

## Submission to the Productivity Commission

### Re Skills and Workforce Development Agreement

I note with some concern the Commission's recommendation for 'reforms to make the VET system a more efficient, competitive market.'

The Victorian Government's experiment in similar reform of the VET system, beginning with their 2008 policy 'Securing Jobs for Your Future' almost destroyed the TAFE sector within four short years.

I believe that the Victorian experience should provide sufficient warning of how not to implement reform. Here is a brief outline of what happened:

In August 2008 the Victorian government announced radical reform to the state's skills training system in the policy document *Securing Jobs for Your Future*. This policy was premised on a growing need for highly skilled workers in order to maintain and improve Victoria's social and economic development in a competitive global market. The Victorian policy was consistent with COAG's reform agenda to boost productivity and increase workforce participation and mobility.

The policy encouraged growth and diversity in the VET sector by transitioning to a demand-driven model of training provision. Under the new 'Victorian Training Guarantee,' allocation caps on government subsidised places were removed for all registered training organisations, while at the same time student eligibility criteria for subsidy were tightened.

In other measures, the policy:

- subsidised TAFEs at a higher rate than private training providers for sub-diploma level courses, in recognition of the TAFEs' higher cost base as 'full service providers,'
- allowed all providers to set their own tuition fees up to maximum price limits, and
- provided for capital grants to TAFE institutes.

The reforms were to be phased in over four years, with fully contestable funding to start in 2011.

When the reforms were announced in 2008, Victoria's 14 stand-alone TAFEs were in good financial shape according to the Victorian Auditor-General's Office. Student fees in 2008 had grown by 13% over the previous year, and the sector overall was considered low-risk on four out of five key indicators. VAGO's summary view was that:

*Overall the financial sustainability indicators suggest that the TAFEs are in a healthy condition. The self-financing ratio is the only indicator of concern, as not only is the sector at medium risk of not being able to finance assets with the cash generated from operating activities, but all TAFEs are in this same position.... There are no high risk indicators and the trend generally shows that TAFEs are financially viable over the long term. While the financial sustainability of the*

*TAFEs on the whole is encouraging, some individual TAFEs may need to be monitored to maintain sustained viability.<sup>1</sup>*

Contestable funding significantly impacted VET enrolments in its first full year of operation in 2011. In just twelve months, government-funded enrolments ballooned by 29%, and teaching delivery claims increased by 31% to 147,000,000 student contact hours.<sup>2</sup>

Data published by Skills Victoria show that private providers took up virtually all of this market expansion and additional government subsidy:

*Table 1: Market share (enrolments) by provider type 2008-2011*

<b>Government funded market share (number of enrolments) by provider type</b>				
<b>Provider type</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
ACE	19% (73,771)	18% (68,304)	15% (63,810)	12% (64,634)
PRIVATE	14% (54,031)	15% (57,412)	23% (99,758)	40% (221,356)
TAFE (all TAFEs)	66% (253,468)	67% (251,079)	62% (263,337)	48% (263,460)
<b>Total enrolments</b>	<b>381,270</b>	<b>376,795</b>	<b>426,905</b>	<b>549,450</b>

*Source: Victorian Training Market Quarterly Report, Full Year 2011. Skills Victoria, DEECD. (pp.7,50)*

In this rapidly expanding market, the TAFEs were left behind by the more agile private training organisations that could choose to offer the most profitable courses and were not burdened with costly and ageing infrastructure, or by public sector industrial agreements.

In short, private RTOs ‘cherry-picked’ courses that were in high demand, required minimal capital expenditure and infrastructure to deliver, and that could be taught by minimally qualified instructors. This is apart from the problem of rogue RTOs delivering substandard education and in some thousands of instances entirely worthless qualifications.

In April 2012 the Victorian government released *Refocusing Vocational Training in Victoria*, which signalled alarm at a projected \$400 million budget blow-out in VET funding for the current financial year, and stated an intention to cap VET spending, and refocus the sector towards efficiency, effectiveness and sustainability. The State budget for 2012-13 reduced supplementary funding to the TAFE sector (including dual sector universities) by \$270-\$300 million.<sup>3</sup>

When supplementary funding was cut severely in mid-2012, even the better performing TAFEs became financially unsustainable. The immediate response by most TAFEs was to initiate staff redundancy programs, if they had not done so already.

By 2013, TAFE institutes were experiencing increased employment costs primarily from redundancies, reduced capital grants, reduced course subsidies and stagnant student fee

<sup>1</sup> *Results of Audits for Entities with other than 30 June 2008 Balance Dates, pp37-38. VAGO.*

<sup>2</sup> *Source: Victorian Training Market Quarterly Report, Full Year 2011. Skills Victoria, DEECD. (p.7)*

<sup>3</sup> \$270m according to *VET Funding Review – Issues Paper*. July 2015, Victorian Government; nearly \$300m according to *The Sydney Morning Herald*, May 8 2012.

revenue. VAGO's audit for 2012 concluded that:

*The sector's financial sustainability risk is deteriorating, with 10 of the 14 TAFEs assessed as medium risk in 2012, compared with seven in 2011... There is a risk that if individual TAFEs do not change their operations to cut costs and increase student revenue, they may become unsustainable.<sup>4</sup>*

It is fundamental that any proposed reforms recognise that TAFE institutions by legislation face additional obligations and fixed costs that RTOs do not bear.

In Victoria at least, most TAFEs are burdened with maintaining more premises and property than they can efficiently use for teaching purposes, but without government approval they are unable to take full commercial advantage of their surplus assets as a private business would – for example by sale, subdivision, leasing or even borrowing against assets.

For example, one regional Victorian TAFE had 16 properties of which they used eleven (2017 data). They were still obliged to maintain five closed campuses, and were unable to sell, subdivide or even lease their unused properties without departmental approval that would take many months or years.

TAFEs also are not entirely free to choose which courses they run. Automotive, construction and commercial cookery require significant infrastructure to teach hands-on, and for some TAFEs these courses are an integral part of their branding.

For example: A perceived oversupply of courses in business studies, retail and hospitality led the Victorian Government in late 2012 to cut subsidy rates for these courses from \$7-9 per hour down to \$1.50. One TAFE specialising in hospitality was hit hard. It had weathered the earlier funding cuts through pro-active efficiency measures and maintaining international student revenue via very successful marketing and branding overseas. The sudden plummet in subsidy revenue forced them to increase student fees, reduce staff numbers further, and draw on savings earmarked for campus expansion interstate and overseas.

I also hold some concerns about introduction of a student voucher system instead of subsidy payments. TAFE institutes will continue to have higher fixed costs and fuller service obligations than private RTOs – as outlined earlier – therefore will require subsidy payments to maintain financial viability. Additionally, a voucher system will provide no incentive for RTOs, private or public, to improve quality nor will it drive innovation in the sector, as RTOs will be forced to compete for students on price alone. Once again, private RTOs with lower overheads will be offering a free iPad to every new student.

Thank you for the opportunity to make this submission.

Peter Feldman, Melbourne, 16<sup>th</sup> July 2020

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<sup>4</sup> *Tertiary Education and Other Entities: Results of the 2012 Audits. Victorian Auditor-General's Office*