



Vocation announces settlement with DEECD and completion of the Victorian review

27 October 2014

Vocation Limited ASX:VET (Vocation) has reached a settlement with the Victorian Department of Education and Early Childhood Development (DEECD) in relation to its review into two of Vocation's Registered Training Organisations (RTOs), BAWM and Aspin.

Vocation will receive \$9 million in withheld Government funding, and has agreed to surrender \$19.6 million in Government funding. Vocation will also undertake a series of measures to ensure continuous improvement in line with the VRQA Guidelines for VET and AQTF Continuing Standards for Registration. Vocation's previously announced Quality Advisory Committee will have full oversight of future continuous improvement activities within its Victorian businesses.

Vocation also announces that it intends to continue the restructure of its Victorian business. The restructure involves the discontinuation of the use third party training and assessment providers and an overhaul of the senior management team in Victoria, which will include Ross Robinson taking over as CEO of Vocational Education and Training and overseeing the restructure.

Financial impact:

The overall financial impact on Vocation's statutory EBITDA for FY15 (which is now expected to be between \$53m and \$57m) can be summarised as follows:

- The commercial settlement Vocation has reached with DEECD has resulted in the forfeiture of \$19.6m of funds. The earnings impact expected in FY15 of this is approximately \$5m
- The remaining impact will flow from lower than budgeted enrolments in Victoria due to the DEECD review and Vocation's decision to restructure part of its business model in Victoria to eliminate third party training and assessment providers
- The financial impact in FY15 will be partially offset by the decision of the DEECD to approve a Domain C contract for its *Building Brighter Futures* program to be delivered through one of Vocation's RTOs from 24 October 2014 and the ability of Vocation to offer a full suite of courses in Victoria through its remaining two RTOs.

The direct and indirect impacts of the review and the Victorian restructure will result in non-recurring items that will be taken up in H1 FY15.

While Vocation will restructure its Victorian operations, it will continue to have a significant business in the state focusing on operating its business through two rather than four RTOs. Vocation has recommenced enrolments across all its chosen funded qualifications.

DEECD Review

The DEECD conducted a review of three qualifications conducted by Vocation for which Vocation receives funding under contracts with the DEECD. The courses were the Certificate III in Warehousing Operations, Certificate III in Competitive Systems and Practices and the Certificate II in General Education for Adults. During the course of the review funding to the two Victorian RTO's that delivered these qualifications (BAWM and Aspin) was put on hold.

The DEECD concluded that:

- There had been an over reliance on third parties to identify and refer students for enrolment in those qualifications, which resulted in some students being enrolled in inappropriate courses for their needs; and
- There were inadequate controls in place to manage the performance of third parties delivering training and assessment, resulting in some students experiencing a lower quality training experience than intended for their job seeking needs.

As a result of the review's findings the DEECD has determined, and Vocation has agreed, that:

- Part of the funding relating to the three qualifications will be forfeited from the total amount of funding that has been withheld for BAWM and Aspin over the period of the review
- The remainder of the funding that was withheld by the DEECD during the course of the review will be released to Vocation
- Although BAWM and Aspin will continue to train students currently enrolled, with normal funding arrangements for these enrolments to apply, all new enrolments in Victoria are being consolidated under Vocation's two other RTO's (which hold all necessary accreditation needed for Vocation's Victorian operations). At the end of the training of BAWM and Aspin students, BAWM and Aspin will relinquish their funding contracts (expected to be early 2015)
- All affected students will be contacted over the coming weeks in collaboration with DEECD
- Aspin, which delivered the Certificate II in General Education for Adults, a foundation skills qualification, is no longer on the foundation skills approved provider list, however, one of Vocation's other Victorian RTO's has been added to the foundation skills approved provider list.

The DEECD and Vocation believe that the review has been resolved conclusively.

The Board was consistently advised during the course of the review that the issues raised by the DEECD were able to be resolved without a material effect on Vocation.

However, when it became apparent that DEECD would require a significantly larger payment from Vocation than expected to settle the concerns it had with BAWM and Aspin, Vocation requested a trading halt before the commencement of trading on 23 October 2014. The DEECD offered Vocation the option to extend the review for a further period, or bring it to an end by forfeiting \$19.6m.

The amount to be forfeited was substantially greater than the Board had been previously advised. Nevertheless, in light of the disruption a further extension would cause, the Board decided to bring the



review to an end and endorsed the Managing Director to undertake a commercial settlement with DEECD. The matter was settled over the course of the last few days.

New Measures

As outlined at the FY14 results presentation, Vocation will now comprise of two revenue channels, “Vocational Education” and “Higher Education”.

The three revenue channels that were in place from Vocation’s IPO in December 2013 (Solutions, Direct and Enterprise), together with Vocation’s recent acquisitions, have been folded into this structure. This will result in central management of Vocation’s two business arms, consistency in application of systems and processes (including compliance and employee recruitment) and the removal of duplication in functions where it exists.

As noted above, Vocation has also decided to eliminate its use of third party training and assessment providers in Victoria. Although delivery via the use of third parties is common in the industry, Vocation has been reducing its reliance on this practice for some time to ensure important systems and processes are within its own control and of the highest quality.

“We are putting in place significant improvements to our systems and processes in Victoria which we can be confident will help us to deliver consistently high quality education outcomes for our students going forward,” Vocation Managing Director, Mr Mark Hutchinson, said.

“The restructure of the Victorian business will allow us to concentrate on growing our business organically around internal programs that do not rely on third party delivery. In addition, by taking the Victorian business in house, aligning it with the rest of our business nationally, we will have greater control of the operations going forward.”

“We remain committed to our Victorian business and plan to grow revenue in that state over the course of the year.”

Vocation Chairman John Dawkins noted: “Quality education, student choice and job outcomes are fundamental to the success of any modern education provider. The outcomes of the Victorian review coupled with our continuous improvement and the formation of our new Quality Advisory Committee together mean that quality will continue to be central to Vocation’s business going forward.”

“Vocation continues to generate positive cash flows, which in conjunction with the strong balance sheet means it is in a position to take advantage of both organic and inorganic growth opportunities.”



Market briefing

An investor and analyst briefing will be held at 4.45pm, Monday 27 October, following the release of this announcement.

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About Vocation

Vocation Limited ("Vocation") is one of Australia's largest vocational training and higher education providers that offers a flexible education delivery model for large enterprises and individuals. The company has a national footprint with a diversified business model and an addressable market of over \$35 billion. Vocation's dual sector offering spans industry sectors including; health, manufacturing, trades, aged care, business and tourism. Vocation is focused on providing high quality and relevant course content for students that reflects the current requirements of employers and delivers real job outcomes.

Further details about Vocation can be found on vocation.com.au