VALUING SKILLS

WHY VOCATIONAL TRAINING MATTERS

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This paper is a review and synthesis of some of the most relevant and recent data and analysis on the state of TAFEs in Australia, in the context of ongoing changes to the VET system, and with a focus on the implications of these changes for TAFEs in NSW.

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Main points

- There is evidence that substantial benefits from Vocational Education and Training (VET) accrue to individuals, the economy and society. It is also clear that TAFE has particular value within the sector.
- Individual benefits include financial benefits (such as a $324 632 increase in lifetime earnings), and personal development (94.4% of those undertaking VET primarily for personal development achieved or partially achieved their aim).
- By providing skills to the economy VET has been estimated to provide a substantial return on the public's investment.
- VET has important social benefits, including building the capacity of some of the people in our society who have the most difficulty accessing opportunities to improve their lives:
    - 6.6% of VET students nationally report having a disability or long-term condition (7% in NSW).
    - Students from all socioeconomic backgrounds are well represented in VET, with those from less advantaged backgrounds particularly well represented.
    - VET is delivering significantly more services to the areas that are most disadvantaged by remoteness and lack of access. Nationally it has 18.4% of its students coming from rural and remote areas, when only 11.4% of the population live in these areas. (These figures are 17.8% and 6.6% respectively in NSW).
- The VET sector's largest provider, TAFE, frequently provides a disproportionate share of the benefits to society:
    - TAFE has 7.2% of students with disability or long-term condition (8.7% in NSW) - compared to 4.2% for private providers nationally (1.8% in NSW).
    - 19.6% of TAFE students are living in rural and remote areas (17.5% in NSW); the proportion was 14% for the private providers (12.9% in NSW).
    - TAFE does more training towards skills in shortage (e.g. in Victoria, 28.6% of TAFE students are training to fill jobs in areas suffering from skill shortage, while less than 20% of students at private training providers are gaining skills that address industry shortages).
- NSW should learn from the Victorian experience how not to undertake reform.
    - The mismatch between deregulation and the need to target training towards skill shortages was exemplified by an upsurge in fitness instructor enrolments in Victoria, despite a surfeit.
    - TAFE is playing a greater role in meeting industry needs, directing a greater proportion of training towards areas of skill shortage than private registered training organisations.
    - Had the $500 million spent mostly on growing private provider enrolments been invested in growing TAFE at a similar rate, it might have resulted in more training for the skills needed by industry, reaping greater long-term benefits for Victoria.
- The complexity of valuing VET means there's a danger that evidence will be ignored in politicised debates over policy change options. There must be better consideration of evidence before reforms are undertaken.
- Such consideration will be facilitated by gathering more accurate and complete data on the effectiveness of the VET sector.
- The role of TAFE as a "full service provider" is being undermined. It is clear that the sector as a whole will suffer from the role not being filled, so debate is needed on how best to ensure that full service provision continues.
- The move to greater contestability is resulting in private VET providers running more of the inexpensive courses, while TAFEs continue to provide the bulk of the more expensive courses. This is increasing the costs of TAFEs at a time when they are undergoing significant funding cuts, coming on top of a long period of decline in funding. The funding model of TAFE is becoming unsustainable, and discussion is needed on options to redress this, such as examining the arrangements for subsidising employer-specific internal training.

CONTENTS 1

Introduction

Most would agree that an effective and high-quality Vocational Education and Training (VET) sector is of benefit to Australia. The benefits of VET are multiple and accrue to individuals, the economy, and society as a whole. Some of these benefits are difficult to quantify and are affected by numerous factors. Assessing the extent to which the sector delivers these interacting individual, economic, and societal benefits, is not straightforward.

The complexity of assessment means that it is sometimes difficult to see which policies aid the sector in delivering its full potential benefit, and which hinder it. This leaves the VET sector vulnerable to changes driven purely by political agendas that are unsupported by evidence, or which fly in the face of what evidence there is. As a first step towards any VET reform, there needs to be a rigorous assessment of the benefits that the sector is currently delivering. Given the significant size of the public provider of VET services, TAFE, the specific value of TAFE within the VET sector must be considered as part of this assessment.

This report outlines some evidence of significant benefits provided by the VET sector. They include personal benefits such as increased income and furthered personal development; economic benefits in reducing skill shortages and facilitating a higher-skilled and more prosperous economy; and social benefits in combating disadvantage from disability, remoteness, and socio-economic background. It also examines the particular value of the VET sector's largest provider, TAFEs, and finds indications that they do a disproportionate amount of the work in providing training for skills in shortage, and in providing training to people who may otherwise struggle to access opportunities to build their skills.

This paper begins with a brief outline of the policy history of TAFE and the sector. This is followed by a discussion of the value of VET: to individuals from high-quality practical training; to the economy through addressing skill shortages; and to society as a whole by enhancing social inclusion and civic participation. The final section discusses future directions and gives recommendations for the sector.

A brief Note on Scope

It should be kept in mind that this is not a comprehensive assessment of the VET sector's value. The aim is to present a selection of the benefits that can be most easily assessed based on available data, as a contribution to debate on reform. Beyond the scope of this paper there are other and more complex benefits provided by, and issues facing, the VET sector and TAFE.

This paper looks at the VET sector nationally, with a secondary focus on NSW. Given that major VET changes are currently being implemented in NSW, it is timely to examine the evidence available on the state of VET in that state.[1]

The term "VET sector" is used in the sense of the government-subsidised vocational and technical education, both public and private, and excludes training done within organisations, at various levels of formality, which is not government assisted in any way.

Policy History

The origins of the VET sector in Australia go back well before federation, with formal apprenticeships introduced in NSW in 1805. Government subsidised private and community providers gave way to large technical colleges in the state capitals over the course of the century. The first 70 years of federation saw a gradual development of national bodies concerned with the sector, and sporadic increases in funding, largely in relation to post-war reconstruction efforts.[2]

In 1974 under the Whitlam Government, the landmark Kangan Report coined the title "Technical and Further Education" and proposed a major increase in funding to the State institutions. The Fraser Government took up this reform, dramatically increasing funding, abolishing tuition fees and creating the TAFE Council.[3]

TAFE had a steady period of growth until the late 1980s when, under the Hawke government, a series of structural modifications driven by Minister John Dawkins aimed to change the sector to an "open training market" in which TAFE would compete with private registered training organisations (RTOs). During this time fees were reintroduced.[4]

The states implemented the open market model with differing levels of enthusiasm. Some like Queensland and Victoria saw TAFE as just another provider in the market. Other states have attempted to maintain the TAFE brand. TAFE remains by far the biggest provider of VET, servicing the majority of the market. In most states TAFEs have been broken up into autonomous units, but they remain larger than most of their private RTO competitors.

Most recently Victoria has gone furthest down the path of the open market, introducing "full contestability" by allowing public subsidies to follow all students regardless of their choice of course or institution.

Increased Pay and Personal Development – Value to Individuals

A number of Productivity Commission reports have calculated the financial benefit to the individual of obtaining VET qualifications, and have found the rewards to be substantial:

- For a young learner (15-24) their VET training represents a $324 632 increase in lifetime earnings, or $7 700 per year, over 42 years.[5]
- Men holding an Advanced Diploma, Diploma or Certificate III or IV, earn on average 13.8% more than those with a Year 11 education; women 11.4% more.[6]
- VET is a particularly important provider of skills for early school leavers and those with low literacy and numeracy. An improvement in literacy and numeracy skills from very low levels to those required for an individual to function effectively in a complex work environment is associated with an increase in hourly wage rates of about 30% for men and 25% for women.[7]

While the precise benefit varies with circumstances of the individual, the above examples show that the value of VET to an individual is substantial, and this is simply looking at the financial advantage. Education brings with it a range of less tangible benefits. The 2011 Student Outcomes Survey run by NCVER (the National Centre for Vocational Education Research) found that 15.3% of VET graduates undertook training primarily for personal development. Of these students 94.4% said they had fully or partly achieved their aim. It seems likely that personal development was an important secondary consideration for many other graduate, and the consistently high levels of overall satisfaction reported by VET graduates (89.9% in 2011) indicates that such secondary goals are being achieved.[8]

However, the value of VET can be substantially undercut by substandard providers. Although data on the quality of individual providers is not available, the publicly available information on audits of RTOs indicates that private RTOs are more variable in quality than the TAFEs. It is generally acknowledged by those involved in the sector that there are some excellent private providers of

VET. However, also acknowledged is the existence of RTOs that are well below standard. In 2009 several Victorian RTOs were closed or suspended after an audit uncovered problems including overcrowded classes, students swapped between institutions to avoid audits, inadequate learning materials, and a supposedly 3 year apprenticeship run in 40 weeks.[9] Such problems are not unique to Victoria, with a number of providers closing in NSW when new national rules "to help weed out dodgy providers from the industry" were introduced in 2010.[10] In South Australia a college was closed down after students alleged that certificates were being altered, and that they were not being required to attend classes or complete assignments.[11] The revocation of another Victorian college's registration very recently shows that these types of problems are still arising, despite the 2010 changes requiring all providers to re-register under tighter regulatory criteria.[12]

These scandals do not only affect the individual students who attended the low-quality provider; the reputation of an entire sector can suffer from a few unscrupulous operators. The TAFEs' consistent quality provides a defence against this risk. Despite providing a much greater share of VET enrolments, so far no such scandals have been associated with TAFEs. The absence of wrong-doing by the sector's largest provider has made it difficult to claim that poor quality teaching is wide-spread. This may help protect both the value of all qualifications in the sector, and the viability of the many reputable private providers.

Addressing Skill Shortages – Value to Employers and the Economy

The value of VET for addressing skill shortages is, in theory, obvious. The training provided by the VET sector is clearly essential for building the skills of the Australian workforce and meeting the needs of industry for skilled workers. However, demonstrating that the sector is delivering training in skills that industry needs is not straightforward. There are inevitable time delays between actions taken in the VET sector and the graduation and employment of students affected by those changes, making it difficult to say which changes had what effects. Also, measuring where skill shortages exist is complex, because it needs to take into account that there may be shortages in particular geographic regions, or in sub-sets of skills within occupations. So it's difficult to say how well targeted the VET sector is, when uncertainty exists about what the targets should be.

Where assessment of benefits is complex, there is an increased danger of policy changes based on political agendas rather than evidence. An example of this occurred in 1991 when Minister John Dawkins proposed a restructure of TAFEs justified by the argument that TAFEs were unresponsive to industry needs.[13] A series of previous reports initiated by Dawkins had made this assertion without solid evidence. For example, one report cited concern in industry submissions when the majority of the "industry" submissions came from committees funded by the Department of Employment, Education and Training. The submissions were not made public so there is no way of knowing what views were expressed by industry. However, a major survey of employers at the time showed relatively high levels of satisfaction with TAFE graduates, and other research showed that there was considerable industry-TAFE interaction, with some room for improved relations.[14] So a fairly low level of industry dissatisfaction, that was not consistent across all industries, was built into a justification for wholesale change despite encouraging evidence regarding industry-TAFE coordination.

An example of an effort to make such an assessment of benefits is the 2010 report by Skills Australia (now the Australian Workforce and Productivity Agency), which is the federal statutory body responsible for providing advice on workplace skill needs.[15] The report puts forward a number of reforms to the VET and Higher Education sectors designed to enhance workplace skills, with an annual cost of $835 million. An estimation of the potential benefits of these reforms, using Productivity Commission methodology, predicts national output, as measured by GDP, to rise an additional 6% by 2025, with the resulting gain to government alone estimated at $24 billion annually. Such projections are always inexact, but do give an idea of the potential benefits of VET in terms of return on investment.

Another example, specifically examining the value of TAFE in NSW, is a 2005 report by the Allen Consulting Group.[16] They found the benefit-cost ratio to be 6.4:1. A sophisticated macroeconomic model of the NSW economy was used to take into account value to be gained from the sale of assets, as well as assessing the likely effect of shifting TAFE funding to private providers. The analysis predicted a lower skilled economy because TAFE tends to provide a broader range of skills training, so funding private providers with the money that would have been supplied to TAFE would result in a narrower range of skills training. (This analysis is supported by the recent experience of Victoria, as outlined below.) Allen Consulting estimated that the result could be reduced employment for ten years, a reduction of 1% of the average wage across all NSW workers, and decline of state income of at least 3.6% over 20 years ($196.1 billion), and that the long-run decline would perhaps be closer to 5%.

A survey on employer satisfaction with vocational training is conducted by NCVER every two years.[17] Over the past four surveys TAFE has constantly shown good results. Around 80% of employers are satisfied with its training for apprentices and trainees (80.8% in 2011), and 85-90% satisfied with all other training towards nationally recognised qualifications (90.3% in 2011). These results are very similar to those achieved by private RTOs (80.3% for apprenticeships and traineeships, and 92.2% for all other nationally recognised training). Despite the similarity of results many of the policy changes aimed at increasing the VET sector's ability to address industry needs have involved reducing the role of TAFE through increased market competition. Of course it could be argued that introducing greater competition will make the sector as a whole more responsive to the needs of employers. The recent changes in Victoria currently represent the extreme version of this approach, and provide an opportunity to assess whether this is actually the case.

The 2011 Victorian VET Changes

In 2011 Victoria moved to "full contestability" in its VET sector, a change that had been presented as being more responsive to industry needs.[18] This involved a change to an "uncapped" system where, rather than having the number of students to be subsidised in a course fixed in advance, RTOs could enrol as many students as they could attract. In that year there was a dramatic increase in students enrolled in Fitness Instructor courses, despite there being no shortage in that industry. This particular example has been widely reported, but does it indicate a broader mismatch between deregulation of the sector and the need to target training towards skill shortages?[19]

Skills Victoria is the Victorian Government office with the responsibility of reporting on skills training. Their Training Market Report for 2011 shows the market share of TAFEs and Private RTOs in the various industry training areas. For each industry training area it also indicates how important the area is to addressing skill shortage, by giving the percentage of courses in that area that are providing training for occupations that are suffering from skills shortage. If we compare a list of the industries where TAFE provides the majority of training against the list for the private RTOs (see below), a pattern becomes clear.

The top four industry training areas with private provider dominance are all in areas where there is no skill shortage. In contrast, two of the top four areas of majority TAFE provision have more than half the training directed at skill shortages. And the area with no shortage in TAFE's top four is mining, which although it does not have a skill shortage in Victoria, does have significant skill shortages reported in other states and in general has a highly mobile workforce.[20]

Table 1: TAFE dominated industry training areas in Victoria

Industry	% market share	% courses training for occupations in shortage
Mining	97.8	0
Information Media and Telecommunications	94.3	13
Electricity, Gas, Water and Waste Services	83.0	77
Construction	78.1	65
Agriculture, Forestry and Fishing	70.3	5
Rental, Hiring and Real Estate Services	63.8	0
Other Services	60.2	25
Manufacturing	57.0	31
Professional, Scientific and Technical Services	53.9	0

Source: Skills Victoria, Victorian Training Market Quarterly Report: Full Year 2011 (Melbourne, 2012), http://www.skills.vic.gov.au/Pages/skills-and-jobs-outlook/training-market-reports.aspx.

Table 2: Private RTO dominated industry training areas in Victoria

Industry	% Market Share	% training for occupations in shortage
Wholesale Trade	77.0	0
Retail Trade	74.4	0
Public Administration and Safety	67.8	0
Administration and Support Services	62.9	0
Transport, Postal and Warehousing	58.4	20
Financial and Insurance Services	57.2	18
Arts and Recreation Services	53.2	0
Accommodation and Food Services	52.7	23

Source: Ibid.

Despite these figures, Skills Victoria is very positive about the responsiveness of the private providers, stating: "the training market is encouraging private RTOs, both new and existing, to respond to labour market needs and deliver specialised in 'in shortage' occupations." While it is true that the explosion of private provision of VET in Victoria (enrolments more than doubled in 2011) has lead to increases in training for skills in shortage, this came at a cost to the taxpayer, a $500 million increase in funding to the sector.[21] This raises the question of whether the same money could have achieved greater results had it been spent differently. In considering this it is useful to look at the proportion of training that is directed towards skill shortages by the different providers. In 2011 the Victorian private RTOs had 43,411 students enrolled in training in occupations that have a skill shortage, which is 19.6% of their total enrolments. TAFE had 75,268 students training towards skill shortages, which is 28.6% of its enrolments. The Victorian changes had the effect of spending $500 million in 2011 mostly on growing private RTO enrolments, of which less than 20% were in skill shortage areas. Had different reforms instead invested the money in growing TAFE by a similar amount, the proportion might have been nearer 30%.

Of course this is speculation; past performance is no guarantee of future results. But it does suggest that the same money directed specifically towards courses in skill shortage areas, through providers known to already have substantial capacity for training in those areas, could have had a much greater positive effect on the Victorian economy in future years. And given that TAFE currently seems to be catering more to industry needs in areas of skill shortage than private RTOs, the assumption that increasing the role of private providers will deliver better outcomes is unjustified. There needs to be more rigorous debate on how best to grow the VET sector and on the strengths and weaknesses of its various providers. Understanding the real effects of the changes in Victoria is a necessary step before starting any discussion of similar changes in NSW or other states.

The response of the Victorian Government to the proliferation of courses not required by industry has been to implement a radical change to the structure of subsidies to courses. Prior to July this year subsidies were weighted to take into account that training in some industry areas is more expensive, but they will now be based on "an assessment of public value".[22] In practice the 2012 subsidies are in the majority of cases lower than they were in 2011, and some have fallen as low as $1.50 per student contact hour.[23] In addition, whereas before there was a maximum cap on the fees RTOs could charge, this has been removed. The substantial reduction of many subsidies, along with the removal of the cap on fees, means that the cost of the majority of courses will rise, which will reduce the incentive to enrol in VET. Given the economic benefits of VET described above, and the social benefits outlined below, the disadvantages of this change to subsidies may be substantial. Again, further information about the effects of this policy change is needed before it is adopted more widely in Victoria (new subsidies currently only apply to newly commencing students[24]), or adopted by any other state (a similar approach has been decided on in NSW[25] and is being considered in Queensland[26]).

Equal access to training – Value to Society

The Productivity Commission identified that one of the objectives of VET is to "contribute to social inclusion and civic participation". Such broad social benefits are extremely difficult to measure in any direct sense. However, one reasonable indicator of the sector fulfilling this role would be if it were providing disadvantaged individuals and people in economically disadvantaged areas with access to opportunities to improve their prospects and reach their potential. Looking at three aspects of disadvantage - disability, socioeconomic background, and remoteness – it's clear that the VET sector is playing a disproportionately strong role in combating inequality of access to education.

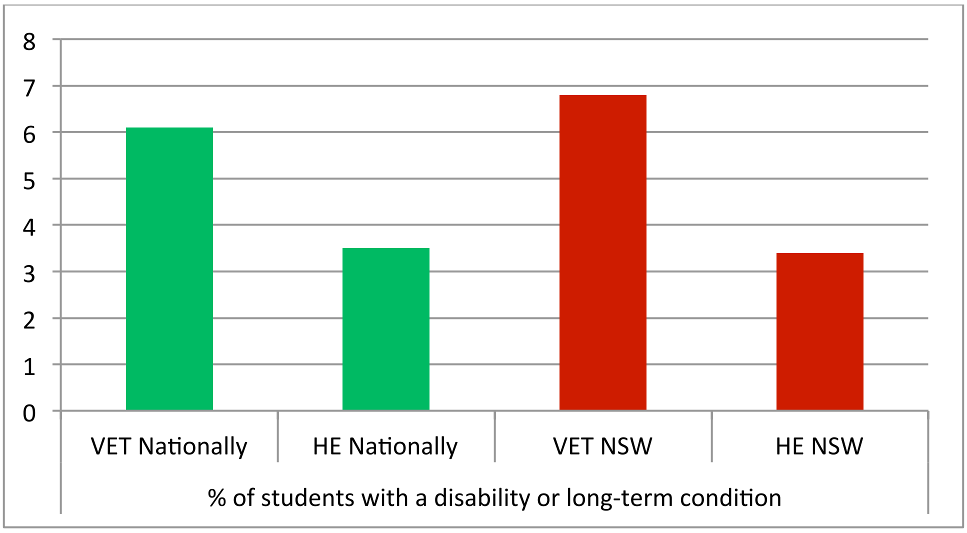
Students with Disabilities

Nationally the VET sector had 125,142 students who have stated they have a disability or long-term condition in 2011; 6.6% of the total VET student population.[27] This number is important in itself, as it means that in a single year over 100,000 Australians who face a level of challenge in their lives are being aided to achieve better employment prospects and greater fulfilment of their potential. The performance of the VET sector in NSW is proportionally greater with 41,030 students in 2011 representing 7% of enrolments.[28]

However, it would be useful to be able to compare this to some benchmark figure. Comparing the proportion to that of the general population is unhelpful for a number of reasons. Firstly, surveys with differing definitions of disability have reported very different estimations of the proportion of Australians with a disability. One set of results reported by the ABS range from 33% to 42%, but included very mild conditions.[29] Restricting the definition to the most profound disabilities gives a range of 1-2%, but no doubt excludes many serious disabilities. Any mid-point definition is simply an arbitrary line in the sand. A further complication is that disability is strongly related to age, so that a significant proportion of disabled Australians are at a stage of their life when they may be less likely to need or want VET.

Perhaps a more interesting comparison would be to examine the proportion of students with disabilities in the Higher Education (HE) sector (made up of universities and a range of other higher education providers). Comparison data is available for 2010. In this year the performance of the VET sector was similar to 2011 at 6.1%, while in the HE sector 3.5% of students had a disability.[30] The NSW figures tell the same story with 6.8% of VET students having a disability, and 3.4% in the HE sector.[31] Note that these comparisons should not be read as a criticism of higher education institutions, the two sectors have numerous differences that would no-doubt present unique challenges, but it does give some assessment of how well the VET sector is performing.

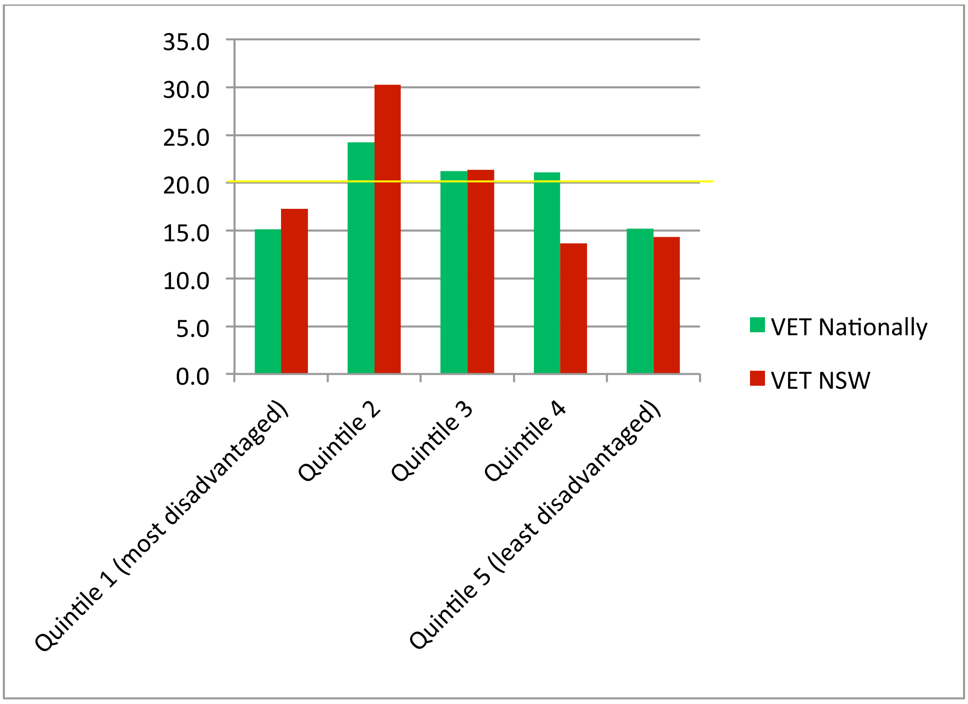
Figure 1: Percentage of students with disability in HE and VET at national and NSW state level



Socioeconomic Disadvantage:

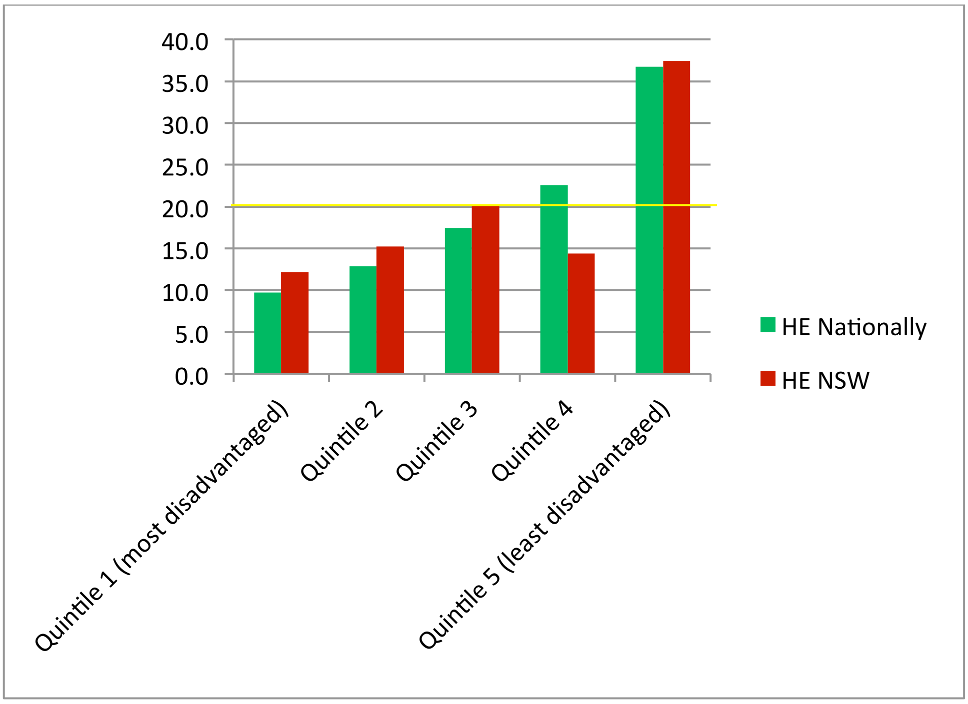
Assessing socio-economic advantage is of course complex. A commonly used metric is the Socio-Economic Indexes for Areas (SEIFA), which provides a ranking for areas based on a range of factors. The data is commonly divided into five quintiles with 20% of the population in each. Comparing the proportion of VET students in each quintile is straightforward. From the chart below it's clear that nationally the sector focuses on those from middle and lower socio-economic backgrounds,[32] and that this focus is even stronger in NSW.[33]

Figure 2: Percentage of VET students from each quintile of socioeconomic disadvantage at national and NSW state level



It can also be compared to the HE sector, which draws more strongly from the areas with the most socioeconomic advantage.

Figure 3: Percentage of HE students from each quintile of socioeconomic disadvantage at national and NSW state level

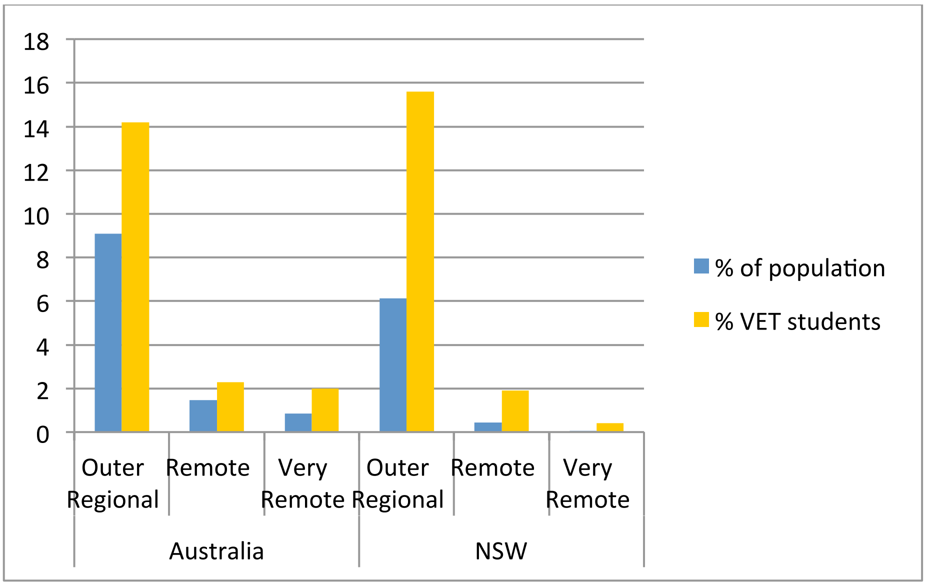


Again, this is not a criticism of the HE sector, but illustrates that the VET sector is currently playing an important role in providing opportunities to those from less advantaged backgrounds.

The Regions' Educator:

The VET sector has an especially strong role in delivering education services to rural and remote regions. In 2011 at a national level 347,010 VET students were from rural and remote areas, this is 18.4% of VET students. In NSW it was 104,703, representing 17.8% of the State's total VET student population. These figures compare to general population proportions of 11.4% living in rural and remote areas nationally, and 6.6% in NSW.[34] In other words, on a per capita basis VET is delivering significantly more services to the areas that are most disadvantaged by remoteness and lack of access. A further breakdown of these figures is given in the following chart:

Figure 4: Percentage of population and of VET students from rural and remote areas at national and NSW state level

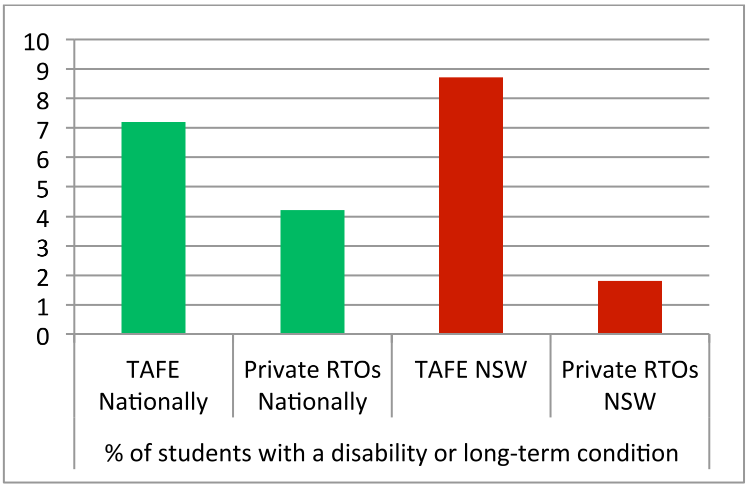


TAFE's Particular Value:

From the above three indicators it clear that the VET sector plays a substantial role in providing education to disadvantaged members of our society, enhancing equality and social inclusion. Interestingly, a closer examination of the data reveals that the majority of this good work within the sector is being performed by TAFEs.

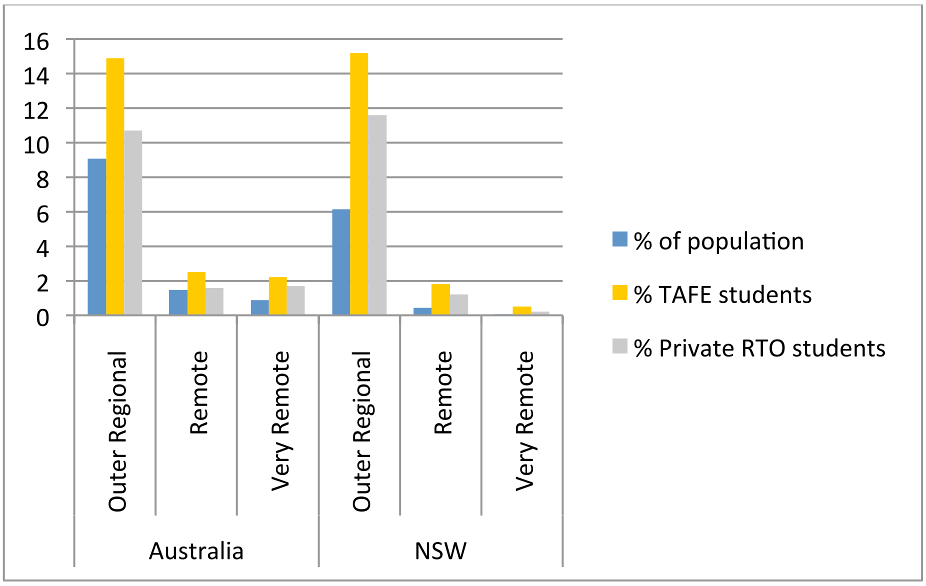
For example, in 2011 TAFEs had a higher proportion of students with disabilities at a national level than that of the private RTOs: 7.2% of students, as opposed to 4.2%. This was particularly true in NSW: 8.7%, as against 1.8%.

Figure 5: Percentage of students with disability in TAFEs and Private RTOs at national and NSW state level



The statistics on rural and remote students follow a similar pattern. TAFEs nationally had 19.6% of students living in rural and remote areas; the proportion was 14% in the private providers. The same was true of NSW with 17.5% and 12.9% in the TAFEs and private RTOs respectively.[35]

Figure 6: Percentage of population, and of TAFE and Private RTO students from rural and remote areas at national and NSW state level



As well as taking a greater share of students with disadvantages, TAFEs are better equipped to provide for the needs of these students. The websites of a random sample of 7 TAFE institutes and 10 large private RTOs in NSW and Victoria were examined for the support services offered. The results are summarised in the following table:

Table 3: Support services delivered by random selection of TAFEs and Private RTOs

Service	TAFEs			Private RTOs		
	Full	Partial	None	Full	Partial	None
Counselling	4	3	0	0	3	7
Careers	7	0	0	1	4	5
Childcare	0	5	2	0	0	10
Disability Services	7	0	0	1	0	9
Indigenous Assistance	7	0	0	0	0	10
Multicultural Assistance	5	2	0	0	1	9

Note: "partial" means limitations on the service, such as only available on some campuses, or an alternative offered, e.g. career mentoring, rather than career counsellor.

As with the comparisons to the HE sector, comparing TAFEs with private RTOs is not intended as a criticism of those institutions. It should be noted, for example, that the proportion of rural and remote students in private RTOs, though smaller than that in TAFEs, is still larger than in the general population; indicating that the private providers also have a focus on rural areas. It should also be kept in mind that in some jurisdictions TAFEs are incentivised or mandated by State policies to be providers for the most remote areas, due to the risk of these areas being left unserviced by the collapse or withdrawal of a private operator. The point is not that private RTOs are shirking their responsibilities, but that any discussion on policy changes reducing the role of TAFEs must take into account the fact that this could result in the loss of the disproportionately high social benefits provided by the sector.

Recommendations: Future Directions for VET

Currently there are long-term questions that must be answered to ensure the continuing viability of TAFE and the VET sector. To answer these questions we need further research and debate on a number of key issues.

Ensure Reforms are Evidence-Based

From the above it is clear that the VET sector, and TAFEs in particular, deliver substantial value to Australia. This means that it is important that any future policy changes be carefully considered to make sure they will maintain and enhance this value in future. In the past, major reforms have been undertaken with very little in the way of objective evidence that they will deliver improvements. The recent reforms in Victoria, which subsidised large enrolment increases in courses that were often irrelevant to industry needs, show that this continues to be a problem.

Recent and likely reforms of the VET sector have the potential to enhance or damage a sector that delivers significant benefits to Australia. It is simple common sense that reforms must be backed by whatever evidence is available, and should be the subject of a rigorous debate on what actions will serve the nation best.

Gather More Detailed Impact Data

The likelihood of evidence based reforms would be greatly increased by the availability of detailed and complete information on outcomes in the sector. A major difficulty in conducting this assessment of the value of VET has been a lack of critical data that would give greater understanding of the impacts of different parts of the sector. As a starting point, there needs to be accurate information on the quality and effectiveness of different types of providers. Some outcome data is available comparing TAFE with private RTOs, but more detail is required to see what factors are influencing quality. For example, experience with other sectors indicates that there may be substantial differences in quality between for-profit and not-for-profit organisations.[36] Of course such data would need to be interpreted cautiously and in full context. To illustrate this, if completion rates alone were considered, high rates could indicate a well-supported education environment, or simply low standards; and conversely low completion rates could indicate either rigorous standards or inadequate teaching or a high proportion of students with learning difficulties or other challenges. However, completion rates in combination with data on the satisfaction of students and employers and information from government quality assessments, would provide a much better picture of the factors that influence the VET sector's performance and impact.

Consider Rationalising Some Subsidies

The past decade has seen an overall decrease in government funding of the VET sector,[37] while at the same time concern over skills shortages continues to rise. Given that, like many Australian institutions, the funding is a mix of federal, state and user pays, there needs to be national conversation over the level of funding that is required to deliver the outcomes we want, and the best way to allocate such funding. There may also need to be some decisions made on whether there are areas of the sector that should receive increased or decreased government support. If funding is to be reduced it needs to be done with a clear, public explanation of either how the sector can achieve increased efficiencies, or what services are no longer to be provided. Many ideas will need to be considered along these lines – one option is presented here:

A significant number of large employers are registered training organisations, and where they are providing their staff with transferable skills, that training is as valuable as that done by other non-employer RTOs and has an equal claim to government support. However, if the training provided relates to internal systems (such as how to operate a particular configuration of cash register used only by that organisation), then this is of little broader value to Australia and is an unjustified subsidy of internal training. We need to consider whether it is possible to prevent this without making the rules overly onerous, or withdrawing support from useful training.

Funding Reform

Tables 1 and 2 earlier showed a pattern of training in skills shortage areas being disproportionately provided by TAFE. It is worth looking at these tables again and considering the likely costs of training in the different areas. Unfortunately precise data on the costs of providing training is not publicly available, but it is possible to broadly estimate which training areas are likely to be more expensive than others. Due to state-based awards almost all TAFE teaching and education support staff are paid the same rates regardless of what industry the training is for. Labour costs will not be identical since some subjects will require more staff, for example where there are inherent safety risks due the nature of the work that training is directed towards. However, the most significant difference in expense is likely to be equipment costs.

Looking again at Table 1, the top four areas of TAFE market dominance are: Mining, Information Media and Telecommunications, Electricity, Gas, Water and Waste Services, and Construction. These all seem likely to be areas of high cost due to the need for large-scale machinery, expensive IT equipment, specialised tools, or costly consumables such as lumber. By contrast, in the top four areas dominated by private providers: Wholesale Trade, Retail Trade, Public Administration and Safety, Administration and Support Services; the majority of materials costs would likely be in photocopying.

That the private providers would tend to target the less expensive, and therefore more profitable, training areas is entirely reasonable. Many are for-profit companies, and therefore are very concerned with ensuring their activities generate income. However, if policies are introduced which result in the private providers increasing their market share, it raises a problem for TAFE's funding model. As this increase is likely to be in the less expensive training, TAFEs are left with the more expensive courses, and effectively their per student costs increase. In a number of states this increasing expense is occurring in the context of moves towards a substantial decrease in funding though the changes to subsidies outlined above. The effect of contestability reforms on TAFE's funding model raises the question of whether it is desirable to subsidise private RTOs to profit from inexpensive courses (that are not necessarily those needed by industry), if by doing so it increases the cost of running the government provider. The VET funding model and the way it is changing needs to be made clear, to provide the foundation for a debate on whether these changes are beneficial to the sector and society as a whole.

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