Dear Dr Boxall

The North Coast TAFE Institute Council welcomes the opportunity to provide comments on the IPART draft report *Pricing VET under Smart and Skilled*.

The Council, comprising 11 industry and community members and a staff and student representative, is an advisory body appointed by the Minister for Education and Training to help align TAFE services within the region with the current and emerging skills and education needs of learners, industries, communities, disadvantaged groups and other regional stakeholders.

We acknowledged the connection between VET pricing reforms outlined in IPART’s draft paper and the strengthening of NSW’s skill base and that greater contestability, efficiency and user contributions were among the key outcomes sought from reform.

IPART’s report provides a well-articulated and detailed set of recommendations to achieve these outcomes, though we note in our attached submission some significant risks that we see in several of the recommendations, as well as in the pace of implementation proposed.

Our key concern is for the introduction of VET pricing reform to occur in a way that ensures the viability of TAFE – not only as the only post-school education institution in many of our regional communities and the RTO best equipped to assure continuity of VET delivery in economically important thin markets – but also as an enabler of the NSW Government’s wider productivity, regional economic development and community capacity building priorities.

We have offered some suggestions in our submission for how IPART might address our concerns, particularly those relating to the accessibility of VET and wider educational services in the regional communities that TAFE serves, in finalising advice to Government. We would welcome the opportunity for further exploration of these issues and may be contacted via the Council’s Executive Officer, Joy Corben, on phone: 65862215.

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Warren Grimshaw AM
Chair
North Coast TAFE Institute Advisory Council

Elizabeth McGregor
Institute Director
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General Comments

The North Coast TAFE Institute Council welcomes the opportunity to provide comments on the IPART draft report *Pricing VET under Smart and Skilled*. The Council, comprising 11 industry and community members and a staff and student representative, is an advisory body appointed by the Minister for Education to help align TAFE services within the region with the current and emerging skills and education needs of learners, industries, communities, disadvantaged groups and other regional stakeholders.

Our Council provided input to the initial *Smart and Skilled* consultation, to advocate on behalf of North Coast people, enterprises and communities for VET and further education services to remain: industry and community-responsive; a driver of productivity in our regional economy; accessible; affordable; equitable and inclusive; and, reliable and high quality.

For these reasons, we support in-principle several of the draft IPART report’s recommendations, including the acknowledgement that RTOs should be recompensed for the varying delivery costs for different types of students, industry areas and qualification levels, as well as the proposed approach for determining base and variable prices to reflect high and low cost delivery.

Our *Smart and Skilled* input also acknowledged the connection between VET market reforms and the strengthening of NSW’s skill base and that greater contestability, efficiency and user contributions were among the key outcomes sought from reform. IPART’s report provides a well-articulated and detailed set of recommendations to achieve these outcomes, though we note below and over significant risks in several of the recommendations as well as the pace of implementation.

Our *Smart and Skilled* input advocated for market reform to be pursued in a way that supports the viability of the Government-owned TAFE system that has served NSW so well and which, for many regional communities, is the only provider of comprehensive VET and further education. Therefore, in principle we welcome IPART’s recommendation that the Government identify thin markets for negotiation of delivery with TAFE NSW institutes and community colleges, though we note below some issues with IPART’s proposed approach to defining and identifying thin markets.

We are aware that wider policy and funding issues relating to TAFE’s future role in the changing VET and tertiary education markets go beyond IPART’s specific remit to develop a VET pricing model, and are being considered in some parallel work elsewhere. However, we ask that the IPART Review consider the Institute Council’s following suggestions for addressing matters emerging from the draft IPART report, that are of significant concern for our regional communities and industries and for the ongoing viability of North Coast TAFE.
Requests to revise specific proposals and recommendations:

1. **Recommendations 1-5: Approach to establishing base and variable costs**
   
   While generally supporting the approach to establishing prices based on fixed and variable costs, we note that some of the proposed base prices in Table I.1 are below North Coast TAFE’s efficient cost of delivery, even without allowing for infrastructure costs. The model needs to be revised to take account of the higher capital cost for TAFE institutes in maintaining a region-wide network of campuses and specialist training facilities, even if they are rationalised, especially since later recommendations do not identify these as Community Service Obligation (CSOs). Nor does it appear that the VET funding model will support public infrastructure through TAFE Operational Base Funding. The proposed prices will therefore lead to significant declines in, and abandonment of, regional educational infrastructure.

2. **Recommendations 6-7: DEC monitoring of composition, quantum and quality of RTO delivery**
   
   These recommendations are supported and essential to ensure the rigour and quality of training by all RTOs and that an RTO’s choice and delivery of UOCs within qualifications is driven by industry and learner needs rather than profit considerations alone.

3. **Recommendations 8-9: Payment of loadings to RTOs for higher cost learners**
   
   We support the principle of a loading paid to RTOs for the higher cost of delivering in regional areas and to students with specific needs, though recommend a change in the proposals to:
   
   i. remove the restriction for one needs loading only, due to the higher costs of specialist support for students with multiple special needs
   
   ii. adopt a specific payment approach to RTOs for individual students with a disability because of the potentially unfair outcomes from a flat loading that is insufficient to provide reasonable adjustment appropriate to the particular disability. Research suggests that support costs for VET students with a disability can be broadly divided into three groups: relatively low-cost support requirements, medium support requirements (e.g. large print materials, special furniture); and high support requirements (e.g. note takers, interpreters, tutorial support). Andrews and Smith (1992) estimated that 6%, 24% and 70% of total expenditure for students with disabilities was required in these respective groups (excluding capital costs). High-cost supports were less frequently required, but consumed the largest proportion of the budget. A separate and fuller submission in relation to this issue has already been sent to IPART by NCTAFE. (Also see Selby-Smith and Ferrier 2005, *Funding arrangements for VET students with a disability: more talk or actual improvement*).
   
   iii. require RTO’s to report annually on evidence that loadings (or disability support payments) are expended in meeting these additional costs. Anecdotal evidence from the currently contestable training market suggests many RTOs view loading revenue as a bonus payment rather than expend it on additional or more accessible services to meet these special learner needs
4. **Recommendations 10-12: Thin markets and CSOs**

While welcoming the recommendation that the Government identify thin markets for negotiation of delivery with TAFE NSW institutes and ACE, we are advocating strongly for:

i. more planned and strategic mechanisms to identify such markets in advance in consultation with TAFE, ACE, industries and communities, rather than retrospectively in response to market failure. The current proposal would create uncertainty, gaps and discontinuity in service for learners and industry and would not be likely to stimulate interest or investment in serving these markets.

ii. not proceeding with the proposal for competitive tender process to supply these markets after the first few years of *Smart and Skilled*. Should this result in TAFE exiting thin markets by divesting of specialist staff and facilities in certain geographical areas or industries it would be very difficult for TAFE to re-enter. Noting also the closure of a number of ACE providers in our region in recent years, the risk of market failure and no public provider to step in would be high.

5. **Recommendations 13-19: Standard student fees**

We support in principle the introduction of a stronger user-pays element to bring more resources into the VET system, and welcome IPART’s proposal that students in Foundation Skills programs pay a much smaller proportion (10%) of the base price, as well as the Government’s commitment to continuing concession fees.

While understanding the rationale for a 40:60 ratio between student fees and Government subsidies towards the base qualification cost, our proviso is that costs should be shared in a way that:

- reduces unreasonable impacts for on individuals training in very high cost industry areas
- does not create a cost disadvantage or disincentive in terms of private returns for VET students relative to university students in similar disciplines
- avoids perverse incentives for students and RTOs to pursue lower cost qualifications for financial reasons alone, even though they may not be in areas of best return for the economy and student job outcomes.

We see risks in some of the draft recommendations of creating such market distortions and request that IPART explore ways to respond to the following concerns:

i. Recommendation 17 departs from the NSW Government’s commitment for a consistent fee regime across all RTOs, and instead proposes a maximum fee that lower-cost RTOs will seek to undercut for commercial reasons. We have concerns that if this departure from Government policy prevails, it could distort learner choices and undermine quality, as well as have a significant negative impact on TAFE institutes and the viability of ongoing public provision.

ii. The draft report underestimates how many students will face higher annual fees and the level of annual financial impact on them by assuming the number of VET students taking more than one year to complete their qualification is much higher than is the experience in North Coast TAFE. Apart from apprentices, many VET students complete their
qualification in one year and would have to pay their 40%-45% share of the cost of the qualification within that year.

iii. For those not eligible for a concession fee or the income contingent loan arrangements (currently only available to VET diploma and university students), the level of the student fee proposed for many VET certificates will be a major disincentive to undertaking those qualifications, especially in the full-time pre-vocational training settings that school leavers and work-force re-entrants seek to gain skills required for employment.

iv. Further, assuming again that a student is enrolled full-time and/or completes in one year, the student fees proposed in Table I.1 for Certificate 3 and above in areas such as engineering, construction, design and nursing are set at a level relative to the annual university CSP fee that fails to reflect; the lower life-time return to individuals of technician or trade level salaries compared to professional salaries in those industries; that HECS enables university students to study their qualification in any discipline with no up-front cost barrier.

v. The proposed fees for many VET qualifications currently in most need (e.g. nursing, engineering and apprentices) may reflect the high costs of delivery but, are among the highest and could be a further disincentive for individuals to train in these areas.

vi. Table 7.1 shows that the Commonwealth significantly adjusts the student share of high cost university qualifications and we recommend that IPART consider a similar approach in VET pricing. This will avoid the possibility of students and RTOs becoming involved (as they did in Victoria) in delivering a high volume of low cost qualifications that don’t align with the needs of the state economy or positive job outcomes for learners.

vii. Student fees in government-subsidised diplomas in high cost industry areas should be capped at the maximum average weighted VET Fee Help income contingent loan limit set by the Commonwealth for government-subsidised VET students in reform states (currently $5,000 p.a.*). If fees above this level were to be passed onto students, some higher level VET qualifications will have high up-front fees that do not apply to university CSP for which the HECS loan fully covers p.a. student fee and delays payment to their post-university years.

viii. While understanding the rationale for uncapping apprentice fees, we are concerned at the potential impact of fee increases for apprentices, as their qualifications are generally in high-cost (hence high student fee) delivery areas. We welcome the proposal for a phasing-in of this change but there is still a need for close monitoring to avoid further exacerbating trade skills shortages in economically significant industries.

ix. Replacing the proposed student fee regime with a weighted average fee by qualification level could relieve some impacts highlighted above for apprentices and students in other high cost course areas. A weighted average fee at qualification level would also be simpler for RTOs communicate to potential students, and considerably simplify any RTO and DEC administration and reporting required for NSW to comply with the VET Fee Help Loans average loan limit rule. *

* National Partnership Agreements for Skills Reform (Schedule 1)
6. **Recommendations 20-21: Concession Fees**

We support in principle, the recommended variation in concession fees by qualification level, to reflect that average nominal hours, RTO costs and private returns are higher for higher level qualifications, but we recommend:

i. capping the concession fee at $400 for qualifications at Certificate IV and higher

ii. extending eligibility for a concession to unemployed people who may have a Certificate IV or higher, but need to obtain a qualification at a lower level in an area of high skill need to improve their employability.

Also, to keep VET affordable for the most disadvantaged students and ensure real user choice for them in the reformed market, we suggest that IPART recommend that the NSW Government explore with the Commonwealth the ability for RTOs to invoice Centrelink for concession fee clients, rather than try to recoup the fee from their Job Service Provider. This would be administratively simpler for TAFE and other RTOs and more equitably reflect effort in providing a training outcome than the current system.

7. **Recommendations 22-25: Transparency in publishing RTO and student fee information and timing of fee and RTO payments**

The recommendations are broadly supported provided that all RTOs approved as providers of Government subsidised VET qualifications in NSW are subject to the same reporting and disclosure requirements. Further, in the interests of supporting real user choice and a level playing field, the requirement for RTOs to publish information on student fees, other personal costs incurred in studying a qualification and the timing of student fee payments, should be strengthened to mandate that:

i. this information should be clear, readily accessible and explicit on the RTO’s public facing web pages for each and every VET qualification that they offer

ii. RTOs should not require potential students to make further enquiries or divulge personal details to access published information about fees, other costs and payments.

8. **Recommendations 26-27: Timelines for review of base prices and student fees**

While noting that many RTOs including TAFE now have rolling enrolments, many students plan to commence study in a new qualification at the start of a calendar year. To enable RTOs to provide accurate and up-to-date fee information on their websites, and make costs clear to students during their planning phase, we propose that recommendation 26 be revised to time the annual student fee adjustment in mid-year.

Also as noted in 5 (i) above, we oppose the proposed departure from the Government’s commitment for a regulated student fee regime that all RTOs would charge. We also see that the first major review proposed prior to establishing 2018 pricing as the appropriate opportunity to consider whether the student fees might be relaxed to provide for a maximum. We do not support the proposal to consider a completely deregulated student fee regime at that time, again for the reasons outlined in 5.1.
Other implementation issues

9. Taken together, the issues we have highlighted of deregulated fees, significant increases in annual student fees and concession fees for most students, flat and undiscriminating funds for support services for people with a disability, and restrictions on Government-subsidised training for unemployed people with higher qualifications could significantly reduce demand for training, seriously impacting on skills supply and productivity, and on the most disadvantaged people.

10. To reduce the immediate impact on individuals and VET demand, we recommend that at commencement of the new pricing arrangements in mid-2014, continuing students already enrolled in a government-subsidised TAFE program – and who are facing significantly increased fees – be able to complete that qualification at TAFE (within, say, 12 months) under the same fee regime that applied when they commenced their course, and that TAFE be funded in a way that reflects the lower student contribution. This would also align with the principles relating to price adjustments and student fees as set out in 14.3.3 of the IPART report.

11. There are also risks in an immediate, radical shift in a slowing economy to an untested VET pricing model that does not factor in the differential costs of specialist TAFE facilities to service high-cost low-volume training, an accessible VET service for regional communities and provision of institution-based pre-trade training (especially for youth) for which few other providers have demonstrated capability. This risk could be reduced through a phased 3 year implementation schedule that:
   i. starts with an identified set of low risk qualifications in robust markets where current demand for VET qualifications from industry and individuals is particularly high, and allows for market mechanisms to be tested and adjusted based on experience
   ii. enables TAFE institutes to phase in the adjustments required to compete on a level playing field, without unacceptably disrupting the local economy and VET services to learners and employers in the regional communities in which they operate.

12. Finally, a reconsidered approach to the wider CSOs delivered by TAFE and a phased introduction of the new pricing model could reduce risks to areas of the economy beyond the VET market – particularly in regional economies – that could result from a sudden and significant cut in Government’s direct investment in TAFE. In this context we note that:
   i. the Allen Consulting Group’s 2008 finding quantified the return on investment in TAFE NSW at $6.80 for every $1.00 invested, taking into account not only its direct VET service provision but also its role as a key player and driver in regional economies (many of which are now experiencing an economic slowdown)
   ii. TAFE institutes’ current ability to offer a comprehensive range of VET qualifications is supported by a business model that incorporates a broad mix of high and low cost programs. The Victorian experience suggests this could be undermined quickly by the lower end of the market becoming dominated by providers with a business model focussed on lower entry costs, low price, and high volume.
   iii. TAFE and the VET market do not operate independently of other education sectors. An unintended outcome of aspects of the new pricing model could be a reduction in TAFE’s capacity to deliver VET for schools and tertiary pathways, especially in regional communities where markets are too thin to support adequate choice for school students and tertiary education aspirants.