

VET Funding – Responding in thin markets

Preamble

This submission is made by the Victorian TAFE Association (VTA). The VTA is the peak body for Victoria's public VET providers. VTA members include four dual sector Universities, twelve stand-alone public TAFE institutes and an Associate Member, AMES. Services provided by VTA to members include public policy advocacy, workforce relations advice, education projects, research, government liaison and representation, and professional development.

The VTA fully supports the Victorian Government's objective for a more stable VET funding system that can adapt to Victoria's changing economy and support investment to allow the training system to thrive.

VTA has elected to make several submissions to the VET Funding Review about key matters, including where government policy decisions impact on the ability of TAFE Institutes and dual sector Universities to be competitive in the current VET market, and to meet the needs of industry and their communities.

This submission draws attention to elements of the terms of reference regarding the expectations of individuals and industry that the Victorian Government will contribute to overall investment in VET. As instruments of public policy implementation, TAFE Institutes and dual sector Universities have a role in ensuring equitable access to VET across Victoria, irrespective of industry location and maturity. However, VET providers frequently confront challenges in providing training depth and breadth in thin markets – examples include areas of low population density, emerging industries, and critical industries which exhibit low levels of local demand for VET. Under the current funding arrangements, challenges also arise in providing acceptable levels of services (community services obligations) in thin markets.

VTA advocates that successful VET outcomes rely on government funding for TAFE Institutes and dual sector Universities which enables them to provide sufficient resources to learners in thin markets, and particularly to those experiencing social disadvantage.

Specific points of focus for the VET Funding Review's investigations

VTA invites the VET Funding Review to consider a range of options for improving training access and viable delivery in thin markets. The options proposed in this submission, in summary form, are:

- Amend VTG eligibility criteria so that:
 - an expiry date attaches to the vocational currency of pre-existing qualifications;
 - unintended consequences of the restriction on commencing or completing two qualifications at the same level are removed;
- Establish a framework to supplement VTG funding in thin markets so that training is available to address skills shortages and/or specialist skills needs;
- Assess the adequacy of supplementation for regional enrolments for effectively enabling access to training in thin markets;
- Support structured collaborations between regional and metropolitan TAFE providers to make efficient and effective use of resources and training expertise;



- For new and emerging industries, consider separate funding arrangements to support learning program development costs and early stage program delivery;
- Ensure that core capability for providing adequate student support services is protected against fluctuations in student numbers;
- Establish funding arrangements that support enduring partnerships between TAFE Institutes/dual sector Universities and providers of VETiS, VCAL and VCE which have a primary purpose boosting tertiary participation;
- Examine the potential value of revising VCAL funding models so that student fees and material costs do not dissuade enrolment by those who can most benefit from VCAL as a tertiary pathway;
- Evaluate options for supporting apprenticeship continuation when small businesses in regional areas fail or close for any reason;
- Recognise in the funding model the importance of TAFE Institutes maintaining apprenticeship training as an actionable option for regional students;
- Ensure that the funding model is managed so that changes to the model are introduced with sufficient lead time to allow providers to plan for delivery that is high quality, cost-effective and aligned with student expectations on enrolment.

The context for delivery in thin markets

Thin markets entail particular challenges for Victoria's TAFE Institutes and dual sector Universities. This submission outlines those challenges and how they have become more demanding under the current funding model. It draws on views expressed by representatives of TAFE Institutes during a consultation convened by the VTA.

Our consultation canvassed four kinds of thin markets:

- Specific emerging industries which have a small workforce at present but are on a growth trajectory;
- Specific, established industries which have a small workforce, and often low labour turnover;
- Specific industries – both emerging and established – which are large in aggregate across the state but which require low levels of locally delivered training;
- Specific occupations in which the few people seeking training may live anywhere in the state.

These kinds of thin markets occur in metropolitan and regional areas. However, this typology is an abstraction. The practical concerns for TAFE Institutes run deeper.

The practical effects of thin markets on participation and workforce skills

Thin markets are frequently encountered in regional areas where population densities are low and industry diversity is high. Regional communities hold expectations that, as the public provider, TAFE will respond to training demand (even at low levels) as a direct contribution to regional economic and social stability and development. TAFE Institutes recognise that high quality private RTOs have brought benefits to regional communities. They note, however, that private RTOs are free to wind back or exit delivery at any time, including when returns on investment are too low. The community holds TAFE to a different standard – that it will deliver for the benefit of the community on a continuing and sustainable basis.



TAFE Institutes design learning programs that incorporate quality standards and account for training package requirements. Design choices are necessarily constrained by the resources available, which principally derive from student fees and government subsidies. TAFE Institutes must ensure resources are sufficient to cover the direct costs of learning (teachers, materials, specific equipment) and costs of corporate services that support the learning experience and student success. Ideally, resources are also sufficient to provide a return that enables further investment in VET.

The cost to the consumer must represent a value proposition. In thin markets, as described above, the costs of training to the employer or individual student are likely to be much higher, even with innovative delivery models factored into the learning design. VTA members noted that with current VTG subsidies, particularly at the Certificate levels, the cost that must be borne by the student is not seen as a value proposition in thin markets. Markets have also thinned for some qualifications and in some industry areas as fees have increased. The willingness to pay fees has decreased as fees have risen. The funding model is creating thin markets in some qualifications that were previously financially viable.

In well established markets with strong employment outcomes (for example, early childhood education) economies of scale are available to TAFE Institutes. Scale means Institutes can attract sufficient VTG funding and contributions from employers/individual students for the learning program to be financially viable. In thin markets, with lower current and potential demand, there is a high risk that the learning program will be financially unviable under the current funding arrangements.

The VTG is modelled on a one-size-fits-all approach to funding qualifications. The only concession to regionality is a blanket 10 per cent loading. Thin markets can have significant negative impacts on TAFE Institutes' offerings, particularly where the demand occurs across large geographic areas. The frequency with which some learning programs can run is circumscribed by low student numbers. Even in relatively large industry sectors, such as retail, it is difficult for TAFE Institutes in regional areas to source sufficient student numbers for learning programs to be financially viable.

Demand is further affected by the qualifications required. It becomes progressively more difficult to muster sufficient numbers for a viable student cohort beyond Certificate II and III levels. Viability, even at these levels, is highly sensitive to attrition. Losing one student may be the difference between break even and loss, given that those who remain enrolled reasonably expect the Institute to honour their right to complete the qualification.

As TAFE's market share has fallen in a shrinking training market Institutes have very limited capacity to cross-subsidise learning programs. In the case of campus based delivery, there are diseconomies of scale in running face-to-face classes at smaller campuses. One strategy used by Institutes is to secure sufficient enrolments by offering face-to-face classes at larger campuses. However, this often involves considerable travel which dissuades some prospective students from taking up a training place. For regional TAFE Institutes there are high costs related to travel for workplace assessment and delivery, making small cohorts even less viable.

Online training and assessment is a partial solution to some of these challenges. However, this option is often undermined by poor internet access and download speeds (with many people in regional areas still using dial-up services). In addition, many students and prospective students have low levels of digital literacy which makes online delivery and assessment unworkable, at least in the early stages of their enrolment. It cannot be assumed that online teaching and assessment is the solution in all thin markets. Blended learning and teaching strategies remain essential for skill



development. The balance of online and face-to-face contexts within a learning program must be struck through instructional design that best serves industry requirements and learner needs.

It is frequently difficult for TAFE Institutes to recruit trainers with the requisite expertise to deliver training in thin market conditions. There is limited capacity to offer certainty in teaching load. In addition, Institutes must bear substantial costs for instructional design and resource development following training package changes and for emerging industries. These costs are more readily recouped when delivering training to large cohorts. They may never be recouped in thin markets.

One consequence of thin markets which is less well recognised is the effect on pathways to higher level qualifications, including degree qualifications. TAFE Institutes have played a key role in securing increased participation in diploma and degree qualifications as pathway qualifications that prepare students for the next step. Under the current funding model, thin markets do result in withdrawal of pathway qualifications.

It is possible that, under demand driven training provision, unmet demand for training has largely been absorbed. If this is the case then it would partly explain declining student numbers in the VET system. One implication of this would be that thin, or more marginally viable, training markets will increase in number. In that context TAFE Institutes, as public providers, would bear the expectation of operating in a wider number of thin markets that private providers will not seek to serve for want of sufficient return on investment.

Responding to thin markets with fewer resources

TAFE Institutes have endeavoured to keep faith with community expectations and community training needs in a number of ways.

Online delivery has become more prominent, though as previously mentioned this is not always a workable option for those with poor internet access or low digital literacy. A further complication is that Institutes have reduced student support services in response to lower revenues. Lack of student support services inhibits Institute capacity to assist students to develop digital literacy skills. Consequently, recruitment is hampered by the inability to offer such support following enrolment.

Some rationalisation of qualifications offered has occurred so that more generic qualifications are offered in some industry sectors. This is feasible in ICT and business for example. However, substitution is not always a useful strategy for students as pathways can be affected and pre-requisites for higher level qualifications cannot always be accommodated. The thinning of the market can lead to a downward spiral – choices narrow as the capacity to offer vital pathways to higher learning become more limited. In lower level qualifications, co-teaching of common units of competency has allowed Institutes to reduce delivery costs in some instances. This may not be a long term strategy as the scope of units and qualifications contracts.

Options for improving participation and workforce skills in thin markets

TAFE Institutes seek greater flexibility to respond to thin markets. Flexibility is available through changes to the funding model, and assistance to investigate and trial promising structural changes to training delivery. There is also scope to raise awareness of the benefits of tertiary qualifications and to raise aspirations for tertiary education – this work has begun but is unfinished.

There is a range of options that TAFE Institutes consider worthy of consideration in framing an adequate response to the realities of working in thin markets. These options are briefly described below.

Subsidy adjustments to VTG eligibility criteria

Adjustments to VTG eligibility criteria have the potential to make a substantial difference to training delivery in thin markets in which there are recognised skills shortages in priority industries.

VTG eligibility criteria build in the flawed assumption that qualifications once gained are relevant for life. Australia's workforce needs contemporary skills. That requires ongoing development of skills and knowledge. VTG eligibility criteria must reflect an understanding of the shelf-life of qualifications.

In submissions to the implementation review of *Securing Jobs for Your Future* (2010), and the Review of VET fees and funding by the Essential Services Commission (2011), the VTA observed that people were unable to access government subsidised training in Victoria because they held qualifications that were sometimes issued decades earlier, and often for areas in which the person had not worked for some time. VTA was not alone in raising this matter in response to the 2010 Review. Ernst and Young reported the outcomes of the Review to the Victorian Department of Industry, Innovation and Regional Development (DIIRD) in August 2010, noting:

... the eligibility criteria of the Victorian Training Guarantee could potentially act contrary to the objective of encouraging lifelong learning. The options therefore are to either identify a period of time after which qualifications are not considered for eligibility purposes or an actual date. The preferred option is to select a period of time. There is almost no guidance about the optimum amount of time for which a qualification maintains its currency. Indeed, currency depends on the qualification in question.

In preparing themselves for work, individuals want to come to the employer with the package of skills that is the right fit. They recognise this as a threshold for effective and productive participation. Government funding for relevant, employment-linked learning is crucial to instilling a culture of lifelong skills development, as it is for broadening and deepening Victoria's skills base. Yet current funding mechanisms allocate government funding only where the learner is enrolled in higher qualifications and include limitations on enrolling in only two government subsidised courses in any one year and restrictions on the number of enrolments at an AQF level in one's lifetime. As an example, Douglas¹ completed half a Certificate III in Horticulture and one unit from the Certificate III in Civil Construction course in 2001. Fast forward to 2015 he is now ineligible for a government funded place in Certificate III in Arboriculture even though he has not completed any qualifications. These entitlement rules mean that Victoria is not necessarily preparing graduates with the best fit to the industry in which they will seek employment.

TAFE Institutes believe it would be valuable for the Victorian VET Funding Review to consider adjustments to VTG eligibility criteria. Such adjustments could include:

- Introducing an expiry date for existing qualifications. It is reasonable to assume, for example, that training undertaken 10 years ago is unlikely to represent contemporary skill requirements in any industry.
- Revisiting the restriction on commencing or completing two qualifications at the same level. There are many instances in which this restriction has unintended consequences. For

¹ Second name withheld but example verified by VTA



example, a young person may complete forklift and RSA programs to secure holiday or short term employment and then find they are ineligible to do an apprenticeship.

In thin markets these adjustments would have the effect of increasing the number of students eligible for subsidised training in targeted industries. They would have a broader influence in signalling an emphasis on lifelong learning.

Subsidy Supplementation to the VTG

TAFE Institutes are frequently confronted with the decision about whether or not to offer learning programs. There may be demand for the training, and jobs available, but financial modelling may show that financial viability is marginal or absent. For regional Institutes in particular the decision can be a difficult one: the qualification may be valued by stakeholders for its contribution to regional social and economic development, but the Institute may be unable to cover delivery costs.

It is suggested that the Review considers establishing a framework to supplement VTG funding in thin markets. The framework design could specify criteria which assure depth and breadth in programs that address skills shortages, and/or specialist skills needs.

Rural and regional loadings

An alternative to supplementation in rural and regional areas is to introduce loadings that appropriately account for the higher costs of delivery and infrastructure maintenance. The additional costs borne by regional Institutes are considerable and varied, frequently related to the inability to derive benefits from scale in serving a small population spread over large geographical areas. Such costs include upkeep of small campuses, travel, provision of adequate student support services and delivery to small student cohorts.

Rural and regional loadings, or supplementation, are particularly important considerations for regional Institutes because their communities expect them to operate as reliable, continuing, local training providers.

The Review is asked to assess whether the current level of supplementation for regional enrolments (+10 per cent of the VTG subsidy rate) is effective in enabling access to VET in these markets.

Specialist support to regional areas

There may be potential to address thin markets effectively through collaborations between metropolitan and regional TAFE Institutes. Structured collaborations, appropriately supported with adequate funding, may provide a mechanism to achieve scale and efficient use of instructional design and training expertise. It is suggested that the Review considers the benefits of earmarking funds that specifically support the development and maintenance of such collaborations.

Training for new and emerging industries

Emerging industries rely for their growth on access to a skilled workforce. The challenge for training providers is to develop appropriate skill sets and qualifications, develop learning and teaching resources, and to recruit trainers with the requisite expertise. This developmental work, and early implementation of training programs, requires an upfront investment to meet the needs of employers. The return to providers is usually delayed because demand for training is initially thin.



TAFE Institutes have a keen interest in building the stock of skills for new and emerging industries. However, funds for upfront investment have become scarce in the current TAFE trading environment. A different funding model is required to support development costs and early stage training delivery, possibly as part of a broader industry development approach that links new and emerging industries with high quality training providers.

The Review is invited to undertake detailed forecasting about prospective skills needs in the six industry sectors identified in the Government's Back to Work policy: Medical technology and pharmaceuticals, new energy technology, food and fibre, transport, defence and construction technology, international education and professional services. The outcome of this forecasting may link to revisiting funding approaches to VET supporting these industries where thin markets occur.

Student support services

The decline in the capacity of TAFE Institutes to offer essential student support services is addressed in a separate VTA submission to the Review, *VET Funding Reform and the impact on student support services in TAFE institutes*.

It is worth observing in the context of thin markets that student support services are a vital ingredient in supporting student persistence and engagement through to completion. Reduced capacity to provide those services means some students decide against enrolling or decide to withdraw before completion. In thin markets, where the ongoing challenge is to enrol sufficient students to meet viability criteria, the loss of one potential enrolment can tip the balance against proceeding with a program of learning. Likewise, the withdrawal of one student from a learning program can make it financially unviable though the Institute is committed to continuing it for remaining students.

Activity based funding is at odds with public expectations to deliver training activity in thin markets. A revised funding model needs to account for maintaining high quality, accessible student support services. Core capability must be protected against fluctuations in student numbers.

Securing student flows from VETiS, VCAL and VCE programs

VETiS, VCAL and VCE all prepare students for participation in tertiary education, and all offer excellent pathways to tertiary vocational education and training. More can be done to make those links more coherent and more accessible.

TAFE providers are willing to build stronger relationships and partnerships with VETiS, VCAL and VCE providers (including secondary schools). However, lack of resources and enabling structures are an impediment to partnership building which has a primary purpose of encouraging students in those programs to enrol in tertiary qualifications. The Review may wish to consider earmarking funds for the specific purpose of encouraging provider partnerships that have a dedicated focus on improving student flows from pre-tertiary to tertiary vocational education and training, and particularly to consider the benefits of such partnerships in thin regional markets.

TAFE Institutes are active in VCAL delivery. VCAL programs provide many people with the confidence and foundational capabilities to successfully complete a tertiary qualification. However, both fees and materials costs are substantial and off-putting for many who would gain most from a VCAL program. VCAL is a valuable option – its potential for increasing tertiary participation, both in metropolitan areas and thin regional markets, is undermined by high student costs. A review of VCAL funding models is essential if its potential is to be realised.



Supporting apprentices when businesses fail

In small communities there are limited opportunities for apprenticeships – a clear case of a thin market. When small businesses fail, or close for whatever reason, apprentices commonly experience difficulty in finding another employer. Institutes use their best endeavours to assist apprentices in these circumstances but local solutions are often unavailable. For apprentices the choices are usually to withdraw from the apprenticeship program or to seek placement elsewhere – moving away from home comes with additional costs which apprentices and their families are frequently unable to meet. Withdrawal from an apprenticeship comes at high cost to the future of the person involved. It is a loss to industry. It also has an immediate impact on the training provider – for regional TAFE Institutes the impact can often be to undermine the viability of apprenticeship training in an already thin market.

Alternative approaches to supporting apprentices in these circumstances need to be considered, as do alternative funding models that permit TAFE Institutes to maintain apprenticeship training as an actionable option for regional students.

Stability in funding model over time

Adjustments to the funding model have often been introduced without sufficient time to allow for good planning. Changes have been introduced after students have been recruited and when classes are already running, with the expectation that those changes will apply within a matter of weeks after their announcement. This approach to funding model management leaves all providers with immediate problems regarding viability of learning programs as they try to find cost-effective ways of meeting their undertakings to students where the adjustment results in less VTG subsidies. This is compounded in thin markets where delivery operates on low margins and cost recovery is often uncertain.

It is important to acknowledge that the time from enrolment to completion may span 12 months or more. Changes to the funding model should be introduced with sufficient lead time to allow providers to plan for delivery that is high quality, cost-effective and aligned with student expectations on enrolment.

Key contact:

Nita Schultz,
Interim Executive Director,
VTA
(nschultz@vta.vic.edu.au)

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