

Swinburne's submission
to the Victorian Government's
VET Funding Review

April 2015



About Swinburne

Swinburne is a progressive dual-sector university with an emphasis on teaching and research in science, technology, business, design and innovation – teaching and research that makes a difference in the lives of individuals and contributes to national economic and social objectives.

At Swinburne, quality is never confused with elitism. We work to provide educational opportunities to capable students wherever we find them. Our teaching programs span vocational education, pathways education and higher education.

Swinburne operates from three campuses in Melbourne at Hawthorn, Wantirna and Croydon. We also offer a range of qualifications and courses delivered entirely online through Swinburne Online and Open Universities Australia.

In the past decade, Swinburne has progressed to become one of the top 400 universities in the world, as assessed by the Academic Ranking of World Universities and in the top 75 in the world in Physics.

The University's strengths are built around a solid technology base, influential links to industry and ground-breaking specialist research centres conducting highly targeted research.

We are a university that is engaged with the communities we serve. Our close ties with industry provide students with opportunities for work experience during their studies. Industry and sector representative inform, shape and challenge our curriculum.

In 2014, there were 18,526 students at Swinburne pursuing VET qualifications, and we delivered more than 5.1 million student contact hours of instruction. 83% of our VET students were studying part-time.

Further information about the University's VET delivery profile is available in our [2014 Annual Report](#).

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Context for this submission

Swinburne welcomes the opportunity to make this submission to the Victorian Government's VET Funding Review.

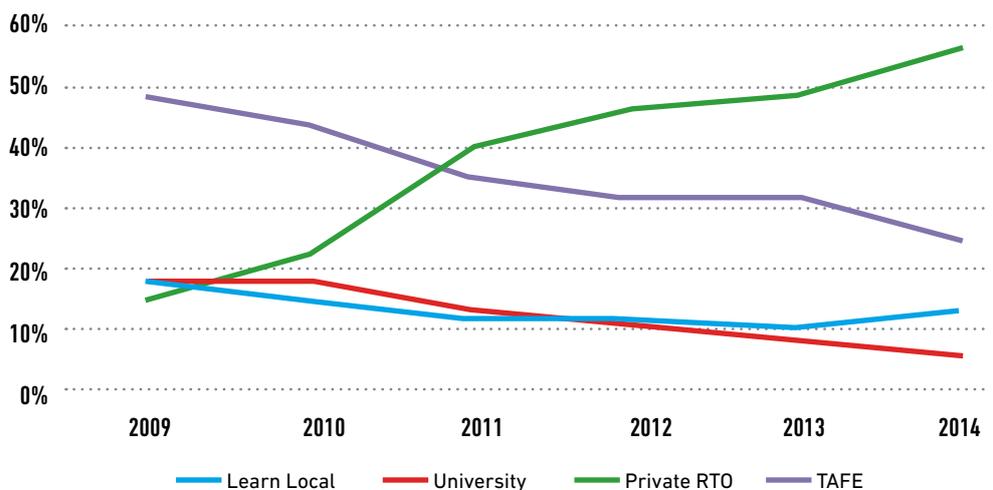
We support the Victorian Government's stated objective to create a more stable VET funding system that supports high-quality training to meet the needs both of students and the industries that that serve.

Recent funding and regulatory settings for VET in Victoria have created significant challenges for dual sector universities and institutes of technical and further education.

Since 2009, the market share held by dual sector universities like Swinburne has decreased significantly, from 18% in 2009 to only 6% in 2014 (Victorian Training Report, 2014). This market share has been eroded due to consecutive years of double-digit growth among private RTOs. During the period, the number of private RTOs increased from 246 in 2009 to 411 in 2014 (after peaking at 445 in 2012).

The transaction costs associated with maintaining quality provision across so many providers in Victoria has created a significant financial burden for the Victorian government, and for providers, without providing increased value for consumers.

Percentage share of government subsidised enrolments, by sector





The decision by the former Victorian government in May 2012 to reduce TAFE funding by \$300 million annually had significant consequences for Swinburne. This decision resulted in an immediate annual reduction of \$35 million from Swinburne's revenue base, a significant reduction of the resources available to support learning and teaching for our students.

This funding cut contributed to the decision by the University in June 2012 to consolidate our footprint and cease vocational and higher education delivery at Lilydale and Prahran campuses, moving programs that remained viable to one of our other three campuses (Hawthorn, Croydon, Wantirna). At this time, the University was also forced to cease delivery of a range of VET qualifications that could no longer be economically delivered under the new funding rates.

Swinburne supports the principle of a demand driven model for funding vocational education. Since 2009, however, there has arguably been a proliferation of course delivery that has not been aligned to projected industry needs. There is a risk that the market for vocational training is now over-stimulated and that increased participation is driven by artificially high supply rather than genuine student demand.

We are also concerned that quality within the sector has become has been compromised. We understand that more than 10,000 qualifications have been recalled in the past 3 years alone. Poor quality training means that any increase in participation is not necessarily effective and does not represent good value-for-money for Victorian taxpayers.

Since 2012, a series of further funding cuts and adverse changes to eligibility criteria, often at short notice and with little warning for VET providers, has continued to challenge the business and delivery models of public VET providers across Victoria.

Through this period, while there has been a significant contraction in the delivery of vocational education at Swinburne, the University has remained true to its commitment to deliver high-quality vocational education and training.





Since 1908, vocational education and training has been at the heart of what we do at Swinburne and our capability in vocational education sets us apart from many other universities in Australia.

At Swinburne, we take great pride in the contribution that our vocational and pathway education programs make to achieving great educational outcomes for our students. We remain committed to helping our students secure great jobs and to create further pathways to higher education for those students who wish to pursue further study.

Our vocational education and pathways courses continue to command community respect and support. Our KIOSC facility at Wantirna has been held up by the Victorian government as a model for the establishment of other Tech Schools. We have state-of-the-art trades facilities at Croydon. We have a well-established pathways program that successfully prepares domestic and international students for further study.

That said, Swinburne is not able to cross-subsidise vocational delivery from other parts of the university's operations. As the Victorian Government has identified, significant policy and funding change is required to ensure that public vocational delivery has a strong future in this state. If Victoria values the role that dual-sector universities play in the state's training market, it is essential that funding and policy settings support this.

Although the public vocational education sector in Victoria has faced great challenges in recent years, there is now the potential for growth and renewal if the Victorian Government puts in place funding and regulatory conditions which support high quality vocational education.



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Recommendations and discussion

Quality

Recommendation 1: Continue to operate a student demand driven system for vocational education, but one underpinned by more robust quality arrangements that protect students. Give consideration to the creation of a system of rating VET providers with respect to *quality* and *risk*, with implications both for funding and regulatory oversight.

Swinburne supports the continuation of a funding system that is based upon actual student and industry demand. A demand-driven system in vocational education has potential to be a more efficient way of allocating government funding to support quality training outcomes.

A key reason for the failure to date of the Victorian demand-driven VET funding system – and what sets it apart from the success of the demand-driven system in higher education – is that insufficient attention was given as part of system design to ensure that the quality of training would not suffer during a period of rapid system expansion. It is for this reason that Swinburne strongly supports the focus of the Victorian Government on restoring quality in the vocational training market.

A rapid increase in the number of private RTOs in the period since 2009, combined with easy access to government subsidies and a weak regulatory regime, has led to a degradation of training outcomes. Training market regulators including the VRQA and, more recently ASQA, have been under-resourced and under-prepared to intervene to prevent new entrants offering substandard training which has left many students in debt and without a satisfactory educational outcome.

Getting the regulation right is an essential precondition to successfully managing any program of market-based reform. If Victoria is to continue to operate a demand-driven VET funding system that meets the needs of students, it must introduce new mechanisms to ensure that those providers who are operating within it are delivering high quality training outcomes.

As part of this, Swinburne recommends that the VET Review explore mechanisms such as an explicit categorisation of VET providers on measures of *quality* and *risk*. Providers which are characterised by low quality and high risk should face more active regulatory management to assure the quality of the education that they offer. Funding should also be used as a mechanism to protect students by driving low quality, high risk providers out of the system.

Although there are a number of small private RTOs that are well-managed and provide quality educational outcomes for their students, it is questionable whether Victoria is well-served by a system in which more than 90% of providers access less than \$5 million in government funding. Size should be one element that is taken into consideration in assessing provider risk.



There are many instances where rapid growth of private RTOs should have raised red flags with respect to the quality of educational outcomes delivered for students. If the Victorian government were to introduce an explicit system of rating providers for quality and risk, a possible application is that reasonable annual limits on growth of VTG-funded delivery could be placed on those RTOs regarded as higher risk.

Providers characterised as high quality and low risk should be subject to less intrusive regulatory oversight and, provided that they maintain their high rating, should maintain continuity in funding outcomes.

An explicit risk rating for vocational providers would also be a valuable tool in the hands of consumers considering where to access the training that they need. Providers could be required to disclose their government risk rating in making claims to market about the quality of their training products.

Recommendation 2: Oversight by a single quality regulator: Victoria to refer powers to the Commonwealth to ensure that all training providers are subject to regulatory oversight by ASQA rather than the current arrangement in which quality oversight is split between ASQA and the VRQA.

It is an unfortunate accident of history that quality regulation of the Victorian vocational education sector remains split between the Australian Skills Quality Authority (ASQA) and the Victorian Registration and Qualifications Authority (VRQA).

ASQA is the regulatory body for registered training organisations (RTOs) in New South Wales, South Australia, Queensland, Tasmania, the Australian Capital Territory and the Northern Territory.

ASQA is also the regulatory body for those registered training organisations in Victoria and Western Australia that offer courses to overseas students and/or students in other states and territories of Australia, including through offering courses online.

In practice, this means that there are some Victorian-based vocational providers which do not fall within the jurisdiction of ASQA but continue to be regulated by the VRQA. There appears to be no strong case why Victoria should maintain a separate regulator for vocational providers which, in any other states, would fall within the reach of the national regulator, ASQA.

Submitting to the federal jurisdiction would strengthen the role and capacity of ASQA to effectively regulate poor quality VET provision. In return for the referral of powers, Victoria should negotiate with the Commonwealth to seek improved quality oversight undertaken by ASQA of Victorian providers.



Funding sustainability

Recommendation 3: Introduce funding mechanisms that recognise that, due to decisions taken by or within the control of the Victorian Government, public providers such as dual sector universities and TAFE providers face considerably higher costs than those faced by private RTOs.

A key reason for the erosion of market share of dual sector university and TAFE providers from 66% in 2009 to just 31% in 2014 is that these organisations have been unable to compete with private RTOs which operate with a significantly lower cost base due to decisions that have been taken by or which are within the control of the Victorian Government.

The current funding system is effectively 'blind' to these issues. It funds public and private providers equally and without regard to the costs which are imposed on them by government. These include landholding costs, asset maintenance costs and employment costs.

Private RTOs face low barriers to market entry and low barriers to market exit. A private RTO can very easily set up training premises in a location for which there is student demand and just as easily close, upsize, downsize or move those premises if further changes in demand require it. Public providers, on the other hand, face significant constraints where they need to make operational changes in response to changing patterns of student demand. Dual sector universities require Ministerial approval for the sale or lease for a period of 20 years or longer of any property valued at greater than \$5 million. The fact that it is difficult for TAFEs and dual sector universities to dispose of assets which are no longer required exposes them to significantly higher maintenance costs than are incurred by private RTOs. There are additional legislative obligations imposed on TAFEs which contribute to higher costs of public provision which the Review is examining.

There is also a very significant gap between public providers and private RTOs with respect to staffing costs, largely as a result of the differences between the *Educational Services (Post-Secondary Education) Award 2010 (the Modern Award)* and the *Victorian TAFE Teaching Staff Multi-Business Agreement 2009 (the Multi-Business Agreement)*. It was a decision of the Victorian Government that led to each TAFE and dual sector university operating under the current Multi-Business Agreement.



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One difference between the two industrial instruments is that teachers operating under the Modern Award have a maximum annual teaching load of 1150 hours, while teachers operating under the Multi-Business Agreement have a maximum annual teaching load of 800 hours. While not the only difference, this illustrates the difficulty that public providers have in creating a business model that can compete with lower-cost private RTOs.

If these substantial cost differences are not recognised by the Victorian Government and factored into decisions on the architecture of VET funding, it is inevitable that the market share of public providers will continue to decline relative to lower-cost private RTOs.

There is recent precedent for attempts to recognise this cost differential. As part of its higher education reform package, the Federal Government proposed that non-university higher education providers (NUHEPs) would be eligible for a subsidy equivalent to only 70% of the rate for a Commonwealth Supported Place, in recognition that NUHEPs are not required by government to undertake certain research and engagement activities undertaken by universities. In effect, this was an explicit decision by government that private providers required less funding than public providers as their mandate from government was different.

A similar principle should apply to setting funding rates for private RTOs in recognition that they face significantly lower costs as a consequence of decisions that are taken by or within the control of the Victorian Government.

If the Victorian Government is unable to create funding settings that recognise that public providers face significant higher costs as a consequence of decisions taken by or within the control of the Government, each dual sector university and TAFE must be permitted to work with its own staff to agree on a set of local employment conditions that will secure the sustainability of its provision of vocational education and provide job security for its teaching workforce.



Recommendation 4: Support federal government initiatives to stamp out sharp marketing practices, including door-to-door sales, and initiatives to ensure that students are not burdened with unreasonable levels of student debt to fund VET qualifications.

The ready availability of VET FEE-HELP to fund vocational diploma qualifications has led to some providers adopting unethical marketing practices, including door-to-door sales of training qualifications to people whose preparedness for study is questionable.

The Federal Government has recently announced a suite of measures to improve integrity in the marketing of qualifications for which FEE-HELP is available. These should be supported by the Victorian government and consideration should be given to extending them to qualifications which are funded by the Victorian government.

Recommendation 5: Ensure that, in future, any changes to VTG funding and eligibility criteria are communicated well in advance of implementation to minimise funding shocks and ensure that providers have opportunities to adjust their business models appropriately.

In recent years, providers have been subject to numerous policy and funding changes, both with respect to rates of VTG funding as well as the eligibility criteria applicable to students. Often these changes have been communicated to providers with little or no warning, and with the requirement for immediate implementation.

This has contributed to an atmosphere of significant instability which has made it impossible for dual sector universities and TAFEs to plan ahead or to implement strategies to support students through their qualifications.

The sector understands that no funding or policy settings are immutable and that any market-based system will require adjustments to ensure that it is meeting community needs as well as government expectations. However, better communication of any change is required in future if the Government is to realise its objective to create a more stable VET funding system that supports students.

Recommendation 6: Introduce community service obligation payments which cover the full marginal costs of those providers that provide additional support for vulnerable and higher needs learners.

The need for an appropriate system of community service obligation payments has been well-established and it is something to which the new Victorian government is committed to introducing.

Swinburne commends the comprehensive submission of the Victorian TAFE Association on the design of an appropriate system of CSO payments having regard to the higher costs associated with providing education to higher-needs learners of various types.



Innovation

Recommendation 7: Review training subsidies and eligibility criteria for courses which are required to produce qualified graduates that meet industry skills needs. Ensure that appropriate funding is available through the VTG to support courses which deliver foundation skills training in conjunction with other training packages. Support a role for high-touch, high-quality online provision in circumstances where this mode creates value for students.

Swinburne recognises that the funding rates for particular courses has been a key mechanism for the Victorian government to stimulate delivery of certain qualifications for which there are industry skills needs. To ensure that the training market is producing the right mix of skills and qualifications it is reasonable that the government will review and adjust subsidy rates from time to time. It should, however, be noted that funding rates have influenced the supply of courses, but have no correlation to quality of delivery or student outcomes.

It is also important to ensure that eligibility criteria do not inappropriately or unfairly restrict access by some students to certain training packages. Recent changes have restricted the capacity of students to access foundation skills training in conjunction with other training packages. This results in poorer student outcomes with students unable to access basic literacy, numeracy and/or English required to be able to be successful in their vocationally applied learning.

It would be desirable to consider the impact of the current eligibility requirements for VTG funding for students who could be classified as mature or re-skilling (not retrenched). The current 'two courses at level limit in a lifetime' and the 'upskilling' requirement has the potential to adversely impact those who may have studied a Diploma ten years ago, but who now require further training to gain employment or change careers. Revision of these eligibility requirements will be necessary to ensure that some people are not locked out of the training market as industry demand requires them to retrain.





It is also important that the funding system recognises the value of high-quality online provision in circumstances where this mode creates value for students. Online delivery is changing rapidly and through Swinburne Online, Swinburne has been successful in delivering high quality, vocationally-relevant education to a growing number of students.

Our online learning model depends on the best teaching staff, leading edge technology, high tutor-student ratios, and strong ongoing support. Through advances in digital technology, Swinburne Online can reach students who would not otherwise find their way to tertiary education. We offer high-touch learning, where there is regular contact with every student, allowing us to educate a wider range of students with different learning needs who may previously have been excluded from further education. Delivered in this way, online is not a “less expensive” option for providers to pursue at the expense of traditional campus-based learning modes. Rather, this mode, if delivered well, has potential delivers access to vocational education in a way that produces completions and a well-prepared workforce.

While recognising that not every skill is capable of being learned online, as the Victorian VET funding system changes to respond to student demand and better meet industry needs, it will be important to ensure that high-quality online instruction is supported and that students will be able to access subsidised training where they wish to pursue qualifications online.

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