Business Council of Australia

SUBMISSION

# Redesigning VET FEE-HELP

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## Contents

The Business Council of Australia is a forum for the chief executives of Australia's largest companies to promote economic and social progress in the national interest.

# SUBMISSION OVERVIEW

The Business Council of Australia (the Business Council) welcomes the opportunity to provide input into the redesign of the Commonwealth Government's VET FEE-HELP (VFH) scheme.

This review provides an opportunity to design a scheme that is fit for purpose for the VET sector, rather than modify a product that was initially designed to cater to a relatively small number of undergraduate students attending university.

### Reform is needed to protect students and the sector's reputation

The vocational education and training (VET) sector is a key driver of Australia's success and competitiveness.

It has primary responsibility for providing a pipeline of skilled workers for Australian businesses and retraining existing workers. It is instrumental in ensuring Australia's workforce can respond to the challenges of digitisation, globalisation and demographic change.

While Australia's VET system is generally well regarded domestically and internationally, the sector's reputation has been significantly damaged over the last few years.

This damage has been inflicted by a small group of poor-quality providers operating in the VET market. These providers have focused on economic gains rather than educational outcomes. As a result, learners have been taken advantage of and government funding has been misused.

### The current system has seen significant misuse of government funding

Government funding in VET is primarily through a subsidy, set by the relevant state or territory government, and through an income-contingent loan funded by the Commonwealth Government under the VFH scheme. Government funding was misused in both of these areas, but the most egregious misuse of government funding has been in the area of VFH.

This review provides an opportunity to examine what settings in the VFH scheme need to be amended to ensure that this misuse does not continue, and government funding provides value for money.

In considering amendments to the VFH scheme it is important to ensure principles of best practice regulation are followed. The regulatory regime needs to be designed in a way to ensure poor providers cannot continue to prosper in the market, while at the same time ensuring providers who are delivering quality education are not disadvantaged or discouraged from operating in the market.

## Business Council's key recommendations

**1. A unique FEE-HELP product is designed for the VET market that recognises its distinct characteristics, including the differences between the government-subsidised and full-fee markets in the VET sector.**

**2. A newly designed FEE-HELP product for the VET market is designed around five key outcomes:**

2.1 Financial circumstances are not a barrier to an individual undertaking VET.

2.2 Individuals recognise there is a financial cost associated with enrolling in accredited learning and make a personal contribution to their tertiary education that reflects the private return they will receive over their lifetime of earnings.

2.3 Government expenditure is targeted and budget exposure is managed.

2.4 Learners and funders (government, enterprises) can assess value for money.

2.5 Government expenditure is transparent, monitored in real time, and limited to quality providers.

**3. Build a new VFH product using the levers of the VET market**

The Business Council has proposed an architecture for a new model of VFH. The proposed architecture includes a range of levers the government can use, either singularly or in combination, to effectively manage the system, including funding demand.

Given the potential combination of levers, this paper does not seek to propose specific financial thresholds or model the financial implications. Rather, the paper provides the government with a model that it can adapt to suit changing priorities, and the different markets in which VFH operates.

| Policy lever | Business Council proposed approach |
|---|---|
| Learner eligibility | 1. Learner eligibility is as consistent as possible across all HELP products.<br>2. VFH is available to learners in both the subsidised and full-fee markets.<br>3. VFH eligibility is aligned to other HELP products that exist in subsidised and full-fee markets, and the Language, Literacy and Numeracy Assessment requirements are removed. |
| Funding | 1. VFH funding operates as a demand-driven, student-choice system.<br>2. The loans available to learners under VFH are capped.<br>3. The cap on loans is disconnected from the current limit in other HELP products. Note: this could split as a loan limit for higher education and a loan limit for VET.<br>4. The VET cap is set cognisant of cost of VET courses, and the likely earning capacity of learners. The cap would be lower than the caps for other HELP products. |

| Policy lever | Business Council proposed approach |
|---|---|
| | 5. Government can choose to cap the VHF loans by:<br>• lifetime loan limit for learners<br>• limit by industry (lower than a lifetime limit)<br>• limit by course (lower than an industry limit). |
| Government expenditure and contract management | 1. The government can choose from a range of factors to manage expenditure, but in the first instance the Business Council proposes the government:<br>• limits VFH to Diploma and above VET qualifications (this should occur in both markets)<br>• limits funding for courses with poor employment outcomes, either through capping the loan amount for specific courses, providing no funding for specific courses, or a combination of both (this should initially be limited to the full-fee market).<br>If ongoing analysis of the subsidised market shows emerging concerns, similar controls could be applied in that market.<br><br>2. Contract management of providers focuses on three key things:<br>a. Require providers to publish market information so informed decisions can be made (see 'market information').<br>b. Ensure government or the relevant agency has access to real-time data so the relevant agency can monitor expenditure and have an early warning of emerging problems.<br>c. Ensure government or the relevant agency has the authority to remove government funding from the provider where issues have emerged, rather than rely on the regulator to go through the process of de-accreditation.<br><br>3. Contract management of students should establish:<br>a. a minimum income at which repayments commence<br>b. a schedule for how the loan is repaid once the minimum threshold is reached<br>c. interest charges.<br>The minimum income (a) and schedule of payments (b) should be amended to the circumstances of the VET sector, including reducing the income threshold and reducing the percentage payments.<br>Interest charges (c) should remain consistent with other HELP products. |
| Pricing | 1. The government initially takes no action on regulating prices in the VET market as part of the design of a new VFH product. Other levers such as 'government expenditure and contract management' and 'market information' should be used to manage the current over-inflation of prices in the market.<br><br>If the government chooses to take action on regulating pricing, this should be trialled in the full-fee market in the first instance, and limited to high-cost or high-risk providers or courses. |
| Market information | 1. All providers approved to offer VFH are required, as a condition of their contract, to provide market information.<br><br>2. Potential data points for providers to publish include:<br>• course fees charged, including different fees charged in subsidised and full-fee market |

| Policy lever | Business Council proposed approach |
|---|---|
| | • fees charged for the same course for the previous five years, and the percentage change of charges<br>• total cost to the learner for the course, including the ICL<br>• course information such as duration, mode of delivery, number of enrolments, course completion rates<br>• employment outcomes.<br>To confirm the data points to be published by providers, the government should engage with providers and the relevant peak bodies prior to finalising the new VFH model.<br><br>3. The government builds on the data on the myskills website and provides labour market and sector-wide information including:<br>• if known, 'cost-reflective' prices for delivery<br>• the range of prices being charged by course, including comparing prices between the subsidised and full-fee markets<br>• average length of time to repay loans<br>• graduate earnings and longer-term earning potential<br>• job vacancy rates<br>• detailed data on VFH loans, such as amount, share by provider, share by industry etc.<br><br>4. The government considers online mechanisms, including building on the myskills website, which could be developed so learners have a robust and comprehensive source of information to look at labour market information and compare providers. |
| Providers | 1. The provider market is as open as possible, and available to both public and private providers.<br><br>2. The government or relevant agency undertakes a risk assessment of current providers in the full-fee market. Based on key factors, such as significant increases in prices and completion rates, remove providers' access to VFH or make it conditional on performance on two key risk factors.<br><br>3. New providers applying for access to VFH provide pricing information to the government or relevant agency who benchmarks that against sector-wide averages. For providers considered higher risk, if access to VFH is granted it will be conditional on performance against key risk factors. |
| Standards | 1. No change to quality standards.<br><br>Quality standards must be followed by all providers, but are not used as a proxy for access to government funding. |
| Regulation | 1. No change to regulation as part of the design of a new VFH product. |
| Governance | N/A |

# BUSINESS COUNCIL'S PROPOSED APPROACH

The *Redesigning VET FEE-HELP Discussion Paper* (discussion paper) groups areas for potential change into three categories:

1. protecting students
2. regulating providers
3. managing the system.

While these categories can be useful, the Business Council thinks it is important the government uses this opportunity to take a first principles approach and create a new design for VET FEE-HELP (VFH) that recognises the differences between the VET and higher education markets.

## VET FEE-HELP should be a unique product designed for its market

The discussion paper suggests that introducing VFH without taking into account the differences between the VET and the higher education (HE) sectors was a 'key cause of the future problems with VET FEE-HELP.'

The Business Council supports this conclusion, and believes this review is an opportunity to develop a differentiated product that is fit for purpose for the VET market.

### Both VET and higher education have a subsidised and full-fee market

In both VET and higher education (HE) there are two broad markets: a government-subsidised market and a full-fee market.

In the government–subsidised market, government makes a contribution to the cost of the course with the remainder of the cost, the tuition fee, paid by the learner. In the full-fee market the learner bears the full tuition fee. FEE-HELP products are available in all VET[1] and HE markets to enable the learner to use an income contingent loan (ICL) to pay the relevant tuition costs.

Government-subsidised post–school education markets all have some form of fee control on them. In HE the Commonwealth Government regulates the subsidy they will pay to the provider, as well as the tuition fee the provider can charge the learner. In the government-subsidised VET markets the relevant state or territory government regulates the subsidy they will pay to the provider, but practices vary around the extent to which the tuition fee is regulated.

### But the VET and HE markets are fundamentally different

In HE, the government-subsidised market is primarily in undergraduate studies, and the full-fee paying market is in postgraduate studies. In VET, there is no equivalent distinction.

[1] Note: FEE-HELP is not generally available for qualifications lower than a Diploma level.

All levels of qualifications operate in both the government-subsidised and full-fee paying market. When considering FEE-HELP products, this is an important difference.

The regulation of undergraduate tuition fees means all undergraduate FEE-HELP loans are regulated. Tuition fees for postgraduate courses are not regulated, but entry requirements which generally require the learner to have completed a bachelor's degree, act as a natural barrier to entry and limit the potential number of learners.

In the full-fee VET market there is no equivalent constraint. While some Diplomas and Advanced Diplomas have entry requirements, the potential pool of learners is far greater than for postgraduate studies. There is no natural barrier to entry for learners.

Additionally, individuals taking out loans to pay for full-fee postgraduate studies are generally better informed and less vulnerable than students who take out loans for full-fee-paying VET qualifications.

There are also far more barriers to entry for providers in the HE market. The VET market currently has around 5000 providers in Australia who can offer full-fee VET qualifications. In contrast, there are only 169 HE providers in Australia. While these providers do not automatically get access to FEE-HELP loans, the provider market is substantially different.

These fundamental differences between the VET and HE markets make it necessary to ensure VFH is a unique product designed for its market, rather than adapt it from a product in the HE market.

**Business Council recommendation 1**

A unique FEE-HELP product is designed for the VET market that recognises its distinct characteristics, including the differences between the government-subsidised and full-fee markets in the VET sector.

## Purpose of VET FEE-HELP

Before analysing how the VFH scheme should be designed, the purpose of the scheme and its desired outcomes need to be identified. A proposed design can then be measured against the outcomes to determine their suitability.

While it is important to design a product that is fit for purpose for the VET market, the purpose of VFH should remain broadly consistent with other FEE-HELP products. The Business Council believes the scheme should be designed to deliver five key outcomes.

### 1. Financial circumstances are not a barrier to an individual undertaking VET

The VFH scheme is an income-contingent loan (ICL) that was adapted from the HECS scheme introduced into the higher education sector in 1989. In an educational context, an ICL has two primary roles.

The first is to remove any financial barriers an individual faces in undertaking post-school education. An ICL enables learners to borrow money from the government to pay their tuition fee. The ICL therefore removes any financial barrier to accessing education.

This original purpose remains a legitimate one, and should be retained as the first outcome for a new VFH scheme.

**2. Individuals recognise there is a financial cost associated with enrolling in accredited learning and make a personal contribution to their tertiary education that reflects the private return they will receive over their lifetime of earnings**

The second purpose of an ICL is to act as an insurance scheme, or effectively 'de-risk' an individual's decision to undertake post-schooling education.

Education provides both a public and private or personal benefit. The public benefit of education is highest at the lower levels of education. The private benefit increases with higher levels of study as these often correlate to an individual increasing their earning capacity.

Undertaking post-school education is a cost to an individual on two fronts. The first is the tuition cost, and the second is the time taken away from working, and therefore potential income.

The first cost of the tuition fee is deferred through the ICL. That debt is then linked to an individual's earning capacity so they only begin to repay the loan when they reach a minimum income, or achieve a private benefit. By linking the repayment to earning capacity, the risk associated with the loan and the time out of the labour market, is minimised, but learners still make a financial contribution to their education.

**3. Government expenditure is targeted and budget exposure is managed**

All the HELP loans, including VFH, operate in a demand-driven system. There are some constraints, including an eligibility criteria for learners, and an approval process for providers, but they are minimal and there are no real financial or budget constraints.

The Business Council supports learner entitlement and demand-driven funding models, particularly when these models offer a learner choice. However, government funding is not infinite. The risk of budget exposure is inherent in any demand-driven funding, so all such models require a form of rationing.

In the case of the VFH scheme there are a range of levers the government could choose to manage the budget exposure and ration access, while still ensuring financial circumstances are not a barrier to individuals undertaking VET. These levers should form the basis of the design of a new VFH model and are discussed later in this submission. An effective design should minimise the potential budget exposure.

**4. Learners and funders (government, enterprises) can assess value for money**

A demand-driven education system should have seen a shift of power from providers to learners, but poor market information has stymied this shift and contributed to poor decisions on the part of learners.

Potential learners and businesses could not assess the quality of courses or providers and make informed decisions, thereby allowing poor-quality providers to thrive.

A demand-driven system such as VFH cannot work effectively without sufficient market information that assists learners and funders to assess value for money. Improving market information is the key to this.

While market information, in and of itself, will not solve the problem of poor decision making it will, at a minimum, allow the funder to make better decisions, as well as equipping learners with the information they need to make informed decisions.

### 5. Government expenditure is transparent, monitored in real time, and limited to quality providers

In addition to managing the budget exposure, it is important that government expenditure provides value for money. While the Business Council is concerned about the budget exposure from the VFH scheme, the more significant concern is the misuse of government funding.

If the growth in VFH loans was due entirely to legitimate enrolments, graduates would have benefited from their training, increased their earning capacity, and consequently repaid their VFH loans. The increased pressure on the budget would be difficult to manage, but over the longer term it would have been an effective use of government funding.

Unfortunately, this is not the case and government funding has been wasted. Managing budget exposure is important, but it is equally important that government expenditure is effectively monitored and delivers value for money.

**Business Council recommendation 2**

**Proposed purpose and outcomes of a redesigned VET FEE-HELP scheme**

1. Financial circumstances are not a barrier to an individual undertaking VET.
2. Individuals recognise there is a financial cost associated with enrolling in accredited learning and make a personal contribution to their tertiary education that reflects the private return they will receive over their lifetime of earnings.
3. Government expenditure is targeted and budget exposure is managed.
4. Learners and funders (government, enterprises) can assess value for money.
5. Government expenditure is transparent, monitored in real time, and limited to quality providers.

## Challenges for FEE-HELP in the VET market

There has been a great deal of coverage about the 'blow out' of loans in VFH. It is important to distinguish between the loans that have been taken out in the government subsidised market, and the loans taken out in the full-fee market.

The most recent data published by the government on VFH shows that the majority of government expenditure is in the full-fee market. In 2014, $1.65 billion, or 94 per cent, of VET FEE-HELP loans were in the full-fee market.

**VET FEE-HELP assistance by fee type, 2011 to 2014**

| Type | Fee type | 2011 | 2012 | 2013 | 2014 | 2011-2014 change |
|---|---|---|---|---|---|---|
| VET FEE-HELP assistance | Full-fee | $190,878,445 | $303,483,063 | $634,734,823 | $1,649,217,187 | 764.0% |
| | Government -subsidised | $14,392,412 | $21,134,367 | $64,507,794 | $108,087,001 | 651.0% |
| | **Total** | **$205,270,858** | **$324,617,430** | **$699,242,617** | **$1,757,304,188** | **756.1%** |
| Average annual tuition fee per EFTSL | Full-fee | $8,913 | $9,827 | $12,263 | $14,144 | 58.7% |
| | Government - subsidised | $1,069 | $1,306 | $3,551 | $4,857 | 354.3% |
| | **Total** | **$4,814** | **$5,917** | **$9,549** | **$12,308** | **155.7%** |

Source: adapted from Australian Government Department of Education VET FEE-HELP data collection

### The VET full-fee market presents the greatest budget risk

As illustrated in the table above, government-subsidised loans grew by 651 per cent between 2011 and 2014, increasing from $14 million to $108 million. While this appears to be extraordinary growth, the loans remain at only six per cent of the VFH market.

The loans in the full-fee market have also grown at an extraordinary rate of 764 per cent between 2011 and 2014. Unlike the government-subsidised market this growth was not off a low base. Loans increased from $190 million in 2011 to $1.65 billion.

The growth and overall expenditure on VFH in the government-subsidised market are sufficient to require greater scrutiny. A VFH product should ensure the right incentives are in place in the government-subsidised market to remove financial barriers to access, as well as delivering value for money.

However, the government-subsidised market is not the greatest concern. The overwhelming focus must be where government funding is being committed and that is in the full-fee market.

## VET FEE-HELP data is concerning

The government's published data makes it difficult to construct a robust analysis of the VFH program. The publication website only provides the VET FEE-HELP Statistical Reports for 2013 and 2014, and does not have a time series dating back to the introduction of VFH in 2009. Additionally, it is not possible to disaggregate data by all variables and track correlations between each variable.

The majority of data used in the Business Council's analysis is for the whole VFH market, as the publicly available data at this level does not enable differentiation between government-subsidised and full-fee enrolments. However, given that 94 per cent of the overall market is in full-fee enrolments, the Business Council assumes that the majority of trends relate to the full-fee segment.

Noting these caveats, the Business Council has analysed the available data and noted some concerning trends.

### The introduction of VFH distorted the VET market

Prior to the introduction of VFH, the full-fee market was a direct relationship between the learner and the provider. Providers had to meet the minimum regulatory standards to be registered, but were not subject to the constraints operating in the government-subsidised market.

While market information was poor and it would have been difficult for learners to truly assess the value of a provider's product and the relativity of providers in the market, the learner had an incentive to make a sound assessment as they had to pay for the learning up–front. The introduction of VFH distorted this relationship.

Similar to the HE market, the introduction of a FEE-HELP product removed the price signal and therefore removed the necessity of cautious behaviour by the learner.

In the undergraduate market this often leads to poor decisions by learners in either their selection of course, or the way they manage their enrolments. There is ample anecdotal evidence that many undergraduate students withdraw from subjects after the HECS census date, thereby incurring a fee for study they do not complete.

The behaviour resulting from the dulling of the price signal does increase the cost to government, but this cost is contained because the price is regulated. In the VET full-fee market learners make similar poor decisions, but there is no price control to minimise the cost to government.

The VET full-fee market has no equivalent control so therefore no way to keep downward pressure on prices or minimise budget exposure from poor decisions by learners. This also then creates a market where providers can excessively price training, and additional costs are then passed on to government without any checks.

While the full-fee postgraduate HE market also has no price controls, as discussed earlier the learner pool is smaller and they are more informed. Additionally, learners undertaking postgraduate studies often do so in an area related to their employment, and have to make specific sacrifices to complete their studies. In addition to having to meet a range of high-level entry requirements, these learners are generally more motivated to make informed decisions.

### Average loans have increased exponentially

As illustrated in the table below, the distortion of the market appears to have led to significant growth in the average cost of loans between 2011 and 2014.

***Average cost of loans by enrolment 2011–2014***

| Field of Education | 2011 | 2012 | 2013 | 2014 | % change Y11-12 | % change Y12-13 | % change Y13-14 | % change Y11-14 |
|---|---|---|---|---|---|---|---|---|
| Agriculture, Environmental and Related Studies | $1,704.97 | $2,151.82 | $2,492.23 | $3,725.13 | 26.2% | 15.8% | 49.5% | 118.5% |
| Architecture and Building | $2,653.68 | $3,768.33 | $5,077.80 | $6,049.91 | 42.0% | 34.7% | 19.1% | 128.0% |
| Creative Arts | $6,323.61 | $6,993.92 | $7,597.71 | $8,550.19 | 10.6% | 8.6% | 12.5% | 35.2% |
| Education | $10,042.59 | $9,911.29 | $10,130.74 | $6,818.20 | –1.3% | 2.2% | –32.7% | –32.1% |
| Engineering and Related Technologies | $3,387.25 | $4,579.63 | $7,135.81 | $8,214.90 | 35.2% | 55.8% | 15.1% | 142.5% |
| Food, Hospitality and Personal Services | $7,179.79 | $8,981.85 | $9,102.88 | $11,118.91 | 25.1% | 1.3% | 22.1% | 54.9% |
| Health | $4,851.56 | $4,688.48 | $4,815.71 | $5,790.41 | –3.4% | 2.7% | 20.2% | 19.4% |
| Information Technology | $3,407.22 | $5,939.53 | $8,360.70 | $10,872.26 | 74.3% | 40.8% | 30.0% | 219.1% |
| Management and Commerce | $4,630.36 | $5,581.03 | $6,934.94 | $8,670.25 | 20.5% | 24.3% | 25.0% | 87.2% |
| Mixed Field Programmes | $1,474.33 | $1,825.46 | $2,209.09 | $4,790.19 | 23.8% | 21.0% | 116.8% | 224.9% |
| Natural and Physical Sciences | $3,906.37 | $4,639.77 | $4,879.41 | $4,383.77 | 18.8% | 5.2% | –10.2% | 12.2% |
| Society and Culture | $4,432.51 | $4,807.61 | $5,099.97 | $6,434.97 | 8.5% | 6.1% | 26.2% | 45.2% |
| **Total** | **$5,035.59** | **$5,628.00** | **$6,497.87** | **$8,088.11** | **11.8%** | **15.5%** | **24.5%** | **60.6%** |

Source: adapted from Australian Government Department of Education VET FEE-HELP data collection

Between 2011 and 2014 the average cost of a loan per enrolment increased by 60.6 per cent. The growth is even greater when specific fields of study are examined. Information Technology saw the highest growth rate of 219.1 per cent over three years, with a 74.3 per cent growth in a single year between 2011 and 2012. Engineering saw the second highest rate, with growth of 142.5 per cent over three years, and a growth of 55.8 per cent in one year.

While there may be explanations for costs growth that outstrip inflation, such as a shift of enrolments from low- to high-cost courses, it cannot explain the size of the growth, or the year on year nature of the growth.

### The growth in enrolments was unchecked

Unlike the postgraduate HE full-fee market, the VET full-fee market does not have high-level entry requirements that narrows the potential pool of learners. This is evident in the growth of enrolments between 2011 and 2014, detailed in the table below.

***FVH enrolments 2011–2014***

| Field of Education | 2011 | 2012 | 2013 | 2014 | % change Y11-12 | % change Y12-13 | % change Y13-14 | % change Y11-14 |
|---|---|---|---|---|---|---|---|---|
| Agriculture, Environmental and Related Studies | 419 | 447 | 598 | 999 | 6.7% | 33.8% | 67.1% | 138.4% |
| Architecture and Building | 1,174 | 1,794 | 3,912 | 6,795 | 52.8% | 118.1% | 73.7% | 478.8% |
| Creative Arts | 6,205 | 7,279 | 10,256 | 15,470 | 17.3% | 40.9% | 50.8% | 149.3% |
| Education | 504 | 608 | 730 | 2,815 | 20.6% | 20.1% | 285.6% | 458.5% |
| Engineering and Related Technologies | 1,278 | 1,590 | 2,536 | 3,142 | 24.4% | 59.5% | 23.9% | 145.9% |
| Food, Hospitality and Personal Services | 3,846 | 4,352 | 7,486 | 14,058 | 13.2% | 72.0% | 87.8% | 265.5% |
| Health | 8,423 | 11,469 | 16,268 | 23,310 | 36.2% | 41.8% | 43.3% | 176.7% |
| Information Technology | 934 | 943 | 2,051 | 13,531 | 1.0% | 117.5% | 559.7% | 1348.7% |
| Management and Commerce | 10,196 | 18,425 | 46,773 | 96,244 | 80.7% | 153.9% | 105.8% | 843.9% |
| Mixed Field Programmes | 135 | 117 | 57 | 68 | –13.3% | –51.3% | 19.3% | -49.6% |
| Natural and Physical Sciences | 317 | 313 | 306 | 378 | –1.3% | –2.2% | 23.5% | 19.2% |
| Society and Culture | 7,333 | 10,342 | 16,638 | 40,460 | 41.0% | 60.9% | 143.2% | 451.8% |
| **Total** | **40,764** | **57,679** | **107,611** | **217,270** | **41.5%** | **86.6%** | **101.9%** | **433.0%** |

Source: adapted from Australian Government Department of Education VET FEE-HELP data collection

There is no doubt the overarching objective of expanding FEE-HELP was to increase both participation and completion of VET. However, enrolment in and of itself is rarely of benefit to the learner, nor value for money for taxpayers providing the VFH loans.

Between 2013 and 2014 there was just over a 100 per cent increase in enrolments. This suggests that there was significant unmet demand of learners wanting to undertake VET education, but not having the financial means to do so. While unmet demand is difficult to measure, it is implausible that there was such a high level of unmet demand from one year to the next. The growth raises the question of whether some of the enrolments were genuine, and if the enrolments were value for money for the government.

### Enrolment growth was not confined to large employing sectors of the labour market

A second concern is the areas in which training was undertaken. While the Business Council does not support labour market planning, and believes learner choice should underpin tertiary education models, if government funding is being used and there are no real prices signals, some constraints are needed.

Between 2011 and 2014, the number of enrolments in Creative Arts grew by 149 per cent from 6,205 to 15,470 students. The total cost of loans over the same period grew by 237 per cent from $39 million to $132 million.

The first issue is that growth in loans far outstripped the growth in enrolments. This suggests that some providers were using the uncapped nature of VFH to charge excessive prices. Unfortunately, this growth pattern is not limited to the field of Creative Arts, and could be a systemic issue.

The second issue is the growth of enrolments in a field such as Creative Arts that is not known for delivering strong employment outcomes. If learners do not gain employment at the repayment salary level the learners will not repay the loans, thereby leaving a direct cost to government.

As noted earlier, an ICL operates as an insurance scheme. Learners do not repay their debt until they reach a certain income. If learners are able to enrol in high-cost courses with no references to potential employment outcomes or their future earning potential, they are not making an informed decision about the debt they are incurring. In more extreme cases learners may be making informed decisions and knowingly undertake study they are highly unlikely to be able to repay. Whether it is an uninformed or knowing decision, the outcome is the same. Bad debt is created, government takes responsibility for the bad debt and this becomes a burden on taxpayers.

## Lessons that need to be incorporated into the redesign

It is important to note that unless providers or learners acted illegally, their actions were a legitimate reaction to the incentives in the market.

Profit is a legitimate objective of business and, if a provider can make a greater profit while following the rules, they would be unusual if they chose to behave contrary to their objective. The same logic applies to learners.

While some providers may have acted illegally, it also appears that a number of providers, and learners, have merely responded in a standard way to the incentives in the market.

To be an effective design the incentives in the market need to align to the purpose and desired outcome of the product. For a newly designed VFH, that means focusing on both student and provider behaviour. A well-designed product must incentivise particular behaviours from both parties, and cannot focus on a single party.

It is also important to ensure that a new design does not over-react in response to the behaviour of a group of providers. There is good reason for the government to be cautious about the new design of VFH and be focused on ensuring that past mistakes are not repeated. However, this caution can lead to complete risk-aversion and over-regulation of providers. Such an approach could drive good providers from the market, and while it may provide short-term financial certainty, this is likely to be at the cost of good outcomes.

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# A REDESIGNED VET FEE-HELP

## Market design of the VET sector

VFH is a product that is introduced into the two VET markets and, as discussed earlier in this submission, if not designed appropriately can distort the market. In considering the design of a new VFH product, it is important to understand the design of the VET market into which it will be introduced. Australia's VET market has nine core components that make up the main public policy levers that can be used to design a new VFH product:

1. learner eligibility
2. funding
3. government expenditure and contact management
4. pricing
5. market information
6. providers
7. standards
8. regulation
9. governance.

## A redesigned VFH product

Taking into consideration the design of the market, the following table details the four stages of designing a new VFH product:

1. Identify which of the core components of the market are relevant to VFH and the options the government could adopt in the relevant components.
2. Identify if the options could differ between the full-fee and government-subsidised markets.
3. Analyse the options against the desired outcomes.
4. Recommend the preferred approach.

The following section analyses the nine policy levers and the pros and cons of the different options. This is followed by the table **Business Council Recommendation 3**, which summarises the Business Council's proposed approach to each lever. The combination of these levers would make up the design of a new VFH product.

## Policy lever 1: learner eligibility

| Options government could adopt | Analysis against desired outcomes |
|---|---|
| Learner eligibility can be a broad-based mechanism or could be used in an almost endless range of ways to limit supply.<br><br>A broad-based mechanism would normally be focused on a very small number of an individual's characteristics. In the case of VFH this would be similar to other HELP products, such as residency status and being enrolled in an approved provider and course.<br><br>If learner eligibility is used to limit supply, options for individual characteristics include, but are not limited to:<br>• residency status<br>• age<br>• income<br>• location<br>• current educational attainment<br>• suitability for the course of study. | On the surface, learner eligibility is an attractive lever to use to manage a range of issues in the sector, including but not limited to, budget exposure.<br><br>For example, the government's recent introduction of Language, Literacy and Numeracy Assessment was a use of the learner eligibility lever (suitability for the course of study) and was designed to determine the legitimacy of a learner. While this appears on the surface to be a reasonable test, it is not the best lever to use for a range of reasons.<br><br>First, it is the role of a provider to assess a learner's suitability, not government. Second, the testing requirement can discourage legitimate students. Third, it is an unnecessary regulatory burden for both the learners and providers, and does not necessarily deliver the intended outcome.<br><br>Given one of the key purposes of VFH is to remove barriers to access of VET, learner eligibility should be as broad as possible, and there should be no disincentive for genuine learners. Other levers in the system, such as course eligibility and market information, can be used more effectively to manage concerns about provider behaviour. |

## Policy lever 2: funding

| Options government could adopt | Analysis against desired outcomes |
|---|---|
| This lever is about the approach to funding, rather than how government expenditure is managed (see next section for expenditure).<br><br>**Demand-driven vs. specific budget allocation**<br>Funding of VFH can be demand-driven and open-ended, or it can be given a specific budget allocation.<br><br>If VFH is given a specified budget, this funding could be allocated through a range of mechanisms, including specifying:<br>1. funding available to a provider<br>2. funding available to an industry<br>3. funding available to a qualification, in totality, or by enrolment<br>4. funding available to a learner<br>5. a combination of the above factors. | **Demand-driven vs. specific budget allocation**<br>The funding lever is the most intuitive to manage budget exposure. On the surface it appears that specifying a budget allocation is the simplest approach, manages budget exposure, and gives government certainty about where the funding is spent.<br><br>However, if the VFH program is given a specific budget, it automatically limits access and could present a financial barrier to a learner undertaking VET.<br><br>More importantly, it requires the government to intervene in the VET market in a much more directive manner than it does now. The government would need to determine how to allocate the funding, and in doing so would effectively have to ration access through allocating specific funding to a provider or specific funding to an industry or qualification, or a combination of all three. Such an approach returns to an era of labour market planning that has proven to be unsuccessful, and is not supported by the Business Council. |

| Options government could adopt | Analysis against desired outcomes |
|---|---|
| **Capping loans to learners**<br>A demand-driven, open-ended model does not mean a blank cheque from government for each learner. In an education market learners should become more independent in the labour market as their learning leads to increased earning capacity. A demand-driven funding model for post-school education can therefore build in a limit on how much government support should be provided, rather than allowing the support to continue indefinitely.<br><br>While a limit on government support can contribute to minimising budget exposure, it is not sufficient by itself and other levers within the product would also need to be used to manage budget exposure. | There are inherent budget risks in any demand-driven system—e.g. public schools, health care, and prisons—but demand-driven systems exist and can be managed. Other levers available to government, particularly government expenditure and contract management, should be used to manage these risks in VFH, rather than moving away from a demand-driven model.<br><br>**Capping loans to learners**<br>As discussed in this submission, learners are making poor decisions, and poor providers have been able to take advantage of learners. While this risk will be minimised by the removal of poor providers from the market, it is an ongoing risk that needs to be mitigated within the design of the new VFH product.<br><br>Within a demand-driven funding model of an income-contingent loan, such as VFH, this risk can be mitigated by capping the amount of funding an individual can access. Such a cap currently exists, but is not relative to the cost of VET courses (it was set primarily for postgraduate courses) and is $99,389 for most learners. The high cap does not discourage providers from inflating prices, nor does it encourage learners to make informed decisions.<br><br>While financial circumstances should not be a barrier to an individual undertaking VET, this needs to be balanced by individuals recognising that there is a cost to study, and government should also get value for money from the investment.<br><br>If a learner borrows up to $99, 000 for a course that is unlikely to result in employment in a role that will deliver an income that will allow them to repay the loan, then the scheme is not well designed. |

## Policy lever 3: government expenditure and contract management

| Options government could adopt | Analysis against desired outcomes |
|---|---|
| Government expenditure and contract management can be along a spectrum of tightly controlled and monitored, to no control.<br><br>In a demand-driven system, such as VFH, government expenditure and contract management become very important in managing budget exposure.<br><br>**Providing the loan**<br>The government has a range of ways it can manage expenditure such as by limiting VFH loans to:<br>• the full-fee market, the subsidised market or both<br>• certain levels of qualifications | How government expenditure is allocated, and the way in which contracts are managed are generally key areas that have been under-valued and managed in demand-driven funding in education.<br><br>The key starting point to consider is that demand–driven does not mean government does not ration. Additionally, learner choice does not mean government should fund any and all choice, regardless of the consequence.<br><br>**Providing the loan**<br>If VFH remains a demand-driven learner choice model, which the Business Council supports, the challenge in government expenditure is minimising budget exposure and ensuring government expenditure is targeted, while at the same time resisting the temptation to turn to a centrally planned labour market allocation model. |

| Options government could adopt | Analysis against desired outcomes |
| --- | --- |
| • specific industries<br>• specific qualifications<br>• a specific dollar amount, such as a ‘cost-efficient’ price, a maximum percentage of the fee charged by the provider, a maximum for the qualification, linking the fee to the one charged in the subsidised market, or a combination of these elements such as capping the loan at 20 per cent above the fee charged in the subsidised market or 20 per cent above the ‘cost-efficient’ price.<br><br>This initial stage of managing expenditure is the initial budget outlay. The second part of managing expenditure comes in with the repayment of loans.<br><br>**Repaying the loan**<br>Across the HELP system the government manages this by establishing:<br>• a minimum income at which repayments commence<br>• a schedule for how the loan is repaid once the minimum threshold is reached<br>• interest charges.<br><br>While these are the primary mechanisms for managing repayment, there are ancillary issues that can be considered such as the debts of people living overseas, and debts of people who die before repaying the loan.<br><br>**Contract management of the loan**<br>Contract management in VFH has two faces—the contract government has with the provider, and the contract government has with a learner.<br><br>The contract with a learner can establish the conditions under which the government will lend the money, as well as the conditions under which the loan will be repaid.<br><br>Contact management with the providers can make access to VFH conditional on a range of factors such as: | The government can choose from a range of factors to manage expenditure, but in the first instance the Business Council proposes the government:<br>• limits VFH to Diploma and above VET qualifications<br>• limits funding for courses with poor employment outcomes, either through capping the loan amount for specific courses, providing no funding for specific courses, or a combination of both.<br><br>The second key challenge is to ensure that the VFH design, and by default contract management of VFH, is not burdened with too many objectives. While government funding should be focused on quality providers, improving the quality of the sector as a whole is too much of a burden for the program and should not be part of the design objective.<br><br>For example, the discussion paper states ‘… any redesign of the scheme must address these low completion rates as a critical priority. In particular, the lower completion rates of disadvantaged groups needs to be addressed as a priority in the redesign of the scheme.’ Completion rates for disadvantaged learners is a problem in the sector, and amplified for learners on VFH loans. However, the design of VFH cannot have improving completion rates of disadvantaged learners as a key objective. The objectives need to be high level, such as value for money, facilitating informed decision making, and transparency of expenditure. These will necessarily have a flow on impact to issues such as completions, but they are not targeting specific quality issues in the sector.<br><br>Rather than focus on assuring quality standards, which is the role of the regulator, contract management of providers should focus on three key things:<br>1. requiring providers to publish market information so informed decisions can be made<br>2. ensuring government has access to real-time data so the relevant agency can monitor expenditure and have an early warning of emerging problems<br>3. ensuring government or the relevant agency has the authority to remove government funding from the provider where issues have emerged, rather than relying on the regulator to go through the process of de-accreditation.<br><br>**Repaying the loan**<br>In considering the contract management for learners, the Business Council believes the current approach of setting an income threshold and repayment schedule is the best approach. However, similar to the cap on loans, the current system is linked to the higher education thresholds. These thresholds should be adjusted to the incomes earned by VET graduates. |

<table>
<tr><th>Options government could adopt</th><th>Analysis against desired outcomes</th></tr>
<tr><td><ul><li>student outcomes, including completion rates</li><li>the mix of student profile</li><li>the course mix offered by the provider</li><li>the location of the provider</li><li>the mode of delivery (e.g. limiting VFH to courses with some component of face-to-face learning)</li><li>provision of market information</li><li>monitoring of real-time data.</li></ul></td><td>The specific changes would need to develop with government actuaries, but as an illustration the income threshold could be decreased from $54,126 to $45,000, but the first repayment rate would also drop from 4 per cent to 2 per cent.<br><br>The Business Council supports the government pursuing debts from learners who are living outside Australia, but does not support a new initiative to pursue debts from learners who have died. As noted earlier, an ICL operates as an insurance scheme. If a learner has died, they have also lost their income potential and therefore the debt is not retrievable as it was linked to their earnings.</td></tr>
</table>

## Policy lever 4: pricing

<table>
<tr><th>Options government could adopt</th><th>Analysis against desired outcomes</th></tr>
<tr><td>Course prices in the VET sector are made up of a subsidy and a tuition fee.<br><br>In the subsidised market, state and territory governments set the subsidy rate, and practices vary between jurisdictions about setting the tuition fee. In the full-fee market, the tuition fee is set by the provider.<br><br>VFH is used to pay for the tuition fee in both the subsidised and full-fee market, but the full-fee market has been the primary market for VFH loans.<br><br>For enrolments that are funded through VFH the Commonwealth Government could:<ul><li>do nothing on prices</li><li>set a price for the tuition fee in the subsidised market</li><li>set a price for the tuition fee in the full-fee market.</li></ul>Note: in setting a price, the government could opt to use a number of different pricing strategies, including setting a range for prices, a specific price, or a maximum price.</td><td>If governments have good information about the cost of a product, setting prices in a market enables them to set a price that delivers value for money and likely directs government funding to the quality end of the market.<br><br>In the education market there is precedent for governments setting prices as they currently do in undergraduate studies and the subsidised VET market. However, there is no precedent of government setting prices in a post-school full-fee paying education market. While there may be good reasons for government to set prices in an education market, it imposes a high level of regulation; is complex to do well, requiring a forensic understanding of the market and the costs of educational delivery; and stifles competition and the benefits that flow from that.<br><br>Importantly, it does not ensure government expenditure is targeted and budget exposure is managed, as setting the price does not control learner demand or direct enrolments to particular courses.<br><br>As discussed in this submission, there is no doubt that prices of courses being funded through VFH have grown at extraordinary rates and have resulted in a waste of government funding. However, government setting prices should be a last resort to manage this issue.<br><br>In the first instance, the removal from the market of poor providers should see a re-stabilisation of prices.<br><br>Additional measures the government incorporates into the design of a new VFH product discussed in this table (see 2: funding, 3: government expenditure and contract management, and 5: market information) are more appropriate levers for government to use.</td></tr>
</table>

## Policy lever 5: market information

| Options government could adopt | Analysis against desired outcomes |
|---|---|
| Market information can range from items mandated by government to no requirements for market information.<br><br>In the case of mandated market information, the government could:<br>• Require providers to publish course information such as course fees charged in all markets; the fees charged for the course in the previous five years; total cost to learner, including the ICL cost for the full course; duration; delivery mode; eligibility for VFH; number of students in the course; share of students in courses between full-fee and subsidised; completion rates; employment outcomes; number of students at provider; share of students at provider between full-fee and subsidised; and provider's overall completion rate.<br>• Publish general course level information across the sector, including a 'cost reflective' price of delivery and the range of prices being charged by providers, average length of time a course takes to complete, careers the course leads to, average graduate pay and longer-term earning potentials, employment/unemployment rate, job vacancy rate by field, and the average length of time to repay a VFH loan.<br>• Publish market-wide information on an annual basis, including total loans paid, amount and percentage of overall market share of loans by provider, industry, course, and by a combination of all three.<br><br>In the case of no requirements, the market would theoretically respond to consumer demand for market information. | Market information in the VET sector is poor and has been an ongoing issue for a number of years.<br><br>A demand-driven education system should have seen a shift of power from providers to learners, but poor market information has stymied this shift and contributed to poor decisions on the part of learners.<br><br>Potential learners and businesses could not assess the quality of courses or providers and make informed decisions, thereby allowing poor-quality providers to thrive.<br><br>A demand-driven system such as VFH cannot work effectively without sufficient market information. Improving market information should therefore be a key area of reform in a new VFH. The focus of the market information should be to assist learners and funders to assess value for money, deliver transparency, and assist learners to make informed decisions which should lead to government expenditure being better targeted and the budget exposure managed.<br><br>While market information, in and of itself, will not solve the problem of poor decision making, it will at a minimum allow the funder to make better decisions, as well as equipping learners with the information they need to make informed decisions.<br><br>Experience in the VET sector has conclusively shown that a large number of providers will not offer comprehensive market information unless they are compelled to do so. In the VFH space, government could make market information a requirement of access to VFH and a contract management issue.<br><br>In addition to facilitating informed decisions, requiring market information as part of a contract acts as a disincentive to poor providers entering or remaining in the market. As noted in this submission, there are a small group of providers who have not been focused on educational outcomes. If the provider is not genuine in delivering education, they will not have the market information needed to meet the contract requirements.<br><br>In determining the final list of market information characteristics, it will be important to balance the need for information with the additional impost on providers, and ensuring it does not act as a disincentive for good providers. One of the ways the government could do this would be to replace the Language, Literacy, and Numeracy Assessment requirement with market information requirements. |

## Policy lever 6: providers

| Options government could adopt | Analysis against desired outcomes |
|---|---|
| This lever is about the providers the government wishes to allow into the market, rather than the contract conditions the government may impose on providers who operate in the market.<br><br>In determining the providers permitted in the market, the government has a range of options in determining access. It can focus on the nature of the provider, the section of the market they operate in, their student cohort, or any combination of these factors. The options government could adopt to limit providers offering VFH are lengthy and some examples include limiting it to:<br>• public providers<br>• public providers and private providers<br>• providers who operate in the subsidised and full-fee market<br>• providers who have operated for more than five years<br>• providers who offer courses across a range of industries. | Ideally, the provider market in the VET sector should provide choice to students, offer high-quality products, focus on strengths so there is specialisation and diversity, and be adaptive to ensure educational products are setting learners up to be successful in a global marketplace.<br><br>As discussed in this submission, the VET market has unfortunately suffered from having a group of providers operating within it who are not focused on educational quality.<br><br>A simplistic response to such a problem would be to close the market and limit it to public providers, as they are seen as trustworthy. Public providers have a very important role to play in the VET sector and Australian communities, and should be funded appropriately to do so. However, closing the market to private providers is not a long-term solution.<br><br>Public providers do not have the capacity or flexibility to deliver to the needs of all learners. VET is fundamental to skilling Australia's future workforce, and learners benefit from choice and diversity.<br><br>There are a large number of high-quality private providers who operate in the VET sector that deliver excellent educational and employment outcomes. These providers are needed in the sector and should not be subject to additional burdens simply because they are not public institutions.<br><br>The primary focus for government should be the market in which the provider is operating. 94 per cent of the loans are in the full-fee market, so this is the area government must tackle.<br><br>While the Business Council believes the government should have as open a market for providers as possible, there is a strong argument to make that groups of providers should have to be reassessed and reaccredited before being allowed to offer loans under a newly designed VFH.<br><br>For example, given the extraordinary increase in the size of loans and therefore presumably the cost of courses, this could be a key risk assessment factor. A second key risk factor could be completion rates. While completion rates are generally a problematic indicator, completion rates in the full-fee market could be benchmarked against sector-wide ones, as well as ones in the subsidised market.<br><br>Where providers have had significant year on year increases in prices or significant deviation from completion rate benchmarks, these providers could be required to be reassessed for access. Additionally, if they are reaccredited they could be treated as new providers (see below). |

| Options government could adopt | Analysis against desired outcomes |
|---|---|
| | For new providers entering the market the government could benchmark their proposed fees against sector-wide averages, and make access to VFH conditional on performance against key risk factors such as price and completion rates. |

## Policy lever 7: standards

| Options government could adopt | Analysis against desired outcomes |
|---|---|
| Standards cover the behaviour and conduct of learning providers, as well as the learning they offer.<br><br>The VET sector already has a range of standards that it adheres to, including:<br>• The Australian Qualifications Framework<br>• Standards for Registered Training Organisations (RTOs) 2015<br>• Fit and Proper Person Requirements<br>• Financial Viability Risk Assessment Requirements<br>• Data Provision Requirements<br>• Training Packages. | Quality standards set the floor for training delivery and the behaviour of providers. Providers are accredited through the standards to offer courses, but this is accreditation to offer training, not accreditation to get public funding.<br><br>One of the challenges of VFH is that it has not necessarily been considered access to public funding so providers have not been subject to the same level of scrutiny as some providers may be subject to when in receipt of government funding.<br><br>In a redesigned VFH, quality standards should not be the benchmark for access to government funding, and therefore access to VFH.<br><br>Providers should be subject to an additional set of criteria to offer VFH, but this should not be part of system-wide standards and should be managed through stronger contract management (see 3: government expenditure and contract management). |

## Policy lever 8: regulation

| Options government could adopt | Analysis against desired outcomes |
|---|---|
| The VET sector has a national regulator and two state-based regulators.<br><br>The role of the Australian Skills Quality Authority (ASQA) is to make sure the VET sector's quality is maintained through the effective regulation of vocational education and training providers and accredited vocational education and training courses. | Regulation of the sector—i.e. enforcement of the quality standards—has been used to some extent as a proxy to manage government expenditure.<br><br>While it is the role of the regulator to ensure providers are operating within the standards, and therefore their role to have removed providers who behave illegally or fail to meet quality standards, it is not their role to monitor government expenditure and ensure value for money.<br><br>The regulator should have the power to remove providers from the system who are not meeting the standards, but it is the role of government to withdraw access to public funding. Consequently, strong contract management, rather than additional regulation of the sector by the regulator, is the appropriate approach for a redesigned VFH. |

## Policy lever 9: governance

| Options government could adopt | Analysis against desired outcomes |
|---|---|
| This lever is about defining clear roles and delineation between the various bodies in the governance of the VET sector. | As VFH is managed by one level of government, governance is not a relevant lever to a redesigned VFH product. |

## Business Council recommendation 3: build a new VFH product using the levers of the VET market

| Policy lever | Business Council proposed approach |
|---|---|
| Learner eligibility | 1. Learner eligibility is as consistent as possible across all HELP products.<br>2. VFH is available to learners in both the subsidised and full-fee markets.<br>3. VFH eligibility is aligned to other HELP products that exist in subsidised and full-fee markets, and the Language, Literacy and Numeracy Assessment requirements are removed. |
| Funding | 1. VFH funding operates as a demand-driven, student-choice system.<br>2. The loans available to learners under VFH are capped.<br>3. The cap on loans is disconnected from the current limit in other HELP products. Note: this could split as a loan limit for higher education and a loan limit for VET.<br>4. The VET cap is set cognisant of cost of VET courses, and the likely earning capacity of learners. The cap would be lower than the caps for other HELP products.<br>5. Government can choose to cap the VHF loans by:<br>• lifetime loan limit for learners<br>• limit by industry (lower than a lifetime limit)<br>• limit by course (lower than an industry limit). |
| Government expenditure and contract management | 1. The government can choose from a range of factors to manage expenditure, but in the first instance the Business Council proposes the government:<br>• limits VFH to Diploma and above VET qualifications (this should occur in both markets)<br>• limits funding for courses with poor employment outcomes, either through capping the loan amount for specific courses, providing no funding for specific courses, or a combination of both (this should initially be limited to the full-fee market).<br>If ongoing analysis of the subsidised market shows emerging concerns, similar controls could be applied in that market.<br>2. Contract management of providers focuses on three key things:<br>a. Require providers to publish market information so informed decisions can be made (see 5: market information).<br>b. Ensure government or the relevant agency has access to real-time data so the relevant agency can monitor expenditure and have an early warning of emerging problems. |

| Policy lever | Business Council proposed approach |
|---|---|
| | c. Ensure government or the relevant agency has the authority to remove government funding from the provider where issues have emerged, rather than rely on the regulator to go through the process of de-accreditation.<br><br>3. Contract management of students should establish:<br>a. a minimum income at which repayments commence<br>b. a schedule for how the loan is repaid once the minimum threshold is reached<br>c. interest charges.<br>The minimum income (a) and schedule of payments (b) should be amended to the circumstances of the VET sector, including reducing the income threshold and reducing the percentage payments.<br>Interest charges (c) should remain consistent with other HELP products. |
| Pricing | 1. The government initially takes no action on regulating prices in the VET market as part of the design of a new VFH product. Other levers, such as 3: government expenditure and contract management and 5: market information, should be used to manage the current over-inflation of prices in the market.<br><br>If the government chooses to take action on regulating pricing, this should be trialled in the full-fee market in the first instance, and limited to high-cost or high-risk providers or courses. |
| Market information | 1. All providers approved to offer VFH are required, as a condition of their contract, to provide market information.<br><br>2. Potential data points for providers to publish include:<br>• course fees charged, including different fees charged in subsidised and full-fee market<br>• fees charged for the same course for the previous five years, and the percentage change of charges<br>• total cost to the learner for the course, including the ICL<br>• course information such as duration, mode of delivery, number of enrolments, course completion rates<br>• employment outcomes.<br>To confirm the data points to be published by providers, the government should engage with providers and the relevant peak bodies prior to finalising the new VFH model.<br><br>3. The government builds on the data on the myskills website and provides labour market and sector-wide information including:<br>• if known, 'cost-reflective' prices for delivery<br>• the range of prices being charged by course, including comparing prices between the subsidised and full-fee markets<br>• average length of time to repay loans<br>• graduate earnings and longer-term earning potential<br>• job vacancy rates<br>• detailed data on VFH loans, such as amount, share by provider, share by industry etc. |

| Policy lever | Business Council proposed approach |
|---|---|
| | 4. The government considers online mechanisms, including building on the myskills website, which could be developed so learners have a robust and comprehensive source of information to look at labour market information and compare providers. |
| Providers | 1. The provider market is as open as possible, and available to both public and private providers.<br><br>2. The government or relevant agency undertakes a risk assessment of current providers in the full-fee market. Based on key factors, such as significant increases in prices and completion rates, remove providers' access to VFH or make it conditional on performance on two key risk factors.<br><br>3. New providers applying for access to VFH provide pricing information to the government or relevant agency who benchmarks that against sector-wide averages. For providers considered higher risk, if access to VFH is granted it will be conditional on performance against key risk factors. |
| Standards | 1. No change to quality standards.<br><br>Quality standards must be followed by all providers, but are not used as a proxy for access to government funding. |
| Regulation | 1. No change to regulation as part of the design of a new VFH product. |
| Governance | N/A |

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