process, and ‘avoid costly and complex changes to data collection and audit practice’, *Executive Memorandum 2009-67* explains that Skills Victoria will reimburse the hours identified at a rate of 80 per cent of the maximum hourly fee payable for the relevant course category. Reimbursement will be based on the reported hours or hours required to reach the category maximum, whichever is lower. The hours paid for by the minimum fee will be deducted, whether or not the minimum was paid for that enrolment.

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58 This reimbursement arrangement is reflected in the 2011 Service Agreements entered into between the Victorian Skills Commission and RTOs or TAFEs. See 2011 TAFE Performance Agreement Training Services Delivery, Schedule 2, paragraph 4.2 and 4.6.
Skills Victoria has advised that the first reimbursement payment for enrolments in January to June 2011 was to be provided in the second half of 2011. It is intended that concession reimbursements will be made quarterly and that they will eventually move to monthly payments via the Skills Victoria Training System (SVTS).

5.3.3 Fee waivers

Under arrangements with the Commonwealth Government, students enrolled in government subsidised places may be eligible for a tuition fee waiver if:

- they are a job seeker and are enrolling in a Certificate I, II, III or IV; or
- they are undertaking an eligible child care Diploma or Advanced Diploma at a TAFE institute.

Under the agreement TAFE institutes do not levy fees on students undertaking eligible courses. Providers are reimbursed for revenue foregone based on the scheduled hours for each enrolment, up to the relevant category fee maximum, including hours below the usual minimum tuition fee. Based on 2010 data, only 2 per cent of enrolments attracted a fee waiver (see Table 5.5).

The fee waiver for eligible child care qualifications is an example of how the government may seek to encourage training in particular areas and might facilitate improved education and vocational training outcomes for certain occupations. Another example is the Commonwealth Government’s Aged Care Education and Training Incentive Program, which provides two incentive payments to aged care workers on commencement and successful completion of eligible qualifications, is another example.

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59 Personal communication, Skills Victoria, 2 August 2011.

60 For the purpose of accessing the fee waiver, a Job Seeker is defined as a person who is registered with an Employment Services Provider (ESP); and/or is a participant in the Community Development Employment Program and/or the Commonwealth’s Access Program. See Executive Memorandum 2009-80, 26 August 2009.

61 Eligible child care courses are defined as the Diploma of Children’s Services (Early Childhood Education and Care) (CHC50908); Advanced Diploma of Children’s Services (CHC60208); Diploma of Children’s Services (CHC50302); and Advanced Diploma of Children’s Services (CHC60202). See Executive Memorandum 2010-15, 17 March 2010.

62 Reimbursement is funded by the Commonwealth Government and is administered by Skills Victoria under the National Partnership Agreement on TAFE Fee Waivers for Childcare qualifications (clause 9).

63 The Aged Care Education and Training Incentive Program is not administered through the Skills for Victoria Program. Eligible courses include Certificate III and IV in Aged Care or Home and Community Care, and Certificate IV or Diploma of Nursing (Enrolled/Division 2 nursing).
Table 5.5  Application of fee waivers 2010

<table>
<thead>
<tr>
<th>Fee Waiver</th>
<th>Total Enrolments</th>
<th>Fee Waiver %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation Skills</td>
<td>789</td>
<td>27 338</td>
</tr>
<tr>
<td>Apprentice/Trainee</td>
<td>163</td>
<td>99 936</td>
</tr>
<tr>
<td>Skills Creation</td>
<td>2 003</td>
<td>61 678</td>
</tr>
<tr>
<td>Skills Building</td>
<td>2 970</td>
<td>106 659</td>
</tr>
<tr>
<td>Skills Deepening&lt;sup&gt;a&lt;/sup&gt;</td>
<td>1 047</td>
<td>48 221</td>
</tr>
<tr>
<td>All</td>
<td>6 972</td>
<td>343 832</td>
</tr>
</tbody>
</table>

<sup>a</sup> Fee waivers applied to certain childcare courses undertaken at TAFE institutes only.

Source: Skills Victoria.

5.3.4 Income contingent loan arrangements

Under an agreement with the Commonwealth Government, students enrolling in a diploma or advanced diploma who are eligible for a government subsidised training place may be able to access the Commonwealth Government’s VET FEE HELP (VFH) scheme.

VFH operates like HECS/HELP for higher education fees in that eligible VET students can take out a loan from the Commonwealth Government to cover part or all of the cost of their tuition fees. The Commonwealth Government pays the student’s tuition fees upfront to the training provider and allows a student to defer repayment of the loan until their income reaches a threshold level in the future, at which time deductions are taken through the taxation system. In 2010-11, the repayment threshold was $44 912 with repayments commencing at 4 per cent of repayment income ($1796 per annum or $70 fortnight).<sup>64</sup>

The amount of the loan is indexed annually and voluntary repayments over $500 attract a 10 per cent discount on the repayment. There is no application fee to access VFH for publicly subsidised students.<sup>65</sup> Students who qualify for a tuition fee concession are also able to access VFH to defer payment of their $100 concession fee.

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To be eligible for VFH, a student must meet certain citizenship criteria, be studying at an approved VET provider, and be enrolled in a diploma or advanced diploma in a government subsidised training place.\textsuperscript{66}

To become an approved provider for VFH purposes, registered training organisations (RTOs) must meet certain requirements under the Commonwealth \textit{Higher Education Support Act 2003} (HESA), relating to financial viability, tuition assurance, credit transfer arrangements, student policies and procedures for fairness and equal opportunity, and academic and non-academic grievance and review.\textsuperscript{67}

Once approved, providers are required to use the VFH IT System to meet ongoing reporting requirements. Training providers are required to publish in advance a schedule of tuition fees, including a fixed VET tuition fee amount for each unit or the maximum VET tuition fee amount payable per hour of tuition, the number of hours of tuition in each VET unit and the maximum total amount of VET tuition fees payable by the student. Providers must also set a census date for each unit of study (which can be no earlier than 20 per cent of the way through a unit of study).

In data reported to Skills Victoria in 2010, 26 RTOs indicated they provided access to VFH for students enrolled in government subsidised places studying diplomas or advanced diplomas. In 2011, this had increased to 33.\textsuperscript{68}

For students in government subsidised places, VFH is only available to students enrolling in diplomas and advanced diplomas. Students enrolling in other qualifications are required to pay fees on enrolment, although some may be offered deferred payment plans by the training provider.

\section*{5.4 Fee arrangements and capacity or willingness to pay}

There are many factors besides fee arrangements that impact on enrolment decisions. Submissions to this review identified location, provider reputation, employment prospects, salary levels, the influence of family and friends, school career councillors and availability of a training place that accommodates the student’s other commitments.

\textsuperscript{66} Students enrolled in a diploma, advanced diploma, graduate certificate or graduate diploma on a full fee-for-service basis may also have access to VFH where offered by the training provider.


\textsuperscript{68} All TAFEs are required to provide VFH, however not all have reported doing so. The discrepancy most likely reflects the quality of the VHF data collected by the Department of Education, Employment and Workplace Relations.
There are a number of elements of the current fee arrangements that impact on a student’s capacity or willingness to pay including:

• higher fees for higher level courses;
• maximum category fees and the annual cap;
• concessions;
• access to VFH; and
• price competition.

These elements are assessed below.

The level of full fees can deter students who are ineligible for government subsidised training from enrolling on a full fee-for-service basis. For the purposes of our analysis, this is classified as an impact of the eligibility criteria rather than of the fee structure as fees-for-service are not regulated.

5.4.1 Higher fees for higher level qualifications

As noted in Section 5.3, the current tuition fee structure has been phased in since 2009, with higher level qualifications attracting a higher fee to reflect an assumed increase in private benefit from these courses. Table 5.1 shows that maximum hourly tuition fee rates have increased by up to $1.08 between 2009 and 2011, with the greatest increase occurring for diplomas and above (40 per cent increase).

A number of submissions to the review have suggested that the higher fee levels do present a barrier to student enrolments. However, as the fee increases have occurred at the same time as the phase-in of the VTG, it is difficult to isolate any effect fees may have had on enrolments from the impact of uncapped places on enrolment levels. Prior to the reforms, the effect that fees had on enrolments is also difficult to determine due to the capped number of government subsidised places.

One assumption that underlies the fee structure is that students who have existing qualifications are more likely to be able to pay higher fees for subsequent qualifications because they are already receiving some private benefit from their previous training. This assumption might not take into account the large number of students who are currently out of the workforce and who enrol in VET to gain skills that will lead to an employment outcome. Indeed, Table 5.6 indicates there is a large proportion of students at the Skills Deepening level who are either unemployed or out of the labour force.
Table 5.6  **Government subsidised VET students by labour force status**

<table>
<thead>
<tr>
<th></th>
<th>Employed</th>
<th>Unemployed</th>
<th>% Not in the labour force</th>
<th>Unknown</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2008</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skills Creation</td>
<td>35</td>
<td>27</td>
<td>25</td>
<td>13</td>
</tr>
<tr>
<td>Skills Building</td>
<td>59</td>
<td>20</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Skills Deepening</td>
<td>67</td>
<td>17</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Apprentices</td>
<td>93</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td><strong>2009</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skills Creation</td>
<td>35</td>
<td>32</td>
<td>24</td>
<td>9</td>
</tr>
<tr>
<td>Skills Building</td>
<td>60</td>
<td>24</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Skills Deepening</td>
<td>70</td>
<td>17</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Apprentices</td>
<td>94</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td><strong>2010</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skills Creation</td>
<td>36</td>
<td>33</td>
<td>25</td>
<td>6</td>
</tr>
<tr>
<td>Skills Building</td>
<td>59</td>
<td>26</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Skills Deepening</td>
<td>69</td>
<td>19</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Apprentices</td>
<td>95</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: NCVER Vocstats.

The current fee structure assumes that private benefit is uniform across qualifications in the same category and increases by the same amount across sectors. However, submissions to the review have raised a number of issues that question the link between wages and qualifications and the assumed private benefit individuals obtain from training. For example:

- The link between qualifications and wages is opaque or non-existent in some sectors.

- Entry level qualifications are higher in some fields or occupations, many of which are regulated. Where a Certificate III or IV is required to enter an industry, the marginal increase in private benefit between a Skills Creation course (Certificates I and II) and a Skills Building course (Certificates III and IV) is minimal.

- People holding the same level qualification but working in different sectors can have significantly different wages. For example, plumbers with a Certificate III qualification are likely to earn a higher income than community service or aged care workers with the same level qualification.

- As the workforce becomes more qualified as a whole (sometimes referred to as ‘qualifications creep’), the wage differential between higher and lower level qualifications will contract.

- Wage rates are likely to vary between males and females.
Where a student does not see a link between their future wage and the qualification they are enrolling in, or where they do not place the same value on training as the tuition fee, they may be less willing to pay higher fees, and therefore less likely to enrol in VET.

Even where a student is willing to pay the tuition fee for the qualification, they may not have the capacity to pay at the time of enrolment when fees are due. The current fee arrangements include maximum hourly rates, maximum category fees, an annual cap, concession fees and access to VFH to address issues of affordability and assist students who may not have capacity to pay fees at the time of enrolment.

With the exception of VFH, any fee mechanisms designed to improve affordability at the time of enrolment distort or remove the intended link between the qualification a student is enrolling in and their future private benefit (wages). When fee caps and concessions are taken into account, only a subset of students is required to pay fees that reflect their assumed private benefit.

Despite its imperfections in accurately reflecting private benefit for all students, the current fee structure may be appropriate in that it reflects the public benefit that comes from different levels of qualifications. Ultimately, the fee and funding structure aims to allocate finite government resources in a way that maximises the achievement of the training system’s objectives. If lower fees encourage more students to enrol in lower level qualifications, providing greater public benefit, this may be a sound basis for continuing to differentiate fees based on qualification. Thus, in the Commission’s view fees should continue to be set on the basis of a lower government subsidy for higher level courses.

**Recommendation 5.1**

Hourly tuition fees should continue to be set on the basis of a lower government subsidy for higher level courses, unless an independent cost and pricing review indicates a more suitable basis for revising the fee structure (see recommendation 5.2).

As explained in greater detail in Chapter 7, the first step in the efficient allocation of resources should be to determine the cost of course delivery. The maximum hourly tuition fee rates and the fee structure should be revised (in conjunction with any appropriate revision of subsidy rates) following an independent cost and pricing review. From there, the appropriate balance between government subsidy and tuition fees can be set by the Government. There are unlikely to be sufficient resources to provide the same level of subsidy to all students and therefore there must be some means of allocating different levels of subsidy. The fee and funding structure could be based on:

- private/public benefit (by qualification level), as per the current fee structure;
- private/public benefit (by sector);
- cost of delivery (by qualification level);
• cost of delivery (by sector); or
• some combination of the above.

A review of cost and pricing signals may reveal a more appropriate basis for setting fees. However, any attempts to better match fees with private benefit or alternatively, the cost of course delivery, must be weighed against the need to keep the fee structure simple for students to understand and providers to administer.

**Recommendation 5.2**

The maximum hourly tuition fee rates and the fee structure should be revised (in conjunction with any appropriate revision of subsidy rates) following an independent cost and pricing review to determine the cost of provision (see funding recommendations).

As discussed in Section 5.3, the maximum fees for apprenticeships and traineeships are currently set at different rates. Unlike other students, neither apprentices nor trainees pay fees based on the level of qualification that they are enrolling in. This is inconsistent with the principle of public-private benefit underpinning the structure of fees for other VET students, and results in students who are not trainees or apprentices paying a higher fee for the same course. In the Commission’s view, if the Government wants to encourage apprenticeships and traineeships, this should be done through incentive arrangements that are independent of the fee schedule (see Chapter 7) and potentially from the training system altogether (for example, incorporated into other incentive programs).

**Recommendation 5.3**

The Government should adjust the maximum tuition fees for apprentices and trainees with the aim of creating greater consistency and alignment with the fee structure that reflects public/private benefit and is based on qualification level.
5.4.2 Maximum hourly tuition fees

In the absence of a fully competitive and efficient market, the specified maximum hourly tuition fee rates prevent providers charging artificially high fees for students in government subsidised places. As a maximum hourly rate, this mechanism allows providers to compete and charge hourly tuition fee rates below the maximum level. While there are some qualifications that are offered by a large number of providers, and there is evidence of fee competition, there are also many courses that are only offered by one provider, particularly in regional areas (often referred to as ‘thin markets’ see Chapter 6.)

As the number of hours that a provider can charge for each module or unit is determined by the number of hours scheduled by the provider, the maximum hourly rate effectively places a cap on the amount that a provider can charge for each course.69 The maximum hourly rate also serves to limit the Government’s liability in terms of reimbursing providers for revenue foregone when a concession fee has been charged.70

In the Commission’s view, the maximum hourly tuition fee rate should be retained, at least in the short term when there is a lack of depth of competition in the VET sector. However, as discussed in Chapter 7, the Commission is recommending that the maximum fee should be increased — and eventually removed — in areas and/or courses where it can be demonstrated that there is sufficient competition.

The maximum hourly rate should be indexed annually in line with changes in costs incurred by training providers. As discussed in Chapter 6, a published price index such as the Consumer Price Index or Wage Price Index could be used for this purpose. Indexation should take place at the expiration of the current tuition fee schedule.

69 Although the Ministerial Directions do not set a limit to the number of hours that can be scheduled, providers only receive subsidy funding for the number of scheduled hours up to the maximum nominal hours per course or qualification as identified in the relevant Victorian Purchasing Guide or State Accredited Course. The cap on the amount of subsidy funding will remove any incentive to inflate the number of scheduled hours to charge higher tuition fees.

70 As discussed in section 5.3.2, providers are reimbursed for concessions on the basis of the reported hours (or the hours required to reach the category maximum, which ever is lower) and maximum hourly fee for the relevant course category.
Recommendation 5.4
Maximum hourly tuition fee rates should be retained only while there is limited competition in the VET sector. Over time, in areas/courses where greater competitive provision can be verified, the maximum hourly rate should be increased and eventually removed (see recommendation 7.1).

Recommendation 5.5
After the expiration of the current tuition fee schedule at the end of 2012, maximum hourly tuition fees should be indexed, annually.

5.4.3 Maximum category fee, annual cap and minimum category fee

The maximum category fee improves affordability for students enrolling in a high number of hours within a calendar year by capping the amount payable. The annual cap also promotes affordability by capping the overall amount payable by a student enrolled in more than one course category in a year. As previously discussed, the minimum category fee acts as an incentive to students to complete their training and allows providers to recover some of the costs incurred prior to enrolment.

The exact number of enrolments to which either the minimum or maximum fee applies is difficult to determine from the data available, but it can be estimated using the nominal hours of modules in which students are enrolled. Table 5.8 uses 2010 enrolment data against the 2011 minimum and maximum hours to approximate the impact of the fee minima and maxima.

Table 5.7 shows that, overall, 25 per cent of enrolments are based on hours low enough to fall below the calculated minimum category fee. This is most prevalent in the Skills Creation category.
Table 5.7  
**Subsidised enrolments affected by 2011 minima and maxima tuition fees**  
Based on reported nominal hours 2010

<table>
<thead>
<tr>
<th></th>
<th>No. of Enrolments</th>
<th>Under category minimum</th>
<th>Over category maximum</th>
<th>% under minimum</th>
<th>% over maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foundation Skills</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAFE</td>
<td>17 787</td>
<td>3 895</td>
<td>2 988</td>
<td>22</td>
<td>17</td>
</tr>
<tr>
<td>ACE</td>
<td>6 764</td>
<td>572</td>
<td>485</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Other</td>
<td>558</td>
<td>16</td>
<td>62</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>25 109</td>
<td>4 483</td>
<td>3 535</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td><strong>Skills Creation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAFE</td>
<td>41 447</td>
<td>17 801</td>
<td>2 352</td>
<td>43</td>
<td>6</td>
</tr>
<tr>
<td>ACE</td>
<td>5 611</td>
<td>2 835</td>
<td>23</td>
<td>51</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>7 474</td>
<td>1 520</td>
<td>230</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>54 532</td>
<td>22 156</td>
<td>2 605</td>
<td>41</td>
<td>5</td>
</tr>
<tr>
<td><strong>Skills Building</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAFE</td>
<td>71 677</td>
<td>20 534</td>
<td>8 050</td>
<td>29</td>
<td>11</td>
</tr>
<tr>
<td>ACE</td>
<td>7 299</td>
<td>1 617</td>
<td>343</td>
<td>22</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>17 014</td>
<td>4 001</td>
<td>1 149</td>
<td>24</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>95 990</td>
<td>26 152</td>
<td>9 542</td>
<td>27</td>
<td>10</td>
</tr>
<tr>
<td><strong>Skills Deepening</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAFE</td>
<td>46 239</td>
<td>4 485</td>
<td>18 467</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>ACE</td>
<td>886</td>
<td>72</td>
<td>428</td>
<td>8</td>
<td>48</td>
</tr>
<tr>
<td>Other</td>
<td>12 569</td>
<td>1 984</td>
<td>3 263</td>
<td>16</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>59 694</td>
<td>6 541</td>
<td>22 158</td>
<td>11</td>
<td>37</td>
</tr>
</tbody>
</table>

| All enrolments       | 235 325           | 59 332                 | 37 840                | 25              | 16             |

* Due to data limitations apprentices and trainees are excluded. Excludes enrolments showing zero nominal hours for 2010.

Source: Skills Victoria.

Sixteen per cent of enrolments are affected by the maximum category cap. At the Skills Deepening level, 37 per cent of enrolments are greater than 527 hours, resulting in their tuition fee potentially meeting the cap. This is more prevalent in the TAFE institutes and ACE sector than for students enrolled with private RTOs. In its submission, RMIT University raised the issue of the revenue foregone as a result of the tuition fee cap in the Skills Deepening category. It is difficult to quantify the actual impact of the cap because of a lack of information on the actual fees charged by providers. However, using nominal hours and assuming that the maximum hourly fee is levied, the Commission estimates that there is foregone
revenue of around $26 million in Skills Deepening because of the maximum category cap.

In 2012, the maximum category fee increases to $2500 for diplomas.\textsuperscript{71} Overlaying 2012 fee constraints on 2010 enrolment data shows a reduction in Skills Deepening enrolments paying the maximum fee from 37 per cent to 33 per cent.

A breakdown of enrolments by industry group highlights the areas where the minimum and maximum fee caps are most likely to apply (Table 5.8). Some fields have more intensive instruction loads to complete a qualification, and therefore have a high rate of enrolments that exceed the hours before the maximum is reached.

Table 5.8 Subsidised enrolments affected by 2011 minimum and maximum category fees by industry\textsuperscript{a}

<table>
<thead>
<tr>
<th>Industry</th>
<th>Enrolments</th>
<th>Over maximum category fee</th>
<th>Under minimum category fee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>Foundation Skills</td>
<td>25 109</td>
<td>4 483</td>
<td>18</td>
</tr>
<tr>
<td>Adult Community Education</td>
<td>2 189</td>
<td>715</td>
<td>33</td>
</tr>
<tr>
<td>Automotive</td>
<td>3 085</td>
<td>1 048</td>
<td>34</td>
</tr>
<tr>
<td>Building and Construction</td>
<td>13 640</td>
<td>4 702</td>
<td>34</td>
</tr>
<tr>
<td>Business Services</td>
<td>39 794</td>
<td>9 345</td>
<td>23</td>
</tr>
<tr>
<td>Community Services and Health</td>
<td>37 614</td>
<td>6 754</td>
<td>18</td>
</tr>
<tr>
<td>Cultural and Recreation</td>
<td>16 887</td>
<td>2 531</td>
<td>15</td>
</tr>
<tr>
<td>Electrotechnology and Communications</td>
<td>19 360</td>
<td>4 399</td>
<td>23</td>
</tr>
<tr>
<td>General Manufacturing</td>
<td>7 668</td>
<td>2 006</td>
<td>26</td>
</tr>
<tr>
<td>Generic Skills</td>
<td>4 517</td>
<td>1 174</td>
<td>26</td>
</tr>
<tr>
<td>Metals and Engineering</td>
<td>7 472</td>
<td>2 893</td>
<td>39</td>
</tr>
<tr>
<td>Primary and Forest</td>
<td>12 976</td>
<td>3 568</td>
<td>27</td>
</tr>
<tr>
<td>Public Administration and Safety</td>
<td>1 997</td>
<td>1 235</td>
<td>62</td>
</tr>
<tr>
<td>Tourism and Hospitality</td>
<td>18 797</td>
<td>7 419</td>
<td>39</td>
</tr>
<tr>
<td>Transport and Storage</td>
<td>14 400</td>
<td>5 961</td>
<td>41</td>
</tr>
<tr>
<td>Wholesale Retail and Personal Services</td>
<td>9 820</td>
<td>1 099</td>
<td>11</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>235 325</strong></td>
<td><strong>59 332</strong></td>
<td><strong>25 37 840</strong></td>
</tr>
</tbody>
</table>

\textsuperscript{a} Due to data limitations apprentices and trainees are excluded. Enrolments showing zero nominal hours for 2010 excluded.

Source: Skills Victoria.

\textsuperscript{71} With a maximum hourly rate of $4.33, the maximum category cap will only benefit students enrolling in more than 577 hours.
In the Commission’s view, the category minimum and maximum fees and the annual cap add to the complexity of the current fee structure and should be removed. It is difficult to ascertain total tuition fees or fees per subject because it depends on the level of total enrolment within the calendar year. The maximum and annual cap also has an impact on providers in terms of foregone revenue. At a more fundamental level, the category and annual caps represent a form of price control that is inconsistent with the move to the Commission’s vision for a more market-based competitive pricing VET model (as outlined in Chapter 7).

Section 5.5.2 explains how the category maximum can also impact negatively on the financial viability of training providers, which may potentially cause them to withdraw from the government subsidised training market, or reduce the number of hours in which a student can enrol in.

It is not clear that the complexity created by category and annual caps is outweighed by the benefits of improved affordability. The maximum hourly rate should be effective on its own in addressing concerns about affordability. In the case of diplomas and advanced diplomas (where most courses are impacted by the category cap), and where students are able to defer payment of fees through VFH, capacity to pay at the time of enrolment should not be an issue; therefore, the presence of the maximum category fee is unlikely to affect a student’s enrolment decision.

The annual cap is currently set equal to the maximum category fee for Skills Deepening courses ($2000). By definition, only students who are enrolled in multiple courses in different categories can benefit from this cap. Due to the lower hourly rates in lower level courses, students who are undertaking a Skills Deepening course in conjunction with another course are the most likely to benefit. Therefore, the annual cap will be of little additional benefit to students who are already able to access VFH for the portion of the fees related to the diploma or advanced diploma.

The course category and annual cap also create incentives for students to structure their courses in ways that minimise their fee exposure. At present, the maximum category fee may provide an incentive for students whose fees are near the cap to enrol in additional units within the calendar year as the marginal cost would be significantly lower than the normal hourly rate. For the additional hours above the category maximum, the fee paid by the student reflects neither the future private benefit of the training or the cost to the provider. The annual cap may provide an incentive to students to enrol in additional courses and erode the connection between the fee paid by the student and the future private benefit to the student of the training.

While the maximum hourly rate, category fee and annual cap may improve affordability for some students, at the other end of the scale, the minimum category fee may reduce affordability for students wishing to enrol in only a low number of hours. For example, a number of submissions argued that the minimum fee of $50 adversely affected students enrolling in a foundation skills course in conjunction with another qualification at a different level. Similarly, students wishing to complete just one or two modules of a qualification may have to pay a much higher hourly rate than other students.
One aspect of the fee arrangements that was supported during our review for its role in assisting the financial viability of providers was the minimum category fee. Under the current funding system where the government subsidy is paid in arrears, a provider receives only a small portion of anticipated revenue if a student withdraws from a course early. The minimum category fee can assist providers to cover costs that are incurred pre-enrolment in relation to students who withdraw early. In the ACE sector, in particular, providers noted that encouraging and supporting a disengaged or disadvantaged student through the enrolment process could require significant resources that may act as a disincentive to enrol such students. The minimum category fee allows providers to keep this minimal amount in the event that a student withdraws, helping to cover their costs. A student having paid a minimum fee may also have greater ‘buy in’.\(^{72}\)

Removing the minimum category fee might result in concerns about the ability of providers to cover pre-enrolment costs if a student withdraws early and that students will not have any ‘buy in’. However, providers are able to charge other fees, such as material and amenities fees, which should help recover those costs and act as incentive to students.

<table>
<thead>
<tr>
<th>Recommendation 5.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum and minimum category fees and the annual cap should be removed.</td>
</tr>
</tbody>
</table>

### 5.4.4 Concessions

The availability of concessions improves affordability for students undertaking Certificates I to IV or foundation courses, where the student holds a relevant concession card. As the concession fees for these qualifications are equal to the category minimum, they bear no relationship to the amount of training undertaken. This means students enrolling in a higher number of hours obtain a larger benefit from a concession fee than students undertaking fewer hours. Students who are eligible for a concession fee may also have an incentive to enrol in more units or a higher number of hours than they might if they were required to pay for these hours. Similarly, concession fees remove the link between fees and the future assumed private benefit a student obtains from undertaking the training.

In the Commission’s view, it would be more appropriate to set the concession fee as a percentage of the maximum hourly rate. This would strengthen the link between the concession fee and the amount of training undertaken. Table 5.9 lists a number of the most popular courses in the different course categories, and illustrates the effect of a concession fee based on 50 per cent of the non-concession fee. The results are heavily influenced by the differences in student contact hours for different courses.

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\(^{72}\) Compensating providers for the costs they incur pre-enrolment or in relation to higher need learners are discussed in Chapter 6.
### Table 5.9

**Impact of applying concession as percentage of the non-concession fee**

<table>
<thead>
<tr>
<th></th>
<th>Assumed hours</th>
<th>Concession hourly rate ($</th>
<th>Full tuition fee ($)</th>
<th>50% full tuition fee ($)</th>
<th>Additional cost to student ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Skills Creation – Concession $105, Full tuition fee $1.51 per hour</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificate I in Construction</td>
<td>205</td>
<td>0.51</td>
<td>309</td>
<td>155</td>
<td>50</td>
</tr>
<tr>
<td>Certificate I in Information Technology</td>
<td>172</td>
<td>0.61</td>
<td>260</td>
<td>130</td>
<td>25</td>
</tr>
<tr>
<td>Certificate II in Engineering</td>
<td>288</td>
<td>0.36</td>
<td>435</td>
<td>217</td>
<td>112</td>
</tr>
<tr>
<td>Certificate II in Hospitality</td>
<td>326</td>
<td>0.32</td>
<td>492</td>
<td>246</td>
<td>141</td>
</tr>
<tr>
<td>Certificate II in Transport and Logistics</td>
<td>424</td>
<td>0.25</td>
<td>640</td>
<td>320</td>
<td>215</td>
</tr>
<tr>
<td>Certificate II in Plumbing (Prevocational)</td>
<td>384</td>
<td>0.27</td>
<td>580</td>
<td>290</td>
<td>185</td>
</tr>
<tr>
<td><strong>Skills Building – Concession $187.50, Full tuition fee $1.84 per hour</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificate III in Aged Care</td>
<td>434</td>
<td>0.43</td>
<td>799</td>
<td>400</td>
<td>212</td>
</tr>
<tr>
<td>Certificate III in Children’s Services</td>
<td>504</td>
<td>0.37</td>
<td>927</td>
<td>464</td>
<td>276</td>
</tr>
<tr>
<td>Certificate III in Information Technology</td>
<td>472</td>
<td>0.40</td>
<td>868</td>
<td>434</td>
<td>247</td>
</tr>
<tr>
<td>Certificate IV in Financial Services</td>
<td>548</td>
<td>0.34</td>
<td>729</td>
<td>364</td>
<td>177</td>
</tr>
<tr>
<td>Certificate IV in Nursing</td>
<td>838</td>
<td>0.22</td>
<td>1543</td>
<td>771</td>
<td>584</td>
</tr>
<tr>
<td>Certificate IV in Training and Assessment</td>
<td>244</td>
<td>0.77</td>
<td>49</td>
<td>224</td>
<td>37</td>
</tr>
<tr>
<td><strong>Skills Deepening – Concession $100, Full tuition fee $3.79 per hour</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diploma of Management</td>
<td>416</td>
<td>0.24</td>
<td>1577</td>
<td>788</td>
<td>688</td>
</tr>
<tr>
<td>Diploma of Beauty Therapy</td>
<td>1212</td>
<td>0.08</td>
<td>4593</td>
<td>2297</td>
<td>2197</td>
</tr>
<tr>
<td>Diploma of Events</td>
<td>1028</td>
<td>0.10</td>
<td>3896</td>
<td>1948</td>
<td>1848</td>
</tr>
<tr>
<td>Diploma of Nursing</td>
<td>1206</td>
<td>0.08</td>
<td>4572</td>
<td>2286</td>
<td>2186</td>
</tr>
<tr>
<td>Diploma of Sport (Development)</td>
<td>1085</td>
<td>0.09</td>
<td>4111</td>
<td>2056</td>
<td>1956</td>
</tr>
<tr>
<td><strong>Foundation Skills – Concession $50, full tuition fee $1.08 per hour</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificate I in General Ed. for Adults</td>
<td>304</td>
<td>0.16</td>
<td>328</td>
<td>164</td>
<td>114</td>
</tr>
<tr>
<td>Certificate I in Vocational Preparation</td>
<td>204</td>
<td>0.25</td>
<td>220</td>
<td>110</td>
<td>60</td>
</tr>
<tr>
<td>Certificate I in Work Education</td>
<td>960</td>
<td>0.05</td>
<td>1037</td>
<td>518</td>
<td>468</td>
</tr>
<tr>
<td>Certificate II in General Ed. for Adults</td>
<td>264</td>
<td>0.19</td>
<td>285</td>
<td>143</td>
<td>93</td>
</tr>
<tr>
<td>Certificate III in Spoken &amp; Written English</td>
<td>320</td>
<td>0.16</td>
<td>346</td>
<td>173</td>
<td>123</td>
</tr>
<tr>
<td><strong>Apprentices – Concession $58, Full tuition fee $1.40 per hour</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificate III in Automotive Mechanical Technology</td>
<td>1036</td>
<td>0.06</td>
<td>1450</td>
<td>725</td>
<td>667</td>
</tr>
<tr>
<td>Certificate III in Carpentry</td>
<td>997</td>
<td>0.06</td>
<td>1396</td>
<td>698</td>
<td>640</td>
</tr>
<tr>
<td>Certificate III in Hairdressing</td>
<td>646</td>
<td>0.09</td>
<td>905</td>
<td>452</td>
<td>394</td>
</tr>
<tr>
<td>Certificate III in Horticulture (Landscape)</td>
<td>923</td>
<td>0.06</td>
<td>1292</td>
<td>646</td>
<td>588</td>
</tr>
<tr>
<td>Certificate III in Plumbing</td>
<td>1101</td>
<td>0.05</td>
<td>1541</td>
<td>771</td>
<td>713</td>
</tr>
</tbody>
</table>
Setting concession as a percentage of the non-concession rate is consistent with the approach taken in other industries. For example, in the Winter Energy concession is set at 17.5 per cent of the mains bill and the Water and Sewerage rates concession is set at 50 per cent capped at $245.

In the case of Foundation Skills courses, there may be a public benefit argument for maintaining the concession as a fixed amount. These courses are aimed at improving basic numeracy and literacy skills and available to all Victorians under the VTG. In some cases, moving to a setting a concession fee on the basis of the maximum hourly rate would result in significant increases in the concession fees paid for these courses (see Table 5.9)

### Recommendation 5.7
Concession fees should be based on a maximum hourly rate that is a specified percentage of the maximum tuition fee rate. Providers should be free to compete on price and charge all students below the maximum hourly rates specified.

Under the current arrangements, some concession students studying at diploma level are paying a significantly lower rate per hour of study than students enrolled in the Skills Creation category. Equally, apprentices and trainees pay a substantially lower fee for the same course as a concession student who is not in an apprenticeship or traineeship. (eg. Certificate III in Hospitality [Commercial Cookery]).

As outlined in section 5.3.2, concession fees are not available to all students enrolled in skills deepening courses, even where they hold a relevant concession card. Specifically, students who hold these concession cards are unable to access a concession if they are:
- aged 25 or over as at 1 January 2011; or
- studying at a non-TAFE training provider (including ACE provider); or
- enrolled in a graduate certificate or graduate diploma.

For students who are eligible for a concession at Skills Deepening level, a concession fee of $100 applies rather than the minimum category fee of $375. Like concession fees for other course levels, the $100 concession fee is not linked to the hours of training undertaken and may create an incentive to ‘over enrol’. The link between private benefit and the tuition fee is also obscured, and an anomaly is created in that the $100 fee is lower than the concession fees payable by students enrolling in lower level qualifications — $105 for Certificate I and II; and $187.50 for Certificate III and IV and traineeships.

Where students have access to VFH, this access should address a student’s capacity to pay at the time of enrolment, reducing the need to provide concession fees. Although VFH is not accessible to all students enrolled in skills deepening courses (discussed below), the majority of students who are currently eligible for the concession should have access, because all TAFE institutes are registered
VFH providers and students enrolled in diplomas or advanced diplomas are eligible for VFH.

**Recommendation 5.8**
The Government should reconsider the need for concessions where students have access to VET FEE HELP.

The recommendations outlined in this section relate to improving the tuition fee concession arrangements as they stand. In the Commission's view, it may be worthwhile considering whether alternative arrangements may better deal with concerns about affordability for particular cohorts. Concessions are typically provided on the basis of income and or employment history.

In the Commission’s view, income and employment issues are most efficiently dealt with through the tax and transfer system. The Australian Taxation Office, Centrelink and Jobs Services Australia have the information needed to assess a person’s income and employment history and hence the need for a concession. All the necessary machinery of government for the efficient administration of concessions sits with the Commonwealth jurisdiction. Thus, in the Commission’s view the Victorian Government should consider passing responsibility for the administration of concessions to the Commonwealth Government.

**Recommendation 5.9**
The Victorian Government should commence negotiating with the Commonwealth Government about the Commonwealth assuming responsibility for the administration of concession arrangements for students enrolling government subsidised VET.

### 5.4.5 VET FEE HELP

By enabling students who do not have capacity to pay their tuition fees on enrolment to defer payment until their income reaches a specified level in the future, VFH improves VET affordability.

In 2010, of the 222 providers with diploma or advanced diploma students in government subsidised places, only 25 (or 11 per cent) reported having students that accessed VFH. Although the majority of diploma and advanced diploma students are enrolled at TAFE institutes and are among those that do have access, 37 per cent of students (25 563 students) in government subsidised diploma or advanced diploma places were enrolled at providers that did not offer access to VFH. Students' inability to access VFH at such a large number of providers (where concession fees were also not available) may have reduced the total number of government subsidised diploma and advanced diploma enrolments.
In 2010, of the 42,628 students enrolled in government subsidised diploma or advanced diploma places who did have access to VFH, only 22 per cent of students were reported to have accessed VFH. Although a number of submissions suggested that VET students were generally averse to debt and unlikely to take on a VFH loan, the low take-up rates are more likely to be due to other factors, such as:

- fees being paid by an employer;
- students having the capacity to pay up front; and
- students taking up alternative payment plans offered by training providers.

In submissions to our review, and to previous reviews\textsuperscript{73}, a number of training providers have raised concerns about the high administrative burden and lack of flexibility associated with providing access to VFH. For example, Goulburn Ovens TAFE noted:

\begin{quote}
… the introduction of VET FEE-HELP which required the introduction of Unit of Study requirements, and massaging of existing Diploma and Advanced Diploma courses into a University driven semester model. This model does not take into account the flexibility usually offered by TAFE Institutes in relation to enrolments throughout the year, required extensive work by our Teaching areas to develop the Units of Study into formats which were meaningful for students, and also required up skilling in the Non Teaching areas to implement the VET FEE-HELP and Unit of Study requirements. These costs were absorbed by us within existing government funding and we question the extent to which they added value to the quality of the education delivered and the experience of our students.
\end{quote}

Albury Community College submitted that:

\begin{quote}
We had successfully gained VET Fee Help registration but have in the last month withdrawn due to the onerous reporting expectations, inflexible thinking about distance ed delivery and a few other minor factors.
\end{quote}

The Ernst and Young Review found that:

\begin{quote}
The program is administratively burdensome for both students and providers. This is a barrier to VET students considering the loan. It cited the example of one of the requirements of VFH is that students need to be able to estimate the full cost of the course (and hence the full curriculum) at the time of application. This may be problematic as, over a two year qualification, students may not yet know what units they will be taking in year two.
\end{quote}

\textsuperscript{73} For example submissions by NMIT and the VTA to the Victorian Competition and Efficiency Commission’s Inquiry into Victoria’s Regulatory Framework; and the report on the Review of the implementation of Securing Jobs for Your Future by Ernst and Young in 2010.
The administrative burden is cited as the main reason that more private providers do not provide access to VFH. For example, Ottway Community College stated that:

*We have not pursued VET-Fee Help arrangements. Comments we have heard from other providers indicate that the process for a provider to register is quite time consuming and complex.*

If the administration of VFH was less burdensome and more compatible with the flexibility offered by VET, more private providers might be encouraged to offer VFH. Improved awareness of the availability of VFH should also assist in improving take-up by students.

Any changes to the administration with VFH will need to be negotiated with the Commonwealth Government. In discussing improvements to the administration of VFH the Victorian Government should consider whether there is scope to reduce the flexibility around VET by having set census dates for enrolments.

If a student has the capacity to pay tuition fees upfront, there are incentives for them to do so, including avoiding accumulating a debt and the indexation of the loan amount. The case for an upfront payment is particularly strong for students who are already earning above the income repayment threshold. If a student is averse to debt and taking up a VFH loan, it is more likely that they have chosen not to enrol than chosen (or been able) to pay fees upfront.

One participant in our review (RMIT) stated that the inability to access VFH for students undertaking government subsidised vocational graduate certificate and graduate diplomas courses may act as a barrier to these students undertaking VET. Students undertaking these courses on a full fee-for-service basis are able to access VFH (where their provider is an approved provider).

Fees for vocational Graduate Certificate and Graduate Diploma qualifications are calculated based on the Skills Deepening hourly tuition fee rate (with a maximum of $2000 in 2011), and no concession fees apply to address affordability issues. Similarly, graduate diploma and graduate certificate students in the higher education sector also have access to VFH. There appears to be little justification for why these qualifications within the Skills Deepening category are treated differently. In the Commission’s view, the Victorian Government should consult with the Commonwealth on the viability of extending VFH to include graduate certificate and graduate diploma qualification levels.
Recommendation 5.10
The Victorian and Commonwealth Governments should consult with providers to improve flexibility of VET FEE HELP arrangements.

Recommendation 5.11
The Victorian Government should consult with the Commonwealth Government about the extension of VET FEE HELP to vocational graduate certificate and graduate diploma students.

In a number of submissions to the review, it was suggested that access to VFH should be extended to students enrolling in Certificate IV qualifications, as the fees (up to a maximum of $1250 in 2011) may be unaffordable for some students. Extending VFH to Certificate IV enrolments was also recommended by Skills Australia.\(^74\)

Where tuition fees for Certificate IV and vocational graduate certificate and graduate diploma qualifications are high, access to VFH would address any capacity pay issues that reduced the number of enrolments. However, any expansion in the number of students able to access VFH would have additional funding implications for the Commonwealth Government, and would need to be agreed at this level.

An alternative to extending VFH to all Certificate IV qualifications would be to extend access to only a nominated subset of Certificate IV and possibly Certificate III qualifications. The Victorian Government may consider this option if it is particularly concerned that capacity to pay issues may reduce enrolments in particular qualifications (for example, qualifications in areas of skills shortage, or where there are a large number of nominal hours leading to particularly high fees).

Recommendation 5.12
The Victorian Government should consult with the Commonwealth Government about extending VET FEE HELP to Certificate IV qualifications (subsidised and full fee) or alternatively nominated Certificate III and Certificate IV qualifications.

5.5 Fee arrangements and course or provider viability
Where the fee arrangements impact the financial viability of training providers or particular courses offered by providers causing a reduction in the amount of

\(^74\) Skills Australia 2011, Skills to Prosperity a Roadmap for Vocational Education and Training, Canberra.
training provided, the arrangements may reduce the system’s ability to meet its objectives.

In submissions to the review, a number of aspects of the fee arrangements were noted as impacting provider or course viability, including:

- reductions in total hourly funding per student due to category fee maximums;
- non-indexation of fees and non-linkage of the minimum and maximum category fees to hourly rates;
- reductions in enrolments due to high fees;
- delays and uncertainty related to concession reimbursements;
- the role of minimum category fees in covering costs incurred pre-enrolment; and
- the inability of non-TAFE providers to compete with concession fees (as well as fee waivers) available at TAFE institutes for Diploma and Advanced Diploma courses.

Where a student is enrolled in a high number of hours, such that the maximum category fee or annual cap is reached, the provider only receives the share of funding from the government for any additional hours that the student undertakes. Therefore, in the case of Skills Deepening enrolments, where a student’s contribution may be as high as 40 per cent of the total hourly funding level, the maximum category fee may have a significant impact on marginal revenue for the additional training delivered. If the financial viability of the provider is threatened, they may withdraw from the government subsidised training market.

The reduction in funding due to the category maximum fee may also create incentives for providers to alter the structure of their courses or limit the number of hours a student can enrol to avoid student fees reaching the maximum. This may adversely affect the achievement of the training system’s objectives.

In 2011, increases in hourly fee rates without commensurate increases in the maximum category fees has compounded the impact of the maximum category fee, which students now reach at a lower number of hours than in previous years.

If the level of enrolment is reduced because students do not have the capacity or willingness to pay the fees, this may create or exacerbate a thin market, where the provision of training is not financially viable due to low student numbers. Although providers can charge fees below the maximum hourly rate to encourage enrolments, they may not be able to reduce fees sufficiently to attract students while remaining financially viable.

A number of submissions to our review expressed concerns about the arrangements for concession reimbursements and the effect these arrangements are having on providers’ cash flow and financial viability. In particular, providers raised issues relating to the uncertainty of the arrangements, the delay in obtaining

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75 Based on a weighting of 0.8 where a Skills Deepening course attracts a weighting of 1.3, the student’s share of the total hourly funding rate would only be 29 per cent.
reimbursement from the government for concession students, and the level of this reimbursement when it does occur.

As outlined in Section 5.3.2, a new system for concession reimbursement was to have come into effect on 1 January 2011 for all courses, where providers would be fully reimbursed for training provided (based on 80 per cent of the maximum hourly rate). Under the previous arrangements, a limited amount of funding was allocated for concession reimbursement and providers did not know at the time of enrolment how much they would be reimbursed for each concession student.

This uncertainty and the low level of reimbursement that did occur would have a disproportionate effect on providers that had a high percentage of concession students. In 2010, around 40 per cent of ACE enrolments were on a concession, TAFE institutes had 34 per cent of enrolments on concession and private providers had 11 per cent.

As noted in Section 5.3.2, the ability of providers to charge an hourly tuition fee rate below the specified maximum creates difficulties for Skills Victoria to reimburse providers for the actual revenue foregone as a result of charging a concession. Under the current arrangement of reimbursing 80 per cent of the maximum hourly rate, some providers (who charge between 80 and 100 per cent of the maximum hourly tuition fee) will be reimbursed less than the revenue they forego, while others (who charge below 80 per cent of the maximum hourly tuition fee) will be reimbursed more than the revenue they forego.

The timing of reimbursement can also adversely affect providers as student tuition fees are normally paid upfront on enrolment, or in accordance with a payment plan offered by a training provider. The new arrangements outline timeframes in which providers will be reimbursed for concessions during each enrolment period. Although concessions reimbursement has not yet been integrated into the SVTS reporting and payment system, it is intended that it will be, and therefore reimbursement will occur on a monthly basis.

From a funding point of view, moving to a system of reimbursing providers on the basis of actual revenue foregone as a result of concessions would be more efficient and consistent with promoting financial viability. In other sectors, such as energy and water, the government reimburses concessions on the basis of foregone revenue. Under these arrangements, the business providing the concession invoices the Government for the foregone revenue. However, the large number of training providers and the wide range of courses (and therefore fees) offered may make it more administratively burdensome to implement in the VET sector compared with other sectors. However, Skills Victoria already has in place extensive data collection and payment systems that would serve to negate some of the added administrative burden.

Closer matching of concession fee reimbursement to actual costs (indicated by fees charged to non concession students) would also reduce any incentives for providers to enrol, or refuse enrolment, to concession students.

As the providers have not yet received any reimbursement payments under the new arrangements, which only came into effect at the start of 2011, most of the criticisms about reimbursement appear to relate to the previous arrangements.
Skills Victoria should review its process to ensure that concession reimbursements are made in a timely manner and should provide more information to providers about the process.

**Recommendation 5.13**

The Government should move toward fully reimbursing concessions based on the actual fees charged by providers to non-concession students. Under this arrangement, providers would invoice the government for the amount of revenue foregone.
Key points

- Government funding for subsidised places is determined by student contact hours, a system of industry/student weightings and hourly funding rates.

- The current model for determining provider funding should be retained. However, in the Commission’s view the funding rate and weighting parameters, and the timing of payments, should be reviewed and updated to reflect current cost conditions.

- Some form of indexation should be applied to base hourly funding rates, including a productivity adjustment to provide an incentive for efficiency improvements.

- Thin markets refer to situations where there are few learners (low demand) or few providers (low supply), and can be based on occupation, industry type or geographic area.

- So called ‘higher need learners’ are a broad and poorly defined category of students, resulting in uncertainty regarding the additional costs incurred by providers in training these groups.

- The existing preferential base hourly funding rates for TAFE institutes should be progressively removed. This is likely to necessitate a broader review of TAFE funding and governance arrangements.

The terms of reference ask the Commission to examine a number of components of government funding mechanisms including approach, costs of delivery, relative funding levels between different types of registered training organisations (RTOs), and funding structures for specific types of students.

This chapter outlines the main components of VET funding in Victoria — namely the Student Contact Hour (SCH) funding model, and the sector and student weightings contained within the Weighted Training Hour (WTH) model. It assesses the current funding structure, particularly in relation to the issues of funding in arrears, higher need learners and ‘thin markets’.

6.1 The Student Contact Hour funding model

VET funding is underpinned by a demand-driven approach, whereby RTOs receive funding based on the number of students they have enrolled. Hence, RTOs funding can be said to be ‘driven’ by student demand. The VET sector is also considered to be ‘contestable’, because RTOs are able to compete for available funding based on the number of students who choose to undertake the training courses on offer.
In order to receive contestable funding for eligible students, a provider is required to sign a services agreement with Skills Victoria. The standard service agreement outlines the general conditions by which an RTO is to be reimbursed for their training services.

Funding is allocated to RTOs according to a formula based model known as the SCH model. Under this model, RTOs receive funding for the training they deliver to students according to three main parameters: the number of SCHs, the base hourly funding rates, and the student or industry weightings.

The first parameter, SCHs, equates to the scheduled hours submitted by RTOs to Skills Victoria. These represent the structured training and assessment time for an average student to demonstrate competence. The choice of how to structure training and assessment as described by the qualification requirements is largely left to RTOs and their trainers and assessors, which may include classroom delivery, workplace delivery, on-line engagement, attendance at excursions, and distance delivery.

Funding for this parameter is based on the scheduled hours a provider allocates for each student undertaking modules or units of competency of a particular course (see Box 6.1). In most cases, the scheduled hours allocated align with the ‘nominal hours’ specified in the purchasing guides developed by Skills Victoria. These guides list all of the units of competency which may be included in a qualification and the suggested time it should take, or nominal hours, for each unit. While the provider is able to schedule as many hours for a module or unit of competency as they wish, there is an upper limit on the total number of hours which are funded under a government subsidised place at the qualification level.

76 www.trainingsupport.skills.vic.gov.au. The purchasing guides are derived from training packages developed by national Industry Skills Councils and endorsed by the National Quality Council.
**Box 6.1 What is a Student Contact Hour (SCH)?**

Most reporting of SCH is based on nominal hours. Nominal hours are the anticipated hours of supervised learning or training deemed necessary to adequately present the educational material associated with the delivery of a training program. Nominal hours are described for modules or units of competency that are part of an accredited course.

RTOs can assign the SCH to a module or unit of competency within a range. SCH for an individual enrolment may be altered to reflect the RTO’s assessment of a student’s learning needs. The assigned SCH often match the nominal hours, but can differ between students enrolled in the same module at the same RTO. For funding purposes, the hours assigned to a module or unit of competency are paid evenly across the months between the start date and end date of the module or unit of competency.

A large scope for variation exists in the application of the model within individual enrolments at the qualification level. SCHs are calculated at module or unit of competency level, and enrolments in a common qualification may include various combinations of modules or units of competency. There is a cap on the hours that can be assigned to a module or unit of competency for funding, and there is also a limit on total hours funded at the enrolment at the qualification level.

The second parameter is the base hourly funding rate. RTOs receive an hourly funding rate which varies with the type of course provided. As shown in Table 6.1, RTOs generally receive a lower funding rate for higher level courses. However, this is balanced by RTOs being able to charge a higher hourly fee per SCH for higher level courses (see Chapter 5).

The schedule of base hourly funding rates is also different between TAFE institutes and non-TAFEs, the latter of which includes any private RTOs and ACFE providers who receive contestable funding. TAFE institutes receive higher funding rates than non-TAFEs in recognition of the ‘full range of training services’ TAFEs provide.

The student or industry weightings of the WTH, are the third parameter of the funding model prescribed by Skills Victoria. The weightings were developed for the former Office of Training and Tertiary Education in 2003 to 2005, based on average cost data obtained from a survey of 17 Victorian TAFEs and 15 industry groups. This information was then refined through data analysis, further consultation, and exercising professional judgement. The findings of the survey and the methodology used to construct the weightings are no longer available. The Commission therefore does not know whether the weightings adequately reflect the different costs of training course provision.

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77 *Securing Jobs for Your Future — Skills for Victoria*, p. 22.
Table 6.1  **Base hourly funding rates**  
as at 1 January 2011

<table>
<thead>
<tr>
<th>Funding structure</th>
<th>Award</th>
<th>TAFE (per hour)</th>
<th>Non-TAFE (per hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation skills</td>
<td>Foundation Level and Pre-Accredited Courses</td>
<td>$9.75</td>
<td>$7.99</td>
</tr>
<tr>
<td>Skills creation</td>
<td>Certificate I and II</td>
<td>$9.32</td>
<td>$7.70</td>
</tr>
<tr>
<td>Skills building</td>
<td>Certificate III and IV</td>
<td>$8.99</td>
<td>$7.70</td>
</tr>
<tr>
<td>Skills deepening</td>
<td>Diploma and Advanced Diploma</td>
<td>$7.04</td>
<td>$7.04</td>
</tr>
<tr>
<td>Apprenticeships</td>
<td>Various</td>
<td>$9.67</td>
<td>$7.91</td>
</tr>
<tr>
<td>Traineeships</td>
<td>Various</td>
<td>$8.99</td>
<td>$7.70</td>
</tr>
</tbody>
</table>

Source: Skills Victoria.

The amount of funding RTOs receive for students undertaking their training courses depends on the industry or student weightings assigned. Industry weightings vary according to the industry sector that a training course is associated with. These weightings can range from 0.8 to 1.3. However, student weightings are assigned in place of industry weightings for some students who are identified by particular characteristics. Indigenous or corrections students receive a weighting of 1.5, while a weighting of 1.3 applies to students aged 15 to 19 (youth) who do not have a Year 12 or equivalent qualification (see Appendix E for full list of industry or student weightings). The weightings are not cumulative, with the highest rating applied to a student for which more than one of the criteria are relevant.

As illustrated in Figure 6.1, the three funding parameters -SCH, base hourly funding rates and student or industry weightings -combine to determine the amount of funding RTOs receive for a given student undertaking a particular course. An example of a funding calculation is provided in Box 6.2.
## Simplified illustration of funding formula

**as at 1 January 2011**

<table>
<thead>
<tr>
<th>Industry Weighting</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive, Plumbing Metals &amp; Engineering</td>
<td>1.3</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>1.2</td>
</tr>
<tr>
<td>Cookery, Manufacturing</td>
<td>1.1</td>
</tr>
<tr>
<td>Primary &amp; Forest, Racing</td>
<td>1.0</td>
</tr>
<tr>
<td>Public Order &amp; Safety</td>
<td>0.9</td>
</tr>
<tr>
<td>Health, Recreation</td>
<td>0.8</td>
</tr>
<tr>
<td>Electrical &amp; Electronics</td>
<td>0.8</td>
</tr>
<tr>
<td>Printing, Floristry</td>
<td>0.8</td>
</tr>
<tr>
<td>Arts &amp; Design</td>
<td>0.7</td>
</tr>
<tr>
<td>Hospitality, Tourism</td>
<td>0.7</td>
</tr>
<tr>
<td>Personal Services</td>
<td>0.7</td>
</tr>
<tr>
<td>Adult Community Education</td>
<td>0.6</td>
</tr>
<tr>
<td>Communications, IT</td>
<td>0.6</td>
</tr>
<tr>
<td>Business Services</td>
<td>0.6</td>
</tr>
<tr>
<td>Community Services</td>
<td>0.6</td>
</tr>
<tr>
<td>First Aid &amp; OHS</td>
<td>0.6</td>
</tr>
<tr>
<td>Wholesale &amp; Retail</td>
<td>0.6</td>
</tr>
<tr>
<td>Corrections</td>
<td>1.5</td>
</tr>
<tr>
<td>Under 20 (without VCE)</td>
<td>1.3</td>
</tr>
</tbody>
</table>

### Funding Rates

<table>
<thead>
<tr>
<th>Funding Rates</th>
<th>TAFE</th>
<th>Non-TAFE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation Skills (defined by Skills Vic)</td>
<td>$9.75</td>
<td>$7.99</td>
</tr>
<tr>
<td>Skills Creation (Cert I &amp; II)</td>
<td>$9.32</td>
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<td>Apprenticeships (Various)</td>
<td>$9.67</td>
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</tr>
<tr>
<td>Traineeships (Various)</td>
<td>$8.99</td>
<td>$7.70</td>
</tr>
</tbody>
</table>

### Student Weighting

- Indigenous: 1.5
- Corrections: 1.5
- Under 20 (without VCE): 1.3

### Industry Weighting

- Business Services
- Community Services
- First Aid & OHS
- Wholesale & Retail
- Adult Community Education
- Communications, IT
- Arts & Design
- Hospitality, Tourism
- Personal Services
- Health, Recreation
- Electrical & Electronics
- Printing, Floristry
- Building & Construction
- Cookery, Manufacturing
- Primary & Forest, Racing
- Public Order & Safety
- Automotive, Plumbing
- Metals & Engineering

**Note:** See Appendix E for full list of industry and student weightings.

Source: Skills Victoria.
Example of funding calculation

An Adult Community Education (ACE) organisation which has a student under 20 years of age without VCE, enrolled in a Certificate IV course in hospitality, with 200 contact hours, would receive funding based on the following parameters:

- **Base hourly funding rate** = $7.70, the non-TAFE rate
- **Student weighting** = 1.3, for under 20 without VCE (otherwise the industry weighting of 1.0 for this course would apply)
- **SCH** = 200

Therefore, in providing training to this student the RTO would receive:

Government Funding = Base hour funding rate * Student weighting * SCH

= $7.70 * 1.3 * 200

= $ 2,002

The RTO in this example would also receive remuneration in the form of tuition fees (see table 5.1 for maximum hourly fees).

Aside from contestable funding determined by the SCH model, TAFEs also receive ‘full service provider’ (or ‘per institute’) funding for infrastructure and other fixed costs. This funding is allocated by Skills Victoria, providing TAFEs with both a standard funding base and an amount which is allocated according to their respective share of VET delivery. It is intended to largely cover TAFEs fixed costs, while the ‘profile’ (or ‘per student’) funding of the SCH model covers RTOs’ mainly variable costs of delivering training. Given VET course delivery is the principal focus of the Commission’s inquiry, other government funding sources, such as full service provider funding, are largely excluded from this analysis. However, it may be relevant in terms of assessing the adequacy of SCH funding in relation to other income which RTOs receive from government, fees and commercial operations.

### 6.1.1 Output-based funding

The SCH funding model is an output-based model. An RTO receives a funding amount which is dependent on its ‘output’ of training hours delivered to students. Should the number of training hours an RTO delivers change, the corresponding amount of funding they receive will also change.

The SCH funding model contrasts with approaches used previously in Victoria and presently in other jurisdictions, in which funding is allocated according to an input-based approach. For example, TAFE institutes in Victoria were previously

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78 For 2012, TAFEs will be allocated $400,000 in base funding and receive a percentage share according to their individual VET delivery in 2010.
funded according to the ‘input’ of a set number of training places and courses as specified by Skills Victoria.

Like an output-based model, there was some scope for funding to change according to training delivered, as Skills Victoria would base the amount of funding it allocated according to a TAFE institutes’ previous year’s enrolments. At the end of a calendar year, it would also reconcile funding with any training which a TAFE had not delivered. Nevertheless, the input of training places was specified by Skills Victoria under this approach whereas, under the current model, the output of training hours are essentially determined by student demand.

### 6.1.2 Funding in arrears

Included within the standard services agreement for contestable funding is a clause which specifies that RTOs receive payments monthly, after the scheduled education and training services (including assessment) for a given month have been delivered to students. Hence, RTOs receive ‘funding in arrears’. For example, for training scheduled in one month of a given year, RTOs should receive payment the month following its delivery to students. As part of the payment process, RTOs are required to submit training activity reports to Skills Victoria.

Prior to implementation of the VTG implementation in 2009, funding was allocated to TAFEs in advance of the training they delivered. Over a calendar year, they were contracted to deliver a total value of training based on a specified number of weight training hours, for which they received up front, fortnightly pro rata payments. At the end of the calendar year, the amount of training actually delivered was reconciled with the total amount paid, with TAFE institutes having to repay for any training which had not been delivered. No extra funding was granted for any training provided in addition to that agreed in the contract. ACFE providers were also paid in advance, by the ACFE board, on a quarterly basis.

In contrast, private RTOs (non-ACFE) contracted by Skills Victoria were paid monthly in arrears. These RTOs received payments based on the provision of monthly training activity reports.

### 6.1.3 Higher need learners

Higher need learners are not explicitly defined under the VET fee and funding framework in Victoria or, for that matter, in other Australian jurisdictions. Nevertheless, the terms of reference for this review provides some examples, including equity groups, people with low socio-economic status, and people with poor prior records of education achievement. Such people are often termed as disadvantaged or ‘hard to reach’ and may be characterised by their indigenous background; cultural and linguistic background; poor literacy and numeracy skills; poor educational attainment; low socio-economic status; and/or disability. 

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Given the lack of a definition, this list of the characteristic of higher need learners is neither exhaustive nor mutually exclusive. Some characteristics may not be relevant in terms of the Commission’s review, as they do not directly relate to funding. In this context, higher need learners are considered in terms of the additional cost they may present training providers (which the funding model may attempt to recompense). Therefore, a particular student type who may be considered disadvantaged or ‘hard to reach’ in other VET contexts may not be considered higher need learners here, if RTOs do not incur an additional cost in providing services to them.

The additional costs associated with teaching higher need learners can include:
- providing additional training to teaching staff;
- providing additional support/pastoral care staff;
- providing additional facilities;
- reducing class size numbers;
- increasing the number of classes and contact hours; and
- changing methods of teaching delivery.

Although the current funding model does not explicitly identify higher need learners, it does allocate higher weightings (as part of the WTH model) for three groups of students. As noted above, Indigenous students and corrections students receive a rating of 1.5, while students aged 15 to 19 (youth) who do not have a Year 12 or equivalent qualification receive a rating of 1.3.

### 6.1.4 Thin markets

A market of few offers to buy or sell is generally termed a ‘thin market’. While typically considered in financial markets, in the context of VET, thin markets refer to those in which there is either few learners (low demand) or few providers (low supply).

Thin markets in VET may be characterised by the following:
- Occupational area — few RTOs or people seeking training in a particular occupation. This could be either traditional occupations which have declined (e.g. blacksmithing) or emerging occupations for which training is yet to be adequately provided.
- Industry — few seeking or providing training in a particular industry. This may occur if a particular industry is not geographically located in a particular area. It could also be due to low levels of labour turnover within an industry, reducing the demand for new workers to train.

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• Geography — few providing or seeking training in a particular geographic area or region. This can occur in areas where populations are sparse or there are vast distances between towns. It may not be as cost effective for providers to train a few number of people who may want to learn in a remote area as it is in a metropolitan area.81

There is currently no formal procedure for identifying and responding to problems associated with thin markets in VET in Victoria. Instead, concerns about thin markets have been dealt with on a case by case basis, with training providers or Industry Training Advisory Bodies (ITABs) raising issues and negotiating with government for the delivery of specific training in these markets.

6.2 Assessment of the student contact hour funding model

Given that full implementation of the VET funding reforms has been so recent, it is too early to provide a complete assessment of the SCH model in its current form. Nevertheless, some preliminary conclusions can be drawn from patterns which have emerged so far. Stakeholders have also noted some issues of particular concern in consultation with the Commission and in their submissions to this inquiry.

6.2.1 Model parameters

Overall, a general assessment of the current funding arrangements should be based on its objectives. In this regard, the SCH model would appear to be largely designed to contribute to the core objectives of the Victorian training system outlined in Chapter 3. The model aims to allocate funding on a competitive, efficient and student-centred basis.

Although the funding arrangements do not specifically identify higher need learners, it may be inferred the inclusion of specific student weightings is an attempt to cater for these types of students.

While the SCH model largely conforms to the core Victorian training objectives in terms of its design, it is less clear how well it meets these objectives in practice. Evidence from stakeholders is mixed, with a broad range of views expressed in consultations and submissions as to the efficacy of various parameters of the model. Nevertheless, most RTOs appear to generally accept the model as a means for distributing VET funding, even if they believe it could be improved. As Swinburne University of Technology TAFE notes:

> The student contact hour model is one that the VET sector is used to applying and working with. It is a model which suits the training package and competency based environment. The Victorian VET sector has gone through enough change recently without a change to the fundamental model of funding.

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Nevertheless, some stakeholders have less favourable views about the SCH model, arguing that it has a negative impact on cash flows and creates uncertainty.

While stakeholder consultation and submissions have provided much anecdotal evidence in relation to the SCH model, there is a lack of hard data on which to base conclusions. This is, in part, due to the relatively short period of time since the current funding model was fully established. There is no also no cost data or documentation available that relates to the funding mechanisms implemented prior to the current model. As a consequence, it is not known whether the mechanisms of the current SCH model are cost reflective for all types of providers. It would appear to be unlikely, as ACFE providers and private RTOs were not included in the cost data used to derive the current model parameters.

Current market signals also suggest some disparity between the costs incurred by providers and the funding that they receive. For example, the Commission has observed that some providers are offering inducements in the form of free gifts in order to encourage students to enrol in certain courses (as discussed in Chapter 5, providers are prevented from lowering fees below specified minimums.) This behaviour would suggest that providers are receiving funding that exceeds the cost of delivery.

Stakeholders appear to generally accept the use of weightings in distinguishing between different courses and students. However, they do not believe the weightings are up to date or reflective of actual costs, which have changed in the light of increasing staffing, materials and technology costs.

The current weightings were established in 2005, based only on TAFE data. There may also be some discrepancies in the designation of the broad industry sector weightings assigned to individual courses. Courses that are similar in the modules they contain, and in their respective costs of delivery, may receive significantly different funding amounts, should they happen to be assigned to different industry sector weightings. The submission to the review from YNH Services provided an example:

Funding for Aged Care is weighted at 1.1 which equates to a SCH rate of $8.47. The weighting for Home and Community Care is 0.8 which returns $6.16 per SCH. These two courses that we offer have 11 common units. It seems anomalous that the funding rate for the units differs according to which course the student is enrolled in although the costs for delivery are exactly the same.

Without actual cost data, the Commission is not able to draw any firm conclusions as to the suitability or otherwise of the current sector and student weightings.

In the absence of data which establishes the cost basis of the current funding model and possible alternatives, the Commission recommends the existing funding mechanisms be retained. However, the Commission believes that the base funding rates and weightings need to be updated as soon as is practicable in order to incorporate updated cost data and market information. This could be gathered through a survey of TAFE institutes, ACFE providers and private for-profit RTOs, as part of a cost and pricing review.
**Recommendation 6.1**

The Government should retain the existing mechanisms of Student Contact Hour, Weighted Training Hour and base hourly funding rates to allocate funding to providers under the Victorian Training Guarantee.

**Recommendation 6.2**

A cost and pricing review (including a survey of TAFE institutes, ACFE providers and for private for-profit RTOs) be undertaken as soon as practicable to update the parameters used in the current Student Contact Hour Model (including base funding rates and Weighted Training Hour funding models).

To ensure the parameters of the funding mechanism and in turn the overall level of government subsidy remain relatively cost reflective and attuned to prevailing conditions, the Commission recommends updates be conducted every two years. In Chapter 7, the Commission introduces the concept of an independent ‘market oversight body’ that could take on responsibility for price setting within the VET sector and which could provide advice to Government on appropriate adjustments to funding (subsidy) levels.

### 6.2.2 Indexation of base hourly funding rates

As noted by a number of stakeholders, no allowance has been made for inflation under the current or previous funding models. This is likely to have placed pressure on RTOs to account for changes in their costs, such as wages. As noted by Community College Gippsland:

*The base hourly funding rates need to reflect the increasing cost of delivery in courses, in particular the increasing cost of wages. Student contact hour rates have not risen in line with CPI adjustments and as a result we are paying our staff more in wages and receiving an hourly rate that has not moved in value for years.*

If inflation is not accounted for in the funding model, the rising cost of providing services could mean that, over time, RTOs have to reduce the range and number of courses they offer. It may also mean fewer RTOs are able to offer training. In order to avoid such outcomes, the Commission’s view is these rising costs should be taken into account in the SCH model by linking it to an appropriate published price index, such as the Consumer Price Index or Wage Price Index. The model should therefore include some form of ‘indexation’. However, this should not occur until after the last schedule of fees and funding rates is implemented in 2012.

Of the three parameters of the SCH model, base hourly funding rates are the most appropriate for indexation to be applied to. In implementing this it will be necessary to consider the most appropriate published index which should be applied. A definitive conclusion on this cannot be reached until cost data and market information is obtained as part of the recommended cost and pricing review. This information would then be matched with movements to relevant price indexes in order to determine which is most applicable.
A further consideration is whether the indexation of base hourly funding rates should account for productivity gains within the industry. In many industries in which prices are regulated, it is common when applying indexation to include a variable which provides an incentive for industry participants to pursue productivity improvements. This ‘X factor’ of estimated productivity is subtracted from the change in published index. Hence, in receiving less than the changes in their costs (as measured by the published index), industry participants have to make up the difference by improving their productivity by at least the value of the X factor.\footnote{Using CPI as the designated index for an industry as an example, where CPI = 3% and X = 1%, an industry participant will need to improve their productivity by at least 1%, if they wish to account for the 3% increase in their costs.} As before, until cost data and market information is obtained in the recommended cost and pricing review, it is not possible to ascertain what the value of such an X factor might be.

### Recommendation 6.3

Base hourly funding rates should be indexed after the final 2012 funding schedule has been implemented, with an appropriate indexation factor (including productivity adjustment) to be determined following further review of costs and market developments.

### 6.2.3 Output-based vs outcomes-based funding

In assessing the SCH model, the Commission has considered whether outputs are the most appropriate basis of funding, or whether an approach based on outcomes may be more compatible with the demand-driven, contestable funding model that is now in place in Victoria.

Under an outcomes-based approach, funding is allocated to training providers according to specified performance measures. The ‘outcomes’ are usually focussed on students completing courses or qualifications. Outcome-based approaches would therefore appear to be more conducive than output approaches, in achieving the Victorian training system objectives that are concerned with the unqualified, already qualified and key cohorts gaining qualifications.

Both outputs and outcomes approaches link funding to the provision of training services to students, although each provides different incentives to RTOs in relation to students. With an outcomes approach, RTOs have a clear incentive to encourage students to undertake training to the point of course and qualification completion whereas, under the current output based approach, this incentive does not necessarily extend to completion — as long as students continue to receive training services, RTOs receive funding regardless.
The lack of incentive to complete under an outputs approach may be compounded by RTOs who ‘nest’ lower level courses within higher level qualifications. Students, who enrol to receive funding for a particular course within a nested higher qualification, may drop-out before the remaining courses of the qualification have been completed.

Equally under an outcomes based approach providers could be hindered in their ability to achieve completion outcomes because of student behaviour. Students may legitimately wish to only complete particular course modules within a qualification. In part, this may be driven by some employers who want their employees to only complete course modules (or obtain skill sets) that relate directly to their actual job roles.

A number of submissions to the review raised concerns with outcome-based approaches, arguing the incentives could lead to perverse or unintended consequences. For example, Association of Neighbourhood Houses and Learning Centres (ANHLC) both contend that a funding approach based on successful completions may encourage providers to grant qualifications to students who are not actually competent. Other submissions claim that, with such funding approaches, RTOs could have an incentive to be more selective in their enrolments and not offer places to students who are traditionally at high risk of non-completion. As the Victorian TAFE Association noted:

> ... such an approach may lead to perverse outcomes including screening of students on the basis of likely success (completion) and negative impact on the quality of training.

In summary, the current outputs-based approach provides RTOs with incentives for students to undertake training, but this does not necessarily extend to encouraging the completion of courses or qualifications. While outcomes-based approaches may appear to be better suited to encouraging completions, like output approaches, they are subject to some students who may have a legitimate preference to partially complete a course or qualification. Such approaches may also encourage some RTOs to be selective in their enrolments or provide qualifications to students who are not competent. Therefore, in the absence of data on how the potential incentives and perverse consequences are reflected in the funding approaches, it is the Commission’s view outputs should continue to form the basis of the VET funding model.

**Recommendation 6.4**

The base funding model should continue to be based on outputs (i.e. the Student Contact Hour).
6.2.4 Funding in arrears

Many stakeholders have indicated dissatisfaction with the change in timeframe for receiving payments, which is now after the scheduled delivery of training services to students. Some RTOs claim to have experienced cash flow problems under this new system of funding in arrears. Another issue raised was the time delay sometimes experienced in receiving funding payments. According to ANHLC:

With all accredited training now paid in arrears, ACE providers are exposed to cash flow challenges, particularly as wages comprise a large component of total expenditure and must be paid on time. The problem has also been exacerbated by delays to payments from Skills Victoria, due to either system issues at their end or problems with data submitted by the provider. Providers need to hold in reserve the equivalent of up to three months costs as some providers have experienced commensurate delays in payments.

In principle, a funding in arrears payment system should not be of concern in itself. It is common practice in many industries for businesses to receive payments after the delivery of goods and services. Nevertheless, it is also typical in some instances for businesses to receive partial payments in advance, usually to cover any up-front costs which might be incurred in providing the goods and services to their customers. Therefore, RTOs should be able to operate while awaiting payments, so long as they are able to cover their up-front costs in the interim. These are usually on-going costs for which RTOs require a regular source of funds or cash flow.

The cash flow problems that RTOs have identified to the Commission may in part have arisen with the transition from the previous funding in advance to the current funding in arrears. It is possible these issues may be resolved as RTOs make the necessary adjustments from one payments system to another. However, some of the cash flow difficulties experienced may also be due to underlying gaps in the cycle between when RTOs have to pay their on-going costs and when they are recompensed with funding. Given the absence of cost data, the Commission is not able to ascertain to what extent this might be the case.

It is recommended that the cost data and market information gathered as part of the cost and pricing review (Recommendation 6.2) be used to evaluate RTOs cost structures and whether they could or should be better matched to the timing of funding allocations: in arrears, in advance, or some combination of the two. Such an assessment could be based on the proportion of RTO fixed and variable costs. Basic economic theory tells us that a business will shut down when it can no longer cover its variable costs. Therefore, RTOs with a high proportion of variable costs relative to their fixed costs are more likely to decide to close, should they not receive enough on-going cash flow to cover their variable costs. Funding allocated in advance should assist RTOs in avoiding facing such cost pressures. In the opposite case, if RTOs are found to have a relatively low proportion of variable costs in relation to fixed costs, then funding in arrears should be adequate.

In the Commission’s view, the current system of funding in arrears should remain until the necessary cost data are available to evaluate RTO cost structures.
The actual timeliness of payments themselves is also a concern. As noted above, some of the funding in arrears issues have stemmed from RTOs encountering delays in receiving payments. While these delays can in some instances be attributed to the implementation of a new funding system, in other cases it appears to be due to administrative errors on the part of RTOs. Such errors may reflect RTOs’ lack of understanding with the new arrangements. The Commission therefore recommends Skills Victoria review its administrative processes to identify any aspects of the funding system in which RTOs are commonly failing to adhere to correctly. Skills Victoria should also provide RTOs with more administrative guidance and training to ensure they are able to avoid such errors and thus receive payments on time.

**Recommendation 6.5**
The cost and pricing review (Recommendation 6.2) should include an assessment of the cost structures faced by training providers to assess whether funding payments could or should be better aligned to the costs incurred.

**Recommendation 6.6**
The current system of funding in arrears should be retained, while Skills Victoria provides training providers with more administrative guidance in order to address their concerns in relation to receiving payments on time.

### 6.3 Higher need learners and thin markets

The effectiveness of the current funding model in dealing with higher need learners and thin markets was raised by a number of stakeholders.

#### 6.3.1 Higher need learners

The additional costs that RTOs incur in teaching higher need learners have been outlined in many of the submissions to this review and in the Commission’s stakeholder consultations. For instance, ACPET and the Brotherhood of St Laurence both identified the smaller class sizes and additional staff, support and training resources which RTOs require in training these students, while the Holden Street Neighbourhood House provided an example of the type of additional costs associated with training disabled students:

> There are additional costs that we incur as a training provider when we deliver training to higher-need learners. One example is the need for Auslan interpreters. Currently costing more than $75 per hour, Vicdeaf recommends that two interpreters are used to alternate every 15 minutes. More staff time is required to support and follow up with students and their support workers, employment services, recruiting and supporting suitable volunteers.
Stakeholders claim the current model is not adequate in providing them sufficient funding to meet the additional costs of higher need learners. This could be partly due to the type of training programs which these students typically undertake. As the ACE Disability Network noted in relation to disabled students:

The weighted training hour model impacts on the training of people with disability. Many of the programs traditionally delivered for people with disability in ACE, in particular, Foundation Studies are weighted at less than 1.0, thereby reducing the Student Contact Hour rate (i.e. $0.9 \times 7.99 = 7.19$).

The Commission notes that the current funding model does provide some scope to deal with higher need learners. Providers can schedule additional hours based on student need and are funded for those hours.

It is not known to what extent the additional costs associated with higher need learners are accounted for under the present system. These costs could have been included in the average cost data obtained in 2003. If so, then it may have been subsequently reflected in the existing weightings for Indigenous, corrections and youth. However, it is not clear what impact the costs associated with other types of higher need learners may have had on the industry weightings of the model.

In the Commission’s view, cost data should be used to quantify the extent of RTOs additional costs in training higher need learners. This would include an evaluation of the amount of money that is spent and the number of RTOs with higher need learners. The relevant cost data and market information should be collected as part of the recommended cost and pricing review (Recommendation 6.2).

**Recommendation 6.7**

The cost and pricing review (Recommendation 6.2) should attempt to identify the spread of costs that are associated with teaching students of different capabilities (including higher needs or disengaged learners).

The additional costs identified could determine the level and type of changes to the funding model, or intervention, which might be required to account for higher need learners. If the information gathered indicates additional costs are relatively low and only confined to particular student cohorts, this may require relatively minor changes to the funding model. For example, the existing student weightings could either be re-weighted or changed to include additional student cohorts. However, more intervention might be required if the data reveals the additional costs of training higher-need learners to be relatively high or widespread amongst RTOs. For instance, a specific weighting might be developed for higher-need learners.

The development of sound funding measures that account for higher need learners is contingent on correctly identifying and defining them. As noted previously, this may be difficult, given there does not appear to be a consistent, accepted definition of these students. Moreover, while RTOs have provided many examples of
students they believe to be higher needs, it could prove difficult or costly for them to formally identify these students for inclusion in the funding model.

### 6.3.2 Thin markets

Many stakeholders have highlighted difficulties associated with thin markets in the Victorian VET sector. These typically concern the financial viability of courses in specific industries or geographic regions, with RTOs often struggling to offer training, particularly in rural locations in which potential student populations are dispersed. Some RTOs may also feel bound by community expectations to continue delivering training in thin markets, irrespective of commercial considerations. In its submission, the Victorian TAFE Association outlined the different circumstances in which RTOs may encounter thin markets:

> In the Victorian VET context, thin markets may occur because of low population density (regional and rural areas), small numbers of employers in the industry, workforce serviced by the training is relatively small and/or industry is dispersed. Some industry sub-sectors are very small and highly specialised (fisheries, boat building, engine reconditioning, AUSLAN, training for the golfing and equine industries).

In response to the challenges posed by thin markets, some RTOs have adapted their methods of training delivery. For example, some have utilised workplace or online training to teach students in remote locations, which otherwise would not be financially viable under classroom based delivery. However, such innovations may not always be suitable for particular types of courses or students. According to the Otway Community College submission:

> Many Learn Local providers are located in rural and regional areas where thin markets are often a problem. Some courses can be delivered through distance learning and the like presuming that there is an effective internet service. However foundation skills and entry level training are best delivered through direct engagement between the learner and the provider.

The Victorian TAFE Association argued that:

> There is a public expectation that training will be available in thin markets. In a contestable market for government VET funding as we currently face, due to the volatility of these thin markets suppliers are not clamouring to enter the market. It has fallen to public TAFE providers to deliver these courses even where funding mechanisms do not meet the staffing, infrastructure, materials and overhead costs.

It is too early to form a view about how the market will respond to dealing with thin markets. It is likely that niche providers may develop in certain industries or geographic areas or that providers will adapt the way that the courses are delivered in response to student demands.
Whether a market is thin or not will change over time as providers make decisions on which courses they will provide and students decide on which courses they will enrol in. Geographic thin markets are likely to be more stable than thin markets related to specific occupations or industries. For this reason, it would be difficult to build a separate thin market weighting into the current funding model.

In the Commission’s view, thin markets are best dealt with outside the funding model with incentive payments to students and providers. The Government could use incentive payments to encourage students to undertake specific types of training and community service obligation (CSO) payments could be given to providers for providing certain types of courses or for delivering courses in particular geographic areas (see Chapter 7).

The Government could also undertake a facilitation role in ‘matching’ providers with students in remote areas that want to undertake a particular course.

**Recommendation 6.8**
The issue of thin markets should be addressed outside the fee and funding model — for example, by using a system of incentive payments (see Recommendation 7.5).

### 6.4 The role of the public providers

As discussed in Section 6.1, TAFE institutes receive a higher base funding rate than other providers. In submissions to the review, TAFEs generally justified this difference on the basis that they incur higher costs in their role as a public provider. Some of these relate to higher overhead costs because of the governance, financial and industrial relations arrangements placed on them as public sector organisations. Other costs relate to additional student support and services. For example, Sunraysia Institute of TAFE listed the type of services which have been expected:

*The full service provision at TAFE Institutes includes Student Services such as counselling, learning support, housing and welfare and other support services for people re-entering study after prolonged periods out of the workforce. TAFE Institutes also have libraries that include online resources to support students.*

*Additional services include curriculum design and innovation services, residential accommodation, Koorie department, international unit, farms, restaurants and other functional business environments, business development and workforce planning services etc.*

Non-TAFEs argue that their costs are similar to TAFEs for many of the VET services they provide. Therefore, they believe the same base funding rates should apply to both TAFEs and non-TAFEs. According to the Upper Yarra Community House:
The differentiation between TAFE and non-TAFE rates, particularly for Foundation and Skills Creation levels does not recognise that the cost of delivering these kinds of programs is as expensive for Adult Community Education providers as it is for TAFE Institutes.

The Commission did not undertake a review of the costs incurred by the various providers in delivering VET, however it has made a number of observations:

- the role of public providers has not been clearly articulated in terms of the specific outcomes that public providers are expected to deliver;
- non-public providers appear to incur some of the same costs identified by TAFE institutes associated with student support; and
- the different base rates affect the ability of providers to compete with each other under a contestable model and could raise concerns related to competitive neutrality.

If the policy aim of the funding model is for full contestability between RTOs, the Commission contends there should be no difference in the base funding which is allocated to each training provider type.

The Commission is therefore recommending that the same base rates apply to all types of RTOs. The cost data provided as part of the cost and pricing review in Recommendation 6.2 should be used to realign the different base funding levels between TAFE institutes and non-TAFEs to a single rate for each course level. As TAFE institutes may need some time to prepare for a (likely) lower base rate in managing their cash flows and adjusting their financial plans, it is recommended this transition be phased in over the next four years as part of their service agreements.

**Recommendation 6.9**

The gap in base rate funding rates between TAFE institutes and non-TAFE providers should be progressively closed over the next four-year funding agreement.

In implementing recommendation 6.9, the Government needs to clearly define its expectations of public providers (including TAFEs, the Council of Adult Education (CAE) and the Adult Multicultural Education Service (AMES)). In the Commission’s view, this should be set out in a government statement of intent, which outlines the role and obligations of publicly-owned training providers. This should allow the Government’s expectations of its training providers to be transparent.

Where the Government requires these providers to carry activities which the provider would not elect to do on a commercial basis, or which would only be provided commercially at higher prices, it should consider funding those activities through separate CSO funding.
In conjunction with identifying the CSOs of public service providers, the allocation of their funding should be considered further. If CSOs are to be undertaken exclusively by public service providers, the Commission recommends they be funded directly (i.e. outside the SCH funding model). Alternatively, CSOs could be provided on a contestable basis, with any RTO, public or private, tendering to receive funding to provide these services.

The Commission expects this will necessitate a broader review of the TAFE institutes’ funding and corporate arrangements, and a clearer articulation of the role of publicly-owned training providers.

In defining the role of public providers and the CSOs they deliver, the Government will also need to consider whether some of those CSOs are being delivered by non-public providers. Especially if those CSOs relate to increased participation of particular student cohorts. For example, the Adult Community and Further Education (ACFE) Board takes a broad view as to the types of institutes which have a public service provision role:

The ACFE Board considers that the ACE sector, in delivering to a broad cohort of learners in a range of high need industry areas (in particular, literacy and numeracy, and aged care and childcare), and by providing an efficient market mechanism for responding to demand, also provides a range of public good outcomes.

Defining the role of publicly owned training providers will al provide an opportunity to consider whether they are structured in line with moves towards a more market-based funding model. The Commission therefore recommends the corporate structures of TAFE institutes, CAE and AMES be reviewed.

**Recommendation 6.10**

A review be undertaken of the funding and corporate arrangements of publicly owned training providers (including TAFE institutes, CAE and AMES). This review should: (i) provide a clearer articulation of the role of publicly-owned training providers; (ii) consider how funding and corporate arrangements might be changed to promote greater transparency and accountability of funds; and (iii) consider whether direct funding should be provided to fund any community service obligations met by public providers.
Key points

- Looking longer term, the Commission feels that prices could be allowed to play a stronger signalling role within a more market-based competitive VET system. This will be supported in the short term by the removal of the current system of caps and floors on tuition fees, and updating the parameters used in the existing funding model (as recommended in Chapters 5 and 6).

- A move to a more competitive, market-based pricing model will require conditions such as demonstrable competition between providers, ‘deep’ markets, and no barriers to entry; quality-assured courses and course outcomes; high quality and readily accessible information; and sophisticated, price-aware customers.

- The Commission is advocating roles for an independent body to oversee the VET market and advise on pricing and competition issues. It would monitor the market and ‘declare’ where conditions are competitive enough to support free market pricing. In the absence of sufficient competition, the independent body would determine ‘benchmark prices’ for VET courses.

- The Commission feels it is important that the market oversight body be independent of government. However, the Government would still have responsibility for determining the level of the subsidies given for VET courses since this is a policy decision.

- The effective operation of a competitive, market-based VET system is dependent on timely and good quality information. In particular, the Commission feels there is more that could be done to improve price disclosure about VET courses.

- The quality of training has emerged as a key issue during consultations. The Commission is concerned that the current regulatory framework for registering providers and approving courses may be less effective than other options for ensuring the quality of the ‘output’ from the VET system.

- Appropriate systems for student protection (through dispute resolution processes) also warrant further review.

- Demand-side interventions that are designed to promote participation in the VET system are best dealt with by mechanisms outside the fee and funding model, such as a system of incentive payments.

7.1 Introduction

Most of the analysis and recommendations presented in previous chapters of this report have focussed on improvements to the current vocational education and
training (VET) fee and funding model. This chapter takes a somewhat longer term view and discusses how the model might evolve and adapt over time, embracing the benefits of greater competition in the system. It makes recommendations about how prices might be set under a more competitive, market-based system, and on ways to support the transition to the more evolved model.

Because moving to a more competitive model may take some time, the chapter concludes with a suggested transition path that outlines the potential sequencing of reforms to the VET fee and funding arrangements to give rise to a more market-based approach. It should be stressed that the recommendations made in previous chapters are consistent with — and indeed will support — the move to the more competitive, market-based model outlined in this chapter.

7.2 Pricing within a contestable VET system

The VET sector in Victoria has been transformed through the establishment of the Victorian Training Guarantee (VTG) and the expansion of delivery by private registered training organisations (RTOs). Originally, these providers received no subsidy from government and so were unable to offer subsidised places to students (unless otherwise funded by industry). The VTG, by creating a ‘student entitlement’ that follows the student, has opened the provision of subsidised student places to all service providers, irrespective of their ownership structure.

This shift has taken the supply side of the model into the realms of open market provision, introducing contestability into the provision of VET courses. However, while the reforms have notionally introduced market-like features into the VET system, the new model does not yet allow for the full benefits arising from competitive markets, which are driven by prices.

The concept of ‘price’ within the contestable system is not a straightforward one. It should not be confused with the out-of-pocket cost faced by the student. Rather, the ‘price’ reflects the total remuneration required by training organisations in order to provide a particular course to a student. This price comprises the tuition fee paid by the student and the subsidy funded by the government:

\[
\text{‘Price’ = tuition fee + government subsidy}
\]

Highly competitive markets drive efficient pricing if there are no barriers to the expansion or withdrawal of services; there are no barriers to increases or decreases in prices; and all market participants are able to make well-informed decisions.

In open, competitive markets, prices play a central role in transmitting information between all participants in the market, and ensuring that resources are allocated to where they are most valued. However, under the current VET model, market signals are muted because the government sets limits on prices. For instance, a system of caps and floors is currently imposed on tuition fees, and government funding tends to be based on average or historical costs and weightings, with
policy overlays in terms of price differential to create incentives to increase provision at higher qualification levels (in keeping with one of the primary objectives of the VTG).

Despite becoming more contestable, the current approaches to pricing only allow limited competition and provider innovation to influence prices. As such, the model remains somewhat suspended between the former supply-driven model and a truly market-based model that is driven by competitive forces and price signals.

The Commission believes that, over time, market signals should be allowed to play a more powerful role within the VET system, and help drive efficiency, innovation and price (thereby reducing the current reliance on statistical methods based on historical data). The Commission recognises, however, that the conditions needed to support a more competitive VET pricing model are not yet in place, although they are likely to emerge over time as the sector matures. These conditions include:

• demonstrable competition between providers, ‘deep’ markets, and no barriers to entry;
• quality-assured courses and course outcomes;
• high quality and readily accessible information; and
• sophisticated, price-aware customers.

Low levels of competition in the VET sector can arise because of the wide range of heterogeneous VET courses, the natural monopoly characteristics of some specialised VET providers, and the prevalence of thin markets (particularly in regional/rural locations or in niche sectors where there are only a small number of students seeking VET training). As such, there may currently be insufficient competition in many areas of the VET market to drive competitive pricing.

In the absence of competitive conditions, some form of price setting and control outside of the market can be justified. Nevertheless, in the Commission’s view, modifications can be made to the existing arrangements to allow market signals to play a more powerful role. In the short term, for example, in the case of tuition fees, we are recommending the removal of the minimum hourly rate, the minimum and maximum category fees, and the annual maximum tuition fee cap (see Chapter 5). (However, we believe that the maximum hourly tuition rates should still be retained to protect students from any abuse of market power where there is a lack of competition between providers.)

The Commission is also recommending (see Chapter 6) that a review be undertaken to ensure that the various parameters used to determine funding levels to training providers are updated and more reflective of current cost conditions.

Over the medium and longer term, as the VET sector matures and the conditions for a more competitive market are progressively met, other opportunities to introduce more market-based elements into VET pricing are likely to emerge. These are considered below.
7.3 The role of an independent body to oversee the market and advise on pricing and competition issues

7.3.1 Identifying a ‘benchmark price’

Given it may take some time for the VET market to become competitive enough to support efficient pricing (and in some areas, it may never be competitive), the Commission is proposing that an independent ‘market oversight body’ be charged with overseeing the market and advising the Government about the appropriate ‘prices’ of delivering VET courses.

Under the Commission’s proposed approach, the independent body would be responsible for monitoring the developments in the VET market and identifying a ‘benchmark price’ for different courses or category of courses. This analysis would be based on cost data (sourced from providers), as well as other forms of market intelligence.

For instance, the independent body would monitor the VET market to ascertain indicators such as:

- the current ‘price’ of different courses;
- tuition fees paid by students for these courses;
- changes and trends in course enrolments; and
- the entry, exit, expansion and contraction of providers offering these courses.

Importantly, the independent body would not be responsible for determining the level of government subsidy for VET courses. The size of the subsidy is a policy decision, and should continue to be determined by the Government according to its priorities and budgetary capacity. Nevertheless, in setting the subsidy, the Government would take into account the benchmark price and other market intelligence provided by the independent body.

7.3.2 ‘Declaring’ particular courses to be competitive

Over time, the VET market will continue to mature — although competition is likely to develop and deepen at varying speeds in different parts of the market. This differentiation may occur by location or type of course. The independent market oversight body would undertake reviews to assess whether individual courses (or groups of courses) were being provided in a sufficiently competitive manner. If so, the independent body would ‘declare’ such courses to be competitive — at which point, prices for those courses would no longer need to be regulated and would instead be set by the competitive market.

‘Declaring’ a course to be provided competitively has the following implications:

- It means that there would no longer be a maximum (hourly) cap on tuition fees that providers could charge. Fees would be determined solely in the competitive market place.
- The Government could still provide a subsidy to students enrolling in that course if it determined the public benefit warranted this investment.
There will inevitably be significant areas of the VET system where there will never be sufficient competition to support competitive market prices. These are sometimes referred to as ‘thin markets’, and might exist by geographic area or by type of course. In such cases, to avoid providers abusing their market power, government will still have a role in capping maximum hourly tuition fees — as well as providing subsidies — following the identification of a benchmark price by the independent body.

7.3.3 The importance of independence

The Commission considers it important that the market oversight body be independent of government. This is because pricing (and market monitoring) is not a policy matter; it is a technical issue. As already explained, in the VET system, price reflects the remuneration required by a training organisation in order to provide a given course.

Placing this function within a government department runs the risk of confusing pricing with policy decisions; that is, technical issues with matters of policy discretion. It also creates the risk of the ‘politicisation’ of price setting, or even just perceptions thereof. It is for these reasons that the responsibility for determining prices in other areas of the economy have moved out of central government control and into the hands of independent specialist bodies (such as the Essential Services Commission, the Australian Competition and Consumer Commission, the Australian Energy Regulator and, in the case of interest rates, the Reserve Bank of Australia).

Non-pricing issues would remain with the relevant government minister and department. This would include: determining eligibility criteria, the level of subsidies, any remaining caps on tuition fees, exemptions and concessions policies and content and quality controls.

7.3.4 Monitoring competition

Victoria’s market-based model for service provision of VET depends on the integrity of competition in that market and ongoing user confidence. To this end, the body charged with overseeing the market should also be charged with monitoring and investigating anti-competitive behaviour by providers (and potentially employers). Such behaviours may include:

- predatory pricing by providers;
- collusion amongst providers (and potentially employers);
- manipulative or monopolistic behaviour by providers towards students; and
- anything else that may bring the market into disrepute and risks undermining user confidence.

7.3.4 How might market oversight work in practice

To better understand how independent market monitoring could be used to inform subsidy arrangements and other policy settings, Table 7.1 considers four scenarios
that the independent market oversight body might observe in relation to changes in course enrolments and tuition fees. It shows how changing market circumstances might be used by government to:

- adjust subsidies;
- adjust caps on tuition fees (where they still apply); and
- identify circumstances that might warrant the use of demand-side interventions, which the Commission is recommending should be independent of the VET fee and funding model (see Section 7.6).

While the analysis is necessarily stylised, it demonstrates the opportunity for a much more dynamic relationship between changing market conditions and the policy-making process.

These recommended arrangements will allow the government subsidy (reflecting the public benefit of VET) to be shifted to those courses (and categories of courses) where it is most required. Importantly, however, in keeping with the market philosophy of the Victorian VET system, these shifts are determined by the market rather than by processes whereby governments seek to influence the market.
<table>
<thead>
<tr>
<th>Tuition fees</th>
<th>Enrolments</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing</td>
<td>Increasing</td>
<td>This course is in great demand, such that demand is probably outstripping supply (at least in the short term). This course should be put ‘on watch’ to see if supply increases (via incumbent providers expanding or new entrants). The government may want to: (i) facilitate the entry of new providers; and (ii) decrease the subsidy slightly. The government should not cap tuition fees.</td>
</tr>
<tr>
<td>Increasing</td>
<td>Decreasing</td>
<td>Providers are probably exiting the market, lessening competition amongst remaining providers. This may be allowing remaining providers to extract some form of ‘rent’. If so, government should cap the tuition fee paid by students. The government should be wary of raising the subsidy as the increase may be ‘captured’ by remaining providers – that is, students would not benefit through lower tuition fees. However, the government should investigate the cause for the exit of providers. If it is due to an increase in the cost to providers of delivering this course, then it may need to increase the subsidy (and possibly the tuition fee as well). If rising costs are not the reason, then government may want to facilitate an increase in the number of providers offering that course (but not by increasing the subsidy). This might include a demand-side intervention, whereby providers are paid for every student they successful enrol/graduate in that course.</td>
</tr>
<tr>
<td>Decreasing</td>
<td>Increasing</td>
<td>This course is in great demand and providers are ‘competing hard to try and attract students. In doing so, they are bidding down the price. The strong student demand (i.e. reflecting high private benefit) suggests that there is scope for the government to reduce its subsidy for this course. The government should not cap tuition fees.</td>
</tr>
<tr>
<td>Decreasing</td>
<td>Decreasing</td>
<td>There is little student interest in this course and providers seem to be, in effect, following students out of the market. The government should not cap tuition fees as this might hasten withdrawal of providers – though it may want to increase the subsidy (potentially until it equals the ‘price’ – implying a tuition fee of zero). Declining student interest could be reflecting the decline in economic relevance of this particular skill (a ‘dying industry’), in which case there is probably little that government can do to forestall the inevitable. Alternatively, it may reflect that there are other impediments in the market meaning that students are not enrolling in this course although these skills may be sought after by industry (this is the ‘skill shortages’ problem). Such impediments might be informational, wage-related or reputational. This may suggest that a higher subsidy will not be sufficient to overcome these market failures, in which case the government may want to pursue targeted demand-side programs to stimulate enrolments.</td>
</tr>
</tbody>
</table>
**Recommendation 7.1**

A market oversight body, independent of government, be established to monitor the degree of competition within different sections of the VET market (by course and by region).

- Where the independent market oversight body ‘declares’ a market (or sub-market) to be competitive, there would no longer be a maximum cap on tuition fees, and providers would be free to compete on price.
- Where markets are not declared, the independent market oversight body would determine a ‘benchmark price’ for VET courses.

Under both scenarios, the level of subsidy would continue to be determined by the government — although the independent body could provide advice to inform the Government’s decision making.

### 7.4 The need for better information

High quality, readily accessible information is another fundamental condition of a well-functioning, competitive market. The Commission has identified a number of areas where better information is required to support the move to a more competitive market-driven VET system.

In summary, it is the Commission’s view that there is scope to improve the quality and access of information about key aspects of the VET sector, including:

- pricing of courses (by quoting the full price of the course and the level of the subsidy available for eligible students);
- the quality of course outcomes;
- eligibility rules (highlighting the implications of specific choices); and
- labour market opportunities (including identifying areas of current and emerging skill shortage).

Discussion of some of these areas can be found in Chapter 4, where recommendations were made to improve information about labour market opportunities (see Recommendation 4.2) and the implications of choices of courses on future eligibility for subsidised places (Recommendation 4.3). The other areas where information provision could be improved are discussed below.

The Commission believes that independently-provided, administered and published information (e.g. through websites) in the areas outlined above will help to address information asymmetries and support the functioning of an efficient VET market.

#### 7.4.1 Price disclosure

In any market, clarity in price disclosure is of primary importance in providing the appropriate signals to coordinate supply and demand.

As discussed in Chapter 5, the current complex system of tuition fee determination clouds price disclosure and price discovery. Because it will depend on the
particular circumstances and history of each individual student, it is extremely challenging for a training provider to tell students up-front the subsidised fee they will need to pay when enrolling in a course.

During this review, the Commission has observed that private providers will typically publish two prices: the full fee price and the subsidised price. However, we have found it very difficult, and often impossible, to reconcile these prices with fees. Some TAFE institutes, on the other hand, do not publish any prices. The array of other forms of assistance (e.g. concessions) further clouds the pricing picture. These observations suggest that improvements could be made to strengthen the role of price disclosure in providing clear market signals and in the VET system.

Although the Commission had been unable to test the hypothesis, TAFE institutes may be cross-subsidising their subsidised places by ‘over-pricing’ their full fee courses. Such a practice is neither sustainable nor efficient. It will be unsustainable if RTOs enter the market and attract away the full fee paying students. Where the threat of competition is weak, the practice may be sustainable — but it will also be inefficient because the provider is only able to ‘over price’ because it holds a monopolistic (or otherwise privileged) position. From a broader social and economic perspective, this will result in an inefficiently low level of full fee enrolments.

To improve price disclosure, the Commission recommends that any training provider who is operating within the VTG should be required to publish: (i) the full price of the course — i.e. the full fee-for-service price that would be paid by a student who does not qualify for a subsidy; and (ii) the tuition fee for students who meet the VTG eligibility criteria. In addition, where students might be eligible for other forms of assistance (e.g. concessions), providers should be encouraged to provide information and links about those additional forms of assistance.

The Commission accepts the difficulties in quoting a single price for a course, given that actual prices will be dependent on the different combination of units of competency and lengths of courses undertaken by the student. However, it should nevertheless be possible to quote an ‘indicative’ price, based on typical course lengths and combinations.
Recommendation 7.2

All providers operating within the Victorian Training Guarantee should be required to publish: (i) the full price of the course — i.e. the full fee-for-service price that would be paid by a student who does not qualify for a subsidy; and (ii) the tuition fee for students who meet the VTG eligibility criteria. In addition, providers should be encouraged to provide information and links about additional forms of assistance (e.g. concessions).

7.4.2 The quality of outcomes

During the consultation process as part of this review, many concerns were raised by stakeholders about the quality of outcomes from the VET system, particularly in relation to:

- the quality of teaching and training;
- course content, design and delivery; and
- student outcomes.

Although some concerns about quality pre-date the recent reforms in the Victorian VET sector, the entry of a large number of new private providers into the system clearly increases the challenges of ensuring that the quality of outcomes is appropriate. Issues about quality in the VET sector are not unique to Victoria: the Commission notes that similar concerns have been raised in other forums, such as the Productivity Commission’s ongoing inquiry into Caring for Older Australians, which has highlighted widespread concerns about the quality of vocational aged care training at the national level.

Like other markets for complex services (such as healthcare), consumers of VET services may have insufficient knowledge, and may face information asymmetries, whereby the provider has much better information than the student about the quality of provision. This makes it difficult for the market to discern the value of training and thereby drive competitive pricing. Put another way, a lack of transparency about the nature of the product being purchased (in this case, training) hinders the ability of students, employers and governments to make optimal decisions about what to buy and how much to pay.

Issues surrounding quality measures chiefly fall outside the terms of reference for this review. The Commission is nevertheless concerned that the current regulatory framework for registering providers and approving courses may be less effective than other options that might be available for ensuring the quality of the ‘output’ from the VET system.

It seems paradoxical that students and parents are currently able to access important information on the characteristics and performance of all Victorian Government schools (where limited choice exists) across a range of consistent domains, but are not able to do so in relation to approved providers under the VTG (where there is extensive choice).
The existing upfront focussed framework appears to be based on the premise that, if operational policies and procedures of training providers are approved and audited, then good quality outcomes will necessarily follow. However, the Commission believes that enhancing the information that is publicly provided on course outcomes (e.g. completion rates, student satisfaction measures, and post-study outcomes) would be more meaningful to students in making their choices about VET courses and providers. Any review of quality measures would be better informed by waiting until after the new Commonwealth arrangements through the Australian Skills Quality Authority have been established.

**Recommendation 7.3**

To support efforts to improve the quality of outcomes within the VET system, the Government should investigate options to improve publicly available information on course outcomes (e.g. completion rates, student satisfaction measures, and post-study outcomes), taking into account new Commonwealth arrangements through the Australian Skills Quality Authority.

Another issue arising from the current lack of information about the quality of VET course outcomes concerns the arrangements for consumer (i.e. student) protection within the VET system. The need for this might arise, for example, when the course delivered may not meet student or employer expectations. Student protection is discussed separately in Section 7.5 below.

### 7.5 Consumer protection

Another issue that has emerged during the consultations as part of the review is the appropriate arrangement to resolve disputes between students and providers, and to ensure that students are adequately protected. This helps to address the information asymmetry that exists because providers clearly have more knowledge about the content and quality of their courses than the students who enrol in them.

Under the current arrangements, there are a plethora of bodies involved in dispute resolution between students and providers. These include:

- Ombudsman Victoria;
- Consumer Affairs Victoria;
- Victorian Registration and Qualifications Authority (VRQA); and
- Overseas Students Ombudsman (which is housed within the Commonwealth Ombudsman).

The relevant body to be approached can depend on the type of provider, the nature of the complaint, and/or the type of student (i.e. domestic or overseas) involved in the dispute. For example, the Overseas Students Ombudsman can investigate complaints that international (but not domestic) students may have with private training providers in Australia. Ombudsman Victoria can handle disputes involving public providers. VRQA can look at complaints involving any training...
provider that is registered with it, unless the complaint involves refunds, in which case Consumer Affairs Victoria has a role. In the case of international students, VQRA is also able to investigate alleged breaches of the National Code of Practice for Registration Authorities and Training to Overseas Students.

It is outside the scope of this review to look at this issue in any detail, although the Commission feels that the current arrangements are complex and confusing to students. There also appears to be some ‘gaps’ in coverage — for example, it is not clear what recourse is available to domestic students with disputes against private providers that are not registered with the VRQA.

This suggests a need for an examination of the most efficient form of student protection within the expanding VET system. This might include consideration of ‘one-stop-shop’ arrangements, such as an independent industry-funded ombudsman-like scheme, akin to the model used for the resolution of customer complaints about electricity, gas and water in Victoria (through the Energy and Water Ombudsman).

Recommendation 7.4

The Government should review the most efficient form of arrangements to resolve disputes between students and providers in the VET system, and to ensure that students are adequately protected. This should include an assessment of an industry-funded, complaints-based, industry funded ombudsman-like scheme.

7.6 Demand-side interventions to promote participation in the VET sector

While the main thrust of the Victorian VET reforms have focussed on supply side issues (with the entry of many private registered training organisations that previously did not offer subsidised places), another policy goal that is often pursued by governments is to promote participation in the VET sector by students through demand-side management. Examples include:

- attracting particular cohorts of students into training (e.g. youth, disengaged youth, or higher needs learners);
- encouraging students to enrol in particular types of training. This might include programs that are targeted at addressing specific areas of skills shortage in the economy;
- encouraging employers to enrol employees in VET training; and
- structural adjustment assistance to specific regions — for example, following the closure of a major local employer.

The Commission has considered whether these objectives can be met under the existing VET fee and funding framework, and has concluded that demand-side interventions are different from the government subsidies given to training providers under the VET fee and funding model because:
demand-side interventions seek to influence the market towards targeted outcomes; while
government subsidies within the VET fee and funding model are designed to share the public benefits that arise from education and training.

Because of the different objectives being pursued, the Commission feels that demand-side interventions are best dealt with through a stand-alone system of ‘incentive payments’ to induce the desired behaviour. As discussed in Chapter 6, a system of incentive payments could also be extended to address issues of thin markets — for example, by giving payments to training organisations to provide training in small, remote communities. (This might be considered as part of a Community Service Obligation.)

The level of funding for such payments need not be related closely to the ‘price’ required by the provider nor the tuition fee paid by the student. Instead, it is determined by the quantum needed to alter students’, providers’ or employers’ behaviours in favour of the Government’s targeted policy objective.

**Recommendation 7.5**
Demand-side interventions designed to promote participation in VET (e.g. attracting specific cohorts, or encouraging students to undertake specific types of training) should be addressed through a system of incentive payments that are independent of the VET fee and funding model.
The Commission called for submissions in response to its Issues Paper. A number of stakeholders also provided confidential submissions. Table B.1 sets out the organisations and people that made public submissions. The public submissions are available on the Commission's website.

<table>
<thead>
<tr>
<th>Table B.1</th>
<th>Public submissions in response to the issues paper</th>
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<tbody>
<tr>
<td>ACE Disability Network</td>
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<tr>
<td>Adult Community and Further Education Division Board - Department of Education and Early Childhood Development</td>
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<tr>
<td>AEU Victorian Branch</td>
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<tr>
<td>AgriFood Skills Australia</td>
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<tr>
<td>Alan Tweedale</td>
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<tr>
<td>Albury Wodonga Community College</td>
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<tr>
<td>Association of Neighbourhood Houses and Learning Centres</td>
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<tr>
<td>Australian College of Applied Animal Studies</td>
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<tr>
<td>Australian Council for Private Education and Training</td>
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<tr>
<td>Automotive Training Victoria</td>
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<td>BRACE Education Training &amp; Employment</td>
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<tr>
<td>Box Hill Institute of TAFE</td>
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<tr>
<td>Brendan Gould</td>
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<tr>
<td>Brotherhood of St Laurence</td>
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<td>Building Industry Consultative Council Industry Advisory Body</td>
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<td>Careers Australia</td>
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<tr>
<td>Carter Holt Harvey Woodproducts Australia</td>
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<tr>
<td>Castlemaine Community House</td>
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<tr>
<td>Community College Gippsland</td>
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<tr>
<td>Community Colleges Australia</td>
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<tr>
<td>Corporate Partners</td>
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<tr>
<td>Derek Walter Bricklaying</td>
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<tr>
<td>Echuca Community Education Group (Campaspe College of Adult Education)</td>
<td></td>
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<tr>
<td>Erin Adams</td>
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<th>Table B.1 (continued)</th>
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<tr>
<td>ForestWorks</td>
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<tr>
<td>Gary Buckeridge</td>
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<tr>
<td>Gavin Moodie</td>
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<tr>
<td>Gippsland Local Government Network</td>
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<tr>
<td>Glenroy Neighbourhood Learning Centre</td>
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<tr>
<td>Goulburn Ovens Institute of TAFE</td>
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<tr>
<td>Holden Street Neighbourhood House</td>
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<tr>
<td>Holmesglen TAFE</td>
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<tr>
<td>Housing Industry Association</td>
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<tr>
<td>Inclusion Melbourne</td>
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<tr>
<td>Inner Eastern Local Learning &amp; Employment Network</td>
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<tr>
<td>Jonathan Sturman</td>
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<tr>
<td>Leigh Cook</td>
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<tr>
<td>Living Learning Pakenham</td>
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<tr>
<td>Marjorie Milner College</td>
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<tr>
<td>Mount Beauty Neighbourhood Centre (McCullough Institute)</td>
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<tr>
<td>National Centre for Vocational Education Research</td>
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<tr>
<td>National Meat Industry Training Advisory Council (MINTRAC)</td>
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<tr>
<td>Northern Melbourne Institute of TAFE</td>
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<tr>
<td>Odyssey House Victoria</td>
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<tr>
<td>Old Courthouse Community Centre, Casterton</td>
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<tr>
<td>Otway Community College</td>
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<tr>
<td>Primary Skills Victoria</td>
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<tr>
<td>Rowville Secondary College</td>
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<tr>
<td>Russell Masterton</td>
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<tr>
<td>Shearer Woolhandler Training</td>
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<tr>
<td>SkillsHub - Creative and Leisure Industries Council</td>
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<tr>
<td>Springvale Learning and Activities Centre</td>
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<tr>
<td>Stephen Colbert</td>
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<tr>
<td>Sunraysia Institute of TAFE</td>
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<tr>
<td>Swinburne University of Technology TAFE</td>
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<tr>
<td>Technical Education Centre Network</td>
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<tr>
<td>THINKWEST ACE cluster</td>
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<tr>
<td>Thornbury Women’s Neighbourhood House</td>
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<tr>
<th>Table B.1 (continued)</th>
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</thead>
<tbody>
<tr>
<td>University of Ballarat</td>
</tr>
<tr>
<td>Upper Yarra Community House</td>
</tr>
<tr>
<td>Victorian Automobile Chamber of Commerce</td>
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<tr>
<td>Victorian Council of Social Service and Community Services and Health Industry Training Board</td>
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<tr>
<td>Victorian Dairy Industry</td>
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<tr>
<td>Victorian Farmers Federation</td>
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<tr>
<td>Victorian Food Industry Training Board</td>
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<tr>
<td>Victorian State Agriculture Provider Network</td>
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<td>Victorian TAFE Association</td>
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<tr>
<td>Volunteer Fire Brigades Victoria</td>
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<tr>
<td>William Angliss Institute</td>
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<td>YNH Services</td>
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</tbody>
</table>
**APPENDIX C | KEY VET AGENCIES**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Role</th>
</tr>
</thead>
</table>
| **The Victorian Skills Commission (VSC)** | The VSC was established in July 2007 by the *Education and Training Reform Act 2006*. The VSC:  
- has a broad advisory role to government on post compulsory education and training;  
- is the state training agency and executes responsibility for the state training system within the context of its broader role;  
- provides funding for training and further education;  
- regulates the apprenticeship and traineeship system;  
- monitors the outcomes of post compulsory education and training; and  
- supports the Local Learning and Employment Networks.  
  
The VSC delegates many of its powers to Skills Victoria. All contracts, accounts and certificates are issued by Skills Victoria under delegation from the VSC. The VSC currently consists of eleven members derived from industry, government and vocational education stakeholders. |
| **Skills Victoria** | An office of the Department of Education, Employment and Childhood Development (DEECD) and supports the Minister for Higher Education and Skills and the VSC. Skills Victoria’s key roles in the VET sector are to:  
- develop policy in relation to skills and training and higher education;  
- manage contracts and funding agreements with public and private VET providers (contracted RTOs submit monthly training data to Skills Victoria);  
- provide robust intelligence on the Victorian VET sector, participation rates and industry trends; and  
- oversee and manage the Victorian apprenticeship system. |
<table>
<thead>
<tr>
<th>Agency</th>
<th>Role</th>
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</thead>
<tbody>
<tr>
<td>Adult and Community Further Education (ACFE) Board and ACFE Regional Councils</td>
<td>Advise the Minister for Higher Education and Skills on the provision of adult education in Victoria. A statutory body with responsibility for oversight of the ACFE sector and administration of funding for initial training and accredited VET courses to Adult Community Education (ACE) providers. ACFE Regional Councils advise the ACFE Board on issues relating to ACE across metropolitan and rural regions.</td>
</tr>
<tr>
<td>Department of Education, Employment and Workplace Relations (DEEWR)</td>
<td>DEEWR is the Commonwealth department responsible for VET. It provides policy advice to the Commonwealth Minister and is responsible for Commonwealth VET funding, including negotiation of agreements with the States and Territories and administration of Commonwealth programs including employer incentives.</td>
</tr>
<tr>
<td>Industry Training Advisory Bodies (ITABs)</td>
<td>ITABs are a state network of industry bodies that are funded by the Victorian Government to provide expert and industry advice, and to promote take up of training in their relevant sector.</td>
</tr>
<tr>
<td>National Industry Skills Councils</td>
<td>A national network of industry bodies that are funded by the Commonwealth Government. Responsible for the development of National Training Packages and provision of intelligence and industry advice to Skills Australia at national level. Industry Skills Councils engage with their relevant state industry advisory body.</td>
</tr>
<tr>
<td>The training.gov.au (TGA)</td>
<td>A database on vocational education and training in Australia. It contains detailed information on courses, qualifications, training packages, competency standards and training organisations.</td>
</tr>
<tr>
<td>National Skills Standards Council (NSSC)</td>
<td>NSSC’s role is to provide advice to SCOTSE on national standards for regulation of VET. NSSC’s key functions are:</td>
</tr>
<tr>
<td></td>
<td>• development and maintenance of national standards;</td>
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<td>• provision of information to the regulators of vocational education and training on the implementation and interpretation of the national standards;</td>
</tr>
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<td></td>
<td>• provision of information to the vocational education and training sector on the national standards;</td>
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<td></td>
<td>• advice on the operation of the regulators of vocational education and training including third party audits of the Australian Skills Quality Authority and state regulators in non referring states at least every three years; and</td>
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<td></td>
<td>• endorse training packages.</td>
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</table>
## Table D.1. Foundation skills courses

<table>
<thead>
<tr>
<th>Qualification</th>
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<tbody>
<tr>
<td>Course in Initial General Education for Adults</td>
</tr>
<tr>
<td>Course in Recognised Informal Learning</td>
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<tr>
<td>Course in ESL</td>
</tr>
<tr>
<td>Course in Preliminary Spoken and Written English</td>
</tr>
<tr>
<td>Course in Language, Literacy and Numeracy</td>
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<tr>
<td>Victorian Certificate of Applied Learning (Foundation)</td>
</tr>
<tr>
<td>Preparatory Year 11 Equivalent – General Studies</td>
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<tr>
<td>Certificate I in Vocational Preparation</td>
</tr>
<tr>
<td>Certificate I in Transition Education</td>
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<tr>
<td>Certificate I in Work Education</td>
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<tr>
<td>Certificate I in General Education for Adults (Introductory)</td>
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<tr>
<td>Certificate I in General Education for Adults</td>
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<td>Certificate I in Mumgu-dhai tyama-tiyt</td>
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<tr>
<td>Certificate I in Initial Adult Literacy and Numeracy (Entry)</td>
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<tr>
<td>Certificate I in Initial Adult Literacy and Numeracy (Foundation)</td>
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<tr>
<td>Certificate I in Initial Adult Literacy and Numeracy (Established)</td>
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<tr>
<td>Certificate I in ESL (Access)</td>
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<tr>
<td>Certificate I in Spoken and Written English</td>
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<tr>
<td>Certificate II in General Education for Adults</td>
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<td>Certificate II in Mumgu-dhai tyama-tiyt</td>
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<tr>
<td>Certificate II in ESL (Access)</td>
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<td>Certificate II in ESL (Employment)</td>
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<tr>
<td>Certificate II in Spoken and Written English</td>
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<tr>
<td>Certificate III in General Education for Adults</td>
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<td>Certificate III in Mumgu-dhai tyama-tiyt</td>
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<tr>
<td>Certificate III in ESL (Access)</td>
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<td>Certificate III in ESL (Employment)</td>
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Table D.1. (continued)

<table>
<thead>
<tr>
<th>Qualification</th>
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<tbody>
<tr>
<td>Certificate III in ESL (Further Study)</td>
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<tr>
<td>Certificate III in Spoken and Written English</td>
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<tr>
<td>Certificate IV in ESL (Access)</td>
</tr>
<tr>
<td>Certificate IV in ESL (Employment/Professional)</td>
</tr>
<tr>
<td>Certificate IV in ESL (Further Study)</td>
</tr>
<tr>
<td>Certificate IV in Spoken and Written English – Further Studies</td>
</tr>
<tr>
<td>Certificate IV in Spoken and Written English – Employment</td>
</tr>
</tbody>
</table>
Under the Weighted Training Hour model, each funded course is allocated to one of 14 industry groups and one of 49 sectors (each industry group consists of between 2 and 5 sectors). Each sector has a corresponding weight between 0.8 and 1.5 which is applied to the base funding rate (as shown in Table 6.1) to give the per student contact hour subsidy paid to providers for training delivery. For each industry sector, only a single weight is applied to funding for qualifications at all AQF levels. The weights are shown in the Table E.1.

For some student types, a ‘cohort’ weight may be applied instead of a sector weight. Where training is delivered to a student in one of these cohorts, the cohort weight is applied rather than the sector weight whenever it results in a higher per-SCH funding price. Students who self-identify as being of Aboriginal or Torres Strait Islander descent attract a weight of 1.5, and students aged 15-19 years without a Year 12 or equivalent qualification (Certificate II) attract a weight of 1.3.83

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83 Section 6.4 and 6.5 of Schedule 2 of the draft 2011 Service Agreement: Skills for Victoria program.
<table>
<thead>
<tr>
<th>Industry name</th>
<th>Sector Name</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult Community Education</td>
<td>Cert Work Ed (18+)</td>
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</tr>
<tr>
<td>Adult Community Education</td>
<td>General Preparatory</td>
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</tr>
<tr>
<td>Adult Community Education</td>
<td>Language and Literacy</td>
<td>0.9</td>
</tr>
<tr>
<td>Adult Community Education</td>
<td>Languages Other Than English (LOTE)</td>
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<tr>
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<td>Victorian Certificate of Education</td>
<td>VCE</td>
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<tr>
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<tr>
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<td>Vehicle Manufacturing</td>
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</tr>
<tr>
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<td>Civil Operations</td>
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<tr>
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<td>General Construction</td>
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</tr>
<tr>
<td>Building and Construction</td>
<td>Plumbing Services</td>
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<tr>
<td>Building and Construction</td>
<td>Water</td>
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<tr>
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<td>Cross Industries</td>
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<td>Finance</td>
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<tr>
<td>Business Services</td>
<td>Local Government - no longer used</td>
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<tr>
<td>Business Services</td>
<td>Property Services</td>
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</tr>
<tr>
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<td>First Aid and Occupational Health and Safety</td>
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<td>Racing</td>
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<td>1.1</td>
</tr>
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(continued next page)
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<thead>
<tr>
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</thead>
<tbody>
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<td>General Manufacturing</td>
<td>Process Manufacturing</td>
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<td>Textile Clothing and Footwear</td>
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<td>Aerospace</td>
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Source: Skills Victoria.