Investment in Vocational Education and Training (VET)

A REPORT TO THE BOARD OF SKILLS
AUSTRALIA

Overview Analysis and Options for Improvement

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Executive Summary

The purpose of this report is to examine those issues in relation to the VET sector, to identify the strengths and weaknesses of the VET funding system in Australia and to propose options for reforms to VET funding.

In 2008, Australian governments, students and industry invested approximately $6 billion in Australia’s publicly funded vocational education and training (VET) system, however real levels of investment in formal VET are higher than that but are not currently measured. Investment in skills development generally is much higher again.

Australia’s VET system plays an important, but not singular, role in building workforce skills. The other sectors of education and training also play crucial roles (particularly early childhood and primary education where gaps in educational attainment begin and widen rapidly).

Outcomes from participation in VET are favourable for most individuals measured through immediate employment outcomes, longer-term workforce participation levels, higher wages and student and employer satisfaction levels but are not strong at lower qualification levels, particularly where individuals do not complete qualifications.

Australia has a mature and well-developed VET funding system. Since the Commonwealth began funding Technical and Further Education (TAFE) in 1974, the system has become increasingly national in character, through agreements between the Commonwealth and state/territory governments.

Arrangements within jurisdictions for funding VET providers are broadly consistent except in Victoria which is implementing major reforms based on demand and entitlement based funding.

Recent trends in investment in VET include that:

- In real terms, revenue from fee for service activity (which may include government funding) has grown more quickly than direct revenue from government. This trend would be even higher if fee for service revenue for non-government providers was included.

- State and territory expenditure as a proportion of total VET revenue fell between 2001 and 2008,

- Commonwealth expenditure as a proportion of total revenue only increased by 2 percent over the period (22.1 to 24.3 percent) but would exceed 40 percent if total Commonwealth VET expenditure was included; and

- Revenue from student fees as a proportion of total revenue is essentially the same as it was in 2001.

- A consequence of the small increases in government funding for VET is that funding levels per student contact hour fell between 2004 and 2008

- Across these revenue sources, the funding outlook for VET appears to be, at best, static in real terms and, quite possibly, will see actual falls in revenue, particularly from government sources. As a consequence, growth in enrolments could only be
achieved through further declines in funding per annual hour and enrolments, in addition to the significant declines which have been achieved in recent years.

There are also major differences in the higher education and VET funding systems in particular in terms of the revenue outlook for the sectors, access to income contingent loans and access to public funding by non government providers.

1.1 **Strengths and Weaknesses**

1.1.1 **Strengths**

- Compared to other federal systems, particularly those in North America, arrangements for VET funding between jurisdictions are characterised more by their similarity than difference.

- While complex from a governance point of view, funding arrangements are relatively simple from a provider point of view in that providers in the main only deal with one agency for public funding at the state/territory level.

- Investment in VET is governed by intergovernmental agreements which have been relatively stable for almost two decades and which reflect common national policy goals and objectives and performance indicators.

- These national agreements reflect a strong consensus between governments and the support of major industry groups and other influential bodies about the important connection between investment in skills workforce participation and productivity.

- A wide range of VET providers are able to access public funding to support delivery in a range of contexts (classroom-based, apprenticeship, workplaces, community settings, e-learning and other forms of flexible delivery) and supporting RPL compared to some other VET systems which are highly focused on conventional institution based learning.

- Access to VET programs is relatively affordable with relatively low levels of fees and charges, particularly taking into account concessions and exemptions for low-income groups, and the availability of VET FEE HELP so that students in full fee VET programs are not required to pay upfront fees and only pay on an income contingent basis.

1.1.2 **Weaknesses**

- The shared nature of funding responsibility for VET in Australia continues to blur accountability arrangements for VET funding, and the problem of potential cost shifting between the Commonwealth and states remains unresolved despite successive national agreements. The capacity for states to meet the requirements of national agreements by increasing output while reducing funding has significant, long-term implications of the quality of VET outcomes.

- Declining funding levels per annual hour are likely to affect quality, limit the amount of individualised support and programs for individuals with major
learning needs and perpetuate high-volume/low margin approaches to training delivery and assessment.

- Current arrangements for provider funding may generate substantial apparent initial enrolment activity (which trigger payments based on all annual hours for each unit or qualification) but do not contain sufficient incentives and penalties for completion of the unit or a particular full qualification level.

- VET funding in Australia is, in the main, activity rather than performance and outcomes based.

- The relatively open approach to access and eligibility for VET funding is a strength of the VET system – but it is also a weakness in that it may result in learners with the most intensive learning needs not receiving the level of funding support required to meet these needs compared to learners with existing and higher level qualifications.

- The VET funding framework is essentially provider and individual focussed. While there is an increasing focus on enterprise and work-based delivery, funding entitlements and arrangements are not transparent to enterprises.

- Similarly, funding for RPL is highly variable across jurisdictions and providers, although RPL provision is a requirement of the AQTF.

- This shortcoming has fostered the development of existing worker traineeships through the use of Commonwealth employer incentive funding. Although there are examples of these traineeships working well for enterprises, they are not being used for the purpose traineeships were intended, to create entry-level training pathways for new employees, particularly young people.

- There are differences between jurisdictions in terms of levels of investment in VET between jurisdictions which are likely to widen over time. This will also further widen the existing gap between the relative shares of state and Commonwealth funding portion of VET revenue between jurisdictions.

- Average annual hours, and thus funding levels, can vary substantially between jurisdictions for the same qualification. Significant variations in annual hours and in funding levels undermine confidence in quality and national recognition of units and qualifications and limit credit transfer pathways with higher education institutions.

- Growing differences between VET and higher education investment levels, access to demand or entitlement based funding, start up scholarships and difficulties in negotiating joint funding arrangements across the sectors may distort student choices and limit the development of pathways across the tertiary education sector.

- A somewhat ad hoc approach to entitlement and demand based funding is now emerging across the post-compulsory and tertiary education landscape in Australia. This patchwork of eligibility and entitlement arrangements means that students may be treated quite differentially based on the choice of course and sector, regardless of their personal and broader social and labour market needs. This problem will be exacerbated if unmet demand for VET courses grows and as demand based higher education funding begins to take effect from 2011.
• Funding for VET in schools is highly variable across jurisdictions, not adequately based on costs of delivery (particularly provision of workplace-based learning) or enrolments and often regarded as a lower priority compared to academic subjects by schools.

• Australia has a large number of small and medium enterprises operating in highly competitive sectors. Such firms may find it uneconomic to invest in workforce development without some assurance that their investments will pay off – both through workers being retained and high-quality training being provided.

### 1.2 Options for Consideration

#### 1.2.1 Commonwealth/State Responsibilities

The shared responsibility for VET funding remains the most significant issue in, and obstacle to, improved investment in VET. Several options have been identified over the years to address this issue:

• In 1992, the Commonwealth offered to take full responsibility for VET funding from the states and territories in exchange for substantial Commonwealth growth funding. That proposal was strongly supported by Victoria and had some support inside New South Wales and other state governments, but was ultimately rejected by most states, resulting in a compromise which is still the basis of the current national VET agreements.

• The Review of Australian Higher Education recommended a modified form of national responsibility for VET funding through the extension of the Commonwealth Tertiary Education Entitlement to VET Diplomas and Advanced Diplomas in the first instance and progressively to other programs thereafter, together with the extension of income contingent loans for higher-level VET qualifications.

• Consideration in the past has also been given to the Commonwealth assuming responsibility for funding Diplomas and Advanced Diplomas, with the states maintaining responsibility for certificate level programs including apprenticeships. A modified version of this option was for the Commonwealth to take responsibility for funding apprenticeships and traineeships given its role in the provision of employment centres in the administration of Australian Apprenticeships Centres.

• The option of matching enrolment based funding has also been considered and was a requirement imposed by the Commonwealth for states to access growth funding when the national VET agreement was renewed in 2001.

• The Commonwealth could consider moving away from common, multilateral agreements to differentiated, bilateral agreements with the states and territories based on agreed levels of investment and outcomes.
1.2.2  **Entitlement and demand based funding**

To address the anomalies outlined in section 3.11.2 and to give effect to the commitment COAG has made to halve the number of 15-64 year olds with a Certificate III by 2020 and the Compact with Young Australians, consideration should be given to the Commonwealth and the states/territories agreeing on a common framework for eligibility and demand based funding for young people.

1.2.3  **Improving Outcomes and Attainment**

A major priority for the VET sector is to translate its high levels of apparent participation into better outcomes, especially for needy and disadvantaged learners and to improve full qualification completion rates generally.

Consideration should be given to increasing funding for both course delivery (including literacy and numeracy as Skills Australia has proposed) and learner support together with incentives for RTOs to improve qualification completions and transitions to higher-level qualifications.

Consideration should be given to significantly tightening funding triggers for, and funding flows to, RTOs to encourage better and more informed student choice about courses and learning pathways, ongoing learner engagement and retention including some reductions in funding where learners withdraw (as is happening in some jurisdictions) and incentives for high performance in terms of learner engagement and outcomes, including transitions to higher level qualifications.

The initiatives announced in the 2010-11 budget to strengthen language and literacy and foundation skills are an important step in this regard.

Quality and outcomes could also be improved by standardising the average nominal hours for qualifications.

1.2.4  **Performance and Outcomes Based Funding**

There is a strong case to strengthen funding agreements and contracts with VET providers through either access to a performance based funding pool (as applies in higher education) or by placing some funding ‘at risk’ if performance benchmarks are not achieved.

The Quality Skills Initiative announced by the Commonwealth in the recent budget – which will be available to the largest 100 RTOs – is a significant development as it signals direct intervention and engagement by the Commonwealth in raising performance across a range of benchmarks; however it should be complemented by states and territories reflecting similar benchmarks in funding agreements with all RTOs to ensure that the Commonwealth funding is not seen as discretionary or the ‘cream’ on top of normal delivery.

1.2.5  **Enterprise and workforce development funding**

The Skills Australia Workforce Development Strategy makes a number of recommendations to improve education/industry linkages and to use public funding to leverage workforce development in enterprises including a 50 percent expansion on the
Enterprise Connect Program and through the use of the Enterprise Based Productivity Places Program.

Critical Skills Investment Fund announced in the 2010-11 budget, with its requirement for significant industry contributions, is in part a response to this suggestion, although targeted to areas of critical skills shortages rather than workforce development generally.

Consideration should also be given to re-directing funding currently available through employer incentives for existing worker traineeships into a broader EBPP program in order to:

- Ensure that funding (estimated at between $100-$200 million) is used on training and not just to subsidise wages;
- Broaden the scope of the program particularly to technicians and tradespeople;
- Ensure that training programs reflect workforce development principles which include assessment of enterprise and learner need and highly flexible and tailored programs;
- Reduce administrative and compliance costs associated with the use of legal contracts of training which are designed for new, not existing, employees; and
- Potentially enhance the role of Industry Skills Councils in acting as brokers and intermediaries in the allocation of funding for workforce development.

1.2.6 Industry training levies

Australia has had experience with the Training Guarantee which was suspended and then abolished with little evidence that it had an impact on employer expenditure, although there was some evidence that it increased awareness of investment in training at the firm level.

As such and in the context of the Commonwealth Government Tax Review, a national system of industry levies is neither feasible nor arguably desirable.

Levies in the Building and Construction Industry operate in several jurisdictions and provide an important source of additional revenue and investment in those industries, although they are in effect an additional cost to users and consumers rather than a levy paid by industry.

Consideration could be given to the extension of this industry levy model to other sectors, particularly where skills shortages are exacerbated by the cyclical nature of the industry and where price sensitive contracting and sub contracting arrangements create disincentives for firms to invest in training.

1.2.7 VET in Schools Funding

The issue of an adequate framework for VET in Schools (or VET through schools) has been under debate but unresolved for well over a decade.

Governments and schools authorities must commit to funding VET subjects on the basis of costs, including the costs associated with providing high-quality workplace learning,
and enrolments including the use of resources associated with secondary school enrolments.

This could be achieved by:

- Requiring schools to allocate enrolment related funding equally to all subjects, both academic and VET, on an average cost basis;
- Providing supplementary funding to meet additional costs where VET subjects exceed average costs;
- Providing supplementary funding for all VET enrolments to meet the costs of compliance, work placement, and other costs specific to VET programs;
- Ensuring that school based apprentices and trainees are able to access User Choice funding; and
- Providing both average and supplementary funding on an enrolment or demand driven basis.

Some jurisdictions have already moved towards this model.

1.2.8 Tax incentives

As the Commonwealth Government Tax Review has been completed, there is probably little scope to argue for consideration of tax incentives or offsets for individuals and enterprises in relation to education and training. However, if this issue was to be explored, consideration could be given to:

- Broadening the scope of the Education Tax Refund to include secondary education equivalent programs in VET;
- Allowing individuals to offset the costs of participation in accredited education and training programs aimed at occupational upgrading and reskilling generally not just those related to their current occupation; and
- Providing a tax rebate for companies towards the costs of employees undertaking nationally recognised and accredited training on a similar basis to research and development tax concessions which enable employers to deduct 125 percent or 150 percent (for premium R&D) of the costs of R&D from assessable income.

1.2.9 More Effective Measurement of Total Investment in VET

While information on publicly funded provision and revenue from public providers is now quite comprehensive, we do not have an adequate picture of revenue from private providers or employer expenditure.

A similar survey to the National Employer Skills Survey (NESS) in England could be considered; in particular, such a survey may also provide additional information on emerging skills needs and skills shortages and could inform Skills Australia’s and other agencies’ analysis and advice in these areas.
2 Introduction

2.1 Background

In 2008 Australian governments, students and industry invested approximately $6 billion in Australia’s publicly funded vocational education and training (VET) system. That investment supported over 1.6 million enrolments in publicly funded VET courses enabling important skills needs to be met, helping individuals to participate in the workforce and firms to improve their productivity.\(^1\)

The Council of Australian Governments (COAG) has set ambitious targets to improve the skills base of the Australian workforce and to raise workforce participation. Skills Australia has published important research which suggests that participation rates in VET will need to grow by 3 percent each year to meet Australia’s future workforce needs.

As the Australian and State Governments have recognised and industry groups have long argued, both the levels and the effectiveness of investment in VET in Australia are critical to sustaining and raising levels of educational attainment and workforce participation.

The Skills Australia National Workforce Development Strategy argues for a target of 69 percent workforce participation in Australia. Skills Australia has also modelled shifts required in the future workforce qualification profile, including a significant increase in the proportion of the workforce with Certificate III qualifications and above.

Skills Australia estimates that enrolment increases of at least 3 percent per annum will be required to achieve this higher qualification profile and argues that the current net additional investment in tertiary education be maintained by an additional $660 million public and private real terms investment in tertiary education until 2020 (not including state and territory contributions).

The purpose of this report is to examine those issues in relation to the VET sector, to identify the strengths and weaknesses of the VET funding system in Australia and to propose options for reforms to VET funding for the Board of Skills Australia to consider.

2.2 Report Objectives

The Skills Australia Board has set the following objectives for this Report:

1. To analyse current levels of, and recent trends in, investment in VET in Australia and to assess future requirements to support increases in workforce participation in Australia;

2. To assess the link between increased investment in VET; increased skills levels and increased workforce participation (drawing on work already completed by or underway in Skills Australia);

\(^1\) In fact, Australia spends much more than $6 billion on VET; total public and private expenditure is much higher than is measured through official data (see section 3.5.2).
3. To analyse and to assess the effectiveness of current structures, roles and mechanisms for investment in VET between the public and private sectors, between the Commonwealth and State Governments and by industry and individuals; To analyse current approaches to funding for training provision, skills recognition and assessment including differences between jurisdictions with particular regard to:

- Resource allocation mechanisms including planning and purchasing, competitive and demand based funding;
- Criteria for access and participation by groups with low levels of participation in the workforce or under representation in key occupational areas;
- Partnerships and co-investment between VET systems and RTOs and enterprises including through workforce development strategies;
- The link between funding and successful outcomes including improved completion rates, higher-level skills and progression to further learning;
- Issues associated with the interface between VET and higher education in the context of a broader tertiary education sector in Australia.

2.3 Research Questions

To meet these objectives, the Board asked that the following key research questions be addressed:

1. What is the relationship between investment in VET and workforce participation?
2. What forms does investment in VET take in terms of the contributions by government, industry and individuals?
3. What are the current roles, policies and funding mechanisms?
4. What are the recent trends and outlook in VET financing?
5. What direct and indirect investment strategies do employers and industry groups adopt?
6. What are international trends and practices in VET financing and investment?
7. What are the major areas for possible reform in particular to improve workforce participation?

In addition, following feedback on the draft report, Skills Australia asked for specific advice on options for effective assessment of employer expenditure on training and specific analysis. Advice has been included as a section in volume two of this report and is reflected in the recommendations contained in volume 1.

2.4 Methodology

The methodology used for this report comprises:

- A review of publicly available data on VET revenue and expenditure and of relevant Australian and international research;
• Summaries of research and analysis undertaken by team members in relation to rates of return and VET FEE HELP;

• An analysis of the websites of state and territory agencies to identify funding practices and guidelines; and

• Information and analysis based on the lead consultant’s direct involvement in the development of the VET funding system at a state and national level and from team members’ involvement in related projects.

The options proposed in section 4 of this report have been developed for consideration. They do not represent the final or agreed views of the team or of ACER, CEET and Peter Noonan Consulting and have not been endorsed by the Board of Skills Australia.

The report was substantially prepared prior to the 2010-11 Commonwealth budget and was revised to reflect the outcomes of the budget, recognising that the full details and implementation arrangements for some budget initiatives and reforms are not yet available.

2.5 Report Structure

This report is in two parts:

1. Volume 1 provides an overview of the analysis of the research questions and, based on the analysis, sets out some issues and options for the Skills Australia Board to consider.

2. Volume two contains the detailed analysis and data that supports the discussion in Volume 1.

In some areas, figures and tables from Volume 2 are replicated in Volume 1.

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2 Only volume one has been circulated for the Strategic Industry Forum
3 Analysis

3.1 What influences workforce participation

Participation in the workforce is influenced by many factors; most importantly the demand for labour, wage rates and the capacity and willingness of people to undertake the jobs available. Education and training is therefore an important influence on workforce participation. Skills and knowledge (sometimes referred to as 'human capital') help to increase productivity and are essential for people to undertake specific jobs and to participate in the workforce over the course of their working lives.

People without post school qualifications are less likely to successfully participate in the workforce; they work in less rewarding occupations, are more likely to become unemployed, to leave the workforce and to work on a casual or part-time basis. Even today, only 40 percent of the working age population holds a post school qualification - this proportion is even higher amongst older adults and women. Many young people do not make successful transitions to the workforce, and many adults do not have the skills needed for the more highly skilled jobs that are available (although many also work below their level of formal skills and there has been a disproportionate increase in labour force participation among older workers – those generally with the lowest levels of educational qualifications).

Australia’s workforce participation rate is only tenth amongst the 30 OECD countries, although it has increased in recent years as employment has increased strongly – indeed, our workforce participation levels may have been even higher at the peak of the economic boom if workforce skills levels had been higher as skills shortages existed in many industries.

People without post school qualifications are less likely to successfully participate in the workforce. They work in less rewarding occupations, are more likely to become unemployed, to leave the workforce and to work on a casual or part-time basis. They also invest less in their own skills development and have less access to public and private investment in skills development, compounding the problem of initial disadvantage which is then perpetuated through families and communities in which disadvantage is most entrenched.

The level of investment in skills, the effectiveness of that investment and the pattern of investment in skills are therefore key issues for Skills Australia to consider in taking forward its National Workforce Development Strategy.

3.2 Measuring investment in skills

People develop skills (or human capital) in different ways over their lives, through family and social relationships, through formal education and training, through structured but non-accredited training and through informal and incidental learning in workplaces. Governments, individuals, families and employers also invest in skills development in different ways. Governments and families invest most heavily in the initial formal education of young people. Individuals then tend to take greater
responsibility for their own skills development through both formal and non formal learning, and employers invest in both formal, accredited training and structured training specific to their firm’s needs. Investment in formal education declines as people age, but skills continue to develop through experience, both in the workplace and in society.

3.3  The Role of VET

Australia’s VET system plays an important, but not singular, role in building workforce skills. The other sectors of education and training also play crucial roles (particularly early childhood and primary education where gaps in educational attainment begin and widen rapidly).

VET provides qualifications accredited under the Australian Qualifications Framework (Certificates I-IV and VET Diplomas, Advanced Diplomas, Graduate Certificates and Graduate Diplomas) through Registered Training Organisations (RTOs) including public TAFE institutions, privately and community owned providers, firms, and also education providers from other sectors including schools and universities (where they are also or operate RTOs). There are now over 4,500 RTOs offering VET qualifications in Australia, with many of these organisations also offering non-accredited courses and training individuals and enterprises.

Investment in VET is therefore important for the occupations and industries served by the VET sector, to help people to enter and return to the workforce through both training for specific jobs and for further learning and skills upgrading. It also plays a unique and increasing role as a bridge between the education sectors for many individuals and for an increasing number of occupations (e.g. nursing).

3.4  Outcomes from VET

Outcomes from participation in VET are favourable for most individuals measured through immediate employment outcomes, longer-term workforce participation levels, higher wages and student and employer satisfaction levels. These outcomes vary according to qualification type and level (apprenticeship and Diploma and Advanced Diploma courses have the best outcomes) and are best where VET learners complete full qualifications and where they also have successfully completed secondary school. Where learners do not complete qualifications, particularly at lower AQF levels, outcomes are not as strong – although many individuals and firms use VET to gain specific skills required for specific purposes, which do require a full qualification. Young learners who have not completed Year 12 and who do not complete VET qualifications have poor outcomes.

Skills shortages were being cited as a barrier to economic growth and productivity improvement during the decade of rapid economic growth up until the Global Financial Crisis and, as Australia emerges strongly from the effects of the crisis, concern is again evident about skills shortages as a constraint on renewed economic growth.

Investment in VET to boost labour force participation and attainment levels therefore has positive benefits for individuals, the economy and society generally as the COAG has recognised in the target it has set to halve the proportion of the working age population
without at least Certificate III qualifications by 2020, and that at least 90 percent of school leavers complete Year 12 or equivalent (AQF Certificate II or higher) attainment by 2015.

### 3.5 Measuring Investment in VET

#### 3.5.1 Official Measures of Investment in VET

If participation in and outcomes from VET are important, it is also important that we assess and monitor levels of investment in VET.

Each year, the National Centre for Vocational Education Research (NCVER) publishes data on investment by government and by individuals in formal VET. As highlighted above, VET providers covered by this collection received approximately $6.1 billion in revenue in 2008. This figure includes revenue from government to deliver accredited courses and from student fees, commercial activities and expenditure on buildings and equipment.

#### 3.5.2 Limitations on investment measures

The NCVER VET finance collection was set up to monitor the amount that governments spend on accredited training as part of an agreement between the Commonwealth and state/territory governments and as part of a consistent data collection for public providers. The collection includes public expenditure through non-TAFE providers, but this is only a small part of their revenue which is not measured. There is an ongoing project to look at the scope of the VET data collection so that a more comprehensive picture of investment, activity and outcomes is available.

The NCVER collection therefore does not include revenue from most RTOs for privately funded accredited training; indeed, we do not even know how much accredited training these RTOs deliver. The collection also does not include a lot of the expenditure by the Commonwealth Government on VET in areas such as employer incentives, some expenditure by state governments, expenditure on VET by schools, and expenditure by individuals and firms (although some of this expenditure may present as commercial revenue earned by TAFE).

#### 3.5.3 Measuring Private Investment on Training

This measurement problem is even greater if we look at total investment by individuals and industry on skills development, that is, not just formal VET. There is no longer an ongoing survey of this expenditure. The survey was last conducted in 2002 by the Australian Bureau of Statistics (ABS) through the Training Expenditure and Practices Survey industry expenditure on structured training (of which only a small percentage was spent on accredited training). Based on this survey and earlier estimates of private expenditure on training, private investment in skills development is probably at least as large as expenditure by government on formal VET.

International comparisons of expenditure on VET are problematic: international data have many gaps and differences in treatment, especially in the extent to which private expenditures (by students, families and employers) are fully reflected. There are also
marked differences among countries in enrolment patterns that cloud the comparison of “per student” expenditure figures.

The 2009 edition of OECD’s *Education at a Glance* (EAG) reports that, out of 14 countries that have some form of combined school and work-based educational programs (e.g. apprenticeships), nine countries are unable to include the private expenditure of enterprises relating to these programs in the EAG statistics. Australia is one of the countries unable to include such expenditure.

### 3.6 Australia’s VET funding system

#### 3.6.1 Background

Australia has a mature and well developed VET funding system. Since the Commonwealth began funding Technical and Further Education (TAFE) in 1974, the system has become increasingly national in character, through agreements between the Commonwealth and state/territory governments. There is also a high degree of similarity in the key features of VET funding between the states and territories but with important differences in detail.

The current system has evolved in three phases:

- From 1974-88 when Commonwealth funding to the states/territories was mainly provided for new TAFE campuses and buildings with some recurrent funding provided without major Commonwealth conditions on the states;
- From 1988-92 through formal and more conditional Commonwealth/state resource agreements; and
- From 1992 to the present through more detailed agreements based on nationally agreed goals and objectives and covering minimum levels of expenditure (in 1993) and agreed outputs (since 1993).

The post 1992 agreements were put in place to try to address the problem of ‘cost shifting’ between the Commonwealth and the states. In 1992, the Commonwealth decided to significantly increase its expenditure on VET but was concerned that, as it did, the states would reduce their expenditure (a problem evident across all areas of shared responsibility between the Commonwealth and the states and a continuing problem in VET). In fact, the 1992 agreement was a compromise from a proposal by the Commonwealth that it should assume full responsibility for VET funding.

The current agreement also reflects broader reforms to Commonwealth/state financial relations which have significantly reduced the number of agreements across areas of government activity, reduced the level of detailed accountability, placed more emphasis on achievement of outcomes rather than prescribing inputs and also introduced the potential for performance payments in areas of national reform (not yet available in VET).

Other major changes have also taken place since 1992:
The system has also evolved beyond TAFE institutions to include public funding for other RTOs (although TAFE still receives approximately between 80-90\(^3\) percent of public funding);

The basis of provider funding has become more transparent through funding agreements with public providers and contracts with other providers based on set funding levels, course funding rates and outcomes measures;

The pattern of investment in VET is more strongly driven by priorities guided by assessments of industry and labour market needs or by employer and student choice, compared to previous arrangements where priorities were largely set by institutions themselves;

Funding has been made available from the VET budget to support the development and provision of VET in schools, funding which to varying degrees is supplemented by funding from schools themselves or by students;

Commonwealth supported income contingent loans (FEE HELP) have been extended to VET for students in full fee Diplomas and Advanced Diplomas; and

Commonwealth funding for VET programs outside of the national agreement has increased significantly over this period, particularly through incentive payments to employers for apprentice and trainees. However, while under the previous government, the Commonwealth had begun to fund VET providers directly (e.g. ATCs and Skills Vouchers). National VET funding is again allocated through the states and territories.

Although greater policy priority was placed on VET over this period, previously separate VET departments were amalgamated within broader education and training portfolios in all jurisdictions as part of departmental consolidation but have now been separated in Victoria (as part of the industry portfolio), South Australia and most recently Western Australia. These recent changes reflect concern that VET had become lost and a lower priority in departments dominated by the large and politically sensitive schools systems.

\(^3\) Exact figure to be clarified
3.6.2 Key Features of the VET funding system

The key features of the VET funding system, funding flows and relative allocations are outlined in Figure 1 and summarised below.

Figure 1: VET funding system key features

3.6.2.1 Commonwealth-State VET agreements

VET funding in Australia is governed by a three year National Skills and Workforce Development agreement between the Commonwealth and the state/territories. This agreement sets out broad national objectives and priorities and outputs for each jurisdiction and is the basis of Commonwealth funding for the states/territories. This agreement was supplemented by a Productivity Places Program agreement through which additional funding committed by the current Commonwealth Government flows through the states (having been allocated directly by the Commonwealth to providers in 2008 while the agreement was being negotiated). A further agreement reimburses the states for income lost when they agreed to abolish student fees for childcare courses.

In the 2010-11 Budget, the Commonwealth has offered to the states the opportunity to use PPP funding as part of their base VET funding to guarantee all young Australians an accredited training place to gain an initial qualification or to lift their qualification to the next level and to extend a training entitlement to those wishing to improve their foundation skills or to re-skill or up-skill. States and territories will also be required to

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4 Broadly speaking, the features of VET funding apply to all jurisdictions but now differ substantially in Victoria under that state’s Skills Reforms and, as such, need to be summarised separately – this has been done for reasons of completeness and not to place any particular weight on Victorian practices and policies.
drive a quality, consistency and industry engagement reform agenda including the introduction of a unique student identifier for VET.

3.6.2.2 State/territory Funding Mechanisms

Payments from state/territory agencies to RTOs fall into three categories:

- Payments to TAFE institutions for training delivery;
- Payments to RTOs for training delivery for apprentices and trainees who, with their employer, choose to use that RTO; and
- Payments to RTOs under tendered contracts for training delivery (sometimes referred to as competitive purchasing).

Within state and territories, VET agencies enter into resource or funding agreements with publicly owned TAFE institutions or contracts with non-government providers. TAFE funding agreements include annual levels of funding for planned levels of student contact hours (sometimes referred to as ‘profile funding’), other roles and services performed by the institution and routine maintenance and equipment grants. Payments for major capital works are either managed centrally or included in resource agreements, depending on the TAFE governance model in the jurisdiction.

Contracts with non-government RTOs typically specify the levels of activity to be purchased for funding allocated at set rates under competitive tenders or fund providers for apprentices and trainees whose employer elects to use the RTO under User Choice. There are variations between jurisdictions on the level and conditions of contestable funding. Non-government RTOs do not generally receive funding for capital works, maintenance, systems and other specific costs, i.e. they are funded at an ‘all up’ rate.

Under major reforms progressively being introduced in Victoria, public funding will become fully contestable for all TAFE and eligible RTOs, and payment arrangements will be standardised across the provider types with TAFE institutions receiving an additional funding allocation in recognition of their obligations to provide a full suite of programs to the community.

3.6.2.3 Reporting and Accountability

In addition to normal accountability for public sector agencies, there is specific reporting and accountability on the outcomes of VET funding at national, state and provider levels:

- The Productivity Commission prepares a report each year on government services, including VET and the COAG Reform Council reports on the extent to which the objectives of the national agreement have been met. In addition, an annual national report on the VET system is prepared by DEEWR for the Ministerial Council on Tertiary Education and Employment (MCTEE) and is publicly released;
- The Productivity Commission also assesses state and territory VET agencies’ performance, and each state and territory provides a chapter for the annual national report;
• RTOs are accountable to state and territory agencies for their performance against the requirements of funding agreements and contracts. However, information on the performance of individual providers is not publicly available; and

• States and territories, based on information supplied by RTOs also provide information based on common and consistent statistical standards on courses, enrolments, finance, apprenticeships and traineeships to NCVER, and there is also system level data based on surveys of employer and student satisfaction and learner outcomes.

However, while reporting against the requirements of funding agreements and contracts is quite strong, there is not a strong system of incentives and penalties for the achievement of outcomes, except where there is evident under-delivery of student contact hours and, even here, consequences for under-delivery vary between government and non government providers and between jurisdictions particularly in funding TAFE. Some states and territories are more strongly reconciling actual versus agreed outputs and reducing funding for under-delivery. Funding arrangements also tend to focus on levels of activity rather than completions and other outcomes, although some states (Queensland and Western Australia) have moved to reduce funding where students withdraw, and Victoria has radically changed its provider funding arrangements to fund all providers (government and non government) monthly in arrears for students actually enrolled at the time returns are lodged, and not those initially enrolled.

3.6.2.4 Course funding levels

Course funding levels are set at the state/territory level based on the estimated or typical duration of the units making up a course (nominal hours) and a funding rate per hour depending on the relative cost of the course, including in some instances additional costs for delivery in rural and remote areas. Both nominal hours and funding rates vary between jurisdictions.

Funding for providers is triggered when students engage in an enrolment event for the unit with payments flowing to RTOs usually on a quarterly in advance basis or on a claims or milestones basis for non–government RTOs.

3.6.2.5 Eligibility and Access

Access by individuals to publicly funded VET courses is relatively open, that is, publicly funded courses are available across a very wide range of qualifications across industries and levels. Eligibility criteria are generally restricted to courses where there are set pre-requisites, high demand or students must be under a contract of training or working in the relevant occupation.

TAFE provision is widely distributed across metropolitan and rural and regional areas. These broad conditions for eligibility and access result in very high participation rates in publicly funded VET. Access is limited by available funding, but no reliable or official overall national estimates of unmet demand for VET are made.

Apprentices and trainees who are not currently employed are effectively entitled to a training place in all jurisdictions.
Under a specific COAG agreement, governments have agreed to fund a place in either a Year 12 program or a VET equivalent for people aged up to 20 who are not working or to fund a training place for people aged up to 25 who are unemployed. The measures outlined in the 2010-11 budget summarised in section 3.6.2.1 are designed to ‘build on and enhance’ this commitment.

Through the Victorian Skills reforms under the Training Guarantee, young people aged under 20 are guaranteed a VET place if they are not studying or working and up to age 24 to a place in a course at a higher level than existing qualifications. All people are eligible for a subsidised place in Diplomas and Advanced Diplomas if they do not already hold a qualification at that or a higher level.

3.6.2.6 Fees and charges

States and territories set fees for students in publicly funded VET programs. These fees typically cover between 20-10 percent of course costs and can cover tuition, student services and the costs of consumables - some courses may also require students to pay additional fees where consumable costs are very high (e.g. materials for fashion and design, uniforms and personal equipment for hospitality).

Fees are calculated on a different basis in different jurisdictions, by unit, by student contact hour or by course up to maximum level. Fees are generally higher for higher level courses. For example across jurisdictions, fees for Certificate III courses are typically from $600-$800 and for Diplomas and Advanced Diplomas from $1,200-$2,000.

Under the Victorian Skills Reforms, a decision was taken to more significantly vary fees according to qualification level. Fees for foundation level courses may be as little as $50 but were raised to a maximum of $2,000 for Diplomas and Advanced Diplomas with students able to access VET FEE HELP so that they did not have to pay up front.

In all jurisdictions, low-income students receive concessions (usually for students holding Commonwealth Health Cards) and some students (for example Indigenous learners) are exempt from fees. Some courses are also exempt from fees, for example students in childcare courses under the agreement between the Commonwealth and the states.

VET students (and employers) also pay full fees for a range of VET programs, particularly in private RTOs but also in some TAFE institutions. These fees range from $8,000- $15,000 per year depending on the course type.

3.6.2.7 VET FEE HELP

VET students enrolled in full fee Diplomas and Advanced Diplomas and VET Certificates and Graduate Certificates in approved providers are able to access VET FEE HELP. Under FEE HELP, the Commonwealth pays the costs of tuition to the provider and students incur a debt to the Commonwealth which is paid off through the tax system once their earnings exceed a minimum threshold (currently $43,000 per year).

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5 The FEE-Help guidelines suggest that credit transfer agreements must be in place with a higher education provider but also indicate that this requirement may not apply.
As outlined above, VET students in subsidised VET Diploma and Advanced Diploma courses in Victoria can also access VET FEE HELP. In the measures announced in the 2010-11 budget, this option has also been extended to all states and territories.

There has been significant take up of VET FEE HELP since 2007-08, with Commonwealth outlays in that year of $268,000 (when the program was first established) rising to $72 million in 2008-09 and estimated to rise to $110 million in 2009-10.

3.6.2.8 Employer Incentives

Employers of apprentices and trainees are eligible to receive a range of Commonwealth government incentives, with commencement incentives of $1,250 in Certificate II and $1,500 at Certificate III with completion bonuses of $2,500. A range of supplementary incentives are available for priority categories of apprentices and trainees.

Commonwealth employer incentives for apprentices and trainees were initially introduced to compensate employers for the costs of employing new and younger workers and for the time spent off the job in training. Under the initial New Apprenticeship funding framework, the Commonwealth indicated that it would not extend these incentives to current employees who were signed up as apprentices and trainees, but subsequently changed this policy, and up to $4,000 is now available from the Commonwealth for existing worker traineeships.

The states and territories also offer a range of incentives such as payroll tax rebates, completion bonuses for employers of apprentices, and trainees but typically not for existing worker trainees.

3.6.2.9 Enterprise and workforce development funding

In recent years, there has been growing recognition of the importance of work-based delivery and the role of VET in workforce development. Historically, funding agencies have been cautious about applying public funding to enterprise-based workplace delivery due to concerns about the potential for enterprises to cost shift their training expenditure to government. However, there is now growing recognition that, as long as training needs to be to accredited nationally recognised outcomes, work based delivery is essential for many VET qualifications and is a highly effective strategy to re-skill existing workers.

As such, there are no apparent limitations on the delivery of publicly funded training in enterprises and workplaces. However, practices vary widely, particularly between TAFE institutions in terms of the priority they give enterprise and work based delivery, and enterprises may not be able to access publicly funded work-based delivery depending on their industry and locality.

Under the Commonwealth Government's Productivity Places Programme, $25 million has been provided for enterprise-based training for existing workers. Individual jurisdictions also have specific workforce development programs. RTOs also enter into partnerships with employers to deliver existing worker traineeships, with employers using Commonwealth incentive funding to purchase training from the RTO.

However in the 2010-11 budget, the Commonwealth has established and provided $200 million for a Critical Skills Investment fund to plan for and meet emerging skills
demands in industries, particularly in infrastructure and construction, renewable energy and resources, with a particular focus on re-skilling mature aged workers, on the basis that industry will also make significant contributions.

3.6.2.10 Recognition of Prior Learning

Under the Australian Quality Training Framework, RTOs are required to provide the learners with recognition of prior learning (RPL). However, there has been ongoing debate about the costs involved in providing RPL for individual learners and the extent to which these costs are covered by funding for training delivery, in particular where individual RPL assessments are complex and time-consuming. As such, practices vary widely between RTOs and courses, for example RPL is commonly provided for programs explicitly directed at work development and re-skilling.

Some jurisdictions have developed specialist RPL centres which can undertake initial RPL and skills for further RPL and training (Skills Stores in Victoria and Skilling Solutions Queensland).

3.6.2.11 Access and equity

While the VET sector, and TAFE in particular, has historically had a strong focus on access and equity, the central thrust of the COAG reforms is aimed at further improving participation and attainment rates amongst learners who are either underrepresented in VET or achieve poor outcomes from VET. The thrust of these policies is to increase participation in VET programs with strong labour market and further learning outcomes, as exemplified by the Youth Compacts commitment by COAG. Indigenous learners and people with a disability have been identified as priority national groups.

Funding for equity and access in VET is primarily through:

- Courses - there are a wide range of publicly subsidised programs at entry and foundation levels explicitly aimed at these groups, together with programs targeted at specific learner cohorts (early school leavers, indigenous learners, people from non-English speaking backgrounds, and people with disabilities). Literacy and numeracy support is a particular priority including through the Commonwealth funded WELL program;
- Support services - TAFE institutions and community and non-government RTOs in some states are also funded to provide specialist advice and support services and centres to students with learning needs and for specialist staff and centres for specific groups particularly indigenous students and students with disabilities;
- Concessions and exemptions – as outlined above;
- Income support – which is targeted to low income groups; and
- The provision of programs in areas where subsidies and community service obligations are implicit in the role of public providers, in particular in rural and remote areas.
3.6.2.12 Student Income Support

Eligible students in VET full-time courses are able to receive Youth Allowance, AUSTUDY and ABSTUDY from the Commonwealth. However, the proposed Commonwealth higher education start up scholarship is not available for VET students.

3.6.2.13 Other Commonwealth funding

As highlighted above, the Commonwealth also provides substantial funding for VET outside of the funding it provides to the states and territories under the national agreement; in fact more funding ($2.3 billion) is allocated in the Commonwealth owned programs than is allocated through the states and territories ($1.7 billion), although this balance reduces in future years. By far, the biggest proportion of Commonwealth expenditure is for employer incentives for apprenticeship and traineeship ($918 million).

In the 2010-11 budget, the Commonwealth announced a number of important new programs, which are designed to directly impact on VET provision and outcomes including:

- The Critical Skills Investment Fund ($200.2 million)
- Apprenticeship Kickstart Extension ($79.4 million) and Smarter Apprenticeships ($19.9 million)
- Language Literacy and Numeracy Program ($67 million)
- Expanded community-based service development and Workplace English, Language and Literacy Development ($28.7 million)
- National Foundation Skills Outreach and Leadership Project ($23.5 million)

3.6.2.14 VET in Schools

Arrangements for VET in schools funding differ across jurisdictions, consistent with differing funding models for secondary schools. The Commonwealth provides a fixed pool of funding to support VET in schools, which is supplemented at the state/territory level. Schools are provided with supplementary funding where they offer VET programs, however this funding is not considered adequate by schools to meet the perceived additional costs of VET courses, nor in most jurisdictions is the funding enrolment based. Many schools still consider VET programs to be outside of the scope of the core funding they receive for senior secondary courses and, in some instances, students are charged fees for VET courses where resources are not available.

The level of funding available is a particular issue where schools purchase programs from RTOs and argue that they do not have the budget flexibility to meet these costs, particularly in more expensive areas and for a small number of students.

The Commonwealth Government also established and funded Australian Technical Colleges (ATCs) outside of the state education systems. ATC will now operate as part of state education systems and has committed $120 million in 2009-10 to these colleges.
3.6.2.15 Tax incentives and levies

There are no general industry tax incentives or levies for VET, although in some states (e.g. Queensland) industry training levies operate in the construction industry. Individuals are able to claim a tax rebate for training expenses directly related to their occupation; however, eligibility for this rebate is very tightly and narrowly defined.

3.7 Key Trends in VET funding

Analysis of data from the NCVER VET Finance report and the Productivity Commission highlights the following key trends in VET financing.

3.7.1 Operating Revenues

Total VET operating revenues increased marginally in real terms from 2001-2008 as shown below.
3.7.2 Trends in revenues

Key trends include that:

- In real terms, revenue from fee for service activity (which may include government funding) has grown more quickly than direct revenue from government. This trend would be even higher if fee for service revenue for non-government providers was included, noting that VET FEE HELP payments from the Commonwealth will exceed $100 million in 2010/2011;

- State and territory expenditure as a proportion of total VET revenue fell between 2001 and 2008, but fee for service revenue may include some contestable state/territory funding;

- Commonwealth expenditure as a proportion of total revenue only increased by 2 percent over the period (22.1 to 24.3 percent) but would exceed 40 percent if total Commonwealth VET expenditure was included; and

- Although it is commonly reported that VET fees are increasing, revenue from student fees as a proportion of total revenue is essentially the same as it was in 2001.

Source: NCVER, 2009, Note 9
Figure 3: VET Revenue Sources as a Percentage of Total Revenue

Source: NCVER, 2009, Note 9

3.7.3 Trends in SCH funding

A consequence of the small increases in government funding for VET is that funding levels per student contact hour fell between 2004 and 2008, with particularly sharp falls in NSW and South Australia with NSW moving from one of the higher to second lowest cost state over this period.
3.7.4 Variations Between jurisdictions

There are also significant differences in the relative proportions of revenue between jurisdictions. For example, government revenue is approximately 60 percent of total VET revenue in Victoria compared to 78 percent in Queensland and 86 percent in Tasmania. These differences would most likely be higher again if revenue from non-government RTOs was included. The higher levels of revenue from fee for service and ancillary trading in Victoria explain this variation.

There are also differences in the expenditure per hour between states/territory, although these differences have reduced since 2004.

Figure 4: Government recurrent expenditure per publicly funded annual hour

Figure 5: Operating Revenues by state/territory

Source: NCVER, 2009, Note 9

3.7.5 Funding trends across sectors

The relative level of investment in VET compared to schools and higher education is important in terms of the needs of and demands on the sectors. Revenue for schools and higher education has risen at a much faster rate than for VET in recent years.
A significant factor in the different levels of revenue between higher education and VET has been the capacity of universities to earn additional income through higher student fees because of the availability of HECS HELP for subsidised programs and the earlier availability of FEE HELP for full fee programs. This gap may reduce as universities can no longer charge full fees for domestic undergraduate programs and as revenue from VET FEE HELP increases.

### 3.8 Differences between Higher education and VET funding

There are also major differences in the higher education and VET funding systems:

- The Commonwealth is responsible for funding higher education whereas VET funding is a shared responsibility;
- HECS HELP is available for publicly funded domestic higher education students, except in Victoria, it is not available for VET students in publicly funded Diplomas and Advanced Diplomas which are deemed to be higher education courses under international classifications;
- VET funding is increasingly contestable, particularly in Victoria, but public funding for higher education is limited to public universities and a small number of non government institutions;
• Higher education is moving to demand based funding for undergraduate programs and the Commonwealth Government has set clear targets for higher education attainment and improved participation and attainment by low SES groups; and

• As a consequence, the higher education sector has firm forward estimates from the Commonwealth for increased funding, but there are no similar commitments for VET at a state or national level (except in Victoria which has committed an additional $316 million through its Skills Reforms).

3.9 **Future Needs**

3.9.1 **Skills Australia Workforce Participation Targets**

As outlined in the introduction to this report, Skills Australia estimates that enrolment increases of at least 3 percent per annum will be required to achieve this higher qualification profile and argues that the current net additional investment in tertiary education should be maintained by an additional $660 million public and private real terms investment in tertiary education until 2020 (not including state and territory contributions). This estimate is not broken down between VET and higher education. Skills Australia has also recommended funding for specific programs, including funding for literacy and numeracy, funding to leverage investment from enterprises, programs for disadvantaged and vulnerable learners, for partnerships across the tertiary sector and for VET workforce development.

3.9.2 **VET funding outlook**

Against this background, it is instructive to consider the outlook for VET funding across the different revenue sources highlighted above:

• **Commonwealth Government** - Commonwealth Government funding for VET (including its own programs) peaks as $4.065 billion in 2009/10 and declines to $3.63 billion in 2012/13. However, this entire decline is due to the one-off funding associated with increased capital funding in 2009/10. Commonwealth funding in 2012/13 will have increased from $2.7 billion in 2007/08 with payments to the states through the National Agreement increasing from $1.27 billion (under the previous agreement) to $1.77 billion6.

• **State expenditure** - the states and territories do not publish forward estimates for expenditure over the same timeframe as the Commonwealth, except for Victoria. However, due to significant pressure on state and territory budgets, state and territory agencies are facing, at best, static funding levels or budget reductions as well as the partial indexation of funding to meet the cost of increased salaries arising from recent industrial agreements.

• **Student Fees and Charges** - revenue from student fees and charges has only increased marginally in recent years as a proportion of total revenue and there

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6 These figures are to be updated when consolidated forward estimates for VET funding from the 2010-11 budget are available.
appears to be little scope for significant increases in upfront fees and charges due to political sensitivities, (particularly if governments are targeting increased participation from low SES groups) the capacity of students to pay and because potential revenue from increased fees is reduced by concessions and exemptions policies.

- **Fee for Service** - there is significant opportunity for increased fee-for-service revenue across the Australian system. By way of indication, if all jurisdictions achieved Victoria’s benchmark of 26 percent of revenue in fee-for-service activity, total revenues in Australia would increase significantly (although this benchmark would be difficult to achieve in states and territories without Victoria’s industry and commercial base). Revenue from VET FEE HELP is projected to increase substantially, however revenue from full fee international students in VET is likely to fall as a result of current problems in the international student market and changes to Commonwealth Government visa requirements in terms of the linkage between international students and skilled migration.

Across these revenue sources, the funding outlook for VET appears to be, at best, static in real terms and, quite possibly, will see actual falls in revenue, particularly from government sources. As a consequence, growth in enrolments could only be achieved through further declines in funding per annual hour and enrolments, in addition to the significant declines which have been achieved in recent years.

### 3.10 **Strengths and Weaknesses of the VET Funding System**

#### 3.10.1 **Strengths**

As stated at the beginning of this report, the Australian VET funding system has significant strengths, particularly taking into account the federal nature of VET governance and funding in Australia. Its strengths are that:

- Compared to other federal systems, particularly those in North America, arrangements for VET funding between jurisdictions are characterised more by their similarity than difference. There are reasonably consistent approaches to eligibility, the basis of course funding, how funding is allocated to providers (except for Victoria), accountability and reporting requirements and the arrangements for national reporting of revenue and outcomes.

- While complex from a governance point of view, funding arrangements are relatively simple from a provider point of view in that providers in the main only deal with one agency for public funding at the state/territory level, compared to the multiple funding bodies and accountability arrangements that exist in some other countries, for example England.

- Investment in VET is governed by intergovernmental agreements which have been relatively stable for almost two decades and which reflect common national policy goals and objectives and performance indicators.

- These national agreements reflect a strong consensus between governments and with the support of major industry groups and other influential bodies about the
important connection between investment in skills workforce participation and productivity.

- A wide range of VET providers are able to access public funding to support delivery in a range of contexts (classroom-based, apprenticeship, workplaces, community settings, e-learning and other forms of flexible delivery) and supporting RPL compared to some other VET systems which are highly focused on conventional institution based learning.

- Access to VET programs is relatively affordable with relatively low levels of fees and charges, particularly taking into account concessions and exemptions for low-income groups, and the availability of VET FEE HELP so that students in full fee VET programs are not required to pay upfront fees and only pay on an income contingent basis.

3.10.2 Weaknesses

Notwithstanding these strengths, there are a number of significant weaknesses in current VET funding arrangements in Australia.

- The shared nature of funding responsibility for VET in Australia continues to blur accountability arrangements for VET funding, and the problem of potential cost shifting between the Commonwealth and states remaining unresolved despite successive national agreements. The capacity for states to meet the requirements of national agreements by increasing output while reducing funding has significant long-term implications of the quality of VET outcomes, particularly if the COAG attainment targets are aggressively pursued against a static or declining VET revenue base and particularly if states and territories implement entitlement based funding without ensuring that additional enrolments are fully funded (as will apply in the schools and higher education sectors).

- Declining funding levels per annual hour are likely to affect quality, limit the amount of individualised support and programs for individuals with major learning needs and perpetuate high-volume/low margin approaches to training delivery and assessment.

- Current arrangements for provider funding may generate substantial apparent initial enrolment activity (which trigger payments based on all annual hours for each unit or qualification) but do not contain sufficient incentives and penalties for completion at the unit or particularly full qualification level - that is, funding guidelines and practices are not sufficiently focused on the achievement of COAG policy objectives in terms of attainment of full qualifications.

- More generally, VET funding in Australia is, in the main, activity rather than performance and outcomes based; for example, the performance based funding incentives and measures announced by the Commonwealth Government for higher education in response to the recommendations of the Review of Australian Higher Education are not applied to VET funding agreements.

- The relatively open approach to access and eligibility for VET funding is a strength of the VET system – but it is also a weakness in that it may result in learners with the most intensive learning needs not receiving the level of funding support
required to meet these needs compared to learners with existing and higher level qualifications.

- The VET funding framework is essentially provider and individual focussed. While there is an increasing focus on enterprise and work-based delivery, funding entitlements and arrangements are not transparent to enterprises. They also do not work effectively for enterprises and RTOs operating across state borders as RTOs need to enter into separate funding agreements with each jurisdiction. Within jurisdictions, access to publicly funded, work-based delivery is highly dependent on the culture and practices of individual institutions, particularly TAFE given its domination of public funding.

- Similarly, funding for RPL is highly variable across jurisdictions and providers, although RPL provision is a requirement of the AQTF.

- This shortcoming has fostered the development of existing worker traineeships through the use of Commonwealth employer incentive funding. Although there are examples of these traineeships working well for enterprises, they are not being used for the purpose traineeships were intended, to create entry-level training pathways for new employees, particularly young people. Existing employees and employers enter into contracts of training which were designed to protect the interests of new, mainly young workforce entrants and to ensure that they met their obligations to their employer, whereas existing, particularly older employees, require highly flexible and targeted programs relevant to their diverse needs. There is also no requirement for the incentive to be used to purchase training or guidelines to prevent cost shifting from internal training expenditure to taxpayer funded expenditure, and employer incentives may be used to subsidise wages of existing employees rather than on the costs of training.

- There are differences between jurisdictions in terms of levels of investment in VET between jurisdictions which are likely to widen over time. While some differences relate to differences in state economies, labour markets and demographic trends, growing disparities in investment and participation levels will inhibit the achievement of national policy goals. For example, low levels of investment skills and attainment in some jurisdictions will mean that other jurisdictions will have to perform significantly above average for national objectives to be achieved. This will also further widen the existing gap between the relative shares of state and Commonwealth funding portion of VET revenue between jurisdictions.

- Average annual hours, and thus funding levels, can vary substantially between jurisdictions for the same qualification. While it can be argued that this reflects different approaches in different jurisdictions, significant variations in annual hours and in funding levels undermine confidence in quality and national recognition of units and qualifications and limit credit transfer pathways with higher education institutions.

- Growing differences between VET and higher education investment levels, access to demand or entitlement based funding, start up scholarships and difficulties in negotiating joint funding arrangements across the sectors may distort student choices and limit the development of pathways across the tertiary education sector.
A somewhat ad hoc approach to entitlement and demand based funding is now emerging across the post-compulsory and tertiary education landscape in Australia. Historically, Australian governments have been committed to enrolment based funding for upper secondary education such that students can complete 12 years of schooling. COAG has in effect agreed to extend that entitlement to young people of school-age undertaking Year 12 equivalent programs in VET, to young people aged up to 20 who are not in education or work and to people aged up to 25 who are unemployed (although it is not clear that budget provision has been made by most states to fulfil this commitment).

Victoria has extended this entitlement (Training Guarantee) to people undertaking a VET qualification at a higher level than one way currently held, but students wishing to study for a qualification at the same level will have to pay full fees with access to VET FEE HELP. Apprentices and trainees in all states and territories who are new employees are effectively guaranteed a publicly funded training place under current arrangements.

Students undertaking undergraduate courses at publicly funded higher education institutions will be eligible to access a publicly subsidised place without regard to prior qualification levels.

This patchwork of eligibility and entitlement arrangements means that students may be treated quite differentially based on the choice of course and sector, regardless of their personal and broader social and labour market needs. This problem will be exacerbated if unmet demand for VET courses grows and as demand based higher education funding begins to take effect from 2011.

These anomalies are even greater in terms of differing practices for funding student choices of provider across the sectors, between different course types in VET and between jurisdictions. By way of example, students in Victoria wishing to undertake a degree at TAFE must pay full tuition fees as VET institutions cannot access Commonwealth higher education funding but a student wishing to undertake a VET program at an RTO operated by a university can access a subsidised place.

Funding for VET in schools is highly variable across jurisdictions, not adequately based on costs of delivery (particularly provision of workplace-based learning) or enrolments and often regarded as a lower priority compared to academic subjects by schools. This is unfortunate: VET in schools provides an attractive form of learning for many young people, and reaching the COAG attainment targets requires making it easier for students to access a wider range of pathways.

Australia has a large number of small and medium enterprises operating in highly competitive sectors. Such firms may find it uneconomic to invest in workforce development without some assurance that their investments will pay off – both through workers being retained and high-quality training being provided. International experience indicates that taxation incentives can be effective in lifting investment by Small and Medium Size Enterprises (SMEs), although care is also needed to minimise compliance and monitoring costs. However, particular funding mechanisms are only part of the story. Private investment in VET depends critically on a range of contextual factors: the quality and availability of training to access;
employer certainty of return on investment in VET; the drive from technological change; and the balance of demand and supply for labour with VET qualifications. Greater focus is required on measures to increase and leverage industry investment in VET, particularly from SMEs.
4 Options for Consideration

As VET is a shared responsibility between the Commonwealth and state governments, proposals for reform to the funding will have to be considered by both levels of government through both the Ministerial Council on Tertiary Education and Employment and COAG. Some options for improvement and reform would also need to be agreed and implemented at the state and territory level.

In developing funding options, it is important to identify the criteria by which they may be assessed. Policy effectiveness, program efficiency, equity outcomes, and the overall impact on lifting VET participation and qualifications are all important considerations.

4.1 Commonwealth/State Responsibilities

The shared responsibility for VET funding remains the most significant issue in and obstacle to improved investment in VET. As is the case health funding and other areas of shared responsibility for funding service delivery, lack of clarity in roles blurs accountability and perpetuates what the Prime Minister has referred to as the ‘blame game’ in relation to health funding.

Structural weaknesses in the current arrangements, combined with the weak outlook for VET investment, will almost certainly compromise the achievement of the COAG qualification attainment targets, and consequently Skills Australia’s workforce participation targets. These weaknesses could also see growing distortions in the relative balance of enrolments between VET and higher education, regardless of future labour market needs.

Several options have been identified over the years to address this issue:

- In 1992, the Commonwealth offered to take full responsibility for VET funding from the states and territories in exchange for substantial Commonwealth growth funding. That proposal was strongly supported by Victoria and had some support inside the New South Wales and other state governments, but was ultimately rejected by most states, resulting in a compromise which is still the basis of the current national VET agreements.

- The Review of Australian Higher Education recommended a modified form of national responsibility for VET funding through the extension of the Commonwealth Tertiary Education Entitlement to VET Diplomas and Advanced Diplomas in the first instance and progressively to other programs thereafter, together with the extension of income contingent loans for higher-level VET qualifications.

- Consideration in the past has also been given to the Commonwealth assuming responsibility for funding Diplomas and Advanced Diplomas, with the states maintaining responsibility for certificate level programs including apprenticeships.

A modified version of this option was for the Commonwealth to take responsibility for funding apprenticeships and traineeships given its role in the provision of employment centres in the administration of Australian Apprenticeships Centres.
• The option of matching enrolment based funding (which applied to the funding of higher education until the Commonwealth assumed full funding responsibility in 1973) has also been considered and was a requirement imposed by the Commonwealth for states to access growth funding when the national VET agreement was renewed in 2001.

• The Commonwealth could consider moving away from common, multilateral agreements to differentiated, bilateral agreements with the states and territories based on agreed levels of investment and outcomes.

The clearest and most straightforward option in the long term would be for the Commonwealth to extend the Tertiary Education Funding Entitlement to VET Diploma and Advanced Diplomas together with VET FEE HELP, such as that based on consistent eligibility criteria and demand based funding where entitlements exist (see 4.2 below):

• the Commonwealth is responsible for funding all higher education equivalent programs; and

• the states’ schools are responsible for funding school level equivalent programs (Certificates I-II), as well as apprenticeships and traineeships and Certificate IV courses.

If that option is not viable then there would seem to be little alternative but for the Commonwealth to enter into tighter formula and enrolment based funding agreements (such as those it is proposing in its health reform package).

The decision by the Commonwealth to provide the states and territories with the opportunity to use PPP funding as part of the base funding for VET represents a full return to a federalist model for VET funding, but also opens the potential for increasing differentiation in the nature of the agreements between jurisdictions including the extension of VET FEE HELP to publicly funded programs.

MCTEE and COAG will need to fully assess the future resourcing needs of the VET sector in terms of its role in meeting the COAG targets.

### 4.2 Entitlement and demand based funding

To address the anomalies outlined in section 3.11.2 and to give effect to the commitment COAG has made to halve the number of 15-64 year olds with a Certificate III by 2020 and the Compact with Young Australians, consideration should be given to the Commonwealth and the states/territories agreeing on a common framework for eligibility and demand based funding for young people. This could form part of the negotiations around the offer from the Commonwealth for the states to use PPP funding within their jurisdictions to help meet the COAG commitments.

This agreement should encompass Year 12 or equivalent and initial post school qualifications and for people without qualifications up to Certificate III.

Without an agreed and consistent eligibility framework, student choices of course and provider will be distorted, with growth in provision in areas where entitlement based funding exists (upper secondary education, higher education and apprenticeships and traineeships if they enter into a contract of training) and static or even declining
provision in many areas of VET. In fact, the most likely scenario is that academic pathways through school into higher education will be favoured over VET pathways, particularly given inadequate funding of and quality concerns over VET in Schools.

As part of this framework, consideration could also be given to greater differentiation in student fees, for example by making Certificates I-II free on the basis that they are Year 12 equivalent courses (as is recognised in the COAG targets) and then graduating student contributions for higher level qualifications, offsetting higher upfront charges through VET FEE HELP.

### 4.3 Improving Outcomes and Attainment

The current VET funding system is not sufficiently aligned with the COAG agenda to improve attainment levels (which mean full qualification completions) and improving outcomes for needy and disadvantaged learners.

A major priority for the VET sector is to translate its high levels of apparent participation into better outcomes, especially for needy and disadvantaged learners and to improve full qualification completion rates generally.

The COAG targets and the Skills Australia workforce participation targets highlight the need for improved foundation skills, including literacy and numeracy and ‘learning to learn’ skills, so that initial disadvantage and low achievement are not compounded. Such a strategy is also cost-effective: the more effective the preventative measures are, the fewer young people who will need to be helped after they have completed school, the more resources that can be directed to those with greatest needs, and the lower the overall costs. Focusing on prevention and early intervention is more effective than responding at the point of crisis.

RTOs commonly comment that funding rates do not sufficiently recognise the intensive needs of disadvantaged learners, in particular to provide initial assessment of needs and ongoing learner support to address learners’ personal needs and circumstances including working with other service delivery agencies. For these groups of learners, stimulating interest in learning, re-storing self confidence or introducing potential learners to a formal learning process is an essential pre-requisite to subsequent successful participation.

Consideration should be given to increasing funding for both course delivery (including literacy and numeracy as Skills Australia has proposed) and learner support together with incentives for RTOs to improve qualification completions and transitions to higher-level qualifications.

The initiatives announced in the 2010-11 budget to strengthen language and literacy and foundation skills are an important step in this regard.

More generally, consideration should be given to significantly tightening funding triggers for, and funding flows to, RTOs to encourage better and more informed student choice about courses and learning pathways, ongoing learner engagement and retention including some reductions in funding where learners withdraw (as is happening in some jurisdictions) and incentives for high performance in terms of learner engagement and outcomes, including transitions to higher level qualifications.
These options may have the effect of reducing apparent participation rates in courses. But many learners do not seem to be sufficiently engaged or gaining the full course benefits and outcomes, and focussing resources more intensively on learners who have made better choices should result in better learning experiences, improved qualification completions and improved transitions into the workforce and further learning.

Quality and outcomes could also be improved by standardising the average nominal hours for qualifications.

### 4.4 Performance and Outcomes Based Funding

These is a strong case to strengthen funding agreements and contracts with VET providers either through access to a performance based funding pool (as applies in higher education) or by placing some funding ‘at risk’ if performance benchmarks are not achieved.

The Quality Skills Initiative announced by the Commonwealth in the recent budget – which will be available to the largest 100 RTOs – is a significant development as it signals direct intervention and engagement by the Commonwealth in raising performance across a range of benchmarks; however, it should be complemented by states and territories reflecting similar benchmarks in funding agreements with all RTOs to ensure that the Commonwealth funding is not seen as discretionary or the ‘cream’ on top of normal delivery.

### 4.5 Enterprise and workforce development funding

Governments throughout the world are commonly seeking to increase overall investment in VET to help promote economic growth, employment and social cohesion. In addition to governments themselves directly funding VET, there is also evidence of governments seeking to stimulate investment in VET by individuals and enterprises. Overall participation in VET is higher when public and private funding mechanisms are designed to be complementary and mutually reinforcing. European experience indicates that, in general, VET cost-sharing mechanisms are associated with higher overall private expenditure on VET.

The Skills Australia Workforce Development Strategy makes a number of recommendations to improve education/industry linkages and to use public funding to leverage workforce development in enterprises including a 50 percent expansion on the Enterprise Connect program and through the use of the Enterprise Based Productivity Places Program.

Critical Skills Investment Fund, announced in the 2010-11 budget, with its requirement for significant industry contributions, is in part a response to this suggestion, although targeted to areas of critical skills shortages rather than workforce development generally.

Consideration should also be given to re-directing funding currently available through employer incentives for existing worker traineeships into a broader EBPP program in order to:

- Ensure that funding (estimated at between $100-$200 million) is used on training and not just to subsidise wages;
• Broaden the scope of the program particularly to technicians and tradespeople;
• Ensure that training programs reflect workforce development principles which include assessment of enterprise and learner need and highly flexible and tailored programs; and
• Reduce administrative and compliance costs associated with the use of legal contracts of training which are designed for new, not existing, employees.
• Potentially enhance the role of Industry Skills Councils in acting as brokers and intermediaries in the allocation of funding for workforce development.

4.6 Industry training levies

Many countries have well developed industry training levies which operate at the national or sectoral level. Australia has had experience with the Training Guarantee which was suspended and then abolished with little evidence that it had an impact on employer expenditure, although there was some evidence that it increased awareness of investment in training at the firm level.

As such and in the context of the Commonwealth Government Tax Review, a national system of industry levies is neither feasible nor arguably desirable.

Levies in the Building and Construction Industry operate in several jurisdictions and provide an important source of additional revenue and investment in those industries, although they are in effect an additional cost to users and consumers rather than a levy paid by industry.

Consideration could be given to the extension of this industry levy model to other sectors, particularly where skills shortages are exacerbated by the cyclical nature of the industry and where price sensitive contracting and sub contracting arrangements create disincentives for firms to invest in training.

4.7 VET in Schools Funding

The issue of an adequate framework for VET in Schools (or VET through schools) has been under debate but unresolved for well over a decade.

Governments and schools authorities must commit to funding VET subjects on the basis of costs, including the costs associated with providing high-quality workplace learning, and enrolments including the use of resources associated with secondary school enrolments.

This could be achieved by:

• Requiring schools to allocate enrolment related funding equally to all subjects, both academic and VET, on an average cost basis;
• Providing supplementary funding to meet additional costs where VET subjects exceed average costs;
• Providing supplementary funding for all VET enrolments to meet the costs of compliance, work placement, and other costs specific to VET programs;
• Ensuring that school based apprentices and trainees and able to access User Choice funding; and
• Providing both average and supplementary funding on an enrolment or demand driven basis.

Some jurisdictions have already moved towards this model.

4.8 Tax incentives

As the Commonwealth Government Tax Review has been completed, there is probably little scope to argue for consideration of tax incentives or offsets for individuals and enterprises in relation to education and training. There is also a strong policy preference for public investment or subsidies for areas such as education and training to be dealt with transparently through the budget process rather than ‘off budget’ through the tax system.

However, if this issue was to be explored, consideration could be given to:

• Broadening the scope of the Education Tax Refund to include secondary education equivalent programs in VET;
• Allowing individuals to offset the costs of participation in accredited education and training programs aimed at occupational upgrading and reskilling generally not just those related to their current occupation; and
• Providing a tax rebate for companies towards the costs of employees undertaking nationally recognised and accredited training on a similar basis to research and development tax concessions which enable employers to deduct 125 percent or 150 percent (for premium R&D) of the costs of R&D from assessable income.

It is important that tax incentives are structured so that they encourage participation by those with the least qualifications and investment by firms that may otherwise struggle to invest in their workforce.

4.9 More Effective Measurement of Total Investment in VET

A recurring theme in this report has been the difficulty of estimating total public and private investment in VET and in education and training more generally. While information on publicly funded provision and revenue from public providers is now quite comprehensive, we do not have an adequate picture of revenue from private providers or employer expenditure.

Issues relating to revenue from private providers are complex due to commercial in confidence and privacy considerations, particularly for RTOs not in receipt of government funding. The option of estimating revenue through confidential de-indentified surveys has been considered in the past and could be discussed with NCVER and the ABS.

Section 7 of volume 2 of this report proposes the option of conducting a similar survey to the National Employer Skills Survey (NESS) in England and consideration could also be given to discussing a survey of the kind with NCVER and ABS; in particular, such a
survey may also provide additional information on emerging skills needs and skills shortages and could inform Skills Australia’s and other agencies’ analysis and advice in these areas.