Thank you for the invitation from Adrian Marron to be with you this morning,
I have been invited to discuss key changes and challenges for the national vocational and education (VET) training system.

The two of course are intertwined – each of the changes has brought important challenges for providers.

Few areas of Australian public policy have indeed undergone such significant and rapid change as vocational education and training in recent years.

The introduction of ‘contestability’ by the Victorian Government in 2009 and its later adoption by other states and territories has dramatically reshaped the vocational education and training sector.

As a representative of TAFE Directors Australia my perspective this morning will be a public provider TAFE perspective.

The key changes that I will discuss today are:

1. The implementation of national entitlement
2. Changing governance arrangements
3. VET investment models
4. The introduction of a changed regulatory framework

By way of background, TAFE Directors Australia (TDA) is the peak body for the 58 TAFE institutes with our members delivering vocational education and training across every state and territory in Australia.

TAFE institutes offer training and assessment across all the qualifications in the Australian Qualifications Framework.
A significant part of the TAFE sector, including CIT, has developed higher education offerings over the past ten years with ten TAFE institutes registered as higher education providers (HEPs) with TEQSA offering collectively over 130 higher education qualifications ranging up to Masters degrees.

A report by the Centre for Policy Development in 2013 indicated that the TAFE sector provides a greater share of the benefits, for industry, the community and the individual, as against other providers.

**TAFE:**

- is the main training provider outside metropolitan areas;
- provides more training towards skills in areas of shortage;
- serves a disproportionate share of students with disabilities and from disadvantaged backgrounds; and
- provides costly training in areas such as mining and construction, and in thin markets, while most private providers focus on cheaper and more profitable courses, often at the expense of the taxpayer.

TAFE is a public asset and should be acknowledged for its contribution to the Australian economy and local communities, however, the role of TAFE is now far from clear.

**Implementation of national entitlement**

The *National Entitlement to Training* was adopted by COAG in April 2012 as a National Partnership Agreement (NPA) for Skills and Workforce Development. Its purpose to “….contribute to the reform of the Vocational Education and Training system to deliver a productive and highly skilled workforce which contributes to Australia’s economic future”

The NPA Agreement identified a number of reform directions, including introduction of a national training entitlement for vocational education and training students and a competitive market place.
The National Partnership Agreement recognised the role of the public provider and promised structural adjustment support for this transition.

The rationale was that under an entitlement system eligible training participants would have greater choice of training provider for the qualification they wish to study.

Despite this being a national agreement there has been no common agreement across Australia’s States and Territories about

- the nature of entitlements for students,
- the quality criteria that should be applied to providers in receipt of public funds, and
- the governance arrangements for public providers,
- nor recognition of the role of public providers in servicing local communities.

“The trend is set to continue with all states and territories planning to open their training funds to private competition”. (The Australian 28 January 2014)

The recent report of the Productivity Commission on Government Services stated that that “more than one quarter of training funds were allocated through competitive tendering in 2012 compared to just 2% in 2008”.

72% of training budget in Victoria is now contestable. South Australia did in 12 months what Victoria did over 4 years. 74.4% of funds are now contestable. The other States and Territories have indicated that they too will move to market driven vocational and education training systems.

Costs of national entitlement

TDA is not averse to a competitive training market. TAFE institutes are now well used to competing against other providers within Australia and internationally. TDA recognises that competition can boost responsiveness to enterprises and learners.

The recent opening up of the training markets by some States and Territories however has resulted in a dramatic structural change.
Where national entitlement has been introduced by State and Territory Governments the result has been a constantly changing and confusing situation for learners and for industry, and severe financial difficulties for a number of publicly funded TAFE institutes.

Writing in the *Australian Financial Review* in early 2014, Innes Willox, described the unacceptable pricing impacting apprenticeships and traineeship costs to employers, and the ad hoc approach across states and territories forced into National Entitlement.

Australian Industry Group (AiG), Business Council of Australia, and the Australian Chamber of Commerce and Industry (ACCI) spokespersons are on record as expressing their concerns about the speed of some State’s implementation of national entitlement, and the lack of appropriate checks and balances with implementation.

There were also warnings on Registered Training Organisations (RTOs) in receipt of millions of dollars of government funds (federal, state and territory), with the record that a number lost their contracts for failing to meet the conditions of their contracts including quality standards.

**CHALLENGES**

The challenge to TAFE Institutes is how to remain a provider of choice to business and the community and to regain market share.

TAFE institutes will need to

- Refocus on their core strengths
- Become meaner and leaner, but at the same time set the benchmarks for quality VET provision with an articulated set of quality performance, governance and risk measures.
• Articulate to governments the benefits of a network of public providers for the Australian economy and society and the consequences of failing to maintain such a network.
• Promote the achievements of TAFE— the range of successful partnerships with enterprises; the success of the TAFE in forging partnerships with countries abroad, especially Asia
• Educate of the public and business about the range of employment outcomes for graduates of TAFE (WorldSkills survey)

**Changing governance arrangements**

Each of the States and Territories are introducing changed governance arrangements for their public providers.

In a number of States and Territories new statutory authorities have been established outside the traditional Department of Education structures.

Some states and territories have embraced far reaching changes.

One state has determined that TAFE asset ownership will be transferred to a specialist entity that will operate commercially, letting land and buildings to TAFE and non-TAFE providers. In effect, the policy seeks to establish a market for leased training facilities and will add an additional cost (the cost of leasing facilities at commercial rates) to TAFE institutes cost structures. This model or policy has not been implemented in any other Australian jurisdiction or overseas based on research undertaken to date.

While competitive neutrality has long existed giving TAFE institutes capacity to lease their premises to for profit providers, the conversation about TAFE assets has become more intense.

TAFE institutes as public entities are constrained by accountability measures in a way that private providers are not.

**CHALLENGE**
The challenge for TDA/TAFE is ensure that any new governance arrangements give TAFE institutes greater capacity to survive and prosper in an increasingly competitive market.

It is also a challenge to TAFE institutes, in the short term, to maximise their competitive capacity within the existing governance arrangements.

**New investment models for VET**

The Australian Workforce and Productivity Agency’s (AWPA’s) Future Focus report notes that, between 2006 and 2010, government real recurrent expenditure on VET increased by 10% but expenditure per student annual hour actually decreased by 14% (*during the same period*).

More alarmingly, it also found that while recurrent funding since 1999 has increased or remained steady in other education sectors, it has fallen 25% for vocational education and training

“TAFEs have suffered recent funding cuts of $80 million in NSW, $79 million in Queensland and now an estimated $83 million in South Australia, while Western Australia has tripled many of its TAFE fees and the tendency is to take resources out rather than putting them in” (John Ross HES The Australian January 15 2014).

The constant minimisation and adjustment of funding levels now means that every RTO both public and private is looking for ways to minimise their expenditure- on governance, on staff, on resources, on time spent in delivering and assessing training, on student support, on educational innovation, and on the nature of skills being developed. Delivery of high cost technical skills, requiring small class sizes and expensive equipment and facilities, essential for developing a productive society is being minimised or avoided. It also means that student support, so necessary for some young people, for people re-entering the work force or transitioning from one industry to another in response to changes in industry structures, or people with disability, is also being minimised or avoided.
The dramatic decline of funding of vocational education by States and Territories was one of the themes in Jennifer Westacott’s recent chancellor’s address at Swinburne University. Ms Westacott, CEO of the Business Council of Australia referred to the present problem of diminishing funding with state governments being the biggest contributors to VET but offering no more money. It is more “politically palatable” she said for governments to make cuts to VET than cuts to schools.

There is, according to Ms Westacott a failure by governments to adequately recognise the importance of developing the skills of the workforce and funding VET appropriately. She has called for greater national leadership.

**Industry Skills Fund (ISF)**

In the past few days the Federal Government has released a discussion paper on the establishment of an Industry Skills Fund. (ISF) The stated aim of this fund is to “assist Australian industry to access training and support services and develop innovative training solutions so Australia will have the highly skilled workforce it needs to adapt to new business growth opportunities, rapid technological change and market driven structural adjustment”.

TAFE institutes and other training providers will not be able to access these funds directly. At this stage it is too early to make any comments but it appears that some of these funds may find their way through business to TAFE institutes.

**CHALLENGES**

The challenge for TAFE institutes is to be providers of choice for business and industry and for TDA and to work with government to

- Ensure that funding principles do not financially reward RTOs for short changing students or industry or minimising the skills development time.

- Provide encouragement to business and employers to engage more fully with educational institutions in the educational/training process.
• Develop a funding model for VET that ensures that parity is maintained with university and school based funding with access to industry readjustment, innovation and other funds.

The introduction of a changed regulatory framework

The Department of Industry recently released proposed Standards for the regulation of Training Providers and Regulators.

Previously TDA welcomed the communiqué from the COAG Industry and Skills Council meeting of April 2014 that supported the Government’s priorities for a modern and responsive regulatory system which deals effectively with poor providers; a reduction in the burden on the VET sector; greater engagement of industry in the performance of VET.

TDA stated that TAFE institutes as State and Territory owned entities are low risk, high quality and trusted providers.

TDA also maintained that the current vocational education and training funding and regulatory frameworks do not adequately reflect this status.

TDA expressed the view that the current standards were predicated on a ‘one size fits all’ approach which applies the high levels of regulation required to monitor high risk RTOs to all providers, along with the significant administrative and cost burden this entails.

TDA has responded to the proposed new standards In essence

TDA supports the principles that underpin the proposed standards:

• Greater engagement with industry
• Quality training and assessment
• Cutting red tape

However TDA has argued that the proposed Standards do not achieve the stated aim of reducing red tape, are still predicated on one size fits all and in their current form they are too focused on process and not sufficiently focussed on outcomes

CHALLENGE
Advocacy to ensure that TAFE institutes (and high performing for profit providers) have a set off standards that meet the expressed principles and in particular that TAFE institutes as low risk providers have greater recognition within the standards including being granted delegation to change their scope of registration.