ACPET SA Response to the proposed changes to the Skills for All Funded Training List

January 2013

Background
ACPET is the national peak body and industry association for private providers of education and training.

ACPET has consulted widely with members in relation to the proposed changes to the Skills for All Funded Training List and has received many calls and emails in relation to this matter. The points raised in this response both reflect the concerns of our members and outline ACPET’s views. ACPET has also encouraged members to lodge their own independent responses about their specific issues.

The points raised here build upon the general ACPET view that South Australia has appropriately taken a careful approach to implementing and monitoring the progress of skill reforms given the Victorian experience and is to be congratulated for the transparency in reporting. However, the following have led to market distortions with significant negative impacts requiring careful corrective action to resolve:

- an initial faulty assumption that there would not be enough takers of subsidised places;
- an over-riding concern for the impacts on TAFE SA without a matching concern for small business;
- an inappropriate pricing model;
- an over–reactive approach to managing enrolments by imposing negative disincentives (i.e. caps) rather than positive incentives to shape choices towards priority occupations; and
- a failure to heed ACPET’s advice in a number of significant areas listed below.

Now that TAFE SA’s enrolments have doubled when compared with last year, the future structure of Skills for All entitlements need not be constrained by concerns about TAFE successfully managing in a new climate of contestability.

Previous advice given
ACPET has repeatedly raised certain concerns during consultations over the past year, most of which were not heeded but are now proving to be correct. Among the previously expressed concerns were that:

- the underlying assumption that there may not be enough take-up of subsidised places was faulty;
- the introduction of a training entitlement was likely to distort the market in the first instance, with potential deleterious long-term effects on a previously healthy fee-for-service market;
- low enrolments in the first half of 2012 in anticipation of the subsidies leading to higher than expected enrolments in the second half of the year, meant that statistical comparisons (and subsequent decisions) needed to be made on a full year not on a Semester 2 basis;
- the original pricing model was flawed, meaning that subsidies were set too high for some qualifications and too low for others, not necessarily based upon priority qualifications;
• the SA market is too small to allow a free-for-all entry for providers from large states where subsidies had not yet been introduced (i.e. at least a third of all approved Skills for All RTOs are from non-SA registered providers, placing extreme pressure on long-standing quality SA providers in an already competitive small market);
• the low prices set for higher level qualifications without a requirement that students/employers be required to contribute, leading to undercutting prices, quality concerns and indiscriminate, uncommitted or exploratory course choices in some cases;
• that enrolment in all qualifications above Certificate I and II be required to attract a fee;
• that no more than a 60% subsidy be paid for RPL;
• the need for simple administrative processes and a reliable payment system to ensure regular cash flow, so essential for small business;
• that payments not be made by unit of competency completion due to the holistic nature of quality training and assessment; and that
• subsidy levels were set based upon an over-riding concern for protecting a newly independent TAFE SA without a matching concern for the impact on small business.
(The difference between TAFE SA and private RTO rates of subsidy is a separate issue previously raised with DFEEST not highlighted again here)

**Key Issues and Impacts**
The following feedback is based upon the first 6-month summary report on the operation of Skills for All and the subsequent proposed changes to the Funded Training List.

**Consequences of proposed caps**
There are likely to be the following significant negative impacts if the caps are implemented as proposed:

• for individuals unable to afford qualifications in their chosen vocation, a different and less suitable choice will be made for subsidised training rather than accessing the fee-for-service market. This will particularly impact on new job seekers and the unemployed trying to enter or re-enter the workforce;
• for industry needing to upskill staff to improve productivity and develop their business, less suitable staff training options will be accessed, without sufficient cash flow in difficult economic times to pay full fees for appropriate staff training;
• for RTOs there will be a significant loss on investment in marketing, infrastructure, course development and staff recruitment to accommodate Skills for All, at a time when the formerly robust fee-for-service market has dropped by 80-90% due to Skills for All (a figure consistently cited by RTOs), potentially leading to closure for many. These will be predominantly locally-based RTOs with costly infrastructure, since non-SA registered RTOs with fewer overheads and additional access to funds from their home state are able to undercut fees;
• for RTO staff jobs will be lost as a result of market distortion created by government policy at a time of increasing unemployment in the State;
• for specific vocations (including Hospitality, Retail, Sport and Recreation and Beauty), many of which are already facing staff shortages, there is likely to be a further decline in the volume and quality of applicants and the number of course completions; and
• for the State economy, the pressure on the budget will remain and most likely worsen, while continuing to destroy the fee-for-service market, as individuals and employers continue to shop around for ‘free’ courses.

**Rationale for caps and data accuracy**
ACPET has received an overwhelming and unanimous response questioning the accuracy and validity of the enrolment and job vacancy data provided in the Skills for All documentation including the
rationale for imposing caps, since there does not appear to be any logical basis for the selection of qualifications to be capped.

For a true picture of the impact of Skills for All, enrolment figures for the 2011 academic year ought to be compared with the 2012 academic year, allowing for the regular annual increase rate and the spike caused in Semester 2 due to a backlog of delayed training in anticipation of the subsidies. It would be essential for the data to clearly show the ratio of jobseekers enrolled in job-entry training to existing workers upskilling, in order to accurately match enrolment data with job vacancies. The data also does not take account of the number of participants who may soon have used their training entitlement, thereby reducing the take-up rate in the coming year after an initial flurry.

While some of the proposed caps are justified due to high enrolments and ‘apparent’ low job availability, others appear to be an over-reaction to a budget overshoot, not supported by job vacancy numbers, which are in most cases, inaccurate, over-simplified and not supported by reports from industry about actual vacancies.

For example, the data for the Certificate II in Cleaning Operations estimates 250-300 job openings and lists 95 Skills for All enrolments, but just two local employers have over 800 job openings for new workers each year between them in SA. The recent e-scan from the Construction and Property Services ISC indicates that job openings for cleaners will reach a minimum of 1200 per year in SA! Furthermore, the demographic enrolling in this qualification is generally vulnerable, consisting typically of parents returning to the workplace, or job seekers with low literacy and education levels. RTOs delivering in this area have rightly planned their operations accordingly, with the expectation that there would be ample demand for funded training, only to have the rug pulled out by proposed caps. How can they plan with confidence in future?

In addition, how is it possible for there to be the same number of job openings for make-up artists as sales assistants? How was the number of job openings determined and who was consulted to obtain relevant up-to-date data? Given that RTOs are not required to report on fee-for-service training, how was the ‘estimated change in fee-for-service enrolments’ derived? These figures must be an approximate ‘guesstimate’ at best.

It is evident from the information provided that there are at least 12 vocations for which caps are proposed in which even the listed number of enrolments has not yet reached the number of job openings. However, job vacancies are not the only factor to consider, since some vocations represent significant entries to employment for unskilled, genuine new jobseekers (e.g. Certificate I in Hospitality). Even if the number of enrolments in entry level vocations were to double, and were to achieve 100% completion rates, and all were to gain employment, there would still be a large shortfall in work-ready job seekers relative to job openings in this area.

In other vocations, where there appear to be excessive enrolments (especially at Certificate III and above), many are predominantly attributable to upskilling existing workers and not training new jobseekers, therefore the ‘job openings’ data does not apply. Furthermore, not all existing workers undertake training to achieve a higher level of employment (i.e. fill a job vacancy), with many undertaking training either as a requirement to maintain their current roles due to: industry funding or industrial requirements; formalising their experience into a qualification; or simply to keep their skills up-to-date with the advancements and changes in their employers and industries (i.e. technology skills). Given these factors it is necessary to distinguish between entitlements for jobseekers and for existing workers.
As industries undergo reforms to their operating environments, upgrade technology or strive to become more energy-efficient, they drive changes in the skill mix of their workforces. For example, in the health and community services industry, the introduction of consumer-directed care and activity-based funding is forcing employers to radically change their service models and client engagement strategies, requiring a variety of roles in their businesses to acquire new skills in case management, financial analysis, forecasting and modelling, contract administration, negotiation and customer service. Very few of these skills are achievable through a single qualification, they are expected of a variety of roles and positions, and do not align with single occupational definitions or job vacancies, as the proposed changes to the Funded Training List would suggest.

The links made between a qualification and only one or a few job roles is totally fallacious, particularly in relation to Business Services where skills and qualifications are clearly applicable to a wide range of vocations, industries and job functions. Furthermore, the shortage of management skills has been well-documented. For example, Project Management skills (Certificate IV and Diploma) are required by a large number of managers across industries and functions and not only by designated ‘project managers’.

Since the Certificate IV in Front Line Management is commonly co-delivered with the Certificate IV in Business, a cap will drive the market towards one-dimensional training pathways, mitigating against the flexibility in course design, delivery and packaging for which the VET system is both designed and renowned. A cap on the Diploma of Management would also impact on the articulation pathway to University and Higher Education degrees for which the Diploma is granted credit, with a deleterious flow-on effect for the SA higher education sector.

Some industry-specific examples of how risky it is to oversimplify the job vacancy data around Business Services qualifications is their importance for Community Services and Health roles such as care workers and nurses entering supervisory or middle-management roles. Job vacancies at these levels are not taken into account in the proposed caps list. This is also the case with many other qualifications proposed for capping such as the Certificate IV in Occupational Health and Safety, which is relevant to all occupations. Another example is the Certificate IV in Training and Assessment, for which ‘VET Teachers’ is the only occupation listed, but which is required also by workplace trainers and assessors and those who train staff as part of a larger management or HR job role.

In addition to the job vacancy data being incorrect, the Skills for All ‘enrolment growth’ data is used inaccurately to apply caps, based on the incorrect assumption that all of it represents entirely new training activity. Where the data includes ‘substitution’ (i.e. fee-for-service training replaced by subsidised training), it is too early to determine the impact on retention or completion rates, especially at higher qualification levels where course durations are typically longer. To cap Certificate IV or Diploma level qualifications because the enrolment data indicates excessive enrolments relative to (narrowly defined) job vacancy rates, is to fail to take account of substitution levels, enrolments in qualifications adjacent to the occupational definitions being used, and the impact on completion rates at these levels of training.

‘Upskilling’ has been continually touted as one of the main reasons for introducing the skill reforms, yet now the practice of reframing ‘upskilling’ with the term ‘substitution’ provides apparent reasons for backing away from subsidies. The real reasons are due to problems with balancing the State budget, which ought to be resolved in ways that do not further damage business and the State economy.
Shaping the pricing model strategically in response to State priorities

The proposed caps were announced just after the launching of the TaSC 5-year plan, which does not appear to be reflected in the qualifications listed for capping. There is little purpose in having a 5-year plan if it does not shape the directions of government expenditure on workforce development and Skills for All subsidy priorities. Subsidy levels should also be shaped by Industry consultation, which is pointless if government does not heed the advice that is given.

The high number of qualifications now proposed for capping (i.e. 55) clearly indicates that the initial pricing model was incorrect, which led to the decimation of the fee-for-service market in a number of areas. The pricing should not have been calculated based on an average of what RTOs charge but on skill gaps and State workforce development priorities. Pulling the rug out completely from these areas now, without allowing time to rebuild the fee-for-service market, will destroy a number of excellent RTOs. The subsequent lifting of caps would presumably cause a repeat of current circumstances unless fundamental changes are made to the structure and management of Skills for All entitlements. This situation can be corrected, not by sudden and total withdrawal based on inaccurate job figures, but by careful and selective shaping based on accurate, up-to-date job data provided by industry and guided by the TaSC 5-year plan.

Larger subsidies should clearly be offered for priority qualifications, reducing incrementally to lower subsidies where accurately assessed job demand is weaker. The ongoing imposition and withdrawal of caps is not recommended since it reduces student choice, contrary to the purpose of the skill reforms and may have the effect of reducing the diversity, flexibility, responsiveness and agility of the VET sector in responding to workforce development needs. Also, individuals and employers respond either by changing course choices to those that are subsidised, which does not benefit everyone, or delay training until caps are removed again. Consistency, certainty, predictability and continuity are sorely needed, allowing for ongoing adjustments and not knee-jerk reactions. It is imperative that no further fee-for-service markets be destroyed by ill-considered pricing policies.

In a weak State economy, workers are vulnerable to retrenchment and unemployment rates are rising rapidly while job availability is reducing. It therefore makes sense to take a longer term approach to investing strategically in training, both to reduce worker vulnerability and to improve business productivity and competitiveness. In this context, the practice of introducing total caps for a short term budget outcome is the worst possible approach to managing the training budget, because of its immediate and long term negative impacts on the State economy. It is a blunt, reactive and inflexible way of solving a complex problem using disincentives as the primary lever, rather than developing an innovative, tailored solution that employs positive incentives to shape the market in the longer term as needed. Such negative signals, with no corresponding positive message, are likely to reduce confidence in RTOs (including TAFE SA) and in the VET sector generally and discourage the workforce and the unemployed from engaging in training to support the State’s most chronic areas of skill need.

It is therefore recommended that the policy of capping enrolments be abandoned in favour of a broader reduction in subsidy levels across vocational areas beyond Certificate levels I and II, except for priority qualifications. Close monitoring of enrolment numbers should continue and proposed changes to subsidy levels should be identified and notified early to avoid overshoot, but without completely capping. Total caps should only be imposed minimally where there is little or no discernible benefit to individuals, industry and the State, or where it is very clear that enrolments are outstripping accurately forecasted, medium to long-term demand by a significant margin.

In addition, capping ought to take specific account of equity issues and areas that provide entry to the job market for unskilled or new job seekers and the unemployed. Where certain skill sets are
required for licensing purposes, subsidies should only be paid for the skill set and not the whole qualification, particularly for existing workers. With respect to subsidising skill sets generally, there needs to be a consistent rationale for their selection or exclusion, taking into account workforce development priorities and that some industries can well afford to pay for the full cost of existing worker training while others would struggle.

Furthermore, it is recommended that funding for RPL be reduced to 50% for the purposes of facilitating access to further training. The practice of funding RPL to 100% does not meet the *Skills for All* objective of upskilling the workforce and is dubious in terms of quality.

Thought also needs to be given to how *Skills for All* will accommodate the transition to streamlined Training Packages when this occurs in 2014, since this will introduce additional complications requiring planning and forethought in the near future.

**Restricting the entry of non-SA registered training providers**

While ACPET advocates strongly for a nationally consistent training industry and does not in principle support protective practices, it is clearly damaging for a relatively small and struggling State economy to be flooded by disproportionate numbers of non-SA registered providers from large, populous states. RTOs from large states where skill reforms are not yet implemented (except Victoria) have entered the SA market to avail themselves of the generous *Skills for All* subsidies, severely affecting the operations of small SA RTOs. This is leading to staff lay-offs and precious SA funds leaving the State for investment elsewhere. Clearly this is not sustainable while being politically explosive.

However, restriction of trade in an open market is not a viable option, despite the existence of this practice in Victoria, which prevents South Australian RTOs from crossing state boundaries with their offerings. The solution to this dilemma is for there to be greater scrutiny of the operations of non-SA registered providers, notwithstanding the already careful assessment that is undertaken. Without a local presence, support services for students and relationships with industry, the training may not be of comparable quality. RTOs from other states should only be welcomed where there is a priority area not currently being met by local providers and where the level of infrastructure and services in situ match those expected of SA RTOs. In addition, non-SA registered providers with no previous history in SA, should only receive a small allocation of funded places in their first year of operation, as per the practice in other states.

**Strategic preparation of RTOs for a changing training environment**

In introducing skills reforms basic economic principles were ignored as the government failed to take account of the impact of the State’s training policy on the market, which was stimulated by the prominent advertising of ‘free’ courses (contrary to ACPET advice). This created an artificial spike in demand followed by a sudden drawback after a short time in some areas. This has led inevitably to the collapse of a healthy fee-for-service market, necessitating the laying-off of staff and the potential closure of RTOs. In a fragile SA economy, it is vital to avoid such boom and bust cycles and to create greater certainty and continuity for individuals, employers and RTOs through the competent management of skill reforms, beyond focussing merely on internal administrative systems and processes.

RTOs had no choice but to respond to such training policy by advertising vigorously to survive in a tighter market, made more competitive by the high number of non-SA registered providers offering cheaper courses (due to lower infrastructure costs) and to counteract the unfair advantages afforded to TAFE SA. These advantages were not only due to the subsidy price differential and the ‘TAFE only’ list of subsidised qualifications, but also for the earlier start and a marketing campaign
that favoured TAFE. RTOs report that they have not derived any benefit from the very expensive Government-funded marketing campaign and that none of the 5,500 Skills for All hotline enquiries have led to a referral or enrolment. Feedback received indicates that RTO-generated marketing has for the most part led to enrolments.

The State Training Authority ought to work closely with the SA Small Business Commissioners, with policy input from the SA Minister for Small Business, in formulating training policy and implementing skill reforms that impact positively on small business to stimulate the State economy, while benefitting individual learners.

Support ought to be provided for RTOs in preparing strategically for a new or adjusted training subsidy environment, to avoid stop-start marketing, engagement and cessation of staff contracts in response to erratic government policy in an already severely stressed job market. This could include fostering strategic RTO business management in the context of Skills for All policy, through seminars/workshops that also inform RTOs of the number of places to be subsidised per year, per qualification, to enable appropriate business decisions to be made. Such decisions might involve, for example, RTOs engaging only temporary staff when delivering qualifications that are not on the priority list. ACPET is willing and able to collaborate with DFEEST in conducting such sessions.

Skills for All information needs to be provided prominently and well in advance to enable industry and RTOs to respond strategically and confidently, to manage their response to skill reforms in line with State priorities. This may involve maintaining planned enrolment levels for each RTO and for industry workforce development, based on their strategic planning.

**Recommended subsidy categories**

Since the stated purpose of skill reforms is to:

- raise skill levels;
- increase the number of post school qualifications; and
- increase labour force participation and productivity,

it is therefore recommended that the subsidy levels be divided into 3 categories, separating the needs of job seekers from existing workers as follows:

1. for new *job seekers*, decrease the subsidy paid by 30% for all Certificate III qualifications and above (except those aligned with priority vocations);
2. for existing workers, decrease the subsidy paid across all courses by 30% (except those aligned with priority vocations), meaning that Certificate I and II qualifications would not be free for this category of applicants, however, greater consideration should be given to offering tailored skill sets for this group;
3. for all enrolments in priority vocations (for which there are well documented skill gaps), whether new or existing workers, provide 100% subsidies within a specific timeframe, after which the subsidy level could reduce incrementally as enrolment numbers move towards accurately determined job vacancy numbers.

**Notes:**

The definition of *job seekers* requires clarification to determine whether, for example, to include the recently unemployed seeking training for a higher level job in the same or different industry or with another employer? It may also be necessary to consider introducing an equity category for disadvantaged learners with a 100% entitlement for qualifications at say Certificate III to IV, the criteria for which would need to be clearly determined.

It is further recommended that RTOs be required to submit an annual plan projecting the number of places to be offered for each qualification, accompanied by a business case supporting these numbers, much as they did when they initially lodged their Skills for All application. The projected
numbers, in the case of jobseekers, should be linked directly to job openings in each respective industry area. The department could cross-reference RTO projections with accurate job vacancy data to allocate a ratio of job seeker to existing worker enrolments per RTO during the course of their contract. Allocations could be increased if enrolments across RTOs are not meeting demand or if job demand increases. In this way, anticipated enrolment numbers will have been established up-front, rather than reactively after the fact, as is currently proposed with caps.

However, allocations should not be decreased once set, since this would drive RTOs to offer places quickly thereby exceeding the job market capacity to keep pace with graduate numbers. RTOs should be able to spread out the allocated enrolments over the period of their contract, rather than having to cram in as many enrolments as possible before caps are introduced, causing further market distortion.

This would deliver improved certainty for RTOs and greater budget predictability for Government while still enabling student choice within a framework that enables efficient management. However, the allocation process would need to be fully transparent and equitable and not used as a way of shoring up TAFE SA enrolments in a contestable market-driven system.

The anticipated outcomes of this approach are that:

- there would still be fee-free training for jobseekers wishing to gain employment in any vocation;
- course choices would be made more carefully;
- training would be valued more and higher completion rates would be achieved when individuals and employers are contributing to the cost of training;
- the fee-for-service market would gradually be restored as RTOs would need to charge fees;
- RTOs would have greater certainty for investing in marketing and infrastructure and engaging staff;
- boom and bust cycles would be avoided delivering greater stability to the training industry, and also to employers when recruiting from a more stable graduate supply chain;
- the spreading out of enrolments over an RTO’s contract period would also facilitate greater quality of delivery;
- the Government would have greater budget certainty and the capacity to fund more training without a budget overspend, thereby demonstrating ‘increased productivity’.

**Summary Recommendations**

- Remove the emphasis on ‘free’ courses in the marketing campaign and refer to ‘subsidised’ training or ‘support/assistance’ with training;
- Training beyond Certificate I and II should not be completely free. RTOs should be required to charge a fee beyond the subsidy for Certificate III and above. Individuals and employers should be required to make a commitment with a contribution, except potentially where there may be equity issues for disadvantaged learners (see comment above) and in industries where individuals and employers are unlikely to be able to afford such contribution (e.g. Cleaning Operations);
- Further strengthen career advice so that course selections are based on genuine individual career aspirations rather than on offers of ‘free’ training;
- Subsidy levels should match the priorities outlined in the TaSC report based on sound data and up-to-date industry advice, tailored to meet State skill gaps;
- Abandon the policy of imposing qualification caps in favour of a broader reduction in subsidy levels across vocational areas, except for high priority qualifications. Subsidy levels would then be incrementally adjusted rather than capped as enrolment levels match job vacancies,
to enable a broader range of choice for individuals and employers and to support the fee-for-service market (see the subsidy categories proposed above);

- RTOs should be required to stay within their plan of projected enrolments, spread out over the period of their contract, with the certainty that a cap will not be imposed;
- Close monitoring of enrolment numbers should continue and changes to subsidy levels should be notified early to avoid overshoot, but without total capping;
- Where certain skill sets are required for licensing purposes, subsidies should only be paid for the skill set and not for the whole qualification, particularly for existing workers;
- Industry should be required to demonstrate their strategic plans for staff training and be able to access subsidies accordingly, but would need to put forward a case for accessing subsidies for staff training outside their strategic plan;
- Non-SA registered providers should be placed under greater scrutiny by being required to demonstrate local support services and industry relationships, with emphasis on delivery in priority qualifications. Enrolments ought to be restricted in the first year for unknown non-SA registered providers RTOs;
- Funding for RPL should be reduced to at most 50%;
- Enrolment data comparisons should be made on a full-year basis for a more accurate picture;
- The payment system needs to be improved to enable RTOs to predict cash flow enabling greater certainty for sustaining their business; and
- Support should be provided for RTOs to prepare strategically for a new or adjusted training subsidy environment, with input from ACPET and involvement by the State’s small business portfolio.

For enquiries about any of the issues raised in this proposal please contact:

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