Brotherhood of St Laurence
Working for an Australia free of poverty

This is one of a series of briefing papers produced by the Brotherhood of St Laurence Research and Policy Centre to provide an overview of the key aspects of Australia's Vocational Training and Education system, from the 1970s to early 2019.

Others in the series include: *Australia's VET sector since the mid-1970s*; *Participation and transitions*; *The architecture of Australia's VET sector*; *Emerging skills and competencies, and VET's response*; *The Victorian VET context*; *Apprenticeships and traineeships*.
The papers can be accessed at www.bsl.org.au

4. Funding regimes in Australia's VET sector

Key points

- **VET is the poor relation** of other educational sectors and it is getting poorer.
- **National funding priorities are unclear**: states' interests and priorities drive funding.
- The jury is out on the VET Student Loans scheme; VET-FEE-HELP was a failure.
- **Student loans schemes in VET are far less generous and/or student-friendly** than university schemes.
- **State-based student subsidies as entitlement schemes vary greatly**, and are tailored to states' circumstances.
- Funding responsibilities are shared, but states determine most allocations and modes of education delivery.
- **Demand-driven funding is embraced**, even though it has led to a crowded provider landscape, dubious practices and uneven quality of training.
- **The Skilling Australia Fund**—the current national funding framework—provides a relatively narrow and short-term approach.
- **The 2019 Developing Skills for Today and Tomorrow** package of reforms flags a replacement for the SAF in late 2019.
- **Participation by 'equity groups' and apprentices/trainees is falling**, and current funding levers are not reversing the trend.

Funding overview

VET is the poor relation of other educational sectors

While expenditure on school and university education has risen steadily since the mid-2000s, state/territory and Commonwealth expenditure on VET has declined markedly, particularly since 2011. A study comparing expenditure between 2005–06 and 2015–16 revealed that higher education had reached $25 billion (a 52% increase), and school education $45 billion (a 30% increase), while VET has fallen to $5.2 billion (a 4.7% decrease from 2005–06) (Pilcher & Torii 2017). In Australia, industry and individual contribute significantly to the cost of training: the former by purchasing training; and the latter by paying course and administrative fees.

Commonwealth and states/territories share funding responsibilities

National expenditure on VET totals $5.2 bill: with state and territory governments providing $3.1 billion (61%), and the Commonwealth $2.0 billion (PC 2019). Funding is provided through multiple channels, including:

- targeted funding for entitlements, specific programs and subsidies often under the auspice of national agreements
- general funding for capital and infrastructure needs of public providers
- fee-for-service arrangements for designated programs

- income-contingent loan schemes enabling funding to public and private training providers.

The Commonwealth's main roles

Commonwealth funds help sustain the institutional machinery of the national VET system, including the Australian Industry and Skills Committee, the National Skills Commission and National Careers Institute (both in place by late 2019), the Industry Reference Councils and Skills Service Organisations, the National Centre for Vocational Education Research, and the Australian Skills Quality Authority (totalling approx. $80 million) (Burke 2018).

Commonwealth funds are also directed to assistance for apprentices and students in general, skills development and employer incentives. The Commonwealth provides funds earmarked for VET in Schools, to be distributed by the states/territories, and for Trade Training Centres. It provides funding for both TAFE and non-TAFE training organisations—with payments to the latter having doubled since 2007 to $1.3 billion (PC 2018). Those funds are also distributed via the states/territory governments.

States'/territories' main roles

The states have constitutional responsibility for providing vocational training within their jurisdictions, and they also assume responsibility for the design and implementation of student entitlement schemes. The states/territories take the lead as the majority funders of TAFE institutions, and for funding apprenticeship training. States/territories are not only owners and providers of training services, but—in line with the commitment to demand-led models—are also significant purchasers of training (DPM&C 2014).

The evolution of funding regimes

Competitive tendering, user choice and current demand-led funding models

One of the legacies of the Australian National Training Authority (1994–2005) was the introduction in 1994 of competitive tendering for training services, and then the 'user choice' funding model (1998). Hitherto, the TAFEs had received block funding from Commonwealth and state/territory governments, and were permitted a near monopoly of the government-funded training market. Government funds were subsequently made available to private providers—at varying, yet still modest levels—across all jurisdictions, and for limited and specific purposes (e.g. to meet skills needs or local priorities) (Bowman & McKenna 2016a).

A profound shift occurred in 1998 when public funds were made available under the User Choice initiative to those private providers chosen by apprentices, trainees and employers as their preferred training organisations (Bowman & McKenna 2016a). One major review of all such contestable funding regimes concluded that (with the exception of Tasmania) they lacked a significant focus on access and equity (Allen Consulting Group 2011).

The Bradley review (AGDEEWR 2008) gave more impetus to demand-led funding through its recommendations for that approach in university education and for higher VET qualifications (Bowman & McKenna 2016c).

Key funding agreements and initiatives

Among numerous funding initiatives, four national agreements stand out as having shaped the current VET system.

The **National Agreement for Skills and Workforce Development** (NASWD, 2008–) was initiated to halve the number of Australians without Certificate III and above, and to double the number of high-level qualifications (Noonan 2016b).[8]

[8] This was boosted by the 2008 National Partnership Agreement on Productivity Places Program aimed at increasing industry-based training.

The **National Partnerships Agreement on Skills Reform** (NPASR, 2009–17). Two major aims of this $1.7 billion package were to provide a national training entitlement for eligible groups and to expand a student loan scheme, the VET-FEE-HELP program (see below).

From an 'equity' perspective, the 2009–2013 **National Partnership Agreement on Youth Attainments and Transitions** (NPAYAT) (with associated state/territory 'Learn or Earn' initiatives), was significant because it directed unprecedented numbers of young people towards vocational training.[9]

Note that the NASWD, NPASR and the NPAYAT should be considered in the context of the global financial crisis and, in some respects, as responses to it. Other initiatives—for example Skilling Australia for the Future, a $1.9 billion package to create more training places; the Compact with Young Australians (2009); and the Compact with Retrenched Workers (2009)—can be similarly understood.

The current **Skilling Australia Fund** (2017–2022) has entailed the distribution of $1.5 billion (levied from employers sponsoring foreign skilled employees) and targets occupations and industries in demand, trade apprenticeships, rural and regional communities, and groups adjusting to structural change. At time of writing, neither Victoria or Queensland was a signatory to the SAF agreement, though the Commonwealth distributes funds regardless. As the SAF focuses almost exclusively on apprentices and trainees, it barely considers the equity groups previously recognised across the sector (such as Indigenous, CALD, low SES, those with disabilities, the young and second-chance learners). Concerns have also been raised about the SAF funding model which is based solely on a levy on businesses attracting skilled migrants, and the use of migration as a questionable revenue raising exercise.

The Commonwealth Government's **Delivering Skills for Today and Tomorrow** (DESSFB 2019) reform package comprised a $525 million upgrade to the VET sector. It included the creation of a National Skills Commission to oversee funding allocations, a National Careers Institute, 'Skills Organisations'[10] and specific allocations in support of VET in rural and remote regions, foundation skill development, apprenticeships, improved data analysis, scholarships for young people, and Tasmania (Energising Tasmania). The replacement of the Skilling Australia Fund, flagged in related announcements, is due by late 2019.

Great state variation in student subsidies and entitlement schemes

Stemming from the above developments—particularly the NPASR—there emerged eight state/territory entitlement schemes, too diverse and complex to outline here.[11] The main commonalities were eligibility for those without Certificate III and assistance for them to gain at least that level; and public funds provided to private training organisations to achieve these goals.

The schemes differed because states/territories sought to tailor training according to their respective skills needs, economic circumstances and budgetary capacity to fund beyond the Agreement's minimum targets.[12]

One analysis (Bowman & McKenna 2016) identified three entitlement models—that is, where the entitlement is:

- embedded in the state/territories' overall funding model (Vic., SA, WA)

[9] Peaking in 2012 at 484,000 15–19 year olds, and 330,000 20–24 year olds, 75% of whom lacked year 12 certificates (NCVER 2014,15).

[10] The first of these industry-owned organisations, designed to introduce more industry experience to the process of developing qualifications, will be in the growth areas of human services and digital technologies. If the Joyce review recommendations are fully embraced, the SOs will play an active role in supporting apprentices, marketing, ranking training organizations, benchmarking work placement contact hours, designing 'skill sets' or 'micro-credentials', and links between VETiS and business.

[11] Entitlements are analysed by Atkinson & Stanwick (2016) and by Bowman & McKenna (2016).

[12] Victoria implemented its entitlement scheme (the Victorian Training Guarantee) in 2009, and SA its Skills for All scheme in early 2012, both ahead of the NPASR.

- a single discrete program, but part of a suite of complementary programs within the overall model (Qld, NSW)
- piloted and woven into previous programs (ACT, Tas., NT).

Typically, subsidies and entitlements are linked to selected courses (e.g. SA has over 700 subsidised courses; Victoria provides over 30 courses free of charge).

Between 2008 and 2016, the share of public funds allocated to private training providers through student entitlement schemes rose from 10% to 25% of total VET expenditure (Bowman & McKenna 2016).

It should be noted that VET students also have limited access to other supports, such as ABSTUDY, Austudy and Youth Allowances.

Commonwealth student loan schemes: from VET-FEE-HELP to VET Student Loans

The Commonwealth administers the VET Student Loans scheme (2017–) as it did the previous VET-FEE-HELP (2009–2017). Such income contingent loans direct public funds on behalf of the student to providers of eligible training (notably at diploma, advanced diploma and graduate diploma levels).

Flaws in the VET-FEE-HELP scheme resulted in tremendous losses for the taxpayer. The Grattan Institute (2015) estimates that 40 per cent of loans made to students undertaking diploma or advanced diploma courses will go unpaid. The loans scheme also resulted in poor training outcomes, and significant levels of criminality and misuse of funds mainly by private training providers. As the scheme catered for higher qualifications, very few larger providers were involved, with just six accounting for 50 per cent of the loan-funded training. Blow-outs in student take-up in 2013–14 more than doubled the value of loans ($699 million to $1757 million (Noonan 2016b).

VET-FEE-HELP was replaced in 2017 by VET Student Loans, which featured a more limited range of eligible qualifications and three loan caps ($5,000, $10,000 and $15,000). While this scheme is in its infancy, it has attracted far less attention from students and providers. Just $200 million had been accessed by early 2018, compared with $2.9 billion via VET-FEE-HELP in 2015; and just 30% of private providers participated (Burke 2018). There is much speculation as to the reasons for this reduction, with a review pending.

Ostensibly, the VET-FEE HELP and the VET Student Loans schemes were to recoup monies from graduates, though in practice this has proved problematic. A major challenge for all such loan schemes is that students often fail to reach the income repayment threshold, leaving debts unpaid. Also, as income contingent loans have not been made available for certificate level qualifications, and funding to VET in general has diminished, student fees have continued to rise ostensibly to cover the costs of non-Diploma level training (Noonan 2017). In contrast to the university education–linked HECS-HELP, the VET-related student loan schemes were/are linked to a specific course or qualification and do not allow movement across the sector to other fields of study. VET students also have to pay significant up-front fees, but university students do not (Warburton 2017).

Falling participation rates

Equity groups

Vocational training remains an attractive option for disadvantaged students and those from low SES backgrounds. In spite of this, a 20 per cent fall in public funding for VET between 2012 and 2016 likely contributed to the falling national participation rates. So too would the continuing focus of states on skills shortages, which narrowed the scope of training options. In Burke's analysis, links are made between funding cuts and declining participation by a range of cohorts, such as Indigenous learners; those in regional and remote areas; those with disabilities; from the most disadvantaged quintile; females (particularly for traineeships); and those aged 15–19 (Burke 2018).

Burke identifies the largest falls among the 15–19 year old and 40–59 year old cohorts, and females. He links these falls to cuts in subsidies, and less support for traineeships in such sectors as retail and business (Burke 2018).

Apprentices and trainees

Apprentices account for 25 per cent of all VET students. To late 2019, the main support initiative for apprentices was the Trade Support Loans which can total $20,000 over four years, and are made available to 45,000 apprentices each year. Also important to apprentices is the Living Away From Home Allowance, offering $4,000 in the first year and less thereafter (Burke 2018). Support is also provided by the Australian Apprenticeship Support Network and its (over 400) Apprentice Network Providers.

Incentives to employers remain a staple of the financial supports for apprenticeships. To late 2019, 57,000 employers received incentive payments linked to either commencement (around $1,500) or completion ($2,500). The array of state schemes is complex and diverse, but schemes typically include travel concessions, rebates and tax exemptions for both student and employer (Burke 2018).

As part of the 2019 Delivering Skills for Today and Tomorrow package of reforms, the Commonwealth Government will establish by late 2019 an Additional Identified Skills Shortage Payment to employers and apprentices for up to 80,000 new apprenticeships in occupations with national skill shortages, and revised arrangements for the Australian Apprenticeship Incentives Program.

Conclusions

The VET sector has suffered a decline in funding relative to other educational sectors. The problem, to paraphrase Noonan, is less that one sector is privileged over another, and more that the imbalance is a result of ad hoc policy-making, resulting in a discriminating default position (Noonan et al. 2014). The funding regimes for VET across Australia pose a number of challenges (Noonan 2016b):

- creating a more coherent and uniform system that can reconcile the needs and interests of the states and territories
- establishing consistent, yet suitably fluid, criteria for subsidies of the same qualifications across states
- funding differences across states that impact on participation and completion rates.

Lastly, notwithstanding the two major student loans schemes, there has been a significant shift of the cost burden from government onto students and businesses purchasing training.

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