



# Funding Growth in the NT Training Market: a Discussion Paper

## Purpose

The purpose of this discussion paper is to seek stakeholder feedback to inform the development of new business and funding models for training delivery in the Northern Territory into the future.

The Northern Territory Department of Business and the Northern Territory Employment and Training Authority Advisory Board are consulting with all stakeholders, including industry, training providers and the community more broadly.

## Introduction

The Department of Business is responsible for the management and governance of the vocational education and training system in the Northern Territory under the *Northern Territory Employment and Training Act*. The Department administers the public funds that are available for the delivery of training in the Northern Territory.

Vocational education and training provides Territorians with the skills and formal qualifications required to participate in the modern workplace, to innovate and to contribute to our social, economic, cultural and environmental development in a manner that balances competing interests. The Northern Territory vocational education and training system has served Territorians well, but there are new pressures and priorities emerging which are placing strains and limitations on the existing funding and delivery models.

While the system has grown and matured over the years, changes are required to the way in which the system operates in order to produce a greater number of more highly skilled people contributing to the future economic and social development of the Territory.

This discussion paper provides information about the current training system and then asks a series of questions about proposed improvements. The changes being canvassed will better target the public resources being invested in the vocational education and training system and assist Territorians to be employed in the jobs being created in Northern Australia. This discussion is also influenced by two Northern Territory Government plans. These are *Framing the Future*<sup>1</sup> and the draft *Economic Development Strategy*<sup>2</sup>.

Some proposals challenge long-held assumptions about how the training system operates. There will be implications for every part of the existing arrangements and for that reason views are being sought on the design and implementation of a different model. The Department seeks to stimulate interest in the training sector and invites those concerned with skills development to contribute to discussions to improve the efficiency and effectiveness of the vocational education and training sector in the Northern Territory.

The days of public funds being used to simply 'purchase' and fully fund training can no longer be sustained. A more competitive environment, where there is a closer alignment between who benefits and who pays, will allow the Department of Business to invest public funds in ways that achieve the best value and are closely aligned with the needs of the Northern Territory.

The Department is interested in your responses to the questions asked at the end of each section of this paper to help determine where vocational education and training should be placed in the future. The various ways by which you can participate in this discussion are listed below and you are encouraged to join in the conversation.

## How to participate in the discussion

The Department has engaged The Northern Institute to undertake the consultation

There are a number of ways that interested organisations can participate:

- Provide a written response to this discussion paper by emailing the consultation team at the Northern Institute; [johanna.funk@cdu.edu.au](mailto:johanna.funk@cdu.edu.au)
- Through an on-line survey by invitation.
- Participate in face-to-face consultations by invitation.
- Provide a written response to this discussion paper in response to advertisements in the NT News.

If you have any questions about the consultation process, please contact the consultation team leaders:

Mr Mike Harrison  
The Northern Institute, Casuarina  
Mobile phone: 0428899020  
Email: [michael.harrison@cdu.edu.au](mailto:michael.harrison@cdu.edu.au)

Or

Dr Don Zoellner  
The Northern Institute, Alice Springs  
Phone: 08 89595 5259  
Email: [don.zoellner@cdu.edu.au](mailto:don.zoellner@cdu.edu.au)

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## Section A: Ongoing publicly-funded commitments

### 1. Student entitlement to a government funded training place

The Department of Business funds vocational qualifications that allow every Territorian to meet the entry-level requirements for a range of jobs – usually at a minimum of a Certificate III level.<sup>3</sup> The student entitlement to a government funded training place includes support to improve literacy, numeracy and employability skills. Currently this entitlement is generally limited to qualifications that are linked to existing and emerging jobs in the Northern Territory economy. Further support is also available for students that require or desire higher level vocational qualifications through access to the income-contingent loans scheme VET Fee-Help.<sup>4</sup>

When fully implemented in the Northern Territory, the student entitlement will be the basis of the vocational education and training system going forward.

#### Questions:

A.1.1: Should the student entitlement places continue to attract full public investment?

A.1.2: If not, what is an appropriate level of contribution to be made by government?

A.1.3: Should there be exceptions to the level of contribution eg, some qualifications/ student cohorts/locations ie, should they attract more or less contribution?

A.1.4: If so, how should these be determined?

A.1.5: What is the best mechanism to determine which courses attract this investment?

### 2. User choice funding for apprenticeship and traineeship training delivery<sup>5</sup>

User Choice is designed to increase the responsiveness of the training system through a direct relationship between employers, apprentices/trainees and training providers. The users choose their preferred provider whether they are funded or not. Apprentices and trainees enter into legally binding training contracts with their employers. The apprentice or trainee and employer then negotiate with a registered training organisation of their choice to deliver structured training to achieve a nationally recognised qualification.

The User Choice funding program finances the delivery of structured training and assessment for full-time, part-time and school-based apprentices and trainees in the Northern Territory. Qualifications are approved for delivery as apprenticeships and traineeships in the Northern Territory, some of which are funded and others are not.

#### Questions:

A.2.1: Should apprenticeship and traineeships training continue to attract full public investment?

A.2.2: Should there be different subsidy levels for apprenticeship and traineeship training versus general skills development training?

A.2.3: How should the department determine the appropriate level of funding for the various qualification levels and industry groups?

A.2.4: Do the current funding arrangements for apprenticeships and traineeships meet the needs of employers and individuals?

A.2.5: Should qualifications that address skill shortages or priority industries be funded at the same rate as non-priority areas even when they are in the same industry group?

A.2.6: If not, how should the difference be determined?

A.2.7: Should user choice funding be open to full market contestability?

### 3. Foundation skills in language, literacy, numeracy and employability

There is a wide gap between the high level skills required in modern workplaces and those basic skills held by a large part of the population due to increasing demands of technology and workplace safety.<sup>6</sup> Improving the foundation skills in the community will lead to increased participation in the labour market and reduce reliance upon other forms of public assistance.

#### Questions:

A.3.1: Should foundation skills attract full public investment?

A.3.2: Should foundation skills, both units and qualifications, be delivered stand-alone or should they always be delivered in conjunction with vocational training?

A.3.3: How should the funding value of foundation skills be determined?

A.3.4: What is the most efficient and effective way to fund foundation skills? Integrated into the vocational rates or as a stand-alone payment linked to the needs of individual students?

A.3.5: Should funding for foundation skills be restricted to specific cohorts or geographic locations, or be based on individual needs?

### 4. Those with low levels of workforce participation

There are a number of Territorians who are economically and socially disadvantaged by not participating in the labour market.<sup>7</sup> In many cases, increasing their skill levels in areas where jobs are vacant or where there are employment opportunities would benefit everyone. Traditionally these groups have included those with disability, the long-term unemployed, young persons, mature-aged and those from a non-English speaking background. Training is frequently viewed as offering a means of engaging these persons with the workforce.

#### Questions:

A.4.1: Should training for those persons with disadvantage attract full public investment?

A.4.2: Should funding amounts for people with low levels of workforce participation or from disadvantaged groups be the same as for non-disadvantaged groups?

A.4.3: If not, how should different funding levels be established eg, loadings (additional funding) for different types of disadvantage?

A.4.4: What is the most efficient and effective way to fund additional training for disadvantaged groups? Integrated into the vocational rates of investment or as a stand-alone payment linked to the needs of individual students?

### 5. Regional training requirements

There were 131,380 Northern Territory residents employed in July 2014, however, this figure understates the real numbers of jobs in the local labour market as it excludes those who work in the Northern Territory but reside elsewhere and the figure also excludes all members of the Australian Defence Force. The overall result is the nation's second lowest unemployment rate of 4.8 per cent and the highest jurisdictional workforce participation rate of 74.4 per cent. In trend terms, 83 per cent of employees were in full-time positions.<sup>8</sup>

The labour market also demonstrates a trend of increased job vacancies in the year to May 2014. There are significant differences between the capital city and other areas with Greater Darwin experiencing an annual increase of 11.4 per cent (246 more vacancies), which was partly offset by a 16.7 per cent annual decline in regional areas of the Territory (97 less vacancies). Likewise there is now a well-established pattern of increasing job vacancies in the private sector when compared to the still quite large public sector.<sup>9</sup>

The labour market and general economic activity are expected to be volatile over the coming years with the impact of major projects exerting quite significant pressures on a small economic base and labour market. This will be particularly noticed in Darwin and there will be considerable variation in the skills needs in various regional areas compared to those that will be required in Darwin. The training markets in the regions of the Northern Territory are mostly characterised by small numbers of students ('thin markets'), high delivery costs and multiple layers of disadvantage for those seeking to become employed in the existing local labour markets.

It is recognised that the cost of delivery outside of urban centres is more expensive. Under the present model, the Department of Business pays an additional loading (\$ per hour rate) for regional and remote delivery.

### Questions:

A.5.1: What is the best method to balance the training needs of the regions with those in Darwin?

A.5.2: Are there markets in Darwin that should no longer attract public investment?

A.5.3: If so, what are they?

A.5.4: Are the current loadings for regional and remote delivery adequate?

A.5.5: Instead of loadings, would a sliding scale work ie, the more distance from a larger centre the higher the rate?

A.5.6: Would a set rate per qualifications per delivery location be more appropriate?

A.5.7: How should the rate for regional and remote loadings be determined?

A.5.8: Are the current definitions of regional and remote appropriate? If not, why?

A.5.9: What is the best mechanism to recognise and invest in regional training?

## Section B: A more contestable market

### 1. Establishing price signals

Putting price signals into the market enables employers and individuals to understand the true cost of training and to better determine the best return on the investment of public funds.

Understanding price signals will enable employers and individuals to compare prices and make informed decisions about the training they undertake and the investment they may or may not wish to make.

The current funding mechanism for vocational education and training can be described as a funder-purchaser-provider model operating in a managed competitive environment.

Government funds are used to 'purchase' training from a range of approved training providers on behalf of businesses and individuals.

In order to make the training system more responsive, to ensure efficiency, put price signals into the market and to give clients the choice of provider and the courses publicly funded, the Department of Business has proposed using variable investments in training. This style of investment can cater for existing and emerging skill needs, recognises that some regions and courses have different cost structures and allows for the increased co-investment by employers and individuals. In addition, the Department of Business will be better able to influence the market by using variable levels of investment.

By changing the Department's role from being the purchaser of training on behalf of business and individuals to that of being an investor in skills acquisition, there is recognition that there are both private and public benefits from a particular level of investment. The suggested changes will better reflect who receives the benefits from the training. By clearly targeting investment, including the continued provision of foundation and employability skills and a commitment to employment entry-level training, the system can be made more sustainable and grow to meet the skilled labour requirements of the Northern Territory.

#### Questions:

B.1.1: Would the Northern Territory economy benefit from having clear price signals in the training market?

B.1.2: Is the current funding model influencing what training providers deliver?

B.1.3: Is the current funding model influencing what training people undertake?

### 2. Moving from purchasing to investing

All Australian governments have accepted the principle that the investment in human capital serves social and economic purposes by providing a public good that justifies the expenditure of taxpayer's funds. Unlike most of the states, the Northern Territory does not mandate a student fee for training and fees are not subject to regulation at this time. Training providers have responded variously with charges ranging from no fees (ie, the public funds the whole lot) through to full-fee offerings for overseas students.

To receive a positive return on the public's investment, the Department is considering alternative approaches to sharing the investment in skills acquisition. These arrangements will more accurately reflect the relationship between who pays for training and who receives the benefits. The advantages to individuals that could be considered in determining fee levels include better employment prospects, higher income and improved labour market mobility. Employers could be considered to gain a more productive and innovative workforce, potentially reduce workforce turnover and benefit from increased levels of innovation. The public benefits from training investment include higher productivity, higher tax revenue related to increased salaries and reduced expenditure on health and other public services required by those who are unemployed and disengaged.

The current funding model provides payments to training providers upon commencement in a unit of competency or qualification by a student; alternatively an investment approach would be best measured on outcomes. The costs of training in specified 'thin markets', in regional and remote areas and for priority cohorts of students may be recognised by a differential funding rate. Incentive programs could be used to support priority areas of skill development that have been identified by the Department. Investment in specialist occupations may have to be limited in line with employer demand and a realistic assessment of employment potential.

### Questions:

B.2.1: Should public funding be lower for higher level qualifications?

B.2.2: Should public funding be used to invest in qualifications only, or should investment be made in skill sets and/or units of competency as well?

B.2.3: Should public funding continue to be provided based on an hourly rate or should it be a fixed qualification rate?

B.2.4: Should the public investment be a fixed dollar amount linked to the level of qualification or set at a percentage?

B.2.5: What is the best timing of payments to providers, for example, monthly in arrears?

B.2.6: Should the Department move to an outcomes based funding model?

B.2.7: If so, how should withdrawals and cancellations be treated in an outcomes-based model?

B.2.8: Should funding agreements provide for greater certainty in the market, for example, longer periods of time than one year?

B.2.9: Is there enough information in the marketplace to assist informed choices by the Department, individuals and employers? If not, how could this be improved?

### 3. Increased contestability

More market-based approaches to vocational education and training have been advocated for a number of years and other jurisdictions, notably Victoria, South Australia and Queensland, have undertaken major steps to better target public funding and establish a demand-driven system. The benefits attributed to such changes include improved responsiveness, better value, increased completion rates, improved efficiency as well as a more flexible system. The Department of Business is interested to find out how the public feels about introducing more contestability into the existing training market that currently consists of two public providers, about 45 private training organisations headquartered in the Northern Territory<sup>10</sup> and about 50 interstate providers.<sup>11</sup>

This is intended to ensure that the public investment in vocational education and training is subject to market forces, leading to public investment in training becoming more contestable. However, this does not mean relying upon personal choice given the Northern Territory's 'thin markets' and the reality that some areas of training have better employment prospects than others.

Several other factors need to be taken into account when introducing increased contestability. There has been a long-standing commitment on the part of Northern Territory Governments to build local capacity and this has been supported by procurement guidelines that offer some advantage to local providers and businesses.

### Questions:

B.3.1: Should the Department of Business open up its investment in training to be fully or more contestable?

B.3.2: What are the advantages and disadvantages of increased contestability in the publicly funded vocational educational and training market?

B.3.3: Is there a right balance between local delivery capacity and having a completely open, contestable training market?

B.3.4: Will making the training market more contestable increase the number of students or just increase the number of training providers with access to public funding?

B.3.5: Should the training market in the Northern Territory be 'managed' to prevent market failure? If so, how much should it be managed?

### 4. Support for the public providers

In 2013, the publicly funded Northern Territory training market was serviced by two public providers and 95 other registered providers.<sup>12</sup> In terms of market share of publicly funded students the two public providers, Batchelor Institute of Indigenous Tertiary Education and Charles Darwin University, enrolled 60.5 per cent while 27.5 per cent of students were trained through other providers with the remainder of the students paying their own fees.<sup>13</sup>

Unlike their public provider counterparts interstate, both Batchelor Institute and Charles Darwin University operate with considerable levels of autonomy from the Northern Territory Government which gives considerable freedom in terms of policy and funding decisions. However, these two institutions fulfil similar public policy functions that include:

- providing stability and quality standards in the training system
- maintaining national and international links with providers and students
- addressing market failure where commercial providers are not available
- supplying a broad service capability when required by government to meet the needs of specific regions and/or target groups
- complying with competitive neutrality principles when operating in commercial and contestable ventures
- building suitable pathways to move from school to tertiary education and from vocational education and training to higher education studies.

The Northern Territory has had a long-term commitment to support both a specialist Indigenous tertiary education provider and a dual-sector institution. The major local financial contribution for vocational education and training at Batchelor Institute and Charles Darwin University is supplied through the Department of Business funding programs, which effectively decreases the levels of contestability in and size of the market.

#### Questions:

B.4.1: Are there still roles for public training providers in the Northern Territory?

B.4.2: What is the best way to fund the public providers? For example, should the public providers receive a base operating grant separate from training investment programs?

B.4.3: Should there be a differential rate of investment, higher for public providers to recognise the multiple functions they perform?

B.4.4: Are there areas in the training market where government needs to protect the public providers eg, traditional trades, where there has been significant public investment in resources and infrastructure?

B.4.5: What would be the consequences for training delivery in regional and remote areas of reduced funding to public providers?

## Section C: Determining the levels of public investment

### 1. A framework

In order to determine the best use of the public investment in training, other jurisdictions have established funding frameworks that serve as an open and accessible guide to and rationale for the use of taxpayer's dollars. For example, South Australia has a Public Value Framework that incorporates economic value, participation value, youth transitions and employment connections.<sup>14</sup> Qualifications that are rated highly in each of these four areas attract the highest level of public funding while lower rating qualifications receive less or even no investment of taxpayer dollars. This means that many courses require a co-investment from employers and/or individuals if they are to be offered. This ensures that the public training dollar can be spread across more areas on the basis of known and publicly available criteria.

Using a similar process, Queensland has an *Annual VET Investment Plan*<sup>15</sup> that sets out funding priorities and rates while Victoria uses reports from both industry and regional sources to determine levels of public investment.

Currently, Northern Territory funding priorities are primarily determined by combining information from the six Industry Training Advisory Councils, the Northern Territory Employment and Training Authority Advisory Board and the Skilled Occupation Priority List. In moving to investment models, other states have found the need to develop a more robust skills needs assessment process that recognises regional differences and more accurately captures the real needs of employers and students.

#### Questions:

C.1.1: Would the Northern Territory benefit from a comprehensive framework to determine levels of investment?

C.1.2: Should there be a publicly available vocational education and training investment plan? Should it cover one or more years?

C.1.3: How can the skills needs assessment be strengthened to enhance the investment decision-making process?

### 2. Variable rates of investment

The Northern Territory training market has had only one purchaser that set both the prices and the amounts of publicly funded training on offer – government. Public funds supported 91.5 per cent of training delivery in 2013, domestic fee for service accounted for 6.4 per cent and the remaining 2.1 per cent came from full-fee international students.<sup>16</sup> The Department of Business generally pays for the whole cost of training that can be supplemented by some fees charged by providers.

As previously noted, a move to more variable rates of funding, including not funding some qualifications, is intended to better align who pays and who benefits by putting price signals in the market. By moving from full public funding to a co-investment model where the cost can be shared between the Department, employers and individuals should attract more funding into the entire system and enable existing funding to go further. This approach is likely to lead to higher rates of completions and serves to improve service levels on the part of providers.

In common with any robust funding model<sup>17</sup>, moving to variable rates of investment on the part of the Department needs to be simple and easily understood in its public form. It must also encourage innovative and entrepreneurial approaches to training while facilitating accountability for both public and private funds. The system design should promote stability of the market over time, but be open to adjustments that do not invalidate the entire process.

### Questions:

C.2.1: What are the advantages and disadvantages of introducing variable rates of investment for training?

C.2.2: How should the level of investment be determined?

For example, should the Department consider a priority model similar to other jurisdictions:

Priority 1 = 100% subsidy

Priority 2 = 75%

Priority 3 = 50%

Priority 4 = 0%

C.2.3: Is there an optimal level of co-investment/co-contribution?

C.2.4: Should the Department set different levels of funding for the different industry groups?

C.2.5: What would be the advantages and disadvantages of this type of model?

C.2.6: What factors need to be taken into account in making the transition from full publicly funded training to co-investment/co-contribution?

C.2.7: What challenges may result from the introduction of variable rates of funding and/or co-investment/co-contribution?

C.2.8: Will co-investment/co-contribution or variable levels of subsidy deter students from undertaking training?

### 3. Clarity and transparency

In order to benefit from a more contestable training market and obtain the best value for the considerable public investment in vocational education and training, participants must have access to timely and accurate information. Employers and individuals need to know what the government will invest in (or not) and the reasons why in order to make informed choices regarding co-investment or paying full fees. Training providers also need access to similar information to make decisions about what courses to offer, building capital infrastructure and the employment of trainers. All parties will expect the Department of Business to operate with consistent and clear processes to both protect limited public finances and support the operation of a competitive market.

#### Question:

C.3.1: What information is required to support more informed decision making by students, employers and training providers?

### 4. Lessons from other states

The movement to a more market-driven, principle-based funding model for vocational education and training in Victoria<sup>18</sup> and South Australia has resulted in a number of unintended consequences. These have included rapid increases in government expenditure, over-supply of training in some industry areas, unscrupulous brokers and providers recruiting students into inappropriate courses and into implausibly shortened timeframes for some courses.<sup>19</sup>

Both South Australia and Queensland allocated between two and three years to implement changes in funding models. This allowed time to consult with the public, allow providers to position themselves in the market and for responsible agencies to develop the procedures and information technology systems required to manage the new environment.

**Question:**

C.4.1: How can the unintended consequences experienced in other states be avoided and the integrity of the Northern Territory system protected?

C.4.2: Will current training reporting adequately provide the right information to the Department of Business, registered training organisations, employers and individuals? If not, what will need to happen?

### Endnotes

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<sup>1</sup> [http://www.dcm.nt.gov.au/framing\\_the\\_future](http://www.dcm.nt.gov.au/framing_the_future)

<sup>2</sup> [http://www.dcm.nt.gov.au/data/assets/pdf\\_file/0005/62879/Economic\\_Development\\_Strategy.pdf](http://www.dcm.nt.gov.au/data/assets/pdf_file/0005/62879/Economic_Development_Strategy.pdf)

<sup>3</sup> <http://www.dob.nt.gov.au/training/skills-reforms/flexible-reforms/Pages/training-entitlement.aspx>

<sup>4</sup> <http://www.dob.nt.gov.au/training/skills-reforms/flexible-reforms/Pages/Northern-Territory-Training-Loan-Scheme.aspx>

<sup>5</sup> <http://www.dob.nt.gov.au/training/programs-funding/user-choice-program/Pages/default.aspx>

<sup>6</sup> <http://www.dob.nt.gov.au/training/Pages/foundation-skills.aspx>

<sup>7</sup> Falk, I, Arnott, A, Blohm, R, Grenfell, M, Guenther, J & Wallace, R 2004, Creating effective pathways to employment and training for the employment disadvantaged in the Northern Territory, Department of Employment, Education and Training, Darwin.

<sup>8</sup> Department of Treasury and Finance 2014, Territory economic review, Northern Territory Government, Darwin

<sup>9</sup> Department of Treasury and Finance 2014, Territory economic review, Northern Territory Government, Darwin

<sup>10</sup> For the most up to date list, please visit the website: [training.gov.au](http://training.gov.au).

<sup>11</sup> National Centre for Vocational Education Research 2014, 2013 students and courses: Australian vocational education and training statistics, table 14.

<sup>12</sup> National Centre for Vocational Education Research, Australian vocational education and training statistics: students and courses 2013, Northern Territory table 14.

<sup>13</sup> National Centre for Vocational Education Research, Australian vocational education and training statistics: students and courses 2013, Northern Territory table 15.

<sup>14</sup>

<http://www.skills.sa.gov.au/DesktopModules/SearchBoost/DownloadDoc.ashx?filepid=0&file=837>

<sup>15</sup> <http://training.qld.gov.au/information/vet-investment-plan/index.html>

<sup>16</sup> National Centre for Vocational Education Research, Australian vocational education and training statistics: students and courses 2013, Northern Territory table 13.

<sup>17</sup> Nagel, J 1991, Review of TAFE funding in the NT, National Centre for Vocational Education Research, Adelaide.

<sup>18</sup> Hetherington, D & Rust, J 2013, Training days: models of vocational education provision - lessons from the Victorian experience, Per Capita Australia Limited, Sydney

<sup>19</sup> Dodd, T 2014, 'Minister Pyne risks drowning in a sea of shonky schools', The Australian Financial Review, 3 November 2014, p. 11.