

TERMS OF REFERENCE

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-qualifications¹ 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:
 - 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.

¹ 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.

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 qualification
- 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.