Allocation of VET funding by state training authorities

Ross Adams

Over the past decade the nature of vocational education and training (VET) has changed profoundly as a result of many interrelated factors, including technological change, globalisation, de-regulation of the training market and the development of the Australian Quality Training Framework. These changes have, in turn, affected the way in which the VET sector is funded. The aim of this chapter is to give an overview of the way in which funds appropriated by state and territory governments and the federal government are allocated to vocational education and training—both public and private providers—through state training authorities.

Background and purposes

Until the early 1990s, the great majority of public vocational education and training in Australia was delivered by institutes of technical and further education (TAFE). In most states and territories, funding was disbursed to TAFE institutes by the government department or agency with overall responsibility for vocational education and training. In fact, at that time the acronyms ‘TAFE’ and ‘VET’ were practically synonymous. Some state and territory and Australian Government funding was provided to non-TAFE providers, such as the adult and community education (ACE) sector in some states, and to providers of education and training services for Indigenous Australians. However, the sums involved were very small by comparison with total funding to TAFE.

In the past, TAFE served two major client groups. The first was traditional apprentices, and from the mid-1990s, trainees, and their employers. The second group comprised young people undertaking complete full-time vocational training courses after finishing secondary school. The TAFE system, and the mechanisms for funding it, reflected these priorities.
This situation changed irreversibly in the early 1990s, driven by a number of interrelated factors, including:

- profound structural shifts in the labour market, caused by, among other things, increasingly rapid technological change and increasing globalisation of markets
- continued increase in the average age of the Australian population, which occurred at around the same time as the growing need for skills upgrading and retraining in response to rapid technological change
- arrangements for greater industry input into the training system through the development of a network of state and territory and national industry training advisory boards
- the introduction of competition into the training provider market by allowing providers other than the institutes of TAFE to receive public funds to deliver training, often on a competitive tendering basis, and by allowing providers (including TAFE) to deliver training in other states and territories
- changes to the traditional apprenticeship system, including the development of traineeships, and the implementation of the New Apprenticeships system from 1 January 1998. The New Apprenticeships arrangements included choice of training provider and arrangements for fully on-the-job delivery of the formal part of the training program
- Government funding in the form of subsidies to employers of apprentices and trainees, growth funds to state and territory training authorities and funds for capital works, capital improvements and special projects
- requirements of states and territories to match additional Australian Government recurrent funding on a dollar-for-dollar basis
- the development of the National Training Framework for vocational education and training (now the Australian Quality Training Framework); the development of national courses and modules, and more recently, national training package qualifications and units of competency, linked to levels in the Australian Qualifications Framework
- national agreements to fund and promote recognised vocational education and training in secondary schools as part of upper secondary education
- the implementation of other new policies and a change in strategic direction by providers, state and territory training authorities, the Australian National Training Authority (ANTA) and the Australian Government, for example, access and equity initiatives.

The majority of these policy changes had implications, either directly or indirectly, for the ways in which resource allocation to the public VET system was managed. The annual agreements signed by each state and territory with the Australian Government explicitly reflected this changed funding context. Throughout the 1990s, a more diverse range of funding and accountability arrangements emerged in response to the diversification of the public VET system, and these have continued.
The five-year national strategies for vocational education and training developed by ANTA and agreed by ministers also reflect these developments. For example, a key objective of the 1994–98 national strategy was ‘efficiency, so that value for money and accountability are emphasised and administrative arrangements are streamlined and simplified’. Specific strategies included opening up the training market, allocating a greater proportion of funding on a competitive tendering basis, offering choice in relation to who provides training, and removing barriers to industry and private provision of training.

In the 1998–2003 national strategy, specific objectives for improving efficiency and maximising the value of public expenditure on vocational education and training included: using infrastructure effectively; assuring accountability; improving management information; and using research and evaluation to inform policy and planning.

Throughout this period of change, the states and territories and ANTA, in accordance with the Australian Vocational Education and Training Management Information Statistical Standard, have provided financial information about the public VET system to the National Centre for Vocational Education Research (NCVER) for publication each year. This information is published in the form of a number of financial tables, charts and explanatory comments, covering revenues and expenses, assets and liabilities, cash flows and trends in total revenues and expenses over the previous five years.

While this information provides regular data about the recurrent financial throughputs and capital investment levels of Australia’s public VET system, there has been little information available in the public domain which describes the main practices across the system in relation to obtaining and allocating VET funds appropriated by state and territory parliaments and the Australian Parliament.

The primary purpose of this chapter is to give an overview of these practices, to link to other work related to funding and financing models, and, more generally, to develop a national picture of total VET effort and not just the public VET system.

Scope

The research focused on clarifying structural and funding arrangements of state and territory training authorities in their management of the allocation of public (that is, government) recurrent funding to public and private providers for VET program delivery. Public funding includes:

- funding paid by ANTA
- funds appropriated for vocational education and training by the Australian Government and state governments
- other funds earned and controlled by the public TAFE institutes
- funding of VET divisions within universities which has been paid for by state and territory training authorities.
Of the funds earned and controlled by the public TAFE institutes, delivery hours funded by fee-for-service arrangements (arising from a client request for a specific course/program) are additional to the delivery hours specified by the provider’s contract with the government. For the purposes of the contract, student fees and charges revenues which remain under the control of the provider are included in the calculations relating to funding of the delivery hours. This is the most common approach across states and territories, the alternative being that student fees and charges revenue are returned to consolidated revenue during the funding year. In this approach, the government initially funds delivery at gross levels with guaranteed subsequent revenue returns. The net cost to government is the same under both approaches.

However, not all public funding spent on vocational education and training goes through state training authorities. For example, VET provision to prisoners, police, fire brigade and defence forces may be delivered through non-TAFE registered training organisations, including ‘in-house’ registered training organisations. Funding for this does not involve any financial transaction with state training authorities and thus relates to the broader notion of total VET effort. The broader notion of total VET effort includes all recognised (accredited) vocational education and training, including VET that is not publicly funded.

Funding provided to all VET providers from state training authorities essentially covers profile, user choice and contestable delivery (refer further comments below). For this chapter some additional information was obtained relating to financial performance evaluation of providers and their accountability to state training authorities for funds provided.

The research for this chapter focused on the mechanisms which state training authorities use to allocate and manage the publicly funded resources of their jurisdictions. It was not concerned with specific costing or pricing.

Methodology
All states and territories were invited to participate in either personal or telephone consultations structured around a series of questions in the areas noted above. One state declined the invitation to participate, while another provided limited information. Responses were returned to contributors for checking, amendment and final acceptance.

Findings
Structural arrangements
There is a large degree of commonality between states and territories in organisational structures which develop and deliver VET training plans and profiles. There is essentially a two-tiered approach to the delivery of state and territory vocational education and training.
A legislated training board/commission (which is technically the ‘training authority’) has responsibility for providing advice and recommendations to the minister on annual training plans. These are strategically and priority-focused and link estimated funding requirements to related delivery outputs and outcomes. Membership of the board or commission includes representatives of providers, government, industry, unions and employers, all of whom provide comprehensive input into the VET training needs of the jurisdiction.

Following adoption of the training plan by the state or territory government in its budget, responsibility for managing the allocation of the appropriated VET funds is devolved to the state training department. These VET funds comprise funds contributed by:

- state or territory governments (57% of total)
- ANTA and other Australian Government special purpose programs (22% of total)
- internally generated fee-for-service and ancillary services funds (16% of total)
- funds from fees and charges levied on students (5% of total).

This breakdown is shown in figure 1 (p.27).

The states and territories display a number of differences in the structural relationships between the training departments/branches and the TAFE colleges/institutes. In a couple of the states, the TAFE institutes are not autonomous authorities and their financial systems are integrated within the appropriate department. In most states and territories the TAFE institutes are statutory authorities with no operational linking of financial systems.

In terms of VET program delivery, state or territory training departments establish contracts with both the public providers and private providers. Private providers deliver user choice and contestable delivery programs. Although some states make payments to ACE providers, these are for administration and program support, not for delivery of accredited VET courses. An exception would be an ACE provider, which was also a registered training organisation, securing funding under user choice or contestable arrangements, such as tendered bids. Similarly, state and territory training departments/branches do not fund delivery of VET in Schools programs. This present work confirmed that funding for VET in Schools programs was appropriated to education departments as schools education funding.

Funding categories and arrangements

States and territories ‘cut’ their training plans into four main categories for allocating the appropriated funds. These are for:

- general profile delivery and college-based administrative, student and property services support for public providers (range, 70–80% of total)
- user choice delivery (range, 10–20% of total)
❖ contestable delivery (range, 5–10% of total) funding for both public and private providers
❖ state training authority and training department administration funding (range 1%–5% of total).

General profile delivery and college-based administrative, student and property services support funding
General profile delivery covers the broad spectrum of VET programs to be delivered by the TAFE colleges and institutes. Delivery targets for individual institutes are determined through negotiations with the department, and which take into account a number of factors, including:
❖ current local and regional training demands
❖ student demographics
❖ institute capital infrastructure and capacity to deliver
❖ government priorities and special initiatives or programs requiring delivery
❖ institute location
❖ historical delivery performance.

Funding is formalised through annual resource performance agreements which are negotiated by both departmental and institute management.

The performance agreements detail both delivery hours (with analysis of industry grouping normally a scheduled attachment) and funding provided. Funding calculations are not normally based on detailed course or program cost or activities information, but are more likely to involve the use of average hourly rates for providers, derived from negotiations and historical information. The complexity and diversity of programs and program delivery methods for vocational education and training do not readily allow confident identification of costs at levels which could form the basis of course/program resourcing calculations.

User choice delivery funding
‘User choice’ refers to delivery of the formal (usually off-the-job) component of training to New Apprentices (that is, apprentices and trainees). The funding of user choice is independent of the subsidies and incentives paid to employers by the Australian Government Department of Education, Science and Training. Private providers also access public funds for these initiatives.

Most jurisdictions appear to establish their total anticipated delivery for apprentices and trainees and allocate funding to cover the majority of the public providers’ expected delivery as a component of their resource agreement funding at the commencement of the funding period. Allocations take account of local demands for particular skills, and also providers within the market area who have previously demonstrated capacity to supply the training requirements.
The ‘residual’ user choice is allocated to private and public providers based on individual contracted arrangements or on tendered arrangements. Delivery bids from providers are evaluated by state training authorities before contracts for training delivery are formalised, based on a number of criteria, including price, scope of provider registration and demonstrated capacity to deliver quality training etc. Compliance with state or territory procurement policies and preferred supplier arrangements where applicable are also considered.

Payments to providers are progressive and depend upon evidence of performance, such as submission of training plans, evidence of commencement of training and evidence of completion of competencies or issue of qualifications.

It would seem that, at the present time, the majority of public funds for user choice programs go to the public providers. There are a number of possible reasons for this.

❖ There are well-established relationships between employers and the large public providers. Firms and industries have direct links with public providers through their representation on the councils or boards of these providers. These links would tend to maintain employer recognition of the role of the public providers as major providers of apprentice and traineeship training and could understandably influence employer–employee training decisions.

❖ The public providers have benefited from significant capital facilities investment by governments over time and are often better equipped than private providers to deliver apprenticeship training, particularly in the traditional trades areas. Typically, courses in the traditional trades are more expensive programs to deliver than information technology traineeships or business and clerical traineeships, thus requiring higher per unit funding from governments.

❖ The public providers would also be more dominant in regional areas where there are likely to be fewer private providers.

Contestable delivery funding
Contestable delivery is best described as specific and/or priority-demanded delivery which takes account of industry and government priorities, skill shortages and training needs of equity target groups, and which has been evaluated by state or territory training authorities as suitable for delivery by both public and private providers through open market ‘bidding’ arrangements. Contestable delivery, as managed and defined by state training authorities, does not include delivery under the New Apprenticeships initiative.

Contestable funding is equitably available to both public and private providers, with the exception of one state, which has excluded its public providers from accessing these funds. It is noteworthy that the limited availability of suitable providers in the smaller jurisdictions can impact on funding distributions.
Assessment of delivery bids and payments to approved providers are essentially the same as user choice as described above.

Most states and territories have recently experienced tension between determining appropriate funding for training delivery in an open training market while, at the same time, meeting ongoing commitments to fund their public providers as they, also, move to becoming more corporative entities. The public providers have embedded cost burdens, such as those relating to jurisdictional industrial award conditions for employees, and relatively larger capital infrastructure and capital maintenance costs, which do not affect private providers to the same extent. Costs such as these make it more difficult for public providers to price their program offerings competitively with those of private providers, with the result that public providers are required to deliver a disproportionate amount of more expensive programs.

State training authority and training department administration funding
These funds are allocated within the organisational units of state training authorities and training departments for the purpose of managing:
- corporate policy, planning and administration, including VET program accreditation
- registration of training providers
- information technology services
- facilities management, statistical services
- financial budgeting, reporting and accountability arrangements with public providers and central agencies, such as state or territory treasuries or departments of finance, and ANTA.

The funds are essentially allocated and managed on a program management basis. Funds are aligned with expected outputs and outcomes, and performance measures. Funding allocations are formalised through signed resource agreements between the state training authority, the departmental chief executive officer and section directors.

Performance monitoring and accountability of public providers
As a general rule, the frequency of monitoring delivery outputs and financial performance of the public providers by state training authorities and/or training departments is determined by:
- the degree of autonomy of the public providers
- the presence or absence of centralised financial systems containing provider records
- state or territory financial administration and audit legislative requirements
- the size of the state or territory.
Nevertheless, all states and territories conduct, as a minimum, major quarterly reviews of financial and non-financial information of all organisational units, including the public providers, primarily in accordance with the requirements of state and territory financial administration and audit legislation. The reviews are the prime mechanism for adjusting delivery targets and related funding of providers during the life of the performance agreement and are usually undertaken through direct consultation with senior management within providers. State training departments or branches can also introduce more regular (for example, monthly) monitoring of any provider, where its financial indicators of liquidity are outside tolerance levels.

Conclusion

The following are the major findings from this research project on funding allocation for vocational education and training by state training authorities.

❖ State training authorities take advice from their VET stakeholders—provider representatives, government, identity, unions and employers—in developing training plans, training priorities and related funding requirements. These are submitted to ministers and government for approval through parliamentary budget processes.

❖ Training departments or branches are responsible for the distribution and overall management of public funds paid to public and private providers.

❖ Formalised resource or performance agreements support funding to TAFE colleges and institutes for their general profile and the bulk of their user choice funding. Some states fund their TAFE colleges and institutes for a calendar year, while others fund for a financial year.

❖ Negotiations which consider local training needs, student demographics, infrastructure and operating costs factors, and historical operating performances predominately underpin financial resource allocations to the public providers for general profile core delivery. Where resource allocation models support allocation calculations, these can involve an averaged annual hours curriculum rate for a provider or, in exceptional instances, a specific rate for an output (for example, course) for a provider.

❖ Funding levels for user choice and contestable delivery, as a component of total funding, are generally in the ranges of 10–20% and 5–10% respectively.

❖ Contestable programs have direct linkages to skill needs of specific industries or training priorities of government. These programs have been evaluated by state training authorities as being appropriate for contestable delivery, based on their knowledge of their providers’ registration status, capacity to deliver quality training, and state or territory training market demographics.
Payments to both public and private providers for contracted or tendered user choice and contestable delivery are made progressively when evidence of completion of competency levels or qualification attainment has been received by training departments or branches.

Funding outlays for both user choice and contestable funding can be identified from either primary financial systems or supporting management systems.

Major quarterly financial and performance reviews of TAFE colleges or institutes by training departments or branches can result in adjustments to funding and/or delivery hours, and closer monitoring (for example, monthly) of providers showing signs of difficulty in achieving contracted financial or delivery conditions and targets.

While there are different organisational and structural arrangements and relationships between state training authorities, training departments and the training providers across the states and territories, the overall conclusion is that their basic policies, principles and practices for financial resources needs determination, allocation and management are nevertheless largely consistent.
Figure 1: Broad overview—VET financial resource allocations, states/territories

- State/territory training authority (STA)
  - Recommended training profile—outputs, outcomes and funding

- Minister/government for approval

- State/territory VET training department budget ($s & outputs)
  - State/territory funds 57%
  - ANTA and other government special purpose funds 22%
  - Fee-for-service and trading 16%
  - Student fees and charges 5%

- General profile delivery and college-based admin, student and property services funds 70%–80%
- User choice funds 10%–20%
- Contestable delivery funds 5%–10%
- State/territory training authority and department administration funds 1%–5%

- Resource agreements
- Resource agreements predominantly
- Contracts
- Contracts
- Contracts

- TAFE institutes
- Private providers