

Our reference:  
Your reference:

PO Box K35, Haymarket Post Shop NSW 1240  
Level 15, 2-24 Rawson Place, Sydney NSW 2000  
T (02) 9290 8400 F (02) 9290 2061  
ABN 49 202 260 878

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The Hon Paul Green MLC  
Committee Chair  
General Purpose Standing Committee No 6  
NSW Parliament House  
Macquarie St  
Sydney

Contact Fiona Towers

Dear The Hon Paul Green MLC

## INQUIRY INTO VOCATIONAL EDUCATION AND TRAINING IN NSW

In February 2013 the Independent Pricing and Regulatory Tribunal of NSW (IPART) was asked by the NSW Government to provide advice on price and fee arrangements for government-funded VET under Smart and Skilled. We were asked to recommend a methodology for determining the price registered training organisations (RTOs) can charge for VET, how much of the price should be paid by the student, and how much should be paid by the Government.

The process we followed in conducting the review included public consultation and detailed analysis. We:

- ▼ released an Issues Paper in April 2013 that outlined our proposed approach to the review, discussed the key issues to be considered, and invited all interested parties to make a submission
- ▼ considered all submissions and stakeholder comments in making our draft recommendations
- ▼ released a Draft Report in July 2013 which explained our draft recommendations and the analysis that supported them, and sought comment from interested parties
- ▼ held a public roundtable on 20 August 2013 to provide stakeholders with a further opportunity for input
- ▼ considered all of the information and comments received through the review and public consultation processes before making our final recommendations.

All the publications associated with the review, including our draft and final reports, submissions and a transcript of the public hearing, are available on our website [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

Our responses to your questions follow.

## Q1 Can IPART explain the methodology used by IPART to set qualification prices?

Our recommended methodology aims to replicate price outcomes that would be achieved in a fully competitive market for VET. In particular, it aims to set base prices to reflect the efficient costs of providing the training to the required quality standard to a standard student. We recommended that base prices be shared between students (through fees) and taxpayers (through government subsidies).

In our view, base prices that reflect efficient costs will provide sufficient incentive for providers to enter and remain in the NSW VET market. They will also ensure that efficient providers can recover the costs of delivering quality training. In addition, they will create incentives for providers to improve their cost efficiency through innovation in service delivery.

The methodology we developed is reasonably simple to administer. In addition, we considered that it will help the Government predict and manage the budget for VET, and to maximise the economic and social benefits generated from the finite level of government funding available for VET.

Under our methodology, base prices reflect the efficient costs of providing training for a course/qualification that meets the required quality standard to a standard student. These costs include:

- ▼ teacher costs
- ▼ course-specific costs (such as equipment and teaching supplies)
- ▼ recurrent costs (such as administrative staff, utilities), and
- ▼ capital costs (captured through a margin on operating costs).

They do not include any personal costs a student might incur (such as text books and personal equipment costs).

The methodology captured the costs in a set of variable and fixed cost components that are used to set base prices. The variable cost components are expressed as dollars per nationally agreed nominal training hour (\$/nominal hour), and are applied to the combination of units of competency (UoCs) that make up the course or qualification:

- ▼ To reflect the cost differences that are driven by the industry with which the training is associated, we established 25 variable cost levels that apply to 'standard UoCs' in 25 industry groups. These ranged from \$4.02 per nominal hour (for UoCs in the sport and recreation industry group) to \$13.96 per nominal hour (for UoCs in the vehicle body industry group)<sup>1</sup>.

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<sup>1</sup> IPART recommended prices and fees to apply from July 2014

- ▼ To reflect cost differences driven by the need for specific high-cost equipment or consumables, or lower student to teacher ratios to meet safety requirements, we established 'high cost UoCs' in 11 of these 25 industry groups. These include a premium of between 10% and around 200% on top of the variable cost for a 'standard UoC' in the same industry group.

The fixed cost components are expressed as dollars per enrolment in the course or qualification (\$/enrolment). To reflect the costs driven by the intensity of training involved in different qualification levels, we established 5 fixed cost levels. These ranged from \$490 (for Foundation Skills courses with no AQF level and part qualifications) to \$3,720 (for Diplomas and Advanced Diplomas). Each base price should include the level of fixed costs that corresponds with level of the qualification.

To establish the base price for each individual course of qualification, we recommended the Government apply the relevant variable cost levels to the combination of UoCs that make up the qualification, and add the fixed cost level that corresponds with level of the qualification. Initially, the combination of UoCs that make up the qualification would be based on the 'typical combination' determined by the Government. Over time, the Government should collect information on the actual combinations of UoCs offered by RTOs, and consider whether base prices should be adjusted to reflect the differences between these and the typical combinations.

We also recommended that the methodology not vary by mode of delivery. This means one base price applies to each course and qualification, regardless of whether the training is delivered in a class room, in the workplace, through e-Learning, or through a variety of modes.

Chapter 4 of our final report provides further information on our recommended price arrangements for base prices for the individual courses and qualifications subsidised by the Government under Smart and Skilled.

## **Q2 Can IPART explain:**

- a) how IPART came to the view that the 15% disability loading would be adequate to cover most cases?
- b) whether IPART considered a model with different loadings depending on the level of disability, and if so, why such a model was not recommended ?
- c) why IPART decided that CSO funding should be used to cover those students whose needs are greater, rather than increasing the disability loading across the board?

In our recommended price arrangements, 'loadings for higher cost learners' were expressed as a percentage of the base price and added to this price for students in certain categories to account for the typical additional costs associated with training these students.

We considered that loadings should reflect the typical level of additional costs associated with higher cost learners, recognising that this means they will over-recover the actual additional costs for some students, and under-recover these costs for other students. In our view, setting loadings to more closely reflect the actual costs an RTO incurs in providing training to higher cost learners would be information intensive and administratively difficult, as it would require a graduated series of levels per loading type, and more complex arrangements for verifying eligibility, particularly for the higher levels of each loading. However, we acknowledge that in some limited situations the efficient costs of providing quality training to specific students may be higher than the loading.

For these higher cost students additional funding was to be provided via CSOs to TAFE and Adult and Community Education (ACE) for:

- ▼ providing training to students with a disability who have specific high cost needs (such as hearing-impaired students who need sign language interpreters)
- ▼ providing 'wrap around' support services, such as pre-training support, counselling, and career support services.

To determine the loading percentage, we relied on the available evidence of systematic cost increases associated with students with a disability. In particular, we analysed:

- ▼ extensive cost information on the systematic differences in costs across the various TAFE Institutes (due to differences student characteristics).
- ▼ data from the tendering process for the Strategic Skills Program, particularly on the loading levels sought by RTOs for training different students.

We also considered the loading levels available under other programs or in other jurisdictions. We also considered stakeholder responses to the loading levels proposed in our draft report. In particular, a number of stakeholders expressed concern that these levels were not sufficient to meet all the additional costs associated with higher cost learners.

In response to submissions on our draft report, we decided on balance that the loadings for students who have a disability should be increased from 10% to 15%.

**Q3. The committee has heard evidence that the qualification prices set for some courses are too low to cover the costs of delivering those courses, for example plumbing and arboriculture qualifications. Can IPART respond to this?**

We consider that our recommendations take account of all the relevant costs of providing VET without double counting. Our recommendations establish the amount RTOs would receive in total (from both students and Government) for delivering the courses and qualifications on the skills list to different categories of students.

Our recommended base prices reflect the efficient costs of providing training for courses/qualifications to a standard student to the required quality standard. These costs include teacher costs, course-specific costs (such as equipment and teaching supplies), recurrent costs (such as administrative staff, utilities) and capital costs (captured through a margin on operating costs).

Base prices apply to individual courses or qualifications, and reflect the variation in costs driven by course type and qualification level. Our recommended methodology for setting base prices takes account of the level of qualification, as well as the units of competency (UoC) that make up the qualification (including their industry group and the nominal hours associated with them).

We are satisfied that our recommended cost components, and our recommended method for building up the base price for each course and qualification, produce base prices that are consistent with the prices sought by training providers in the 2011/12 Strategic Skills Program tender process. Comparing base prices to the prices sought through the tender process provides the best available 'market testing' of how well the prices reflect efficient costs.

Based on the information available to us – including the UoCs that TAFE considered high cost, the Strategic Skills Program tender data, and comments and information provided by stakeholders in response to our draft report – we identified more than 900 high cost UoCs. Table 4.1 in our final report shows the industry groups in which we identified high cost UoCs, and the number of UoCs and premium levels per group. We recommended premium levels for high cost UoCs, ranging from around 10% to around 200%, depending on the industry and driver of the additional cost.

We note that we identified up to 15 high cost UoCs in the plumbing industry group where these costs were associated with consumables and higher supervision requirements.

In addition we recommended pricing arrangements to account for the additional costs of providing training in thin markets. In the context of our review, thin markets are those that are too costly to service for the base price and other loadings because demand for the training is very low, or the teaching costs are very high.

Under the recommended arrangements, markets are defined as training for a specific qualification in a specific region. 'Thin markets' are defined as those where at least 1 RTO has the capacity to provide the training, but none are willing to do so for the base price and other applicable funding. We recommended that the Government identifies these markets through an annual process that involves:

- ▼ Testing the markets for government-subsidised VET and identifying those that are thin.
- ▼ Deciding whether and how much additional funding will be provided to allow these markets to be serviced.

In deciding on whether to fund a thin market, Government should consult with industry, RTOs and the community and take account of factors such as the alternative training options available, the likely cost of training relative to the total budget for CSOs in thin markets and the benefits the training will provide. If the parties can agree on an additional cost per student that the Government is willing to pay, a CSO should be provided.

**Q4 IPART was given funding principles by NSW Government to guide their modelling. Can IPART go through those funding principles and whether the NSW Government has itself complied with those funding principles during the implementation phase of Smart and Skilled?**

In developing our recommended advice and methodology we took account of the Government's pricing principles for Smart and Skilled, and its requirement for a methodology that ensures quality training delivery at the most efficient price. These pricing principles were included in our terms of reference and also included in our final report (see Box 2.1 chapter 2). We have re-produced this box below.

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**Government agreed pricing principles for government funded training under Smart and Skilled**

- ▼ Price and fee arrangements will apply transparently and consistently across all approved training organisations delivering public subsidy training.
  - ▼ Students will pay a set fee per qualification rather than an annual fee (or fee based on time served).
  - ▼ Students doing higher-level qualifications will contribute more than students doing lower level qualifications.
  - ▼ Exemptions and concessions will be retained for Aboriginal and Torres Strait Islander students, students with a disability and welfare beneficiaries.
  - ▼ Students doing a subsequent post-school qualification will make a higher contribution than those doing a first post-school qualification.
  - ▼ Students up to the age of 17 that have left school would continue to contribute at the first post-school qualification rate.
  - ▼ A loading on top of the base price will be paid to RTOs to reflect higher costs of training particular students. Loadings will be directed towards students that are disadvantaged (for example Aboriginal and Torres Strait Islander students, disability and long-term unemployed) and studying in regional locations.
  - ▼ Community Service Obligations will be paid to TAFE NSW and approved ACE providers. CSOs will be directed towards markets deemed as social obligations with low levels of demand and high costs (Government refers to these as thin markets).
  - ▼ Income contingent loans will be available for approved public subsidy Diploma and Advanced Diploma qualifications.
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We cannot provide comment on implementation.

**Q5 Is there any evaluation of the implementation of the model or any clarification IPART wishes to make?**

IPART does not have an on-going role with regard to Smart and Skilled. We have not carried out any evaluation.

**Q6 Is IPART going to play a role in any future review of the fee structure and course costs?**

- a. If so, has a date been determined to undertake a review?
- b. If so, what is that date?

In our final report we recommended that the first major review to reset base prices and student fees should be undertaken in time for the price change on 1 January 2017 (at the time we made this recommendation it was expected that base prices would have been implemented for 2.5 years). After that, we recommended a review to reset prices should be conducted every 3 years.

We have not been asked to undertake a subsequent review. However, we would be available to conduct a further review if requested to do so.

**7. Has IPART received any feedback that the delivery price of some courses is too low?**

- a. If so, from who and what specific comments were made?

IPART does not have an on-going role with regard to Smart and Skilled.

IPART has not received formal feedback on its recommendations.

When our final report was publicly released by the NSW Government in May 2014 we received some inquiries from a few stakeholders. In some instances it was suggested that base prices for some qualifications were too high (for example for business qualifications) and other base prices were too low (for example heavy vehicles). No evidence was provided in support of these comments.

**8. Has IPART received any feedback that the delivery price of some courses is too high?**

- a. If so, from who and what specific comments were made?

See the answer to question 7

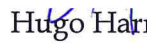
**9. Has IPART received any information from any sources that the prices that have been set for courses has had an impact, either positive or negative, on actual enrolment numbers or potential student perceptions about the value of undertaking studies at TAFE?**

**a. If so, specify the details?**

IPART does not have an on-going role with regard to Smart and Skilled.

IPART has not received information regarding the effect of fees or base prices on actual student enrolments, and student perceptions.

Yours sincerely

  
Hugo Harmstorf  
Chief Executive Officer