



## AEU Parliamentary Brief

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### FEDERAL GOVERNMENT'S PLANS FOR TAFE

The Federal Government is driving a competition agenda in the VET sector, using strategies outlined in the Boston Consulting Group (BCG) Report – a report commissioned by the Howard Government. Two states have announced the introduction of far reaching changes to the funding of their TAFE systems, citing policy changes at the federal level as the reasons for their reforms.

Victoria has announced reforms to their system which they are promoting as a template for other states to follow in implementing full competition in the sector. These reforms include the introduction of a HECS-style loans scheme, and allocation of their government funding to full competition between TAFE and private providers.

Julia Gillard has announced Federal Government support for the Victorian Government reforms.

South Australia has announced an overhaul of VET funding which will see 50% of funding in their system open to competitive tender between public and private providers by 2012.

The Federal Government is now pursuing a policy of using its funds to drive market reforms in the states and territories through the next Commonwealth-State funding agreement in much the same way as the Howard Government used its funding through the Skilling Australia's Workforce Agreement to implement its industrial relations agenda.

*Competition is offered as a solution to the skills shortage crisis, despite the fact that competition for funding within the VET system has existed during the entire period during which skills shortages have emerged. Skills shortages are arguably the best example of the failure of the competitive market in VET.*

#### Productivity Places

In its election campaign launch, the ALP announced 820,000 new VET places, saying that it would not disturb current Commonwealth funding for State and Territory Governments and through them the TAFE system.<sup>1</sup>

Despite this, the overwhelming majority of the first 20,000 productivity places have gone to private providers. This is because the Rudd Government has funded them so poorly that the

public TAFE system could not afford to deliver them. In some cases, places have been funded at a rate which is 50% lower than the lowest established price in the system.

The Federal Government is requiring states to contribute 40% of the cost of the “new” places. Some states are proposing to use existing recurrent funding to pay for their share of the places. Recurrent funds will be taken away from TAFE, and put out to tender for private providers to bid against TAFE.

This means that existing TAFE places will be cut from TAFE, and funding opened to private providers. This contradicts the policy, which refers to the places as “new”.

### **Income contingent loans, increased fees and charges and vouchers are lazy and flawed public policy**

The *Skilling Australia's Workforce 2005-08 Mid-Term Review – Boston Consulting Group, 22 October 2007* (the BCG Report) canvassed increasing costs for students in VET, student entitlements or vouchers and the introduction of an income contingent loans scheme. Victoria has now announced that with Commonwealth support, they are introducing an income contingent loan in TAFE.

These “reforms” will damage the TAFE system and reduce participation in the VET sector, further exacerbating skills shortages.

### **Increased fees and charges**

Increasing fees and charges for students will not necessarily lead to increases in enrolments and participation, even if a deferred payment loan scheme is introduced at the same time.

The largest single increase in TAFE enrolments was in 1973 when the Whitlam Government abolished fees and increased student assistance schemes. The effects of these were seen in the growth in TAFE enrolments from 400,700 in 1973 to 671,013 in 1975, a 59% increase.<sup>2</sup>

The Rudd Government knows that decreasing fees and charges is a much better strategy, evidenced by proposals from them to reduce the

HECS burden for students enrolling in skill shortage areas such as nursing and teaching.

### **Income contingent loans**

Evidence from the university sector shows that the introduction of a deferred payment student loan scheme will only make it easier for governments to continue to increase the costs of learning for students, at the same time as they reduce funding for the sector.

Since they were first introduced in 1989, HECS fees in universities have increased by up to 122%.<sup>3</sup> In real terms, student contributions have increased from 20% in 1996 to 37% in 2005. At the same time, government funding to universities has declined by 24%.

### **Vouchers /Student entitlements**

International and local experience shows that when governments provide funding to public and private providers under a voucher model, problems arise in the areas of equality, infrastructure and service quality. The evidence shows that vouchers:

- Increase socio-economic segregation by providing incentives for providers to take students from higher socio-economic backgrounds because they are easier (or cheaper) to teach.
- Impact on the provision of infrastructure by encouraging duplication in urban areas where demand for services is high, and allowing infrastructure to run down in regional areas where markets are thin.
- Affect the quality and supply of staff, with strong incentives to keep wages and training costs to a minimum.<sup>4</sup>

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<sup>1</sup> Skilling Australia for the future, ALP policy document election 2007, p.11

<sup>2</sup> Goozee, G. The development of TAFE in Australia, NCVET, Adelaide 2001, p.28

<sup>3</sup> NTEU response to the Victorian Government's discussion paper on skills reform “Securing our economic prosperity”, p.6

<sup>4</sup> Watson, Louise, Campus Review, 19.08.08 p.13

## TAFE AND VET FUNDING SINCE 1997

In 1997, there were 1,452,000 students in the VET system in Australia. In 2006, there were 1,676,000 students. This is an increase of 224,000, or 15.4% over 10 years.

More than three quarters of VET funding comes from government.

However, since 1997, government funding for the TAFE and VET system has declined.

The proportion of Commonwealth funding has fallen from 25% to 23.1% in 2006. The States' contribution has fallen in the same period from 56.1% to 53.4%. The biggest increase in revenue has come from Fee for Service activity which has risen from 9.7% in 1997 to 13.7% in 2006. (See Figure 1)

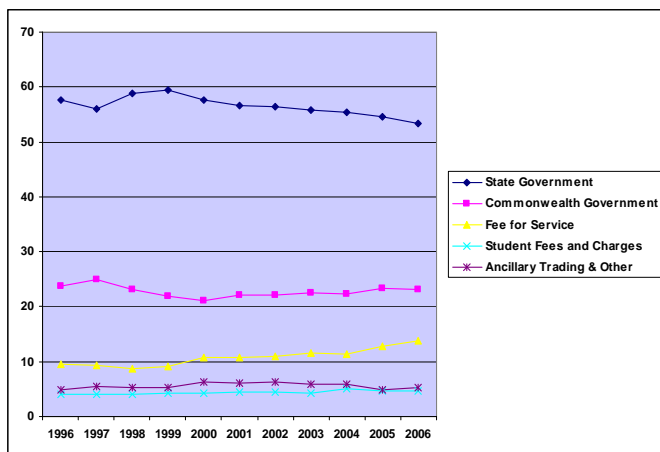


Figure 1: Changing Share of Operating Revenue 1996-2006.<sup>5</sup>

In 2006, the average total revenue per VET student was \$3177.03, \$178.03 or 5.3% less than in 1997. Looking at just per capita funding from the Australian and State and Territory governments combined the real change per student between 1997 and 2006 is \$292.88 or 10.8%.

Between 1997 and 2006, the Commonwealth Government contribution to VET costs declined by 20.5%. In the same period, state and territory government contributions declined by 18.4%. (See Figure 2)

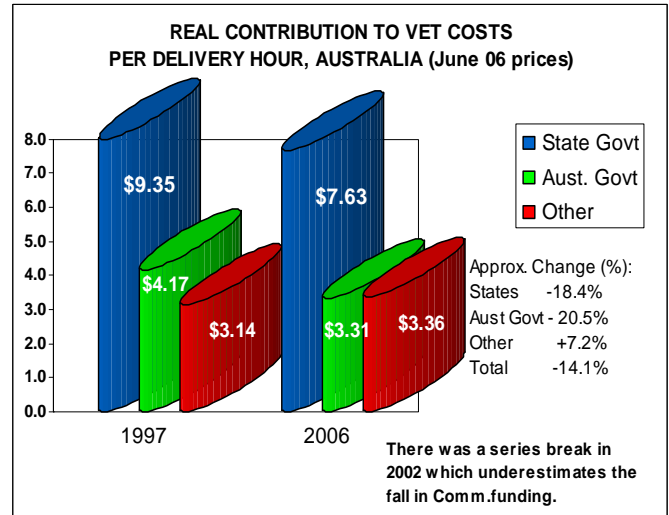


Figure 2: Real contributions to VET costs per delivery hour, Australia (June 06 prices).<sup>6</sup>

### Education Revolution?

In 2007, the Rudd Government came to power under the banner of an Education Revolution. Despite this, expenditure on education, as a proportion of the overall budget is set to decline over the next period. (See Table 1)

	Estimates	Forward Projections	
	2007-08	2011-12	Change 07-08 to 11-12
<b>Total Ed Budget</b>	6.64	6.43	-0.21%
<b>Higher Education</b>	2.26	2.17	-0.09%
<b>VET</b>	0.58	0.54	-0.04%
<b>Non-Government Schools</b>	2.28	2.28	0.0%
<b>Government Schools</b>	1.11	1.05	-0.06%
<b>All Schools</b>	3.39	3.32	-0.07%
<b>Student assistance</b>	0.17	0.14	-0.03%
<b>General Administration</b>	0.01	0.02	0.01%
<b>Schools Ed - Specific Funding</b>	0.22	0.23	0.01%

Table 1: 2007-08 to 2011-12 Education Expenditure as a Proportion of Total Federal Government Expenditure.<sup>7</sup>

This table shows that budget commitments from the Federal Government will decline by 0.4% between 2007-8 and 2011-12.

VET represents only 8.8% of the total education budget in 2008-9. (See Figure 3)

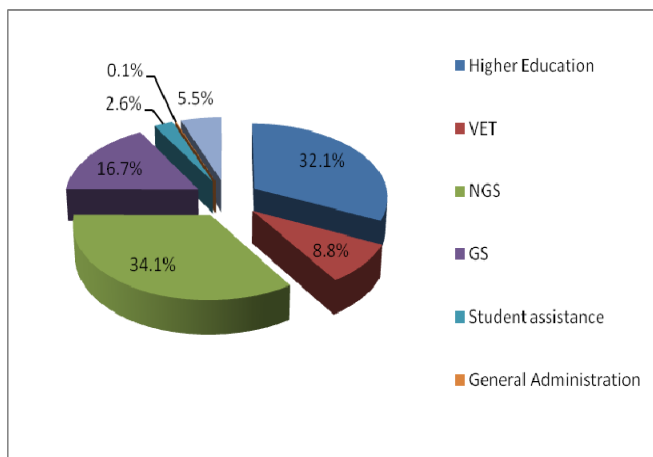


Figure 3: Total Education Expenditure 2008-9.<sup>8</sup>

Budget allocations for private schools are higher than the allocations for the university sector, and four times higher than they are for VET. (See Table 2)

	2007-8	2008-9	2009-10	2010-11	2011-12
Higher Education	34%	32.1%	34.4%	33.7%	33.8%
VET	8.8%	8.8%	8.6%	8.6%	8.4%
NGS	34.3%	34.1%	33.6%	35.0%	35.4%

Table 2: VET Expenditure relative to Higher Education and Private Schools.<sup>9</sup>

Despite this, and despite the rhetoric around increased funding to address skills shortages, the VET share of the education budget will decline over the next period, falling to only 8.4% in 2011-12. (See Figure 4)

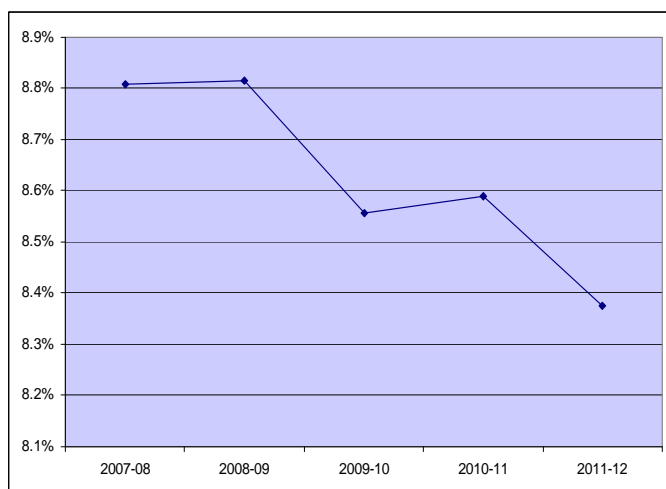


Figure 4: VET Share of Total Education Budget 2007-08 to 2011-12.<sup>10</sup>

## HISTORY OF COMPETITION IN TAFE

During the Howard years, Federal Government investment in VET declined significantly. TAFEs were forced to rely on fee for service and other commercial activity and to compete with private providers for government funding. As well, budgetary pressures resulted in increased student fees and charges, and reduced support for students. TAFE directors have increased their reliance on casual employment to the point where in excess of 50% of Australian TAFE teachers are now casually employed. This means that teachers' workload has increased incrementally, making it difficult for them to meet the educational and other needs of TAFE students.

During a period where marketisation has dominated policy development in TAFE, Australia has experienced some of the most significant skills shortages in its recent history. This is because all VET providers are increasingly forced to make decisions about delivery based on economic imperatives, rather than on planning for the long term needs of the economy and society.

## TAFE IN AUSTRALIA

- 66 TAFE institutes, 5 multi-sectoral universities, 513 community providers, and 1400 private providers;
- 1.68 m students, 1.33 at TAFE;
- TAFE delivers 85.6% of all courses;
- Private providers (including community providers) deliver 14.4%;
- 1 in 9 Australians aged 15 – 64 participate in VET;
- 397,400 (24%) are apprentices and trainees;
- 89% study part-time.

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<sup>5</sup> Calculated from NCVER Financial Information, Various Years.

<sup>6</sup> See Note 5.

<sup>7</sup> Source: Calculated from BP1: pp6-45 and 6-14 2008-09 Budget Papers.

<sup>8</sup> See Note 7.

<sup>9</sup> See Note 7.

<sup>10</sup> See Note 7.