Site

6 March 2017

Open letter to Shareholders of Site Group International Ltd ("Site", ASX:SIT) regarding VET FEE HELP, departmental investigation and audits and the outstanding reconciliation payment for 2015.

Dear Shareholder,

I am writing to shareholders regarding the outstanding reconciliation payment for 2015 and to outline the company's view on our entitlement to receive this payment and keep shareholders abreast of the various Government reviews.

Productivity Partners Pty Ltd, a wholly owned subsidiary of Site Group International Ltd, believes it is entitled to the $34.9m payment from the Commonwealth Department of Education and Training ("the Department") relating to services delivered in 2015.

After 14 years of providing training services, Productivity Partners ("the College") received approval from the Department to offer VET FEE-HELP ("VFH") in March 2012. The VFH program utilises the same mechanism as the university "HECS scheme" which enables students to borrow funds from the Commonwealth Government to pay for tuition fees.

In the same year as the College received approval from the Department to deliver VFH, the Federal Government announced **changes to the scheme to address the equity issue associated with the low uptake** of VFH. In particular, the Government identified that there was not enough participation in VET from indigenous Australians, people from low socioeconomic backgrounds, the unemployed and individuals living in regional and remote areas.

After receiving approval to deliver VFH, the College invested significantly in developing campuses, learning platforms, student support teams and robust enrolment processes. The College was acquired by Site in July 2014. Site continued to invest heavily in governance, management, systems, platforms and campuses. By December 2015, the College had over 100 employees and 11 campuses delivering services with the enrolled students numbering 6,000 studying online and on-campus.

On 3 December 2015, the Government passed legislative changes with an effective date of 1 January 2016, which sought to immediately stop the growth of the VFH scheme. The College received notice on 18 December 2015 that the maximum number of VFH loans that could be accessed by its students in 2016 was $16.8m. The College's existing students continuing enrolment tuition fees for 2016 equated to $30m as at December 2015.

This meant that approximately 2,000 students were not able to access the Commonwealth program, in which they had enrolled, to continue to fund their enrolment. This last minute change stripped $13m of funding from students on two weeks' notice.

To protect the interests of our Student cohort, the College elected to offer scholarships to over 2,000 students in 2016 enabling them to continue their enrolment at no cost to them. This $13m of free tuition in 2016 has been ignored by the Department in determining if Productivity Partners is entitled to the outstanding $34.9m payment for services delivered in 2015.

In 2015, the largest 10 providers delivered an average $131m of VFH tuition each and the top 25 delivered $74m each (excluding Phoenix College). The College understands that these providers were paid monthly in advance throughout 2015 to provide these services. For the top ten providers, this is an average monthly advance payment of $10.9m.

In 2015, Productivity Partners delivered $52m of VFH programs. The Department has only paid Productivity Partners $17m for these services. The remaining $34.9m has been consistently deferred by the Department on the basis that it forms part of the '2015 reconciliation process'. The College has been placed at a substantial disadvantage to those other providers that received monthly advance payments for services delivered in 2015. There have now been 428 days elapsed since the relevant service delivery period of 2015.

The 2015 reconciliation process has consisted of an investigation into the College by the Department to determine our entitlement to payment. The Department engaged Deloitte to commence this audit in June 2016. After 4 months the Department accepted an audit report and provided it to the College which recommended further investigation. The College provided a comprehensive response to the Department's first audit report within 2 weeks of receiving it and still has not received anything addressing the many issues raised by the College with the audit report.

The College then received a draft of a second audit report on 3 February 2017, some 4 months after the first audit report. For the reasons explained by the College in its comprehensive response provided to the Department in mid-February, the College believes that this draft report was misleading and inaccurate.

Despite regular and reasonable requests to the Department that it commits itself to timeframes, the College has received no such cooperation for this matter to be finalised. The Department has not made any allegations that the College has breached any legislation. The Department has stated that it is concerned about 'the veracity' of the College's enrolments without providing any description of what this means.

The College invested very significantly in campuses, learning platforms, student support staff, trainers, governance and systems. After this substantial investment, the College experienced very strong growth in its student numbers in 2015 with the enrolled students numbering 6,000. The College, consistent with most industry providers including TAFE colleges and Universities, used third party brokers to identify potential students The College had industry best systems in place to ensure students were protected through the enrolment process. This included a recorded enrolment phone call with the College and the requirement for every student to acknowledge that the course was not free and when they reached the census dates, they would be carrying a debt in accordance with the legislation.

Despite the significant investment made in these platform and systems, like the rest of the VFH sector, the College struggled to get students engaged in online learning activities throughout the course they had enrolled in. The College student support team consistently called, emailed and texted students to encourage them to engage with the program. Despite the significant operational efforts and expenses incurred, there was limited success in achieving outcomes

In hindsight and as is now publically acknowledged, the design and intent of the VET FEE-HELP system was flawed. Universities, TAFE's and Registered Training Organisations all struggle to achieve strong learning outcomes from online studies with students from disadvantaged backgrounds. Engaging these individuals to study was the precise rationale of the scheme when the Government announced the changes in 2012, and the well-documented results of the VFH program are easily explained by the percentage of online students enrolling from disadvantaged backgrounds.

The College received approval in 2012 to deliver the scheme and it invested significantly to achieve the positive student outcomes. The College has incurred substantial delivery expenses and did not breach legislation governing the scheme. A low percentage of online students submitting assignments on our learning management system does not compromise our entitlement to payment. It would appear that this is the area of enquiry of the Department. The College was appropriately resourced (with over 100 staff) and made every effort to engage students throughout their course. There is nothing to suggest that the College is not entitled to the payment of $34.9m for the services delivered in 2015. Indeed, there is overwhelming evidence which has been provided to the Department supporting the entitlement to these funds. There is also an abundance of Department issued documents which clearly outline the rules of the scheme and support the Colleges' entitlement to payment.

The College is disappointed by the obvious delaying tactics employed by the Department in an attempt not to pay or delay the funds for services delivered by the College. It is certainly in contradiction of the Government's advocacy to prevent large organisations bullying smaller companies on payment terms.

Site Group International Ltd is a reputable and high quality provider of competency solutions. Site has invested in excess of $150m into developing programs, facilities and delivering training services to many sectors. Site is an Australian export success story which has taken Australian training standards across the world including Philippines, PNG, Singapore, Malaysia, Myanmar, China, England and Saudi Arabia. The VFH scheme has not been the core focus of the group and, as outlined in previous announcements, there are many delivery areas.

Site remains very disappointed with the system and the management of it. For further information on the mismanagement of the scheme, shareholders can read the recently completed Auditor General report on this topic: www.anao.gov.au/work/performance-audit/administration-vet-fee-help-scheme

After 12 months of scrutiny and endless data submissions the Department has not advised the College that it is in breach of the legislation. The same position exists with the other agencies who have reviewed the College's operations namely ASQA and the ACCC. With the closure of the VFH scheme and all of our students having finished their programs, the College is no longer delivering any tuition. We continue to receive enquiries from the various regulators and the Department, and on 3 March 2017 received a notice from the ACCC under Section 155 of the *Competition and Consumer Act 2010* (Cth) nearly 12 months after receipt of a similar Section 155 notice to Productivity Partners in March 2016. This notice requires Site and the College to produce various documents and provide information to the ACCC. These types of notices are frequently issued by the ACCC as part of its regulatory and investigative role and Site and the College will of course provide all necessary assistance to the ACCC. At this stage, both Site and the College believe that the information and documents that will be provided to the ACCC will address any concerns the ACCC may have. Site will keep the market informed of any developments in this regard.

These regulators continue to show an interest in the sector and the College but, with the closure of the VFH scheme and the completion of all students, any inquiry will be focussed on historical events. The College has already provided enormous volumes of information to regulators over the past 12 months and we believe these further enquiries are designed to support the Department's attempt to defer payment of the outstanding reconciliation payment for 2015.

After investing significantly in learning delivery, making available $13m of free tuition in 2016 and giving all students ample opportunity & support to complete their program, the College finalised delivery of programs to all students on 24 February 2017. This charitable approach to supporting students finishing programs beyond their course finish date went way beyond any legal obligation.

The College has been subjected to an unfair payment deferral process and is considering legal options to recover the funds to which it is entitled. Whilst VFH is only one delivery area of the broader Site Group, the working capital implications of $34.9m relating to already delivered services being withheld are real. As a result, the company's expansion and growth strategies are being impacted.

We continue to provide full co-operation to the Department and the regulators to conclude this process.

Yours sincerely,

Vernon Wills
Managing Director