

Victorian submission to the House of Representatives Standing Committee on Education and Employment's inquiry into the role of Technical and Further Education (TAFE) system and its operation

Introduction

The Victorian Government welcomes the opportunity to make a submission to this inquiry into and report on the role of Technical and Further Education system and its operation.

This submission has been drafted in two parts. Part A provides an overview of the vocational education and training system in Victoria and Part B addresses the specific Terms of Reference as defined by the Committee.

Victoria notes that while this inquiry relates specifically to the role of TAFE institutes, TAFE institutes cannot be considered in isolation from the broader vocational training system. More specifically, to understand the current and future roles to be played by TAFE institutes, the whole vocational training system – defined as encompassing public, private and community education and training – needs to be considered.

Consistent with the Council of Australian Governments (COAG) *National Agreement for Skills and Workforce Development* (NASWD) and the *National Partnership Agreement on Skills Reform* (NP), the Victorian training system is delivering access to training through a competitive training market for a wide range of cohorts, is responding to labour market need, and is giving individuals the opportunity to develop the skills and qualifications needed to enable their effective participation in the labour market.¹ Victoria is also cognisant of its commitment to support public providers to operate effectively in the competitive market² and considers its market setting reforms announced as part of the *Refocusing Vocational Training in Victoria* package to be consistent with the NASWD and NP.

The TAFE sector plays a major role in the Victorian vocational training system. There are currently 14 stand-alone TAFE institutes and four universities with TAFE operations (dual sector universities). Together, these institutes deliver vocational training at more than 100 locations across Victoria, including at smaller campuses. As the owner of TAFE institutes, the Victorian Government has confirmed its preference for a strong, sustainable and efficient TAFE network.³

Throughout the waves of reform in the vocational training market, TAFE institutes have remained state government-owned entities, but have evolved from administrative units within a government department to independently-governed, statutory public sector entities competing for students and government funding within a competitive market. While TAFE institutes have also undergone amalgamation (from 32 institutes in 1993 to 18 in 2012), Victoria still has the largest number of TAFE institutes in any Australian state, many of which service a relatively small number of students compared to TAFE institutes in other Australian states.

PART A - Victoria's vocational training system

High-quality education and skills training is essential for Victorians to access the opportunities of a growing and changing economy, and an increasingly sophisticated and information-rich society. Education and training benefits individuals by enabling them to better access work and participate in society, and benefits the wider community through the enhanced economic and social contribution of individuals.

Over the past 20 years, the rise in employment in skilled occupations has outstripped growth in low-skilled jobs. This trend is expected to continue. The skill requirements of many jobs in the modern workforce are predicted to change dramatically in response to new systems and technologies. In some

¹ National Agreement for Skills and Workforce Development, clause 25.

² *Ibid*, clause 25 (d)-(e)

³ Victorian Government, *Refocusing Vocational Training in Victoria*, April 2012 available at <http://www.education.vic.gov.au/Documents/about/department/refocusingvetstatement.pdf>

industries a Certificate III is emerging as the minimum qualification needed for entry level jobs. The competitiveness and effectiveness of Victorian industries – and the resultant prosperity of the state – is largely based on the skills and capabilities of its people. Employers are seeking to work with government to foster pools of better-educated workers, who can work with more complex technologies and continually expand their skills.

As the pace of business change and labour mobility increases, both pre-employment and life-long learning is more important than ever before. There is considerable evidence that higher qualifications increase the likelihood of getting a job. For example, the May 2011 Australian Bureau of Statistics (ABS) Survey of Education and Work showed that those with a Certificate III or higher qualification had a lower unemployment rate than workers who do not hold post-school qualifications. Higher qualifications generally also mean higher pay.

The demand for higher skills, and for employees that are capable of becoming productive more quickly, has enormous implications for vocational training providers. To maximise workforce participation amidst an ageing population, training providers must support a more diverse student population. This includes learners with low levels of previous educational attainment, learners seeking a pathway into higher education, and learners who are balancing learning with work and family commitments.

The Victorian Government's education and training objectives

The Victorian Government has ambitious goals for the State's education and training system – starting with early childhood, school and tertiary education and continuing through workplace and lifelong learning. It aims to build on the existing strengths of Victorian education and training to create a system that delivers:

- World class achievement
- Engagement by all in the opportunities that education can bring
- Support for the wellbeing of all
- The most productive use of every education dollar invested.

At the heart of these goals is greater alignment of education providers and services to individual needs. A focus on educational pathways and lifelong learning, combined with policy settings that encourage higher levels of educational learning, have increased the demand for tertiary education.

The key imperative for all stages of education and training – but perhaps most starkly for the vocational training system – is the need to be responsive to structural pressures arising from abrupt changes in the economy. The vocational training sector needs to have the capacity to respond and intervene to protect the economy and the community against future skills shortages, particularly in areas that are of high value and where skills take a long time to develop.

The rationale for subsidising vocational training is that there is a public value component associated with undertaking a course and achieving the skills and knowledge associated with the qualification. The public value of an individual obtaining a qualification stems from improved productivity and improved social cohesion. It follows from this rationale of public value that there is no longer a presumption of a preferred mode of training delivery (i.e. TAFE institute, private provider or adult and community education provider). Victoria's training system now places the focus on the learner rather than on the provider.

However the Government recognises that a sustainable vocational training sector requires a network of well-functioning and modern public training providers offering a diverse range of courses within a contestable training market. The recent *Refocusing Vocational Training in Victoria* reforms position the sector to provide high-quality training to meet the needs of individuals, the community and the economy.

The Victorian vocational training system

The responsibility of the Victorian Government is to provide a government subsidised vocational training system in Victoria to support industry in the provision of a highly skilled and capable workforce. The Victorian system has done this by the introduction of market-based reforms centred around a student entitlement known as the Victorian Training Guarantee (VTG), which provides an unlimited number of

government subsidised training places available to people who meet the eligibility criteria. There has been significant growth in vocational training enrolments since the introduction of the VTG. This growth has largely been driven by private providers that have entered the market as it has progressively become more contestable. The number of private training providers delivering government funded vocational training has increased from 201 in 2008 to 445 providers in 2012. Private training providers have increased their delivery of government funded enrolments by 472 per cent from 2008 to 2012.

Recently released performance data on Victoria’s training system for 2012 demonstrates the strengths of Victoria’s entitlement based system. For example, since 2008 government subsidised enrolments have increased 76 per cent, underpinned by Victoria’s demand driven system, and that in 2012, the number of government subsidised enrolments rose again (by 22 per cent from 2011). This includes an increase in enrolments across all learner groups, across all training provider types.

Just as importantly this expansion has not come at the detriment of Victorian TAFE institutes. TAFE in Victoria remains strong and in 2012 overall enrolments in TAFE rose by 7 per cent from 2011 – the highest number of enrolments ever. TAFE domestic fee for service activity also experienced growth, rising by 22 per cent between 2011 and 2012. With around 125,000 enrolments, fee for service now represents around 31 per cent of TAFE training activity as TAFE institutes increasingly become commercially-orientated.

The Refocusing Vocational training in Victoria reforms

While the VTG resulted in significant growth in government funded activity and in areas of industry and economic need, it also revealed opportunities for improvement as some elements of the new market-based training system design were sub-optimal. The *Refocusing Vocational Training in Victoria* reforms respond to emerging challenges facing the current system while also best positioning the sector to provide high-quality training to meet the future needs of individuals, the community and the economy.

In designing and delivering these reforms, the overarching objectives of the Government have remained the promotion of an efficient and responsive level of vocational training activity, to provide fair access to training opportunities, to ensure training activity creates public value, and to improve the quality of training to better support job growth. However, as the vocational training system has become more market-based, to meet these objectives the role and form of the Government’s involvement in, and management of, the training system is also changing. Table 1 sets out the Government’s objectives for a vocational training system and the main forms of Government involvement that address these under a market-based approach.

Table 1: Objectives for vocational training and Government involvement

Objective	Government involvement in a market-based vocational training system
Efficient and responsive provision of vocational training	<ul style="list-style-type: none"> • Design and manage a strong market that operates with maximum choice and competition, and enables all participants to pursue their objectives • Where necessary, pursue specific interventions that encourage students, businesses and providers to deliver desired vocational training outcomes
Fair access to vocational training opportunities	<ul style="list-style-type: none"> • Promote and assist access to vocational training by providing additional financial assistance (such as higher subsidies, fee concessions or income-contingent loans) to individuals who face significant financial barriers to participation • Ensure (through subsidy) an adequate supply of places
Ensure public value is derived from vocational training	<ul style="list-style-type: none"> • Invest in vocational training through public subsidy, sharing the cost with private beneficiaries (students and businesses)
Ensure quality training is delivered	<ul style="list-style-type: none"> • Strengthen quality assurance frameworks • Improve availability and quality of training information to support better decision-making

Through the reforms, the Government is retaining and strengthening the individual entitlement to a subsidised training place to ensure that businesses and students continue to have choice over what and where they study and ensuring the cost of such access remains sustainable and in areas of greatest public value. The public value of courses has been assessed on the basis of its value to the economy (in terms of jobs or productivity) and the extent to which government investment is required to stimulate delivery of, and participation in, this training to meet industry needs.

All caps on the fees providers can charge have also been removed. Providers are now free to set prices they believe reflect the quality of their training. However, protections for low income students via retention of a concessions fees for Certificate I - Certificate IV level qualifications have been maintained, while VET FEE-HELP is available for students undertaking Diplomas and Advanced Diplomas where private returns are generally greater.

The Government has continued and expanded access to subsidised training for low SES young people, Indigenous Victorians and students in regional and rural Victoria. The Government provides additional assistance through subsidy loadings for students most in need. Subsidised pathway programs through pre-accredited training have also been maintained to ensure pathways to vocational training for those most in need. These investments ensure people facing barriers into employment and/or with low incomes are able to access quality vocational training.

As Victoria's economy continues to experience significant change, a new industry architecture has also been developed that engages directly with industry to ensure the training market stays aligned with changes in industry need. The model features a series of mechanisms to facilitate direct industry engagement and will enable government to monitor the responsiveness of the training market to industry skills needs and to identify priorities for market facilitation to improve responsiveness.

The new training system also recognises the need for stronger contract management, performance monitoring and quality assurance. There have been concerns about the quality of some training which have come about because of the way the system used to operate. In some cases students and the Government were not getting what they paid for and employers were not finding vocational training graduates with the skills they need for their workplaces.

That said, the vast majority of providers do offer high quality training, focused on the needs of students and industry. However a small number did not – and we acted to fix this. Providers seeking to offer government subsidised training now have to meet tougher contract standards than was the case previously. The Victorian Registration and Qualifications Authority (VRQA) has been given stronger regulatory powers of inspection and enforcement.

We also acted to improve the level and quality of information we made accessible for people to decide about their training options. Employers and students can now access a new one-stop shop training website – the Victorian Skills Gateway - and providers will be required to disclose price and quality information upfront to prospective students. Industry is also being supported to engage much more directly with training providers to ensure their skills needs are met, rather than more passively accepting market outcomes or seeking additional government assistance to address skills gaps. This means that industry and business will better be able to attract people.

Victoria also needs to ensure strong oversight of the new training market. An independent Market Monitoring Unit (MMU) has been established by the Government. The role of the MMU is to monitor how the training market is functioning including quality, price and competition. The unit will track market activity and advise the Government on these issues to inform future policy.

Building on earlier phases of reform, the *Refocusing Vocational Training in Victoria* reforms remove legacy constraints on the operation of an open, competitive training market. The Government's strategy is based on:

- empowering students to access a government subsidised training place in the course and at their training provider of their preference
- a level playing field for high-quality public and private training providers to access government subsidies
- providers being able to set tuition fees at whatever level they deem appropriate
- more direct engagement between industry bodies, prospective learners and training providers to improve signalling of industry skill needs and satisfaction with training provision
- targeting of funding to deliver the greatest public returns on investment

- a stronger role for government in monitoring overall system performance, quality assurance and consumer information.

The Government still recognises the importance of intervention where it wishes to fund Community Service Obligations (CSOs) and the process for identifying and costing them to help facilitate an open, competitive and demand driven subsidised market. The Victorian Government is of the view that CSOs are additional payments to specific providers and are only needed where the training market cannot deliver required services and outcomes, leading to market failure or sub-optimal performance in the achievement of training system objectives (including NASWD objectives), and that incentivising or facilitating a response by providers in the market would be less efficient or effective than securing provision outside the market. A CSO is only one of the levers available for Government to achieve the objectives of the vocational training system, and is only triggered where interventions through the training market are assessed as not being at least as efficient and effective as a CSO would likely be.

Implications of reforms for Victorian TAFE institutes

Following the 2008 reforms, a number of changes were made to reflect the new roles in the competitive training market. The Department of Education and Early Childhood Development (DEECD) was restructured to separate the owner and funder functions of TAFE institutes. Moreover, in 2010 the Victorian Parliament passed legislation to enable changes to the governance arrangements of TAFE institutes and universities. These changes brought institutions into line with contemporary best practice.

However the further stimulation of competitive market outcomes through sector-neutral funding arrangements has implications for the role of, and the relationship between, TAFE institutes and government. The Victorian Government recognised this and as part of the *Refocusing Vocational Training in Victoria* reforms announced the establishment of an independent TAFE Reform Panel to provide independent advice to Government on the decisions and actions necessary to support individual TAFE institutes to respond to vocational training funding change, structural reform options and opportunities for system-wide efficiencies.

With the move to a competitively neutral market, there is not an exclusive role for public providers within the vocational training market. However, the Victorian Government continues to recognise, support and maintain the strengths of Victoria's TAFE institutes alongside private training providers, particularly as the critical operational elements of an effective market continue to mature.

TAFE institutes will need to identify and maximise their competitive advantages – educationally and commercially – to attract students and sustain revenues. They will need to take account of the full costs of business (including capital costs) in formulating business strategies and budgets to meet their commercial obligations.

Like all providers, TAFE institutes will make strategic decisions on setting prices, investing in services for students, capital stock and renewal, providing community or commercial access to facilities and educational offerings and delivery models. These investment decisions will need to be made on the basis of market analysis and strategic planning. TAFE institutes should no longer assume that they are required to deliver community service obligations that are not explicitly required and funded by Government.

The TAFE Reform Panel's *A strong and sustainable Victorian TAFE sector* report is the culmination of a consultative, rigorous and evidence-informed process, aimed at securing a strong and sustainable Victorian TAFE sector. The report provides a clear roadmap that sharpens the Government's role as the owner of TAFE institutes. It focuses on what is necessary to deliver stronger regional presence and support, and create a more competitive and autonomous TAFE sector.

To place all of the Victorian TAFE institutes on a stronger competitive basis with the private sector, TAFE institutes need to become more autonomous. To facilitate this, the Victorian Government is:

- increasing the commercial focus and operating autonomy of our TAFE institutes, balanced with accountability and transitional support, including providing a commercial objective which is similar to

the commercial objective placed on Government Business Enterprises (GBEs) by the Commonwealth Government

- removing constraints on productivity by freeing TAFE institutes to negotiate enterprise bargaining agreements, removing restrictions on them being registered as Group Training Organisations, and enabling them to better use assets, including through transferring property titles to them
- clarifying the accountabilities and commercial powers of TAFE institutes, progressively implementing greater borrowing and investment powers, streamlining reporting, and a new performance monitoring framework which will help drive performance improvements
- implementing legislative changes, which support commercially-oriented and skills-based boards by providing TAFE institutes with the flexibility to vary the size and composition of their governance bodies to better tailor their needs to the fast changing and increasingly competitive environment of tertiary education
- a new compact defining the relationship between TAFE institutes and the DEECD.

The TAFE Reform Panel also made two recommendations that require Commonwealth consideration, which the Victorian Government supports, as reforms which would assist TAFE institutes' ability to compete more effectively in the tertiary market:

- Commonwealth Supported Places (CSPs) be made available to non-university higher education providers for applied degrees that have been accredited by the Tertiary Education Quality and Standards Agency (TEQSA), particularly in areas of skills shortage
- streamlined visa processing for international students seeking to study with non-university higher education and vocational training providers, assessed on a case by case basis, according to risk.

PART B – Victoria's response to the Inquiry's Terms of Reference

The role played by TAFEs in:

1) the development of skills in the Australian economy

Almost every industry in Victoria is experiencing rapid change. The increasing rate of technological advances, higher levels of competition, and changing customer expectations, mean that enterprises must be able to change rapidly to succeed. Quality vocational training and tertiary education will be crucial to support Victorian industries to move up the value chain beyond simple production processes and products and improve services. By growing skills, confidence and capabilities, the vocational training system creates opportunities for workforce participation, improves health and wellbeing, and fosters stronger communities.

Vocational training is a key part of this system. In 2012, more than 510,000 Victorians accessed government subsidised vocational training courses, in addition to others who accessed accredited training that was funded by themselves or their employer. This level of participation has not been achieved overnight, but through a continuous process of system reform and improvement over 20 years.

In response to changes in the economy and society, the vocational training system in Victoria has grown to place greater emphasis on enabling students, business and industry to choose and influence the vocational training that they use. The Victorian training system is demand driven, responding to individuals seeking training and industry and employers needing skilled people. This has led to a greater diversity in training offerings and providers for students to choose from. The system has, over time, taken on market characteristics, where people are able to decide what is best for them and where providers compete to offer services that meet this need.

Facilitated by this market approach, growth in vocational training activity has been particularly strong in sectors of critical importance to the Victorian economy, addressing skills shortages and occupations with specialised skill requirements. Enrolments in training are aligned with the changing occupational structure of the Victorian economy. In 2012 government subsidised enrolments are 18 per cent higher in in-shortage qualifications and 11 per cent higher in specialised qualifications, compared with 2011 figures,

equating to 152,300 and 80,200 enrolments respectively. The training delivery of courses related to specialised and in shortage occupations has been primarily driven by TAFEs (accounts for 53 per cent of enrolments), followed closely by private RTOs (41 per cent).

Businesses and industry bodies are best placed to understand their training needs and work closely with training providers to form solutions. The Victorian Government recognised that these was a need to better support industry to engage much more directly with training providers to ensure their skills needs are met, rather than more passively accepting market outcomes or seeking additional government assistance to address skills gaps. Consequently, Victoria has developed a new industry architecture that engages directly with industry to ensure the training market stays aligned with changes in industry need. The model is based on a new partnership approach between Government, industry and training providers. The model features a series of mechanisms to facilitate direct industry engagement, such as the Industry Skills Consultative Committee, Industry Roundtables and one to one consultations with industry groups across all regions. These mechanisms enable Government to monitor the responsiveness of the training market to industry skills needs and to identify priorities for market facilitation to improve responsiveness and to support industry and business to be able to better attract employees.

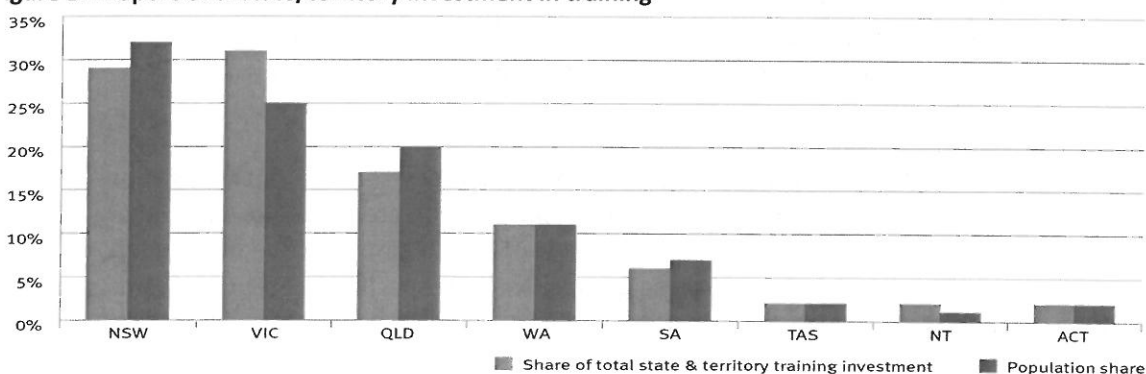
2) the development of opportunities for Australians to improve themselves and increase their life and employment prospects

A vocational training system that is responsive and dynamic should help as many people as possible build skills that lead to better jobs. In the context of a changing economic and educational landscape, a market approach is the best way to ensure this flexibility.

The introduction of student demand-led funding under the VTG resulted in strong growth in training. More Victorians are now taking part in training and more providers are offering training to students and businesses. In 2012 the Victorian training system reported steady growth, continuing the trend of recent years, with over 670,000 government subsidised enrolments, up 22 per cent from 2011 and 76 per cent since 2008. The number of private providers increased from 201 in 2008 to 445 in 2012. In 2012, private providers delivered 46 per cent of government subsidised training in Victoria, up from 14 per cent in 2008. Public funding has supported this growth, with Victorian Government investment in training increasing by more than 65 per cent, from around \$800 million in 2008-09 to over \$1.3 billion in 2011-12.

Victoria would note that it is difficult to make meaningful comparisons between jurisdictions about their respective training systems due to the different approaches to funding and the different needs of industry across jurisdictions. In 2011, Victoria invested more money into training than any other Australian jurisdiction, significantly above its share of the population (see Figure 1). Moreover, the Victorian system remains highly efficient, with the lowest rate of real recurrent government expenditure per hour of load pass rate of any jurisdiction.

Figure 1. Proportional state/territory investment in training⁴



The Victorian Government set aside a \$1.2 billion for vocational training in 2012-13 and has allocated similar amounts for the coming three financial years.

⁴ NCVET Australian Vocational Education and Training Statistics Financial Information 2011; ABS Australian Demographic Statistics, March 2012 (cat. no. 3101.0)

The *Refocusing Vocational Training in Victoria* reforms are designed to satisfy important criteria for a strong vocational training market. Through these reforms the Government will be able to more effectively manage the training market, ensuring that the vocational training system continues to produce positive outcomes for students, businesses and Victoria.

Moreover, as part of the *Refocusing Vocational Training in Victoria* reforms, the Government is retaining and strengthening the individual entitlement to a subsidised training place to ensure that businesses and students continue to have choice over what and where they study and ensuring the cost of such access remains sustainable and in areas of greatest public value.

The public value of courses has been assessed on the basis of its value to the economy (in terms of jobs or productivity and essential services) and the extent to which Government investment is required to stimulate delivery of, and participation in, this training to meet industry needs.

The subsidy for each course reflects an assessment of its current 'public value' - with courses of greatest public value receiving the highest level of subsidy (Band A), and courses of lowest public value the least (Band E). For example, the highest subsidy bands (Bands A and B) include all apprenticeships, all foundation courses and many courses relating to skills shortage and specialised occupations such as builders, electricians, plumbers, aged care, nursing and renewable energy.

There has been a marked shift in commencement patterns since the reforms were introduced in July 2012. Following the reforms, 65 per cent of government subsidised commencing enrolments in 2012 were within Bands A and B, whereas in the pre July 2012 period, 49 per cent of commencements were within these bands. Correspondingly courses with less need for higher levels of government investment (Bands D and E) represented approximately 13 per cent of government subsidised commencements post July 2012, down from 31 per cent pre July 2012. Similar patterns can be seen when comparing funding bands to full year 2011. Overall trends show training activity moving towards courses of higher public value and labour market need.

In 2012, Victorian TAFEs provided over 80 per cent of the training in courses which receive the highest subsidy rates and will continue to have the opportunity to leverage their established infrastructure and expertise to further this advantage in order to increase training revenue. However we may see a shift over time if private providers are able to deliver training courses more efficiently.

3) the delivery of services and programs to support regions, communities and disadvantaged individuals to access training and skills and through them a pathway to employment

As well as increasing productivity by improving the skills of the existing and future workforce, the education and training system also plays a key role in raising participation, thereby building a more cohesive society and improving the life chances of the disadvantaged and those at risk of disengagement. This is most evident in the results of the market approach embodied in the VTG, which has achieved positive outcomes for both students and the economy as discussed earlier.

Supporting learners

Vocational training is a critical pathway for a range of Victorian learners. Learners, including those who have not achieved a senior secondary certificate or equivalent and who are unemployed or in low skilled work, are one group most likely to benefit from vocational training. The introduction of a student training entitlement has increased the participation of these groups. The VTG specifically encourages and supports the participation of learners with barriers in vocational training, showing success in substantially improving participation rates across a range of student groups. For example, between 2008 and 2012, there has been a:

- 184 per cent increase by unemployed students
- 42 per cent increase by Indigenous students
- 68 per cent increase by students reporting a disability
- 117 per cent increase by Culturally and Linguistically Diverse students.

The vocational training sector also continues to be an important pathway to employment, with 120,000 unemployed students engaged in government subsidised training, growth of 33 per cent between 2011 and 2012.

Research suggests that some learners face a range of particular barriers to access, succeed and progress in education, training and work.⁵ Best practice models suggest these barriers are most effectively tackled through a strategy that encompasses outreach to improve access, recognition of the range of obstacles a learner may face that impacts on their capacity to participate, a teaching and learning approach that is tailored and responsive and a clear pathway to further education, training and employment. Many providers including TAFE institutes, private providers and community owned and managed Learn Local providers (or Adult Community Education (ACE) organisations) adopt these best practice approaches. The Learn Local sector in particular currently provides an important service to a range of adult learners seeking to progress through pre-accredited or entry level vocational training.⁶ For example, recent longitudinal studies of learners in Learn Local pre-accredited training show the potential of these best practice approaches to training. Nearly four in 10 of those surveyed who had undertaken a pre-accredited program in ACE followed up with another course. Around seven in 10 had made a transition into an accredited pathway.⁷

However, there remain significant numbers of Victorians without formal post-secondary qualifications. Moreover, for students who do enter formal training, the low number of vocational training sector completions is an issue recognised nationally, with the latest research conducted by the National Centre for Vocational Education and Research (NCVER) estimating national completion rates across the vocational training sector at 31.7 per cent in 2009. Victoria's completion rate has historically sat below the national average, despite rising almost 4 percentage points from 2008 to 2009, to 28.8 per cent.⁸

In recognition of the need to increase completion rates overall, there is a need to both improve the practices of training providers in reporting qualification completions and then to use this performance information to incentivise providers to see more students through to completion. For example, the 2013 Victorian Government contract for subsidised training has increased the focus on the requirement for providers to issue qualifications and report regularly on completions and the Government is continuing to advocate nationally for provider performance data, including completion rates, to be used by regulators to target regulatory oversight.

Victorian regional training profile and the implications for TAFE institutes

Enrolments in the majority of Victoria's regions are growing, particularly in higher level qualifications, as people use the opportunities provided by the VTG to upgrade their skills in response to changing labour market needs.

All regions have experienced an increase in the number of providers delivering government subsidised training into the region since the introduction of the VTG. This increase has been driven by additional private RTOs entering the government subsidised system, improving access for students as well as providing more choice in where they study.

In many parts of regional and rural Victoria, TAFE institutes are currently the largest provider of vocational training. Ensuring access to vocational training is critical to boosting educational attainment and the restructuring of regional economies. Relative to most other jurisdictions, regional and rural TAFE institutes in Victoria generally have fewer students and less revenue. The independent TAFE Reform Panel found that the scale of their operations means they have less capacity to transform their educational

⁵ Davies, M, Lamb, S and Doecke, E, *Strategic Review of Effective Re-Engagement Models for Disengaged Learners*, October 2011

⁶ Pre-accredited training is funded outside of the VTG and available only to Learn Local providers registered with the ACFE Board. In 2012 310 providers were registered with ACFE, of which around half were also Registered Training Organisations eligible to offer accredited training under the VTG.

⁷ Longitudinal Study for the ACFE Board, Centre for Research on Education Systems, University of Melbourne 2012

⁸ National Centre for Vocational Education Research (NCVER), *Australian vocational education and training statistics: the likelihood of completing a VET qualification, 2006-09, 2012*

services and business operations. Victorian TAFE institutes face a challenging future in an increasingly competitive environment unless they generate greater economies of scale and scope.

The Victorian Government knows that the TAFE sector plays a critical role in community and regional development across Victoria. In *Next Steps for Refocusing Vocational Training in Victoria – Supporting a Modern Workforce* the Government has committed to support regional and rural TAFE institutes to:

- sustain a strong local presence in regional communities, by providing a clear expectation and financial support for planning towards financial sustainability
- roll out a pilot for technology enabled learning centres in Gippsland, so that students in different areas can be taught simultaneously
- encourage and support stronger relationships with schools and universities to improve progression into further learning and enable life-long learning.

In response to the TAFE Reform Panel's recommendations, the Victorian Government is inviting TAFE institutes, led by skills-based Boards, to develop options that generate greater economies of scale and scope and, greater capacity for innovation, whether by entering into more partnerships with other education providers, or undertaking a more formal structural change. It would be expected that through these changes the regional and rural TAFE institutes would become financially sustainable and move towards meeting their commercial obligations. The Victorian Government will be open to all proposals for collaboration opportunities, including integrated governance and management structures that are developed by the TAFE institutes.

The Victorian Government will provide time-limited and contestable structural adjustment funding to TAFE institutes of \$200 million over the next four years to support innovation, collaboration, structural reform and business transformation to ensure their ongoing financial sustainability. TAFE institutes will be invited to submit funding proposals to support innovation, collaboration, structural reform and business transformation, with detailed business cases. Funding will only be provided for projects that deliver genuine improvements in financial sustainability and demonstrate a pathway to meeting commercial obligations.

Regional TAFE institutes will be supported by an independent facilitator, and will be provided with funding for expert commercial and restructuring support to work through the implications of the recommendations of the TAFE Reform Panel. This transitional funding will be a key to positioning regional TAFE institutes to become more self-sufficient.

4) the operation of a competitive training market

Victoria's vocational training system has evolved from a TAFE-centred, contract funded model; to a Government-planned purchaser model, and then to a more student-centred, demand driven system. As a result of this reform trajectory, training activity now occurs across a range of different provider types.

In 2008, the VTG was introduced, placing the purchasing power for training in the hands of students. The VTG allowed individual students to access government subsidised training places in the course of their choice and at a range of providers. To facilitate this entitlement, the overall number of training places was uncapped and places were no longer allocated to particular providers. The introduction of the VTG released pent up, latent demand for skills training. Between 2008 and 2012 there was an increase in government funded VET enrolments from 381,300 to 670,400 people – representing 75 per cent growth in enrolments in the system.

As the vocational training system in Victoria continues to evolve, many of the key elements of the training market that were established under the VTG remain in place. These include:

- a student entitlement under the VTG, where a public subsidy follows the training choice of an eligible student
- a contestable and competitive market

- provider and training course regulation, where vocational training regulatory bodies enforce national standards for provider and course quality.

The *Refocusing Vocational Training in Victoria* reforms builds on this foundation with further improvements to the market design framework, supplemented by specific interventions where necessary. The reforms respond to the need for change to address the sub-optimal outcomes emerging under the previous system and address the system weaknesses that enabled them to take place. Together, they build the framework for a more coherent overall system design, continuing the process of improvement that started over 20 years ago.

The *Refocusing Vocational Training in Victoria* reforms standardised funding rates for all training providers, both public and private. This means that the Victorian vocational training market will increasingly take on the characteristics of a competitively neutral market, consistent with the Victorian Government's competitive neutrality policy. The reforms recognise that there can be a trade-off between price and quality in a competitive market and puts in place quality safeguards to ensure appropriate outcomes.

The *Refocusing Vocational Training in Victoria* reforms produces a vocational training system that has active involvement of key players and sends clear signals through prices. This ensures that:

- training is delivered at an efficient price
- students are informed and can make choices about the benefit of particular training
- providers have signals about likely course demand
- the Government is in step with industry needs in order to continually shape the delivery of training.

Taken together, the changes will help to ensure that as many people as possible are training in skills that lead to real jobs.

The Government will continue to monitor the performance of Victoria's training market and respond where there is evidence of a market failure, or credible risk of failure, impacting on particular groups of learners, particular industries, or particular communities. An essential part of Government's role in supporting an effective training market is ensuring that market failures are identified early and addressed as quickly as possible. The Victorian Government has established an independent Market Monitoring Unit (MMU) in the Department of Education and Early Childhood Development (DEECD) that will lead the task of monitoring and reviewing market settings. The MMU will monitor, analyse and report to Government on matters relating to the efficiency of the Government subsidised vocational education and training market in Victoria and specific market segments.

The Victorian Government is keen to continue to work with other jurisdictions and the Commonwealth to remove barriers to a more competitive vocational training market.

5) those jurisdictions in which State Governments have announced funding decisions which may impact on their operation and viability

The Victorian Government is building a modern vocational training system that provides every Victorian with the chance to access quality training that will result in more people gaining the skills they need to get a better job.

The full implementation of the VTG in 2011 succeeded in improving participation, driving choice and increasing competition. However, during implementation it was apparent that a number of elements of the vocational training system design were sub-optimal. As a result, the Government identified that a number of system design changes were needed to improve effectiveness and confidence in the system. In particular, the following issues were highlighted:

- a more comprehensive market monitoring framework was needed to provide oversight of market health and performance
- pricing was inflexible which sent weak signals about value, supply and demand
- inadequate information was available to assist the training decisions for students and businesses

- gaps existed in the quality assurance and regulatory framework
- subsidy settings were inconsistent between public and private providers and incompatible with fair competition.

These issues led to a number of unintended consequences including:

- particularly strong growth in some areas of training which were misaligned with the skills needs of businesses, risking poor vocational outcomes for students
- emerging quality concerns that could undermine public confidence in vocational training.

The *Refocusing Vocational Training in Victoria* reforms were designed to address these issues. Under the reforms:

- Providers seeking to offer government-subsidised training now have to meet tougher contract standards than was the case previously.
- Provider and course quality is being reviewed via the new MMU. Evidence of quality or reporting concerns identified by the monitoring unit will be able to be investigated by a newly established rapid response audit team.
- Victoria is also improving contract performance information, including introducing an improved performance measurement framework and indicators for TAFE providers.

Victoria is also interested in opportunities for regulatory reform, particularly for greater performance based regulation and welcomes the National Skills Standards Council's Position Paper proposing options for strengthening the regulation of training providers and regulators and the stronger focus on quality in training and assessment practices that delivers on industries' expectations in training packages. The Government is also pleased to note the emphasis on encouraging regulators to more actively and regularly apply risk-based strategies to reduce regulation for high performing providers and more intensive scrutiny of high risk providers. These proposals are consistent with Victoria's calls for the national regulatory framework to move to a more performance-based system.

Overall Victorian Government contributions to TAFE institutes in 2012 following the implementation of the reforms increased by 3 per cent. However, the Victorian Government also recognises that TAFE institutes will require some assistance to operate more effectively in the competitive vocational training market into the future. In response to the TAFE Reform Panel report, the Victorian Government will provide \$200 million over four years to support innovation, collaboration, structural reform and business transformation for TAFE institutes for projects that improve financial sustainability and demonstrate a pathway to meeting commercial obligations.

Conclusion

Victoria reiterates its commitment to an efficient and effective vocational training sector to maximise outcomes for learners, industries and communities. Victoria is committed to securing the future of TAFE institutes in the increasingly competitive market, and to working with the Commonwealth and other jurisdictions in the pursuit of these aims.