Wolves Feast on VET Funding

Why has the ‘Wolf of Wall Street’ relocated to Queensland? It may be for more than the sunshine.

Just before last Christmas the boss emailed me about education and training provider Vocation (ASX:VET). The share price had been smashed and Steve wanted me to take a look.

I began by working through the company’s prospectus and getting to grips with the issues it was having with the Victorian regulators. The value of its recently-acquired businesses seemed to cover the company’s debt while the ‘original’ Vocation business was available at a fraction of its recent listing price.

Under a demand-driven funding model for Vocational Education and Training (VET), the company had grown quickly. The incentive to ‘guide’ as many students as possible to enrol in government-sponsored courses was being successfully and legitimately exploited.

However, the chance of the government changing this expensive (to taxpayers, if not students) funding model was simply too high to ignore. So with doubts about the sustainability of earnings, we turned our attention elsewhere.

Another encounter

More recently, after a company presentation event, I was chatting with one of the hosting brokers. ‘How good is Australian Careers Network (ASX:ACO)?’ he asked, rhetorically, ‘it’s growing like crazy!’ I decided to check it out back at Forager HQ.

ACN had been acquiring smaller training providers cheaply and instantaneously generating tremendous growth from them. So we organised a meeting with CEO Ivan Brown to understand how he did it.

Brown was acquiring existing government funding agreements and then combining them with ACN’s large list of potential students.

It seemed that the business’s competitive advantage was not necessarily the quality of the education it delivered to students, nor the cost at which it was doing so. Instead, it was the ability to purchase sector minnows with access to government funding, and a huge database of students to stuff down the funding pipe.

Again, we didn’t feel comfortable about the sustainability of the business model and our scepticism about the sector increased further. We weren’t surprised when ACN became the subject of government investigations.

Wolf comes to town

After dinner on Sunday night I was flicking through the channels and nearly fell off my couch when Nine's *60 minutes* revealed that the 'Wolf of Wall Street', Jordan Belfort, was doing business with a training organisation in Queensland.

The company had been granting certificates left, right and centre without providing any training or testing. Apparently, one tradie was assessed as competent to drive a 30-tonne excavator while in reality he didn't know how to turn it on.

Belfort's involvement in all of this is not totally clear. Perhaps he's attracted to Queensland for the weather or the theme parks. But a stream of government-backed funding may also be attractive to the former scammer who is aiming to pay back victims more than US$100m.

Whatever the case, Belfort might be the most famous wolf feasting on VET funding but from what we've seen he's certainly not the first.