

# Ai GROUP SUBMISSION

Redesigning VET FEE-HELP  
Discussion Paper

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The logo for Ai GROUP, featuring the letters 'Ai' in a stylized, bold font above the word 'GROUP' in a smaller, sans-serif font, all in white.

**Ai**  
GROUP

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## Australian Industry Group contact for this submission

Megan Lilly  
Head of Workforce Development  
T: 03 9867 0163  
E: [Megan.Lilly@aigroup.com.au](mailto:Megan.Lilly@aigroup.com.au)

# Introduction

In order to effectively consider the reform of the VET FEE-HELP loan scheme it is necessary to consider the context for its growth. The original Higher Education Contribution Scheme (HECS) was extended to vocational education in 2009 with two key restrictions:

- the scheme was only available to students enrolled in Diploma courses and above and which attracted no government subsidy; and
- the scheme was available for Diploma and above courses with formal credit transfer links to higher education qualifications.

Providers had to be body corporates unless they were established under government legislation such as TAFE Colleges. The organisations were required to have education as their principal purpose and provide tuition assurance for all eligible courses. Initial participation in the scheme was small and by 2012 there were only 55,000 students accessing the scheme with a loans value of \$325 million.

Changes were made to the scheme in 2012. The Government removed the requirement that courses needed to be linked to higher education and enabled both public and private providers to have access to the scheme. There were no controls on course content or fees and little regulation of training providers. This is an important difference to the HECS – HELP scheme for higher education. In this scheme the cost of fees for degrees are currently regulated and the government pays for part of the cost of the qualification. In the VET sector the fees for non-government subsidised courses are completely deregulated enabling a provider to charge whatever they want and the student must therefore borrow the full cost of the course via a VET FEE-HELP loan. In addition, students who take out a VET FEE-HELP loan for a qualification which receives no government subsidy must pay a 25 per cent administration fee.

The changes to the scheme in 2012 were linked to the passage of the National Agreement on Skills and Workforce Development which meant that all states met the conditions which allowed their providers to be VET FEE-HELP eligible. Prior to this only Victoria was eligible as a 'reform' state due to the introduction of market reforms through the Victorian Training Guarantee. This enabled States and Territories to shift the responsibility of funding higher level VET qualifications to the Commonwealth and then ultimately onto students through the VET FEE-HELP loan scheme.

Further changes occurred due to the introduction of the National VET Regulator Act and the requirements of the National Partnership Agreement on Skills and Reform. The obligations concerning credit transfer arrangements were removed and the concept of a 'reform' State or Territory was replaced with 'eligible State or Territory'. The weakening of these conditions made it easier for many private providers to become eligible and a massive expansion of the scheme followed.

There was a significant increase in the offerings from private providers at inflated prices – often five times the price of public providers. The average cost of diplomas almost tripled between 2012 and 2014. There was also a marked shift away from face-to-face delivery to online course offerings. A relatively small number of providers dominate the scheme. In 2015 ten providers accounted for more than half of the loans. Also a small number of courses draw a large proportion

of VET FEE-HELP funding. It is important to remember that the ASQA has powers to issue fines for infringements but it does not have power to regulate the fundamental issue of pricing.

As a result of these changes the total value of loans increased to around \$3 billion with private providers accounting for 84 per cent of this. However, ACPET claims that ten of the largest fifteen VET FEE-HELP providers are TAFE Institutes. The Parliamentary Budget Office predicts that VET FEE-HELP will account for more than a third of the annual cost of the higher education loan program expected to reach \$11.1 billion in 2025 - 26.

So there has been a significant accumulation of debt for no real labour market outcomes. The changes to the scheme failed to understand the role of incentives for training providers and ignored the importance of market design and appropriate checks and balances. This deregulation of the scheme has led to a massive increase in for-profit private training providers and an industry-wide decline in quality.

It would also seem that the differences between the higher education and the VET sector in terms of student loans were not understood and the relative sensitivities to prices in the VET sector was overlooked. The application of the market in the training sector did not work because customers were not well informed – a vital ingredient for a successful market.

This is the context for the proposed full redesign of the scheme. Given this, it is unlikely that a reconceptualisation of the loans scheme will be successful without addressing the excesses of the underlying causes of the movement of the training sector into a market mode – especially a market without adequate protections and regulations and an uninformed client group. Reform of the emerging training market is required to enable a successful recasting of the VET FEE-HELP loans scheme.

# Protecting Students

## Student eligibility to access a loan

Discussion questions:

1. Are further student eligibility requirements necessary?

The administrative changes introduced since 2012 have been an improvement and need to be retained. Additional administrative measures are not required at this stage.

2. Can the administrative complexities involved in taking a Language, Literacy and Numeracy Assessment be reduced while ensuring this standard regarding student preparedness remains?

The Commonwealth Department of Industry contracted the Australian Council for Educational research (ACER) to develop an online Foundation Skills Assessment Tool to identify and assess an individual's foundation skill levels. This work has been completed and now resides with the Commonwealth Department. This would be an appropriate tool to use in this context and would reduce the administrative complexity without diminishing the impact on the standard regarding student preparedness.

## Lifetime loan limit for students

Discussion questions:

1. Should a separate and lower lifetime loan limit apply just to VET FEE-HELP?

The issue is not necessarily the level of the maximum loan limit, but rather that the loan levels are unrelated to the cost. There has been a period of escalation in tuition fees not connected to the actual cost of delivery. It would seem more appropriate to tackle the issue of the pricing of courses rather than focus on the maximum loan limit. The development of "unethical course price structures" is a result of the introduction of inappropriate demand-driven funding approaches and the deregulation of the VET training market.

Any adjustment to the lifetime loan limit should not impede student participation in lifelong learning in either the Higher Education or VET sectors.

2. If a separate limit was applied, what would a suitable limit be?

It is more appropriate to link the loan limits to the actual cost of program delivery.

3. If a separate limit was applied, how should this interact with the current lifetime loan limit for FEE-HELP?

As indicated, it is important that student endeavours to reskill over time should not be impeded by policy in this area.

## Addressing course costs

Discussion question:

1. What action could the Commonwealth take to address the rising cost for students undertaking VET with access to VET FEE-HELP?

The higher levels of debt incurred by students is a result of deregulation of the VET training market, and in particular, of the escalation of course fees unrelated to the actual costs of delivery. It is not a satisfactory policy response to expand VET FEE-HELP and student debt in response to this. Rather, regulation of course fees to reflect course costs is required similar to what is available in the higher education sector. The Government needs to establish efficient prices for courses and fund to that amount only. It is important to address upfront costs to enable student access to courses but it is apparent that this process currently dulls the price signals for students. Accordingly, they underestimate the prices of courses and consequently the scale of their debt. A key part of the solution to this is to substantially improve the information about the VET FEE-HELP scheme to students at the point of enrolment.

## Calculating 'reasonable costs' as a basis for maximum loan amounts

Discussion questions:

1. Should the Commonwealth target its investment in VET FEE-HELP to courses that align with industry needs, lead to employment outcomes, result in public good or provide pathways to higher education?

There is a need to determine some first principles about the loan scheme. Given that historically the scheme developed out of the HECS initiative is the intention to support all tertiary education students? There are currently no distinctions within the current Higher Education Loan Program (HELP) with all higher education students having access to this assistance. Does the same logic apply to all vocational education and training students?

2. What are the implications of the Commonwealth setting national prices or loan values for qualifications despite significant diversity in the cost of training across different geographic locations, student populations and mode of delivery?

The establishment of national prices and loan values by the Commonwealth would be a blunt instrument in the face of so many variables. However, unregulated prices determined by providers are the major problem in relation to the loans scheme. The focus needs to be on measures that more closely align the price of courses with the costs of delivery.

3. If the Commonwealth did set prices or maximum loan values for qualifications, what parameters should be used to determine how to set these values?

Given the range of variables that affect the price of courses one possible approach is to introduce price bands. A banding approach would be less blunt than a single price per qualification and would enable consideration to be given to the nature of geographic locations, student cohorts and mode of delivery.

## Delivery mode

Discussion question:

1. Should the mode of delivery be factored into any calculation on reasonable cost? If so, what mechanism could be used?

Price banding could take mode of delivery into account and assist with price determination in remote geographic areas. Students in remote areas require access to VET and particular delivery modes can be appropriate in these circumstances.

## Improved information for consumers and the role of brokers and agents

Discussion questions:

1. How could existing information resources be improved to ensure greater access to information for VET FEE-HELP students?

Given that the issue of abuse of VET FEE-HELP has been generated by providers it is in this quarter that the reform should focus. It should be a provider requirement to provide quality VET FEE-HELP information to prospective students during the process of course negotiations and enrolment. This information could be centrally developed and distributed to all providers. The enrolment process should clearly indicate that the student has received and understood this information. Any providers which do not comply with this regulation need to be sanctioned.

2. Should VET FEE-HELP providers have an obligation to provide information in a consistent form about the scheme to students?

Yes and they should be sanctioned if this is not provided.

3. Is there a role for an agent, or an intermediary, to assist students to make a choice regarding a course and provider?

Agents or intermediaries can play a constructive role in assisting students to make informed choices if they are independent of providers. In this way they can provide a further consideration to the information supplied by a provider.

However, if agents and intermediaries are to be given this role it is fundamentally important that their practices are regulated. Any brokers or agencies used in this process need to be identified by providers and registered with the Commonwealth Department of Education and Training. While this practice leads to administrative costs this is necessary to secure the appropriate levels of student protection.

4. If so, how should such an agent be regulated to ensure the interests of the students are paramount, rather than the interests of providers?

The measures introduced by the then Assistant Minister for Education and Training, Senator Birmingham, on 12 March 2015 represent an improvement in this area and need to be retained. From 1 April 2015 inducements to encourage potential enrolments were banned. From 1 July 2015 strengthened requirements concerning marketing and recruitment practices were implemented. In terms of brokers and agents these requirements included providers entering into written agreements with all its agents and providing a list of them.

In addition, all brokers and their agents should be registered with the Commonwealth Department of Education and Training. It should also be noted that ASQA has limited powers in relation to brokers and does not regulate their operations. It is only when ASQA suspects that a broker may be contravening the relevant provisions of the National VET Regulator Act that they can intervene. Otherwise brokers are subject to the relevant consumer law monitored by the Australian Competition and Consumer Commission (ACCC).

In this sense the regulation of the operations of brokers is administratively complex potentially involving ASQA, the Department of Education and Training and the ACCC. It may be worth investigating an extension of ASQA's powers to simplify this.

## **VET FEE-HELP ombudsman**

Discussion questions:

1. Would a VET FEE-HELP ombudsman help address student complaints and issues?

The introduction of a VET FEE-HELP ombudsman would be a useful initiative in the current climate. It would provide a central point of student complaint and redress. There is also a backlog of cases involving unethical behavior that will take time to resolve. Given the extent of the abuse of the scheme the introduction of an ombudsman may well assist in the restoration of levels of confidence into the system.

2. Should such an ombudsman be time-limited?

Given the appropriate reform of the VET system and the VET FEE-HELP scheme it should only be necessary to engage an ombudsman for a limited period of time. It would be desirable to install an ombudsman for an initial five year period and then review the continuation of the position.

# Regulating Providers

## Use of maximum scheme or provider loan caps

Discussion question:

1. If the Commonwealth were to maintain a cap on provider loan values, how could this ensure the current issues are addressed?

The range of issues raised by the Discussion Paper is formidable. It is unclear how a Commonwealth cap on provider loan values would assist in this area. While appreciating that the VET FEE-HELP scheme needs to be fiscally sustainable into the future the application of a cap is a blunt instrument with the potential to produce unintended consequences. It is also difficult to determine a cap level that is not arbitrary. Even if this can be achieved the danger is that providers will respond by pricing courses at the cap level regardless of cost. It would seem unlikely that the implementation of a cap in this area of itself would not produce the required change in provider behaviour.

## Quality measures

Discussion questions:

1. Should access to VET FEE-HELP loans include a requirement for students to be engaged in their training and working towards completion?

This suggested measure places emphasis on the students who are not the source of the problem. As the Discussion Paper identifies it would also be problematic for providers to have responsibility for course progression or engagement as this may lead to false claims in these areas. Students also do not learn at the same rate and it would be unwise and even inequitable to impose progression measures on the loan scheme.

2. How could student engagement, progression or completion be measured and tracked?
3. Should providers be required to meet minimum specified course completion or progression rates?

As indicated above, this measure is not appropriate. Current monitoring of training delivery and progress of providers generally should be adequate without imposing an additional set of measures related to student loans.

4. Should higher quality standards be applied to RTOs seeking to provide VET FEE-HELP?

The suggestion of higher quality standards for providers offering VET FEE-HELP is problematic. This not only implies that some providers have less than high quality but rewards those considered to have higher quality. What employers want from the VET system is universally high standards of quality and so this proposed differentiation is not helpful. It would establish two tiers of VET providers. It would also lead to inequities where some students would be denied access to VET FEE-HELP through no fault of their own.

It is certainly the case however that if ASQA refuses registration of a provider or deregisters a provider then access to VET FEE-HELP should be disallowed.

5. What additional standards should be considered when granting VET FEE-HELP provider status?

Not applicable.

## Time limited registrations

Discussion questions:

1. Should access to VET FEE-HELP scheme be time limit?

The suggestion of a time limit on access to VET FEE-HELP would seem to be administratively unnecessary. The focus of reform needs to be on establishing all providers as quality providers. That being the case there is no need for a time limit. The current timeframe of re-registration through ASQA is adequate.

2. If so, how long should 'licences' apply for?

Not applicable.

# Managing the System

## Courses to be funded

Discussion questions:

1. Should all VET courses be eligible for VET FEE-HELP?

In terms of equity, all VET courses should be eligible for access to VET FEE-HELP. The Higgins-Chapman report of 2015 argues that the scheme should be available to all tertiary education students from Certificate III upwards. However, to be financially sustainable this expansion would require adjustments to the current system.

Extending the current scheme would have a number of consequences. One result would be high loan subsidies for some students and qualifications. For example, compared to university graduates, Certificate III and IV completers have low incomes and women have lower employment outcomes. Lower rates of full-time employment have a significant impact on lifetime income and the capacity to repay the loan. There would be a high variability in the effective subsidy rate between different groups of students. This means costs are not shared equitably between the borrowers and the Commonwealth.

Accordingly, to extend the scheme it would be necessary to adjust the repayment rate, the income level for commencing repayments, the interest rate applied to the loan and a review of the loan fees and surcharges. In addition, the record of recent years demonstrates that Commonwealth and State/Territory governments are reluctant to increase the level of funding for the VET sector. To make any extension work the income repayment threshold needs to be reduced, the repayment rate reduced and a uniform loan surcharge imposed.

Given these complexities it would be sensible to redesign the arrangements for diploma levels and above as a priority and consider an extension of the scheme to certificate levels at a later date. It also needs to be noted that if effective controls for the prices of courses are implemented then students undertaking certificate level courses may well not need access to loans in order to be able to participate.

2. If not, how should course eligibility be determined?
3. Should the Commonwealth consider capping the number of courses students can enroll in?
4. Should the Commonwealth consider capping the number of places in any given course?
5. Should the Commonwealth consider capping the number of places a provider may offer?

As indicated, to address these issues it is necessary to revisit the purpose of the loans scheme prior to any introduction of capping. While acknowledging the differences between the HELP and

the VET FEE-HELP schemes, is the intention to provide universal loan access to VET and higher education students or some 'tertiary education' subset?

## Information on performance

Discussion question:

1. How could provider data requirements be enhanced in the redesigned VET FEE-HELP scheme at what frequency could providers report to the Commonwealth?

Enhancing data requirements relates directly to the purpose of collecting the data. If the purpose of the data collection is to provide an overview of trend data an annual collection is probably sufficient. If the data is to be used for compliance and responsiveness to issues then there is a problem. There are always difficulties with achieving real time data. The recording of data, even on a more regular basis, will always be after the event and so it is difficult to use for compliance and responsiveness purposes. Other quality assurance measures available through ASQA are more useful for these purposes.

## Tuition Assurance

Discussion questions:

1. What tuition assurance arrangements are necessary in a redesigned scheme?

In broad terms it is important for students to be protected from provider closures or course changes. If the two current approved schemes are considered to be too complex and difficult to regulate then the Commonwealth should give consideration to the adoption of a single scheme to be administered centrally by them.

2. How can the tuition assurance arrangements be more responsive to direct regulation?

More direct regulation could be achieved by the adoption of a single scheme administered by the Commonwealth.



**AUSTRALIAN INDUSTRY GROUP METROPOLITAN OFFICES**

**SYDNEY** 51 Walker Street, North Sydney NSW 2060, PO Box 289, North Sydney NSW 2059 Tel 02 9466 5566 Fax 02 9466 5599

**CANBERRA** 44 Sydney Avenue, Forrest ACT 2603, PO Box 4986, Kingston ACT 2604 Tel 02 6233 0700 Fax 02 6233 0799

**MELBOURNE** Level 2, 441 St Kilda Road, Melbourne VIC 3004, PO Box 7622, Melbourne VIC 8004 Tel 03 9867 0111 Fax 03 9867 0199

**BRISBANE** 202 Boundary Street, Spring Hill QLD 4004, PO Box 128, Spring Hill QLD 4004 Tel 07 3244 1777 Fax 07 3244 1799

**ADELAIDE** 45 Greenhill Road, Wayville SA 5034 Tel 08 08 8394 0000 Fax 08 08 8394 0099

**REGIONAL OFFICES**

**ALBURY/WODONGA** 560 David Street Albury NSW 2640 Tel 02 6041 0600 Fax 02 6021 5117

**BALLARAT** Suite 8, 106-110 Lydiard St South, Ballarat VIC 3350, PO Box 640, Ballarat VIC 3350 Tel 03 5331 7688 Fax 03 5332 3858

**BENDIGO** 87 Wills Street, Bendigo VIC 3550 Tel 03 5440 3900 Fax 03 5444 5940

**NEWCASTLE** Suite 1 "Nautilus", 265 Wharf Road, Newcastle 2300, PO Box 811, Newcastle NSW 2300 Tel: 02 4925 8300 Fax: 02 4929 3429

**WOLLONGONG** Level 1, 166 Keira Street, Wollongong NSW 2500, PO Box 891, Wollongong East NSW 2520 Tel 02 4254 2500 Fax 02 4228 1898

**AFFILIATE: PERTH** Chamber of Commerce & Industry Western Australia

180 Hay Street, East Perth WA 6004, PO Box 6209, East Perth WA 6892 Tel 08 9365 7555 Fax 08 9365 7550

**[www.aigroup.com.au](http://www.aigroup.com.au)**