

Review of the effects of funding approaches on Service Skills qualifications and delivery in Victoria

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NOTE: this report is best printed in colour

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Executive Summary

Introduction

The research presented in this report was commissioned by Service Skills Victoria and undertaken by a research team drawn from Victoria University and Federation University with quantitative research input from Tom Karmel (Karmel 2014). It examines the effects of funding changes in Victoria on the range of industries covered by Service Skills Training Packages and qualifications over the period 2008 to 2013. Broadly, the industries in the Service Skills profile cover **wholesale, retail and personal services**, including hairdressing, beauty, floristry, community pharmacy and funeral services. It also covers **tourism, travel and hospitality**, including meetings and events, accommodation, restaurants and catering, holiday parks and resorts, and finally, **sport, fitness and recreation**, including community and outdoor recreation.

Victoria was the first jurisdiction to introduce contestable funding and an entitlement scheme. The Victorian approach, implemented over the past five years, is the first and most radical of the jurisdictional approaches and has attracted much criticism. Recognising the controversial nature of the reforms, the report summarises the Victorian Government's own documentation and aspirations for the reforms, and presents some views on the reforms, including an extensive critique of contracted training by Toner (2014).

What we did

The research was based around three research questions which examined the changes in provider and enrolment numbers in the industry sectors and related qualifications covered by Service Skill's Training Packages over the time course 2009 to 2013, the effects of the changes on employers and employees and, finally, the effects of the changes on training providers, and consequential effects on students and communities.

Karmel (2014) undertook a quantitative analysis which addresses the first question, documenting changes in qualification and provider profiles preceding and throughout these funding changes and describing changes in the student and enrolment numbers, and outcomes, in Service Skill qualifications in Victoria over the period. The analysis uses NCVER data.

This main report covers findings from three invitational forums with employer bodies, private and public providers, around 30 targeted interviews with a range of industry associations, employers and a range of private and public providers covering a broad spectrum of Service Skills provision and seven submissions to the project via the web from interested individuals and organisations, including both industry and providers. The report consolidates findings from this qualitative research and Karmel's report, and draws a range of conclusions.

What we found

The retail sector is a major employer in Victoria, as is the broader hospitality and tourism industry. Both are key to sustaining and growing employment in Victoria as its economy transitions to a lesser emphasis on manufacturing and a greater one on service oriented occupations and industries. Retail and hospitality industries provide key entry and re-entry

points to employment, and provide an opportunity for disadvantaged groups to enter the workforce and gain valuable working experience. Access to subsidised training helps the many small businesses characterising Service Skills industries.

The report provides a chronological description and critique of the changing approaches to State funding arrangements, complemented by those at Commonwealth level. It details the changing funding approaches in Victoria from 2008 to 2014. The Victorian Coalition Government's Refocussing Vocational Training in Victoria (Government of Victoria 2012a) notes that the Government expected a modest increase in the expenditure level from about \$800M to about \$900M, but in the 2011-2012 financial year expenditure exceeded \$1.3 billion. In response to this crisis, new subsidy rates were introduced in the May 2012 State budget, linked to 5 bands of funding (A, B, C, D and E) for new enrolments from July 1 2012 and for all existing students from January 1st 2013 onwards, with subsequent adjustments to subsidy levels for individual qualifications.

There was little change in funding levels from the Victorian Training Guarantee's introduction in mid-2009 until mid-2012. The significant changes foreshadowed in May 2012, and then fully implemented from the beginning of 2013, was a period of rapid adjustment as subsidy levels changed, sometimes dramatically, for a range of Service Skills qualifications. Further changes to 'rules' and entitlements during 2013 and 2014 and continued changes in subsidy levels have occurred during this latter period with very short lead times.

A significant proportion of Service Skills qualifications were placed in Bands C, D and E, the three lower funding bands. Retail qualifications attract particularly low subsidy rates. Relatively few Service Skills qualifications are in Bands A and B, attracting the highest levels of funding. Further, in 2013 and 2014 quite a number of Service Skills qualifications have moved to lower funding bands including beauty; sport, fitness and recreation and tourism, travel and hospitality. While many Service Skills qualifications have retained their originally allocated band, none have moved to a higher band. The report finds that the proportion of Service Skills qualifications in Band A is very low. The great majority of Service Skills qualifications are in Bands C, D and E, and there has been a significant drop in the number of Service Skills qualifications in Bands B and C between 2013 and 2014 as qualifications have been shifted to lower Bands: D and E. Data in the report also show that the nature of the funding bands significantly disadvantage women, who form the majority of workers in most Service industries.

Growth in Service Skills student load, already relatively high in 2008, grew very rapidly and then fell significantly in 2013 (Karmel 2014). We suggest that this could be due to the relative ease with which many of the qualifications Service Skills can be offered by a wide range of providers, including those that are less than scrupulous. In the absence of other market controls, price (that is, reduction of the subsidy level) is the easiest mechanism for Government to use to restore balance to the system and avoid blow outs in enrolment numbers. However, this affects provision by legitimate and ethical providers as well as 'taking out' those behaving unscrupulously. Growth in Service Skills enrolments was higher than the overall rate of enrolment growth in Victoria from 2009 to 2011. It fell back in 2012 and crashed in 2013. In contrast, the rest of Australia has been characterised by a far greater stability in the provision of Service Skills qualifications than Victoria from 2008 to 2013.

While the level of training in Service Skills in Victoria in 2013 remained well above the level in 2008 (around one third higher) the level of funding in 2013 for Service Skills qualifications was around 70% of the funding in 2008. This raises the issue of whether Service Skills occupations are presently receiving their fair share of Victorian subsidised funding.

Industry areas: Major growth in provider numbers for Service Skills was reported between 2009 and 2010. In particular, this growth was in the fields of retail; tourism, hospitality and events; hairdressing; sport, fitness and recreation and beauty therapy. The largest number of providers was concentrated in the first two fields (retail and tourism, hospitality and events) and growth of provider numbers continued into 2011 for retail services before progressively falling back in 2012 and 2013. In tourism, hospitality and events growth in private provider numbers continued to rise into 2012 before dropping back in 2013.

Provider type: Since 2008, private providers have increased their share of student load in Service Skills qualifications in Victoria from a base of around 20% to nearly 60% in 2013. Correspondingly TAFE's share has dropped from around 75% to just under 40% over the same period. The Community Education sector's share of Service Skills load has remained small and relatively constant, although their share of load fell to its lowest level in 2013.

Qualification levels: Certificates I/II showed some growth in student load to 2012, but the 2013 level fell below that of 2008. The same is true for Diplomas/Advanced Diplomas, with a drop in 2013 to around 60% of the 2008 level. The major action was at the Certificate III/IV level, as well as in some industry sectors. Certificates III/IV showed dramatic increases in community pharmacy (but from a low base) as a result of new providers entering that market. For those areas with a substantial student load there was almost a tripling in hospitality and an almost fivefold increase in sport and recreation. Some of this growth was undone between 2012 and 2013 but nevertheless the levels in 2013 were almost double or more relative to 2008 in beauty, community pharmacy, hospitality, sport and recreation and tourism and travel. The State average across industry areas was a little under double.

'Quality' and outcomes: The research has used completion rates and a range of other NCVET student outcomes data as a proxy for quality since quality cannot be directly measured. It found that the ratio of completions to enrolments are similar to, or slightly better than, those for qualifications in other industries. This and other outcomes measures show that there is no quantitative evidence that quality has dropped. Labour market outcomes are generally positive for Service Skills, remaining stable for retail, hospitality, sport and fitness, despite the increasing levels of provision. However, beauty outcomes are low, perhaps relating to the 'industry standard' being the Diploma qualification rather than those offered at lower levels.

Findings from the forums, interviews and submissions

Effects on Service Skills training providers: These are dramatic, and are particularly related to the changes to subsidy rates announced in May 2012. The effects include:

- Entry of new and untried providers into the market post-2008, with flow on effects when some of these providers offered poor quality programs which have affected the confidence of end users and those providers offering subsequent training

- Loss of income to RTOs. This was particularly so for TAFE providers with the loss of their additional community service obligation funding
- Significantly decreased financial viability, applying to both TAFE and private providers. For example, almost all TAFEs are now in a far more precarious financial position than they were in 2009 and 2010
- Staff losses, redundancies and loss of morale
- Reduced enrolments in a range of Service Skills areas, but particularly in hospitality and tourism programs, retail and sport, fitness and recreation
- Closure of some Service Skills courses and providers, with other providers having to pick up load when this capacity has been lost (a case of 'last man standing')
- The loss or reduction of key student support services, often needed for students with a range of disabilities and learning difficulties enrolling in Service Skills qualifications
- Increased administrative burden and costs for Service Skills providers, and a significantly decreased capacity to plan and budget effectively.

Survival is now the focus for a number of Service Skills providers we interviewed rather than quality of provision.

These effects have been compounded by changes at Commonwealth level, creating a 'double whammy'. While the Victorian effects are seen as far more significant, the changes in entitlement to traineeship funding are the most significant Commonwealth changes, especially the loss of training for existing workers early in their employment careers.

Coping strategies: Most of those training providers interviewed maintain that they have done all they can to maintain the quality of delivery. However, our informants noted that they have had to do one or more of the following in their Service Skills offerings:

- Withdraw from seeking VTG/entitlement funding altogether and charge full fee for service, or use VET FEE-HELP where applicable
- Increase the student fees charged – in most cases significantly
- Adjust profile where possible to qualifications that attract better funding, and/or 'bundle' qualifications
- Increase class sizes, sometimes significantly
- Close campuses and/or mothball or refit specialist training facilities for other purposes, for example teaching kitchens and restaurants
- Reduce the expenditure on consumables and/or delay the purchase of new capital equipment
- Reduce flexibility and training options (especially those that are costly/difficult to deliver), transfer as much as learning as possible to on-line and reduce face-to-face contact time or cut the number of sites at which programs are offered if they are a multi-site provider
- Lay off staff or convert their employment from full-time to sessional or part-time. Use sub-contractors/other providers to help with delivery
- Restructure or amalgamate in an attempt to reduce administrative overheads
- Develop and implement ruthless models for assessing the viability of particular Service Skills and other qualifications whatever the local need may be.

Clearly some of the strategies that have been necessary present a risk to the quality of training delivery.

Effects on Service Skills students include:

- Fee hikes which adversely affect existing students and deter prospective students
- Loss of Service Skills training options or provision in local areas, particularly regional and outer suburban areas
- The loss of support services if Service Skills students have learning or other difficulties that affect their ability to study and complete their program
- Attaining qualifications through their entitlement that have little or no recognition in the market and little value because of their poor quality
- Confusion about the quality of providers in an expanded marketplace.

Effects on employers in the service industries include:

- The reduction of subsidies and the increased direct cost of training to the individual employer or employee. This impacts particularly on small businesses
- ‘Double whammy’ impact on traineeship employers: for example, in hospitality and retail
- Confusion over the complexity of entitlements and training arrangements, requiring extensive time to stay on top of the rapid changes to the system
- Some loss of confidence in the quality of Service Skills graduates
- A feeling that the setting of subsidy rates, particularly since May 2012, implies a Government view of low economic value and worth of some Service Skills industries.

Other general effects in VET and more broadly include:

- The loss of good Service Skills provision, including TAFE campus and RTO closures – including some private and community education providers
- The lack of suitable and worthwhile training in Service Skills for the unemployed as Service Skills occupations can be a key entry point to the labour market
- Loss of public confidence in the broader VET system and its quality.

What we conclude

Following are the major conclusions regarding the implementation of the Victorian Training Guarantee and that State’s approach to contestable VET funding.

Conclusion 1: The initial advent of the Victorian Training Guarantee and contestable funding appears to have been greeted warmly in some quarters (most notably by some private providers and representative bodies), but raised concerns in others. For Service Skills providers the bold Victorian approach initially offered the possibility of growing and diversifying their offerings. The entry of some new and untried providers presented a significant risk to quality, however.

Conclusion 2: A range of market design issues started to emerge in relation to a number of Service Skills qualifications soon after full implementation. This resulted in rapid and unsustainable growth in provider and student numbers, and levels of government expenditure. The effects on Service Skills qualifications varied with their initial student base.

Some 'niche' qualifications experienced rapid growth, for example: community pharmacy (off a low base) and fitness.

Conclusion 3: Service Skills providers of all types have found the present Victorian Government's continual corrective actions have adversely affected one or more of the following: their business viability, the viability of some of their Service Skills programs and the range of Service Skills qualifications they are able to provide, their staffing numbers and expertise and the levels of support services they are able to provide students in need.

Conclusion 4: Price seems to be a 'blunt instrument' of control in that it imposes a simple and uniform market solution on a Service Skills training market that is anything but that. A more sophisticated market design is desirable. While constantly changing the subsidy rates is a fast acting corrective measure to reduce expenditure, it ultimately damages the sustainability of the system in the longer term and introduces considerable uncertainty in the market.

Conclusion 5: Service Skills providers of all types report their ability to plan and budget effectively has been seriously compromised by continual and rapid changes to subsidy rates. These adverse effects have been compounded by funding changes at the Commonwealth level, particularly in relation to eligibility for traineeship support for existing workers.

Conclusion 6: Service Skills providers maintain that they face a considerably increased administrative burden as a result of continual changes currently occurring in Victoria. More notice of proposed changes is also required to assist effective planning and budgeting.

Conclusion 7: The Service Skills training market, training needs and skills shortages are not uniform across Victoria. The market for individual VET qualifications does not behave uniformly across the state but, rather, is affected by local work opportunities and skill shortages. The current model does not recognise this, for example in regional areas.

Conclusion 8: Service Skills providers believe they are doing all they can to maintain the quality of their offerings but, in order to maintain viability, quality of delivery and student support have both been compromised in a range of ways.

Conclusion 9: Significant increases in the fees charged for some Service Skills qualifications have been necessary to maintain their viability. This has affected those students already studying or perhaps an unknown number of those wishing to enrol.

Conclusion 10: Some Service Skills occupations and qualifications seem to have been harshly, and unfairly, treated given their importance to overall Victorian as well as local and regional economies. Major industries such as retail and hospitality have been particularly affected despite their importance in the economy and their role in absorbing new labour market entrants.

Conclusion 11: An urgent rethink of the Victorian VET funding model is needed if the system is not to collapse, and if the confidence of both the Service Skills industries and training providers in the Service Skills market are to be restored. One possibility is for the Victorian Government to look hard at the approaches other jurisdictions are adopting in their introduction of contestability and entitlement arrangements.

Introduction

Service Skills profile covers a wide range of industry sectors, including:

- **Wholesale, Retail and Personal Services.** This sector includes retail and wholesale, hairdressing, beauty, floristry, community pharmacy and funeral services
- **Tourism, Travel and Hospitality,** including travel, tours, meetings and events, accommodation, restaurants and catering, holiday parks and resorts, and
- **Sport, Fitness and Recreation,** including sport, fitness, community recreation and outdoor recreation.

This study examines the effects of funding changes in Victoria on the range of industries covered by Service Skills Training Packages and qualifications. The project also gathers, documents and reports stakeholders' views about the effects that the changes to the funding approach and levels have had on both the level and nature of training in particular industry sectors and the number and range of VET providers offering Service Skills programs in that state. It has done this by:

- Conducting a series of three invitational forums
- Undertaking a series of targeted interviews with key stakeholders, and
- Inviting submissions to the project from interested individuals and organisations, including both industry and providers.

It also draws in a limited way upon submissions made to enquiries into TAFE at the national level by both the House of Representatives and Senate. The *raison d'être* for such a focus is that a number of Victorian public providers have made submissions to these enquiries, as have private providers and Service Skills Australia.

This report is one of two arising from this project and focuses on the views of stakeholders. A second complementary report from the project, authored by Dr. Tom Karmel (Karmel 2014), analyses and documents changes in qualification and provider profiles preceding and throughout these funding changes and describes changes in the student and enrolment numbers in Service Skills qualifications in Victoria over the period from 2008 to 2013. He makes use of NCVER's students and courses data and student outcomes survey plus data from their apprentice and traineeship and financial collections. This second report also describes any changes in student and qualification outcomes over the time course.

Overall, the two reports focus on three key research questions:

1. What are the changes in provider and enrolment numbers in the industry sectors and related qualifications covered by Service Skill's Training Packages over the time course 2009 to 2013?
2. What have been the effects of the changes on employers and employees?
3. What have been the effects of the changes on training providers, and consequential effects on students and communities?

Karmel's report addresses question 1 while the present report summarises his findings and addresses questions 2 and 3.

Our report first reviews some of the issues arising from literature on different methods of funding VET, particularly those arising from Victoria's adoption of approaches to implementing a scheme of student entitlement and contracting out the provision of training. Next the report outlines the Service Skills occupational profile and summarises trends in workforce size and needs both in Victoria and nationally. The report then moves to provide a context for the move to entitlement funding and the Victorian Training Guarantee - or VTG - drawing principally on a range of papers released by the Victorian Government outlining the vision for the guarantee and tracking its evolution from 2008 to the present. Next it summarises the major changes that have occurred in the funding arrangements over this same time course.

Reflecting on the funding approach and levels at both State and Commonwealth levels, the report then provides a brief outline of its methodology and summarises the information gathered from several focus groups and 30 targeted interviews drawn from industry, training providers and other relevant informants across the Service Skills profile. These are supported by a summary of the seven on-line submissions received by the project team. Finally, the report addresses each of the three research questions and draws a range of conclusions about the implications and impacts of the move to entitlement-based funding for a variety of groups, including industry sectors, providers and students, especially following the changes to funding approaches and levels introduced on 1 July 2012 and continually amended since.

VET funding approaches and entitlement: Some issues from the literature

Funding for VET in Australia is primarily distributed by the State and Territory governments through agreements with the Commonwealth. Until relatively recently, public VET funding was confined primarily to TAFE. Over the past 20 years the 'training market' has continuously evolved, from the early days of 'user choice' funding for apprenticeships and traineeships, and distribution of Commonwealth 'growth funds', to the current situation where a larger number of providers can access significant levels of funding in most jurisdictions on an equal basis with publicly-owned providers: that is, what is known as 'contestability'.

Over this period there has been much critique of the opening of the training market from a variety of perspectives, for example Shreeve (1995) and Ryan (1996), and including potentially negative effects on regional and remote areas with 'thin markets' (Noble, Hill, Smith & Smith, 2000). In the latter case it might be argued that breadth of qualification and program choice is more important than having a wider choice of providers.

One Australian author in particular, Toner (2014), has recently critically examined the issue of contracting out and funding vocational education and training. This 'contracting out' process represents the separation of the government as a purchaser of vocational education and training from the providers of that training – whether publicly-owned or private. In such a scenario vocational education is essentially seen as a 'product' and is subject to the market forces of supply and demand. However balancing these market forces is challenging in terms of designing an efficient and effective VET market which takes account of the take up and

use of training both by individuals and industry so that it represents the maximum value for money for the government's subsidy spend.

In summary, some of the issues Toner (2014) highlights are these:

- The difficulty of establishing objective measures of inputs, outputs and quality to advise contracting processes by Government, those using their entitlements and making purchasing decisions and, finally, those charged with assessing and regulating contract compliance
- Controlling market entry by prospective providers to ensure that those qualifications which require more minimal investment in human and physical assets, or which yield a high return for minimal investment, are not exploited and over-delivered (that is, 'rorted')
- Allowing only those providers that place an appropriate emphasis on serving the needs of their students, industry and the public good, rather than act solely in their own interests to enter the market
- That students will be rational consumers and will use their entitlement wisely, and not be unduly influenced through inappropriate inducements to undertake a particular qualification. It also assumes the entitlement is valued and its use is based on readily available information which effectively guides their choice, and finally
- That the principal client in the purchasing decision is clear as there are potential conflicts between the perceived interests of Government (as a contributor subsidising training), industry and the student as purchaser/contributor and entitlement user.

The Victorian funding approaches of the past five years, as the first and most radical of the jurisdictional approaches, have already given rise to some critical literature. Buchanan (2012), for example, writing before the Victorian May 2012 Budget announcement, criticises the rapid expansion of the training market, primarily on the grounds of the growth in the numbers of what he sees as poor quality private providers. Hetherington and Rust (2014) refer to the 'unexpected and damaging consequences' of contestability, noting that a 'bubble' of public spending is common in other sectors of the economy where public funds have been made available to new and untried service providers.

Submissions to inquiries have provided insights into the effects of the Victorian approaches and most particularly the post-2012 events. For example, the Master Grocers Australia and Liquor Retailers Australia (2013) point out that the Victorian reduction in funding for retail training means that training is not in line with the labour market requirements for sales assistants and checkout operators; and the Victorian TAFE Association (2013) argues for the special contribution of TAFE in the VET system and provides examples of press reports of the specific effects of the 2012 funding changes on regional areas. The article they cite (Age newspaper 2012) sought to demonstrate funding changes have not only affected the TAFE providers concerned but also impacted more broadly on regional communities and local businesses.

While there has been no formal published literature about the effects of the funding changes on Adult and Community Education (ACE), press reports are available. The Australian (Ross, 2014) reports that that the number of ACE colleges providing VET fell from

340 to 280 from 2008 to date, and that drastic cuts to some Service Skills training funding was having particular effects on unemployed and other disadvantaged people; for example, training cafes for people with intellectual disabilities had been forced to close. The report cites the President of Adult Learning Australia (ALA) stating that the funding changes had particularly affected women as two-thirds of ACE students were female.

The Service Skills occupational profile and workforce needs

This section draws primarily on the most recent Environmental Scans prepared by Service Skills Australia as well as the industry snapshots prepared by the Australian Workforce Productivity Agency (AWPA) and Victoria's Department of Education and Early Childhood Development (DEECD 2013). A range of Service Skills qualifications are dominated by private provision (see Karmel 2014). DEECD (2013) data suggest that private provision accounted for around 70% of enrolments for retail trade and 53% of those in accommodation and food services. Private providers also delivered the majority of training linked to fitness instructors, sports development officers and outdoor recreation guides and private and Adult and Community Education (ACE) provision dominates hair and beauty qualifications.

The key AWPA-designated occupational areas covered include:

- **Retail trade**, incorporating retail, floristry and community pharmacy. Both these latter have relatively small VET enrolments, however.
- **Accommodation and food services**, incorporating tourism, travel, cookery and hospitality
- **Arts and recreation services**, including arts, fitness, outdoor and community recreation, and
- **Other services**, including - amongst other things - beauty services and hairdressers.

Retail trade

Retail is one of Australia's largest industries, following community services and health, and accounting for around 10.5% of the total Australian workforce. DEECD (2013) note that retail trade is the second largest industry employer in Victoria and provided \$15.5 billion to Victoria's output in 2011-12, about 5% of the total, with growth forecasted at 11%. It is the third highest industry in terms of job creation (DEECD 2013). It is dominated by younger people, over half is female and nearly half are part-time, but DEECD indicated that a growing demographic in retail trade enrolments is the 45-64 year old cohort. Retail serves as an entry point to the labour market for school leavers, students and part-time workers, but the increase in training take up by an older age cohort suggests it may be playing a role in labour market re-entry or occupational shifts. The largest occupational group are sales assistants, but there are other significant groups, including retail managers and supervisors, sales support workers and pharmacy sales assistants (AWPA 2013b).

Customers are demanding improved service from retailers, suggesting the need for a skilled, knowledgeable and customer focused workforce (Service Skills Australia 2014). DEECD (2013) note that skills deepening is required to enable retailers to offer a richer and more sophisticated sales experience, and higher qualifications are required to help enable retail businesses to compete with new international market entrants and the growth in on-line retail. Pharmacy and dispensary assistants play a significant role in their retail sector and the skills and knowledge they have need to match their changing work roles, in particular

around the delivery of primary health care and advice and promoting public health (Service Skills Australia 2014). AWPA's projections to 2025 suggest the proportion of sales workers without a post-school qualification is expected to decrease dramatically (AWPA 2013). However, in addition to the formal education and training courses, there is also a significant amount of unaccredited training occurring in the industry (AWPA 2014).

In its recent study of the retail workforce AWPA (2014) points out that the Victorian Training Guarantee had a significant effect on the qualifications undertaken in the sector, particularly a dramatic increase in the numbers undertaking the Certificate III. Finally, AWPA (2014) reported Service Skills Australia's concerns that the reduction in funding will affect productivity in the industry and places an extra burden on small or micro businesses attempting to upskill and qualify their staff. It may also affect the potential for career opportunities and progression. Finally AWPA (2014) notes the difficulties faced by national employers due to inconsistent approaches across Australia to funding models and approaches.

Accommodation and food services

The accommodation and food services sector employs around seven percent of the workforce, and its employment growth has exceeded the national average (AWPA 2013). In Victoria it provided \$9.3 billion to Victoria's output in 2011-2012, about 3% of the total (DEECD 2013). Employers are generally small (DEECD 2013). Like retail, its workforce is primarily female and has a high proportion of part-time workers. It, too, has a young age profile. The majority of its workforce do not hold post-school qualifications and, again like retail, it is an entry point to the labour market for school leavers, students and part-time workers. VTG subsidised enrolments were above average in the 2011 -2012 period. The occupations with the largest growth in enrolments were waiters.

Employment growth in this sector has been relatively high in the last five years, especially in the food and beverage services sub-sector (AWPA 2013). Service Skills point out that:

Exceptional recent and forecast growth in many of the tourism, travel and hospitality sectors paints a bright future, with subsequent strong demand for skilled labour... Cafes and restaurants continued to be buoyed by the societal changes in busy lifestyles and the burgeoning 'foodie culture'. (Service Skills 2014 p.10)

Its largest occupations include waiters, kitchen hands, bar attendants and baristas, and is one of the largest expected growth in employment of all sectors of the Australian economy (Service Skills 2014). Food and beverages services are, thus, the sector's largest occupational area. Employment growth for chefs and cooks has been relatively low. However, under AWPA's scenarios key occupations for growth above the national average to 2025 include chefs, café and restaurant managers, waiters, bar attendants and baristas. This is largely driven by replacement requirements. On the other hand, café and restaurant managers, chefs and cooks are expected to have job openings driven by growth rather than replacement demand (AWPA 2013). Victoria also notes skill shortages in pastry cooks (DEECD 2013).

Arts and recreation services

Arts and recreation services accounts for just under two percent of the total Australian workforce, and nearly half of its workforce is employed part time. It is also highly dependent on volunteer labour, and this affects staff retention and skills acquisition (DEECD 2013). Only

a proportion of this industry is covered by Service Skills. The sector's employment is very wide ranging, but amongst its larger occupational areas are sport and recreation (which is covered by Service Skills nationally), which includes sports coaches, instructors and officials, followed by sportspersons and fitness instructors, with high levels of growth in most of these areas in recent years (AWPA 2013) aligned to an a greater focus on preventative health in Australia (DEECD 2013). This growth is expected to continue with AWPA (2013) forecasting strong growth in all the listed occupations to 2025 with all - except for sportspersons - having a job opening rate above the national average and mainly arising from new growth rather than replacement. This is particularly the case for fitness instructors. Fitness Australia (2012) notes that aerobics, fitness and gym activities are now the second most popular form of exercise (next to running) while participation in team sports is falling; and that there are over 2,250 fitness businesses in Australia, ranging from small enterprises to large national chains. As an industry with high labour turnover, fitness requires constant influx of new staff, with a prediction of an overall shortfall of fitness instructors by 2020 (Deloitte Access Economics, 2012).

DEECD (2013) reported a strong increase in fitness trainer training in Victoria between 2010 and 2011. This growth slowed significantly in 2012.

Other services

'Other services' covers a range of occupational areas, but those of most relevance to the Service Skills profile are 'personal and related services', including hairdressing, beauty services and funeral, crematorium and cemetery services. It is on the first two rather than the latter and related group of occupations that this present report focuses as the latter has very low enrolment numbers and limited delivery nationally.

The 'Other services' sector employs around four percent of the Australian workforce, the great majority of whom are employed in small or medium enterprises, and the sector is benefitting from the move towards services rather than goods consumption in the Australian economy as a whole (Service Skills Australia, 2104). Hairdressers are the largest occupational group, and beauty therapists have grown relatively rapidly over the last five years (Service Skills Australia, 2014). In the longer term, while hairdressing job openings will grow, beauty therapy will show slightly higher average annual occupational growth, although off a lower employment base (AWPA, 2013). While a majority of job openings to 2025 are expected to be through replacement in hairdressing the majority of employment growth for beauty therapists will be through new job openings (AWPA 2013). The workforce is predominantly female and the sector is generally well qualified, particularly at the Certificate III-IV level (AWPA 2013).

Key message: The retail sector is a large employer in Victoria, as is the broader hospitality and tourism industry. Both are key to sustaining and growing employment in Victoria as its economy transitions to a lesser emphasis on manufacturing and a greater one on service oriented occupations and industries. National consistency in approaches to training and funding are important to large national employers. In addition, access to training also helps the many small businesses that characterise Service Skills.

Both the retail and hospitality industries provide key entry and re-entry points to employment, and provide an opportunity for some disadvantaged groups to enter the workforce and gain valuable work experience.

The context and policy environment

This section provides detail about the funding approaches in Victoria from 2008 to 2014.

Introducing the Victorian Training Guarantee

Victoria was the first state to implement an entitlement funding approach for its VET sector – the Victorian Training Guarantee (Government of Victoria 2008). As the Victorian Government (2008b, p. 15) pointed out:

The Victorian Training Guarantee is an entitlement to a government subsidised place in recognised training that can be accessed at any time and it will continue to be available for training at successively higher levels. While a person keeps moving up the qualification scale, the Victorian Training Guarantee will continue to subsidise their training.

Its objective was to make the sector more responsive to current and future skill needs. In the government's own words they proposed reforms to the Victorian VET system based on the following four objectives:

- *Boosting numbers of individuals and businesses accessing training, which will increase the skills of Victoria's workforce*
- *Developing a VET system that engages more effectively with individuals and businesses and is easier to navigate*
- *Ensuring the system is more responsive and flexible to the changing skills needs of businesses and individuals, and*
- *Creating a stronger culture of lifelong learning.* (Government of Victoria 2008a, p. 6)

Again, using their own words, these objectives would be achieved by a range of key changes to Victorian VET, including:

- *Increasing access for eligible Victorians to a government supported training place and increasing investment from those who benefit most from training: government; businesses; and individuals*
- *Strengthening the capacity of our TAFE and Adult, Community and Further Education (ACFE) sectors*
- *Improving choice and contestability by enabling individuals and businesses to access government supported training at a broader range of public, private and community providers, and*
- *Improving information to make it easier for individuals and businesses to understand and use the training system.* (Government of Victoria 2008a, p. 6)

Leung et al. (2014, p. 9) define the key feature of this approach, entitlement and a training guarantee, and how the move to it fundamentally changed the system of funding allocation previously used. This form of funding:

... is an entitlement to a publicly funded place in vocational education and training; the training guarantee also gives students the freedom to undertake the course of their choice with the public or private provider of their choice. Prior to the training guarantee, the provision of vocational education and training in Victoria, as in other states, was

primarily supply-driven, in the sense that public funding was allocated directly to providers in the form of a block grant, based in part on historical enrolments and skill forecasts. In practice this meant a cap on the overall number of publicly funded places, with the allocation of places across students determined by providers, which was often on a first-come first-served basis.

It is important to note that, under the Council of Australian Governments (COAG) National Partnership Agreement on Skills Reform in April 2012, all States and Territories in Australia have agreed to implement reforms to the VET sector aimed at making the sector more responsive to skill needs. To date Victoria has proceeded earlier, further and faster down this path than most other States and Territories.

The Victorian Government (Victorian Government 2008b, p. 11) announced a series of initiatives under the *Skills for life – the Victorian Training Guarantee*, totaling \$316M over 4 years. This funding aimed to provide an additional 172,000 places over 4 years¹ as well as having more responsive and capable providers, a system which was more user focused and providing clear and easy to find information for individuals, businesses and employers about the skills system – the Qualifications Navigator maintained by the Victorian Registration and Qualifications Authority (VRQA)².

Thus, the program focused not only on the acquisition of foundation skills but also training leading to skills creation, building and deepening with a progression from lower to higher qualifications. However, a limited number of places were to be made available on a case-by-case basis to individuals over 20 years of age to access qualifications at the same or a lower level than those they already held. These were reserved for training in critical skill shortage areas or where they were significantly disadvantaged in the labour market (Government of Victoria 2008b).

While the initiative aimed at providing access to a wider range of providers with training delivery focused both on being responsive to demand and delivered on a more competitive basis, the Victorian Government also made clear its intention to ensure that quality remained a focus and standards were not to be compromised. Thus training providers would be required to meet certain conditions to be able to access the government subsidised funding. Amongst the range of nominated criteria were that they be “providers of quality training, as demonstrated through a satisfactory registration audit record and through mandatory publication of all audit reports” and that “Providers will be subject to an enhanced training audit regime during implementation, with the engagement of industry regulatory authorities in monitoring the quality of outcomes, where appropriate.” (Victorian Government 2008b, p. 23). This meant that the VRQA and the quality of its processes were

¹ This target suggests a 45% increase in enrolments over 2008 levels was sought. In fact, in 2012 there had been around a 75% increase in enrolments over 2008 levels. If the basis of places was student numbers a 58% increase was sought, while a 73% growth was achieved. See table 1 below for the detailed data.

² Note that this site was decommissioned in 2011. However such information is available at the Victorian Skills Gateway site.

pivotal to the maintenance of quality and standards. However, the VRQA was itself the subject of an audit by the Victorian Auditor General. In its report, tabled in Parliament on 7 October 2010, the Auditor-General concluded (Victorian Auditor General 2010, p. vii):

VRQA cannot reliably assure that it has effectively regulated VET providers.

Moreover, it found that:

- A risk-based approach to auditing providers has yet to be fully introduced
- There may be issues in the review of new providers' high risk rating at their follow up audit after 12 months of operation, and
- A risk-based audit approach for existing providers applying to teach more courses, and for those seeking re-registration, was not introduced until August 2009 and May 2010, respectively. The Auditor General signaled that there was likely to be a long lead time before all existing providers are assessed and assigned an appropriate risk rating (see Auditor-General 2010, p. viii).

The establishment of the Australian Skills Quality Authority (ASQA) reduced the VRQA's role to regulating those providers that operated in the domestic market and solely in Victoria. For other providers, the Victorian Government's quality assurance role became dependent on a de facto regulatory system based on its contracts with individual providers for the delivery of training services.

Key message: Compliance with contractual obligations could involve additional quality assurance processes imposed on Victorian government funded providers as part of the State's contract management process to ensure that Government was getting what it paid for and to the expected level of quality. This could be seen as quite a complicated way of assuring quality. Equally, such contract compliance issues, and the provision of required data, might reasonably be considered to involve an increased administrative burden on providers above and beyond that required by the VRQA and ASQA.

Finally, the *Securing Jobs for Your Future – Skills for Victoria* initiative aimed to provide access to those living in regional Victoria to, amongst other things:

- regional training providers with excellent facilities and infrastructure
- increased choice of training provision within local communities, and
- better jobs as a result of improved training opportunities. (Government of Victoria 2008b, p.28)

Changes under the Coalition government

In November 2010 the Baillieu government came to power after 11 years of Labor rule in Victoria. Thus, the government inherited the changes to the VET system instituted by the Brumby-led Labor government and described in the two key papers cited above (Government of Victoria 2008a and b). In 2012, the Government released a paper entitled *Refocussing Vocational Training in Victoria* (Government of Victoria 2012a). In the Foreword (Government of Victoria 2012a, p. 2), the then Minister for Higher Education and Skills stated that the rapid growth in government-subsidised vocational training, while mostly in

areas of need, had in some areas exceeded the needs of business and the economy. A small number of providers were also deemed to have engaged in unscrupulous training practices.

This paper also noted that before the introduction of entitlement funding the Victorian government spent about \$800M on training subsidies per annum. The introduction of entitlement funding was expected to result in a modest increase in these expenditure levels to about \$900M each year, but in the 2011-2012 financial year expenditure exceeded \$1.3 billion - an increase of around 45%. In addition, there was strong evidence of market distortion as some qualifications, including a number of those in Service Skills portfolio, showed considerable growth in levels of provision over a very short period of time. Likewise both provider numbers accessing the government subsidised VET market and enrolments grew rapidly between 2008 and 2011, growing by 33% and 44 % respectively (Government of Victoria 2012a). It reached what the Government described as “unsustainable levels” and “lacking focus” in some cases such that there was excessive training in some industry sectors as well as in areas deemed to be of lower vocational benefit. At the same time, some industries still reported “persistent skill shortages and a lack of take up of training places” (Government of Victoria 2012a, p. 4). The Victorian government’s stated aim was to have a sustainable and high quality VET system aimed specifically at areas of the greatest industry and public benefit, including those from a range of equity groups and especially those lacking foundational skills such as language, literacy and numeracy.

Despite the significant growth in the number of private providers entering the Victorian VET market, TAFE was still seen as a fundamental part of the sector. As the Government’s 2012 paper pointed out TAFE delivers “the lion’s share of training in the trades, specialised occupations and skills shortage areas” (Government of Victoria 2012a, p. 7). At the same time changes to TAFE governance arrangements were foreshadowed, and industrial arrangements changed to one which enabled individual enterprise agreements to be negotiated rather than through a single multi-enterprise certified agreement for TAFE’s teachers which did not necessarily meet particular TAFE institution’s local circumstances and needs. However, TAFE delivery was now funded at the same training subsidy rates as private providers, rather than attracting a differential, and higher, rate of subsidy funding, especially for qualifications at Certificate IV or below.

A Market Monitoring Unit (MMU) was established within the Department of Education and Early Childhood Development (DEECD), which included access to a “Rapid Response Team”, to watch for cases of uncompetitive pricing and ensure that providers disclosed their prices up-front. This unit also looked for spikes in particular qualifications to detect how numbers in particular qualifications might be growing and also how providers might be shifting provision from those attracting lower to those of higher subsidy rates. The Victorian Government’s 2012 paper also noted concerns over quality and value for money. The Government proposed to address this through stronger consumer protection measures, access to better information to support more informed consumer choice - for example through the introduction of a one-stop-shop website to allow access to standardised consumer information - and tighter contracting standards for training providers that were

government-subsidised. Finally, they proposed a voluntary provider code of conduct to be developed in partnership with training providers and business³ (Government of Victoria 2012, p. 8). In addition, the Victorian Government has published a compliance framework for the VTG (Government of Victoria 2012b). This sets standards for entry to the market, meeting contractual terms and conditions, and provides information about how behaviour and compliance to the service agreement is monitored, investigated and audited. Most recently the Government has published a statement of expectations covering the principles and obligations for contracted training providers in Victoria (Government of Victoria 2013a) based on 4 principles. These principles are:

1. Commitment to serving the public interest
2. Responsiveness to the Government and the needs of the community
3. Accountability and transparency, and
4. Integrity and fairness.

A neat summary of the changes is provided in the report of the TAFE Reform Panel (2013):

The system has evolved from a publicly funded, TAFE-centred, contract funded model; first to a government planned, purchaser-provider model; and finally to a more student-centred, demand-driven system. These changes have seen the emergence of a relatively deep vocational training market where both government-owned TAFE providers and private providers openly compete. (Government of Victoria 2013b, p. v)

In addition the Panel notes:

The thrust of the vocational training policy reforms is the use and reliance on market levers – principally price, information and supply contestability, as opposed to the institutional lever of TAFE institutes – to drive the demand and supply of training. (Government of Victoria 2013b, p. v)

Key message: This report argues that:

- principle 2 above shows a shift away from the individual student as a focus
- the principal market lever has been price (that is, the subsidy level offered)
- supply and information contestability may have issues as market levers.

The next section outlines the changes that have occurred in the way VET qualifications are funded in Victoria.

³ We are not aware that such a code of conduct has been developed, although the compliance framework (Government of Victoria 2012b) and the statement of expectations (Government of Victoria 2013a) may serve this purpose.

The principal funding changes in Victoria

We now move to a detailed description of the funding approaches and how these changed with the introduction of the Victorian Training Guarantee in 2008, its full implementation in 2011 and the major changes in funding approach and levels foreshadowed in May 2012 and fully implemented from 1 January 2013. The principal funding approaches and changes are summarised below.

Prior to 1 July 2009

The Government negotiated an annual training plan with each provider receiving government funding. Annual Performance Agreements were signed between Victorian Learning and Employment Skills Commission (VLESC) and the Board of each TAFE institute or University TAFE Division. A limited number of private providers received funding contracts from the government prior to mid-2009.

After 1 July 2009 to early 2012

There was a transition to fully contestable funding for VET in Victoria from 1 July 2009. Full implementation occurred on 1 January 2011. Contestable funding was introduced for new eligible enrolments at Diploma level. VET FEE-HELP was available to Government subsidised enrolments in these courses. Grandfathering arrangements were in place for existing enrolments in nationally registered qualifications. Differential subsidy rates existed between public (TAFE/Dual Sector University) providers and private providers and for different levels of award type. TAFE's rates were generally higher than for private providers. In addition a weighting was applied which related to the industry sector classification. In summary:

- **Foundation level qualifications** attracted the highest base funding rate per hour, and required the lowest average student contribution. The rates were \$9.75 per hour for TAFE and about \$8.00 for non-TAFE RTOs
- **Skills Creation qualifications** (Certificates I and II), **Apprenticeships and Traineeships** (various levels) and **Skills Building qualifications** (Certificates III and IV) attracted generally similar rates, but these decreased slightly over time ranging from a high of about \$9.50 per hour for TAFEs in 2009 down to around \$9.00 in 2011. For non-TAFE RTOs the rates remained constant at \$7.70 per hour
- **Skills Deepening qualifications** (Diploma and Advanced Diploma) attracted the lowest subsidy rates and required the highest level of average student contribution in recognition both of available funding through VET FEE-HELP and the level of personal return to the individual. The rates for TAFEs varied from a high of around \$8.00 per hour in 2009 down to about \$7.00 in 2011 (and \$6.50 at the start of 2012). The rates for non-TAFE RTOs varied between a high of \$7.70 in 2009 down to around \$7.00 in 2011. From January 2010 both TAFE and private providers received the same base funding per hour for Skills Deepening qualifications.

In addition, multiplier factors applied to these base funding rates reducing or enhancing them based on their industry sector⁴. For example Engineering and Plumbing Services attracted the highest weighting (1.3), while the lowest included Business and Clerical and Retail and Wholesale (0.8). Other Service Skills sectors generally attracted a weighting between 1.0 and 1.2. These multiplier factors remained largely constant, but were changed for enrolments that commenced on or after January 2012.

There were, we suggest, relatively modest changes to funding levels for each award type between 2009 and the end of 2011. It might also be argued that subsidy levels and their multipliers were a known factor and did not change in any really significant way from the progressive but rapid introduction of entitlement funding in mid-2009 until mid-2012. However, very significant changes to subsidy rates were foreshadowed in May 2012 and became effective on 1 July 2012. As a result some providers attempted to enrol as many new students as possible to take advantage of the old 2012 rates which would then cease to apply from July 1 2012 for new enrolments and January 1 2013 for all enrolments.

In February 2012, changes to eligibility criteria for the 'Two course rule' were announced. This change affected individuals (with exceptions for apprentices) commencing multiple courses in a single year and undertaking multiple courses concurrently. As of 8 February 2012, individuals accessing training under the VTG were eligible to:

- commence a maximum of two government subsidised courses in 2012, and
- undertake training in no more than two government subsidised courses at any one time.

Courses undertaken in the Foundation Skills Category did not count towards these limits.

After 1 July 2012

New subsidy rates were introduced in the May 2012 State budget, linked to 5 bands of funding (A, B, C, D and E) for new enrolments from July 1 2012 (and for existing students from January 1st 2013). The highest rate, Band A, was in excess of \$10/hour; the lowest, Band E, was under \$2/hour. Table 1 sets out the bands and funding levels per hour of training delivery. The word 'subsidy' was used instead of 'funding' and has continued to be used since that time. The highest subsidy rates were for two foundation skills courses, at \$14 an hour, with the next highest being \$12.50 an hour (for example, locksmithing, avionics). Courses were funded at a slightly higher level where they were delivered as part of apprenticeships compared with institutional delivery.

⁴ There was also a weighting that related to student cohort which mainly related to being of Aboriginal or Torres Strait Islander descent, or being between 15 and 19 years of age at commencement without holding year 12 or its equivalent (deemed for this purpose a Certificate II)

Table 1: Range of subsidies paid grouped by band and based on subsidy levels, May 2012⁵

Subsidy band	Subsidy range per hour of training delivery
Band A	> \$10
Band B	\$7.50 - \$10
Band C	\$5 - \$7
Band D	\$2 – \$4.50
Band E	< \$2

How were subsidy rates determined? The introduction to the course subsidy list stated that lower rates were paid to lower-level certificates ‘where direct vocational benefit is lower’ and referred to the term ‘public value’. Public value, according to the document, was determined ‘on the basis of the value of the course to the economy (in terms of ‘jobs or productivity’) and also on the perception as to whether government investment was necessary to encourage delivery.

‘Overall, the highest subsidy levels have been provided to courses where contribution to the economy is assessed as high, and where government subsidy is seen as essential in enabling delivery and participation in training.’ (Government of Victoria, 2012a)

As well as this change, there was now no differential in funding level between public and private providers for new enrolments. The full-service provider payment for TAFE was also withdrawn. In addition there were changes to the subsidy rates for Recognition of Prior Learning (RPL). The Market Monitoring Unit was charged with monitoring the impact of the revised subsidy levels on course provision and pricing with a view to undertaking a more comprehensive review of subsidy levels within two years.

2013

Implementation of new subsidy rates (that is, those announced in May 2012 and outlined in Table 1 above) applied across all enrolments from January 1 2013.

From August 2013 Foundation Course enrolments were now counted in the ‘two course’ rule. In addition, from November 2013, school students were no longer eligible for the Victorian Training Guarantee. This was to address situations where school students were undertaking VET qualifications outside school hours, for example through sporting clubs. In addition in this same month there were further reductions to subsidy rates (primarily a reduction in subsidies for foundation courses), changes to RPL subsidy rates and changes to the regional loading, increasing it from 5% to 10%. Finally, changes were made to the

⁵ As reported in *Refocusing vocational training – government subsidies*, see <http://www.education.vic.gov.au/Documents/about/department/vetsubsidies.pdf>

notification period to vary subsidy rates from 20 days to 10 days, effective from 1 January 2014.

2014

New rates were published, and individual qualification changes continue to be released periodically. All changes occur with very little notice, for immediate implementation. In addition to changes to subsidy rates, a specified maximum nominal hours figure that the government subsidy would cover was also introduced in 2014. However, until 2014 data are available in 2015 it will be impossible to assess the quantitative effect these further changes will have on Service Skills training provision in Victoria.

Key message: There was little change in funding levels from the VTG's introduction in mid-2009 until mid-2012.

The significant changes foreshadowed in May 2012 and then fully implemented from the beginning of 2013 as a period of rapid adjustment as subsidy levels changed, sometimes dramatically, for a range of Service Skills qualifications. Dependent on profile, this could have a significant effect on qualification and even provider viability. It required very nimble adjustment to practices, profile, levels of fees and staffing. These effects have been particularly apparent in 2013 and 2014, and further complicated by further changes to 'rules' and entitlements to help contain Government expenditure. Changes in subsidy levels have continued during this later period, again with very short lead times.

Finally, the basis upon which subsidy levels are set cannot be regarded as particularly transparent.



Research method

The qualitative information reported here is supplemented by data and other information provided in Karmel's associated research report (Karmel 2014). There were three major qualitative components to the project: forums, interviews and submissions⁶.

The forums

The aim of the forums was to gather a small but carefully selected group of informants to ensure that the researchers were aware of the range of issues, both positive and negative, confronting the Victorian VET sector as a result of the introduction of entitlement funding and changes in funding rates by both the Commonwealth and Victorian governments from 2008 to 2013. The groups were intended to inform the development of the research project as well as to provide substantive data for analysis.

Three groups were identified:

1. Industry associations (all of those that attended were also training providers)
2. Large providers, that is: public TAFEs, and
3. Private providers.

Participant numbers, types and their Service Skills coverage are shown in Table 2.

Table 2 Organisations represented at the forums

Organisation types	No of organisations	No of informants	Service Skills coverage
Forum 1			
Industry Associations/RTOs	3	4	Retail, including community pharmacy
Forum 2			
Large Public RTOs	2	2	Tourism, hospitality, sport and recreation, retail and floristry
RTO peak body	1	1	General interest
Forum 3			
Private RTOs	4	5	Hospitality, retail, tourism, fitness and hairdressing

Note: Two TAFE CEOs wished to participate but they were unable to attend, so they were interviewed individually by phone; they are included in the list of interviewees below.

⁶ Human research ethics approval was gained from Victoria University.

The interviews

Around thirty telephone and face-to-face interviews were undertaken with individuals and small groups, representing training providers, industry associations, employers and other stakeholders. Details of the numbers and types of organisations interviewed (n=27), numbers participating in the interviews (n=35) and their Service Skills coverage are provided in Table 3. A list of potential interviewees was provided by Service Skills Victoria, and the researchers also used their own contacts to access appropriate people. Interviews lasted between 20 minutes and an hour and were taped and transcribed, with permission.

Table 3: Organisations represented in individual Interviews⁷

Organisation types	Number of organisations	Number of individuals	Service Skills coverage
Community provider/Organisation	1	1	Hospitality
Employer	1	1	Hospitality
Industry Association	6	6	Hairdressing and beauty, fitness sport and recreation, retail (including community pharmacy) and tourism
Peak RTO body	3	3	General interest
RTO development	1	1	General interest
Enterprise RTO	1	1	Retail
Private RTO	8	10	Hairdressing, beauty, floristry, retail, hospitality, fitness sport and recreation
Public RTO	6	12	Hairdressing, beauty, cookery, hospitality, tourism, patisserie, retail, sport, fitness and recreation, floristry
Total	27	35	Across significant component of Service Skills provision

The submissions

On-line submissions were invited from interested stakeholders. Submissions were made using Survey Monkey software, and respondents could select from three different submission proformas depending on the nature of their organisation. They were also invited to submit additional relevant documentation, although none in fact did so.

⁷ Note: some organisations involved multiple interviews or multiple informants in a single interview. In addition, a small number of those interviewed had also attended a forum

An email of invitation was circulated widely but responses were low (see Table 4). Some respondents identified themselves and others did not.

Table 4: Submission responses, by type of respondent and industry focus⁸

Organisation Types	Number of organisations	Service Skills coverage
Private RTO	3	Hairdressing, travel, tourism and hospitality
Public RTO	2	Travel, tourism, hospitality, retail and floristry
Employer	1	Retail
RTO Peak body	1	General interest

Limitations to the research method

There are three major limitations to the method. Firstly we were not able to research directly with students, as the project timelines did not allow time for the additional ethics approval necessary. However we accessed indirect information about students via training providers and industry associations. Secondly, we were disappointed not to be able to access more respondents who were individual employers (two in total) and again had to rely on others to provide evidence about effects on employers. Thirdly, we received only indirect evidence about 'dodgy' providers as those we interviewed - and those most likely to be prepared to talk to us - were long established and ethical Service Skills providers, both public and private.

⁸ The RTO peak body also attended a forum

Findings

The findings section is presented in three parts:

- An analysis of the subsidy changes to show changes in the funding of Service Skills qualifications between 2011 and 2014
- Key findings from the companion report by Karmel (Karmel 2014) which analyses data from the National Centre for Vocational Education Research (NCVER) to show changes in provider and student numbers, and specific data about Service Skills areas. The companion report provides much more detailed information, and
- Findings from the focus groups, interviews and web submissions.

Analysis of the subsidy changes

Tables 5a to 5f, arranged alphabetically by Training Package, summarise the changes in funding levels between 2011 and 2014 for the qualifications in each of the Service Skills Training Packages receiving subsidies as part of the Victorian Training Guarantee. It also shows the funding band to which each qualification was allocated in 2013 and 2014. The funding levels for 2011 were not published as such, but have been estimated using information from Victoria University's 2011 funding agreement. Thus, they represent the funding levels that applied to a public VET institution⁹. The funding approach that applied at that time has been explained in detail above, but it basically related to the level and nature of the qualification and industry classification related to the qualification.

Overall, the tables show that:

- For the most part subsidy levels fell across all Service Skills Training Packages between 2011 and 2013 with the exception of a number of occupational areas: floristry, outdoor recreation, hairdressing, beauty and both commercial and Asian cookery, patisserie and travel and tourism.
- The occupational areas most deeply affected by the 2011 to 2013 funding transitions were retail services, sport and recreation, fitness training and hospitality.
- Between 2013 and 2014 subsidy rates were maintained for floristry, hairdressing, and all other trades, but fell significantly for beauty therapy, outdoor recreation, tourism, kitchen and catering operations and Asian cookery (non-trade). A small number of courses not on the subsidy list in 2013 were added for 2014¹⁰.

⁹ The funding levels that a private provider would have obtained would have been less, as outlined in pages 24 and 25 of this report. The exception would have been for Diplomas and Advanced Diplomas (skill deepening programs) which were funded at the same levels whether the provider was public or private.

¹⁰ In such cases we have not provided a notional 2011 funding rate. Newer versions of the Training Packages may have also introduced new qualifications.

Key message: A significant proportion of Service Skills qualifications are in Bands C, D and E, the lower funding bands. Relatively few qualifications are in Bands A and B, attracting the highest levels of funding (see Table 1). The proportions of qualifications falling into each band in both 2013 and 2014 are presented in Table 6 (see below). This table shows that between 2013 and 2014 quite a number of Service Skills qualifications have moved to lower funding bands. The most significantly affected Training Packages are:

- Beauty Training (see Table 5a)
- Sport, Fitness and Recreation (see Table 5e), and
- Tourism, Travel and Hospitality (see Table 5f)

Finally, while many qualifications have retained their originally allocated band, none have moved to a higher band. Qualifications in Retail Services (Table 5d) attract particularly low subsidy rates. For the most part, however, qualifications in the Floristry and Hairdressing Training Packages (Tables 5b and c respectively) have been largely unaffected.

Table 5a: SIB10 - Beauty Training Package

Current Code	Title	2011	2013	BAND	2014	BAND
SIB20110	Certificate II in Retail Make-Up and Skin Care	\$9.32	\$6.50	C	\$3.00	D
SIB20210	Certificate II in Nail Technology	\$9.32	\$6.50	C	\$3.00	D
SIB30110	Certificate III in Beauty Services	\$8.99	\$7.00	C	\$3.00	D
SIB40110	Certificate IV in Beauty Therapy	\$8.99	\$7.00	C	\$3.00	D
SIB50110	Diploma of Beauty Therapy	\$7.04	\$4.00	D	\$4.00	D
SIB50210	Diploma of Salon Management	\$7.04	\$4.00	D	\$4.00	D
SIB70110	Vocational Graduate Certificate in Intense Pulsed Light and Laser Hair Reduction				\$4.00	D

Table 5b: SFL10 - Floristry Training Package

Current Code	Title	2011	2013	BAND	2014	BAND
SFL20110	Certificate II in Floristry (Assistant)				\$7.50	B
SFL30110	Certificate III in Floristry (Non apprenticeship)	\$9.89	\$9.00	B	\$9.00	B
	Certificate III in Floristry (Apprenticeship)	\$10.64	\$11.00	A	\$11.00	A
SFL40110	Certificate IV in Floristry	\$9.89	\$9.00	B	\$9.00	B
SFL50110	Diploma of Floristry Design	\$7.74	\$4.00	D	\$4.00	D

Table 5c: SIH11 - Hairdressing Training Package

Current Code	Title	2011	2013	BAND	2014	BAND
SIH20111	Certificate II in Hairdressing	\$9.32	\$8.50	B	\$8.50	B
SIH30111	Certificate III in Hairdressing (Non apprenticeship)	\$8.99	\$8.50	B	\$8.50	B
	Certificate III in Hairdressing (Apprenticeship)	\$9.67	\$10.50	A	\$10.50	A
SIH40111	Certificate IV in Hairdressing	\$8.99	\$7.00	C	\$7.00	C
SIH80113	Graduate Certificate in Hairdressing Creative Leadership				\$4.00	D

Table 5d: SIR07 - Retail Services Training Package

Current Code	Title	2011	2013	BAND	2014	BAND
SIR10112	Certificate I in Retail Services	\$7.46	\$1.50	E	\$1.50	E
SIR20112	Certificate II in Community Pharmacy	\$7.46	\$4.00	D	\$4.00	D
SIR20212	Certificate II in Retail Services	\$7.46	\$1.50	E	\$1.50	E
SIR20312	Certificate II in Retail Fast Food				\$1.50	E
SIR30112	Certificate III in Community Pharmacy	\$7.19	\$4.00	D	\$4.00	D
SIR30212	Certificate III in Retail Operations	\$7.19	\$1.50	E	\$1.50	E
SIR30312	Certificate III in Retail Supervision				\$4.00	D
SIR30412	Certificate III in Business to Business Sales				\$5.00	C
SIR40112	Certificate IV in Community Pharmacy	\$7.19	\$4.00	D	\$4.00	D
SIR40212	Certificate IV in Retail Management	\$7.19	\$4.00	D	\$4.00	D
SIR50112	Diploma of Retail Management	\$5.63	\$1.50	E	\$1.50	E
SIR50212	Diploma of Visual Merchandising	\$5.63	\$4.00	D	\$4.00	D
SIR80112	Vocational Graduate Certificate in Retail Leadership				\$4.00	D

Table 5e: SIS10 - Sport, Fitness and Recreation Training Package

Current Code	Title	2011	2013	BAND	2014	BAND
SIS10113	Certificate I in Sport and Recreation				\$1.50	E
SIS20113	Certificate II in Community Activities				\$3.00	D
SIS20213	Certificate II in Outdoor Recreation	\$10.25	\$8.00	B	\$1.50	E
SIS20313	Certificate II in Sport and Recreation	\$10.25	\$1.50	E	\$1.50	E
SIS20412	Certificate II in Sport Career Oriented Participation				\$1.50	E
SIS20513	Certificate II in Sport Coaching				\$1.50	E
SIS30113	Certificate III in Aquatics				\$3.00	D
SIS30213	Certificate III in Community Activity Programs	\$9.89	\$5.00	C	\$3.00	D
SIS30313	Certificate III in Fitness	\$9.89	\$1.50	E	\$1.50	E
SIS30413	Certificate III in Outdoor Recreation	\$9.89	\$9.00	B	\$1.50	E
SIS30513	Certificate III in Sport and Recreation	\$9.89	\$1.50	E	\$1.50	E
SIS30613	Certificate III in Sport Career Oriented Participation				\$1.50	E
SIS30713	Certificate III in Sport Coaching	\$9.89	\$1.50	E	\$1.50	E
SIS30813	Certificate III in Sports Trainer	\$9.89	\$1.50	E	\$1.50	E
SIS30913	Certificate III in Sport Officiating				\$1.50	E
SIS40113	Certificate IV in Community Recreation	\$9.89	\$5.00	C	\$3.00	D
SIS40210	Certificate IV in Fitness	\$9.89	\$1.50	E	\$1.50	E
SIS40313	Certificate IV in Outdoor Recreation	\$9.89	\$9.00	B	\$1.50	E
SIS40412	Certificate IV in Sport and Recreation	\$9.89	\$1.50	E	\$1.50	E
SIS40512	Certificate IV in Sport Coaching	\$9.89	\$1.50	E	\$1.50	E
SIS40612	Certificate IV in Sport Development		\$1.50	E	\$1.50	E
SIS50213	Diploma of Fitness	\$7.74	\$1.00	E	\$1.00	E
SIS50310	Diploma of Outdoor Recreation	\$7.74	\$5.00	C	\$1.00	E
SIS50512	Diploma of Sport Coaching				\$1.00	E
SIS50612	Diploma of Sport Development	\$7.74	\$1.00	E	\$1.00	E
SIS50712	Diploma of Sport and Recreation Management				\$1.00	E

Table 5f: SIT12 - Tourism, Travel and Hospitality Training Package

Current Code	Title	2011	2013	BAND	2014	BAND
SIT10112	Certificate I in Tourism (Australian Indigenous Culture)				\$6.50	C
SIT10213	Certificate I in Hospitality	\$9.32	\$1.50	E	\$1.50	E
SIT20112	Certificate II in Tourism	\$9.32	\$6.50	C	\$3.00	D
SIT20213	Certificate II in Hospitality	\$9.32	\$1.50	E	\$1.50	E
SIT20312	Certificate II in Kitchen Operations	\$11.18	\$8.00	B	\$1.50	E
SIT20412	Certificate II in Asian Cookery				\$1.50	E
SIT20512	Certificate II in Holiday Parks and Resorts	\$9.32	\$6.50	C	\$6.50	C
SIT30112	Certificate III in Tourism	\$8.99	\$7.00	C	\$3.00	D
SIT30513	Certificate III in Guiding	\$8.99	\$7.00	C	\$3.00	D
SIT30612	Certificate III in Events	\$8.99	\$1.50	E	\$1.50	E
SIT30713	Certificate III in Hospitality	\$8.99	\$1.50	E	\$1.50	E
SIT30813	Certificate III in Commercial Cookery	\$10.79	\$9.00	B	\$9.00	B
	Certificate III in Commercial Cookery (Apprenticeship)	\$11.60	\$11.50	A	\$11.50	A
SIT30913	Certificate III in Asian Cookery	\$10.79	\$9.00	B	\$5.00	C
	Certificate III in Asian Cookery (Apprenticeship)	\$11.60	\$10.50	A	\$10.50	A
SIT31013	Certificate III in Catering Operations	\$10.79	\$9.00	B	\$3.00	D
SIT31113	Certificate III in Patisserie	\$10.79	\$10.50	A	\$10.50	A
SIT31212	Certificate III in Holiday Parks and Resorts	\$8.99	\$7.00	C	\$7.00	C
SIT31312	Certificate III in Travel	\$8.99	\$7.00	C	\$5.00	C
SIT40112	Certificate IV in Guiding	\$8.99	\$7.00	C	\$7.00	C
SIT40212	Certificate IV in Travel and Tourism	\$8.99	\$7.00	C	\$7.00	C
SIT40313	Certificate IV in Hospitality	\$10.79	\$5.00	C	\$3.00	D
SIT40413	Certificate IV in Commercial Cookery	\$10.79	\$10.50	A	\$5.00	C
SIT40513	Certificate IV in Asian Cookery	\$10.79	\$9.00	B	\$5.00	C
SIT40613	Certificate IV in Catering Operations	\$10.79	\$9.00	B	\$3.00	D
SIT40713	Certificate IV in Patisserie	\$10.79	\$10.50	A	\$10.50	A
SIT40812	Certificate IV in Holiday Parks and Resorts	\$8.99	\$7.00	C	\$7.00	C
SIT50112	Diploma of Travel and Tourism	\$7.04	\$4.00	D	\$4.00	D
SIT50212	Diploma of Events	\$7.04	\$4.00	D	\$4.00	D
SIT50313	Diploma of Hospitality	\$7.04	\$2.00	D	\$2.00	D
SIT50412	Diploma of Holiday Parks and Resorts	\$7.04	\$4.00	D	\$4.00	D
SIT60112	Advanced Diploma of Travel and Tourism	\$7.04	\$4.00	D	\$4.00	D
SIT60212	Advanced Diploma of Events	\$7.04	\$4.00	D	\$4.00	D
SIT60313	Advanced Diploma of Hospitality	\$7.04	\$3.00	D	\$3.00	D

Table 6 shows the proportions of Service Skills qualifications falling into each funding band for both 2013 and 2014.

Key message: It is clear from Tables 5a to f and Table 6 that:

- The proportion of Service Skills qualifications in Band A is very low
- The great majority of Service Skills qualifications are in Bands C, D and E
- There has been a significant drop in the number of Service Skills qualifications in Bands B and C between 2013 and 2014 as qualifications have been shifted to lower Bands, and
- 2014 saw a strong increase in the proportion of Service Skills qualifications in Bands D and E.
- The subsidy position for Service Skills qualifications following the changes to subsidy arrangements announced in May 2012 showed a deterioration in subsidy levels in 2013. These deteriorated further in 2014, and were particularly pronounced in the sport, fitness and recreation and tourism, travel and hospitality packages. Lower level qualifications in the beauty training package have also been affected.

This message builds on the one immediately above (see Tables 5a to f).

Table 6: Funding level band against number (Percentage) of Service Skills qualifications subsidised in both 2013 and 2014

Band and rate/Year	A >\$10	B \$7.50 - 10	C \$5 - 7	D \$2 – 4.50	E <\$2	Total
2013	7 (9.7%)	13 (18.1%)	18 (25%)	15 (20.8%)	19 (26.4%)	72
2014	6 (8.3%)	5 (7.0%)	10 (13.9%)	27 (37.5%)	24 (33.3%)	72

Because of the nature of Service Skills qualifications, any significant changes were likely to have disproportionate effect on women. Analysis of the bands together with the proportion of women undertaking the qualifications (Table 7) provides an overview of Victorian hourly subsidy rates for Service Skills qualifications in 2011 and 2013 compared with typically ‘male’ qualifications, and qualifications where there is a fairly equal gender balance. It is very clear that women have fared badly in these changes.

Table 7: Victorian funded enrolments and funding rates 2011 and 2013, selected courses, ordered by proportion of female enrolments*

Qualification	Total enrolments 2011	% Female enrolments 2011	Total enrolments 2013	% Female enrolments 2013	2011 funding per hour	2013 funding per hour*
Certificate III in Bricklaying/Blocklaying (apprenticeship) CPC30108/ CPC30111	1,174	0.2	1,647	0.4	\$11.35	\$11.50
Certificate III in Plumbing (apprenticeship) CPC32408/ CPC32411	3,661	0.5	5,176	0.5	\$12.30	\$12.50
Certificate III in Carpentry(apprenticeship) CPC30208/ CPC30211	7,621	1.8	9,034	1.0	\$11.35	\$11.50
Certificate III in Telecommunications ICT30208/ICT30210	256	3.9	298	3.4	\$8.09	\$9.00
Certificate III in Competitive Manufacturing MSA31108	1,133	21	1,749	24	\$8.99	\$10.00*
Certificate II in Agriculture RTE20103/AHC20110	1,620	24	1,380	32	\$11.18	\$8.00
Diploma of Hospitality SIT50307/ SIT50312/ SIT50313	3,688	43	1,044	51	\$7.04	\$2.00
Certificate II in Hospitality SIT20207/ SIT20212/ SIT20213	12,324	62	3,922	66	\$9.32	\$1.50
Certificate III in Hospitality SIT30707/ SIT30712/ SIT30713	13,999	63	5,903	62	\$8.99	\$1.50
Certificate II in Retail SIT30707/ SIT30712/ SIT30713	11,983	64	1,709	63	\$7.46	\$1.50
Certificate III in Retail SIR30207/ SIR30212	12,820	68	5,329	66	\$7.19	\$1.50
Certificate III in Events SIT30607/ SIT30612	1,083	74	205	82	\$8.99	\$1.50
Certificate III in Hairdressing (apprenticeship) WHR30109/SIH30111	3,610	94	4,815	94	\$9.46	\$10.50
Certificate III in Beauty Services WRB30104/SIB30111	1,308	99	2,108	95	\$8.99	\$7.00 *

Sources: NCVER's "Students and Courses" database for funded training course enrolments for 2011 and 2013. Funding rates sourced from figures provided by VTA for 2011, and from the Victorian Government's Department of Education and Early Childhood Development "Refocusing vocational training – course subsidy list" for 2103.

Notes: (i) Where multiple qualification codes are listed the numbers for all of the codes listed have been combined in the totals for 2011 and 2013 enrolments.

(ii) Figures for small female enrolments are given to one decimal place; other female enrolments are rounded up to the nearest whole number.

(iii) A very few number of individual enrolments did not specify gender so these were removed before calculating the percentage female.

(iv) There were some 2104 changes. Beauty funding was reduced to \$3.00 per hour in 2104. Competitive manufacturing was reduced to \$7.00.

Our report shows that 2012 represented a watershed year in Victoria with significant changes being made both to the funding approach and the level of funding for a range of qualifications. The changes were announced in May 2012 and so were not fully implemented until the beginning of 2013. For some qualifications and industry sectors the changes foreshadowed in the May 2012 Budget were largely neutral and, in a few cases, even raised the levels of funding per hour offered. However, the effects were most felt in those qualifications assigned to lower funding bands, particularly Bands D and E.

At the same time, TAFE Institutes were also affected by the removal of the 'Full Service Provider' annual payment that they had previously been granted. Moreover, those providers and employers who were involved in traineeships also suffered from progressive withdrawal of employer incentives by the Commonwealth.

The strongest basis for comparison is the trend data between 2008 and 2011 and then between 2011 (the first full year of the VTG's implementation) and 2013. In our view, and for a variety of reasons, 2012 represents a transitional and unrepresentative year in terms of assessing the effects of the Victorian funding changes.

Since the new funding arrangements were announced a number of other changes have had a variety of effects on the Victorian training market and providers. Most notably these have been changes announced in terms of:

1. eligibility to access VTG funding, including to those still at school and changes to the "two course rule", and
2. changes made at very short notice (between 10 and 20 days) to the funding levels for particular qualifications.

Key message: Subsidy changes made at very short notice affect the extent to which providers can calculate and set fees, as any significant change in expected Government funding level and income may rapidly affect the viability of particular qualifications. On the one hand it may affect a provider's ability to budget its programs accurately and, moreover, expose them to increased financial risk as providers are expected to disclose fee levels up front but are exposed (on the other) to changes in subsidy level with little or no warning. This is particularly relevant when subsidy levels drop, and makes the business of providing VET training for some qualifications even more challenging. Longer lead times and notice of proposed changes are needed.

Analysis of changes in providers, student numbers and outcomes

The Victorian Training Guarantee was fully implemented for its first full year in 2011 (Victorian Skills Commission 2012). Following its introduction and until the end of 2010 enrolments were largely stable, although growing slightly, both in total terms and for Service Skills enrolments (see Table 8). However, some concessions were reintroduced for eligible diploma students in 2011 to honour a coalition election promise. Thus, while there were some changes both in the funding levels offered for particular qualification types and the weightings applied to particular industry sectors, the greatest change to the VET landscape in Victoria resulted from rapid growth in both the number of providers and individuals

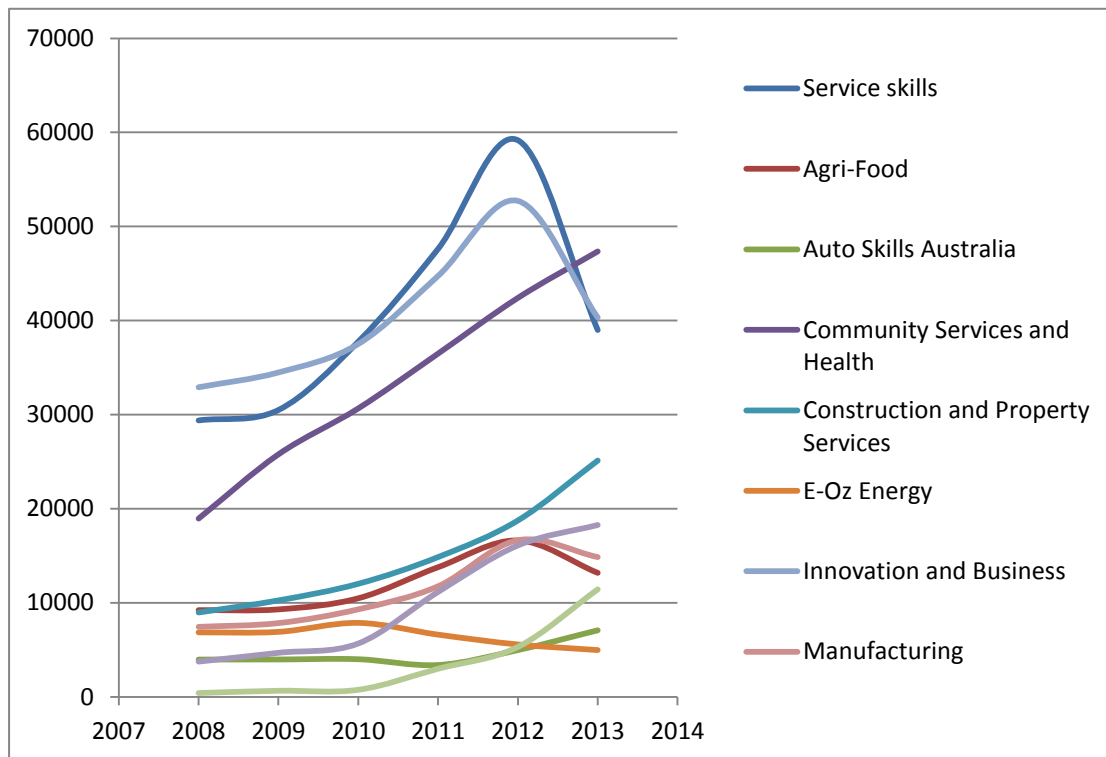
accessing VTG funds. The Victorian Government's submission to the House of Representatives Enquiry into TAFE (Submission number 192) noted that the number of private providers delivering government funded programs had risen from 201 in 2008 to 445 in 2012 (also see Table 9 below). Their submission also stated that enrolments through private providers had increased by nearly 5 times (472%) in that same period. In 2013 Victorian figures show that the number of private providers accessing government subsidised VET funding had fallen slightly since the previous year to 428 (DEECD 2014 and Table 8).

According to Karmel (2014) the level of training can be expressed in several ways: the number of enrolments, full-year training equivalents (FYTE, with 720 nominal hours =1 FYTE) and the number of completions. The FYTE unit, in his view, is the preferable measure for measuring load, with one FYTE representing the load of an individual student undertaking a full-year course full-time. It allows the aggregation of full-time and part-time enrolments and courses which typically are shorter than a full year.

On this basis, Service Skills qualifications were not the only ones to see a rapid increase over 2008-2013 in Victoria. Figure 1 shows FYTEs for all the Industry Skills Councils (except Government and Forestworks, both of which have relatively small levels of training over this period).

We see that the pattern observed in Service Skills is shared with Innovation and Business, but not really with the other Skills Councils. It can also be seen that Service Skills was not the only area to share extremely rapid growth - Community Services and Health arguably had the most dramatic rise, and that growth occurred through 2013 as a number of their qualifications are required to maintain the registration of those organisations employing their graduates (for example, enrolled nurses, aged care and child care workers). Construction and Property Services and Transport and Logistics also saw rapid growth (Karmel 2014).

Figure 1: FYTEs for selected Skills Councils, 2008-2013, Victoria



Key message: Growth in Service Skills student load, already relatively high in 2008 but, like Innovation and Business, another large area of provision, load grew very rapidly and then fell significantly in 2013.

We suggest that this may be due to the ease with which many of the qualifications in both their profiles can be offered by a wide range of providers, including those that are less than scrupulous. In the absence of other market controls, price (reduction of the subsidy level) is the easiest mechanism for restoring balance to the system and avoiding blow out in enrolment numbers and Government cost. However, this affects provision by legitimate and ethical providers.

Table 8 shows the growth in enrolment numbers for Victorian Government subsidised places as well as for Service Skills. While growth in enrolments was relatively low in 2009 and 2010, enrolments grew rapidly between 2010 and 2012, with both enrolment numbers overall and for Service Skills growing substantially in 2011 and peaking in 2012 before falling back in 2013. Service Skills enrolment growth was above the overall rate, but dropped substantially in 2013.

Table 8: Enrolments in Victorian Government subsidised vocational training overall and for Service Skills qualifications 2008–2013¹¹

Enrolments	2008	2009	2010	2011	2012	2013
Total enrolments, Victoria	381,300 100%	376,800 99%	426,900 112%	548,700 144%	670,400 176%	645,000 169%
Service Skills enrolments, Victoria	79,385 100%	85,669 108%	94,091 119%	121,443 153%	132,288 167%	89,879 113%

2008 is used as 100% base level

In addition, Karmel (2014) found that the level of publicly funded training in Victoria grew very rapidly between 2008 and 2012 in beauty, hospitality, retail, community pharmacy (from a low base), sport and recreation, and tourism and travel. This rapid increase was followed by a significant decline in 2013, particularly in hospitality, retail and sport and recreation (see Figure 2). This confirms the impressions we gained from the forums and interviews.

A very different pattern indeed emerges for the rest of Australia over the same period. In contrast to Figure 2, Figure 3 is characterised by a far greater stability of Service Skills provision, indicating that it was the Victorian reforms that clearly were the primary cause of the pattern of rapid growth to 2012 followed by a sharp decline (see Figure 3). Confirming this, Service Skills Australia (2014 p. 13) report that between 2010 and 2012 enrolments in Service Skills qualifications increased by 40.6% in Victoria whereas the increase across all other states and territories for the same period was 3.6%.

¹¹ Sources: DEECD 2014, *Victorian Training Market Report Full Year 2013*, Melbourne, Department of Education and Early Childhood Development and NCVET students and courses data

Figure 2: FYTEs by Service Skills area, 2008-2013, Victoria (from Karmel 2014)

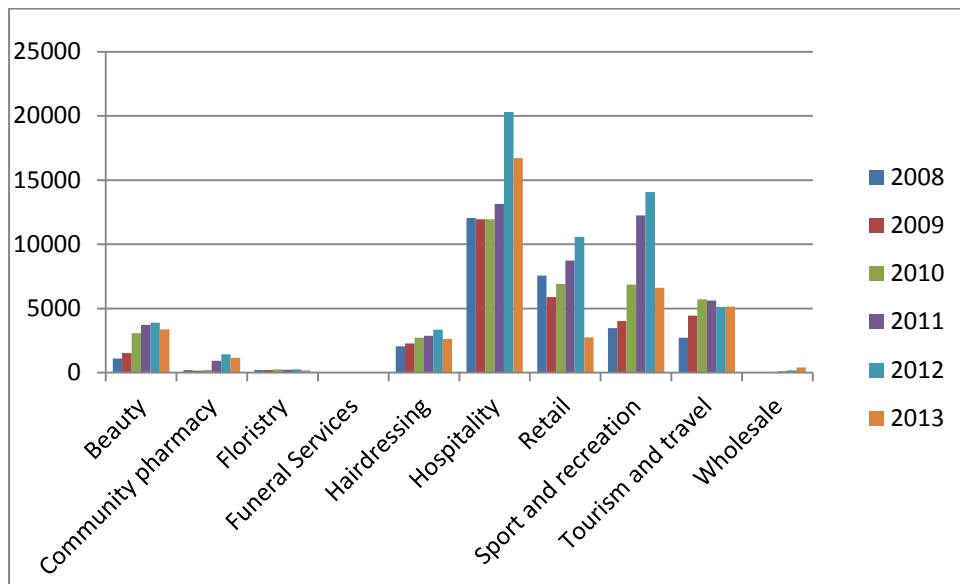
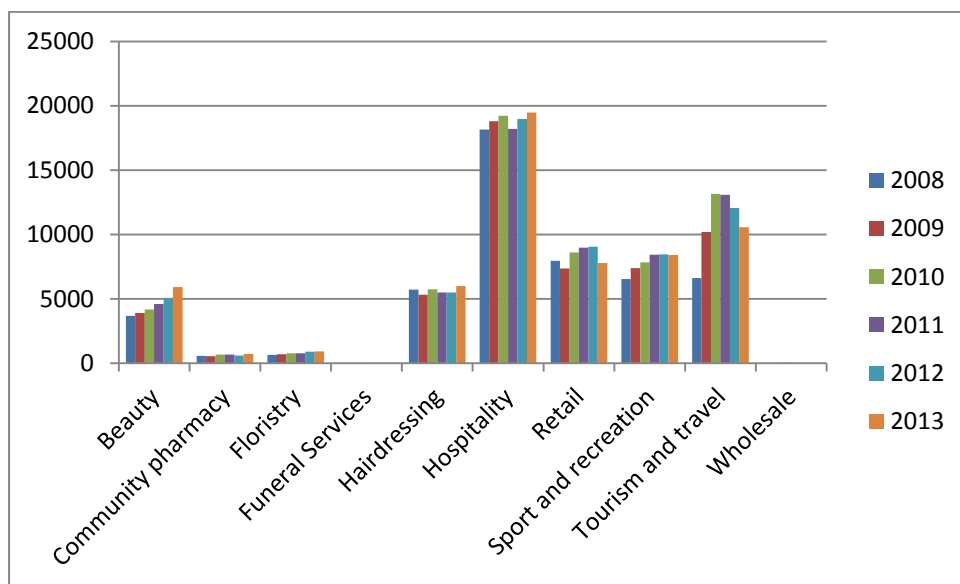


Figure 3: FYTEs by Service Skills area, 2008-2013, Australia, all jurisdictions excluding Victoria



Key message: Growth in Service Skills enrolments was higher than the overall rate of enrolment growth in Victoria from 2009 to 2011. It fell back in 2012 and crashed in 2013.

In contrast the rest of Australia has been characterised by a far greater stability in the provision of Service Skills qualifications than Victoria from 2008 to 2013.

Again, the obvious conclusion is that Service Skills qualifications were amongst those that could most readily 'rorted' by providers and other stakeholders in Victoria.

Table 9 shows that all Victorian TAFEs and dual sector institutions delivering at least some Service Skills profile, and have continued to do so. Since 2008, the number of Community Education (Learn Local) providers offering Service Skills qualifications has declined, whilst the number of private providers offering them has increased dramatically, particularly between 2009 and 2010 and 2010 and 2011 before stabilising in 2012 and then dropping back in 2013. It should also be noted that private provider numbers offering Service Skills qualifications grew more rapidly than the overall growth in private provider numbers in Victoria over the period (Table 9).

Table 9: Number of providers overall by provider type, and for Service Skills qualifications, 2008-2013, Victoria¹²

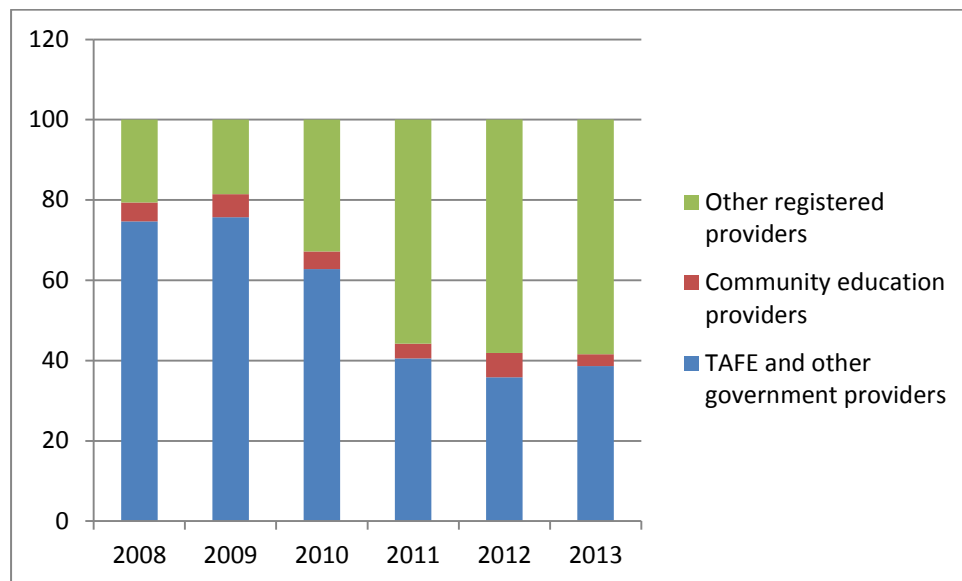
Provider type and numbers	2008	2009	2010	2011	2012	2013
Learn Local (community providers)	342	320	316	309	298	282
Private RTO	201	246	344	422	445	428
Public RTO or university dual sector	18 ¹³	18	18	18	18	18
Total	561 100%	584 104%	678 121%	749 134%	761 136%	728 130%
Service Skills Learn Local (community providers)	64	70	58	57	56	47
Service Skills Private RTO	105	110	169	208	210	194
Service Skills public RTO or university dual sector	18	18	18	18	18	18
Total	187 100%	198 106%	245 131%	283 151%	284 152%	259 139%

2008 is used as 100% base level

Key message: Major growth in provider numbers for Service Skills between 2009 and 2010 (see Karmel 2014's Table 9) were in the fields of beauty therapy; hairdressing; sport, fitness and recreation; retail and tourism, hospitality and events. The largest number of providers were concentrated in these latter two fields (retail and tourism, hospitality and events) and growth of provider numbers continued into 2011 for retail services before progressively falling back in 2012 and 2013. In tourism, hospitality and events growth in private provider numbers continued to rise into 2012 before dropping back in 2013.

In terms of load against provider type, Karmel (2014) shows that the balance has changed dramatically since 2008. He reports that since 2008 private providers have increased their share of load in Service Skills qualifications in Victoria from a base of around 20% to nearly 60% in 2013. Correspondingly TAFE's share has dropped from around 75% to just under 40% over the same period. The Community Education sector's share of Service Skills load has remained small and relatively constant, although their share of load fell to its lowest level in 2013 (see Figure 4).

Figure 4: Load in Service Skills qualifications, by provider type, 2008-2013, Victoria (from Karmel 2014)



The detailed data supporting Figure 4 are presented in Table A7 in the Appendix to Karmel's report. Areas in which the share of load appears to have changed (and increased) most dramatically are tourism, hospitality and events; sport fitness and recreation and retail. Private providers are strongly predominant in the latter two fields.

A summary of the key findings in relation to changes in the profile of qualifications for Service Skills, their completion levels, quality, regionality and labour market outcomes follows. Karmel (2014) reports that:

- In relation to qualifications at different AQF levels he found that for Certificates I/II there was some growth to 2012, but the 2013 level was a little below that of 2008. The same is true for Diplomas/Advanced Diplomas, except the level in 2013 was around 60% of the 2008 level.
- Within Certificates III/IV dramatic increases are apparent in community pharmacy (but from a low base). This was as a result of new providers entering that market. For those areas with a substantial base there was almost a tripling in hospitality and an almost fivefold increase in sport and recreation. Some of this growth was undone between 2012 and 2013 but nevertheless the levels in 2013 were almost double or more relative to 2008 in beauty, community pharmacy, hospitality, sport and recreation and tourism and travel (see Table 7, Karmel 2014). Again, this confirms the qualitative evidence
- The ratio of completions to enrolments among Service Skill qualifications are variable between its vocational areas but, overall, are similar to or slightly better than those of all other qualifications covered by other Industry Skills Councils in Victoria over time (Table 12 of Karmel's report)

- If completion rates and student satisfaction are used as proxies for quality, there is no quantitative evidence of any diminution in quality. However, other factors, not necessarily positive, might lead to higher completion rates. On the whole student satisfaction levels, including whether the main reason for undertaking training was achieved, remained at fairly high levels (with the exception of Beauty students¹⁴)
- In relation to geographic variation there was greatest growth of provision¹⁵ in the major cites (that is, Melbourne and Geelong) and then in Victoria's inner regional areas (comprising about one third of the state and including both Ballarat and Bendigo), with generally less, though increased growth in Victoria's outer regions. However, growth in beauty services in outer regional areas was above that in Melbourne and inner regional areas and, likewise, retail services was on a par with growth in Melbourne (see Table 10, Karmel 2014).

Key message: While the level of training in Service Skills in 2013 remained well above the level in 2008 (around one third higher) the level of funding in 2013 for Service Skills qualifications was around 70% of the funding in 2008. This raises the issue of whether or not Service Skills occupations are receiving their fair share of subsidised funding.

- In respect of labour market outcomes for Service Skills qualifications, the story is mixed. Labour market outcomes have remained relatively stable for sport and fitness, retail and hospitality despite the increasing levels of provision. They are not good for beauty. This may relate to the industry standard for employment being the Diploma qualification rather than those at lower levels.

¹⁴ This may be because the Diploma of Beauty Therapy is seen by industry as the 'gold standard' and the one needed to secure the best employment outcomes.

¹⁵ using the 2008 FYTE load as a base (see Karmel 2014, page 5 for an explanation of how the full-year training equivalents (or FYTE) is derived).

Findings of the qualitative research with providers and employers

In this section we will take an approach which reports on:

- The effects on RTOs, that is VET providers
- The coping strategies they employ to try to address those effects
- The effects on students and individuals
- The effects on employers and industry, and
- A small number of general effects.

These findings are consolidated in Figure 5 and a series of key messages.

Effects on RTOs

Effects on RTOs - Evidence from the forums

The Industry Associations and Private RTO groups had most to say about funding issues. These groups pointed out that the Victorian changes in subsidy rates have had a more significant influence than changes in Commonwealth funding, although there is a 'double whammy' effect when some of the changes at the two levels of Government occurred more or less simultaneously. For both public and private providers, reductions in student numbers has led to cuts in RTO staff, sometimes significant. It was hard to achieve break-even in providing the training; in some cases the training is being provided at a loss to service the industry (for example, by RTOs that were also industry associations). There was a particularly heavy cost burden in servicing small numbers of students based in regional areas when there was no local provision and where workplace visits to students/trainees was required. TAFE providers referred to the loss of full service provider funding, which meant they could not fulfil community service obligations and could no longer cross-subsidise less profitable courses from more profitable areas.

There was a concern that training provision would be permanently lost. As one person said, "The right people [RTOs] will walk away, the wrong people won't". Some trainers who had been made redundant had gone back into industry and it would be difficult to revive those areas even if there was a turnaround and subsidy levels were raised. "Once you take the capability away it's gone. (You) can't turn it back on when the State government decides to restore funding". Also, it was believed that confidence in the VET sector fell in 2012. Because of all the changes and publicity, potential students were now not sure if TAFE, in particular, was still operating, which was affecting the level of enrolments.

The continual changes by the Market Monitoring Unit to close loopholes and rein in blowouts made operations very difficult for Service Skills RTOs as a number of the changes were 'immediate' and made after course fees and budgets had already been set. The viability of a particular program could change very quickly. The choices were to charge the students extra (not desirable for an ethical provider), close the program down (also not desirable) or just absorb the costs until they could reasonably review and increase their fees. Absorbing the costs was leading to cash flow issues and some of the private providers at the forums reported they had to take out loans against future earnings to maintain current business operations and pay their staff. It was very hard for RTOs to budget, and, in the case of private providers, take out leases.

One of the private provider participants described the situation as “living like a meerkat – looking round all the time”.

As a result of the successive waves of funding changes, the providers reported that they were really struggling. One said “It’s not about making money anymore, it’s about sustainability”; another: “You simply cannot pay the trainers. It’s not a matter of not making a profit”. If anything else happened, some of the industry associations were likely to pull out of accredited training.

One provider participant said “I hope the government realises how close to breaking point the system is”. Some providers had removed some qualifications from their scope; for example, one participant had removed retail and pharmacy. Another was involved with a tourism and hospitality provider network and reported that of their approximately 70 members only 17 were still active. Other participants mentioned that hospitality facilities were lying idle because back of house (cooking) courses cannot be supported readily if front of house courses are not available and hospitality students are not there to serve what the cookery students prepare.

Several participants voiced dissatisfaction with the national skills shortage list which, it was cynically suggested, was developed using “dark arts”. It was also argued that while there may appear to be an adequate supply of labour nationally, this often did not translate to local demands and therefore a more nuanced approach was needed to address local skills shortages and to retain training capacity and options, particularly in regional areas where training markets are often ‘thin’. Even suburban areas, particularly those in the outer suburbs, had access problems for some students. It was also stated that skills shortages in some industries were not readily apparent due to their recruitment practices.

Effects on RTOs - evidence from the interviews

The effect of the first set of changes to funding approaches was to increase the number of RTOs. Some of the new providers were, reportedly, relatively short-lived and the students attracted by ‘entitlement’ were not necessarily committed to the occupation in which they were studying. Several interviewees referred to the provision of large amounts of State funding as like a ‘drug’ for employers and others that had severe withdrawal symptoms when subsidies were reduced.

The RTOs we interviewed tended to be those that had an established client base that was willing and able to pay fees and had a strong connection to their respective industries. They felt that the market had been ‘distorted’. One public RTO said that the increased number of providers resulting from this early expansion meant that they expected future competition would be even fiercer.

It was believed that many of the new providers were not high quality. One RTO referred to a ‘lowest common denominator’. A hospitality RTO said that it was now enrolling students who had completed lower level qualifications but the provision had been so inadequate that, in addition to providing the higher level training they were undertaking, they had to be ‘retrained’ in the skills that should have been covered in the lower level qualification not only to bring them up to an acceptable industry standard, but to also protect their current provider’s brand and reputation in the marketplace.

The interviews collectively confirmed that the largest single effect resulted from the 2012 Victorian subsidy rate changes. Most providers had experienced decreased student numbers following the subsidy cuts announced in 2012. One provider reported a 90% drop in its student numbers in retail in Victoria. A few recorded increases where other providers had ceased delivery. The latter was reported in both retail and tourism – and was seen by them as a case of ‘last man standing’.

Among the public RTOs, some had removed courses that attracted only a low subsidy from their scope and therefore had no students in those areas. At least one had tried to continue offering retail by charging higher student fees, but this had failed because potential students was not able to afford the higher fees demanded. Employers also found higher fees impossible to pay, especially in small businesses. Hence student numbers in retail were bound to decline further.

Public and private training providers all reported job losses in areas where subsidies had been cut. For the public RTOs, the effect of the hourly subsidy rate cuts was compounded by withdrawal of the full service provider funding. For example, a regional TAFE made 85 out of 360 staff redundant. Another large metropolitan TAFE had reduced its effective full time staff numbers in its Service Skills areas from around 118 to about 28.

A retail and hospitality co-ordinator in a regional TAFE Institute said:

‘two years ago I would have had three chefs, had two hospitality teachers, one events teacher, two tourism teachers, a bakery teacher and two and a half retail teachers. I now have one retail teacher, one chef, one hospitality teacher, one tourism teacher and one events teacher.’

In other words, there was just one full-time teacher remaining in each area.

Some RTOs said they had taken the opportunity to look at the long-term viability of all of their programs and closed several, both because of the subsidy cuts but also where student numbers were low. On a mixed positive and negative note, some public and private RTOs pointed out that it had made them more “business savvy” and ruthless in assessing course viability. Better business analysis tools had been developed and implemented. As one private RTO said

‘We are a better business as a result of that. We are more resilient and more focused.’

However, a public RTO said that while business processes may have improved in this way it meant that the RTO needed to be ruthless in cutting funding relating to its community service obligations, that is, it needed to focus ‘just on what makes money’. Cross-subsidisation of unprofitable courses was reported to be no longer possible. Support services, often vital to the needs of the disadvantaged and those with learning difficulties, had also been cut. For ACE providers, it was stated that, unlike private RTOs, there was no possibility of borrowing money, and so cash flow issues meant that courses had to be cut immediately with no possibility of a buffer period.

There was reference to low morale among staff at the RTO as a result of these sweeping changes. One RTO said:

'I think it's quite demotivating for staff to not know what's going or what's going to happen in the future.'

The short notice for the Victorian changes was often highlighted as a real problem, as fee schedules had already been posted and offer letters sent to students when changes were announced. It was pointed out that the short notice actually meant that RTOs would contravene VET FEE-HELP regulations if they tried to recoup losses by increasing fees. One private RTO interviewee said:

'So you have a lot of infrastructure in place, full-time people, part-time people, offices, equipment, you name it and suddenly you've got no way to fund all that.'

In addition, Commonwealth changes were also announced at short notice. Another private RTO said:

'It's not just as an RTO, we're also a group training company and we're also an AAC [Australian Apprenticeship Centre]. Every one of those parts of the business has been fundamentally affected by Federal and State Government funding changes in the last few years. The lack of warning and the lack of consultation have been very, very damaging.'

The constant changes in funding had administrative costs associated with them. For example web sites and forms had to be constantly updated. At the same time compliance costs were mounting so that it was becoming uneconomic in terms of administrative costs even to claim the low subsidies that were available in areas like retail and hospitality. However, enterprise RTOs were reportedly little affected by the Government subsidy rates as only a handful claimed any State Government funding. Rather, enterprise RTOs were more likely to be affected by Commonwealth changes.

There was differentiation among RTOs and among industry areas. Some areas were relatively unaffected, such as hairdressing and floristry. Some areas were very badly affected; for example, retail and front-of-house hospitality. Some areas were affected at particular qualification levels; for example, beauty. In larger providers, the Service Skills areas that did not suffer directly from the subsidy rate changes were still affected. Cookery was affected because of other hospitality changes; for example one TAFE Institute had converted a kitchen into a hairdressing salon. Others had closed their training kitchens and restaurants. Fitness providers were badly affected, but compensated by returning to charging fees for their programs, although they felt unable to revert to charging the same fee levels as they had previously. They reported that other competitor providers had also been adversely affected.

TAFE institutes reported that they were very severely affected by the withdrawal of the full service provider payment, which resulted in a multiplier effect that compounded the subsidy rates reduction. The loss of their full service provision funding and changes to the subsidy rates have not been offset by increases in other revenue sources, for example fees.

These findings are confirmed by a recent report by the Victorian Auditor General which states that many TAFEs are now in a far more precarious financial position than previously and most (13/14) have either a medium or high financial sustainability risk. Half (7/14) ran a deficit and ten reported a reduced financial result in 2013. Their financial positions have

worsened significantly since 2009. In contrast all were considered low risk in 2009 and 2010 (Victorian Auditor General 2014). As the Auditor General himself noted (page vii):

‘One consequence of this changed operating environment in the TAFE sector has been a net deficit of \$16.2 million in 2013—a \$74.8 million deterioration from the \$58.6 million surplus of 2012. The main driver for this result has been a decrease of \$116.3 million—15 per cent—in government operating and capital grants.

These results suggest that many TAFEs have more work to do to effectively adapt to the sector’s structural changes. While a majority of TAFEs reduced their expenditure during the year, the cost reductions and increases in student fee revenue were not sufficient to offset the reductions in operating funds from government.

The decline in financial performance is reflected in a significant decline in the financial sustainability of the sector. There are immediate or short-term financial challenges at five TAFEs causing their financial sustainability risk to be rated as high. A further eight TAFEs were assessed as medium risk, which continues the pattern of deterioration over the past five years.’

Some effects of other funding changes were noted. One provider reported the effect of State government changes to apprentice travel allowances which adversely affected rural apprentices and their ability to attend blocks of training in the city, yet there was no local provision and providing workplace training and assessment was problematic for the RTO.

The effects of Commonwealth changes were patchy. Service Skills areas that had significant traineeship components in their profile, for example retail, have suffered. Others (for example fitness) reported no effects at all. It was noted that VET FEE-HELP helped with Diploma courses and these were mainly those that attracted lower levels of subsidy or had previously charged fees anyway. However some providers cautioned that students needed to be careful before signing up and be aware of the full level of debt they would incur in undertaking their Diploma through VET FEE-HELP. The key issue is assessing whether this ‘investment’ would have a good personal return for them. Finally, some negative effects were also reported in relation to the discontinuation of the Commonwealth’s National Workforce Development Fund and WELL funding.

Effects on RTOs – evidence from the submissions

Of the five training providers who made submissions, two were TAFEs and three were non-TAFE RTOs. All had more than one site, and collectively they delivered across the range of Service Skills qualifications. All except one had more than 100 government-subsidised students (one had more than 1000); the largest industry area for government-subsidised students was tourism, travel and hospitality. Three of the four providers were 50% or more reliant on Service Skills qualifications. They had each deleted at least two Service Skills qualifications from their scope of registration as a result of the cuts.

Two RTOs noted that at first the funding changes were positive, but one added the proviso that there had been ‘challenges in relation to the type of students it has attracted.’ These were described as students with anxiety/depression-related issues who needed a lot of support.

However, the changes from 2012 were negative. When asked which issue had had the most negative impact on their RTO, the respondents referred to similar issues to the interviewees, including the actual cuts to subsidy rates, the lack of notice of changes and their ability to plan and budget.

All except one said that their RTO was now much less or less viable than in 2011. All had reduced staff, one by more than half. All had reduced student numbers, including one TAFE provider that referred to a reduction of 100 students (which equated to \$400,000 per annum off its bottom line.) Another said that the RTO no longer had any students in retail or hospitality.

The respondent raised concern about quality issues that could arise in the delivery of training without an appropriate level of infrastructure investment. In reference to provider viability, the respondent said 'You need look no further than the Annual Reports of Victorian TAFE Providers tabled in the Victorian Parliament.'

Coping strategies for RTOs

Coping strategies for RTOs – evidence from the forums

Service Skills providers were juggling units of competency that they offered to maximise funding. One example was the movement from sport and fitness into outdoor recreation in order to take advantage of the higher subsidy rate in outdoor recreation. However, this was inherently risky as the cost of quality provision in outdoor recreation is much higher than in sport or fitness and there are risks to the public if people are poorly trained as outdoor recreation instructors. Participants said that they had predicted that some RTOs would switch to course with the highest subsidy rates, but felt that nobody listened.

Some other providers combined qualifications to maximise funding. Also, elective units of competency that were less costly were now more frequently offered than those required significant infrastructure/consumables. These coping strategies all reduced student and employer options.

The changes had encouraged providers to become even leaner – for example, offering on-line training to cut delivery costs, but in some cases, it was argued, this form of learning may not be appropriate.

Coping strategies for RTOs – evidence from the interviews

RTOs adopted a number of practices to try to cope with the threats to their business and viability. For example, they diversified to new teaching areas where possible, but this was difficult where they were specialist providers. It was also open to bad practice. For example one RTO interviewee said:

'We have RTOs here that were specialised in hospitality and lo and behold, the money goes and that same RTO is now the specialist of aged care and nursing. I mean really? They took all that experience they had in hospitality and now they are aged care specialists. Well they're not, they followed the money.'

Other RTOs implemented strategies to maximise funding; for example they bundled qualifications (putting more highly-funded qualifications together with the original lower-funded qualifications), or imported units from more highly-funded qualifications. For

example, a fitness provider was now bundling a Certificate IV with Certificate III. He regarded this as positive as, due to the nature of the business, the students were likely to end up being self-employed or managing a small business anyway.

However some RTOs disapproved of the practice of bundling. One hospitality RTO interviewee said:

'What I've heard throughout the industry is that other RTOs are enrolling students into Commercial Cookery units, so equivalent units in hospitality, to obtain the higher funding rate. Then they'll get a Statement of Attainment to say they've done these specific units that are equivalent in, let's say, hospitality. They'll credit transfer them across and they'll complete the rest of the units in hospitality to get the lower funding.'

The general view was that managers in RTOs now needed to focus on funding not on education matters. For example, one interviewee said "my main job becomes to pump the funding".

One coping mechanism was to increase fees. In some cases, like one fitness RTO, these fees had returned to pre-2009 levels. In niche areas, the market seemed able to absorb these increases. One retail RTO described the see-sawing of fees as follows:

'In Victoria you were basically charging what you were told to charge. There was a figure back in the day ...that you had to charge a certain amount per student contact hour in fees. So you might have been in a situation where you were - and I can't remember the exact figures now, because it was a while ago, but it might have been \$200 or \$300. It might have even been less than that. Certainly concession wise I don't know, it might have been \$170 or you may not have even had to charge at all, I'm not 100 per cent sure. But that went to more like \$1200, \$1300. So you're talking an increase of - oh, look you could safely say 500 per cent, probably higher.'

Another coping mechanism was to reduce costs. This enabled courses to continue to be delivered but in a different way. RTOs mentioned that they were reducing the numbers of available electives, meaning students and employers were restricted in their choices. Or the method of delivery might change; for example, more on-line delivery could, in some cases, reduce costs. Or, they might reduce the amount of time spent on developing curriculum and training products:

'We used to have a lot of product development and a lot of unit choice; we now provide a much more restricted unit choice.'

One public RTO mentioned more workplace delivery but another referred to the need to curtail workplace delivery and bring students in blocks on to the campus (which was reportedly difficult for employers to manage).

While RTOs mentioned the measures they had to take, they were circumspect about the effects on quality. As one retail RTO interviewee put it, "Well it would be really bad for me to say that our quality has gone down, wouldn't it?" So it was difficult to obtain information on this issue.

There was mention of reduced spending on infrastructure and consumables. One provider noted: “That’s probably put a bit of a freeze on small purchase items for us and especially with - or even large equipment for us, that’s been difficult to maintain.” A hospitality provider spoke of the high costs of consumables incurred in providing beer, wine and cocktails which are used in high quality front-of-house training. Because the drinks made by the students potentially went to waste, this area was seen as a place where savings could be made. Yet, intensive practice in these skills was required of properly trained bar staff.

Some RTOs were able to increase demand through other means, to replace student numbers lost. For example a public RTO near the State border was able to increase numbers across the border funded by another State government. This same provider also had articulation arrangements for its outdoor recreation programs into a popular degree. Another provider reported that they had been affected by other providers entering the market and this not only led to an oversupply of applicants for positions in their sector of the retail industry, but also a perceived decline in the quality and training of those applicants. Simply, the market for graduates of that qualification became flooded.

Other RTOs had reduced, or planned to reduce, the training provision within the larger organisation to which they belonged. For example industry associations suggested they could continue to provide training but would now deliver non-accredited courses instead. This was the case in community pharmacy, for example, where the trust in the brand of the association was high. In this case there was no need to rely on the reputation of the VET qualification. Rather, it was the reputation of the provider that counted more.

Coping strategies for RTOs – evidence from the submissions

One TAFE Institute said that demand for student support services had increased by 77% since 2008 but the budget had declined, meaning that fees had to increase. The other two said that services continued, albeit in one case, at ‘pro rata levels’.

In terms of other strategies, there was one mention of increased blended learning and another respondent said there was no particular change because the RTO was ‘not placing much emphasis’ on Service Skills qualifications.

Effects on students and individuals

Effects on individuals - evidence from the forums

According to the forum participants, funding changes have had an adverse effect on women’s participation, and also on youth, especially disengaged youth. Job service providers have been put in the position of having to persuade people to undertake unsuitable courses because more appropriate ones were no longer offered. Some of the forum participants also worried about the worth of the qualification that individuals received. It was suggested that, in the absence of insider knowledge, an individual’s decision in choosing a course of study may be based more on cost and duration (the shorter and cheaper the better) rather than ‘quality’ and thus he or she might end up with a qualification that is not worth much.

As one participant noted, “When someone is issued with a qualification you want it to be valued. This is what is at stake: the credibility of the qualification”.

It was generally agreed that the entry of new RTOs post 2008 led to some poor quality provision. As a result, industry (for example Community Pharmacy) was nervous about the standard of the qualifications issued by certain providers post 2008.

Effects on students – evidence from the interviews

There were some large increases in fees in some areas to make up for a severe reduction in subsidies. Not all RTOs had received complaints from students, but one said that said that “current students have been angered by increases in fees”. Another provider referred to students dropping out because they could no longer afford their fees and said some “students are going without basic necessities” in order to complete the course. One said that some students had not been able to proceed with their applications because of the increased fees. One employer pointed out that the high fees prevented career changes where a worker was looking to qualify in another field. This is because if a person already has a qualification they need to pay full fee for another qualification at the same or a lower level.

For employed people, the removal of Commonwealth funding for existing worker traineeships reduced the possibility of career progression in one company that an RTO dealt with. For unemployed people, several respondents reported effects on Job Seeker Agency programs as, in particular, training for retail could no longer be offered. Yet, because of the size of its labour force, and its distribution across all population centres, the retail industry commonly offered the best chance of employment for unemployed people. Hospitality is another occupational area that can provide a start for disadvantaged learners or the unemployed. A community organisation that used a hospitality RTO to provide training for its clientele of disengaged youth reported that the RTO it worked with now required 15 learners rather than 10 in a cohort. It was very difficult for the community organisation to source this number readily. Another consequence was that the organisation actually had to reduce the hours of its own youth worker and reduce its staff numbers. Thus it was harder to support their clients and the employers providing opportunities for them when they undertook work experience or began employment.

Numerous examples were provided of regional and rural provision cutbacks. One interviewee said ‘Regional Victoria is clearly disadvantaged’. One example was a rural town in Western Victoria which had previously had four retail providers and was now reduced to one which was primarily an enterprise RTO. Another example was an RTO no longer able to service more remote areas:

‘So if somebody is in [rural town] or somewhere like that, then you can't afford to go out there anymore and there's no existing worker money, there's no special rural money or anything like that.’

When asked about the additional rural 5% funding subsidy¹⁶, this interviewee said:

‘Well, five per cent on \$1.50, sorry [laughs]. Do you know what I mean?’

¹⁶ Currently 10%

Effects on students – evidence from the submissions

It was said that fees ‘had risen dramatically’ or were ‘priced out of reach’ (particularly where no VET FEE-HELP was available). One said that fees had increased from around \$500 to \$2500 or higher.

Four different student groups were referred to by the three respondents to this question as having been particularly adversely affected: students from low SES, disengaged youth with low literacy and numeracy skills; people training in the workplace (this provider said that five-star hospitality employers were now using non-accredited training); and regional students, as small businesses could not afford the fees.

Effects on employers

Effects on employers - evidence from the forums

While the forum participants criticised funding cuts, one also noted that “a culture has been created that industry expects Government funding”, and another that employers have been “hooked on a drug of funding and incentives”. It was believed that this might have led to a reluctance by employers to invest in training themselves when Government funding is reduced or withdrawn, and some forum participants suggested that industry might turn to short courses not full certificate programs or train internally. However smaller companies might not be able to afford training or they might walk away from formal accredited training and pursue structured but informal training or informal learning on the job that meets their needs.

In relation to the Commonwealth funding, Service Skills traineeships (particularly in retail and hospitality) have suffered because of the removal of the existing worker training incentives, and for part-time workers. The timing of eligibility for a ‘new worker’ (that is, three months) was considered to be inappropriate in that it was often better to delay substantive training until it was clear that a worker had made a commitment to the industry and organisation.

One participant said that “Industry is confused and angry at times” by the frequent funding changes.

Effects on employers – evidence from the interviews

It was reported that for some employers it was becoming just all too difficult to engage with the VET system. One RTO said that the feedback from employers about the funding changes was ‘extraordinarily negative’; a public RTO said that employers were, however, sympathetic and understood that it was not the fault of the RTO.

Employers needed to spend a lot of time getting on top of all the funding changes (both in Victoria and other jurisdictions). An employer in a large company where managers had individual cost centres for Service Skills training, said:

‘If you're looking at anyone who's not eligible, whether it's for a traineeship, employee incentives, or the state funding, well obviously it's going to be full fee for service, and you know that can obviously make a huge impact... But I ... have calls from a various - whether it's a site manager, a state manager or operations manager, saying ‘Look we've got these people or person, they've identified they want

to do some training, what can we utilise, or what is there available for us to assist and put them through training.'

In such cases cross-subsidisation might be possible, but it meant that new and possibly 'untried' employees, perhaps unfairly, had to be given priority over existing employees. This employer spent a great deal of his time researching funding availability to try to deliver as much training as possible across the company as a whole. It should be noted that this particular training manager had the advantage of having previously worked for an RTO and therefore had some familiarity with the VET system and how it operates.

Traineeships were no longer viable in retail and hospitality, due to a combination of State and Commonwealth funding changes. Fitness, however, was not affected by this as traineeships were rarely used.

One RTO said that a national retail company with which it worked used existing worker traineeships for employees who showed promise and commitment. In their view, three months was not long enough to allow for this to happen, and therefore career progression was now limited. Another RTO, also in retail, said:

'We could offset the Victorian stuff to some extent, though it still isn't anywhere near ideal, through utilising the Commonwealth incentives. That basically meant that ourselves as an RTO just had to exist and deliver on less money. But once the Commonwealth incentives for existing workers were removed, that decimated things. Not only did you have to - well then we obviously had to charge a decent amount of money to make a return and actually be able to deliver a half-decent quality product. That figure was beyond the realms of most of our single-owner operators, which most of them are mum and dad type operators. They just couldn't afford the training any more without the support.'

There was some discussion of the effects of the funding changes on the quality of graduates. In fitness, for example, the industry association reported 'a noticeable drop off in the quality of graduates' as the result of the initial expansion of training places. In tourism, the industry association interviewee noted that perceptions were as important as reality in this instance:

'So the standard has reduced, but it's mainly that the businesses have lost faith in their [RTOs'] ability to provide effective training, and as well the incentives. There's no incentive for the employees to invest in their staff as it quickly changes all the time and it's very expensive.'

Industry associations generally were concerned that the furore over funding, and the Government's public statement that those areas losing funding were of low public value, had led to a lower perception of their industry. This was particularly mentioned by industry interviewees in the retail, hospitality, fitness and tourism industries.

Employers could reduce accredited training provision to qualifications that were subsidised properly or specific units of competency. They could work closely with RTOs to make training affordable. Or they could cross-subsidise Victorian branches from operations in other jurisdictions where training was better-funded.

Effects on employers – evidence from the submissions

There was a consensus among RTO respondents that the drop in traineeship funding had led to less use of accredited training. One said that there was no up-skilling of existing workers, and two mentioned concern among employers about future skills shortages.

The employer respondent, who was in a specialised area of retail, said:

‘Changes to funding arrangements has a major impact on the ability for outside organisations to deliver training to small businesses who are in need of training but do not always have the necessary funds to afford training through an outside source.’

This respondent cited Commonwealth changes as being more detrimental than State changes.

When asked about the quality of training, this employer said:

‘With RTOs and other organisations all fighting to gain business from prospective companies they offer prices to deliver the training which has a detrimental effect on the quality of the training because the trainers and RTOs are looking at options to reduce the amount of time and therefore their costs resulting in the loss of quality training... You can’t cut costs and expect the same results from fewer dollars!’

A peak TAFE body noted that Commonwealth changes to apprentices and trainee incentives created ‘further barriers to employers to take on apprentices’.

General effects

General effects - evidence from the forums

The industry association attendees pointed out that the public should be able to expect to be serviced by well trained staff who were both informed and knowledgeable. A particular case was made for Community Pharmacy where well trained counter staff may mean that less strain is put on the health system. It was argued that if training is poor, the advice given may well have serious consequences.

Forum participants noted that if there is a cohesive industry voice that is prepared to protest, funding may be maintained or could even be restored, but informants mentioned that this was unlikely to be the case as the Victorian Government might well be concerned about ‘setting precedents’. The informants also suggested that, in any case, some industry sectors covered by Service Skills are too segmented and factionally-based so that, in their view, forming a united industry voice is not possible.

General effects – evidence from the interviews

As one RTO put it, as a business it is surviving itself, but the health of the system is in doubt:

‘But we’ve done that by being focused on the bottom line so that assists us, it doesn’t necessarily assist the system as a whole. I mean the level of disruption that this has caused; if you offset that against, the benefits that I look at in terms of our own business the cost far outweigh the benefits to a society.’

This interviewee went on to say ‘There hasn’t been a positive decision in regard to the VET sector for a long, long time.’

These concerns were common to many respondents. Some RTOs stated they were at the end of their tether: ‘we are fighting a losing battle’. One industry association said it was on the brink of ceasing delivery of qualifications and reverting to offering non-accredited training. Losing good providers is clearly an unwelcome potential development in the Victorian system. The rapidity and successive waves of changes, none perceived as beneficial, was a problem as well as adding further negative effects to the cumulative effects of the changes.

There was reported to be a lack of public confidence in the ability of the Victorian Government to manage VET. One provider said:

‘It’s lack of respect for their management ability, that’s the previous government. I think this government’s getting itself in - it’s had to make tough decisions and it’s turning it around but obviously a lot of people are getting hurt in the meantime. ... their [current Government’s] lack of management experience has definitely damaged it [the VET system].’

It was stated that the continual changes to VET funding arrangements made little economic sense. For example, the funding changes meant that growing industries were no longer supported with training. Examples provided were the loss of training provision in hospitality in the Warrnambool and Gippsland areas, while manufacturing was privileged in respect to funding, but was actually in decline. In hospitality, it was stated that there were skill shortages throughout the State.

There seemed to be little emphasis on educational issues in the VET system in Victoria. For RTOs and employers- ‘all energy and focus now is on the bottom line’ as one RTO put it; for RTOs it is how to keep programs going, for industry it is what training can be afforded for their workers.

General effects – evidence from the submissions

One respondent was concerned about what the funding cuts for the service industries implied: ‘ the government does not value the service sector of the Victorian economy ... and they continue to follow the union propagated policy that only “trade” qualifications are valuable and should be supported.’

More broadly across VET, two noted that the changes to funding would be long lasting; one said:

‘Governments at both levels have destroyed a VET system that was built over 30 years.... The VET system has been so denigrated in the media. It is unlikely that unaccredited courses will be equally valued by prospective employers

This respondent elaborated on this point, suggesting that RTOs might start to develop their own non-accredited courses and that TAFE would drop unprofitable courses. The result, this respondent thought, would be that people would turn to higher education.

The blame game and 'dodgy' providers

It was notable that there were many comments that blamed 'dodgy providers' for the situation. For example, one RTO interviewee said:

'Then they opened up the market and every Tom, Dick and Harry got involved and just a lot of rogues got involved and a lot of money got wasted.'

As we were not directed to any 'dodgy providers', it is hard to verify these statements. It was also noted that some RTOs blamed employers for giving up on traineeships because, supposedly, employers were used to making money out of them and did not want to continue with them when employer incentives were no longer available. But interviews with employers and with industry associations showed that employers struggle to deliver qualifications (as opposed to in-house training) without at least some level of external funding, as they have to justify expenditure to their management. It is clear, then, that there is a need for better information so that decisions and attitudes are based on fact.



Key messages from the research

Figure 5, the Model of Impact (next page), summarises the findings of the whole project about the effects of the funding changes on RTOs and consequently on industry, community and individuals, and the strategies which RTOs have been using to cope with the situation. In particular this sections draws on information from the focus groups, interviews and submissions.

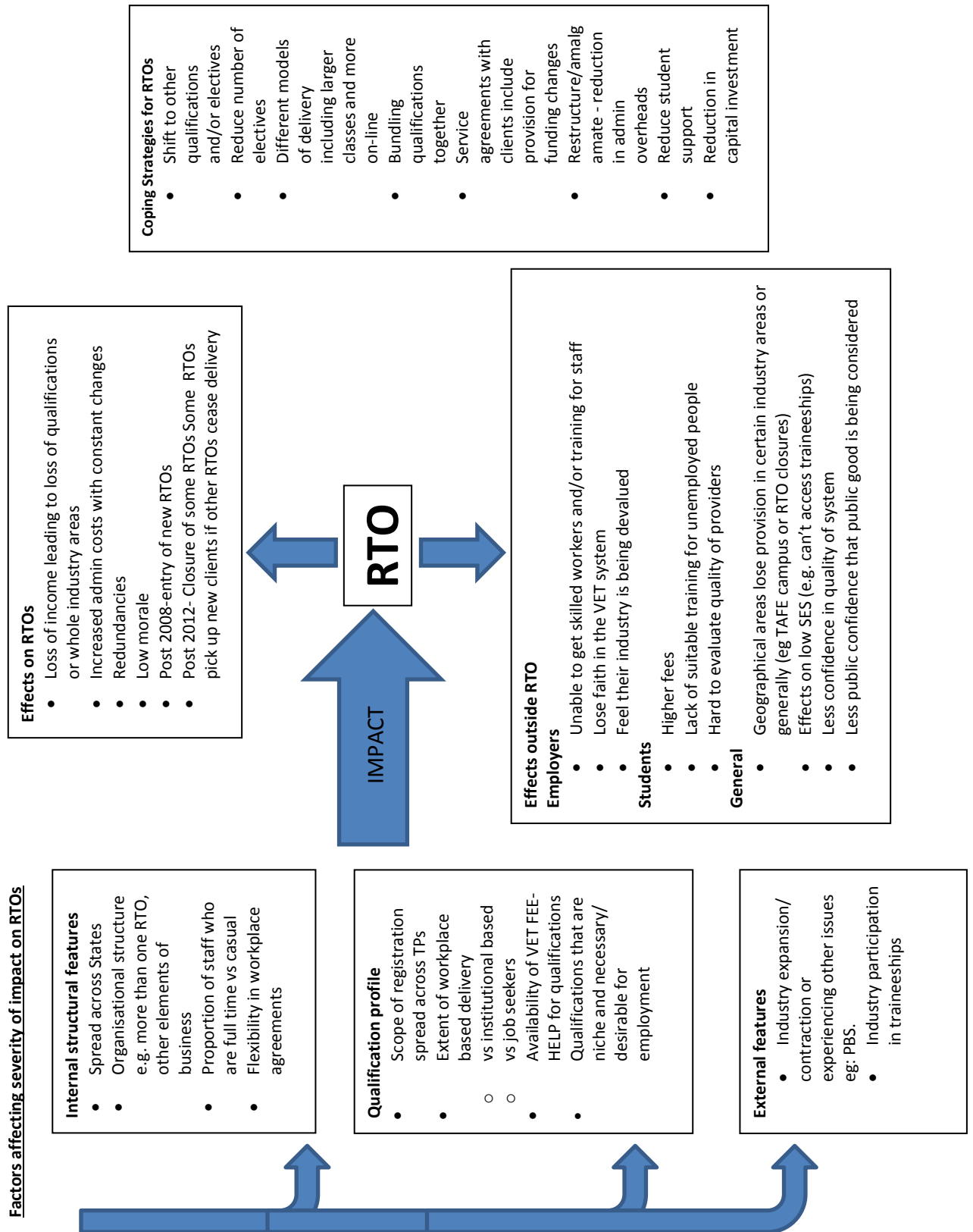
Our analysis of all the data has enabled us to identify factors which affected how seriously the changes impacted on individual RTOs and other groups. These are also presented in the model.

Effects on RTOs

Effects on Service Skills providers, both public and private, have been dramatic, and are particularly related to the changes to subsidy rates announced in May 2012. The changes have resulted in:

- Entry of new and untried Service Skills providers into the market post-2008, with flow on effects when some of these providers offered poor quality programs which not only affected the confidence of end users but also meant that ethical providers had to address learning deficiencies when students sought to build skills based on an initial (and poorly delivered) qualification
- Loss of income. This was particularly so for TAFE providers and their loss of their additional community service obligation funding
- Staff losses, redundancies and loss of morale which may be, in part, ‘survivor guilt’
- Reduced enrolments in a range of Service Skills areas, but particularly in hospitality and tourism programs, retail and sport, fitness and recreation
- Closure of some Service Skills courses and providers, with other providers having to pick up load when capacity has been lost in other Service Skills providers (a case of ‘last man standing’), but with decreased convenience of access for students
- The loss or, reduction of key student support services, often needed for students with a range of disabilities and learning difficulties enrolling in Service Skills qualifications. Paradoxically the increased numbers of students accessing the Victorian training system (many of whom have learning and other problems) have made these services more vital than ever
- Significantly decreased financial viability, applying to both TAFE and private providers. For example, many TAFEs are now in a far more precarious financial position and most (13/14) have either a medium or high financial sustainability risk. Half (7/14) ran a deficit and ten reported a reduced financial result in 2013. This represents a rapidly changed circumstance from 2009
- Continual change in subsidy rates and entitlement arrangements announced by the Victorian Government since the May 2012 announcements, and the requirements of contract compliance, have resulted in increased administrative burden and costs for Service Skills providers, and a significantly decreased capacity to plan and budget effectively. Survival is now the focus rather than quality
- These effects have been compounded by changes at Commonwealth level, resulting in a ‘double whammy’. While the Victorian effects are seen as far more significant, the changes in entitlement to traineeships are the most significant Commonwealth

Figure 5 Model of impact on RTOs and beyond



changes, especially the loss of training for existing workers early in their employment careers.

Coping strategies for RTOs

Service Skills providers, both public and private, have attempted to cope with changes to funding rates and entitlements, and most of those interviewed maintain that they have done all they can to maintain the quality of delivery. However, our informants noted that they have had to do one or more of the following in the Service Skills offerings:

- Withdraw from seeking VTG/entitlement funding altogether and charge full fee for service or use VET FEE-HELP where applicable
- Adjust profile where possible to qualifications that attract better funding, but this might result in good providers shifting away from Service Skills delivery in whole or part
- Increase class sizes, sometimes significantly
- Increase the student fees charged – in most cases significantly. This has led to concerns from existing students finding that the cost of their course had increased
- Cut support and other services, and this particularly affects those students with disabilities, learning difficulties or personal issues
- Close campuses, but of more significance to Service Skills provision is the mothballing or refitting for other purposes of specialist training facilities, for example teaching kitchens and restaurants
- Reduce the cost of consumables (and this may compromise the authenticity of the learning experience) and/or delay the purchase of new capital equipment and other expenditure
- Cut the number of available optional units of competency, especially those that are costly/difficult to deliver (but this affects the ability to meet local training needs or address what skills/competencies particular employers may want)
- Reduce flexibility and training options, transfer as much as learning as possible to on-line and reduce face-to-face contact time or cut the number of sites at which programs are offered if they are a multi-site provider. Workplace assessment and delivery may also be less viable
- Use sub-contractors/other providers to help with delivery, and this may be particularly the case in covering regional areas or in helping train/assess on the job
- Lay off staff or convert their employment from full-time to sessional or part-time
- Use the packaging arrangements for qualifications to maximise income
- Bundle qualifications if possible
- Restructure or amalgamate in an attempt to reduce administrative overheads
- Develop and implement ruthless models for assessing the viability of particular Service Skills and other qualifications whatever the local need may be.

Effects outside RTOs on students, employers and more generally

The effect on Service Skills students include:

- Increases in fees by providers to cover costs when subsidy rates are changed with little or no notice and no consultation This is particularly relevant for those students already undertaking Service Skills qualifications. The effects of fee increases are also

unknown for some Service skills qualifications as their levels may deter potential and otherwise worthy applicants

- Loss of Service Skills training options or provision locally. This is especially relevant in regional areas, but is also relevant to students in some metropolitan locations
- The loss of support services if Service Skills students have learning or other difficulties that affect their ability to study and complete their program
- Attaining qualifications through their entitlement that have little or no recognition in the market and little value because of their poor quality.

Finally, it can be very hard for students to assess the quality and value of the training options available.

The effect on Service Skills employers include:

- The reduction of subsidies and the increased direct cost of training to the individual employer or employee. This may be particularly significant for the many small businesses that characterise Service Skills industries
- Loss of Commonwealth subsidies, on top of Victorian changes, that have limited traineeship entitlement. For Service Skills, this has particular relevance and a 'double whammy' impact in both hospitality, and retail in particular
- Confusion over entitlements and training arrangements, so rather than making the system more transparent, as was the Victorian Government's intent, it has become even more complex for Service Skills industries and employers to stay informed about changing training arrangements, entitlements and subsidy levels
- Loss of confidence in the quality of Service Skills graduates in a range of industries, including retail and community pharmacy, hospitality and fitness, and finally
- A feeling that the setting of subsidy rates, particularly since May 2012, reflects the Victorian Government's view of the poor economic value and the worth of some Service Skills industries.

Other general effects include:

- The loss of good Service Skills providers, including TAFE campus and other RTO closures – including some private and community education providers
- The lack of suitable and worthwhile training in Service Skills for the unemployed as Service Skills occupations can be a key entry point to the labour market
- Loss of public confidence in the broader VET system and its quality.



Analysis and conclusions

Addressing the research questions

Drawing on the findings about changing enrolment and provider numbers, evidence from Karmel (2014) and the information gathered at the forums, interviews and through the submissions we return to the three research questions that have underpinned this project:

1. What are the changes in provider and enrolment numbers in the industry sectors and related qualifications covered by Service Skill's Training Packages over the time course 2009 to 2013?
2. What have been the effects of the changes on employers and employees?
3. What have been the effects of the changes on training providers, and consequential effects on students and communities?

These will now be considered in turn.

What are the changes in provider and enrolment numbers in the industry sectors and related qualifications covered by Service Skill's Training Packages over the time course 2009 to 2013?

Since 2008 the number of community education providers offering Service Skills qualifications has declined, whilst the number of private providers (that is, 'other registered providers') offering them has increased dramatically, particularly between 2009 and 2010 and 2010 and 2011 before stabilising in 2012 and then dropping back in 2013.

Major growth in provider numbers for Service Skills between 2009 and 2010 were in the fields of beauty therapy; hairdressing; sport, fitness and recreation; retail and tourism, hospitality and events. The largest number of providers were concentrated in these latter two fields (retail and tourism, hospitality and events) and growth of provider numbers in both these fields continued into 2011.

The level of publicly funded training in Victoria grew very rapidly between 2008 and 2012 in beauty, hospitality, retail, community pharmacy (from a low base), sport and recreation, and tourism and travel. This rapid increase was followed by a significant decline in 2013, particularly in hospitality, retail and sport, fitness and recreation. In contrast the rest of Australia over the same period characterised by a far greater stability of Service Skills provision, indicating that it was the Victorian reforms that clearly were the primary cause of the pattern of rapid growth to 2012 in Service Skills provision followed by a sharp decline. However, overall, Service Skills training levels in 2013 are still above those of 2008. However, as noted above, the level of funding in 2013 for Service Skills qualifications was around 70% of that in 2008 (Karmel 2014). This raises the issue of whether Service Skills occupations are presently receiving their fair share of Victorian subsidised funding.

What have been the effects of the changes on employers and employees?

Many Service Skills employers have reduced both the range and amount of training provision for their employees. Small employers in Service Skills were reported to have found it especially difficult to pay the higher fees required given the drop in subsidy rates. Thus, there was some suggestion that employers may move away from formal training and focus

more on non-formal structured training or informal learning on the job. Some Service Skills employers may walk away from training altogether – possibly to the detriment of their employees and their industries. Service Skills employer bodies report they have found the constant change particularly concerning. It has become difficult for employers to engage effectively with VET providers in Service Skills. Commonwealth funding cuts during the same period resulted in traineeships being no longer available for existing workers in the Service Skills industries. Hospitality, and particularly retail, have been affected.

Some employers sought options in other jurisdictions where training was better funded. A decrease in the quality of graduates resulting from the initial rapid expansion of training places was also reported in some Service Skills industries, including retail (community pharmacy), fitness, hospitality and tourism.

Service Skills employer bodies expressed disappointment that a poor perception of some Service Skill industries that had been created since, from the Victorian Government's perspective at least, those areas losing subsidy funding were apparently deemed to be of low public and economic value. They believed their industries were important to the Victorian economy, and the public should be able to expect to be served by well trained workers in their industries.

What have been the effects of the changes on training providers, and consequential effects on students and communities?

The effect of the introduction of the VTG was to increase the number of VET students and new RTOs entering the field to the point where the market was significantly “over serviced” in some occupational areas, including parts of the Service Skills coverage. Many of the new RTOs were opportunistic businesses, and proved to be short lived. Once the subsidy changes announced in 2012 were implemented, Service Skills providers reported that they had experienced decreased student numbers and had to reduce their course offerings and options, increase student fees, make staff redundant, change delivery approaches, cut support service and other costs and, in some cases, close facilities. For the public RTOs, this was compounded by withdrawal of the full service provider funding.

Both public and private Service Skills RTOs reported decreased commercial viability in general and in a range of Service Skills programs in particular. While the major effects have been caused by the Victorian subsidy changes, changes in Commonwealth funding arrangements - particularly for traineeships - have compounded problems. All Service Skills RTOs reported their frustration with the increased administrative burden and especially the short notice and constancy of the changes which made effective planning and budgeting difficult if not impossible.

Students were reported to be concerned with changing fee levels that affected their ability to pay for their own training and effect a reasonable return on their training investment. Some disadvantaged groups, including unemployed people, have been particularly affected and now lack the support services that assist them to succeed. The effects of the changes are having on individuals who choose not to access training under these arrangements cannot be readily assessed.

Providers and communities, particularly those in regional areas, have been affected by the subsidy cuts, with loss of local employment of RTO staff and a range of training options for community members. There have also been flow-on effects to local business through the loss of Service Skills training.

Conclusions

Building on the summary of key messages both in the previous findings section and throughout the body of the report as well the three research questions addressed above, we draw eleven conclusions in relation to the development and implementation of the Victorian Training Guarantee and the contestable training market running in Victoria.

Press coverage of the changes in Victorian funding approaches and levels and their impacts have received significant attention: and almost all of it has been negative. Likewise the Victorian funding arrangements and their effects have been commented on, again usually in unfavourable terms, in both the Senate Inquiry Report on Technical and Further Education in Australia and some of the submissions to both that and Federal House of Representatives inquiry. One real danger of this continued negative commentary – and one the authors are conscious of in preparing this report – is the effects it is having on the VET and TAFE brands in Victoria and the possible destruction of confidence in them in both public perception and, perhaps more importantly, in both regional areas and industry. Another danger is that if the Victorian Government is not seen to be currently funding Service Skills training appropriately and fairly through the public purse, Service Skills employers are likely to walk away from formal training and increasingly turn to training that is not formally recognised and delivered through structured programs or informally – or, regretfully, not train at all.

Following are the major conclusions developed in the context of the effects on Service Skills occupations and qualifications in particular, the conclusions themselves may be more broadly applicable.

Conclusion 1: The advent of the Victorian Training Guarantee and contestable funding appears to have been initially greeted warmly in some quarters (most notably by some private providers and representative bodies), but raised concerns in others. On a positive note, Victoria's VET funding has substantially increased over its 2008 levels (and it is one of few, if not the only, state to do so). For Service Skills providers the bold Victorian approach initially offered the possibility of growing and diversifying their offerings, and a few reported they were actively encouraged by Government to do so in meetings with them and at forums. As funding levels peaked, growth could only occur by capturing the market share held by others. TAFEs in particular suffered significant loss of market share (Karmel 2014).

As the market grew with a rapid expansion in the levels of student participation in 2011-12, an increasing number of providers and individuals accessed the public funding. Some of the providers interviewed for this project reported that a number of their competitor providers, often new to the market, were opportunistic, largely profit motivated and in the market for short-term gain. Many of these providers, they maintained, had minimal connectedness to the Service Industry sectors they covered and appeared not to have the interests of their students at heart. Rather, informants maintained such providers sought to exploit the opportunities these market conditions provided to the detriment of the VET brand in general

and the credibility of a range of Service Skills industry qualifications and the students who undertook the training in particular. This leads to a second conclusion.

Conclusion 2: A range of market design issues started to emerge in relation to a number of Service Skills qualifications soon after full implementation. This resulted in rapid and unsustainable growth in provider and student numbers, and levels of government expenditure. Some Service Skills qualifications were particularly affected. Intuitively, any system that grows rapidly over a short period of time as the Victorian system did (by around 57% over the period 2010 to 2012) gives rise to suggestions that at least some of the market controls were not functioning as well as they could, and that the numbers undertaking particular qualifications could be readily distorted. While rapid growth could indicate a high and general level of unmet demand, more likely it suggests the potential for a level of oversupply of capacity in a range of qualifications, most likely those which Toner (2014) characterises as having low barriers to market entry. This proved to be the case for a number of Service Skills qualifications.

While a ‘blame game’ between the current and former governments has emerged there is no evidence we can find on the public record of strong concerns being raised by the present government over the former Labor Government’s radical redesign of the VET market at the time it was proposed and in the early phases of its implementation. Rather, it is likely the present Coalition Government, when in opposition, supported the principle of a more open and competitive market. For Service Skills, and again using Toner (2014) as a basis, we conclude that, initially:

- Contract development and monitoring approaches of Service Skills were poor and, according to our informants, are still not as good as they might be. Of particular concern is the timeliness with which RTOs can provide the necessary information to aid market monitoring and adjustment
- Too many RTOs were allowed to enter the market too quickly with inadequate due diligence by the contracting agency, and
- A model underpinned by uncapped training provision was ill-conceived and did not give the measure of controls required in a complex market. It was likely that some areas of training would be exploited by unscrupulous providers and the decisions of individuals about the use of their entitlement would be manipulated by those having influence over individuals’ decisions. Not enough was done to educate entitlement consumers about the importance of a rational and informed decision about the use of their individual entitlement. Thus, training was potentially wasted at significant public cost with many undertaking training which would ultimately be of little or no use to them.

As we have argued a range of Service Skills qualifications were exposed in these ways, particularly those in retail, sport and fitness and hospitality. Other qualifications were also affected, for example community pharmacy, where the entrance to a small market of less scrupulous providers can readily distort the market by providing poorly trained but ‘qualified’ individuals who damage the status of that qualification in the eyes of its principal consumer – employers.

Conclusion 3: Service Skills providers of all types have found the present Victorian Government's continual corrective actions have adversely affected one or more of the following: their business viability, the viability of some of their Service Skills programs and the range of Service Skills qualifications they are able to provide, their staffing numbers and expertise and the levels of support services they are able to provide students in need. It is clear that the corrective actions through changes to subsidy rates have had a significant and negative effect on Service Skills provision. The result is that Service Skills share of funding has been substantially reduced since 2008 (Karmel 2014). While the majority of its subsidised qualifications were initially classified in lower bands for funding purposes, principally C, D and E, Service Skills qualifications suffered further deterioration in the subsidies offered in 2014 (see Table 6 above). Service Skills providers, both public and private, report concerns over their commercial viability and the viability of a number of Service Skills programs. In some cases such programs have ceased to be offered, or are running at very much lower levels than 2008. This will deny Service Skills employers access to well trained staff and, over time, is likely to result in decreases in service standards.

While the position of private providers is not as clear as for Victoria's 14 TAFE institutes, those private providers we talked to mentioned having to seriously think about their viability and hence adjust their business models and practices in this new environment. Some reported having to take loans to cover costs in the short term. In relation to public providers the recent Victorian Auditor General's report (Victorian Auditor General 2014) demonstrates the extent to which the budget position and viability of many of the state's TAFE institutes has been threatened.

This rapidly deteriorating financial situation of Victoria's 14 TAFE providers needs to be seen in the context of the extent to which the Victorian Government seeks to ensure a continuing and viable role for the public provision of VET as all TAFE Institutes are, and have traditionally been, active in the provision of Service Skills qualifications. Simply put, it appears the changes have been too extensive and too rapid for most of them (as large organisations) to adapt sufficiently quickly.

Service Skills providers of all types have also suffered significant staffing losses and have had to reduce the services available to students, often those who are the most vulnerable and in need of them. Such loss may be difficult to replace and thus it may be very hard to rebuild capacity even if market circumstances change. The danger is that training capacity in some Service Skills areas may be irredeemably lost or require considerable time to rebuild.

Conclusion 4: Price seems to be a 'blunt instrument' of control in that it imposes a simple and uniform market solution on a Service Skills training market that is anything but that. A more sophisticated market design is desirable. Reducing the pace of growth and associated budget rates is one of the fastest acting measures to reduce subsidy costs for targeted VET programs and qualifications. The issue is whether such an approach is the most effective in creating a sustainable system in the longer term which does not distort the market. Another approach, whether used in tandem with cost reduction, or on its own, is to set caps on numbers of providers or individuals who can access the VTG for a specific qualification. The alternative use of caps is to impose limits on access to training to what a labour market might reasonably bear in terms of workforce replacement or growth. However, as a range of researchers have pointed out (for example Karmel et al 2008 and more recently Wibrow

2014), there is not necessarily a strong connection between the vocational training and vocational outcomes. Thus it is hard to place a value on the public training dollar when it is difficult to assess both the public and personal benefits obtained. This is especially so because the Victorian government has largely placed the entitlement in the hands of individuals, so it could be reasonably concluded that the individual might tend to place their personal priorities and interests above those of public good and the needs of the broader Victorian economy. In fact, it might be argued that student choices intertwine social, educational and labour market factors, even if the latter are generally overarching. This, like Toner (2014), challenges a human capital theory approach as a basis for VET market design.

The use of price and rapid changes in pricing levels to regulate the market are potentially most damaging for those ethical and high quality Service Skills providers having a relatively narrow scope of registration. This is the case for many private providers. If their offerings are in a targeted area the viability of their whole business may be seriously threatened even if students are willing to pay increased fees. Even larger private and public providers with a wider scope of registration can have entire operational areas become non-viable very rapidly, leading to closure of courses, underutilization and even 'mothballing' some infrastructure and facilities and the loss of teaching and other support staff.

Victoria may now be well served by examining how other jurisdictions are approaching designing an entitlement and contestability based funding approach based on what they have seen of the Victorian experience as one TAFE CEO from another jurisdiction remarked at the recent Victorian TAFE Association conference: "Thank you for your pain".

Conclusion 5: Service Skills providers of all types report their ability to plan and budget effectively has been seriously compromised by continual and rapid changes to subsidy rates. These adverse effects have been compounded by funding changes at the Commonwealth level, particularly in relation to eligibility for traineeship support for existing workers. Most of the Service Skills informants interviewed appeared to accept that as problems with the changes to the Victorian funding approaches and the Victorian Training Guarantee emerged, the Government VET needed to stop the rapid and unsustainable rise in its VET budget. However, what the Victorian government has done in 2012-2013 and beyond was generally seen as quite problematic by both the public and private Service Skills providers we interviewed. In their view the government continued with the implementation of what was, in essence, a flawed approach to the allocation of training resources and budget.

More significantly, in their view, the Victorian Government sought to "tinker at the edges" or even "slash and burn" by making continuing and often severe changes with little or no notification rather than taking a fundamental look at the model's design and viability. The continual 'tinkering' made operating a training business increasingly challenging in terms of both planning and budgeting in the view of the overwhelming majority of Service Skills providers we interviewed. In addition, a few reported that even ethical providers have been tempted, and in some cases succumbed, to bending the rules to retain profile and offerings in Service Skills.

The cuts in subsidies introduced in 2012 and fully implemented in 2013 'took out' or reduced the viability of good as well as poor providers of a range of Service Skills qualifications. All

the providers interviewed reported that the Victorian cuts had affected them, but the extent of the effects related to their profile, especially where they had Service Skills qualifications on scope that had significant cuts to subsidy rates. In these cases the qualifications were either taken off scope, mothballed or, where they were retained, fees had to be dramatically increased to compensate for the loss in subsidy funding.

The changes in Victorian funding rates were compounded by funding and other changes at the Commonwealth level. The change at Commonwealth level that appears to have had the most dramatic effect is the alteration to traineeship funding and qualifying requirements. This seems to have been particularly significant in the retail sector, but there were also effects in hospitality.

In the view of some of our Service Skills industry informants the new trainee funding arrangements did not allow sufficient time for the potential trainees to commit to the industry or employer - or for the employer to determine that they were a valuable employee worth keeping and training. Informants reported that a number of employers have also 'walked away' from formal training with the removal of subsidies, opting instead for structured but non-formal training or informal learning on the job. Some, unfortunately, while needing it may not train at all.

Conclusion 6: Service Skills providers maintain that they face a considerably increased administrative burden as a result of continual changes currently occurring in Victoria. The continual change resulting from the changes to subsidy funding means that websites and a whole range of information and information sources have to be kept under continual review to ensure that they up to date and correct. This imposes an increased administrative load and, it was suggested, diverts providers' attention away from providing the highest quality training possible to their clients. It also imposes a significantly increased compliance burden for ethical and high quality Service Skills providers in association with reporting information to the State Government to comply with their contractual obligations as well as those required by the VRQA or ASQA. As a result the attractiveness of offering some Service Skills qualifications is seriously reduced for providers of all types.

Conclusion 7: The Service Skills training market, training needs and skills shortages are not uniform across Victoria. While the subsidy levels provided for particular qualifications are applied relatively uniformly, skills needs and employment opportunities in Service Skills occupations are not uniformly distributed across the state and across a range of regional and metropolitan areas. Thus, it cannot be assumed that the market for the same VET qualification behaves uniformly across the state but, rather, is affected by local work opportunities and skill shortages. Employment opportunities and training needs are, likewise, not uniform. In addition this approach does not take account of interrelationships between the qualifications within broader programs of study. For example, in many institutions offering a full suite of food service programs, those studying cookery prepare food to serve in a training restaurant serviced by the front of house hospitality students. If one of these programs becomes unviable, however, the traditional training model itself becomes increasingly untenable and alternative approaches have to be sought if facilities and programs are not to be closed.

These effects are particularly significant in regional areas where the range of available VET programs is comparatively small. Thus, making the range of available programs of study smaller through price control may further reduce choice in an environment where many of VET's clients are having to learn because they are not earning. But is what is actually available to learn in this more narrowly focused local market appropriate to their needs, interests and local work opportunities? Is it, as the Victorian Government says it wishes, really increasing choice of training provision within local communities (Victorian Government 2008b). Is it, in fact, a better solution in some circumstances to maintain choice of training programs and qualifications at the expense of the choice over providers? This is most likely the best-case scenario when individual markets are seen as "thin", as they often are in Victoria's regions. In such cases Service Skills offerings might offer good outcomes for students and graduates.

There seems also to be a real issue in the regions with Service Skills offerings narrowing and infrastructure closing down or being under-utilised at the same time as the Victorian Government is requiring a return on its investments in public assets by public providers. This affects the TAFEs the most if there are expensive facilities devoted to Service Skills provision that cannot be fully utilised and they are therefore in danger of not making required targets.

In summary, it means that the system's designers need to keep a comprehensive view of public interest strongly in mind when they attempt to intervene in the market.

Conclusion 8: Service Skills providers believe they are doing all they can to maintain the quality of their offerings but, in order to maintain viability, quality of delivery and student support have both been compromised in a range of ways. The great majority of providers interviewed demonstrated a high level of connectedness to the Service Skills industry sectors they covered and were committed to delivering the Service Skills qualifications on their scope to as high a standard as possible. In addition, those interviewed were undoubtedly amongst the higher quality and well established Service Skills providers in the Victorian system and included adult and community education and both public and private providers. Nevertheless, as the key messages at the end of the findings section shows, providers have had to adopt a range of strategies to cope and remain viable. While most of these providers – the most ethical and best, maintain that they have done as much as possible to maintain quality, all would believe that the quality of service and provision they are now offering in a range of Service Skills qualifications has slipped.

Conclusion 9: Significant increases in the fees charged for some Service Skills qualifications have been necessary to maintain their viability. This has particularly affected those students already studying when fees have to be raised to meet shortfalls caused by rapid and unilateral changes to subsidy levels for particular qualifications. Increases in fees have also had unknown effects in terms of limiting access to those without sufficient financial means to pursue Service Skills qualifications relevant to their interests or chosen area of work. The increase in student fees that have been necessary to retain the viability of a number of Service Skills qualifications seems to be tolerated by new enrollees according to our informants, because they are not likely to have historical knowledge of the fees charged for courses. However, the increase in fees for on-going students during the course of their enrolment has reportedly been a bugbear to both students and providers.

Service Skills providers have reported that they had to raise their tuition fees for existing students in response to funding and other changes with little or no notification or consultation from Government. This had repercussions in that students perceived that the goal posts have shifted in terms of the financial commitment required of them to complete a qualification and, in some cases, led them to withdraw from the course. There is also no way of now knowing about how much personal demand went unfulfilled for some Service Skills qualifications as fee levels may discourage enquiries in the first place. Such potential students may judge that the qualification is just not worth the personal cost in time and money.

Informants reported that some other Service Skills providers are still deliberately obscure and not 'up front' about the full level of the fees they charged, and there is little or no evidence on their websites of the fee schedule despite their contractual obligations to do so. Some of the provider informants said they undertook competitor market analysis to help set their fees and in some cases had reported other Service Skills providers they believed were not meeting the spirit of the Victorian contractual obligations. However they saw little evidence that the providers concerned were disciplined for what is a breach of contract. This non-disclosure may be a particular issue with diploma level courses in Service Skills areas accessing VET FEE HELP as the costs are deferred and it may be difficult for students to determine whether they are getting value for money and a reasonable return on their personal training investment – which may be considerable and on a par with (and even exceed) the cost of some higher education qualifications.

Examples that came to light in the course of this research include retail (Victoria's second highest employer industry) and in a range of hospitality and tourism programs which may be significant employers in both metropolitan and regional centres. These areas (retail and hospitality/tourism) are often key areas of workforce entry for young people and in some cases, for example waiting staff, industry still reports a shortage of well-trained skilled labour.

Conclusion 10: Some Service Skills occupations and qualifications seem to have been harshly, and unfairly, treated given their importance to overall Victorian as well as local and regional economies. Areas of the Service Skills profile have their qualifications in lower bands signalling, from the Government's perspective at least, these would be considered to be qualifications leading to occupations which are not of greatest public benefit, or which exceed "the job needs of business and the economy" (Victorian Government 2012, p. 2). Some occupational areas, like retail and hospitality, have a strict occupational hierarchy and a tradition of promoting from within, in which training and experience is expected to be attained at lower occupational levels before higher level jobs can be attained. In short, they are expected to "know their industry from the bottom up". Thus, higher level jobs are hard to obtain, and are in shortage (for example café and restaurant managers and retail managers and supervisors). These shortages will be more readily met if, amongst other things, there is reasonable access to high quality and well respected training at lower levels.

Trades training in the Service Skills profile has remained protected from funding cuts, which is consistent with State practice. Thus we would expect that commercial cookery, patisserie, hairdressing and floristry enrolments should have been largely unaffected, if not enhanced, by the funding changes. However one informant offering floristry noted that the decrease in

allowances to country apprentices to undertake their study blocks in the city had made their apprenticeship unsustainable. As noted previously, substantially lowering the subsidy rates for hospitality front of house training had made a number of provider-based restaurants non-viable and meant that both it and the programs training chefs (an area of skills shortage) had to be reduced or close.

The Government wants to train in areas of job growth. Both retail trade and accommodation and food services are large employers in Victoria. By any measure they are also important contributors to the Victorian economy, particularly in regional areas. Service Skills (2013) noted national difficulties in recruiting waiting staff for high end restaurants. They also noted a shortage of bar attendants regionally. Service Skills (2013) reported that tourism businesses had signalled difficulties in recruitment and retention, as well as skills deficiencies. Likewise fitness trainers are an employment growth area, and both they and community pharmacy assistants have a key role to play in encouraging preventative health measures and a healthy lifestyle. To fulfil this role properly they need adequate training so they not only achieve this 'mission', but also do not cause harm to their clients. Finally high quality retail training is not only required to improve customer service standards, but also to provide first or next career access for many individuals, including the disadvantaged. While Service Skills report that some argue that retail is not seen as a viable career option their informants suggest, in fact, that it can be (see Service Skills 2013).

In its reforming the VET sector document the Victorian Government has suggested that:

“Subsidies will also be better targeted within individual industry sectors and qualification levels, guided by industry needs and ongoing monitoring of the responsiveness of the training market” (Victorian Government 2012 p. 6).

This begs a question: What is the evidence that a number of the occupations covered by Service Skills are not of 'public benefit'? The question is important to consider given the employment potential and the value of such qualifications to some. This leads us to ask whether the current subsidy rates for some Service Skills qualifications in lower bands really reflect their worth, or are more a reflection of the need by the Government to control the VET market in certain qualifications which are capable of being more readily 'abused' in the VET marketplace than others and thus control their level of expenditure on VET? This leads us to a final conclusion:

Conclusion 11: An urgent rethink of the Victorian VET funding model is needed if the system is not to collapse, and if the confidence of both the Service Skills industries and training providers in the Service Skills market are to be restored. We detected a lot of concern by Service Skills employer organisations and providers alike about the direction that the Victorian system had taken initially and then the Government's attempts to bring some order to the system and rein in and contain the rapid growth in VET training expenditure. Below we outline a set of principles for a contestable market:

- A clear notion of the government's role in setting and managing market conditions
- Clear and transparent eligibility criteria for public subsidies for particular occupational areas, qualifications and student groups, including acknowledgement of the needs of lifelong learners and career changers

- Comprehensive market assessments by the system's designers and managers of potential demand and supply of labour that is sensitive to both overall and local market conditions
- A concern to ensure equitable access to training opportunities and support to maximise successful outcomes (for example, access to foundation skills training, language, literacy and numeracy programs and other support services for those with disabilities or who face personal challenges that affect their ability to learn successfully)
- Strong processes for managing provider entry to the market and market oversight
- Strong processes for contract management and reporting by providers
- An appropriate balancing of community service obligations with the needs of the labour market and industry, and
- Sound and accessible information that can be readily understood to inform student and employer choice and minimize information asymmetry.

The issue is the extent to which Victoria's approaches are adequately addressing these principles in terms of Service Skills provision and, possibly, other industry sectors. Again, we suggest that an examination by the Victorian Government of how other jurisdictions are approaching contestability and entitlement funding may be timely.



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