WORKPLACE RESEARCH CENTRE

THE UNIVERSITY OF SYDNEY BUSINESS SCHOOL

THE UNIVERSITY OF SYDNEY

THE CAPTURE OF PUBLIC WEALTH BY THE FOR-PROFIT VET SECTOR

A REPORT PREPARED FOR THE AUSTRALIAN EDUCATION UNION

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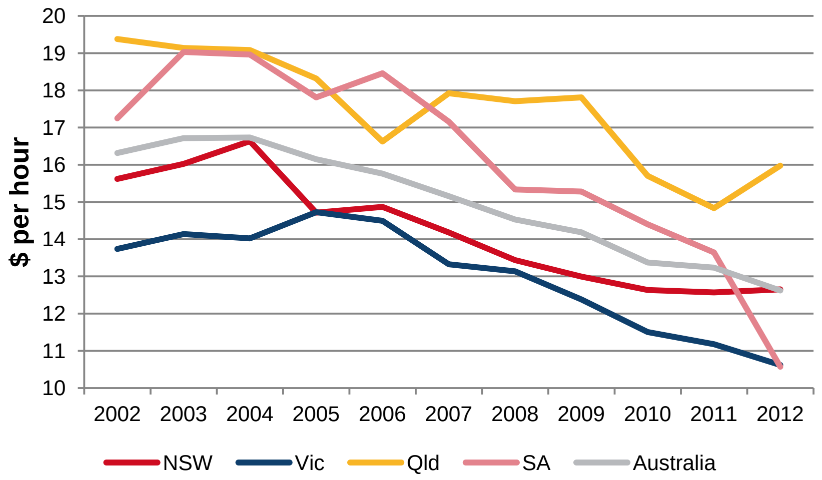
EXECUTIVE SUMMARY

In 2012, the Commonwealth and all states and territories agreed upon a new market-driven funding model for vocational education, intended to promote opportunities for for-profit registered training organisations (RTOs) at the expense of public TAFE institutes. The centrepiece of this reform was a national training entitlement, or a minimum guarantee that all working age individuals could access subsidised training up to Certificate III level at a vocational education provider of their choice, provided they satisfied various eligibility criteria that vary among the states and territories. This demand-driven funding model has been the primary means of opening up contestable funding to for-profit training providers, and forcing TAFEs to compete in a competitive market. It followed the earlier implementation of the model in Victoria (2009), with the rollout across other states currently in motion.

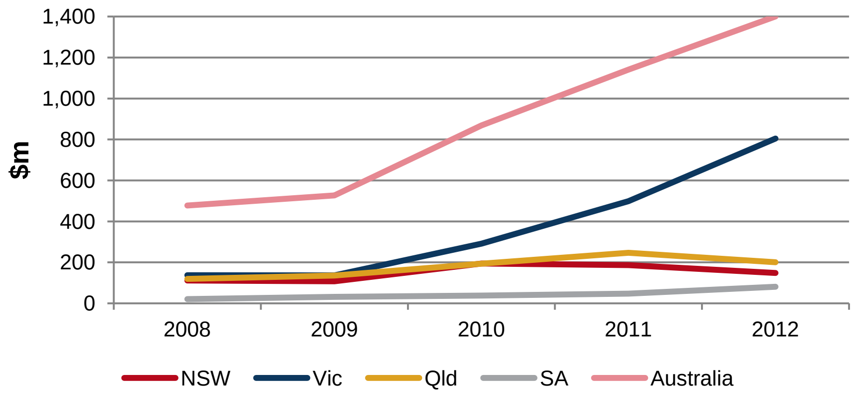
This report shows that the reforms have led to a sharp reduction in government spending per hour of VET delivery (see Figure E1) and a massive transfer of wealth from taxpayers to the owners of for-profit training providers. For example, government funding of the for-profit VET sector in Victoria grew at an *annual* pace of 42 percent between 2008 and 2013, rising from $137.6 million to $799.2 million (see Figure E2).

Figure E1. Government spending per hour VET delivery, Australia and selected states, 2002 – 2012



Source: Productivity Commission (2013)

Figure E2. Government funding to non-TAFE providers, Australia and selected states, 2008 – 2012



Source: Productivity Commission (2013)

Based on the results of the publicly-listed for profit providers, the for-profit VET sector appears to sustain profit margins of around 30 percent (see Table E1). This indicates that every dollar of public subsidy paid results in 30 cents of profit for distribution to the company's shareholders[1]. It is estimated that in Victoria in 2013, about $277 million in profits was generated across the for-profit VET sector, based on over $799 million worth of training subsidies. Just three companies are estimated to have extracted at least $18.3 million in profits from Victorian taxpayers in 2013. This rate of return well exceeds benchmark norms set by comparable industries, such as child care and transport.

Table E1. Profit Margins for selected publicly funded, for-profit training providers[1]

PROVIDER	2011	2012	2013
Vocation	6%	18%	21%
Ashley Institute of Training	35%	35%	35%
Australian Careers Network	45%[2]	40%	51%
Intueri	29%	30%	32%
BENCHMARK EBIT MARGIN	29%	31%	35%

Source:Australia Careers Network (2014); Vocation (2013); Ashley Services Group (2014); Frost (2014)

The analysis in this report rejects the notion that the vocational training sector, under demand-driven entitlement funding, has made progress in the transparency and quality of training delivery.

The complete marketisation of VET has come at great cost to taxpayers without achieving the objectives of the reforms, which were to:

- Improve training accessibility, affordability and depth of skills, including through the introduction of a national training entitlement and increased availability of income contingent loans;
- Encourage responsiveness in training arrangements by facilitating the operation of a more open and competitive training market;
- Assure the quality of training delivery and outcomes, with emphasis on measures that give industry more confidence in the standards of training delivery and assessment;
- Provide greater transparency through better information to ensure consumers can make informed choices, governments can exercise accountability,

This report finds:

- The behaviour of for-profit providers has served to undermine confidence in vocational qualifications and taken advantage of students unable to make informed decisions
- Disadvantaged students are under-represented in for-profit VET providers and TAFE and other public providers continue to enrol most early school leavers, regional students, and students with a disability

[1] Based on Earnings Before Interest and Tax (EBIT) margins. EBIT margins portray operational performance without the distortion of financing and tax decisions. Distribution to shareholders follows the deduction of interest and tax expenses.

[2] 2011 EBIT margins for Australia Careers Network were not available from the company's prospectus, and has been estimated as the average EBIT margin between 2012-2014.

- VET for-profit providers are also avoiding offering courses in skill shortage areas like the trades (which are often expensive to provide and may be subject to more rigorous quality assurance), instead focusing on high volume, high profit areas like business studies.
- Students not eligible for an entitlement place are vulnerable to increasingly high fees, which in many cases are not capped. The availability of VET FEE HELP loans has encouraged some for-profit VET providers to sign up students to loans they have little realistic prospect of repaying.
- The current regulatory arrangements have failed to address serious quality issues in the for-profit VET sector, which has engaged in practices including subcontracting delivery, one hundred per cent online delivery, and allowing students to complete qualifications in less than a quarter of the nominal duration.
- The complexity of the operations of for-profit providers casts considerable doubt on whether regulators can possibly stay abreast of the operations of for-profit providers, particularly given limited disclosure requirements and audits which occur on average once every five years.

The research strongly endorses the case for publicly funding vocational education and calls for an evaluation not only of the current architecture in the vocational education system, but also of the principles underpinning its growth. The key design features of the current system – one hundred percent contestable funding and risk-based regulation – will fail to deliver the assumed price and quality benefits of a competitive market because of two factors:

1) Education is an ‘experience good’ – no amount of information (for regulators or students) can overcome the fact that its quality can only be evaluated after its consumption, and
2) The sector is characterised by imperfect competition between profit-seeking (and increasingly larger) providers whose business models have scant regard for educational standards.

These two factors combined point to sustained profitability and poor quality educational outcomes in the for-profit sector (even with regulatory changes), and few of the public benefits that theoretically accrue from a (perfectly) competitive market. All other educational sectors – from early childhood education and care to higher education – receive vastly more public funding (on a per student basis) and far greater regulatory scrutiny to deliver quality outcomes.

The failure of the entitlement model to deliver quality outcomes for learners and value for scarce public money requires drastic and urgent changes. Ideally, policymakers should consider whether the public benefit would be better served by prohibiting for-profit businesses from providing publicly subsidised vocational education and training (as they are in primary and secondary education). At a minimum, it must also be recognised that it is impossible for students to have the information required to make the same judgements about the quality of education and training as they would about a physical product or less complex service. This reinforces the need for quality arrangements that directly regulate the educational inputs (beginning with mandating hours of delivery).

There is also a strong justification for acting immediately to restore funding to TAFE. If a more sustainable funding model for TAFE is not found, then the there is a very high likelihood that public confidence in the entire system of vocational qualifications will be fatally eroded.

On this basis, the report makes the following recommendations:

1. **Minimum hours of delivery for courses**

   The quality framework should mandate a minimum number of hours of delivery wherever this involves public subsidy (including indirect subsidy through VET FEE HELP). The quality framework should also directly audit the other inputs to quality learning, including curriculum, teaching and assessment practices at the point of delivery. This is necessary to overcome the lack of transparency about who is actually providing these inputs, and whether providers are delivering the contact hours that students enrol for, and public subsidies pay for. The current process-driven approach cannot address these issues.

2. **Capping funding to private RTOs to ensure TAFEs remain able to provide quality education**

   The role of TAFEs remains paramount in the delivery of training in areas of skills shortages and to student equity groups, but also as the custodian of quality vocational education. In meeting these and other obligations (including delivery in thin markets, delivery of student services, meeting public sector reporting requirements, and asset maintenance), it is important to recognise this competitive disadvantage.

   As the cornerstone vocational educational provider, TAFE has an obligation to serve all fields of education, all student backgrounds and all areas of Australia. TAFE does not have the option of targeting only profitable areas of delivery. The reputation of the sector overall depends on a sustainable and quality TAFE network.

   If contestable models remain, the proportion of government vocational education funding allocated contestably should be capped at 30%, with the remainder reserved for TAFE. This will stabilise the sector and provide certainty for students while still permitting sufficient competition to drive innovation in course design and delivery, where this is required. State Governments should also continue to provide or re-establish block funding for TAFE to maintain infrastructure, support services for at-risk students, and to support the many other roles it plays in the community.

3. **Ban on subcontracting delivery of courses to unregistered providers**

   Based on the practices that have already come to light, there is a strong case for prohibiting cross-selling between business decisions, and subcontracting delivery to other providers, particularly those who are not registered RTOs. Moreover, rather than solely audit individual RTO brands, an enhanced quality framework would consider enterprises as a whole, to seek better visibility of where responsibility for each component of training delivery lies.

4. **Better regulation of RTOs' recruiting practices and business models**

   If it is not possible to regulate for profit providers effectively because of the way they structure their operations then at the very least, quality assurance should also scrutinise the business models of for-profit providers. This would include how they market to and recruit students.

5. **An end to governments manipulating subsidies for private RTOs**

   Jurisdictions should abandon the practice of regularly manipulating subsidy levels for particular courses or units of competency in response to distortions in the market and rent seeking behaviour by providers. This only rewards gaming and punishes providers that invest the subsidies in quality educational delivery. A preferable approach is to limit access to subsidies in the first place by requiring RTOs to meet quality requirements that are stricter than the AQTF.

CONTENTS

THE CONTEXT OF CHANGE IN VET

The mission of vocational education and training (VET) is to provide Australians with vocationally-oriented, post-school qualifications. These qualifications serve three broad purposes: to provide entry or progression in the labour market, to move to higher level studies, and to contribute to social inclusion and social mobility (Gallacher, Ingram, & Reeve, 2012).

In Australia, VET is provided by technical and further education (TAFE) institutes, adult and community education providers and agricultural colleges, as well as community organisations, industry skill centres, for-profit providers and commercial and enterprise training providers. In addition, some universities and schools provide VET. To deliver nationally recognised training, a provider must be a registered training organisation (RTO) and comply with the relevant quality assurance arrangements. Constitutionally, VET remains a responsibility of the states and territories, although the Commonwealth Government has contributed substantial funding over many decades.

Historically, the states and territories have provided VET through the Technical and Further Education (TAFE) system, a network of publicly-funded institutes found throughout metropolitan and regional areas. The first market-based initiatives in VET (such as the first user-choice arrangements) coincided with the introduction of the National Training System in the early 1990s. However the current changes to VET funding are the most far-reaching in the system's history.

The recent policy context in the vocational education and training sector has been dominated by the state-by-state introduction of contestable funding systems, which was the basis of the National Partnership Agreement on Skills Reform signed by the Commonwealth and all States and Territories in April 2012. Key among the objectives guiding the structural reforms were:

- Improving training accessibility, affordability and depth of skills, including through the introduction of a national training entitlement and increased availability of income contingent loans;
- Encouraging responsiveness in training arrangements by facilitating the operation of a more open and competitive training market;
- Assuring the quality of training delivery and outcomes, with emphasis on measures that give industry more confidence in the standards of training delivery and assessment;
- Providing greater transparency through better information to ensure: consumers can make informed choices, governments can exercise accountability,

Council of Australian Governments (2012)

One centrepiece of the agreement was the 'national training entitlement', a minimum responsibility of the states to provide all working age Australians a guaranteed subsidised place for at least Certificate III training at a provider of their choosing (Council of Australian Governments, 2012). This was the primary mechanism for opening access to government funding for private providers. The Commonwealth agreed to contribute funding (up to $1.14 billion) to States and Territories undertaking these structural reforms. In addition, the Commonwealth also agreed to relax the restrictions on VET providers accessing the income-contingent loan scheme VET FEE HELP, which had first been introduced in 2008. The timetable for the rollout of demand-driven entitlement models is set out in Table 1.

Table 1. Implementation timetable of entitlement funding by state

State	Commencement date
Victoria	January 2009
South Australia	July 2012
Queensland	July 2014
New South Wales	January 2015
Western Australia	January 2014
Tasmania	December 2014

Although additional dollars have been provided by the Commonwealth, most of the funding to support entitlement places has come from funding that was previously earmarked for TAFE institutes and other not-for-profit providers of publicly-funded VET programs. In transparent, public funding agreements, TAFE institutes would commit to providing student places across a range of qualification levels and fields of education, based on criteria including labour market need, student demand, and increasing access, equity and participation of disadvantaged learners in post-school education.

These funding changes take place at a time when the question has been raised of what the appropriate price for high quality vocational education should be, given large scale reduction of per-student funding in the sector. As Figure 1 shows, funding in VET declined 25 percent between 1999 and 2011 on a per full-time equivalent student, compared with increases in funding for higher education and schools (Australian Workforce and Productivity Agency, 2013).

Figure 1. Government spending per full time equivalent student, 1999 to 2011

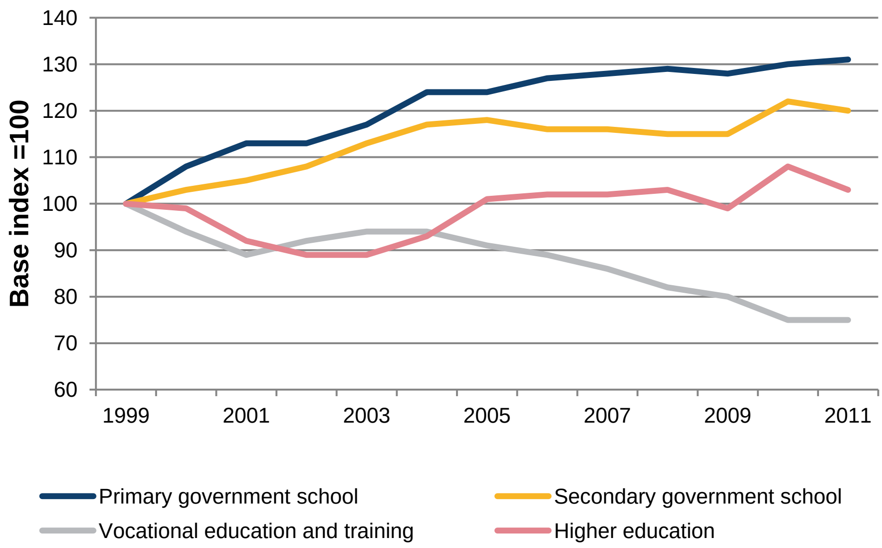
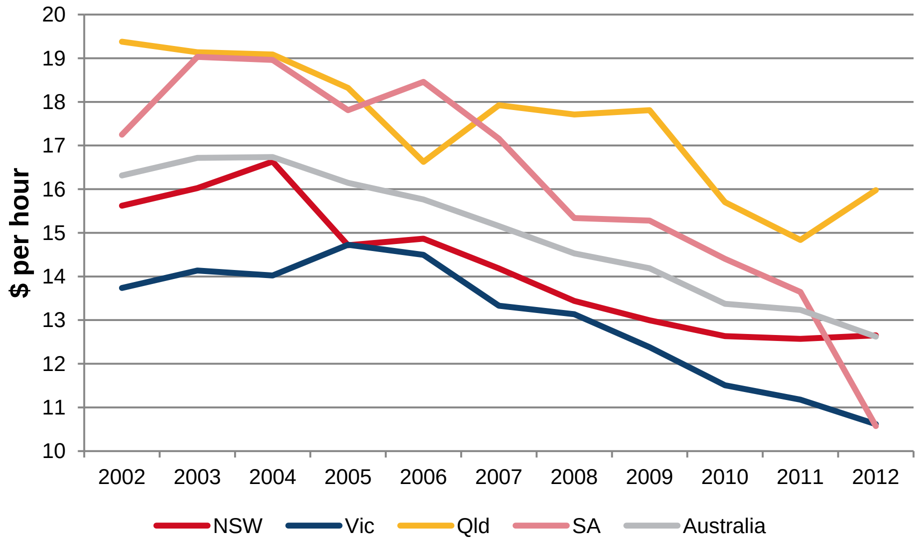


Figure 2 shows the widespread fall in government VET expenditure on a state by state basis per hour of VET delivery. In Victoria, where the contestable funding system is most advanced, the fall has been greater (-20.3%), while in South Australia, government funding per hour of VET delivery has dropped a massive 38.4 percent.

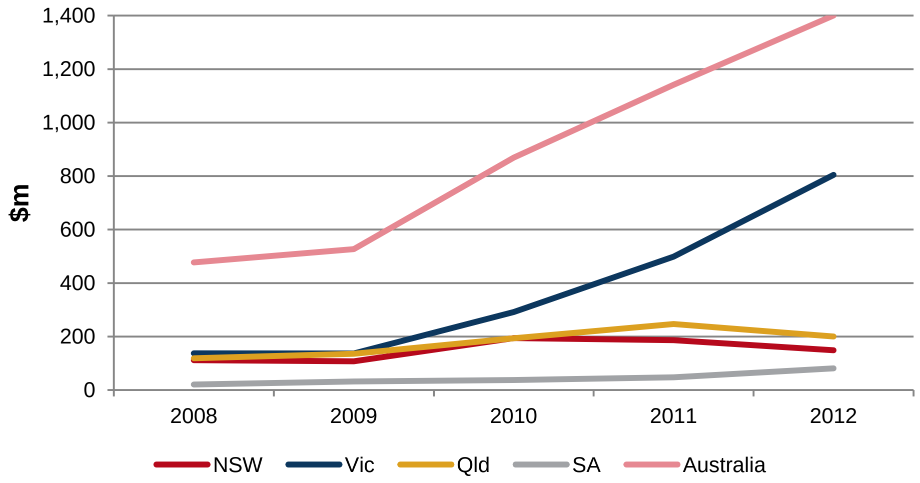
Figure 2. Government spending per hour VET delivery, Australia and selected states, 2002 – 2012



Source: Productivity Commission (2013)

At the same time, overall funding to for-profit providers and other non-TAFE providers has grown significantly (see Figure 3). Driven mostly by Victorian expenditure, total government funding to non-TAFE providers has risen from $477 million in 2008, to $1400 million in 2012. This represents about a quarter (23.2%) of total recurrent government expenditure on VET (Productivity Commission, 2013).

Figure 3. Government funding to non-TAFE providers, Australia and selected states, 2008 – 2012



Source: Productivity Commission (2013)

These changes have had significant impacts on the profile of VET provision in Australia. Student enrolments, funding and new providers have shifted towards the private sector, while the public TAFE provider continues to dominate training provision to disadvantaged learners, and in areas of high-cost training, and specialised and in-shortage skills (Hamdhan, 2013).

Implementation of the reforms has led to sizeable funding cuts for TAFE institutes and a proliferation of for-profit VET providers. Political leaders did not canvas or acknowledge at the time the National

Partnership Agreement was signed that the changes were premised on opening up for private profit funds that had previously been earmarked to support public education and training.

STATE-BASED VET ENTITLEMENT MODELS

This section provides an overview of current and imminent funding arrangements in the states of Victoria, South Australia, Queensland, Western Australia and New South Wales. A detailed understanding of these arrangements forms the basis for modelling the operations of private providers in the following section.

Victoria

In Victoria, contestable funding commenced in July 2009 with Diploma and higher-level programs, and was expanded to all VET programs from January 2011. Under the *Victorian Training Guarantee*, the system moved from a supply-driven one with capped places, to a demand driven system where the government subsidised the training and fees were deregulated. To access subsidies and become a government contracted training provider, VET providers must comply with the Statement of Expectations (Development, 2012, 2013). This statement includes demonstrating a satisfactory history of performance in quality training and assessment services (evidenced through student, industry and employer satisfaction or endorsement). Compliance with the Statement of Expectations is in addition to the requirements of registration with ASQA or the Victorian Registrations and Qualifications Authority.

The changes led to considerable growth the number of providers and enrolments, and government expenditure substantially exceeded initial forecasts, totalling $1.3 billion versus an anticipated $855 million in 2012 (Hetherington & Rust, 2013). In May 2012, the Victorian government announced an almost $300 million funding cut to 18 TAFE institutes in Victoria (Maslen, 2012). Further, a $170 million annual budget, received in recognition of TAFE’s community service obligations, was stripped from the budget (Hetherington & Rust, 2013).

The Victorian subsidies apply to studies including Foundational, Certificates I to IV, Diploma through to Vocational Graduate Diploma. The subsidy is provided as an hourly rate, and its level depends on the level of qualification (a benchmark hourly rate) and a weighting reflecting an assessment of the course’s ‘public value’. From 2012, this was based on the course’s value to the economy in terms of jobs or productivity, and the extent to which government investment is needed to stimulate training activity (Department of Education and Early Childhood Development, 2012). There are five subsidy bands reflecting these priorities, with Band A reflecting high priority skills (such as apprenticeships), and Band E lower priority studies (such as fitness training). Over half of all courses fall in Bands A and B, attracting at least $7.50 subsidy per hour (see Department of Education and Early Childhood Development, 2012, for a full list).

The average subsidy rates presented in Table 2 are calculated using the maximum hours allowed to complete each qualification, multiplied by the hourly subsidy rate.[3]

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[3] Note that there is no actual requirement for RTOs to provide that many hours of instruction per course. Quality assurance arrangements leave it up to the RTO to determine how many hours of student contact are necessary to achieve competence.

Table 2. Subsidy levels in Victoria, by AQF qualification level, July 2014

Qualification Level	Subsidy level[(a)]	
	Median subsidy per qualifications ($)	Subsidy range ($)
Certificate I	1,300.00	160.50 – 16,800.00
Certificate II	3,230.00	420.00 – 12,000.00
Certificate III	7,822.50	525.00 – 27,096.00
Certificate IV	6,661.25	700.00 – 22,560.00
Diploma	4,690.00	699.00 – 20,454.00
Advanced Diploma	5,784.00	840.00 – 17,200.00

Source: Department of Education and Early Childhood Development (2014a)
(a)The subsidy levels are presented for a 'standard' student. It does not include additional contributions received for applying fee waivers or concession fees.

In addition, students may access the income-contingent VET FEE-HELP scheme for studies at Diploma and higher levels, as well as Certificate IV studies in the priority areas of disability care, agriculture, building and construction, competitive systems, and training/assessment.

South Australia

In South Australia, the demand-driven entitlement model commenced with the introduction of *Skills for all* in July 2012. The objectives of *Skills for All* included increasing workforce skills, increasing the number of South Australians with post-school qualifications, and increasing employment participation rates. The initiative provided $194 million in extra funding over six years. To be a *Skills for All* training provider, RTOs must demonstrate high quality training, links to industry and support for students and provide evidence of student and employer surveys (Government of South Australia, 2014)

The architects of the South Australian model placed greater weight on the role of TAFE SA than was the case in Victoria. This included $240 million in additional infrastructure funding, higher subsidies for public providers, and some courses being subsidised only through public providers. In addition, measures were put in place to prevent course oversubscriptions, including enrolment freezes, and reduced subsidies. Even so, TAFE SA has had its funding reduced by at least $83 million (Ross, 2014b).

Unlike the Victorian model, South Australian students receive subsidies for multiple qualifications, and Foundational, Certificate I and II studies are provided fee-free. Qualification fees are also capped. The South Australian government provides around 70 percent of revenue per student for RTOs (for Diploma and Advanced Diploma studies), 80 percent at the Certificate III/IV levels, and 100 percent for pre-vocational studies (Certificate I/II). Student contributions make up the rest. As occurred in Victoria, the South Australian Government decided in December 2013 to cap enrolments in some courses and withdraw subsidies from others after enrolments grew four times more quickly than anticipated (Ross, 2014b).

Students may access the income-contingent VET FEE-HELP scheme for studies at Diploma and higher levels, as well as Certificate IV studies in the priority areas of aged and disability care, youth work, accounting, and engineering.

Subsidy levels from South Australia were not readily available, primarily because subsidy rates are calculated for each unit of competency, rather than for a complete qualification. Under the loose rules that govern qualifications, it may be possible for students to complete many different combinations of units of competency.

Queensland

Queensland has been rolling out their entitlement model since July 2014, which is detailed in the VET Investment Plan 2014-2015. Like Victoria, course fees are to be fully deregulated, and in addition, the Queensland Skills and Training taskforce suggests that 82 TAFE campuses could be consolidated into 44 (Hetherington & Rust, 2013).

The fully contestable training market is underpinned by the ‘User Choice’ program, which provides a public subsidy to any approved RTO for delivery of accredited training; by the ‘Certificate III Guarantee’ which aims to provide Queenslanders with an entry-level post-schooling qualification, and by the ‘Higher Level Skills’ program, which provides subsidised priority training at the Certificate IV, Diploma and Advanced Diploma levels. To be an approved RTO, or “pre-qualified supplier”, RTOS must meet criteria that include providing evidence that they support the learning needs of students (such as developing training and support plans for foundation skills and disadvantaged learners) and that they achieve a minimum outcome for students, in terms of completion, employment and further study (Department of Education, 2014) The Plan provides for $225 million funding for ‘User Choice’, $155 million for the ‘Certificate III Guarantee’, and a further $55 million for ‘Higher Level Skills’.

The ‘User Choice’ model has been designed such that for accredited studies subsidies will be set at 100%, 50% and 0% to target training in critical, high priority, and medium priority areas. According to the User Choice Price List, Priority 1 training includes apprenticeships, child care and aged care, while Priority 2 studies include traineeships in engineering, construction, mining, and agriculture. Hospitality and business studies are part of Priority 3 training. These priority areas, and the attached subsidies, are reviewed annually.

The figures in Table 3 compile available data on subsidy rates across the User Choice, Certificate III Guarantee, and Higher Level Skills programs. The differentiated subsidy rates for priority areas 1, 2 and 3 relate to the User Choice program only. In August 2014, the Queensland Government removed subsidies form 170 courses at the Certificate IV, Diploma and Advanced Diploma level. The Government justified this decision on the basis that it was focusing on courses at the Certificate I-III level because higher level qualifications were eligible for VET FEE HELP, meaning a full cost shift on to students (Ross, 2014a).

Table 3. Subsidy levels in Queensland, by qualification level, July 2014

Qualification Level	Overall average subsidy	Average Priority 1 subsidy	Average Priority 2 subsidy	Average Priority 3 subsidy
Advanced Diploma	3,000	-	-	-
Diploma	3,256	-	-	-
Certificate IV	3,406	9,160	4,706	3,310
Certificate III	3,413	8,443	4,358	1,998
Certificate II	2,578	3,783	3,882	1,788
Certificate I	1,461	-	-	-
Foundation Skills	3,210	-	-	-

Source: Department of Education Training and Employment (2014a, 2014b)

Students in Queensland may access the income-contingent VET FEE-HELP scheme for studies at Diploma and higher levels, as well as Certificate IV studies in the priority areas of aged and disability care, building and construction, engineering, and small business management.

Western Australia

Western Australia commenced its VET entitlement model, *Future Skills WA,* from January 2014. Under this plan, training at TAFEs or preferred providers in state priority courses is subsidised, and students are guaranteed a place. These state priority courses include all apprenticeships, and Certificate III and higher studies in agriculture, community services, construction and engineering, transport and logistics, management and hospitality (Department of Training and Workforce Development, 2014a). It also includes two courses in foundation skills. Students undertaking training outside these priority areas are not guaranteed a training place, and are subject to different subsidy levels. To be a preferred provider (or "contracted private training provider", RTOs are required to demonstrated capacity to deliver excelling in training and maximising outcomes for students, as well as meet a range of compliance and governance arrangements (Department of Training and Workforce Development, 2014b).

Students may access the income-contingent VET FEE-HELP scheme for studies at Diploma and higher levels, as well as Certificate IV studies in the priority areas of community services (including aged and disability care, youth work and educational support).

Substantial increases in TAFE fees (up to 390%) were introduced at the beginning of 2014, resulting in some courses costing more than a university degrees (Macdonald, 2014; McGowan, 2013). Subsidy levels from Western Australia were also not readily available for analysis.

New South Wales

The *Smart and Skilled* reforms to the NSW vocational education and training sector are currently being implemented. From January 2015, *Smart and Skilled* provides an entitlement for entry level training up to Certificate III level, and targeted support (in priority skill areas) for higher level qualifications. Unlike Victoria, course fees and enrolment numbers (by provider and region) are capped. As with other jurisdictions, NSW sets conditions on training providers (beyond the AQTF) to qualify for subsidies. Only training providers that meet the additional standards of the *NSW Quality Framework* (including promoting excellence in teaching and leadership, seeking feedback from learners and employers, and providing additional consumer protections) will be eligible for *Smart and Skilled* funding (Department of Education and Communities, 2014a).

The structure of prices and fees was informed by an Independent Pricing and Regulatory Tribunal (IPART) review, with 'base prices' designed to reflect the efficient cost of delivering training to a 'standard student'. Table 4 shows that average provider funding for a standard student undertaking a Certificate III is around $6919, which includes an approximate $1883 student fee. The range of provider funding (which includes the cost of training staff, administration, utilities and capital costs) for Certificate III studies is wide, from $4270 to $12,200 per student. The average and range of provider funding is detailed by qualification level in Table 4. Table 4 includes only non-Apprenticeship studies, as student apprenticeship fees have been capped at $2000. Average subsidies for apprenticeships are expected to be $11,519 (Certificate III), $12,671 (Certificate IV) and $15,297 (Diploma level).

Table 4. NSW Smart and Skilled proposed pricing arrangements (non apprenticeships), 2015

Qualification Level	Total provider funding		Student Fee (first qualification)		Average subsidy (Total less student fee)
	Average funding	Range of funding	Average student fee	Range of student fees	
Advanced Diploma	9,642	5810 - 20510	3,865	2560 - 7550	5,777
Diploma	9,689	5560 - 23830	3,881	2360 - 7280	5,808
Certificate IV	7,439	4160 - 15440	2,193	1540 - 4220	5,246
Certificate III	6,919	4270 - 12200	1,883	1310 - 3270	5,036
Certificate II	3,963	2490 - 7430	970	320 - 1340	2,992
Certificate I	2,706	1520 - 6300	220	220 - 220	2,486

Source: NSW Department of Education and Communities (2014)

In addition to the *Smart and Skilled* subsidy, providers also receive funding through the VET FEE-HELP loan scheme for training undertaken at Diploma and higher levels, as well as Certificate IV studies in disability and aged care, agriculture, tourism, and information technology (Department of Education and Communities, 2014b).

Within these new policy settings, TAFE NSW is expected to compete in a contestable market (that is, a market where government resources are allocated to both public and private providers through competitive tendering and demand driven mechanisms). TAFE NSW is expected “to deliver specialist training in industry and labour market priority areas, particularly in thin markets or high-cost areas including regional and rural communities under community service obligations” (NSW Government, 2013, p. 2). Specific funding is to be allocated to NSW TAFE to address their competitive disadvantage (arising from public sector reporting requirements, asset maintenance obligations, and public sector salary costs).

VET FEE-HELP

VET FEE-HELP is another source of rent-seeking available to for-profit VET providers as a result of changes to the sector. The Commonwealth Government since 2007 has extended the income-contingent loan scheme previously available for university study, to some VET students. VET FEE-HELP is offered for studies at approved providers at the Diploma and higher level, and for state-based pilot/priority studies at the Certificate IV level (most commonly for studies in community services). For 2014, the lifetime FEE-HELP borrowing limit is $96,000 (regardless of how state-based course fees are regulated or not). Note that students undertaking non-subsidised training (or fee-for-service), a 20 percent loan fee also applies. For the period 2014-15, compulsory repayment of the loan commences when the individual reaches the taxable income threshold of $53,345.

When Australia’s Higher Education Contribution Scheme (HECS) was introduced in 1989, it followed detailed economic modelling of the benefits received by degree graduates, and the level and costs of student debts incurred to generate those benefits (Chapman & Chia, 1989).

There has been no commensurate scrutiny of the costs and benefits attached to diploma and advanced diplomas, yet course fees are wholly deregulated and, as later analysis will demonstrate, a substantial proportion of the value of the loan is transferred to the owners of VET providers as profit.

As an illustrative exercise, occupations aligned with diploma qualifications and their current minimum award wages (as set out in industry awards) are presented in Table 5. Workers in these industries are often award-reliant (ABS, 2013) and the figures show that compared to the current $53,345 threshold, there is an argument to be made that there is a low probability of these students will be in a position to repay their VET FEE-HELP debts.

Table 5. Diploma level occupational wages

Occupation	Minimum annual wage
Level 6 Aged Care employee	$42,276
Level 3.4 Childcare employee	$43,690
Level 8 Retail worker (store manager)	$44,788

Source: General Retail Industry Award 2010, Aged Care Award 2010, Children's Services Award 2010

The data in Table 6 shows the number of students with VET FEE HELP loans has jumped from just over 5200 in 2009, to almost 189,000 in 2014. Over the same period, the average VET FEE HELP loan size has grown to $8548, with annual growth of over 20 percent in the last 2 years. This average loan figure likely hides significant dispersion, with some students likely to have debts in the tens of thousands.

The great expansion in private providers and student numbers has driven significant growth in the number of approved VET FEE-HELP providers and the value of these loans, as illustrated in Table 6. The total value of VET FEE-HELP loans has, on average, doubled each year since 2009. In 2012, the requirement that RTOs have a credit transfer arrangement with a higher education provider was removed, opening the scheme up to for-profit providers with low-quality training. The requirement was removed as provider take-up of VET FEE-HELP had been below expectations, and securing credit transfer arrangements was cited as a high-cost barrier (Department of Industry, 2012). Opening up VET FEE-HELP provides states with an opportunity to withdraw from higher level qualifications, as Queensland has done. Without the implicit quality control of credit transfer arrangements however, students have been lured by the 'zero upfront fees' and additional incentives such as free iPads, and misuse of the scheme has been conceded by the Australian Council for Private Education and Training (Dodd, 2014).

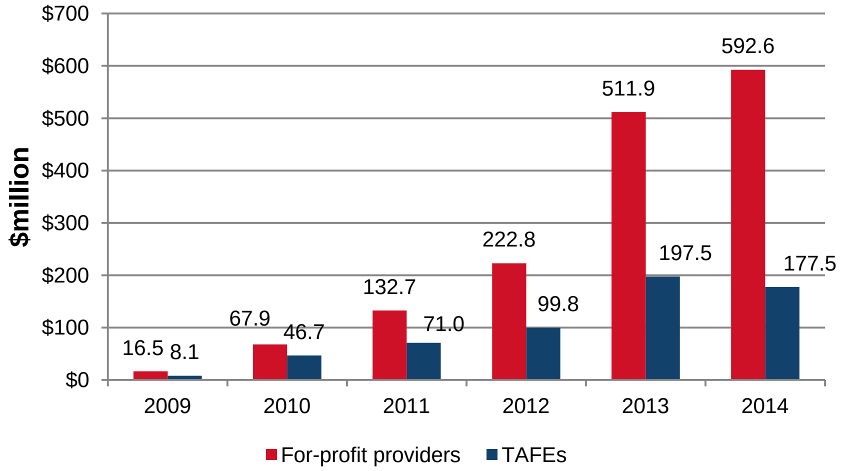
Table 6. Growth in VET FEE-HELP providers and loans, 2009-2013

Year	No. VET FEE-HELP providers	Total VET FEE-HELP payments ($000s)	Annual growth in payments (%)	Number of students	Average loan size	Annual growth in average loan size (%)
2009	37	24.6	-	5,262	$4,674	
2010	55	114.6	366.1	26,112	$4,390	-6.1
2011	84	203.7	77.7	39,124	$5,208	18.6
2012	104	322.6	58.3	55,115	$5,854	12.4
2013	158	709.4	119.9	100,035	$7,091	21.1
2014	254	1,615.2	127.7	188,957	$8,548	20.5

Source: Minister for Industry (2014)

Unsurprisingly then, this volume of VET FEE-HELP funding is dominated by for-profit providers, as shown in Figure 4. Growth in 2014 comprises payments to July 2014 only, and will be substantially higher by year's end. Funding growth to for-profit providers has more than doubled each year between 2009 and 2013. VET FEE-HELP funding to for-profit providers is highest in Queensland ($211.9m in 2013), followed by NSW ($129.2m) and Victoria ($120.3m) (Minister for Industry, 2014).

Figure 4. Growth in VET FEE-HELP funding by sector, 2009 to 2014



Source: Minister for Industry (2014)

In 2014, the largest recipient of VET FEE-HELP funding was for-profit provider, the Australian College of Training and Employment. The provider, operating under trading name Evocca College, received $131.4 million in VET FEE-HELP funding in 2013 alone. An inspection of their website showed that they solely cater for diploma and advanced diploma studies in business, information technology and media, community services, and tourism, with a ‘Study now, pay later’ slogan. A screen-shot of their website, taken on November 21, 2014, below shows the company’s sales pitch to students. The website does not provide any information on actual course fees.

Figure 5. Website advertisement for Evocca College, Largest VET FEE-HELP recipient

REGULATING QUALITY

There has been significant recent attention given to the quality of VET providers and training provision. The integrity of VET qualifications is regulated primarily through a system of nationally recognised training standards, and standards for the regulation of training providers. Since 2011, providers have been regulated by the Australian Skills Quality Authority (ASQA), which is responsible for the registration and auditing of RTOs, and the accreditation of courses.

The quality of VET provision is regulated via standards which address the relevance of training (through the involvement of industry in the development of training packages); the competence of trainers and assessors, and the governance of RTOs. In addition, the provision of information is regulated through standards requiring RTOs report on quality indicators and provide a range of student policies. The framework has been found to be overly complex and outdated, and its performance poor, as drawn out in recent government consultations. In particular, the following concerns were highlighted:

- *The capability of the VET workforce*: there is a lack of clarity about the minimum standards for the competence of trainers and assessors. The Productivity Commission found that while the majority of trainers and assessors have vocational (industry relevant) qualifications, it is likely that more than 40 percent of those in non-TAFE providers do not possess formal pedagogic qualifications. Consultations on the adequacy of the Certificate IV in Training and Assessment indicate that there is a lack of consistency in the delivery of this qualification, itself only a minimum, entry-level, standard. Audits of RTOs delivering this qualification have found many non-compliant organisations (Productivity Commission, 2011).
- *Subcontracting of VET delivery*: there is no regulation of the subcontracting of VET training by RTOs to unregistered providers, obscuring the transparency and accountability of an RTO's operations, and making it impossible for ASQA to implement a risk-based regulatory model.

- *Provision of information:* the Department of Industry, in revising the standards for RTOs and regulators, found that there is currently "insufficient information about individual RTOs and their performance for governments to effectively target funding, for learners to select RTOs and keep track of training, and for businesses to select training options that best meets their needs". Students in particular are left vulnerable to targeted RTO marketing.
- *Poor enforcement arrangements:* the language in the RTO standards is vague and open to interpretation, providing a 'statement of intent' rather than readily enforceable requirements. A PriceWaterhouseCoopers report found that around 79 percent of RTOs were found non-compliant at their initial audit, but attributed this to a failure to understand compliance requirements, despite 82 percent of providers regarding themselves to be fully informed of their obligations (PriceWaterhouseCoopers, 2013).
- *Lack of responsiveness to industry need:* Employers' use of the VET system has fallen to an eight year low, while satisfaction amongst those who do has fallen since 2011. The consultations indicated that employers lacked confidence in the design of courses, the competence of graduates, and the quality of trainers.

Department of Industry (2014)

Unscrupulous practices have also been widely flagged in the media, including:

- "*Auspicing*" – where providers subcontract their training provision to unregistered training organisations. Large provider Vocation estimated that 36 percent of group earnings was driven by auspicing (West, 2014).
- "*Channelling*" – where providers enrol students in courses other than what they originally intended, for the purpose of attracting a higher subsidy. Channelling has been cited as a reason for funding withheld from BAWM, a major subsidiary of Vocation (Aston, 2014).

The Chief Executive of ACPET admitted there had been misuse of the Commonwealth government's FEE-HELP loan scheme, misleading advertising, soliciting students for unsuitable courses, and inappropriate use of brokers to recruit students (Dodd, 2014). Since 2011, the Victorian DEECD has deregistered 120 out of 609 RTOs (Loussikian, 2014).

In October 2014, the Australian Government released new standards for RTOs, to be effective from January 2015 (and April 2015 for existing providers). The new standards aim to better focus on quality training and assessment outcomes, improve the responsiveness of RTOs to industry need, and streamline the regulatory framework, enabling regulators to adopt a risk-based approach to regulating providers. The key changes from the current framework include:

- Mandating a minimum Certificate IV in Training and Assessment for all trainers. RTOs delivering the Certificate in Training and Assessment will also have their assessment systems and processes independently validated.
- Full accountability for RTOs for the delivery of training by subcontracted third parties. These arrangements must also now be formally registered with the regulator.
- All RTOs must implement plans to systematically validate assessment practices for each training product, at least once every five years.
- Stronger requirements to provide to learners information regarding the training, complaints and consumer protection.
- RTOs must provide an annual declaration of compliance with standards.

Department of Industry (2014)

It should be observed that each state jurisdiction has established a separate system for approving providers for access to demand driven funding, over and above the weak national regulatory standards that form the Australian Quality Training Framework (AQTF) that governs the issuing of AQF qualifications.

THE FOR-PROFIT VET SECTOR

RESPONSE TO DEMAND-DRIVEN FUNDING

The shifts toward demand driven funding have significantly changed the landscape of VET provision, in the number of providers, student enrolments, and the flow of funding.

There are currently around 4650 registered training organisations, with over 3000 of these privately operated (Department of Industry, 2014). Of this 4650 total, 2094 accessed public funding in 2013 (National Centre for Vocational Education Research, 2014b). Data from Victoria, where the demand-driven model is most advanced, indicates that the expansion in private providers has been stark. Between 2008 and 2013, the number of for-profit providers more than doubled, growing from 201 to 428 providers (Department of Education and Early Childhood Development, 2014b).

The number of providers accessing contestable funding is shown in Table 7. The figures show that for profit providers comprised around 80 percent of those receiving contestable funding between 2011 and 2013. The number of for-profit providers appears to have peaked in 2012, which may reflect current trends towards sector consolidation. It is probable however as other states roll out their demand driven funding models, that provider growth will surge again.

Table 7. Training providers accessing public funding, Australia, 2011 to 2013

Provider type	2011	2012	2013
TAFE (1)	39	34	31
Government/ Community College/ NGO (2)	287	291	247
Schools	39	39	30
For-profit providers	1,506	1,522	1,425
TOTAL	1,871	1,886	1,733

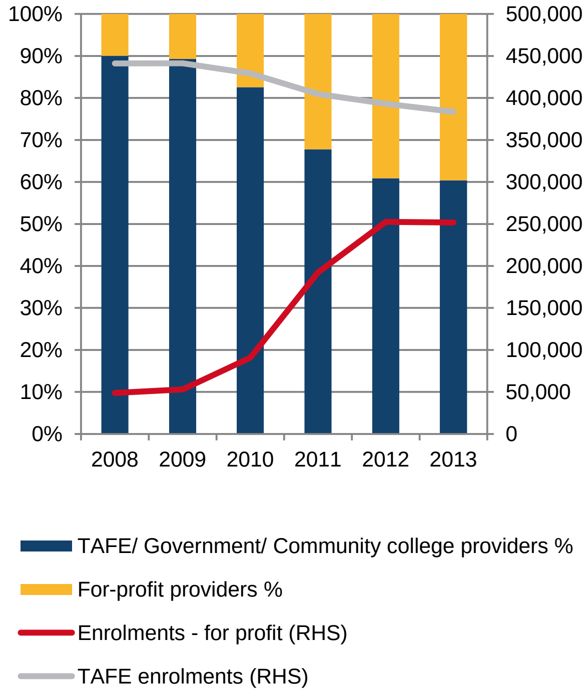
Source: National Centre for Vocational Education Research (2013)

Note: (1) The number of TAFE institutes varies mainly because of mergers and changes to the way that TAFE data are reported.

(2) Includes adult and community education (ACE) providers, professional and industry associations

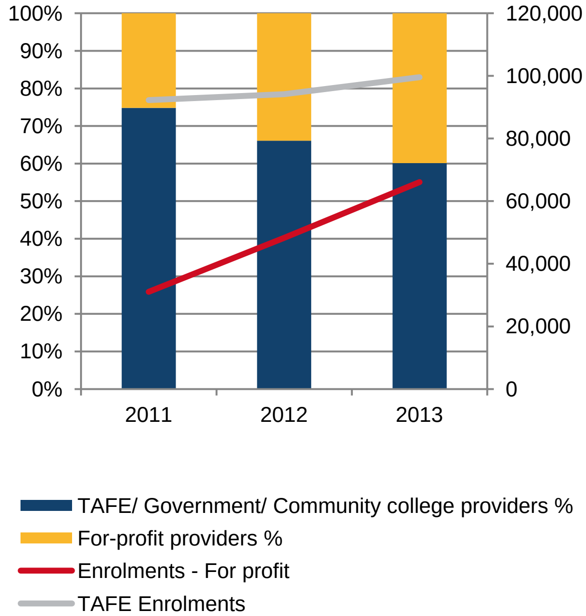
The strong provider growth is reflected in changes in student numbers. Figures 3 and 4 show the number of student enrolments before and after the introduction of demand driven models in Victoria (2008 to 2013) and South Australia (2011 to 2013). The data shows that significant growth in student enrolments took place in Victoria and South Australia. In Victoria, student enrolments at for-profit providers have grown 39 percent annually since 2008; in South Australia, enrolments grew 46 percent annually from 2011 (National Centre for Vocational Education Research, 2013). As a result of these changes, for-profit providers increased their share of enrolments from 10 to 40 percent in Victoria, and from 25 to 40 percent in South Australia.

Figure 6. Student enrolments after the introduction of user-choice entitlement models, Victoria



Source: National Centre for Vocational Education Research (2013)

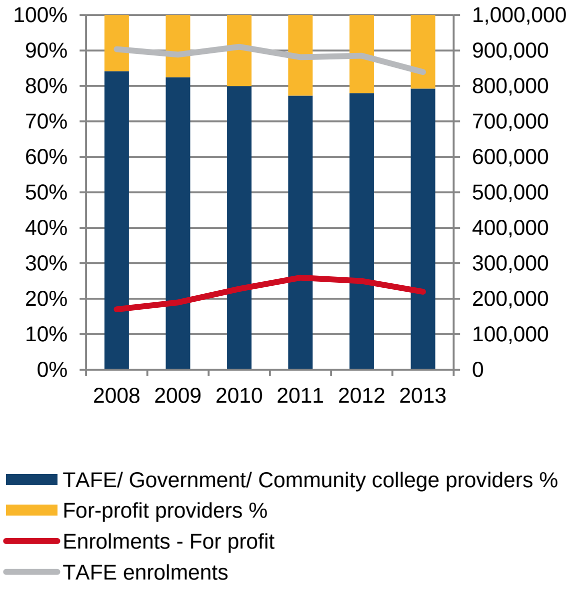
Figure 7. Student enrolments after the introduction of user-choice entitlement models, South Australia



Source: National Centre for Vocational Education Research (2013)

These figures compare to virtually zero or negative growth in all other states over the same period. In Figure 5, we depict a ‘counterfactual’ scenario, which shows changes in enrolments in all other states, in the absence of the rollouts of VET entitlement model.

Figure 8. Student enrolments, All other states



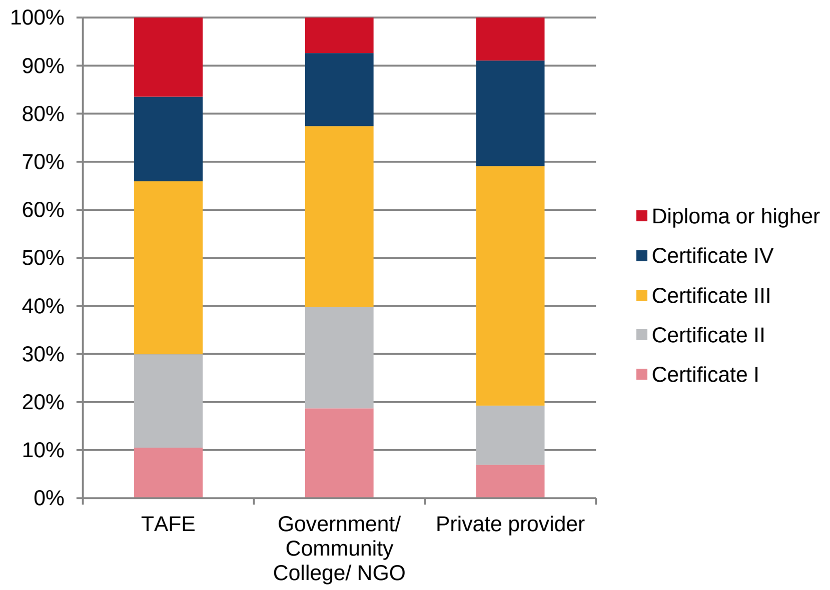
Source: National Centre for Vocational Education Research (2013)

The figures show that the funding changes had significant effects on the number and distribution of enrolments, which have been analysed in detail for Victoria (Leung, McVicar, Polidano, & Zhang, 2013, 2014). In particular, by comparing Victorian outcomes to the counterfactual outcomes in NSW (i.e. a control for what would have happened had the reforms not taken place), Leung et al. (2014) find that reform led to a 35 percent overall increase in enrolments, driven by a 300 percent rise in enrolments at for-profit providers. This compares to enrolment growth at Victorian TAFEs which was 7 percent below what they otherwise would have been.

The introduction of demand driven entitlements involves state governments paying training providers a subsidy for the provision of accredited training. As discussed earlier, this subsidy varies by level of qualification, as well as the skills priority level of the training content. Figure 9 shows the proportion of course enrolments at each qualification level by provider type. Across for-profit providers, almost half (49.8%) of publicly funded VET delivery occurs at the Certificate III level, while a further 30.9 percent comprises training at Certificate IV and higher levels.

This compares to training delivered at TAFE, where over a third (34.1%) of training occurs at the Certificate IV level and higher. TAFEs also deliver a higher proportion of foundational studies at the Certificate I and II levels (29.9%), compared to for-profit providers (19.3%).

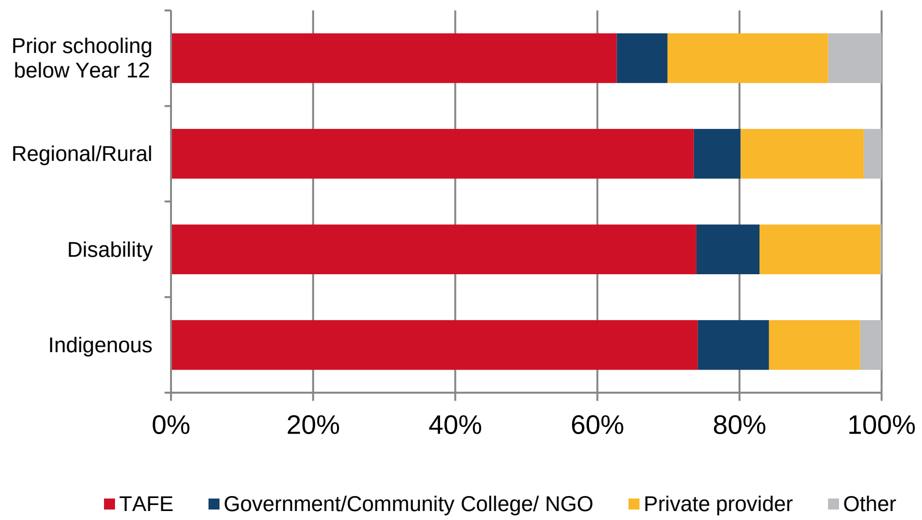
Figure 9. Course enrolments by qualification level and provider type, Australia, 2013



Source: National Centre for Vocational Education Research (2013)

TAFE and other public VET providers have historically had a strong role in providing learning opportunities for different equity groups, and as entitlement models have been rolled out across states, a commitment to this role has been notionally affirmed. As Figure 10 shows, course enrolments by students from an Indigenous background, with a disability, living in regional or remote areas, or without at least a Year 12 schooling, are dominated by TAFE institutions. For students from these disadvantaged groups, strong mechanisms are needed to support training delivery in what may otherwise be thin or unprofitable markets for private operators to engage in. By comparing changes in Victoria to the counterfactual outcomes in NSW following the introduction of the Victorian Training Guarantee, research has shown that improvement in access for equity groups including those from a diverse language background, or with a disability, lagged that of students from relative advantage (Leung, et al., 2013, 2014).

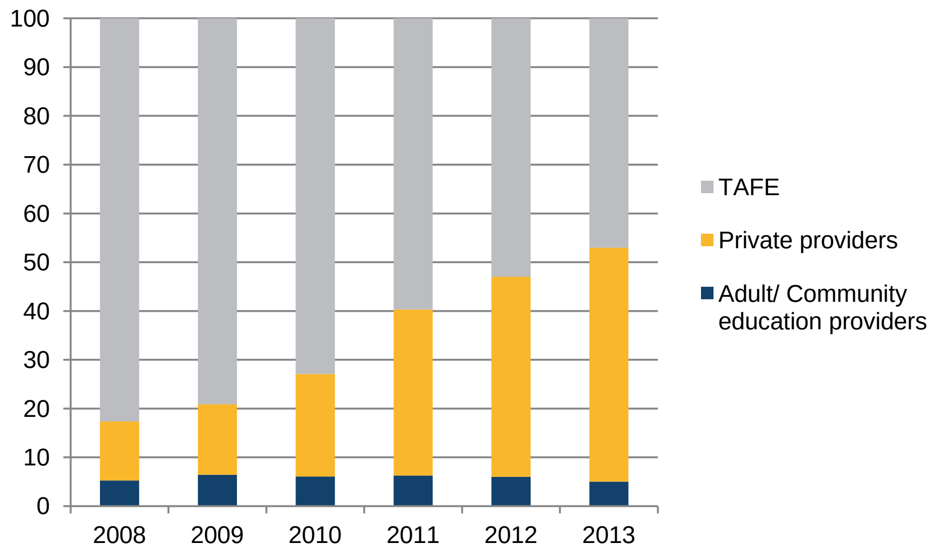
Figure 10. Enrolments by student equity groups by provider type (%), Australia, 2013.



Source: National Centre for Vocational Education Research (2013)

With respect to the responsiveness of the training system to skills needs, the Victorian government reports that enrolments in skill shortage or specialist skills training have grown by an average of 15 percent annually since 2008, to 184,400 in 2013. Figure 11 shows that the proportion of these delivered for-profit providers has increased over time. However, when the changes are compared to a counterfactual case (NSW), research has found that following the introduction of the VTG, there was a 7 percent *increase* in the chance of being enrolled at TAFE in skills-shortage areas, compared to a 23 percent *decrease* in chance of being enrolled at a for-profit provider advantage (Leung, et al., 2013, 2014). This reflects the wide offerings of for-profit providers outside skills shortage areas.

Figure 11. Enrolments in specialist/ skills shortage areas, Victoria, 2008-2013



Source: Department of Education and Early Childhood Development (2014b)

BUSINESS MODELS OF FOR-PROFIT FROVIDERS

This section seeks to understand how for-profit providers are driving the expansion in the sector, both in terms of providers and student numbers. An analysis is conducted of the operations of three of the largest for-profit VET providers – Vocation, Australian Careers Network and Ashley Services Group. Between them, these providers operate at least 20 different training 'brands' – both registered and unregistered training providers operating under what can best be described as a holding company. Together, the three for-profit providers reported over 45,000 publicly-funded enrolments in 2013 – larger than many TAFE institutes and comparable to a middle-sized university. The research includes analysis of NCVER data collections, initial public offering (IPO) prospectuses, announcements via the Australian Stock Exchange (ASX), ASQA audit reports, and research conducted by a range of professional investment houses, including Macquarie Equities, Credit Suisse, and Merrill Lynch.

As a business model, for-profit training provision is currently supported by strong demand-side factors, driven by the continued rollout of VET entitlement funding and extension of VET FEE-HELP, and underpinned by educational policy targeting higher levels of skills and qualifications, and increasing credentialism across the labour market. This has been evident in the growing number of student enrolments in VET. From a supply side perspective, VET provision suffers from few risks to the for-profit providers' cost base, with fewer capital expenditure requirements, and a smaller cost base than their TAFE counterparts. Registration as an RTO imposes few obligations of maintaining or providing equipment, libraries or student services such as counselling or career guidance. TAFE providers continue to bear the greater cost and obligation of larger (and ageing) campuses, delivering high-cost training, and operating in thinner markets.

The profit maximisation principles of these providers (and the primacy of shareholder and owner interests) provide strong incentives to offer training which attracts the highest subsidy, at lowest cost.

These low cost strategies may include delivering training online, within abbreviated time periods (as there is no minimum duration requirement for a given course of study), as well as by minimising the cost of teaching staff, the rent attached to physical campuses, and the investment in equipment needed for certain courses. On the flip side, revenues are grown using a number of common strategies, including:

- By marketing to student and job networks. The following two extracts for example, are excerpts from the Vocation and Australian Careers Network prospectus documents (available ahead of their Initial Public Offerings):

> *New students will be sourced by the Direct Business channel via four primary methods:*
>
> - *Direct marketing through traditional ...and online advertising*
> - *Brokers (e.g. Acquire Learning and Career Direct)*
> - *Agencies (e.g. Job Service Australia, Centrelink, disability peak bodies and local employment networks)*
> - *Corporate client partnerships*
>
> Vocation (2013, p. 38)

> *Australian Careers Network Group acquires students both directly through its call centre and student trainers and indirectly through corporate relationships developed by its business development team, strategic partnerships, and community-related investments. Ongoing marketing investment is required to both replace graduating students and to grow the total student intake each year.*

Australian Careers Network (2014, p11)

- By acquiring smaller training providers. Of the largest providers, acquisition growth was a key direction, with providers seeking smaller RTOs with offerings in courses or states outside their historical base, or seeking training providers with an existing large student base or strong reputational branding. This automatically extends the number of qualifications the provider has 'on scope'.
- By subcontracting third-parties to undertake various components of the 'supply chain', including student recruitment, course content and teaching. Equivalently, the providers were also often the subcontracted party, working for other RTOs (including TAFEs) to deliver training outside the oversight of ASQA or state authorities.
- By scaling up profitable training products, for example across states or by using online platforms.
- By cross-selling across business divisions. Large providers may have a labour hire or recruitment arm, which may cross-sell individual students/jobseekers/corporate clients.
- By offering additional 'management services'. The largest providers, aware of the complexity of funding, compliance and reporting arrangements, may offer smaller RTOs services including data management, compliance management, and course content development.

Profitability in the sector has been very high over the last three years. The Earnings Before Interest and Tax (EBIT) margins reported in Table 148 are a measure of operating profitability, calculated as the ratio of operating profits (before financing and tax policies take effect) to revenue. The EBIT margins in Table 8 are well above any notional cost of capital return, and high relative to comparable benchmarks. By way of example, transport companies earn EBIT margins of around 10%. G8 Education, the largest for-profit provider of child care and early childhood education in Australia, reported EBIT margins of 16.3% in 2012 and 17.9% in 2013.

Table 8. EBIT Margins for selected publicly funded, for-profit training providers

PROVIDER	2011	2012	2013
Vocation[4]	6%	18%	21%
Ashley Institute of Training	35%	35%	35%
Australian Careers Network	45%[5]	40%	51%
Intueri	29%	30%	32%
BENCHMARK EBIT MARGIN	29%	31%	35%

Source:Australia Careers Network (2014); Vocation (2013); Ashley Services Group (2014); Frost (2014)

In Victoria, where the demand driven model is most mature, government payments to for-profit providers have risen from $137.2 million in 2008 (before the reforms) to $799.2 million in 2013. Based on the benchmark profit margins set out in Table 8, it is estimated that the training subsidies have generated over $600 million in private profits between 2011 and 2013, profits which largely accrue to the owners and shareholders of these providers. These details are set out in Table 9.

[4] Profit margins for Vocation reflect Earnings before interest, tax and amortisation (EBITA) to remove the effect of significant amortisation expense

[5] 2011 EBIT margins for Australia Careers Network were not available from the company's prospectus, and has been estimated as the average EBIT margin between 2012-2014.

Table 9. Estimated profits generated from Victorian training subsidies

Year	Victorian training subsidies $m	Profits accruing to owners/ shareholders
2011	498.8	143.8
2012	804.2	247.3
2013	799.2	277.1
TOTAL	2,102.2	668.2

At this early stage of the national rollout of the entitlement model of training delivery, it is expected that new entrants will continue to enter (given the incentives created by the availability of public subsidies), and that existing competitors will consolidate in order to reap the benefits of economies of scale, reducing unit overheads such as marketing costs. This has already been the case with some of the largest providers, which continue to consolidate training brands under a single umbrella. This strategy allows larger providers to increase their campus footprint, diversify their geographic risk profile, grow profitability, and put pressure on smaller providers.

Indeed, the ownership structures of the larger providers were found to be opaque. Often, there are a number of registered and unregistered providers owned by a single corporation, operating a large suite of training 'brands'.

The direct and indirect ownership structures, and the executives responsible for the performance of each brand, were generally unclear. It was difficult to ascertain how earnings flowed to owners, shareholders, employees or reinvested in students and service improvement.

This opacity was further clouded by the prevalence of subcontracting arrangements, which to date have fallen outside the authority of ASQA. There are instances of many different functions being outsourced, including curriculum development, teaching, compliance and reporting, and data management.

There are very limited requirements to disclose these business structures, and limited information accessible to students, regulators and other stakeholders. Perhaps ironically however, it is the largest providers, seeking expansion via capital raisings on the stock market, who have been called to account via the stock market's greater disclosure rules. For smaller for-profit providers, information on their business practices and how they spend their public funding is very scarce.

The key risk to the private training sector (from the provider's perspective) is one of regulatory risk. The entitlement model of VET provision provides significant incentives for private training providers to develop courses and recruit students in areas which maximise profits and growth. The public subsidies paid to these providers are subject to periodic review, as well as significant policy and procurement changes across the VET sector more generally. For example, recent changes to Victorian subsidy levels were announced without prior notice on 16 June, 2014, effective from 1 July, 2014.

From the perspective of the public taxpayer, there is a great reliance on market forces to regulate the activities of these for-profit providers and ensure efficient and productive use of public funds. As discussed above, profitability is high and growing in the sector, and in the longer term, some semblance of market forces may drive down profitability in the sector. There are a number of critical factors which may prevent such competitive forces from prevailing.

First, there is limited information for students to access regarding the quality of their training and training provider, and the likely links to labour market or further study outcomes. Given the proliferation of the number of VET qualifications, the extensive choices available to students, and aggressive marketing behaviour from providers, it cannot be assumed that students will simply choose the best option, and that poor quality providers will be competed out of the market. Perhaps more importantly, the problem in tertiary education is not so much about information asymmetry as the assumption that more and better information can correct the market failure. In fact, no student or regulator can have the information that would enable them to judge the quality of an education or training service as they would a physical product, because it is an ‘experience good’. That is, the outcomes arising from purchasing the good cannot be discerned until after its consumption, and may be difficult to trace to any one educational experience (Brown & Carasso, 2013).

Second, subsidy rates and indirectly, course fees, are subject to review and change, deliberately distorting the price signal observed by both providers and students. This is the intention of state governments, to encourage training in priority areas, but it will also encourage providers to pursue provision of high margin services without due attention given to educational standards. In theory, such high returns to training provision will encourage new competitors, driving down prices and profits, and driving up quality and product differentiation. The fixed nature of subsidy rates removes this price mechanism and reduces incentive for providers to compete.

Finally, current trends in the highly fragmented market structure (almost 5000 training providers) suggest the sector will eventually comprise a smaller number of large providers, who will preserve profitability levels and deter new competitors (e.g. by being better equipped to manage compliance and reporting requirements, or by dominating certain industry areas). Indeed, the view of one of the largest operators flags acquisitions as the next evolution of the sector:

> *Consolidation and corporatisation of the VET sector is a logical step towards a more sustainable VET market in Australia, and those companies with access to funding, a focus on high quality training outcomes and an ability to source students are best placed to lead the consolidation*
>
> Australian Careers Network (2014, p14)

This evolution will see the growth of large providers beholden to shareholder and owner interests. There are minimal compliance requirements (typically an audit once every five years) and opaque business and ownership structures which are not readily accessible to regulators (who regulate individual RTOs and not ‘full service’ entities) or students.

Perhaps most importantly, there is little reference to educational standards and student outcomes in the documents released by the providers. While ASQA appears to be moving to more risk-based compliance and the reporting of quality indicators, there does not appear to be any effort to better align the business model with the public benefits for which the training subsidies are offered.

MAPPING THE TRANSFER OF WEALTH

The main rationale for the government providing subsidised vocational education and training is the existence of positive externalities. The Productivity Commission argues that these externalities, or public benefits which do not accrue to the individual or organisation deciding to train, include civic benefits such as higher employment and a more skilled workforce, social cohesion and reduced crime; as well as broad benefits arising from investment in innovation and the diffusion of new ideas (Productivity Commission, 2011, p. 59). Publicly funded VET also overcomes the collective action problem of employers being reluctant to invest in the skills of their workers because of concerns of poaching.

Left to its own devices, a free market results in under-provision of vocational education and training because those investing in training are unable to fully capture its benefits, which are instead shared among students, employers and the general community.

In other words, market failure in the provision of vocational education justifies government intervention to ensure adequate investment.

This rationale underpins the provision of training subsidies. Yet the rollout of contestable funding has assumed that a competitive market will deliver better quality and better value outcomes by fostering more provider competition, lower fees and more innovative course design and delivery. For a variety of reasons, there is not a perfect market in vocational education and training. Some are these are because of shortcomings in the current funding and regulatory arrangements but others are intrinsic to the fact that education and training is not a commodity but an experience good, whose quality can only be judged after it has been purchased.

In the absence of perfect competition, the result of a contestable VET system with public subsidies is inevitably continued high profits for a limited number of providers able to game the system – not lower prices for students and higher quality qualifications.

The purpose of this section is to identify public funding flows to for-profit providers, and to estimate how profits are leveraged from these subsidies. In order to do so, the research focuses on three specific providers, chosen for their dominance in VET provision, and the availability of rich, reliable data. While these three providers comprise only 2.3 percent of total publicly funded course enrolments, they have significantly larger total student bases, and are in the top 50 publicly funded providers (including TAFEs).

Table 10. Publicly funded course enrolments at selected for-profit providers, 2013

Provider name	Funded enrolments
VOCATION	27,122
ASHLEY SERVICES GROUP	12,146
AUSTRALIAN CAREERS NETWORK	4,774*

Source: National Centre for Vocational Education Research (2013); Australia Careers Network (2014, p. 81);
*It is estimated that at least a further 3600 TAFE enrolments were subcontracted to Australian Careers Network

The analysis which follows considers the business models of the three for-profit providers, models the flow of public subsidy revenue, and estimates the likely profitability which accrued to the directors and owners of these providers. In the following section, we first set out the assumptions underlying the modelling.

MODELLING ASSUMPTIONS

The financial analysis which follows focuses on public subsidies paid to for-profit providers on behalf of students in Victoria only. As the entitlement model is more mature in Victoria, and data more readily available, the analysis focuses on Victoria only. It is important to recognise that the analysis presented focuses on a 'standard' student, that is, one based in a metropolitan region, from a non-Indigenous background, and without significant labour market disadvantages. Students from these groups are typically eligible for concessional fees or waivers, and subsidies flowing to RTOs vary by state.

In order to derive public funding estimates at the provider level, a number of transparent and conservative assumptions have been made, and are described as follows.

Course enrolments

Precise course enrolment data at each RTO is publicly available via the NCVER's Student and Courses collection for the period 2011 to 2013. This enrolment data relates to publicly funded enrolments only, and does not include fee-for-service VET.

Study mode and time taken to complete qualification

The NCVER assumes that 720 hours equals one full year training equivalent (FYTE). Based on the maximum allowable hours stipulated by the Victorian Department of Education for non-apprenticeship training, the average number of years taken to complete each qualification level is set out in Table 11.

Consequently, full time study of qualifications up to and including Certificate IV are assumed to be completed within one year, Diplomas 1.5 years, and Advanced Diplomas 2 years. Part time students are assumed to be 0.5 of a full time equivalent. This distinction is important as in most cases, part time students form the majority of enrolments.

Table 11. Years to complete training by qualification level, 2013

Qualification Level	Average FYTE
Advanced Diploma	1.9
Diploma	1.5
Certificate IV	1.2
Certificate III	1.1
Certificate III	0.6
Certificate I	0.4

Source: Department of Education and Early Childhood Development (2014a)

Subsidy rates

The subsidy rates used in the analysis differ from the current rates presented in Table 2, and are instead based on funding levels available in 2012 (Department of Education and Early Childhood Development, 2012). The average subsidy per qualification level has been calculated for every qualification by multiplying the maximum nominal hours for each qualification by the hourly subsidy rate, averaged across all subsidised qualifications.

Table 12. Assumed subsidy rate per student by qualification level, 2012

Qualification level	Average subsidy 2012 ($)
Advanced Diploma	6,384
Diploma	5,363
Certificate IV	6,805
Certificate III	7,289
Certificate II	3,759
Certificate I	2,628
Foundation	1,172

Completion rates

It is insufficient to take account only of course completions, as funds in Victoria are paid to providers monthly in arrears, based on each student's contact hours. The modelling which follows makes assumptions regarding course completions. The NCVER has calculated estimates of completion rates for each qualification level, based on longitudinal data collected from students between 2009 and 2012. These estimated completion rates are presented in Table 13, together with the average rate of completion. This average is used as an estimate of the 2013 completion rate, and is a conservative assumption, given that completion rates appear to be trending upwards.

Note that these estimates are not specific to Victoria, and that full-time and part-time students are assumed to have the same completion rates.

Table 13. Estimated completion rates by qualification level, 2009-2012

AQF qualification	Estimated qualification completion rate (%)				Assumed 2013 completion rate
	2009	2010	2011	2012	
Diploma and above	38.0	42.8	43.8	44.3	**42.2**
Certificate IV	39.0	41.4	41.9	44.3	**41.7**
Certificate III	37.8	39.1	41.1	40.0	**39.5**
Certificate II	22.1	24.3	26.6	25.7	**24.7**
Certificate I	21.2	17.7	18.1	20.0	**19.3**
Total	32.1	33.7	35.6	35.8	**34.3**

Source: National Centre for Vocational Education Research (2014a)

Total public subsidy revenue

It is assumed that subject loads are uniformly distributed throughout the course of training, such that given publicly available course enrolment figures, the subsidy for a specific for-profit provider (denoted by i) is ultimately calculated as follows:

For Certificates I to IV (assumed completed within one year)

$$Subsidy_i = \sum_{Q=1}^{4}\sum_{t=1}^{3}(FT\ enrolments_i + 0.5 * PT\ enrolments) * Avg\ completion\ rate_Q * Avg\ course\ subsidy_Q$$

For Diploma and above:

$$Subsidy_i = \sum_{Q=5}^{6}\sum_{t=1}^{3}(FT\ enrolments_i + 0.5 * PT\ enrolments) * Avg\ completion\ rate_Q * 0.5 * Avg\ course\ subsidy_Q$$

In words, this means that for each provider, the total public subsidy over the years 2011 to 2013 (t=1..3) equals the number of course enrolments which will eventually complete their studies, multiplied by the public subsidy rate applicable to their studies. For Certificates I to IV, it is assumed that students complete their studies within one year. For diploma and higher, it is assumed that half of the course load is completed each year. This is then aggregated across six qualification levels (Q=1...6).

The calculation is a conservative one, because those who do not complete their qualification are assumed to attract zero subsidy, whereas as in reality they attract a part payment based on completed contact hours. This is particularly important as there is some evidence that private providers have deliberately enrolled students in full qualifications to attract public subsidies when the intention is only ever for the student to complete a few units of competency from within the qualification.

Profit margins

The profit margins which are used to model profitability leveraged from public subsidies are based on the operating profits– Earnings Before Interest and Tax (EBIT) – of the three companies. EBIT is a measure of profitability before the effects of financing decisions and tax treatment. Intueri, which operates in the mature New Zealand market and owns rapidly growing Australian RTO Conwal and Associates, is included for comparison. The company continues to return profit margins around 30 percent.

Table 14. EBIT Margins for publicly listed, publicly funded providers

PROVIDER	2011	2012	2013
Vocation[6]	0.06	0.18	0.21
Ashley Institute of Training	0.35	0.35	0.35
Australian Careers Network	0.46[7]	0.40	0.51
Intueri	0.29	0.30	0.32
BENCHMARK EBIT MARGIN	0.29	0.31	0.35

Source: Frost (2014); IFM Investors (unpublished); Simpson and Higgins (2014);Australia Careers Network (2014)

The modelling has a number of limitations, however these limitations err strongly on the side of conservatism, and the estimates that follow can be regarded as lower bound figures of actual revenues and profits raised from taxpayer money. These limitations include:

[6] Profit margins for Vocation reflect Earnings before interest, tax and amortisation (EBITA) to remove the effect of significant amortisation expense

[7] 2011 EBIT margins for Australia Careers Network were not available from the company's prospectus, and has been estimated as the average EBIT margin between 2012-2014.

1. The modelling does not include revenue earned from subject enrolments, or from students who do not complete their studies. The data focuses only on completed course enrolments.
2. The modelling assumes an average completion rate.
3. The modelling assumes an average 2012 subsidy rate, which does not account for the behaviour of for-profit providers in targeting higher-subsidy course offerings.
4. The modelling does not include estimates of VET FEE-HELP revenue, which are payments made to the RTO funded by the Australian Government.
5. The profitability of smaller providers is likely to be lower than at large providers, who are able to benefit from economies of scale across functions such as marketing, data management, and compliance.

We now turn to the first provider, Vocation Pty Ltd.

VOCATION

Vocation was formed from three founding companies: BAWM, the Customer Service Institute of Australia (CSIA), and AVANA. Vocation's inaugural chairman was John Dawkins, federal treasurer from 1991 to 1993, and minister for employment, education and training from 1987 to 1991. The BAWM group operates several publicly funded training brands, including Buildit Learning and Diverse Learning, while CSIA operates West Australian RTO TTS-100 (registration recently cancelled), and AVANA owns the Green Skills Institute, see Table 15. In addition, in 2014 Vocation has continued to consolidate the sector, acquiring the Australian College of Applied Education, Real Institute, and Endeavour College of Natural Health (Buys & Mann, 2014). BAWM also owns RTO Edge, a business providing managed services which allows other for-profit providers to outsource their compliance and other administrative/reporting requirements.

In addition, Vocation operates a range of unregistered training providers (see Figure 12), and uses an unknown number of subcontracted providers[8].

Table 15. Vocation publicly funded training brands

Training Brand	Main course offerings
Buildit Learning	Construction, transport/logistics and manufacturing
Diverse Learning	Community Services
Customer Service Institute of Australia (CSIA)	Customer service and business
TTS-100	Security and occupational safety
AVANA Learning	Hospitality, retail, tourism and business
Green Skills Institute	Tourism
Australian College of Applied Education*	Hospitality
Real Institute*	Business and transport/logistics
Endeavour College of Natural Health*	Fitness

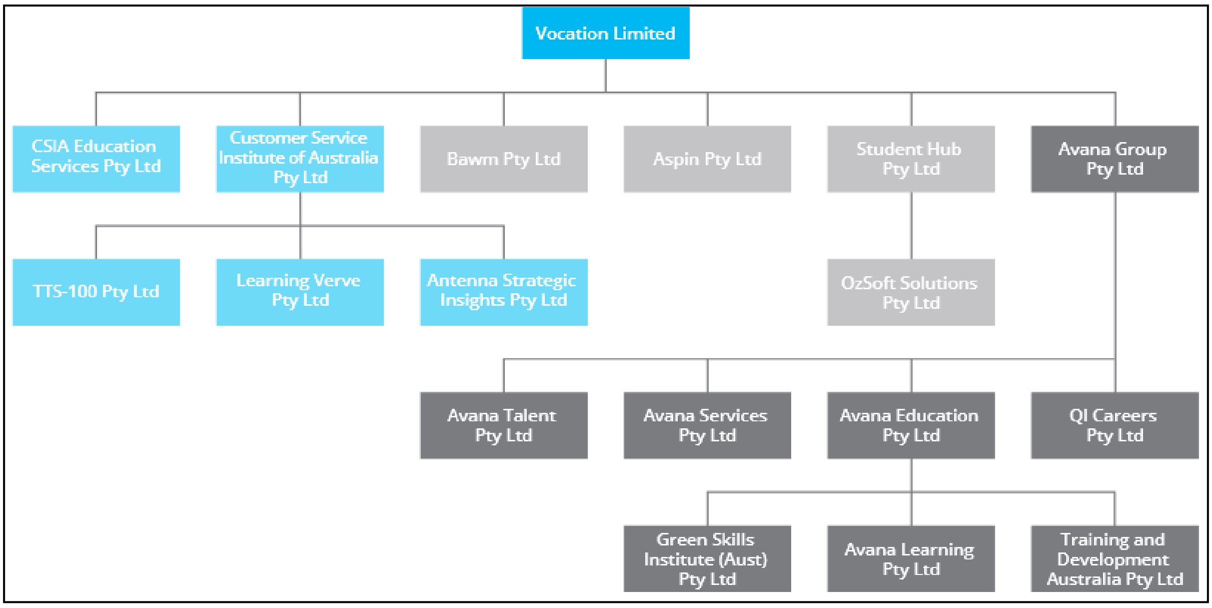
*Acquired in 2014

The complexity of Vocation’s ownership and brand structure prior to these latest acquisitions is illustrated in Figure 12 (which also includes fee-for-service and unregistered training providers). The acquisitions diversify Vocation’s geographic (and funding) base, increase its scale and course offerings, and add further complexity to Vocation’s ownership structure.

Until recently, the business had prospered across its brands, scaling up profitable training products (e.g. those with online delivery), leveraging its corporate clients through its enterprise-delivery channel, and most importantly, responding to the incentives created by the government’s demand-driven model.

Figure 12. Vocation ownership and brand structure, 2013

[8] An inspection of (possibly outdated)audit reports and media reports identify at least 4 subcontracting arrangements, with training providers *Safe T, Vative, JPR Security and National Security Training Academy,* and course content developers *Didasko* and *Small Print* (Aston, 2014; Australian Skills Quality Authority, 2011; Victorian Registration and Qualifications Authority, 2013).



Source: Vocation (2013, p. 111)

The rise of Vocation is clearly seen in its publicly funded course enrolments. Table 16[9] presents these enrolments from its key Victorian brands Buildit Learning, Diverse Learning, CSIA and AVANA. It shows that Vocation has quadrupled its publicly funded enrolments, with around half of enrolments at the Certificate III level. In 2013, around 55 percent of students were part-time.

Table 16. Publicly funded course enrolments in Victoria, Vocation

Qualification level	2011	2012	2013	Total
Diploma or higher	742	970	868	2,580.0
Certificate IV	536	2,450	3,128	6,114.0
Certificate III	3,490	7,507	12,695	23,692.0
Certificate II	1,733	3,380	2,583	7,696.0
Certificate I	57	4,597	6,638	11,292.0
Total	6,558	18,904	25,912	51,374.0

Source: National Centre for Vocational Education Research (2013)

In a November 2013 initial public offering, Vocation was floated on the Australian Stock Exchange, raising $253 million (with a further $74 million in an additional capital raising). After listing at $1.89 per share, the stock peaked at over $3.30 in August 2014 before concerns arose about the certainty of its government funded revenue streams. In particular, the Victorian Department of Education and Early Childhood Development (DEECD) withheld funding payments to the BAWM and Aspin[10] subsidiaries, subject to a departmental review. After the stock was placed in a trading halt on September 18, 2014 following its freefalling price, the company was forced to respond, declaring that “neither the review nor its anticipated outcomes are expected to be material to Vocation” (Vocation, 2014a). While the company did not disclose the amount of at-risk funding, their financial statements indicated that BAWM revenues accounted for 62 percent of total revenues in 2013, and forecast to rise to 89 percent in 2014 (Vocation, 2013, p. 56).

[9] Total new enrolments, across all brands and including fee-for-service enrolments, were around 24,000 in 2013 and projected to increase to over 43,000 in 2014 (Vocation, 2013)
[10] Owned by BAWM, Aspin delivered the Certificate II in General Education for Adults

Table 17 indicates that public subsidy revenue to Vocation is estimated to have more than quadrupled from $8.7 million in 2011, to $38.2 million in 2013, a figure which underestimates the true figure[11]. In fact Vocation, prior to the departmental review, had announced Victorian government funding would grow exponentially, totalling $1.2 billion over the three years to 2017 (Vocation, 2014c). Ultimately, the review was subsequently completed in late October 2014, at which point $19.6 million in funding to BAWM was forfeited. The withdrawal of clearly material funding followed recognition of unscrupulous practices including an over-reliance on third-party student referrals, enrolling students in courses inappropriate to their needs, and delivering a low-quality training experience. Vocation thereafter announced that BAWM would be consolidated under Vocation's other RTOs, while the use of third-party training and assessment providers would be eliminated (Vocation, 2014b).

Table 17. Total public subsidy revenue ($000s), Vocation

Qualification level	2011	2012	2013	Total
Diploma or higher	527.4	692.6	727.5	1,947.5
Certificate IV	945.2	4,766.3	6,400.1	12,111.7
Certificate III	6,053.1	16,671.8	26,952.5	49,677.4
Certificate II	1,112.9	2,629.6	1,798.0	5,540.5
Certificate I	13.6	1,515.9	2,296.0	3,825.4
Total public subsidy revenue	8,652.2	26,276.2	38,174.1	73,102.5
Total reported revenue	8,900.0	44,100.0	59,200.0	112,200.0

Based on reported data on Vocation's operating profit margins, it is estimated that over the three years, the $38.2 million in public subsidy revenue directly contributed to the generation of around $7.9 million in profits in 2013 - Table 18. This relates to publicly funded student enrolments in Victoria only. This is a significant proportion of the $12.9 million in profits reported in the company's financial statements (Vocation, 2013). Following the government review, the company also disclosed a material $5million earnings loss for the 2015 financial year (about 10-15 percent below analyst estimates). Vocation is currently under investigation by ASIC for possible failure to meet its continuous disclosure obligations, and by legal firm Maurice Blackburn for a potential class action on behalf of investors (Evans, 2014).

Table 18. Publicly funded profitability, Vocation

Performance	2011	2012	2013	Total
Public subsidy revenue (000s)	8,652.2	26,276.2	38,174.1	73,102.5
EBIT Margin	6.0	18.2	20.7	-
Operating profit (000s)	519.1	4,782.3	7,902.0	13,203.4

[11] As a reasonableness check on these figures, the Vocation prospectus reports that about 70 percent of their 2013 consolidated revenue ($59.2 million) is sourced from state governments. This would equate to around $41.4 million. The $38.2 million number in
Table 17 underestimates this figure due to the exclusion of Vocation's enrolments outside Victoria, and of subsidies for students who do not complete the qualification.

AUSTRALIAN CAREERS NETWORK

Australian Careers Network (ACN) comprises three business units across Victoria, New South Wales and Queensland: Community Training Initiatives (CTI), an unregistered training provider which partners with TAFE institutes under auspicing (subcontracted) arrangements; training delivered by registered training providers; and an employment services division. ACN operates ten RTOs, the largest of which is the Centre of Vocational Education (COVE) - see Table 19 below. In 2014, the company offered 96 qualifications and had 10,700 student enrolments (including publicly funded and fee-for-service students), with 85 percent of these in Victoria (Australia Careers Network, 2014, p. 35). Due to the availability of funding incentives, ACN targets training in skills shortage areas, primarily trades and construction, aged care and child care. In 2014, a third of enrolments were in the trades. It forecasts that training in community services will rise from 5 to 22 percent in 2015 (Australia Careers Network, 2014, p. 42).

Table 19. Australian Careers Network training brands with publicly-funded enrolments

Training Brand	Main course offerings
COVE (including RTOs Emeritus Education and Training and ITC)	Transport/logistics; civil construction
Australian Management Academy	Business/Management; Work, Health and Safety; Training and Assessment; Aged Care and Community Services
Consider this Training	Community Services (including aged care, child care and disability care); Business
SMART	Fitness and Recreation; Business and Management
Haley College	Community Services (Aged and disability care)
Heron Assess	Hospitality
Training Experts Australia*	Business and management; retail and hospitality; transport and logistics.
Training Synergies*	Retail and hospitality; transport and logistics; business

* Acquired in 2014.

Through its CTI business, ACN operates what it refers to as a ‘hub and spoke’ model, whereby partner RTOs (primarily TAFEs Chisholm Institute, Kangan Institute and Goulburn Ovens Institute of TAFE) subcontract training provision and course materials, audit processes and operating systems to ACN (Australia Careers Network, 2014, p. 38). CTI provides TAFEs a lower cost base for training delivery, and in return, CTI indirectly receives public subsidies, and is largely shielded from ASQA oversight, from changes to RTO regulations, and is able to diversify its risk profile. These arrangements have been in place for around 3 years.

ACN further sources all course content from third-party developers, citing barriers to internal development including *“inhibit[ing] a training provider’s speed-to-market, ability to be flexible in course delivery, and scope to address new market opportunities ahead of the competition”* (Australia Careers Network, 2014, p. 36). ACN hires ASQA auditors to ensure the material is ASQA and AQF compliant, however the rationale for this approach is clearly one of generating competitive advantage, and to date there has been little visibility for where responsibility for quality course content and educational standards ultimately lies.

The ACN business model includes significant investment in student recruitment. Approximately 50 percent of enrolments are driven from *“a mix of outbound call centre marketing, on-the-ground business development executives and trainer/student acquisition models”,* with the trainer-to-student business development model having trainers promote the courses offered by Australian Careers Network Group during face-to-face assessments of student training needs (Australia Careers Network, 2014, p. 35).

Aside from leveraging the expansion of demand-driven and VET FEE-HELP funding, ACN seeks growth by expanding its TAFE partnerships (both number and scale), seeking more acquisitions of training brands (targeting RTOs with strong existing brands or student base, in growth states of NSW and Queensland, and expanding the course offering), growing their international student body, better linking their employment and training services, and growing an online education platform (Australia Careers Network, 2014, p. 45).

The student enrolment figures below refer to publicly funded course enrolments in Victoria in the COVE, Consider This, Australian Management Academy, SMART and Heron Assess RTO brands. An estimated further 3640 TAFE enrolments[12], subcontracted to CTI for training delivery, are also included for 2013, based on ACN reports that 39 percent of enrolments came from their TAFE partnerships (Australia Careers Network, 2014, p. 37). These students receive training from CTI as an unregistered training provider, and they are not captured in NCVER data.

Note that for 2012, the NCVER-reported 2456 publicly funded course enrolments comprise only 32 percent of ACN's 7654 total students enrolled across its brands and offerings. The balance of students comprise fee-for-service and subject enrolments, as well as students outside of Victoria.

Table 20. Publicly funded course enrolments in Victoria, Australian Careers Network

Qualification level	2011	2012	2013	Total
Diploma or higher	289	228	93	610
Certificate IV	618	541	819	1,978
Certificate III	1,203	1,583	2,974	5,760
Certificate II	90	104	86	280
Certificate I	0	0	772	772
Estimated subcontracted TAFE enrolments	-	-	3,734	3,734
Total	2,200	2,456	8,478	13,134

Source: National Centre for Vocational Education Research (2013)

The modelling of subsidies received by ACN is based on higher subsidy rates, as the company reports that 44 percent of course offerings attracted an hourly subsidy of at least $9.50 (with over 90% attracting over $5 an hour) (Australia Careers Network, 2014, p. 44). The average ACN subsidy received in 2012 for each qualification level is set out in Table 21.

Table 21. Average subsidy levels by qualification, Australian Careers Network, 2012

Qualification Level	Assumed average subsidy
Advanced Diploma	9,752
Diploma	7,290
Certificate IV	8,047
Certificate III	7,750
Certificate II	4,468
Certificate I	8,430

[12] Includes subject, course and fee-for-service enrolments at Kangan Institute, Chisholm Institute, and Goulburn Ovens Institute of TAFE. No further data breakdown was available.

Table 22 provides estimates of the public subsidy revenue received by ACN between 2011 and 2013, including $5.626m in reported revenue received for training delivered on behalf of TAFEs (Australia Careers Network, 2014, p. 81). It is estimated that public subsidy revenue grew over 3.5 times from $4.4m in 2011 to $15.0m in 2013. Going forward, ACN subsidy receipts will also be much higher due to the contributions of the recently acquired RTOs, Training Synergies and Training Experts Australia, and future acquisitions.

Table 22. Total public subsidy revenue ($000s), Australian Careers Network

Qualification level	2011	2012	2013	Total
Diploma or higher	243.5	239.8	87.7	571.0
Certificate IV	1,441.5	1,427.8	1,990.9	4,860.1
Certificate III	2,611.8	3,767.9	6,532.5	12,912.3
Certificate II	54.7	117.5	82.2	254.4
Certificate I	0.0	0.0	636.1	636.1
Funding from subcontracted TAFE enrolments	-	-	5,626.0	5,626.0
Total	4,351.4	5,553.0	14,955.5	19,234.0

Based on data on enrolments, revenues, and reported EBIT margins[13], Table 23 estimates the profits accruing from public subsidies to ACN owners between 2011 and 2013. Over the three years, it is estimated that ACN profitability from public funds has almost quadrupled from $1.9m to $7.6m.

Table 23. Publicly funded profitability, Australian Careers Network

Performance	2011	2012	2013	Total
Public subsidy revenue (000s)	4,351.4	5,553.0	14,955.5	24,860.0
EBIT Margin	45.4	40.2	50.8	-
Operating profit (000s)	1,977.0	2,232.3	7,597.4	11,806.7

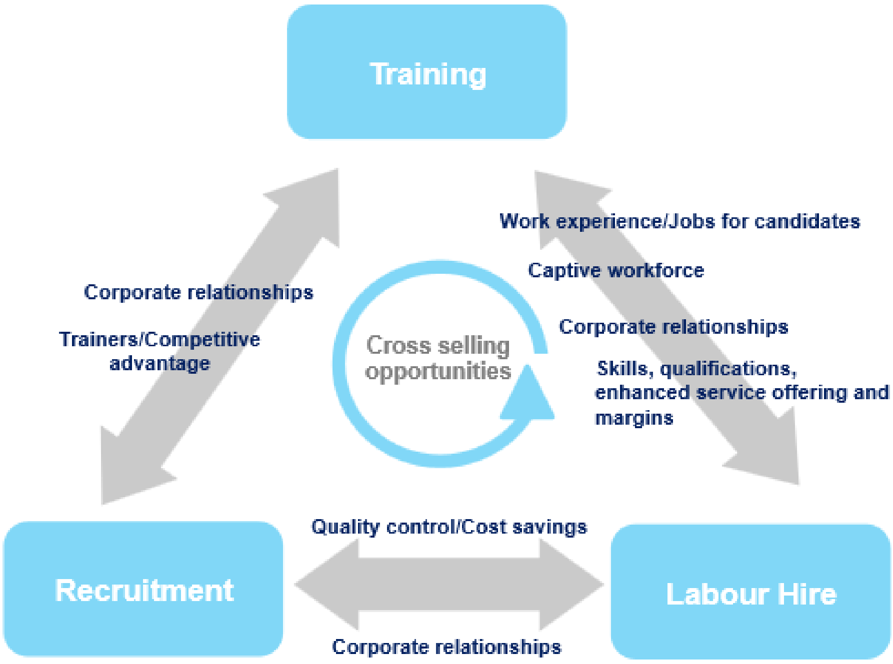
[13] (Australia Careers Network, 2014, p. 80). Reported margins for 2012, 2013 and 2014 respectively were 40.2%, 50.8% and 45.3%. The EBIT margin for 2011 has been estimated as the average of these three values.

ASHLEY SERVICES GROUP

Ashley Services Group (ASG) is a training, recruitment and labour hire firm which operates several RTOs including Ashley Institute of Training (AIT), the National Institute of Training, Tracmin, and Integracom Management Group. Together these brands have broad industry coverage, with significant enrolments in telecommunications, community services, business, and transport/logistics. The company is currently applying to become a VET FEE-HELP approved provider.

The business model is based on cross-selling between its training, recruitment and labour hire divisions, and can be summarised by the company's own presentation in Figure 13. The company also delivers training to the corporate market, and expects 62 percent of its 2014 training revenues to be derived from corporate employers (Ashley Services Group, 2014, p. 39). In addition, ASG currently holds 15 stage government contracts in Victoria, Queensland, WA, SA and Tasmania.

Figure 13. Ashley Services Group business model



Source:Ashley Services Group (2014, p. 24)

An ASQA Audit of AIT took place in March 2013, and found the provider to be non-compliant in two important respects (ASQA, 2013): 1) their trainers and assessors were found non-compliant with requirements regarding their training and vocational competencies; and 2) their assessment tools were found to be non-compliant with minimum assessment standards. AIT later provided evidence to demonstrate compliance with these standards, allowing for its continuing registration.

The analysis below includes enrolments at AIT and the National Institute of Training only, which have significant Victorian enrolments. In 2013, Ashley Service Group had 12,146 course enrolments, with over half of these in Victoria (with a further 20% in SA and 11% in NSW). The figures in Table 24 indicate that 87 percent of all enrolments occur between the Certificate II to IV levels. Around three-quarters of students are enrolled part-time.

Table 24. Publicly funded course enrolments in Victoria, Ashley Services Group

Qualification level	2011	2012	2013	Total	% share
Diploma or higher	300	232	166	698	2.6
Certificate IV	354	522	1,241	2,117	19.7
Certificate III	2,111	1,760	2,797	6,668	44.3
Certificate II	541	446	1,464	2,451	23.2
Certificate I	-	-	644	644	10.2
Total	3,306	2,960	6,312	12,578	100.0

Source: National Centre for Vocational Education Research (2013)

Based on these figures, the estimated total public subsidy funding is presented below. Over the three years between 2011 and 2013, it is estimated that ASG received around $17.6 million in public subsidy revenue[14].

Table 25. Total public subsidy revenue ($000s) in Victoria, Ashley Services Group

Qualification level	2011	2012	2013	Total
Diploma or higher	192.6	163.9	130.2	486.8
Certificate IV	608.8	1,061.2	2,179.7	3,849.6
Certificate III	4,057.9	2,911.3	4,737.8	11,707.0
Certificate II	298.0	221.7	851.5	1,371.1
Certificate I	-	-	228.2	228.2
Total	5,157.3	4,358.1	8,127.3	17,642.7

How these public funds are leveraged into profits is presented in Table 26. With EBIT margins of around 35 percent in the training division, Ashley Services Group generated significant profits from publicly funded training activities, with profits increasing by 57 percent to between 2011 and 2013. Subsidy revenue over the three years was estimated to total $17.6 million, generating $6.2 million in earnings.

Table 26. Publicly funded profitability in Victoria, Ashley Services Group

Performance	2011	2012	2013	Total
Public subsidy revenue (000s)	5,157.3	4,358.1	8,127.3	17,642.7
EBIT Margin	35.2	34.7	35.0	-
Operating profit (000s)	1,815.4	1,512.3	2,844.5	6,172.2

[14] As a reasonableness check, the company reports that in 2013, around 37% of training division revenues ($24.6m) were derived from individuals undertaking publicly subsidised training. The estimates in Table 25 represent 33% of total training revenues.

FINAL COMMENTS

In light of these findings, it is instructive to return to the original objectives stated in the 2012 National Partnership Agreement on Skills Reform. Recall that these objectives included the following:

- Improving training accessibility, affordability and depth of skills, including through the introduction of a national training entitlement and increased availability of income contingent loans;
- Encouraging responsiveness in training arrangements by facilitating the operation of a more open and competitive training market;
- Assuring the quality of training delivery and outcomes, with emphasis on measures that give industry more confidence in the standards of training delivery and assessment;
- Providing greater transparency through better information to ensure: consumers can make informed choices, governments can exercise accountability,

The analysis in this report rejects the notion that the vocational training sector, under demand driven entitlement funding, has made progress in the transparency and quality of training delivery. Rather, the behaviour of for-profit providers has served to undermine confidence in vocational qualifications and taken advantage of students unable to make informed decisions. More importantly however, the complexity of the operations of for-profit providers casts considerable doubt on whether regulators can possibly stay abreast of the operations of for-profit providers, particularly given limited disclosure requirements and audits which occur on average every five years.

With regard to issues of accessibility to, and responsiveness of, the training system, the research shows that students from disadvantaged backgrounds, or enrolled in regional or skills shortage areas, are still much more likely to be enrolled at TAFE institutes. The role of TAFEs remains paramount in the delivery of training in areas of skills shortages and to student equity groups, but also as the custodian of quality vocational education. In meeting these and other obligations (including delivery in thin markets, delivery of student services, meeting public sector reporting requirements, and asset maintenance), it is important to recognise this competitive disadvantage. As the cornerstone vocational educational provider, TAFE has an obligation to serve all fields of education, all student backgrounds and all areas of Australia. TAFE does not have the option of targeting only profitable areas of delivery or profitable student types. Funding for TAFE has been substantially reduced despite their obligation to contribute to these social and economic objectives, while also acting as custodians for the provision of quality vocational education. If higher levels of funding and a more sustainable funding model for TAFE is not found, then the there is a very high likelihood that public confidence in the entire system of vocational qualifications will be fatally eroded.

The research calls for an evaluation not only of the current architecture in the vocational education system, but also of the principles underpinning its growth. In a regular market for a physical good, a competitive market relies on strong competition between many vendors, selling to perfectly-informed buyers a product with known quality and quantities. In the market for education, the product has unknown characteristics until after the experience, while trends in for-profit VET provision are heading towards fewer dominant providers selling to poorly informed students. The sustained profits of the for-profit VET sector, and their still limited contribution to broader social and economic goals, call into question the system of public subsidies and the distribution of public versus private benefits. Most importantly however, the research questions whether any amount of regulation or resources can overcome the fundamental difficulty of evaluating quality that cannot be observed in a timely way, in a product offered by hundreds of providers with opaque business models.

On that basis, the following changes to the VET sector are recommended:

1. **Minimum hours of delivery for courses**

   The quality framework should mandate a minimum number of hours of delivery wherever this involves public subsidy (including indirect subsidy through VET FEE-HELP). The quality framework should also directly audit the other inputs to quality learning, including curriculum, teaching and assessment practices at the point of delivery. This is necessary to overcome the lack of transparency about who is actually providing these inputs, and whether providers are delivering the contact hours that students enrol for, and public subsidies pay for. The current process-driven approach cannot address these issues.

2. **Capping funding to private RTOs to ensure TAFEs remain able to provide quality education**

   The role of TAFEs remains paramount in the delivery of training in areas of skills shortages and to student equity groups, but also as the custodian of quality vocational education. In meeting these and other obligations (including delivery in thin markets, delivery of student services, meeting public sector reporting requirements, and asset maintenance), it is important to recognise this competitive disadvantage.

   If contestable models remain, the proportion of government vocational education funding allocated contestably should be capped at 30%, with the remainder reserved for TAFE. This will stabilise the sector and provide certainty for students while still permitting sufficient competition to drive innovation in course design and delivery, where this is required. State Governments should also continue to provide or re-establish block funding for TAFE to maintain infrastructure, support services for at-risk students, and to support the many other roles it plays in the community.

3. **Ban on subcontracting delivery of courses to unregistered providers**

   Based on the practices that have already come to light, there is a strong case for prohibiting cross-selling between business decisions, and subcontracting delivery to other providers, particularly those who are not registered RTOs. Moreover, rather than solely audit individual RTO brands, an enhanced quality framework would consider enterprises as a whole, to seek better visibility of where responsibility for each component of training delivery lies.

4. **Better regulation of RTOs' recruiting practices and business models**

   If it is not possible to regulate for profit providers effectively because of the way they structure their operations then at the very least, quality assurance should also scrutinise the business models of for-profit providers. This would include how they market to and recruit students.

5. **An end to governments manipulating subsidies for private RTOs**

   Jurisdictions should abandon the practice of regularly manipulating subsidy levels for particular courses or units of competency in response to distortions in the market and rent seeking behaviour by providers. This only rewards gaming and punishes providers that invest the subsidies in quality educational delivery. A preferable approach is to limit access to subsidies in the first place by requiring RTOs to meet quality requirements that are stricter than the AQTF.

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