



Independent Pricing and Regulatory Tribunal

# Pricing VET under Smart and Skilled

**Other Industries — Issues Paper**  
April 2013





Independent Pricing and Regulatory Tribunal

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Other — Issues Paper  
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## Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

**Submissions are due by 3 May 2013.**

We would prefer to receive them electronically via our online submission form <[www.ipart.nsw.gov.au/Home/Consumer\\_Information/Lodge\\_a\\_submission](http://www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission)>.

You can also send comments by fax to (02) 9290 2061, or by mail to:

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Independent Pricing and Regulatory Tribunal  
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Our normal practice is to make submissions publicly available on our website <[www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)>. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed on the previous page.

We may choose not to publish a submission—for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. IPART will then make every effort to protect that information, but it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's submission policy is available on our website.



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# 1 Introduction

Vocational education and training (VET) is post-compulsory education that provides accredited training to equip people with skills that enhance their job prospects and assist them in entering or re-entering the workforce. It provides courses and qualifications for a large number of careers and industries, including trades, office work, retail, hospitality and technology.<sup>1</sup>

The NSW Government is implementing a package of reforms known as Smart and Skilled, which will change the way VET is funded and purchased in NSW. From July 2014, it will introduce an entitlement to government-subsidised training in selected VET courses and qualifications up to and including Certificate III to all eligible individuals ('entitlement' training). It will also continue to fund a number of places in other targeted priority areas including pre-vocational training, skill sets and qualifications from Certificate IV to Advanced Diploma ('purchased' training).

Under Smart and Skilled, the Government will set the student fee **and** the government subsidy levels for all government-funded VET, and these levels will apply consistently across all registered training organisations (RTOs) approved to deliver this training. This will allow Government to introduce a training entitlement and meet its targets for VET in NSW while at the same time managing the impact of the reform in an environment where the funds available for VET are finite. It will develop a skills list to define the courses and qualifications that will receive government funding as either entitlement or purchased training.

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<sup>1</sup> VET does not cover the degree and higher level professional programs which are delivered by universities and other higher education institutions.

## 1.1 What has IPART been asked to do?

The Independent Pricing and Regulatory Tribunal of NSW (IPART) has been asked to provide advice on price and fee arrangements for government-funded VET under Smart and Skilled.<sup>2</sup> As part of this advice, we are to recommend a methodology for determining the price RTOs can charge for this VET, how much of the price will be paid by the student, and how much will be paid by the Government.

Our terms of reference (see Appendix A) state that the price and fee arrangements “should be market-tested, efficient, effective, socially optimal and take account of relevant externalities” and “should encourage quality training delivery at most efficient price”.

In general, experience suggests that, where it is feasible, competition encourages efficiency and innovation, and is preferable to regulation. Where prices and fees are regulated, it is our view that the methodology that is used to set them should try to replicate the outcomes that would be achieved in a fully competitive market by reflecting the efficient costs of providing training to the required quality standard. At the same time, this needs to be balanced against a methodology that is simple to administer and makes it easy for the Government to predict and manage the impact on the budget in the situation where the funds available for VET are finite. In addition students and government should each make an appropriate contribution to the price.

To determine the appropriate contributions, the methodology needs to take account of both the private and public costs and benefits of VET. The private benefits are those that accrue to students. They include financial benefits (such as increased probability of employment and higher after-tax earnings) as well as non-financial benefits (such as increased self-esteem, life satisfaction and happiness). The public benefits (or positive externalities) are those that accrue to individuals, organisations or the broader community not involved in the provision or receipt of VET. They include increased government revenues (arising from the increased tax payments from individuals with higher earnings), and a more productive workforce and economy (arising from increased skill levels).

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<sup>2</sup> This includes government-funded VET provided by TAFE NSW, Adult and Community Education (ACE) and private providers. It does not include commercial fee-for-service VET or VET in Schools, which will continue under existing arrangements and will not be affected by Smart and Skilled.

The terms of reference also indicate that our advice and recommended methodology should cover:

- ▼ The base price for qualifications, part-qualifications, skill sets and short courses that recovers their efficient costs.<sup>3</sup>
- ▼ The breakdown of each base price into a government subsidy and a student fee, taking into account whether the qualification is the student's first post-school qualification or a subsequent qualification, and its value to the student.
- ▼ The government-funded loadings to be added to the base price for higher cost learners, such as those in regional and remote areas and those with specific requirements (eg, Aboriginal and Torres Strait Islander students, students with a disability and long-term unemployed students).
- ▼ The identification and testing of thin and robust markets for VET, to assist the Government in determining and directing community service obligations (CSOs) to thin markets, which it deems as social obligations with low levels of demand and high operating costs.
- ▼ Other related matters that may impact on the methodology and price and fee arrangements, including concession, apprentice and trainee arrangements and conditions for future fee relaxation.

Following our advice, the Board of Vocational Education and Training (BVET) will be responsible for making recommendations to the Minister for Education to approve the appropriate levels of subsidy and student fees.

## 1.2 How will we conduct the review?

This issues paper is the first step in our process for conducting this review. It sets out our proposed approach for developing our advice and recommended methodology, and discusses the key issues we will consider.

We invite all interested parties to make submissions in response to the issues paper by 3 May 2013. (See page iii for information on how to make a submission.) We will hold a workshop in July to provide stakeholders with further opportunities for input. We will also release a draft report and seek submissions from stakeholders on our draft advice and recommendations before we release our final report.

An indicative timetable for the review is shown in Table 1.1. We will update this timetable on our website as the review progresses.

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<sup>3</sup> Throughout the remainder of the report we refer to these generally as courses and qualifications.

**Table 1.1 Indicative timetable**

Event	Expected timing
Issues paper released	2 April 2013
Submissions due	3 May 2013
Draft report released	28 June 2013
Workshop	July 2013
Submissions due	End July 2013
Final report to Minister provided	End August 2013

### 1.3 What issues do we seek comment on?

The issues on which we particularly seek comment from stakeholders are highlighted throughout this paper. For convenience, these issues (and the page on which they appear) are also listed below:

- 1 Do you agree with our proposed approach for developing a methodology to determine prices, student fees and government subsidies for government-funded VET? Do you think this approach will lead to arrangements that ensure students and government make an appropriate contribution to the efficient costs of providing VET courses, qualifications and part-qualifications? 26
- 2 Are our proposed assessment criteria for the review reasonable and consistent with our terms of reference? 26
- 3 Which of the 2 possible methods for determining a base price for courses and qualifications that reflects efficient costs do you prefer (map costs to industry groupings or map costs to Unit of Competency (UoC))? 40
  - Have we identified all the advantages and disadvantages of each method? 40
  - Is there another approach that we should consider to set base prices? 40
- 4 With reference to method 1 (map costs to industry groupings): 40
  - How should we deal with ‘outlier’ courses and qualifications, where the costs are significantly above or below the base price? 40
  - How should we set a base price for a part-qualification, short course or skill set? 40
  - How should the methodology take account of different modes of delivery (ie, classroom based and flexible delivery)? 40
  - How can any adverse effects arising from base prices that reflect an **average** cost within an industry group be addressed (eg, service quality implications)? 40
- 5 With reference to method 2 (map costs to UoC): 40

– What would be the best way to group UoCs?	40
– How should the methodology take account of different modes of delivery (ie, classroom based and flexible delivery)?	40
6 What student groups are more costly to train, and why? What additional costs are associated with providing training for these students?	41
7 Regarding thin markets:	42
– What training markets are likely to have low levels of demand and high operating costs (these markets may be defined geographically, by occupation or demographically)?	42
– Should we test for a thin market by using the difference between the cost per student and the base price (plus loadings) expressed as a percentage?	42
– If so, what is the appropriate threshold of cost in excess of the base price (plus loadings) do you think is appropriate?	42
– What other test should we consider?	42
8 How should the price and fee arrangements take account of the Government's training priorities when sharing base prices between student fees and government subsidies? Should the arrangements also consider the private and public net benefits that may be realised when a student undertakes VET? What alternative approach or criteria should be used to decide how the efficient costs of VET should be shared between students and taxpayers?	46
9 What is the effect of the level of student fees on students' participation in VET, eg to what extent do the current fees influence participation? What effect might a hypothetical doubling of fees have?	53
10 What is the impact of any capacity to pay and/or credit constraints faced by students or prospective students?	53
11 How could the approach to sharing base prices between student fees and government subsidy take account of any positive externalities associated with the provision of VET?	53
12 Do any other characteristics of the VET sector warrant additional government subsidy of the costs of VET provision?	54
13 What is the appropriate relativity between student fees for VET and student contributions for university study?	57
14 Which of these options do you think best meets the assessment criteria for this review:	58

– the student fee (and government subsidy) is an increasing percentage of the base price, depending on qualification level or	58
– the student fee (and government subsidy) is the same percentage of the base price for all qualification levels areas.	58
Are there any other options that better meet these criteria?	58
15 What criteria do you think we should use to decide on the additional contribution that should be made by students undertaking a subsequent qualification? Could these criteria be the basis of a fee setting rule?	59
16 What evidence is there on the benefits of part-qualifications? Is it appropriate to share the costs of part-qualifications between students and taxpayers in the same way as full qualifications? If not, what other approach would be appropriate?	59
17 How should the current annual fee for apprentices and new entrant trainees be converted to a fee per qualification? Should a flat fee across all qualification levels be maintained for apprentices and new entrant trainees?	61
18 How important are concession fee arrangements (rather than the availability of concession fees themselves) for providing equitable access to VET? Should concession fee arrangements be aligned with fee arrangements for other students? For example:	64
– Should concession fees be charged per qualification rather than per annum (or time served)?	64
– Should the level of the concession fee vary by level of qualification?	64
19 How should government payments to Registered Training Organisations (RTOs) for delivering entitlement and purchased training be staged over the period required to complete the qualification or part-qualification?	65
20 How should student fee payments be staged over the period of study?	65
21 Should the current payment arrangements under the Apprenticeship and Trainee Training Program (ATTP) and Strategic Skills Program (SSP) be maintained? If so, should the staged payment of student fees also match these arrangements?	65
22 How often should the methodology for setting prices and fees for government-funded VET be reviewed or re-estimated to ensure that students and taxpayers both continue to contribute an appropriate share of the efficient costs of providing VET?	67
23 How should base prices, student fees and government subsidies be adjusted in between reviews? What is an appropriate inflator for base prices? For student fees? For government subsidies?	67

- 24 In the years following implementation of Smart and Skilled, would it be appropriate to set a range for the student fee, rather than a single student fee, for each qualification? 68
- 25 Do you support relaxing fee regulation in areas of the government-funded VET market where competition is considered effective? 68

## 1.4 How this paper is structured?

The rest of this paper is structured as follows:

- ▼ Chapter 2 provides the context for this review, including an overview of the government-funded VET sector and the Smart and Skilled reforms
- ▼ Chapter 3 summarises our proposed approach for developing our advice and recommended methodology for price and fee arrangements
- ▼ Chapter 4 describes how we will determine base prices, loadings and CSOs, including how we will identify and test thin markets
- ▼ Chapter 5 describes how we will determine how much of the base price should be covered by the student fee and by the government subsidy
- ▼ Chapter 6 discusses other issues that affect our methodology including payment arrangements, concessions, apprentices and trainees.

## 2 Context for this review

The NSW VET market is made up of 3 key segments:

- ▼ the domestic government-funded market, where some of the cost of training is borne by government (in the form of payments to training providers) and the rest is borne the student (as fees)
- ▼ the domestic fee-for-service market, where all of the cost is borne by the student, and
- ▼ the overseas full-fee paying market, where all of the cost is borne by the student.<sup>4</sup>

Our review focuses on the price and fee arrangements for the domestic government-funded market only.<sup>5</sup>

To provide the context for this review, the sections below describe the current government-funded VET market<sup>6</sup>, and outline the NSW Government's Smart and Skilled reforms and their impact on this market.

### 2.1 Current government-funded VET market in NSW

Over the last 10 years, the government-funded VET market in NSW provides training to around 450,000 students a year.<sup>7</sup> It offers courses and qualifications for a large number of careers and industries to a diverse range of students.<sup>8</sup> The organisations that deliver the training include both public and private providers. Government funding comes from both the State and Commonwealth Governments, and most of this funding is allocated directly to the large public provider, TAFE NSW.

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<sup>4</sup> In some case, student fees are paid by employers on behalf of the student.

<sup>5</sup> Excluding VET in schools, which will continue under existing funding arrangements.

<sup>6</sup> Where possible we use statistics which reflect the focus of our review - the domestic government-funded VET market (excluding VET in schools where the delivery has been undertaken by schools).

<sup>7</sup> Measured 2002 to 2011. NCVET (2013), National VET Provider Collections, Students and Courses, 2002-2011, Accessed through VOCSTATS: 21 March 2013.

<sup>8</sup> VET does not cover the degree and higher level professional programs which are delivered by universities and other higher education institutions.



### 2.1.1 Courses and qualifications

The government-funded VET market offers more than 2,200 accredited training courses and qualifications.<sup>9</sup> Most of these are accredited qualifications that form part of an industry-developed, nationally accredited training package. They range from pre-vocational foundation courses, through to lower level Certificates I to IV, and higher level Diplomas and Advanced Diplomas (see Box 2.1).

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#### Box 2.1 VET qualification levels

The qualifications provided through VET include:

- ▼ Foundation training – these can be accredited courses or qualifications that underpin other vocational qualifications. They encompass literacy, numeracy and general employability skills, such as teamwork and problem-solving.<sup>a</sup>
- ▼ Certificate I to IV – qualifications in a wide variety of trades, occupations, industries and enterprises. Certificates I and II provide basic knowledge and skills for initial work, while Certificates III and IV provide higher level theoretical and practical skills for specialised or skilled work. The length of time to complete a certificate varies. Generally, Certificates I and II take 12 months to complete, and Certificates III and IV take 18 months.<sup>b</sup>
- ▼ Diploma and Advanced Diploma – qualifications providing specialised skills and knowledge for skilled and highly skilled paraprofessional work. On average these take 2 years to complete.<sup>c</sup>

<sup>a</sup> Standing Committee on Tertiary Education Skills and Employment, 2012, *National Foundation Skills Strategy for Adults*, p 2.

<sup>b</sup> See Australian Qualifications Framework Council, *Australian Qualifications Framework*, 2nd edition, 2013.

<sup>c</sup> See Australian Qualifications Framework Council, *Australian Qualifications Framework*, 2nd edition, 2013.

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VET and the use of training packages is a ‘competency based’ system of education where competency in a skill or knowledge area determines satisfactory achievement. Courses and qualifications are made up of specified Units of Competency (UoC). These groups of UoC capture the skills and knowledge a person requires to work effectively in a particular industry area.<sup>10</sup> In addition to full qualifications, students can complete individual units of competency, part-qualifications, or ‘skill sets’ (see Box 2.2).

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<sup>9</sup> IPART analysis of information provided by Department of Education and Communities (DEC).

<sup>10</sup> UoC have been defined and developed by industry, are nationally recognised and form the basis of training for specific industries. [http://www.vta.vic.edu.au/?Name=VET\\_Introduction\\_to\\_the\\_Australian\\_Training\\_System#unitcomp](http://www.vta.vic.edu.au/?Name=VET_Introduction_to_the_Australian_Training_System#unitcomp).

Accredited courses are based on the completion of a set curriculum and are made up of defined modules. They are developed to meet training needs that are not addressed by existing training packages. A course will not be accredited if it duplicates existing endorsed training package qualifications, or if the outcome can be achieved through the contextualisation of a training package qualification.

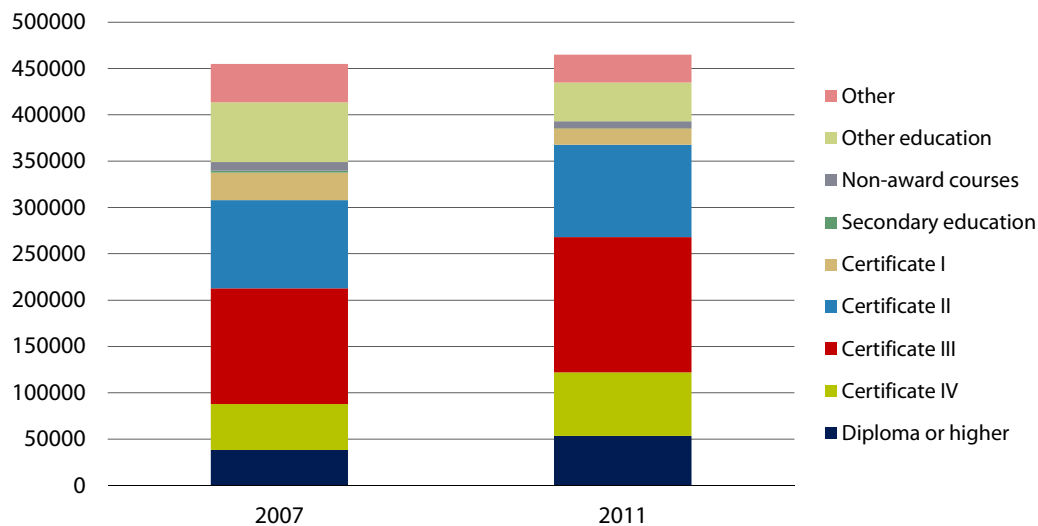
In 2011, over half (57%) of students in government-funded VET in NSW were in Certificate I-III qualifications, 26% were in Certificate IV and above, and a 17% were in non-accredited qualifications (see Figure 2.1).

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**Box 2.2 VET courses and qualifications**

- ▼ A training package is a nationally endorsed manual developed by industry that (among other things) establishes the VET competencies and qualifications for that industry or industry sector.
  - ▼ A qualification is a nationally endorsed group of units of competency that meets the training needs of an industry sector. It is awarded when a student has satisfied the requirements of all those units of competency.
  - ▼ A unit of competency covers the skills and/or knowledge required for one specific function or role in a particular job or occupation.
  - ▼ A part-qualification is a combination of units of competency from training packages that leads to the achievement of a Statement of Attainment.
  - ▼ A skill set is an endorsed logical grouping of units of competency which meet an identified need or industry outcome that leads to the Achievement of a Statement of Attainment.
  - ▼ An accredited course addresses industry, enterprise, educational, legislative or community needs that are not covered in nationally endorsed training packages.
-

**Figure 2.1 Government-funded VET Students by qualification level, NSW, 2007-2011**



**Data source:** NCVER (2013), National VET Provider Collection, Students and Courses, 2002 – 2011, Accessed through VOCSTATS: 21 March 2013.

Although technical training and apprenticeships were once the core of vocational education, this is no longer the case. Apprentices and trainees doing formal training<sup>11</sup> currently account for only 20% of students in government-funded VET training.<sup>12</sup>

VET covers diverse subject areas including health, management, commerce, food, hospitality, agriculture, engineering and building. In 2011, the most popular areas of study were:

- ▼ **Management and commerce** (23% of government-funded VET enrolments). These include business, management, sales, marketing, tourism, office studies, banking and finance.
- ▼ **Engineering** (14% of government-funded VET enrolments), including mechanical, automotive and process engineering.

<sup>11</sup> Apprenticeships and traineeships combine on the job training and work experience with formal training. There is a contract or training agreement between the apprentice and employer. Traditionally apprenticeships were in the trades, for example plumber, hairdresser and carpenter. Traineeships are available across a wide range of careers and industries, for example, allied health assistant, business administration, IT and retail. Apprenticeships are generally at Certificate III to IV level and take 3 or 4 years to complete while traineeships generally take 1 to 2 years to complete.

<sup>12</sup> NCVER (2013), National VET Provider Collection, Students and Courses, 2002 – 2011, Accessed through VOCSTATS: 21 March 2013.

- ▼ **Society and culture** (12% of government-funded VET enrolments). These include law, librarianship, language, literature, philosophy, religious studies, economics, sport and recreation.<sup>13</sup>

VET is delivered in a variety of ways, including face-to-face in a class room, in the workplace, through remote learning (ie using eLearning resources and web-based communication) or through a mix of classroom and online delivery. For distance education, the Open Training and Education Network (OTEN) is an example of a provider that offers specialist education and training in which a student may enrol at any time of the year and study at their own pace.

### 2.1.2 Student characteristics

Government-funded VET students in NSW come from a diverse range of backgrounds and stages of life and education. For example in 2011:

- ▼ 32% are aged 15 to 19, 32% aged 25 to 44 years and 19% are aged 45 and over
- ▼ 84% of students study part-time
- ▼ In terms of previous education, 44% have not completed Year 12, 31% have completed Year 12 or a Certificate III qualification, and 8% have completed a Bachelor degree or higher.<sup>14</sup>

VET students also include a wide range of equity groups, including indigenous students, students with a disability and students from non-English speaking background. In NSW, the proportions of government-funded VET students from these equity groups are higher than in the rest of Australia's VET system and the higher education sector generally (Table 2.1).

In addition, significant proportions of VET students in NSW have relatively low levels of social and economic advantage. In 2011:

- ▼ 18% of government-funded students come from rural/remote areas<sup>15</sup> (compared to 19% of VET students in the rest of Australia)
- ▼ 49% come from areas identified as being in the lowest 2 quintiles for relative socio-economic disadvantage
- ▼ 47% come from areas in the lowest 2 quintiles for education and occupational status, and

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<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> Remote includes locations classified under ARIA+ as outer regional, remote and very remote. See <http://www.abs.gov.au/websitedbs/d3310114.nsf/home/remoteness+structure> for further information about the ARIA+ classification.

- ▼ 50% come from areas in the lowest 2 quintiles for access to economic resources.<sup>16</sup>

**Table 2.1 Proportion of students from equity groups, Australia, 2010**

Status	Government funded VET system NSW(%)	Government funded VET system, rest of Australia	Higher education <sup>a</sup> (%)
Indigenous	6.2%	5.0%	1.3%
Disability	8.1%	6.8%	4.5%
Non-English speaking background	16.1% <sup>b</sup>	13.5% <sup>b</sup>	3.5%

<sup>a</sup> Domestic students only.

<sup>b</sup> Includes international fee-for-service students delivered by TAFE and other government providers. These students account for 1% of all NSW students in the NCVER collection of data on publicly funded students.

**Source:** NCVER (2013), National VET Provider Collection, Students and Courses, 2002 – 2011, Accessed through VOCSTATS: 21 March 2013 and Department of Industry, Innovation, Science, Research and Tertiary Education, Student 2011 Full Year: Selected Higher Education Statistics, Appendix 2 - Equity Groups.

### 2.1.3 Providers of VET

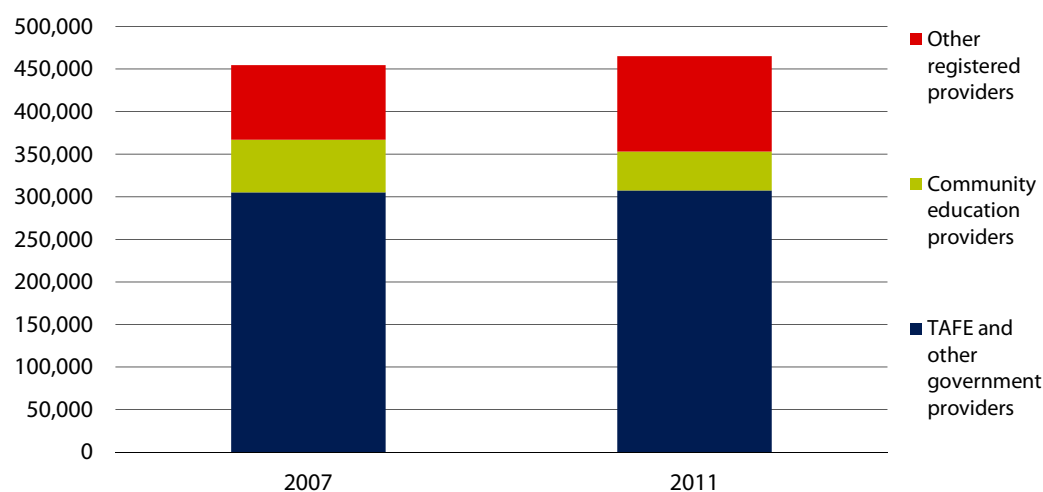
There are over 2,600 registered training providers operating in NSW. These include 10 large TAFE Institutes (dispersed over 130 campuses across NSW), as well as large private providers, private technical/trade providers, niche market providers, Adult Community Education (ACE) providers and enterprise-based training providers.

These providers can operate across all 3 VET markets – government-funded, domestic fee-for-service and international full-fee-paying. To deliver nationally recognised training, providers must be registered to issue qualifications in accordance with the Australian Quality Training Framework (AQTF).<sup>17</sup> These providers are known as Registered Training Organisations (RTOs).

Most students in government-funded VET are studying with TAFE NSW and other government providers (66%). However, the proportion studying with other registered providers has grown recently, from 19% in 2007 to 24% in 2011 (Figure 2.2).

<sup>16</sup> NCVER (2013), National VET Provider Collection, Students and Courses, 2002 – 2011, Accessed through VOCSTATS: 21 March 2013. These Quintiles refer to the Socio-economic indexes for areas (SEIFA), developed by the Australian Bureau of Statistics. For further information see <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/2039.0Main%20Features12006?opendocument&tabname=Summary&prodno=2039.0&issue=2006&num=&view=>

<sup>17</sup> Quality in the VET market is regulated by the Australian Skill Quality Authority (ASQA). More information on the VET quality framework is contained in Appendix B.

**Figure 2.2 Publicly funded students by provider type, 2007-2011**

**Data source:** NCVET (2013), National VET Provider Collection, Students and Courses, 2002 – 2011, Accessed through VOCSTATS: 21 March 2013.

#### 2.1.4 Funding and government purchasing of VET

The current approach for funding and government purchasing of VET in NSW is largely a supply-side model. This is, most of the government funding available for VET is allocated to the VET providers (the supply side of the market), and the students (the demand side) follow the funding.

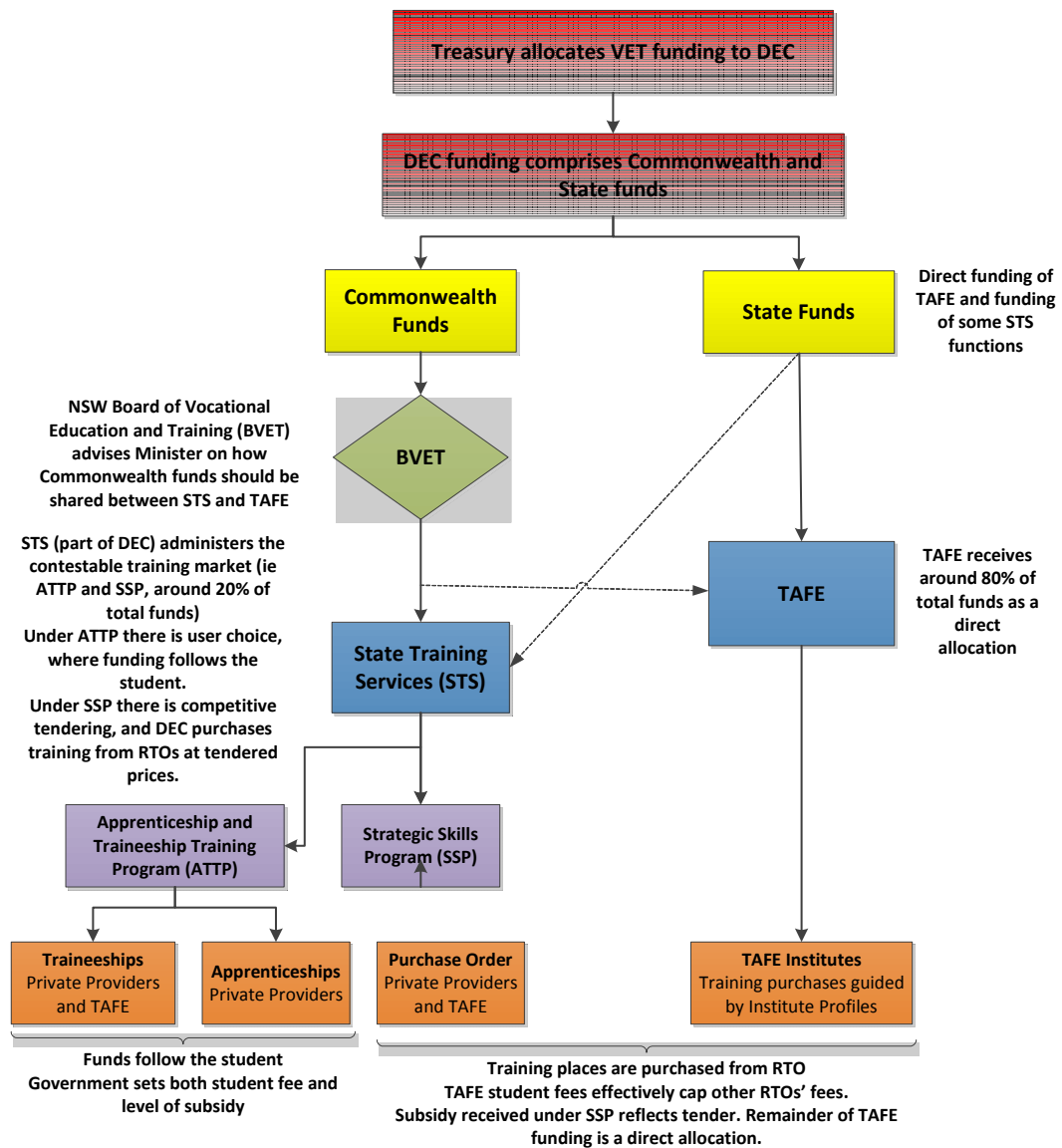
As Figure 2.3 illustrates, NSW Treasury allocates VET funding (from both the Commonwealth and State Governments) to the NSW Department of Education and Communities (DEC). DEC then allocates 83% of these funds to the large public RTO, TAFE NSW, to purchase specific output targets (eg, annual student contact hours, student enrolments, qualifications and completions).

The remaining 17% of government funding is used to purchase training on the contestable market through:

- ▼ the Apprenticeship and Trainee Training Program (ATTP), and
- ▼ the Strategic Skills Program (SSP).

Unlike the other parts of the government-funded VET market, the ATTP uses a demand-driven model for purchasing VET. This model provides user choice, as funding for the formal training component of an apprenticeship follows the apprentice or trainee to his or her preferred RTO.

The SSP uses a supply-side model. DEC (which administers the program) purchases training from selected private RTOs and TAFE to provide agreed training needed by the NSW economy. The students then follow the funding.

**Figure 2.3 Current VET Funding and Purchasing Arrangements**

### 2.1.5 Student fees

Currently, student fees are set for TAFE NSW. These fees vary with level of qualification, and are charged per year or semester (as opposed to per qualification). Higher level qualifications are charged higher level fees, reflecting the length and complexity of the training. TAFE fees for 2013 are set out in Table 2.2.

Under current arrangements in the government-funded VET market the fees charged by private providers competing with TAFE in the contestable part of the market are set at the same level as TAFE's fees.

Concession fees and fee exemptions are also available to VET students who receive (or are dependents of a person who receives) a range of eligible Commonwealth benefits or allowances, or are Aboriginal and Torres Strait Islanders, or have a disability.<sup>18</sup>

**Table 2.2 TAFE student fees by qualification, 2013**

Qualification	Annual Fee (\$)
Advanced Diploma	1,720
Diploma	1,432
Cert IV	1,078
Cert III	793
Cert II	506
Cert I	506
Apprenticeships/Trainees	478
Concession (all qualification levels)	100

**Note:** In case of severe financial hardship, Institute Directors are able to waive the fee.

**Source:** TAFE NSW, *TAFE NSW Fees*, Available from <https://www.tafensw.edu.au/courses/fees/tafensw.htm> Accessed 21 March 2013.

## 2.2 Smart and Skilled reforms and their impact on government-funded VET market

In 2011, the NSW Government considered the development of the Smart and Skilled reforms to meet the goals and targets in the NSW State Plan – *NSW 2021* and NSW obligations under the national skills agreements. These obligations include the introduction of a national training entitlement and targets for increasing the proportion of Australian with qualifications at Certificate III level and above.<sup>19</sup> The NSW Government announced the Smart and Skilled reforms in October 2012. It will take effect from July 2014.

<sup>18</sup> Eligible benefits include: Age Pension, Austudy (including Veterans' Children Education Scheme), Carer Payment, Disability Support Pension (second or subsequent course enrolment per year, first enrolment is exempt), Exceptional Circumstances Relief Payment, Family Tax Benefit Part A (maximum rate), Farm Help Income Support, Mature Age Allowance, Newstart Allowance, Parenting Payment (Single), Sickness Allowance, Special Benefit, Veterans' Affairs Payments, Widow Allowance, Widow Pension (including Widow 'B' Pension), Wife Pension, Youth Allowance.

<sup>19</sup> COAG, National Agreement for Skills and Workforce Development, released 2009 and revised 2012. A number of partnership agreements support this agreement, including the National Partnership on Skills Reform. See [http://www.federalfinancialrelations.gov.au/content/national\\_agreements.aspx](http://www.federalfinancialrelations.gov.au/content/national_agreements.aspx).



Smart and Skilled is a major reform of the NSW VET system. It will introduce an entitlement for entry-level training, income contingent loans for higher-level qualifications, better information for consumers and a quality framework for government-funded training.

Smart and Skilled will change the arrangements for funding and purchasing government-funded VET from a largely supply-side model (discussed above) to a largely demand-side model. This will mean more of the government-funded market will be consumer driver where students and employers have more choice over the approved RTO that best meets their needs.

The key changes relevant to this review are:

- ▼ the introduction of an ‘entitlement’ for entry level training up to and including Certificate III and targeted ‘purchased’ training in pre-vocational training, skill sets and higher level qualifications (Certificate IV, Diploma and Advanced Diploma)
- ▼ the pricing principles for price and fee arrangements
- ▼ the shift to charging student fees on a per qualification basis rather than an annual (or time served) basis.<sup>20</sup>

Other key reforms on Smart and Skilled include informed choice with improved quality measures, recognition of the role and function of TAFE NSW as the public provider, greater support for regions and equity groups and better information for consumers.<sup>21</sup>

### 2.2.1 Entitlement and purchased training

Under Smart and Skilled, the NSW Government will introduce an entitlement to government-subsidised training in selected foundation courses and qualifications up to and including Certificate III for eligible individuals (‘entitlement’ training). Students will be eligible to receive entitlement training if they are:

- ▼ an Australian citizen, permanent resident or humanitarian visa holder, and
- ▼ aged 15 years or over, and
- ▼ live or work in NSW, and
- ▼ have no qualifications at Certificate IV or higher.<sup>22</sup>

<sup>20</sup> For more information on these parts of Smart and Skilled see DEC, *Smart and Skilled – reforming VET in NSW*, Available from: [https://www.training.nsw.gov.au/vet/skills\\_reform/index.html](https://www.training.nsw.gov.au/vet/skills_reform/index.html), Accessed 7 March 2013.

<sup>21</sup> Under Smart and Skilled a new information service will allow students to identify training opportunities and compare training organisations. In addition, there will be an online portal with information on training, job prospects, career pathways and provider performance.

<sup>22</sup> DEC, *Smart and Skilled Fact Sheet for Individuals*, 2012, p 1.

Apprenticeships and new-entrant traineeships will form part of the entitlement and continue to operate under existing 'user-choice' arrangements. However, students will pay a fee per qualification rather than the current fee that is charged based on time served.

As per existing Government policy, existing-worker traineeships will not be eligible for government-funded training.

The funding and purchasing model for entitlement training will be demand-driven. That is, the government-funding for this training will follow the student to their choice of approved RTO. Under this model, the Government will need to manage a demand-driven system within a defined budget.

The entitlement will be limited to selected foundation skills and Certificate II and III qualifications. Certificate III is considered the core entry-level vocational qualification in many growing industry and occupational areas, and is the post-school level of qualification shown to have a positive impact on a person's employment and earnings.<sup>23</sup>

The Government will continue to subsidise other targeted training places, including pre-vocational training, skills sets and higher level qualifications from Certificate IV to Advanced Diploma. This training ('purchased' training) will be provided through TAFE NSW and approved private and community RTOs.

The funding and purchasing model for purchased training will be supply-driven. That is, government-funding for this training will be allocated to approved training organisations to purchase a fixed number of places.<sup>24</sup> After a year of implementation and review, the Government may extend entitlement training to include higher level qualifications.

The Government will develop a 'skills list' to define what courses it will fund as entitlement and purchased training. The overall aim of this list is to encourage enrolments in courses that meet the needs of the NSW economy and industry. The 'skills list' will be based on extensive labour market analysis and industry consultation. The Department of Education and Communities plans to hold consultations on the 'skills list' in late April and May 2013.

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<sup>23</sup> DEC, *Smart and Skilled - Frequently Asked Questions*, Available from: [http://www.training.nsw.gov.au/vet/skills\\_reform/faq\\_all.html#faq5](http://www.training.nsw.gov.au/vet/skills_reform/faq_all.html#faq5), Accessed 21 March 2013.

<sup>24</sup> DEC, *Smart and Skilled: Making NSW Number One Discussion Paper*, September 2011, p 4, Available from: [http://www.training.nsw.gov.au/forms\\_documents/vet/discussion\\_paper.pdf](http://www.training.nsw.gov.au/forms_documents/vet/discussion_paper.pdf), Accessed 9 January 2013.

### 2.2.2 Pricing principles for price and fee arrangements

The NSW Government has agreed on a number of pricing principles for price and fee arrangements under Smart and Skilled. These are included in the terms of reference for this review and listed in Box 2.3. We are required to have regard to these principles when developing our methodology.

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#### **Box 2.3 Government agreed pricing principles for government funded training under Smart and Skilled**

- ▼ Price and fee arrangements will apply transparently and consistently across all approved training organisations delivering public subsidy training.
  - ▼ Students will pay a set fee per qualification rather than an annual fee (or fee based on time served).
  - ▼ Students doing higher-level qualifications will contribute more than students doing lower level qualifications.
  - ▼ Exemptions and concessions will be retained for Aboriginal and Torres Strait Islander students, students with a disability and welfare beneficiaries.
  - ▼ Students doing a subsequent post-school qualification will make a higher contribution than those doing a first post-school qualification.
  - ▼ Students up to the age of 17 that have left school would continue to contribute at the first post-school qualification rate.
  - ▼ A loading on top of the base price will be paid to RTOs to reflect higher costs of training particular students. Loadings will be directed towards students that are disadvantaged (for example Aboriginal and Torres Strait Islander students, disability and long-term unemployed) and studying in regional locations.
  - ▼ Community Service Obligations will be paid to TAFE NSW and approved ACE providers. CSOs will be directed towards markets deemed as social obligations with low levels of demand and high costs (Government refers to these as thin markets).
  - ▼ Income contingent loans will be available for approved public subsidy Diploma and Advanced Diploma qualifications.
-

### 2.2.3 Student fees charged per qualification

Under Smart and Skilled, student fees will be charged per qualification rather than on an annual (or time served) basis. Figure 2.4 summarises what fees will apply to different types of qualifications and students under Smart and Skilled. The fee for an individual student will depend on the following:

- ▼ **Whether or not the qualification is on the skills list.** If a qualification is not on the list, students will have the choice to pay a commercial (or fee-for-service) fee that is set by the RTO (not the Government). Alternatively, the student may select another qualification from the skills list and possibly be eligible for a subsidised fee (depending on whether they meet the eligibility set out below). Our review does not cover fees charged by RTOs in the commercial fee-for-service market.<sup>25</sup>
- ▼ **Whether the student is undertaking the course as part of an apprenticeship and traineeship pathway.** The Government has indicated that existing eligibility requirements for apprenticeships and new entrant traineeships are to be maintained, while funding arrangements and fee payment will align to the policy principles under Smart and Skilled. Our review covers how the current fees for these qualifications should be converted into per qualification fees and whether these should differ by qualification level.<sup>26</sup>
- ▼ **If the course is not part of an apprenticeship or traineeship pathway, what the level of the qualification is and whether the student meets the required age and residency eligibility:**
  - Selected foundation courses and qualifications up to and including Certificate III will be classed as entitlement training. Students with no previous post-school qualifications will be eligible for a subsidised fee. Eligible students with previous qualifications at Certificate IV or higher will pay a subsequent subsidised fee which is higher than for those with no qualifications.<sup>27</sup> Students with previous qualifications at Certificate IV or higher, or who do not meet the age and eligibility criteria may elect to pay the commercial (or fee-for-service) fee. Training in the courses and qualifications on the skills list under the entitlement will be driven by demand.
  - Certificate IV to Advanced Diploma qualifications on the skills list will be classed as purchased training. Eligible students will pay a subsidised fee. Those doing a second or subsequent post-school qualification will pay a subsequent subsidised fee which is higher than for those with no post-school qualifications. The number of places that the Government chooses to fund will depend on priorities identified in the skills list.

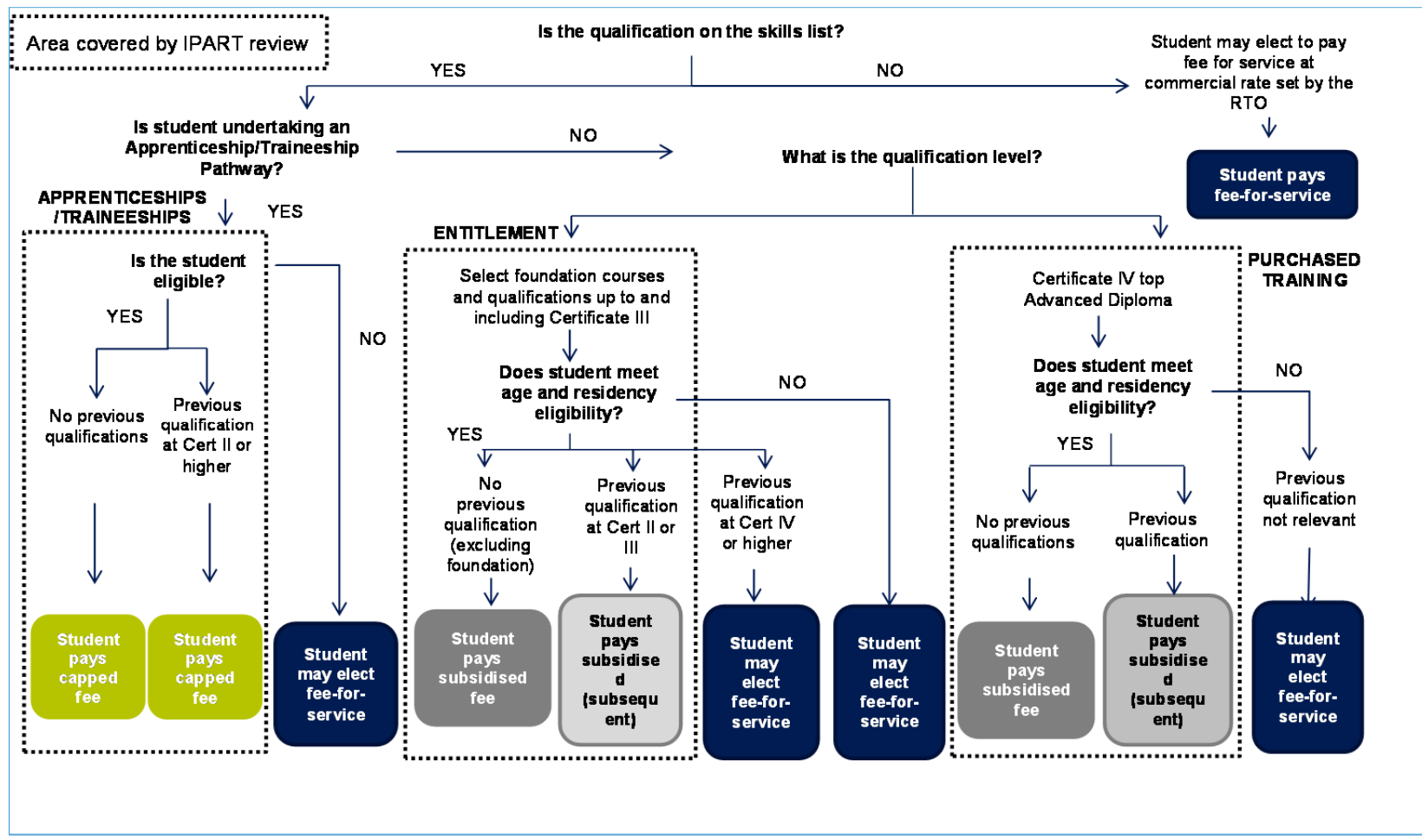
<sup>25</sup> However, we note that our Terms of Reference ask us to consider the impact of our methodology on fees paid by students in the fee-for-service market.

<sup>26</sup> As is currently the case, existing workers undertaking traineeships will not be eligible for government-funding.

<sup>27</sup> If a student's previous highest level of education is a foundation skills course they will be pay a subsidised fee for their first course or qualification higher than foundation skills.

- ▼ **Whether the student is eligible for a concession or fee exemption.**  
Concessions and fee exemptions will be maintained for Aboriginal and Torres Strait Islander students, students with a disability and welfare recipients.

Figure 2.4 Student fees under Smart and Skilled reform



### 3 Proposed approach for developing advice and methodology

As Chapter 1 indicated, our methodology for determining price and fee arrangements for government-funded VET should attempt where possible to replicate the outcomes of an efficient market by setting the prices that reflect the efficient costs of providing the training to the required quality standard. It should also ensure that students and the Government each makes an appropriate contribution to the price. This methodology must be applicable to all courses, qualifications and part-qualifications government will fund as entitlement and purchased training under Smart and Skilled.

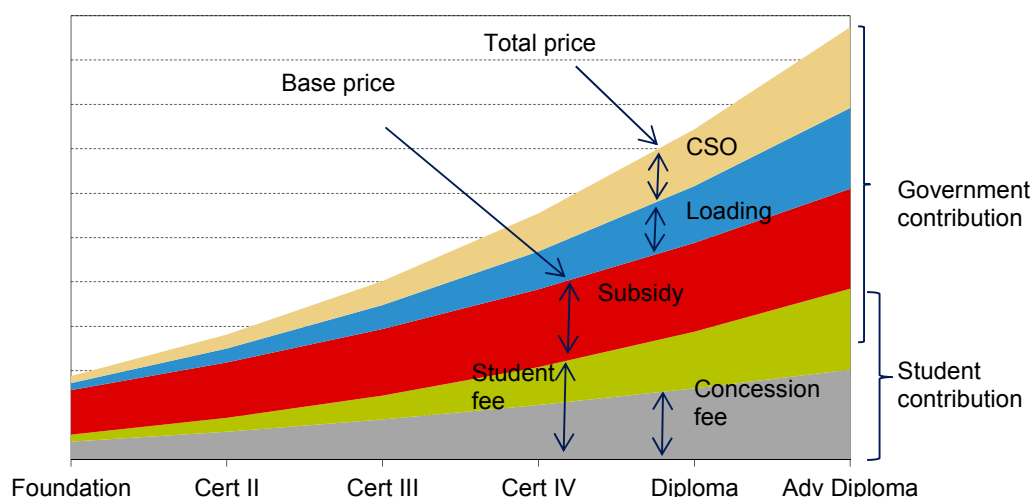
Our understanding is that the methodology needs to be able to assist the Government in determining 3 key components of the price and fee arrangements:

1. **Total prices for the different qualification levels, including:**
  - a) Base prices that recover the efficient costs of providing each course/qualification to the required quality standard. These prices may include a number of bands to reflect the different costs of providing training at the same qualification level and/or in different industry areas.
  - b) Loadings to be paid on top of the base price that recover the additional costs associated with providing training for disadvantaged students (for example, Aboriginal and Torres Strait Islanders, disabled and long-term unemployed students) and regional students.
  - c) Community Service Obligations (CSOs) to be paid on top of the base price to compensate TAFE NSW and approved ACE colleges for providing training in markets deemed as social obligations with low levels of demand and high operating costs. The Government refers to these as thin markets. We will identify and test the concept of thin markets to assist the Government in determining and directing CSOs. CSOs for thin markets should not include the additional costs to be recovered through loadings.
2. **The levels of the student fee and the government subsidy for each course/qualification.** These levels need to reflect an appropriate sharing of the base price between students and taxpayers. The student fee needs to distinguish between students undertaking their first post-school qualification and subsequent qualifications.

**3. Other fee arrangements.** These include the level of the concession fee for students eligible for a concession, and fee for students undertaking an apprenticeship or new-entrant traineeship which now need to be charged per qualification as opposed to a time-served.

Figure 3.1 illustrates the relationship between these key components. Note that the brackets on the right-hand side of the figure overlap. For most students, their contribution will be equal to the full student fee (ie, the base price less the subsidy). For students eligible for a concession, their contribution will be equal to the concession fee and the government contribution will cover the gap between this fee and the full student fee.

**Figure 3.1 Relationship between key price and fee arrangements under Smart and Skilled**



**Note:** Currently, concession fees do not vary by qualification level. We will be considering the arrangements for concessions fees under Smart and Skilled as part of this review.

We have developed an analytical approach for producing a methodology for determining each of these components. We have also developed a set of assessment criteria that reflect the overall objectives of the review and pricing principles, as well as the principles of good regulation. We propose to use these criteria to guide our decision making for this review.

The sections below provide an overview of our proposed approach and assessment criteria. Chapters 4, 5 and 6 discuss the individual steps in our proposed approach in more detail and the issues we will consider in each step.



### 3.1 Overview of proposed approach

Our proposed approach comprises 3 main steps:

1. **Develop a methodology for estimating the base price and loading for the different qualification levels and help determine and direct CSOs.** This will involve:
  - a) Investigating and understanding the efficient costs of providing VET courses, qualifications, part-qualifications and units of competency to the required quality standard.
  - b) Developing a methodology to determine the base price of individual qualifications and part-qualifications that reflects their efficient costs. This may include a number of bands within the same qualification level to reflect cost drivers such as the industry sector, the number of hours taken to complete a qualification or the mode of delivery.
  - c) Investigating and understanding the additional costs associated with training disadvantaged and regional students to determine loadings.
  - d) Identifying and testing the concept of thin markets to assist the Government in determining and directing CSOs.
2. **Develop a methodology for determining the share of the base price to be recovered through student fees and the share to be funded through government subsidy.** This step will involve:
  - a) Examining the private and public benefits that accrue when a student undertakes VET and their relative value, and considering the level of student fee and government subsidy this relativity may justify.
  - b) Considering the characteristics of the VET sector and whether these justify additional government subsidy.
  - c) Investigating how the costs of VET are allocated between students and government in other jurisdictions.
  - d) Considering the costs and benefits of undertaking VET compared to study at university and the level of student fee and government subsidy this relativity may justify.
3. **Consider other areas that affect the price and fee methodology.** We will consider several issues including:
  - a) Charging arrangements for prices and qualifications including concessions and ATTP fees as well as how base prices are charged over the qualification.
  - b) Prices and fees arrangements for the years following implementation of Smart and Skilled.

IPART seeks comments on the following

- 1 Do you agree with our proposed approach for developing a methodology to determine prices, student fees and government subsidies for government-funded VET? Do you think this approach will lead to arrangements that ensure students and government make an appropriate contribution to the efficient costs of providing VET courses, qualifications and part-qualifications?

### **3.2 Proposed assessment criteria**

To help us ensure that our advice and recommended methodology reflect the terms of reference for this review, including the overall objectives and the matters for consideration, we have developed a set of proposed criteria to guide our decision making. These criteria are listed in Box 3.1 below.

We intend to develop a methodology that best meets these criteria. However, we note that there is likely to be a degree of trade-off between criteria. For example, a methodology that most accurately reflects efficient costs may involve large data requirements and may not be simple to implement or easy for students and providers to understand.

IPART seeks comments on the following

- 2 Are our proposed assessment criteria for the review reasonable and consistent with our terms of reference?

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**Box 3.1 Assessment criteria for this review**

The methodology for determining price and fee arrangements for government-funded VET should:

1. Replicate where possible the outcomes that would be achieved in a competitive market by reflecting the efficient costs of training provision.
  2. Allow the Government to predict and manage the impact on the budget in the situation where the funds available for VET are finite.
  3. Ensure that students and government make an appropriate contribution to the efficient costs of providing VET.
  4. Encourage optimal supply of and demand for VET having regard to a broad range of factors including:
    - the efficient costs of providing VET
    - the varied types of consumers, products and delivery methods
    - the quality of courses, qualifications and part-qualifications
    - the benefits of VET including public and private benefits as well as financial and non-financial benefits
    - the potential impact on enrolments and NSW's capacity to meet national and State Plan targets (see Appendix C for more information on these targets).
  5. Be adaptable over time to the possible extension of the entitlement to qualifications at Certificate IV and above and changes to the skills list.
  6. Be consistent with the principles of good regulation by:
    - ensuring that where possible, decisions are made by parties in the best position to make those decisions (avoid regulatory micro-management)
    - being practical, pragmatic and feasible
    - being simple and understandable
    - being proportionate with the problem.
-

## 4 Estimating base prices, loadings and CSOs

The first step in our proposed approach for this review is to develop a methodology for estimating the base price and loading for courses and qualifications and determining CSOs. This methodology needs to help the Government meet the objectives of its Smart and Skilled reforms – particularly, meeting the State’s skills needs, lifting attainment levels and providing more student choice of provider, while at the same time managing the impact of the reforms on the budget. Therefore, the methodology should try to replicate the outcomes that would be achieved in a fully competitive VET market by reflecting the efficient costs of training provision. It is also important that the methodology for setting base prices allows for courses to be delivered to the required quality standard as regulated by ASQA through the VET Quality Framework. At the same time, these factors need to be balanced against a methodology that is simple to administer and makes it easy for the Government to predict and manage the impact on the budget in the situation where the funds available for VET are finite.

We have developed a proposed approach to producing a methodology for estimating base prices, loadings and CSOs that is designed to meet these objectives. This approach involves:

- ▼ Investigating and understanding the efficient costs of providing VET courses, qualifications and units of competency at the required quality standard.
- ▼ Developing a base price methodology for courses and qualifications which reflects efficient costs. This may include a number of bands within the same qualification level to reflect cost drivers such as the equipment costs, the number of hours taken to complete a qualification or the mode of delivery.
- ▼ Investigating and understanding the additional costs associated with teaching disadvantaged and regional students and developing a methodology for determining loadings that reflect these costs.
- ▼ Identifying and testing the concept of thin markets to help determine and direct CSOs for VET. (A CSO payment is warranted on top of the base price and any loadings for a service where the price does not cover the efficient cost (ie, the market is ‘thin’) but the Government deems that providing the service is a social obligation.)

The sections below discuss each of these steps in more detail and identify the issues on which we particularly seek stakeholder comment.

## 4.1 Investigating and understanding the efficient costs of providing VET

All VET involves the use of teachers, administrative staff, facilities, equipment and teaching supplies. While some courses and qualifications require very little specialised equipment and teaching supplies, others require a substantial amount. For example, a business course requires mainly teacher time, classroom facilities and access to computers. In contrast, a course in hospitality (kitchen operations) requires access to specialised equipment such as kitchen facilities, equipment and supplies. Thus the efficient costs of providing VET will differ by course.

The efficient costs may also differ by mode of delivery, ie, classroom based, employment based, or flexible delivery. For example, flexible delivery courses will require very little classroom facility but are likely to incur other costs specific to these forms of delivery.

It will be important for us to understand these costs and attempt to reflect them in the base price methodology to make sure that training is available in the areas where it is required. For example:

- ▼ Setting base prices or loadings that are, on average, too high relative to efficient costs will result in less training provided for every dollar spent. This would be an inefficient use of government revenues and student fees.
- ▼ Setting base prices or loadings that are high relative to efficient costs may also attract providers who simply wish to maximise short-term returns. This could have implications for service quality.
- ▼ Setting base prices that are too low relative to efficient costs will discourage providers from entering, or remaining in, the VET market. This may lead to an under-supply of training in skill areas the Government considers to be important or a reduction in the quality of the training provided.
- ▼ Setting base prices that do not reflect efficient costs can also affect the training content for each course or qualification. For example, RTOs may be given an incentive to offer the cheaper elective units and not offer the more expensive ones.
- ▼ Setting loadings that are too low will fail to achieve the intended results of the loading. For example, setting loadings for regional areas that are too low may lead to a reduction in training provided in regional areas. Setting these loadings too high may result in less funds being available in other areas where they are needed.

The following sections describe the types of costs incurred in providing VET and the information sources we will use to investigate and understand them.

### 4.1.1 Types of costs incurred in providing VET

We need to understand the main costs involved in delivering VET courses and qualifications and how they are affected by a range of factors such as industry sector, location, delivery mode and course complexity. Table 4.1 summarises the key types of cost that we will investigate.

**Table 4.1 VET costs categories**

Type of cost	Description of cost
Direct teaching costs	These depend on teacher costs per hour and hours of teaching time (ie, teaching hours x cost per hour) <sup>a</sup>
Course-specific costs (facilities, equipment and teaching supplies)	These include: <ul style="list-style-type: none"> <li>▼ Recurrent or operating costs (eg, cooking ingredients)</li> <li>▼ Capital costs (depreciation and return on assets) (eg, kitchen facilities)</li> </ul>
Shared costs	These include: <ul style="list-style-type: none"> <li>▼ Recurrent costs (eg, administrative staff salaries, utility bills)</li> <li>▼ Capital costs (depreciation and return on assets) (eg, classrooms and administration buildings)</li> </ul>

<sup>a</sup> Teaching hours include both face-to-face teaching hours and the time required for preparation, marking etc.

Course-specific and shared costs include both recurrent costs and capital costs (ie, asset costs). Capital costs include both depreciation ('using up' the asset over time) and a return on the asset. We need to include a return on the asset because this represents the opportunity cost to society of using the asset in this way (rather than using it for other purposes).

### 4.1.2 Sources of information that will inform our views on efficient costs

We will have regard to several sources of information and inter-related work when investigating and understanding the efficient costs of VET. These include information from previous reviews of the costs of VET in NSW, including work currently being undertaken by KPMG on a VET Budget and Funding Model, and prices submitted through the 2011/12 Strategic Skills Program (SSP) contestable market tender.<sup>28</sup>

<sup>28</sup> The data will be used in line with data protocols and analysed only for the purposes of informing our review. We will not disclose any commercially sensitive data or information about a contracted public or private provider.

### Previous reviews of the costs of providing VET

As Chapter 2 noted, around 83% of the government-funded VET market is currently provided via direct purchasing from TAFE NSW. Therefore, it is important to understand the costs that TAFE incurs when providing VET and the efficiency of these costs. There have been several reviews of TAFE in recent years, including the 2012 Commission of Audit. This review recommended potential savings for TAFE in several areas including:

- ▼ around \$160 to \$170 million through improved asset utilisation and greater local autonomy over financial management and staffing
- ▼ \$30 to \$60 million through negotiating agreements and awards that affect teaching hours and the balance between preparation and teaching.<sup>29</sup>

### Inter-related work on a VET Budget and Funding Model

Our terms of reference require us to take account of inter-related work on a VET Budget and Funding Model. KPMG has been appointed to develop a model that reflects the Smart and Skilled reforms. KPMG's work is due to be finalised in early May 2013. The shift towards a demand-driven VET system under Smart and Skilled has introduced the need to incorporate activity-based funding into the budget process (where the level of funding relates directly to the amount of training activity).

KPMG's work involves:

- ▼ developing a budget and funding model that supports the transition to a demand-driven training system and enables the DEC to manage budget risk
- ▼ identifying and mapping VET costs into various funding streams that reflect the Smart and Skilled reforms (eg, entitlement funding, purchased training funding, CSOs and operational base funding)
- ▼ analysing the costs of delivering courses and qualifications.

In doing this, KPMG will analyse information on the costs incurred in delivering government-funded VET. It will need to identify the costs that are related to activity and the additional costs faced by TAFE as a public provider, and give appropriate consideration to the principle of competitive neutrality.<sup>30</sup> The additional costs faced by TAFE Institutes that are not faced by private RTOs include, for example, workplace and industrial relations agreements that result in higher teaching costs; additional reporting requirements; and restrictions on TAFE's ability to deal with legacy infrastructure.

<sup>29</sup> NSW Commission of Audit Final Report Expenditure, May 2012, pp 76-77.

<sup>30</sup> Competitive neutrality means that government owned organisations should compete fairly in market and should not enjoy a competitive advantage simply because they are government owned. For example, this means that government owned businesses should earn a commercial rate of return on their assets.

KPMG's work (as well as the other sources of information discussed in this section) will inform our views on the efficient costs of delivering VET.

### SSP contestable market tender data

As Chapter 2 indicated, under the SSP training is purchased using competitive tendering. Each year, DEC issues a tender to purchase training for courses and qualifications in priority areas. For courses and qualifications other than apprenticeships and traineeships, RTOs bid the price (or government subsidy) at which they are willing to provide a course, qualification or UoC. They also provide bids on the loadings for specific student groups (eg, those with special needs), small class sizes and rural and regional locations.

The data from the 2011/12 competitive tender include bids from NSW TAFE Institutes, ACE providers and over 700 private RTOs.<sup>31</sup> We will interrogate this data to understand the cost drivers for different types of courses and qualifications and different students, and what level of costs should be captured in the base price as opposed to a loading. We will also use this data to 'market test' the base prices our proposed methodology produces.<sup>32</sup>

### Work in other Australian jurisdictions

We will have regard to the work done in other jurisdictions to implement an entitlement based VET system, in particular Victoria and South Australia (see Appendix D).

## 4.2 Developing a methodology for determining the base price of courses and qualifications that reflects their efficient costs

Once we have identified the efficient costs in the categories described in Table 4.1, we will develop a methodology to reflect these costs at a course and qualification level. This will involve mapping the costs in each category to a course, qualification or unit of competency, then using this information and the relevant teaching hours to set a base price per course and qualification. There are a number of ways we can do this. We have identified 2 possible methods, which differ in their complexity and cost reflectivity. These methods and their advantages and disadvantages are outlined below.

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<sup>31</sup> IPART analysis of contestable market tender data.

<sup>32</sup> The data will be used in line with data protocols and analysed only for the purposes of informing our review. We will not disclose any commercially sensitive data or information about a contracted public or private provider.



### Method 1: Map costs to industry groupings

The first method is fairly simple and straightforward, but may not accurately reflect the costs of delivering training for each course and qualification.

#### How method 1 would work

To use method 1, we would:

- ▼ sort courses and qualifications into broad industry groups (examples of groupings are shown in Table 4.2)
- ▼ map the costs in the categories identified in Table 4.1 to these industry groups
- ▼ identify the number of teaching hours per industry group (including preparation time etc)
- ▼ calculate the total cost per hour for each industry group
- ▼ calculate the cost per hour per student by dividing the cost per hour by an 'efficient' number of students per class for each industry group, and finally
- ▼ calculate the price for a course or qualification by applying the following formula:

$$\text{Cost per hour in industry grouping} \times \text{nominal teaching hours per course or qualification} / \text{class size}$$

where 'nominal teaching hours' refers to the standard number of hours that it takes to provide that course or qualification.<sup>33</sup>

For example, the base price for a Certificate III in Customer Contact, which falls into the 'business' industry group, might be

$$\$100 \text{ per hour} \times 400 \text{ hours} / 20 \text{ students} = \$2,000$$

This approach would result in a unique base price for every course and qualification. We could then take steps to further simplify the pricing system by reducing the number of base prices. For example:

- ▼ Industry groups may have very similar costs. Where this is the case, these industry groups could share the same base price.
- ▼ Many courses and qualifications have a very similar number of teaching hours. These courses and qualifications could be bundled into time bands and assigned an average price for the time band.

<sup>33</sup> National nominal hours per course, qualification and unit of competency are published by Victoria. Available at [http://trainingsupport.skills.vic.gov.au/p\\_trgpck.cfm](http://trainingsupport.skills.vic.gov.au/p_trgpck.cfm).

Each industry group, or set of industry groups, then would have a set of base prices based on time bands. Further, since qualification levels (eg, Certificate I, II or III) are closely associated with teaching hours, it may be possible to also organise the time bands by qualification level.

Under this approach, we would need to decide how best to derive a base price for part-qualifications, skill sets and short courses. One way of doing this would be to derive a base price for a part-qualification based on a proportion of the teaching time required compared to a 'full' qualification.

### Advantages and disadvantages of method 1

The main advantage of using method 1 is that it is relatively simple to apply once the costs and groupings have been identified and allocation rules developed. It also provides the Government with relatively more certainty over the costs of purchasing courses and qualifications. The main disadvantage is that it will produce base prices that reflect an **average** cost within the industry group. There are 3 reasons for this:

1. **Industry groupings are generally fairly broad and can cover courses with very different course-specific costs.** The extent to which this is a problem will depend on how detailed the list of industry groups is. For example, the broad industry group 'health and community services' includes qualifications that include Certificate III in Active Volunteering (which has low course-specific costs), Certificate III in Dental Assisting (which has intermediate course-specific costs) and Certificate III in Prosthetic/Orthotic Technology (which has high course-specific costs).<sup>34</sup>
2. **The number of teaching hours per course or qualification can vary widely, depending on which UoCs the student selects from the choice of elective units.** For example, according to the Victorian purchasing guidelines, the nominal teaching hours for a Certificate III in Business Administration (Education) can vary from 330 to 720 hours.<sup>35</sup> The methodology would need to use some sort of average number of hours, but the resulting base price could be high or low relative to actual cost of providing the training depending on which elective UoCs the RTO offers. This problem may provide an incentive to RTOs to offer only the lower cost elective UoCs. Box 4.1 explains this more detail.
3. **Courses and qualifications can include UoCs that fall into other industry groupings.** For example, a Diploma of Fitness can include UoCs from the business and health areas.<sup>36</sup> The costs of UoCs from other areas often differ significantly from those in 'home' industry.

<sup>34</sup> IPART analysis of contestable market tender data.

<sup>35</sup> *Victorian Purchasing Guide for BSB07 Business Services Training Package, Version No 7*. March 2013, p 6.

<sup>36</sup> Australian Government, Industry Skills Council, *SIS50210 Diploma of Fitness. Release:3*, 8 March 2013.

### Box 4.1 How a base price can affect the way training is provided

Suppose we set a base price of \$2,250 for a qualification that involves an average of 450 hours of teaching. An RTO is not obliged to offer all the elective UoCs and it could reduce costs by simply not offering the more expensive UoCs. By reducing the average number of teaching hours to 420 hours it could reduce its costs to \$2,100 and keep the \$150 as profit. We note however that this may result in the RTO offering an lower quality course which may lead to lower demand. Conversely, an RTO that offers all the UoCs could be penalised if it has a higher number of teaching hours than the industry average.

Units of Competency	Nominal hours	\$/hour per student	\$ per UoC per student
<b>Core UoCs</b>			
Apply knowledge of OHS legislation in the workplace	20	5	100
<b>Elective UoCs</b>			
Deliver and monitor a service to customers	35	5	175
Work effectively with diversity	30	5	150
Maintain financial records	60	5	300
Maintain business resources	15	5	75
Organise workplace information	30	5	150
Utilise a knowledge management system	50	5	250
Provide workplace information and resourcing plans	40	5	200
Promote innovation in a team environment	40	5	200
Comply with organisational requirements for protection and use of intellectual property	40	5	200
Process customer complaints	30	5	150
Create and use databases	30	5	150
Create electronic presentations	20	5	100
Design and produce text documents	90	5	450
Produce spreadsheets	35	5	175
Conduct online transactions	40	5	200
Design and produce business documents	80	5	400
Produce desktop published documents	50	5	250
Support continuous improvement systems and processes	40	5	200
Support operational plan	40	5	200
Recommend products and services	20	5	100
Purchase goods and services	60	5	300
Implement and monitor environmentally sustainable work practices	40	5	200
Organise personal work priorities and development	30	5	150
Work effectively as an off-site worker	40	5	200
Contribute to effective workplace relationships	40	5	200
Contribute to team effectiveness	40	5	200
Support a workplace learning environment	40	5	200
Write simple documents	30	5	150

**Sources:** Units of Competency are based on the requirements for a Certificate III in Business (BSB30110). Nominal teaching hours are from *Victorian Purchasing Guide for BSB07 Business Services Training Package Version No 7, March 2013*. Price per hour per student is hypothetical.

**Table 4.2 Examples of industry groupings**

<b>Example 1 – Broad groups</b>	<b>Example 2 – Current national industry groups</b>	<b>Example 3 – more detailed groups</b>
Business, Arts and IT	Arts, Communication, Finance and Property	Access
Health and Community Services	Health and Community Services	General Education
Science and Engineering	Forest Works	Learner Support
Sport and Recreation	Manufacturing	Fine Arts
Hairdressing and Beauty	Construction and Selected Property Services	Design
Tourism and Hospitality	Personal Services, Retail, Tourism and Hospitality	Media
Other	Primary Industries and Food	Printing
	Public Sector	Building Services
	Resources and Infrastructure	Building Construction
	Transport & Logistics	Administration Services
	Utilities and Electro-technology	Business Services
	Other	Community Services
		Health Services
		Sport and Recreation
		Hairdressing and Beauty
		Information Technology
		Primary Industry
		Manufacturing
		Electro-technology
		Mechanical Technology
		Travel, Tourism and Event Management
		Hospitality Services
		Transport
		Automotive
		Vehicle Body
		Other

### 4.2.2 Method 2: Map costs to Units of Competency

Method 2 would result in base prices that reflect actual training costs more accurately than method 1, but would be more complex to implement and administer.

#### How method 2 would work

Essentially, method 2 would involve calculating a cost per UoC, then calculating a base price for each course or qualification based on its number and type of UoCs. To make this method manageable, the base price would reflect the number and type of UoCs that an RTO *offers*, rather than the UoCs that each student *selects*.

As there are more than 20,000 UoCs, it would be both impractical and unnecessary to map costs to each UoC. Instead, we would combine the UoCs in groups based on their cost drivers. For example, many UoCs in areas such as education, business, administration and community services would have very little (if any) course-specific costs, and so could be grouped together.

Calculating the costs per hour for each UoC group would follow the same steps as calculating the costs per hour for industry groups. The allocation would just be far more detailed and complex because there are many more UoC groups than there are industry groupings. To do this we would:

- ▼ sort UoCs into groups with similar course-specific costs
- ▼ map the costs in the categories identified in Table 4.1 to each UoC group
- ▼ identify the number of teaching hours in each UoC group (including preparation time etc)
- ▼ calculate the total cost per hour for each UoC group
- ▼ calculate the cost per hour per student by dividing the cost per hour by an 'efficient' number of students per class for each UoC group, and
- ▼ calculate the price for a UoC by applying the following formula:

Cost per hour in applicable UoC group x nominal teaching hours per UoC/class size

For example, the base price for the UoC 'Prepare for animal care work' might be

$$\text{\$120 per hour} \times 20 \text{ hours} / 15 \text{ students} = \text{\$160}$$

Once we had determined a cost per UoC, we would calculate a base price for a course or qualification from a UoC price list. In principle, this could be done as follows:

- ▼ For core UoC, add the UoC prices.
- ▼ For elective UoCs, calculate a weighted average price that depends on how many elective UoCs the RTO offers compared to how many elective UoCs a student must do to gain the qualification. For example, if the course requires the student to do 4 elective UoCs and the RTO offers 6 elective UoCs, then each elective UoC would be given an equal weighing of  $4/6 = 0.67$ .<sup>37</sup> The amount paid to this RTO for each UoC would be 67% of the total efficient UoC cost. A similar approach could be used to calculate part-qualifications, short courses and skill sets that are typically made up of a subset of elective UoCs.

Box 4.2 provides a simplified example of how this calculation would work.

#### Box 4.2 Calculating a base price for a qualification using a UoC price list

A (hypothetical) Certificate II in Health Administration consists of 3 core UoCs and 3 elective UoCs. The elective UoCs can be selected from a number of options. Assume that an RTO offers the 5 elective UoCs show in the table below. The base price for the qualification provided by this RTO will be \$1,722, which is made up of \$840 for the core UoCs and \$882 for the elective UoCs that it offers.

Units of Competency	IoC group	Nominal hours a	\$/hour per student b	Weight c	Payment a x b x c
<b>Core UoCs</b>					
Contribute to effective workplace relationships	group 1	40	5	1.00	\$200
Interpret and apply medical terminology appropriately	group 2	60	8	1.00	\$480
Comply with infection control policies and procedures	group 2	20	8	1.00	\$160
Sub-total for core					<u>\$840</u>
<b>Elective UoCs (choose 3 of 5 of the UoCs offered. Weight = 3/5)</b>					
Manage patient record keeping system	group 2	50	8	0.60	\$240
Maintain financial records	group 2	60	8	0.60	\$288
Prepare and process medical accounts	group 2	30	8	0.60	\$144
Contribute to team effectiveness	group 1	40	5	0.60	\$120
Organise personal work priorities and development	group 1	30	5	0.60	\$90
Sub-total for electives offered					<u>\$882</u>
<b>Total base price</b>					<u><b>\$1,722</b></u>

**Sources:** Nominal teaching hours from *Victorian Purchasing Guide for BSB07 Business Services Training Package Version No 7, March 2013* and *Victorian Purchasing Guide for HLT07 Health Training Package Version No 5, August 2012*. Available at [http://trainingsupport.skills.vic.gov.au/p\\_trgpck.cfm](http://trainingsupport.skills.vic.gov.au/p_trgpck.cfm). Cost per hour are hypothetical.

<sup>37</sup> This is the probability of a student selecting any one UoC, assuming that all UoCs are equally popular and therefore equally likely to be selected.

UoCs are already categorised into about 350 Fields of Education (FoE), and one option would be to use FoEs as the starting point for the UoCs groups for pricing purposes. It should be possible to combine FoEs that have similar course-specific costs, and in particular FoEs that have very small (if any) such costs. We note that South Australia uses FoEs to calculate VET subsidies to RTOs.<sup>38</sup>

For most FoEs, the UoCs within that FoE probably have similar course-specific costs and differ mainly in terms of number of hours required to deliver a UoC. However, UoCs within some FoEs can be associated with very different costs. For example, the UoCs in the FoE 'automotive vehicle operations' include both 'operating a fuel tanker' and 'operating a two wheel motorbike'. Clearly, the equipment costs that are required for these 2 UoCs are very different.

### **Advantages and disadvantages of method 2**

Method 2 will produce more cost reflective base prices than method 1 for 2 reasons. First, under this method costs are allocated to a far more detailed level. Second, nominal teaching hours are more accurately reflected in the base price because each UoC has a set number of teaching hours.

The main disadvantages of this method are that it would be more complex to implement and administer and create more budget uncertainty than method 1. This is because there will be a large number of base prices and base price for a particular course or qualification could differ between RTOs if they offered a different set of elective UoCs. However, the method could be applied through an automated database. If this were the case, it is not likely to be much more complex to administer than the current competitive bidding system from an RTO's point of view.

Another disadvantage of this method is that, depending on how student fees are set, it may create more uncertainty for students. This is because courses and qualifications at the same level may vary in cost depending on what UoC are offered by the RTO.

We also note that it may take some time to implement this method with a high degree of accuracy. Initially, UoCs may need to be grouped into broad groups. The approach could be refined over the years as more detailed cost information becomes available from RTOs in the required format.

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<sup>38</sup> Government of South Australia, *Skills for All Subsidy Framework, Version No. 1.2*, 28 February 2013, pp 3-4. Available at <http://www.skills.sa.gov.au/for-training-providers/skills-for-all-training-providers/skills-for-all-training-provider-contract#Contract>.

IPART seeks comments on the following

- 3 Which of the 2 possible methods for determining a base price for courses and qualifications that reflects efficient costs do you prefer (map costs to industry groupings or map costs to Unit of Competency (UoC))?
  - Have we identified all the advantages and disadvantages of each method?
  - Is there another approach that we should consider to set base prices?
- 4 With reference to method 1 (map costs to industry groupings):
  - How should we deal with ‘outlier’ courses and qualifications, where the costs are significantly above or below the base price?
  - How should we set a base price for a part-qualification, short course or skill set?
  - How should the methodology take account of different modes of delivery (ie, classroom based and flexible delivery)?
  - How can any adverse effects arising from base prices that reflect an **average** cost within an industry group be addressed (eg, service quality implications)?
- 5 With reference to method 2 (map costs to UoC):
  - What would be the best way to group UoCs?
  - How should the methodology take account of different modes of delivery (ie, classroom based and flexible delivery)?

### 4.3 Setting loadings

Loadings are paid on top of the base price to recover the additional costs associated with providing training for high-cost students. Students may cost more to train if they:

- ▼ live in regional or remote areas, or
- ▼ have specific requirements - for example, if they have a disability, are of Aboriginal or Torres Strait Islander origin, require help with English, or have been unemployed for a long time.

To form a view on the appropriate levels for loadings, we need to understand what are the additional costs associated with providing training to each of these student groups. One source of information we will consider is the current loadings provided for government-funded VET in NSW and other jurisdictions.



### 4.3.1 Current loadings in NSW

Under NSW ATPP, loadings are added to the price per qualification for 'equity groups' and regional and remote areas as follows:<sup>39</sup>

- ▼ When the student is Aboriginal, Torres Strait Islander or disabled, an additional fixed amount is added to the price. In 2013, this amount is \$440 per Certificate II qualification and \$880 per Certificate III and Certificate IV qualification.
- ▼ When the training is provided in regional and rural locations, a loading equal to 15% of the price is added.

In addition, when a small business provides the training an additional 20% is added to the price per qualification. Further, when the training involves very high equipment costs an additional fixed amount of \$550 is added. In our analysis, high equipment costs are dealt with as a thin market issue, as discussed below.

### 4.3.2 Current loadings in other jurisdictions

Other jurisdictions in Australia also provide loadings for geographic remoteness and student disadvantage. For example in Victoria:

- ▼ a 5% loading is added to the government subsidy for training delivered in non-metropolitan areas
- ▼ a 50% loading is added to the government subsidy for Aboriginal and Torres Strait Islander students, and
- ▼ a 30% loading is added to the government subsidy for students between the ages of 15 and 19 who are eligible for a concession and do not have a senior secondary certificate or an accredited qualification at Certificate II or above.<sup>40</sup>

South Australia applies geographic loadings that range between 10% and 40%, depending on degree of remoteness.<sup>41</sup>

IPART seeks comments on the following

- 6 What student groups are more costly to train, and why? What additional costs are associated with providing training for these students?

<sup>39</sup> NSW Government, 2011-12 *Approved Providers List (APL) Contract (as varied from 1 January 2013)*, 6 November 2012. Part IV, p 16.

<sup>40</sup> State Government Victoria, 2013 *Service Agreement Victorian Training Guarantee Program*, November 2012, pp 62- 63. Available at <http://www.education.vic.gov.au/Documents/training/providers/rto/nontafeserviceagreement2013.pdf>.

<sup>41</sup> Government of South Australia, *Skills for All Subsidy Framework, Version No. 1.2*, 28 February 2013, p 4. Available at <http://www.skills.sa.gov.au/for-training-providers/skills-for-all-training-providers/skills-for-all-training-provider-contract#Contract>.

#### 4.4 Identifying and testing for thin markets

Under Smart and Skilled, we propose to identify a thin market for a course or qualification as follows: a thin market exists when an RTO in a defined market cannot recover the costs of providing that course or qualification because:

- ▼ student numbers are too low and
- ▼ the base price (plus applicable loadings) are low relative to the actual cost of providing the training.

These markets may be defined geographically (eg, rural and remote), by occupation (eg, small employment numbers) or demographically (eg, Aboriginal and Torres Strait Islander).

The Government may decide that it is in society's interest to provide the training because, for example, the skills are regarded as important to the regional or NSW economy and/or to promote social equity. In this case, the Government would provide a CSO payment to compensate the RTO for the difference between the actual cost of delivering the training and the revenue it receives through the base price and loadings.

We need to develop a methodology to test for a thin market to help the Government identify where CSO payments may be warranted. One possibility is to identify a thin market as one where the cost per student exceeds a certain threshold. For example, this threshold might be a certain percentage above the base price for this course or qualification (adjusted for loadings). Box 4.3 provides a hypothetical an example of how this test for a thin market might work.<sup>42</sup>

IPART seeks comments on the following

##### 7 Regarding thin markets:

- What training markets are likely to have low levels of demand and high operating costs (these markets may be defined geographically, by occupation or demographically)?
- Should we test for a thin market by using the difference between the cost per student and the base price (plus loadings) expressed as a percentage?
- If so, what is the appropriate threshold of cost in excess of the base price (plus loadings) do you think is appropriate?
- What other test should we consider?

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<sup>42</sup> The extent to which thin markets may exist will depend partly on the methodology that is used to set the base price. Specifically, using a more cost-reflective pricing methodology (such as Method 2 discussed above) will reduce the possibility that an RTO will be unable to recover its costs, even if it has a reasonable number of students, because the course-specific costs are high relative to the base price.

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**Box 4.3 Testing for thin markets**

Assume that an RTO wishes to offer a qualification in a regional area. As this qualification has a base price of \$5,600 and a loading of 20%, the RTO would receive revenue of \$6,720 per student.

The total cost to the RTO of offering the qualification is \$100,000, and the cost per student depends on the number of students. In market 1, the RTO can attract 15 students so the cost per student is \$6,667, which is 1% below the base price plus loading per student. In market 2, the RTO can attract 13 students so the cost per student is \$7,692, which is 14% above the base price plus loading per student. In market 3, the RTO can attract only 8 students, so the cost per student is \$12,500, which is 86% above the base price plus loading.

If we set the threshold cost per student for a thin market to be, say, 25% above the base price and loading, then we would identify market 1 and market 2 as a robust market and market 3 as a thin market.

	<b>Market 1</b>	<b>Market 2</b>	<b>Market 3</b>
Base price	\$5,600	\$5,600	\$5,600
Loading	20%	20%	20%
Total revenue per student	\$6,720	\$6,720	\$6,720
Total cost to offer qualification	\$100,000	\$100,000	\$100,000
Number of students	15	13	8
Cost per student	\$6,667	\$7,692	\$12,500
Excess of cost over revenue	-1%	14%	86%
Thin market threshold	25%	25%	25%
Thin or robust market	robust	robust	thin

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## 5 Setting the level of student fee and government subsidy

After deciding on a methodology for estimating the base prices, loadings and CSOs, our next step is to develop an approach for deciding how much of the base prices should be recovered through student fees<sup>43</sup> and how much should be funded through government subsidy.<sup>44</sup> The objective of this step is to ensure students and taxpayers each make an appropriate contribution to the price. To do this, we will consider:

- ▼ whether participation in VET by the student in the particular industry area is a priority to the Government
- ▼ where participation is a priority, whether there exists a public net benefit if the student undertakes VET
- ▼ the characteristics of the VET sector and whether these justify government subsidy
- ▼ how the costs of VET are allocated between students and government in other jurisdictions, and
- ▼ the costs and benefits of undertaking VET compared to study at university and the level of student fee and government subsidy this relativity may justify.

The sections below discuss each of these considerations and the issues on which we particularly seek stakeholder feedback. The final section discusses possible options for the structure of student fees and government subsidies, and how the level of fee might vary for students undertaking a first qualification compared to subsequent qualifications and part-qualifications.

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<sup>43</sup> Noting that the student fee may be paid by the student or by an employer on behalf of the student.

<sup>44</sup> Noting that, implicit in the pricing principles, loadings and CSOs are funded by additional Government subsidy rather than any additional student fee.

## 5.1 Government priorities for participation in VET

As set out in Chapter 2, the NSW Government has committed to targets for increasing the proportion of Australian with qualifications at Certificate III level and above.<sup>45</sup> The targets, which form the basis for the Government's priorities regarding participation in and funding of VET, are:

1. to halve the proportion of Australians nationally aged 20-64 without qualifications at Certificate III level and above between 2009 and 2020
2. to double the number of higher level qualification completions (diploma and advanced diploma) nationally between 2009 and 2020.

In addition, the Government will develop a 'skills list' to define what courses it will fund as entitlement and purchased training. The overall aim of this list is to encourage enrolments in courses that meet the needs of the NSW economy and industry.

## 5.2 Measuring the public net benefits from undertaking VET

When an individual student undertakes VET he or she may receive private financial benefits in the form of higher after-tax earnings and increased probability of employment.<sup>46</sup> The student may also receive private non-financial benefits, such as increased self-esteem, life satisfaction and happiness.

Public financial benefits from VET arise when the government experiences revenue increases (from the increased tax payments of individuals with higher earnings) and/or expenditure decreases (eg, from a reduction in welfare payments when an individual gains employment).

As identified by the Productivity Commission,<sup>47</sup> there are also likely to be public non-financial benefits (or positive externalities) associated with VET. These are benefits to individuals, organisations or members of the broader community that were not involved in the provision and receipt of VET. Such benefits to these third parties are less obvious and tangible than other benefits, but examples cited by the Commission include:

- ▼ Spillover benefits - that is, benefits to third parties from investments in VET that increase rates of innovation, the dissemination of new ideas and the development of increased generic skills and basic knowledge capabilities.

<sup>45</sup> COAG, National Agreement for Skills and Workforce Development, released 2009 and revised 2012. A number of partnership agreements support this agreement, including the National Partnership on Skills Reform. See [http://www.federalfinancialrelations.gov.au/content/national\\_agreements.aspx](http://www.federalfinancialrelations.gov.au/content/national_agreements.aspx).

<sup>46</sup> We note employers also benefit financially from the increased productivity of the individual.

<sup>47</sup> Productivity Commission 2012, *Impacts of COAG Reforms: Business Regulation and VET*, Research Report, Volume 3 - VET, Canberra, p 39.

- ▼ ‘Civic’ benefits – for example, benefits relating to social cohesion and unity, support to the functioning of a democracy, lower levels of criminal activity and community health benefits from increased knowledge of beneficial/harmful activities.<sup>48</sup>

One perspective is that base prices should comprise a student fee that reflects the private net benefit to a student from undertaking VET,<sup>49</sup> and a government subsidy that reflects the public net benefit from that student undertaking VET.<sup>50</sup>

$$\begin{array}{rcccl} \text{Fee per qualification} & + & \text{Subsidy per qualification} & = & \text{Base price per} \\ & & & & \text{qualification} \\ \text{(reflects private net} & & \text{(reflects public net} & & \text{(reflects efficient costs)} \\ \text{benefit)} & & \text{benefit)} & & \end{array}$$

We will investigate the private and public net benefits that arise when a student undertakes VET across different qualification levels and different industry areas. Where public net benefits are significant (ie, greater than base prices) there may be a case for taxpayer subsidy. However, if net private benefits are also large, students are likely to study regardless of whether or not a taxpayer subsidy is available, and the case for such a subsidy is weaker.

We do not have a measure of the extent to which the current student fees for publicly funded VET are recovering the efficient costs of its provision. However in the case of apprenticeships and traineeships, where both fees and subsidies are currently regulated, we know that student fees represent, at a minimum, around 20% of the government subsidy for this training.<sup>51</sup>

If we share the price of VET on the basis of the relativity between the potential private and public returns to VET, then it is likely that students will be asked to contribute more towards the cost of their training than they do at present.

IPART seeks comment on the following:

- 8 How should the price and fee arrangements take account of the Government’s training priorities when sharing base prices between student fees and government subsidies? Should the arrangements also consider the private and public net benefits that may be realised when a student undertakes VET? What alternative approach or criteria should be used to decide how the efficient costs of VET should be shared between students and taxpayers?

<sup>48</sup> Ibid. We note the Commission found these benefits are generally more associated with primary and secondary school than VET or higher education.

<sup>49</sup> ie, the sum of the benefits and costs faced by the student.

<sup>50</sup> ie, the sum of the benefits and costs from the perspective of the government.

<sup>51</sup> IPART calculations using [NSW ATTP price rates released 6 November 2012](#) (accessed 21 March 2013) and fees set out in Chapter 2. Assumes average time taken to complete a Certificate II is 1 year and Certificate III and IV is 3 years. We note that the current government subsidy plus the student fees may not necessarily reflect the actual (or efficient) cost of apprenticeship and traineeship training.

As part of our investigation into the private and public net benefits of VET, we will consider human capital theory and previous analysis of the benefits of education.

### 5.2.1 Human capital theory

Human capital theory is used within the economic analysis of labour markets, education and economic growth. As set out by the Productivity Commission,<sup>52</sup> Becker developed a theory to explain how people make education decisions. He argued that people invest in human capital through education to increase their options to secure better work and various non-financial benefits. The theory posits that education increases productivity and this higher productivity leads to higher wages and additional tax revenue.<sup>53</sup> People compare the benefits and costs of their different education options (as they perceive them) and choose the option that will yield the highest net benefit.<sup>54</sup> By subsidising the costs of VET qualifications in particular skills need areas, government influences the relative private costs of an individual's education options and therefore their choices. (See Box 5.1 for more information.)

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#### Box 5.1 Human capital theory

Human capital theory posits that education is a worthwhile investment that generates benefits in the future. The private (or student's) rate of return to education is the cost borne by the student (eg, forgone earnings, fees) compared to the benefits received (eg, increase in after tax earnings). The private return should also reflect non-financial benefits.

The social rate of return to education takes account of both private and public costs and benefits, including the cost of publicly provided education (ie, the taxpayer subsidy) and the increased tax payments of more educated individuals. The social return should take account of public non-financial benefits (positive externalities), but these are hard to measure.

From either a private or societal perspective, under human capital theory we assess the costs and benefits of education over time. For a student it is worthwhile to invest in education when the Net Present Value (NPV) of this calculation (ie, the sum of all the costs and benefits overtime, expressed in today's dollars) is greater than zero. For the government it is worthwhile to subsidise education when the NPV of this calculation at the societal level is greater than zero.

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<sup>52</sup> Productivity Commission, Op. Cit., p 123.

<sup>53</sup> See Chapman, B. and Lounkaew, K. (2012) *The Value of Externalities for Australian Higher Education*, p 6.

<sup>54</sup> Productivity Commission, Op. Cit., p 131.

We will use a human capital approach to understand the private financial and public financial benefits of VET and inform our decision on an approach to sharing base prices between student fees and government subsidies. We propose to examine the private and public financial returns to VET across different qualification levels and different industry areas. One possible starting point would be to share base prices between student fees and taxpayer subsidy having regard to the ratio between expected private and public returns.<sup>55</sup>

We acknowledge that this approach assumes that students (and potential students) have complete information about the costs of and potential earnings from undertaking different courses and qualifications. In practice this may not be the case. However, we note that Smart and Skilled envisages improved information provision so that consumers “have better information to make informed choices about their training”.<sup>56</sup> An online portal will provide information on training opportunities, training organisations, job prospects, careers and labour market trends. The national ‘MySkills’ website also provides information on training organisation capacity throughout the country.<sup>57</sup>

Measuring the private financial returns to VET involves:

- ▼ comparing the costs faced by students (eg, forgone earnings, fees) to the benefits received (eg, increase in after tax earnings). The private net benefits are the benefits minus the costs from the student’s perspective.
- ▼ examining the returns for different student profiles or types of students (eg, a young learner/school leaver, a mature-aged learner and a learner currently receiving welfare payments), and
- ▼ establishing a range that reflects differences in expected earnings by industry area.<sup>58</sup>

Measuring the public financial returns to VET involves comparing the costs faced by government (eg, forgone taxes while the student is studying, the level of subsidy) to the benefits received (eg, increased tax payments of individuals with higher earnings, reduction in welfare payments).<sup>59</sup> The public net benefits are the benefits minus the costs from the government’s perspective.

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<sup>55</sup> Although if net private benefits are large, then the case for a government subsidy is weak.

<sup>56</sup> See

[http://www.training.nsw.gov.au/forms\\_documents/vet/skills\\_reform/fact\\_sheets/smart\\_skilled\\_overview.pdf](http://www.training.nsw.gov.au/forms_documents/vet/skills_reform/fact_sheets/smart_skilled_overview.pdf) (accessed 27 March 2013)

<sup>57</sup> See <http://www.myskills.gov.au/Home.aspx> (accessed 27 March 2013).

<sup>58</sup> We acknowledge this does not account for any non-financial benefits associated with VET.

<sup>59</sup> We acknowledge this does not account for any non-financial benefits associated with VET.



As part of our analysis, we will assess how varying the share of base prices recovered through student fees and government subsidy affects the private and public returns on VET. For example, we could estimate the ranges of expected private and public returns if the student fee (or government subsidy) was set to recover 0%, 50% and 100% of base prices.

This approach implicitly assumes that the increase in earnings can be completely attributed to education (ie, that people earn more because they developed valuable skills or characteristics through undertaking VET). However, these extra earnings may be the result of ability and/or a ‘signalling’ effect. That is, individuals who have undertaken VET might earn more because, irrespective of their education, as a group they have greater capabilities than people who have not undertaken VET. Alternatively, they may earn more simply because of the qualification they have attained. The qualification itself is worth something as employers use it as a signal about a prospective employee’s capability (regardless of what the individual’s capabilities actually are).

According to the Grattan Institute, the literature on the relative importance of education, ability and signalling is inconclusive.<sup>60</sup> However, as part of our analysis of returns to VET we will test the sensitivity of the assumption that the human capital effect accounts for all of the increase in earnings.

We acknowledge that the availability of appropriate data will determine the degree of accuracy with which we can estimate returns at this level. We will investigate potential sources of data for this analysis and be guided by previous work on measuring the benefits of education.

### 5.2.2 Previous analysis of the benefits of education

In October 2010, the Higher Education Base Funding Review was asked to make recommendations on the principles for government subsidy of Australian higher education and the levels of subsidy that are appropriate to ensure that Australian higher education remains internationally competitive.<sup>61</sup> According to the Review, government subsidy of student fees should reflect the principle that the government pays for public benefits. These public benefits are defined as ‘additional non-pecuniary benefits to society’, plus the ‘direct fiscal dividend’ from the additional taxes graduates pay due to their increased earnings.<sup>62</sup> The Review recommended that the balance between student and government contributions to higher education should be set at a fixed proportion, regardless of the area being studied, with students contributing 40% and the Government

<sup>60</sup> Norton, A. 2012, *Graduate Winners: Assessing the public and private benefits of higher education*, Grattan Institute, p 39.

<sup>61</sup> See <http://www.innovation.gov.au/HigherEducation/Policy/BaseFundingReview/Pages/default.aspx> (accessed 21 March 2013).

<sup>62</sup> See Lomax-Smith, J., Watson, L. and Webster, B. (2011) *Higher education base funding review, final report*, Department of Education, Employment and Workplace Relations, p 103.

contributing 60% of the funding for each Commonwealth supported place (CSP), based on the potential public benefits generated.<sup>63</sup>

In April 2012, the Productivity Commission released its findings on the economic impacts and benefits of COAG's VET reform agenda.<sup>64</sup> As part of its assessment, the Commission estimated the net financial benefits from an individual undertaking VET.<sup>65</sup> The findings of this assessment are summarised in Box 5.2 below.<sup>66</sup>

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### Box 5.2 Productivity Commission findings on financial benefits of VET

The Productivity Commission found that for a young learner (aged 15 to 24) who completes a Certificate III or IV, the private cost is composed of \$1,758 in fees and \$15,660 in foregone earnings.<sup>a</sup> Ignoring the effect of ability on wages, the estimated benefit is an increase in the hourly wage from \$21 an hour<sup>b</sup> to \$25.47 an hour. This translates into an increase in lifetime earnings of \$324,632 (or \$140,664 when discounted to 2012 dollars using a real discount rate of 6%) or about \$7,700 per year, over 42 years. Government's contribution is about \$5,333 and the change in net government taxation revenue is about \$123,000 over 42 years (or \$53,452 in 2012 dollars using a 6% real discount rate).

In this stylised example, the individual is around \$123,000 better off in 2012 dollars if they undertake VET, while government's net benefit is around \$48,000 (again in 2012 dollars). This is equivalent to a ratio of private to public financial benefits of around 2.5 to 1. Under the fees and subsidies that applied at the time of this analysis, the ratio of student fee to taxpayer subsidy was around 1 to 3.

<sup>a</sup> Estimated as \$18 an hour, the wage imputed to a young person with a Year 11 qualification.

<sup>b</sup> The wage imputed to a person aged 25 and over with a Year 11 qualification.

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Analysis undertaken for the NCVET in 2010<sup>67</sup> investigated the employment and earnings outcomes for individuals who had undertaken VET. The study found that:

- ▼ Compared to people who have completed Year 12, there are no additional benefits<sup>68</sup> from obtaining Certificate I-IV qualifications. However, there are positive employment and earnings outcomes associated with obtaining advanced diploma and diploma qualifications. For example, in 2005, men

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<sup>63</sup> Ibid., p xxii.

<sup>64</sup> Productivity Commission, Op. Cit.

<sup>65</sup> Ibid. p 10.

<sup>66</sup> Ibid., p 18. While the Commission found the reforms to have positive economic impacts and result in net social benefits, it cautioned that point estimates should be interpreted with caution as sensitivity analysis suggested that small changes in assumptions can change the results markedly.

<sup>67</sup> See Lee, W-S & Coelli, MB 2010, *Analysis of private returns to vocational education and training*, NCVET, Adelaide, pp 10-11.

<sup>68</sup> In terms of probability of employment and average weekly earnings.

with advanced diplomas and diplomas were 4.7% more likely to be employed than men with a Year 12 qualification. They were also earning on average 6.9% more per week.

- ▼ Compared to people who did not complete Year 12, there are benefits from obtaining any kind of VET qualification, including the lower level Certificate I–II qualifications. In all the years examined, people with VET qualifications had relatively higher average weekly earnings and a higher likelihood of being in permanent employment. The industry areas that provide the largest effects on earnings and employment outcomes appear to be business, engineering, architecture, building and automotive.
- ▼ For mature-age students considering whether or not to undertake VET, it appears that it is only worthwhile to do so if the individual has fewer than 12 years of schooling, and is intending to enrol in VET at the Certificate III level or higher. In addition, it might take a year or 2 before any positive effects of the investment in education are realised.

These results are consistent with the pricing principle that students undertaking higher level qualifications will contribute more than students doing lower level qualifications. However, the study highlights the importance of the selecting an appropriate comparison group for this type of analysis.

### 5.3 Considering the characteristics of the VET sector

Particular characteristics of the VET sector may deter students from undertaking the level of VET needed to achieve COAG’s VET reform agenda. To counter this deterrent, government may provide increased subsidies to students to encourage greater participation. The features of the VET sector we propose to consider in this context are:

- ▼ the sensitivity of students to the level of VET fees (called the ‘price elasticity of demand’ for VET)
- ▼ the impact of potential capacity-to-pay or credit constraints faced by students, and
- ▼ whether students’ participation in VET generates public non-financial benefits (or positive externalities).

#### 5.3.1 Price elasticity of demand for VET and capacity-to-pay /credit constraints

The price elasticity of demand is a measure used in economics to show the responsiveness of the quantity demanded of a good or service to a change in its price. More precisely, it gives the percentage change in quantity demanded in response to a percentage change in price (holding all the other determinants of demand, such as income, constant).

The price elasticity of demand for a good is said to be low (or relatively low) when changes in price have a relatively small effect on the quantity of the good demanded. The price elasticity of demand for a good is said to be high (or relatively high) when changes in price have a relatively large effect on the quantity of a good demanded.

In general, the price elasticity of demand for VET is likely to be low. In 2004, Access Economics estimated that a 10% increase in VET fees was associated with only a 0.8% reduction in student hours, and a 100% increase in fees was associated with a 6% reduction.<sup>69</sup> However, there may be demand elasticity for students undertaking lower level qualifications – ie, those eligible for the entitlement. This is because the adequacy of private returns to VET at this level (in terms of encouraging students to participate) is uncertain<sup>70</sup> and therefore more sensitive to changes in costs and benefits.

The available literature suggests that financial considerations (such as the mix of student fees and income support while studying) constrain the education choices of low-income students.<sup>71</sup> Again, given the lower potential net benefits, this is likely to be a more important issue for students undertaking lower level qualifications (ie, those eligible for entitlement training) compared to higher level qualifications. In addition, the literature suggests there are credit market failures in a free market for education because financial institutions are reluctant to lend money to students to undertake education.<sup>72</sup>

Options for addressing these issues include income-contingent loan schemes (where student fees are repaid once the student's income reaches a particular threshold); additional government subsidy of VET costs; and the provision of student assistance through increased income support.<sup>73</sup> At present, VET FEE-HELP is an income-contingent loan available from some institutions for higher level qualifications (ie, above certificate IV). Student fees are heavily subsidised and, in addition, there are a number of means-tested payments available to support eligible students who are undertaking, or who are planning to undertake, approved full-time study or an apprenticeship.<sup>74</sup>

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<sup>69</sup> Access Economics (now Deloitte Access Economics) 2004, *Future Demand for Vocational Education and Training*, Department of Education, Science and Training, Canberra, pp 40-41.

<sup>70</sup> Long, M & Shah, C 2008, *Private Returns to Vocational Education and Training Qualifications*, NCVER, Adelaide, p 42.

<sup>71</sup> Karmel, T 2007, *The Demand for Tertiary Education in Australia*, NCVER, Adelaide, p 12.

<sup>72</sup> Productivity Commission 2011, *Vocational Education and Training Workforce*, Research Report, Canberra, p 64.

<sup>73</sup> We note that in addition the Government subsidises concession fees for Aboriginal and Torres Strait Islander students, students with a disability and welfare recipients.

<sup>74</sup> These payments include the Youth Allowance (for students and apprentices generally aged 16 to 24 years old), Austudy (for students who are aged 25 years and older) and ABSTUDY (a living allowance payment plus a range of supplementary benefits for Aboriginal and Torres Strait Islander students aged 16 years or older.) See <http://studyassist.gov.au/sites/StudyAssist/StudentIncomeSupport> (accessed 21 March 2013).

IPART seeks comment on the following:

- 9 What is the effect of the level of student fees on students' participation in VET, eg to what extent do the current fees influence participation? What effect might a hypothetical doubling of fees have?
- 10 What is the impact of any capacity to pay and/or credit constraints faced by students or prospective students?

### 5.3.2 Positive externalities

As discussed in section 5.1, there may be positive externalities (or external benefits) associated with VET. These are non-financial benefits to individuals, organisations or members of the broader community that were not involved in the provision and receipt of VET.

When an individual makes a decision on whether to undertake VET,<sup>75</sup> they are unlikely to consider the externalities their study may generate (ie, they are primarily concerned with the costs and benefits to themselves – not those that might be imposed on (or accrue to) the broader society). However, if VET does generate external benefits, and their value is greater than the additional costs of achieving them, then society would be better off if individuals do undertake this training. This situation may justify a government subsidy, which would encourage individuals (and/or firms) to invest more in VET.

Addressing this issue requires an estimate of the size of positive externalities. However, the available evidence on education externalities is mixed and it is difficult to draw any conclusions on the potential size of VET externalities.<sup>76</sup> Studies have generally concentrated on a single externality (eg, crime reduction) and no one study has comprehensively tried to capture all external benefits.

In its assessment of the economic impacts and benefits of COAG's VET reform agenda, the Productivity Commission used the concept of net social benefit as a measure of community welfare. Its estimate of this net social benefit did not include a valuation for the positive externalities associated with the provision of additional VET, due to time constraints. The Commission concluded that "Several researchers have shown that such benefits exist, but their estimates are relatively small. Further research in this area would provide a better basis on which to estimate the possible contribution of external benefits."<sup>77</sup>

IPART seeks comment on the following:

- 11 How could the approach to sharing base prices between student fees and government subsidy take account of any positive externalities associated with the provision of VET?

<sup>75</sup> Or a firm decides to provide training to its employees.

<sup>76</sup> Productivity Commission 2012, *Op. Cit.*, p 39.

<sup>77</sup> *Ibid.*, p 177.

- 12 Do any other characteristics of the VET sector warrant additional government subsidy of the costs of VET provision?

## 5.4 Price and fee arrangements in other jurisdictions

In deciding on a methodology for sharing base prices between student fees and government subsidy, we will also have regard to the price and fee arrangements applying in other jurisdictions (see Table 5.1). We will investigate how the costs of VET are allocated between students and taxpayers in other jurisdictions and whether these arrangements would be appropriate in NSW.

**Table 5.1 Price and fee arrangements for government-funded VET in other jurisdictions**

State	Price and fee arrangements
Victoria	No regulation of student fees. The subsidy available to a student for each hour of training is calculated as the product of the benchmark hourly rate (for the level of qualification being undertaken) and a course weighting. Higher rates apply to foundation and apprenticeship qualifications. Lower rates apply to diplomas and above (where income-contingent student loans are available) and lower level certificates where the direct vocational benefit is lower. Course weightings are based on an assessment of 'public value' reflecting the value of the course to the economy in terms of jobs or productivity, and extent to which government investment is required to stimulate delivery and/or participation in training to meet industry needs.
South Australia	Foundation skills, Certificate I and II, priority courses and foundation skills courses are fee free. Other courses have a maximum student fee of \$7,000 per qualification. The subsidy available to a student for each unit of competency is the product of the payment hours (determined by the Minister), the qualification level and other relevant adjustments for location, student and course.
Queensland	Will be amending legislation to create more flexible fee and charging arrangements. Level of subsidy will vary, with lower priority VET receiving a lower subsidy.

**Sources:** <http://www.education.vic.gov.au/Documents/about/department/vetsubsidies.pdf> p 1 (accessed 25 March 2013)  
<http://www.skills.sa.gov.au/Portals/0/content/fortrainingproviders/pdfs/Subsidy%20Framework%20Version%201.2%20-%2028%20February%202013%20-%20Skills%20SA.pdf> pp 6, 8 (accessed 25 March 2013)  
<http://www.training.qld.gov.au/resources/industry/pdf/government-response.pdf> pp 8-9 (accessed 25 March 2013).

## 5.5 Considering relativities with university study

We will also examine the relative financial costs and benefits (ie, fees and potential future earnings) of undertaking VET and undertaking study at university, and what level of government subsidy for VET this may justify. The available evidence suggests that, in general, university study results in higher returns compared to VET. Accordingly, it may be appropriate that VET students are not required to contribute more to the cost of study than university students.

### 5.5.1 Current fee arrangements for Commonwealth Supported Places (CSPs) at university

Commonwealth Supported Places (CSPs) at university are subsidised by the Australian Government and available to domestic students.<sup>78</sup> Similar to government-funded VET, the Government subsidises part of the cost of a degree qualification and a student contribution notionally recovers the rest.

However, unlike the availability of government-funded VET, which will be driven by the skills list, CSPs are available in all fields of study (although different student contribution rates apply). The Government groups different areas of study into 'bands' and sets a range of student contribution rates that can be charged on a full-time study load for a year (normally 8 units).<sup>79</sup> In 2013, the bands are structured as follows:

- ▼ Band 1: \$0-\$5868 (fields such as humanities, behavioural science, social studies, clinical psychology, foreign languages, visual and performing arts, education and nursing).
- ▼ Band 2: \$0-\$8363 (fields such as mathematics, statistics, science, computing, built environment, other health, allied health, engineering, surveying and agriculture).
- ▼ Band 3: \$0-\$9792 (fields such as law, medicine, dentistry, veterinary science, accounting, administration, economics and commerce).<sup>80</sup>

A student's actual contribution is calculated unit-by-unit. For example, a student studying a humanities degree (Band 1) but choosing an elective in law (Band 3) will be charged at the Band 3 rate for that elective. Students can defer payment of the student contribution through the HECS-HELP government loan scheme.<sup>81</sup> Table 5.2 sets out the student fee and government subsidy of university study by field of education.

<sup>78</sup> CSPs are available at public universities and in a small number of courses at selected private universities and higher education providers (usually institutions providing education or nursing qualifications).

<sup>79</sup> In general providers charge the maximum rate.

<sup>80</sup> See <http://studyassist.gov.au/sites/studyassist/help-paying-my-fees/csps/pages/student-contribution-amounts> (accessed 5 March 2013).

<sup>81</sup> HECS-HELP is an interest-free, income contingent loan that students do not have to start paying back until their income reaches the minimum repayment threshold (\$49,096 in 2012-13 – see <http://www.ato.gov.au/individuals/content.aspx?doc=/content/8356.htm> (accessed 27 March 2013)).

**Table 5.2 Annual funding for CSPs (2013; student taking out HECS-HELP loan)**

Field of education	Student fee	Government subsidy	Total funding	% subsidy
Agriculture	8,363	21,075	29,438	72%
Nursing	5,868	13,041	18,909	69%
Dentistry, medicine or veterinary science	9,792	21,075	30,867	68%
Clinical psychology, foreign languages; or visual and performing arts	5,868	11,681	17,549	67%
Science, engineering or surveying	8,363	16,606	24,969	67%
Education	5,868	9,882	15,750	63%
Behavioural science or social studies	5,868	9,498	15,366	62%
Allied health	8,363	11,681	20,044	58%
Mathematics or statistics, computing, built environment or other health	8,363	9,498	17,861	53%
Humanities	5,868	5,369	11,237	48%
Law, accounting, administration, economics, commerce	9,792	1,933	11,725	16%

Source:

[http://www.innovation.gov.au/HigherEducation/ResourcesAndPublications/Resources/Documents/Allocation\\_uni\\_ts\\_study2013.pdf](http://www.innovation.gov.au/HigherEducation/ResourcesAndPublications/Resources/Documents/Allocation_uni_ts_study2013.pdf) (Accessed 6 March 2013).

### 5.5.2 Returns to university education compared to VET

Analysis undertaken for the NCVER in 2010 investigated the employment and earnings outcomes for individuals who had undertaken VET. The study found that across all the years where relevant data are available, people with a bachelor degree (and above) are more likely than those without one to be employed, more likely to be in permanent employment, and to have relatively higher earnings.<sup>82</sup> Table 5.3 sets out the study's findings on the probability of employment and average weekly earnings by level of education (for 2005).

**Table 5.3 Outcomes from having undertaken various levels of education, 2005**

2005	Degree	Diplomas	Cert III and IV	Cert I and II	Yr 12	Less than Yr 12
Probability of employment	0.948	0.917	0.930	0.844	0.891	0.830
Average weekly earnings (\$)	1,272	1,052	938	854	879	806

**Note:** Probability of employment is expressed as a number between 0 (meaning will not be employed for certain) and 1 (meaning will be employed for certain).

**Source:** Lee, W-S & Coelli, MB, Op. Cit., p 26.

<sup>82</sup> Lee, W-S & Coelli, MB, Op. Cit., p 25.



In 2005, relative to someone who did not complete year 12, the study found that the earnings premium<sup>83</sup> of holding:

- ▼ a bachelor's degree or higher was 57.5% for men and 54.7% for women
- ▼ higher level VET qualifications (Diploma and Advanced Diploma) was 33.0% for men and 27.1% for women
- ▼ skilled vocational qualifications (Certificate III and IV qualifications) was 15% for men and over 12% for women and
- ▼ basic vocational qualifications (Certificate I and II qualifications) was 5.1% for men and 9.6% for women.<sup>84</sup>

IPART seeks comment on the following:

- 13 What is the appropriate relativity between student fees for VET and student contributions for university study?

## 5.6 Possible structure of student fees and government subsidies

Once we have determined the appropriate ratio for sharing base prices between students and taxpayers, we need to consider the structure of individual student fees and government subsidies. This structure will depend on the format in which the base prices are specified. However, the options include:

- ▼ the student fee (and government subsidy) is an increasing percentage of the base price, depending on qualification level (and potentially industry area) or
- ▼ the student fee (and government subsidy) is the same percentage of the base price for all qualification levels (and potentially industry areas).

The first option involves incremental student contributions depending on the qualification level – that is, a student contributes a higher proportion of the base price for a higher level of qualification. This takes into account that as the qualification level increases, so does the student's expected return from completion of the qualification (discussed above). The higher the level of qualification attained, the higher the chances of securing employment as well as higher average weekly earnings.

The second option involves a flat student contribution rate for all qualification levels. Under this approach, the student fee is set at the same percentage of the base price for all qualifications in all industry areas. A student contributes the same percentage towards a qualification regardless of the level of that qualification. Students would be required to contribute more in absolute terms as the qualification level increases if the base price for qualifications increases, but the percentage contribution will remain constant.

<sup>83</sup> That is, the average expected additional earnings.

<sup>84</sup> Lee, W-S & Coelli, MB, Op. Cit., p 34.

IPART seeks comment on the following:

14 Which of these options do you think best meets the assessment criteria for this review:

- the student fee (and government subsidy) is an increasing percentage of the base price, depending on qualification level or
- the student fee (and government subsidy) is the same percentage of the base price for all qualification levels areas.

Are there any other options that better meet these criteria?

### 5.6.1 Arrangements for subsequent qualifications and part-qualifications

The methodology also needs to address the price and fee arrangements applying to subsequent qualifications and part-qualifications. The Government's pricing principle for subsequent qualifications is that students undertaking a second (or subsequent) post-school qualification will make a higher contribution than those undertaking their first post-school qualification. This principle reflects the view that students undertaking a subsequent qualification have already benefited from training.<sup>85</sup>

In general, this principle is consistent with using a human capital approach to establishing the share of base prices to be funded by students and by taxpayers. This approach depends on an individual making the education choice with the highest (private) net benefits. Knowing that an additional contribution will need to be made to undertake a subsequent qualification should encourage an individual to make the best education decision in the first place. Where an individual requires a subsequent qualification to achieve a particular vocational pathway, the costs and benefits of undertaking this further VET will be taken into account.<sup>86</sup>

The approach to setting the additional contribution for subsequent qualifications will depend in part on how student fees, government subsidies and base prices are specified. For example, if a range for student fees is developed,<sup>87</sup> then the lower end of this range could be deemed not to apply to subsequent qualifications. Alternatively, if student fees are expressed as a proportion of base prices, then that proportion could be increased for subsequent qualifications.

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<sup>85</sup> See [http://www.training.nsw.gov.au/forms\\_documents/vet/skills\\_reform/fact\\_sheets/smart\\_skilled\\_individuals.pdf](http://www.training.nsw.gov.au/forms_documents/vet/skills_reform/fact_sheets/smart_skilled_individuals.pdf) (accessed 21 March 2013).

<sup>86</sup> According to the Australian Bureau of Statistics (ABS) in 2009 almost one quarter (23%) of people who had gained their first qualification through VET had subsequently gained an additional VET qualification (as their highest educational attainment). See <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4250.0.55.002Main+Features42009> (accessed 25 March 2013).

<sup>87</sup> For a particular industry area and qualification level.

Given the multitude of vocational pathways that are available, assessing the differences in their net benefits is infeasible. Therefore, we will need to establish the criteria that should be used to decide on the additional contribution to be made by students undertaking subsequent qualifications, and how these criteria can be translated into a rule to apply to student fees and/or base prices.

For part-qualifications, the approach to setting student fees (and subsidies) may depend on how their base prices are specified. However, ideally, the approach to sharing the base price between student fees and government subsidy would be the same for part and full qualifications, unless there is evidence to suggest that part qualifications result in significantly different net benefits compared to full qualifications.

IPART seeks comment on the following:

- 15 What criteria do you think we should use to decide on the additional contribution that should be made by students undertaking a subsequent qualification? Could these criteria be the basis of a fee setting rule?
- 16 What evidence is there on the benefits of part-qualifications? Is it appropriate to share the costs of part-qualifications between students and taxpayers in the same way as full qualifications? If not, what other approach would be appropriate?

## 6 Considering other matters affecting price and fee arrangements

Our terms of reference require that we consider other matters that may impact on the price and fee arrangements for government funded VET in NSW. At this stage, we have identified 4 additional areas that we will consider as part of our review:

- ▼ student fee arrangements for apprentices and new entrant trainees
- ▼ student fee arrangements for those eligible for a concession
- ▼ payment arrangements for base prices and student fees
- ▼ price and fee arrangements in the years following implementation of Smart and Skilled.

Each of these areas is discussed below.

### 6.1 Fee arrangements for apprentices and new entrant trainees

As Chapter 2 noted, under Smart and Skilled the current eligibility for government-funded VET for apprentices and new entrant trainees will continue. In addition, unlike other students, there will be no higher subsequent fee for those who undertake a further apprenticeship or traineeship.

The main change is that rather than paying a fixed fee per annum (or semester), apprentices and new entrant trainees will pay a set fee per qualification. As part of our review, we will consider how the current student fee for apprentices and trainees should be converted to a per-qualification fee. We will also consider the extent to which other fee arrangements for apprentices and new entrant trainees should differ from those undertaking entitlement or purchased training.

### 6.1.1 Current fee arrangements for apprentices and new entrant trainees

Currently apprentices and new entrant trainees pay a flat fee of \$478 per year – regardless of whether the qualification they are undertaking is a Certificate II, III or IV.<sup>88</sup> This represents a discount (or additional government subsidy) of between 6% and 56% compared to students undertaking the same level qualification outside of an apprenticeship or new entrant traineeship.<sup>89</sup> Traditionally, government has provided additional subsidies to apprentices and new entrant trainees in part to ensure that the earnings a student foregoes in undertaking the qualification do not discourage them from completing the qualification.

### 6.1.2 Fee arrangements for apprentices and new entrant trainees under Smart and Skilled

Under Smart and Skilled, the current flat annual fee for apprentices and new entrant trainees will be converted into to a fee per qualification. Currently, the time taken by apprentices and trainees to complete their qualification varies depending on the qualification (ie, the hours required to complete the required units of competency) and the mode of study (eg, full-time, part-time). This means that converting an annual fee to a fee per qualification may not be straightforward.

As discussed in Chapters 4 and 5, the base prices and student fees for those undertaking entitlement or purchased training are likely to increase for higher level qualifications. This is likely to reflect the higher costs of delivering higher level qualifications.

We will consider the typical time taken by apprentices and new entrant trainees to complete a qualification, and this time varies across qualification levels. We will also consider whether the current flat student fee for apprentices and trainees should be maintained.

IPART seeks comments on the following

- 17 How should the current annual fee for apprentices and new entrant trainees be converted to a fee per qualification? Should a flat fee across all qualification levels be maintained for apprentices and new entrant trainees?

<sup>88</sup> TAFE NSW, *TAFE NSW Fees*, Available from: <https://www.tafensw.edu.au/courses/fees/tafensw.htm> Accessed 21 March 2013

<sup>89</sup> Fees for students not undertaking an apprenticeship or new entrant traineeship range from \$506 a year for Certificate II to \$1,078 a year for Certificate IV. TAFE NSW, *TAFE NSW Fees*, Available from: <https://www.tafensw.edu.au/courses/fees/tafensw.htm> Accessed 21 March 2013.

## 6.2 Fee arrangements for concessions

Under Smart and Skilled, fee exemptions and concessions will be retained for Aboriginal and Torres Strait Islander students, students with a disability and welfare beneficiaries. These concessions are offered to ensure equity in the standard of living and access to VET. While we are not proposing to consider the eligibility for concessions as part of our review, we will consider the arrangements that should be applied to students eligible for a concession – for example, whether concession fees should be aligned with arrangements for other students and vary by qualification level.

### 6.2.1 Current concessions for TAFE students in NSW

Concessions are currently provided to a large range of students that receive Commonwealth benefits or allowances (see Box 6.1 for a full list of eligibility). In 2013, the concession fee is \$100 per course enrolment per annum.<sup>90</sup> This concession fee is the same regardless of the qualification level.

Current concession fees are set on a time served basis. For example, a student who is eligible for a concession and completes a qualification in 3 years will pay a total student fee of \$300.

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#### Box 6.1 Eligibility for TAFE concession fees

Students who receive one of the following benefits, or are dependents of someone who does, are eligible for concession student fees.

- ▼ Age Pension
- ▼ Austudy (including Veterans' Children Education Scheme)
- ▼ Carer Payment
- ▼ Disability Support Pension (second or subsequent course enrolment per year, first enrolment is exempt)
- ▼ Exceptional Circumstances Relief Payment
- ▼ Family Tax Benefit Part A (maximum rate)
- ▼ Farm Help Income Support
- ▼ Mature Age Allowance
- ▼ Newstart Allowance
- ▼ Parenting Payment (Single)
- ▼ Sickness Allowance
- ▼ Special Benefit
- ▼ Veterans' Affairs Payments
- ▼ Widow Allowance
- ▼ Widow Pension (including Widow 'B' Pension)
- ▼ Wife Pension
- ▼ Youth Allowance

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**Source:** TAFE NSW, *TAFE NSW Fees*, Available from <https://www.tafensw.edu.au/courses/fees/tafensw.htm> Accessed 21 March 2013.

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<sup>90</sup> TAFE NSW, *TAFE NSW Fees*, Available from: <https://www.tafensw.edu.au/courses/fees/tafensw.htm> Accessed 21 March 2013.

Fee exemptions are also available to Aboriginal and Torres Strait Islander students and some students with disabilities:

- ▼ Aboriginal and Torres Strait Islander students are exempt from paying the student fee.
- ▼ Students who receive a disability support pension and students with a disability (clients of a teacher/consultant for students with a disability) are exempt from paying the TAFE NSW fee for one TAFE NSW course enrolment per year. They are also eligible for a \$100 concession fee for each subsequent course enrolment in that year.<sup>91</sup>

### 6.2.2 Alternative concession arrangements under Smart and Skilled

Under Smart and Skilled, other student fees will move from a time-served to a per qualification basis. As discussed in Chapters 4 and 5, base prices and student fees may also vary within a qualification level to reflect factors such as the difference in the time taken and hence cost of delivering a course.

As part of our review, we will consider whether concession fee arrangements should be made consistent with other student fee arrangements and be charged per qualification rather than the current time-served basis.

Under current concession arrangements, eligible students undertaking a higher level course or qualification derive greater benefit from the concession fee than those undertaking lower level qualifications.

One possible way of making concession arrangements consistent with other student fee arrangements would be to set concession fees as a percentage of non-concession student fees. This would be similar to concession arrangements for VET in other jurisdictions. For example, in Victoria concession fees are set at 20% of the standard student fee, while in Queensland they are set at 40% of the standard fee.<sup>92</sup> This approach is also used by government in providing some public transport concessions.<sup>93</sup>

<sup>91</sup> TAFE NSW, *TAFE NSW fees*, Available from: [https://www.tafensw.edu.au/courses/fees/tafensw.htm#fee\\_exemptions](https://www.tafensw.edu.au/courses/fees/tafensw.htm#fee_exemptions), Accessed 4 March 2013.

<sup>92</sup> We also note that in Victoria concessions are generally only available for courses below Diploma level. For more information see Victoria Department of Education and Early Childhood Development, *Concessions on Tuition Fees*, Available from: <http://www.education.vic.gov.au/training/learners/vet/Pages/feeconcession.aspx>, Accessed: 4 March 2013. <http://www.legislation.qld.gov.au/LEGISLTN/CURRENT/V/VocEdTrEmR00.pdf>

<sup>93</sup> Senior secondary students, tertiary students are eligible for half fare concessions on CityRail services. See: Transport for NSW, *Travel concessions for young people and students*, Available from <http://www.transport.nsw.gov.au/content/travel-concessions-young-people-and-students> Accessed 21 March 2013.

IPART seeks comments on the following

- 18 How important are concession fee arrangements (rather than the availability of concession fees themselves) for providing equitable access to VET? Should concession fee arrangements be aligned with fee arrangements for other students? For example:
- Should concession fees be charged per qualification rather than per annum (or time served)?
  - Should the level of the concession fee vary by level of qualification?

### 6.3 Payment arrangements for base prices and student fees

Under Smart and Skilled, students will pay a set fee per qualification rather than an annual or time-served fee. Government will also pay RTOs a set subsidy per qualification largely in the same way as it currently does for qualifications delivered under the ATTP and SSP. As part of our review, we will consider the timing of these payments. For example, how should payment for a qualification be staggered over the period of training?

RTOs delivering training under the SSP currently receive payments in 3 stages – 34% on commencement, 33% at the midpoint of training and 33% on completion of training.<sup>94</sup> In the case of qualifications that take several years to complete, this means that some RTOs receive one payment per annum.

RTOs delivering apprenticeships and traineeships are also paid in stages. For 1-year traineeships they are paid in 3 instalments, for 2-year traineeships they are paid in 6 instalments, and for all apprenticeship and 3-year traineeships they are paid in 9 instalments (See Table 6.1).

**Table 6.1 Instalments for apprenticeships and traineeships**

Apprenticeship or traineeship	Year	1st payment	2nd payment	3rd payment
1-year traineeship	1	34%	33%	33%
2-year traineeship	1	17%	16.5%	16.5%
	2	17%	16.5%	16.5%
3-year traineeship and all apprenticeships	1	11.6%	11.2%	11.2%
	2	11.2%	10.9%	10.9%
	3	11.2%	10.9%	10.9%

**Source:** DEC State Training Services, *2011/12 Approved Providers List (APL) Contract (as varied from 1 January 2013)*, p 15-15, Available from: [http://www.training.nsw.gov.au/forms\\_documents/industry\\_programs/business\\_services/2011\\_2012\\_apl\\_contract\\_varied.pdf](http://www.training.nsw.gov.au/forms_documents/industry_programs/business_services/2011_2012_apl_contract_varied.pdf) Accessed 21 March 2013.

<sup>94</sup> DEC State Training Services, *2011/12 Approved Providers List (APL) Contract (as varied from 1 January 2013)*, Available from: [http://www.training.nsw.gov.au/forms\\_documents/industry\\_programs/business\\_services/2011\\_2012\\_apl\\_contract\\_varied.pdf](http://www.training.nsw.gov.au/forms_documents/industry_programs/business_services/2011_2012_apl_contract_varied.pdf) Accessed 21 March 2013.



Different ways of timing the payment of student fees will create different impacts on completion. Full payment on enrolment could create an incentive for students to complete the course once they have enrolled. However, the large outlay required at the beginning of the course may discourage students from enrolling.

IPART seeks comments on the following

- 19 How should government payments to Registered Training Organisations (RTOs) for delivering entitlement and purchased training be staged over the period required to complete the qualification or part-qualification?
- 20 How should student fee payments be staged over the period of study?
- 21 Should the current payment arrangements under the Apprenticeship and Trainee Training Program (ATTP) and Strategic Skills Program (SSP) be maintained? If so, should the staged payment of student fees also match these arrangements?

## 6.4 Price and fee arrangements in the years following implementation

One of the final issues we need to consider is how the methodology for setting prices and fees should be applied in future years. To some extent, this will depend on the final format of the methodology (ie, how it works in practice). However, regardless of its format, we consider it likely that the methodology will need to be reviewed every 4 to 5 years. These periodic reviews will ensure that students and taxpayers continue to contribute an appropriate share of the efficient costs of providing VET as these costs change. In addition, we consider that there may be a case for reducing the degree of regulation of student fees over time, to mitigate the risks associated with setting both fee and subsidy levels either too high or too low, as outlined in Chapter 4.

### 6.4.1 Reviewing the methodology periodically

The costs of providing VET, as well as the benefits it yields, will change over time. Accordingly, we consider that the methodology should be reviewed or re-estimated in the medium term, to allow such changes to be reflected in fees and subsidies. The choice of timeframe should reflect a balance between the administrative burden a review involves and the risks that the methodology provides inaccurate signals through the base prices, fees and subsidies. We consider it appropriate to review the methodology every 4 to 5 years, and make annual automatic adjustments of base prices, fees and subsidies in between reviews.

On the cost side, information for the review of base prices could be obtained through a survey of industry participants, which would examine how the level of costs may have changed in response to changes in the particular industry area, the number of hours taken to complete a qualification and/or the mode of delivery, etc. As well as re-setting base prices for any changes in VET cost drivers, the review provides an opportunity to:

- ▼ investigate whether the level of loading for the additional costs associated with teaching disadvantaged and regional students is still appropriate
- ▼ assess whether markets previously identified as 'thin' have changed and what impact this has on the appropriate level of CSO funding, and
- ▼ ensure that the structure and level of base prices, loadings and CSOs in total reflects efficient costs.

The review would also re-estimate the share of the base price to be recovered through student fees and the share to be paid for through government subsidy, having regard to changes in the public and private benefits of VET and other matters considered relevant.

In between reviews, base prices could be adjusted each year by a suitable inflator that measures the increase (or decrease) in the costs of providing VET. Potential inflators include the Consumer Price Index (CPI),<sup>95</sup> the Wage Price Index (WPI),<sup>96</sup> the growth factor used to adjust payments from the Commonwealth to the NSW Government under the National Agreement for Skills and Workforce Development<sup>97</sup> or a VET-specific cost index that reflects the cost analysis underpinning base prices (see Box 6.2 below). We consider that, wherever possible, inflators should be:

- ▼ based on independent and verifiable data that is publicly available, and
- ▼ a reasonable estimate of cost changes for the industry.

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<sup>95</sup> The CPI measures quarterly changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by the CPI population group (i.e. metropolitan households). This 'basket' covers a wide range of goods and services.

<sup>96</sup> The WPI measures changes over time in the price of labour services (eg, wages and salaries).

<sup>97</sup> This is set at the sum of: (a) 85 per cent Wage Cost Index 1 (comprising safety net wage adjustment weighted by 75 per cent and all groups CPI weighted by 25 per cent); and (b) 15 per cent Wage Cost Index 6 (comprising safety net wage adjustment weighted by 40 per cent and all groups CPI weighted by 60 per cent). See [http://www.federalfinancialrelations.gov.au/content/inter\\_agreement\\_and\\_schedules/current/Schedule\\_D.pdf](http://www.federalfinancialrelations.gov.au/content/inter_agreement_and_schedules/current/Schedule_D.pdf) (accessed 27 march 2013).

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### Box 6.2 A VET industry cost index

A cost index measures, in percentage terms, how much the overall cost of providing a particular good or service has changed. There would be 2 parts to a VET industry cost index:

- ▼ a list of costs faced by the VET industry and their relative importance (weightings)
- ▼ an estimate of how each of these costs changes over time (inflaters).

The index costs and weightings would be designed to represent the cost structure of a typical VET provider. The cost index consists of a 'basket' of cost items that a typical operator faces in providing VET – such as labour and equipment costs. These items are weighted according to the proportion of the overall cost of providing VET that they represent (eg, if paying wages is half of total costs then it has a weighting of 50%). Typically, only significant costs are listed separately; the index usually has an 'other' cost item to capture smaller costs.

The cost items and weightings could be established initially using the findings of the cost review underpinning base prices.

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We consider that the inflator used to adjust base prices each year should also be used to adjust student fees and government subsidies. We acknowledge that an inflator that is appropriate for measuring changes in the costs of providing VET may be less suited to measuring changes in the returns to undertaking VET. However, a large proportion of the costs of providing VET in many industries are likely to be labour-related (teacher time), and the returns to VET are driven by the wages and salaries achieved after its completion. Therefore, we consider that to keep the level of base prices equal to the sum of student fees plus government subsidy, and in the interests of simplicity, using the same inflator is a reasonable approach.

IPART seeks comment on the following

- 22 How often should the methodology for setting prices and fees for government-funded VET be reviewed or re-estimated to ensure that students and taxpayers both continue to contribute an appropriate share of the efficient costs of providing VET?
- 23 How should base prices, student fees and government subsidies be adjusted in between reviews? What is an appropriate inflator for base prices? For student fees? For government subsidies?

### 6.4.2 Relaxing the degree to which student fees are fixed

Setting the level of both student fees and government subsidy provides students (and prospective students) with certainty regarding the cost of VET.<sup>98</sup> However, as set out in Chapter 4, it limits the ability of an RTO to adjust its operations for any differences between the cost of providing VET and base prices. Essentially, it creates a risk that the actual costs of VET will differ from the amount of revenue provided to an RTO to recover those costs. This has a number of implications for the operation of the VET market, depending on whether base prices are set too high or too low relative to efficient costs.<sup>99</sup>

A number of price options could be considered in the years following implementation of Smart and Skilled, including:

- ▼ Specifying a range for each student fee (ie, a minimum and maximum fee per qualification). RTOs would charge students a fee that was within this range.
- ▼ Relaxing the degree to which student fees are fixed where competition is considered effective. Each RTO would determine the fees it charges to students.

Both options increase the ability of RTOs to reflect differences between base prices and actual costs in student fees, and allow a degree of competition for students on the basis of price. Regulation is generally only necessary in a monopoly market – where a lack of competition can lead to higher prices and poorer services. If student fees are not fixed where competition is considered effective, then the resulting sum of the student fee plus the government subsidy can be expected to reflect efficient costs. Fee regulation would be retained in thin markets, where there is a lack of depth of competition in VET provisions.

Even if the level of regulation of student fees is reduced, we consider it will still be important to review the methodology every 4 to 5 years. This will allow the costs of VET provision and the student fees being charged to be monitored, as well as assess the appropriate level of government subsidy and the competitiveness of the sector.

IPART seeks comment on the following

- 24 In the years following implementation of Smart and Skilled, would it be appropriate to set a range for the student fee, rather than a single student fee, for each qualification?
- 25 Do you support relaxing fee regulation in areas of the government-funded VET market where competition is considered effective?

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<sup>98</sup> We note that of the jurisdictions that have implemented reforms to facilitate entitlement funding, Victoria has no limits on student fees and maximum fees apply in South Australia (for VET that is subject to the payment of student fees). (See Appendix D.)

<sup>99</sup> See section 4.1.







## **Appendices**





## A Terms of reference

### **Terms of reference for the Review of price and fee arrangements for government-funded vocational education and training under Smart and Skilled**

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is requested, under section 9(1)(b) of the Independent Pricing and Regulatory Tribunal Act 1992, to provide advice on price and fee arrangements for government-funded vocational education and training under the Smart and Skilled reforms.

The arrangements that IPART recommends should be market-tested, efficient, effective, socially optimal and take account of relevant externalities. The approach should encourage quality training delivery at most efficient price.

### **Matters for Consideration**

IPART is to provide advice and design a methodology to determine price and fee arrangements for government-funded vocational education and training. In doing this IPART will have regard to the prices revealed through the tender process for vocational education and training provided through the contestable market and TAFE NSW core funded pricing arrangements for government-funded training and whether those prices represent the efficient cost of service provision and the presence of robust markets or the presence of thin markets.

This advice and a methodology to be recommended by IPART will cover:

- ▼ The base price for qualifications and part-qualifications<sup>100</sup> to recover efficient costs which are to be determined transparently and applied consistently across all Registered Training Organisations (RTOs) approved to deliver public subsidy training:
- ▼ Each base price should include a number of bands (to reflect differences in the cost of delivering different courses at the same qualification level, including high cost specialised industry areas)
- ▼ The breakdown of each base price into:

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<sup>100</sup> That is, qualifications (and where appropriate part qualifications) delivered under an entitlement, direct purchasing through TAFE NSW or the private provider market, from Foundation Skills to Advanced Diploma.

- The student fee for each qualification/course (including the differentiation between the first post-school qualification and subsequent qualifications), and
- The level of Government subsidy.
- ▼ Arrangements to ensure that students reflect the value of courses to students (eg those students who undertake higher-level qualifications contribute more than students undertaking lower-level qualifications).
- ▼ The loadings which should be added to the base price for higher cost learners, such as students in regional and remote areas and learners with specific requirements (eg Aboriginal students, students with a disability and long-term unemployed students).
- ▼ The identification and testing of the concepts of thin and robust markets and other related matters that may impact on methodology and determination of price and fee arrangements.

In providing its advice IPART will need to take account of:

- ▼ Policy principles agreed by the NSW Government on price and fee arrangements for Smart and Skilled as outlined at Attachment A
- ▼ Inter-related work on a VET Budget and Funding Model and the development of the NSW Government's Statement of Owner Expectations for TAFE NSW. Through this inter-related work, IPART will need to take account of the:
  - Treatment of community service obligations (CSOs) paid by the NSW Government and provided by TAFE NSW and approved Adult Community Education (ACE) providers. CSOs will be directed to markets deemed as social obligations with low levels of demand and high operating costs. These markets may be defined geographically (eg, rural and remote), by occupation (eg, small employment numbers) or demographically (eg, Aboriginal).
  - Treatment of operational base funding for TAFE NSW to support the operations of TAFE as a public institution.
- ▼ Available analysis of the efficient costs of providing vocational education and training.

### **Consultation and Timing**

In conducting its review IPART is to consult with relevant stakeholders in metropolitan and regional locations.

IPART is to prepare a report detailing the advice and methodology to determine price and fee arrangements for government-funded vocational education and training. This report will also include advice on the testing of robust and thin markets and other matters that may impact on the methodology and determination of price and fee arrangements.

IPART is to present a draft report to the Minister for Education by 30 June 2013 and its final report to the Minister by 31 August 2013.

## Background

With Smart and Skilled, the vocational education and training sector will undergo significant reform. The supply-driven system of offering a fixed number of government-funded places will transition to a demand driven system through a student entitlement.

From 2014, the entitlement will cover qualifications up to and including Certificate III, including selected foundation courses. People who have a qualification at Certificate IV and above will not be eligible for the entitlement unless it is an apprenticeship or new-entrant traineeship. Under the entitlement, Government funding will follow students to their choice of approved provider.

In the transition period, the entitlement will be complemented with subsidised training through purchasing arrangements with TAFE NSW and State Training Services for skill sets, pre-vocational training and qualifications for Certificate IV to Advanced Diploma.

Students doing subsequent post-school qualifications through the entitlement or purchased training will pay a higher fee.

A skills list will define what qualifications and courses are subsidised by government. This list will be based on labour market analysis and industry consultation.

Transition to a broader entitlement will be considered after a year of implementation and review. The broader entitlement may be extended to cover qualifications up to and including Advanced Diploma.. The broader entitlement will retain higher student fees for subsequent post-school qualifications.

Within the Department of Education and Communities, TAFE NSW will receive a budget from the NSW Government. This will comprise operational base funding and community service obligation funding; and TAFE NSW's share of the entitlement funding, which will be subject to contestability and reconciliation. In the transition period TAFE NSW's budget will include TAFE NSW's share of direct purchasing for skill sets and Certificate IV and above.

The NSW Government's Statement of Owner Expectations for TAFE NSW will define TAFE's role as a public provider and articulate expectations relevant to defining operational base funding and community service obligations.

In preparing advice and designing a methodology for determining price and fee arrangements, critical issues in the IPART review will be: .

- ▼ Potential impact on student enrolments and NSWs capacity to meet national and State Plan targets for participation and attainment
- ▼ The cost of fee-for-service delivery for students not eligible for a government subsidy
- ▼ Pricing and fee structures that support student qualification completion
- ▼ The dimensions and characteristics of the VET market
- ▼ The total costs (recurrent and capital) of training provision
- ▼ Entry requirements and barriers into the market
- ▼ The varied types of consumers
- ▼ The varied types of products and delivery methods
- ▼ The types of externalities and market failures
- ▼ The potential impact of the methodology on quality of training
- ▼ Size of market segments – thin or robust markets
- ▼ The potential for cost-shifting
- ▼ Location issues
- ▼ The NSW Government’s competitive neutrality requirements
- ▼ Pricing arrangements in other jurisdiction and/or similar fields.

Following advice from IPART, it will be the responsibility of the Board of Vocational Education and Training to make recommendations to the Minister to approve the appropriate levels of subsidy and student fees.

## Attachment A

Under Smart and Skilled, a number of policy principles for price and fee arrangements were agreed by the NSW Government for government subsidised training. These include:

- ▼ Price and fee arrangements will apply transparently and consistently across all approved training organisations delivering public subsidy training
- ▼ Students will pay a set fee per qualification rather than an annual fee (or fee based on time served)
- ▼ Exemptions and concession arrangements will be retained for Aboriginal students, students with a disability and welfare beneficiaries
- ▼ Students doing higher-level qualifications will contribute more than students doing lower-level qualifications
- ▼ Students doing a subsequent post-school qualification will make a higher contribution than those doing a first post-school qualifications
- ▼ Students up to the age of 17 that have left school would continue to contribute at the first post-school qualification rate
- ▼ Approved training organisations will be paid a loading on top of the base price for training for disadvantaged students (eg, Aboriginal, disability and long-term unemployed) and regional
- ▼ Income contingent loans will be available for approved public subsidy Diploma and Advanced Diploma qualifications
- ▼ Community service obligation payments would go to TAFE NSW and approved ACE providers.

## B VET Quality Framework

### B.1 National VET regulation

The quality of VET in Australia is regulated by the Australian Skills Quality Authority (ASQA) through the VET Quality Framework.

The VET Quality Framework includes:

- ▼ standards for registering training providers – ie, Registered Training Organisations (RTO's)
- ▼ fit and proper person and financial viability requirements
- ▼ data provision requirements
- ▼ the Australian Qualifications Framework (AQF).

In addition to the VET Quality Framework, there are also Standards for VET Accredited Courses.<sup>101</sup>

#### B.1.1 Registered Training Organisations

Only an RTO can deliver nationally recognised courses and accredited AQF qualifications.<sup>102</sup> RTOs must comply with standards for Registered Training Organisations, which include having strategies to provide quality training, for example:

- ▼ by having trainers with relevant competencies and demonstrating current industry skills
- ▼ through training and assessment which meets requirements of the VET accredited course and has been developed through effective consultation with industry
- ▼ by having staff, facilities, equipment and training and assessment material which meet requirements of the VET accredited course and the RTO's own training assessment strategies

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<sup>101</sup> See <http://www.asqa.gov.au/about-asqa/national-vet-regulation/vet-quality-framework.html>

<sup>102</sup> See <http://www.asqa.gov.au/for-training-organisations/become-a-registered-training-organisation/become-a-registered-training-organisation.html>

- ▼ which adheres to principles of access and equity
- ▼ through continuing improvement
- ▼ having insurance and demonstrating continuing viability of the RTO's operations.

### **B.1.2 Data provision requirements, fit and proper person and financial viability requirements**

RTO's must provide ASQA with information about the RTO's current financial viability, fit and proper person information, details of VET qualifications, courses, modules or units of competency delivered and an annual report on its performance against quality indicators.

### **B.1.3 The Australian Qualifications Framework**

The AQF is the national policy for regulated qualifications in Australian education and training. It incorporates the qualifications from each education and training sector into a single comprehensive national qualifications framework. It is a taxonomic structure of levels and qualification types designed to enable consistency in the way qualifications are described and clarity about the differences and relationships between qualification types. It sets out the purpose, knowledge, skills and volume of learning for each qualification type.

### **B.1.4 Standards for delivery and assessment of courses taught**

ASQA accredits VET courses for NSW where they meet the VET Quality Framework. Accreditation means that a course is nationally recognised and that an RTO can issue a nationally recognised qualification or statement of attainment following its full or partial completion.

The standards for national accreditation of a course include that courses:

- ▼ are based on established industry, enterprise, educational, legislative or community need
- ▼ are based on nationally endorsed units of competency where available and, where not available, are developed in consultation with and validated by industry, community and professional groups
- ▼ confirm recognition to be given to the course by licensing, regulatory, professional or industry bodies
- ▼ specify course assessment strategies which are valid, reliable, flexible and fair
- ▼ specify specialist facilities, resources and vocational competencies required of trainers and assessors which are essential for delivery of the course

- ▼ identify course monitoring and evaluation processes which ensure the course content and outcomes remain current and relevant
- ▼ where the course leads to a qualification, the qualification is aligned appropriately to the Australian Qualifications Framework.<sup>103</sup>

## B.2 Smart and Skilled Draft Quality Framework

In addition to the national VET Quality Framework the Department of Education and Communities has proposed a Smart and Skilled Draft Quality Framework<sup>104</sup>.

The Smart and Skilled Quality Framework will:

- ▼ promote a shared vision for quality
- ▼ require providers to meet strict criteria to deliver subsidised training
- ▼ encourage industry involvement in training and assessment
- ▼ give consumers better information and clear avenues for complaint
- ▼ encourage providers to build the capability of their staff and systems
- ▼ seek feedback from students and employers on training outcomes.

The quality framework is based on nine principles to promote excellence, transparency and innovation in vocational education and training.

The draft framework proposes:

- ▼ To establish a memorandum of Understanding with ASQA to foster cooperation, information sharing and coordinated audit and monitoring arrangements.
- ▼ To share information with other jurisdictions on the performance of RTOs that deliver government-funded training.
- ▼ Working with training organisations that have a proven track record in delivering high quality training.
- ▼ That to deliver Smart and Skilled, providers will have to meet stringent quality and performance criteria. A 2 stage tender eligibility and assessment process for RTO's seeking to deliver government funded training under Smart and Skilled. The process will consider:
  - Whether the organisation is eligible to lodge a tender. Factors to be considered include whether the organisation is an RTO, its record of regulatory and contractual compliance, its financial viability, commitment to report VET activity to required standards, consent to exchange

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<sup>103</sup> Standards for VET Accredited Courses, 2012 issued under subsection 188(1) of the *National Vocational Education and Training Regulator Act, 2011*.

<sup>104</sup> Department of Education and Communities, 2013, Smart and Skilled: Draft Quality Framework, [http://www.training.nsw.gov.au/news/ss\\_quality\\_fremework.html](http://www.training.nsw.gov.au/news/ss_quality_fremework.html).



information with other jurisdictions, demonstrated participation in teaching and leadership activities and commitment to ongoing professional development.

- The RTOs capacity, past performance and ability to deliver each qualification it has tendered for under Smart and Skilled. Factors to be considered include the RTO's demonstrated track record to deliver each qualification/course it has tendered, its organisational capacity and capability, its history of performance under NSW government contracts and programs and performance in other jurisdictions and its capacity to deliver to priority groups and delivery locations.
- The assessment will build on the national standards and regulatory requirements for providers. Each provider will be scored against the criteria. Scores will be relatively assessed to determine which organisations become Smart and Skilled providers and which qualifications they can deliver.
- ▼ Performance monitoring based on the RTO's risk and performance indicators. The contract will have well defined performance standards, clear reporting requirements and transparent processes to deal with quality issues. There will be enforceable sanctions for non-performance with the intention of lifting the quality of training. Risk profiles will determine types of performance monitoring. Performance monitoring may involve desk audits, site monitoring activities, and NCVET audits.
- ▼ Independent validation of assessments. Under the National Partnership on Skills Reforms, NSW will conduct pilots of independent validation assessment. This typically involves industry, teaching and assessment experts reviewing assessment policies, tools and samples of students' assignments.

## C State Targets for VET

The NSW Government's 10-year plan<sup>105</sup> sets long-term goals and targets for NSW. Goals relevant to this review are listed here.

- ▼ The goal to 'strengthen the NSW skills base' includes the following targets:

More people gain higher level tertiary qualifications:

- 50% increase in the proportion of people between the ages of 20 and 64 with qualifications at AQF Certificate III and above by 2020
- 100% increase in the number of completions in higher level qualifications at Diploma level and above by 2020
- 20% increase in the number of completions in higher level VET qualifications at AQF Certificate III and above by women by 2020
- 20% increase in the number of completions in higher level VET qualifications at AQF Certificate III and above by students in rural and regional NSW by 2020
- 20% increase in the number of completions in higher level VET qualifications at AQF Certificate III and above by Aboriginal and Torres Strait Islander students by 2020
- 44% of 25–34 year olds hold a bachelor level qualification or above by 2025
- 20% of undergraduate enrolments are students from low socio-economic status backgrounds by 2020.

More young people participate in post school education and training:

- 90% of young people who have left school are participating in further education and training or employment by 2020
- 10% increase in the number of apprenticeship and traineeship completions by 2016, including in rural and regional NSW.

- ▼ The goal to 'improve education and learning outcomes for all students', includes:

More students finish high school or equivalent:

- 90% of 20–24 year olds have attained a Year 12 or AQF qualification at Certificate II or above by 2015

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<sup>105</sup> NSW Government, 2011, *NSW 2021 A Plan to make NSW Number One*. [http://www.2021.nsw.gov.au/sites/default/files/NSW2021\\_WEBVERSION.pdf](http://www.2021.nsw.gov.au/sites/default/files/NSW2021_WEBVERSION.pdf)

- 90% of 20–24 year olds have attained a Year 12 or AQF qualification at Certificate III or above by 2020.

## D Comparison of VET arrangements in other jurisdictions

**Table D.1 Comparison of VET arrangements in other jurisdictions<sup>106</sup>**

Feature	NSW Smart and Skilled (from 1 July 2014)	Vic Training Guarantee	SA Skills for All	Qld Vocational Education and Training
Eligibility for entitlement training	<ul style="list-style-type: none"> <li>▼ Australian citizen or permanent resident or humanitarian visa holder who lives/works in NSW</li> <li>▼ Aged 15 or over, without a Cert IV or above; and</li> <li>▼ Enrolling in selected foundation courses and qualifications up to and including Certificate III.</li> <li>▼ Gov't will subsidise other targeted training places, including pre-vocational training, skills sets and Cert IV to Advanced Diploma where course is on the skills list.</li> </ul>	<ul style="list-style-type: none"> <li>▼ Australian citizens, permanent residents and other specific visa holders</li> <li>▼ Aged 15-19 years regardless of course level.</li> <li>▼ Students aged 20 years or more are eligible if enrolling in VCE or VCAL foundation or apprenticeship course OR enrolling in any other qualification, if moving up the qualification scale.</li> <li>▼ Commencing or concurrently studying no more than 2 government courses in 2013.</li> </ul>	<ul style="list-style-type: none"> <li>▼ Australian /NZ citizen, permanent resident or holder of state sponsored visa on a pathway to permanent residence who lives/works in SA</li> <li>▼ Aged 16 or over</li> <li>▼ Apprentices or trainees</li> <li>▼ Can access: <ul style="list-style-type: none"> <li>– 1 course at a lower level than a qualification currently held.</li> <li>– 1 course at the level of a qualification currently held</li> <li>– 2 courses above the level of a qualification currently held.</li> <li>– An unlimited number of priority courses.</li> <li>– If hold a Cert III or above can also access 1 skill set pa</li> </ul> </li> </ul>	<p>Applies from 1 July 2013.</p> <ul style="list-style-type: none"> <li>▼ Working age Queenslanders (Aged 15-64 years)</li> <li>▼ Can access: <ul style="list-style-type: none"> <li>– Certificate III training</li> <li>– foundation skills or lower level qualifications that build to a Cert III</li> <li>– Selected Cert IV, Dip and Advanced Diploma qualifications aligned with skills priorities.</li> </ul> </li> </ul>

<sup>106</sup> WA has consulted on an entitlement model, but at the time of writing no decisions have been announced. The model would build on the open market, demand driven process currently in place for apprenticeships. Training places would be available within a framework of very specific criteria which would include priority occupations and skill sh. (Training Matters, March 2012, p 19.)

Feature	NSW Smart and Skilled (from 1 July 2014)	Vic Training Guarantee	SA Skills for All	Qld Vocational Education and Training
Subsidy structure	<p>IPART's review will make recommendations on the price, fee and subsidy arrangements under Smart and Skilled.</p> <p>Government has agreed to the following principles:</p> <ul style="list-style-type: none"> <li>▼ Price and fee arrangements will apply transparently and consistently across all approved training organisation delivering government-funded VET</li> <li>▼ Approved training providers will be paid a loading on top of the base price for training disadvantaged students</li> <li>▼ Community service obligation payments will be made to TAFE and approved Adult and</li> </ul>	<ul style="list-style-type: none"> <li>▼ Subsidy is paid per hour of training delivery.</li> <li>▼ There are 5 subsidy bands ranging from less than \$2/hour to over \$10/hour.</li> <li>▼ Subsidy is based on a product of benchmark hourly rate for the level of qualification and a course weighting. (See Skills list row for more information.)</li> <li>▼ Higher rates of subsidy for foundation and apprenticeships and lower rates for diplomas and above and to lower level certificates.</li> </ul>	<ul style="list-style-type: none"> <li>– If actively seeking work and registered with Centrelink can access an unlimited number of</li> <li>– courses at Cert III and above (or Cert I-II if don't hold a Cert III)</li> <li>– priority courses</li> <li>– skill sets.</li> </ul> <p>Subsidy is calculated on:</p> <ul style="list-style-type: none"> <li>▼ payment hours for a unit of competency (designated by Minister);</li> <li>▼ qualification level and fee status (eg fee free)</li> <li>▼ any location loading;</li> <li>▼ Student eligibility for concession fee</li> <li>▼ Any adjustment resulting from a condition/ endorsement on the Schedule of courses in the contract</li> </ul>	<p>Will be amending legislation to create more flexible fees and subsidy.</p> <p>Lower priority training will receive a lower Gov't subsidy.</p>

Feature	NSW Smart and Skilled (from 1 July 2014)	Vic Training Guarantee	SA Skills for All	Qld Vocational Education and Training
Fees	<p>Community Education providers.</p> <p>Principles for fee arrangements – see below.</p> <p>IPART review will recommend fee arrangements. Government has agreed to the following principles:</p> <ul style="list-style-type: none"> <li>▼ Students will pay a set fee per qualification rather than an annual fee (or fee based on time served)</li> <li>▼ Students doing higher-level qualifications will contribute more than students doing lower-level qualifications</li> <li>▼ Students doing a subsequent post-school qualification will make a higher contribution than those doing a first post-school qualification</li> <li>▼ Students up to the age of 17 that have left school would continue to contribute at the first post-school qualification rate.</li> </ul>	<p>Fees are not regulated. All maximum fee caps (set as a max hourly charge) were removed in 2012.</p>	<p>Cert I and II courses and courses in priority areas are fee free, Cert III and above have set maximum fees of \$7000.</p>	<p>Will be amending legislation to create more flexible fees and subsidy.</p>

Feature	NSW Smart and Skilled (from 1 July 2014)	Vic Training Guarantee	SA Skills for All	Qld Vocational Education and Training
Concession fee	IPART to make recommendations on concession fee arrangements.	Concession fee is 20% of RTO's published, standard hourly fee.  A \$/hour Gov't contribution for concession students is set for each course.	Concession fee is set per course and RTO is reimbursed.  Where student course fee is ≤\$0.5/hour, there is no reimbursement. The maximum reimbursement to RTO is \$1.35 per hour (where course fee is over >\$1.85 per hour. (Concession fee is the balance)	Will be amending legislation to confirm concession fee arrangements
Concession eligibility	Concessions and fee exemptions will be retained for Aboriginal and Torres Strait Islander students with a disability and welfare recipients.	Eligibility for concessions include: <ul style="list-style-type: none"> <li>▼ For enrolments for Cert IV and below concessions are available for holders and dependents of holders of: Health Care Card, Pensioner concession card, Veteran's Gold Card, card or concession eligibility approved by the Minister.</li> <li>▼ For a course at any level – a person who self identifies as Aboriginal and Torres Strait Islander.</li> </ul>	Eligibility for concessions include: <ul style="list-style-type: none"> <li>▼ Holders of a health care card, pensioner concession card, DVA pensioner concession card or</li> <li>▼ A prison inmate, detainee, on remand, held in a SA institution in connection with commission of an offence or a child in a SA detention centre older than 16 years.</li> </ul>	



Feature	NSW Smart and Skilled (from 1 July 2014)	Vic Training Guarantee	SA Skills for All	Qld Vocational Education and Training
Role of skills lists	Skills list will apply to all government funded training. It will define which courses Government will fund as entitlement and purchased training.	<p>A course subsidy list indicates the level of subsidy to be paid per hour of training.</p> <p>The subsidy level is a product of a benchmark hourly rate for the level of qualification and a weighting for the course.</p> <p>The course weightings are based on an assessment of 'public value' which has in turn been based on an assessment of the value of the course to the economy (jobs and productivity) and the extent to which Gov't needs to stimulate participation in training to meet industry needs.</p>	<p>Have a funded training list which includes about 1400 qualifications.</p> <p>In Oct 2012 Gov't introduced caps on enrolments in 5 courses (no new enrolments) and a further 13 courses will be capped from April 2013.</p>	<p>Government will develop a skills priority report. Gov't subsidies will vary depending on type, level and relative skills priority of a course.</p> <p>Gov't will subsidise selected Cert IV and above courses aligned with skills priorities.</p>
Contestability	<p>Entitlement training (selected Foundation Skills, Cert II and Cert III) to be demand driven where government funding will follow the student to their choice of approved RTO.</p> <p>Purchased training (selected pre-vocational training, skill sets and Cert IV to Advanced Diploma) will be provided through TAFE and approved private and community RTOs.</p>	Fully contestable	Increased contestability of publicly funded training. Eventually will become fully contestable.	<p>From July 2013 – there is a \$42 million contestable funding pool to deliver entitlement training.</p> <p>From July 2014 funding for entitlement training will be fully contestable.</p>

Feature	NSW Smart and Skilled (from 1 July 2014)	Vic Training Guarantee	SA Skills for All	Qld Vocational Education and Training
Role of TAFE/special funding for TAFE	<p>Defined in Statement of Owner expectations for TAFE NSW to be finalised in 2013.</p> <p>TAFE will receive operational base funding and Community Service Obligation payments.</p> <p>TAFE will receive a portion of entitlement funding (to be reconciled) and purchased training funding.</p>	<p>Each TAFE is independent.</p> <p>From Jan 2013 TAFE no longer has supplementary funding for regional delivery, facilities management or industrial agreements. Other specific payments to TAFE for per capita and specific programs are subject to negotiation.</p> <p>In March 2013 the Victorian Government announced that it would provide an additional \$200 million over four years to assist TAFE institutes with limited resources to meet their commercial obligations within three years or a period of time agreed with the Minister. The funding is time-limited and contestable, awarded based on proposals.</p>	<p>Became a Statutory Corporation in 2012 giving it more autonomy and flexibility. TAFE, the training provider, is separated from the purchaser, DFEEST.</p> <p>TAFE SA receives higher subsidy price than private providers for delivering the same training (recognising additional costs and requirements).</p>	<p>TAFE Qld will receive Gov't funds to provide services that cannot be delivered contestably. Higher costs of TAFE will be recognised through agreed base funding and service arrangement.</p> <p>By 1.7.13 Gov't will establish a statutory body as parent entity for TAFE Qld. This body will have a commercially focussed board.</p>
Stage of reforms	Reforms to be implemented July 2014	Fully implemented entitlement model and fully contestable since 2011. Demand driven entitlement introduced in 2009.	Implemented in July 2012. In October 2012 'no new enrolments' introduced for 5 courses and a further 13 courses will be capped from April 2013.	Gov't is preparing a 5 year VET action plan to be released early 2013

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