

Empirical

Publicly funded VET doesn't meet the minimum conditions that would make it viable to contract it out, argues Phil Toner

At the request of the Council of Australian Governments, the Productivity Commission (PC) recently undertook an examination of the publicly funded VET system and VET workforce. The draft report made many recommendations that, if followed, will dramatically alter the funding mechanisms for VET, the working conditions of its employees and the economic incentives affecting teachers, TAFEs and private VET providers.

The key economic issues are first, the PC endorsement of current moves to extend competitive tendering of publicly funded VET

and, second, the shift to an 'outcomes' based funding model.

These changes are based on a fundamentally flawed understanding of the economics of publicly funded VET. They will arguably result in reduced quality of training provision, more costly and burdensome VET regulation, and taxpayer exposure to significant financial risk.

The central problem with the PC endorsement of competitive tendering of publicly funded VET is that the two minimum conditions required for efficient contracting out do not exist.

Efficient market pricing relies on accurate information on the characteristics of the good or service being transacted and the quantities demanded and supplied. The PC's own analysis in the draft report explicitly states that there are, as yet, no robust measures of "productivity, efficiency, effectiveness and quality" in publicly funded VET services available either in Australia or globally. The PC notes economists and statisticians have over the last 50 years failed to develop such metrics for intangible services such as 'education'. (It recommends 'more work' be done to develop these indicators.)

VET workforce of the future

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area) and that these are approached both critically and creatively

- Recognition of prior learning needs to be transparent and widely facilitated to prevent teachers undertaking irrelevant learning
- There needs to be a clearer recognition of high level teaching capability in vocational education and this must be embodied in a process of registration
- Any strategy to improve the qualification profile and professional development of TAFE teachers needs to acknowledge the reality that for many, additional study will need to be undertaken while the teacher is employed.

We offer these points as the basis of a conversation which we think that the sector must have in an open and collaborative way.

The AEU is disappointed with the Productivity Commission Draft Report on the VET Workforce because we think, through its recommendations and findings, it will limit options, and close down the conversation.

Others, in their submissions, have pointed out the many inconsistencies in the Draft Report, especially and most glaringly in the many contradictions between the body

of the report and the recommendations and findings. It is not always absolutely clear, for example, where many of the recommendations source their rationale.

The Draft Report urges no increased investment in the VET sector, despite ample evidence of its underfunding relative to other education sectors. It advocates no plan for improving the capacity of the teaching workforce through improving the qualification profile of teachers, despite apparently acknowledging real problems in capacity and referring to both research evidence, and stakeholder views supporting access by the teaching workforce to higher level teaching qualifications. Indeed, the Productivity Commission Draft Report, at the end of the day is sceptical of the need for **any** teaching qualification at all, claiming there is no evidence of a link between improved student outcomes, and teacher qualifications. Despite this, and in an entirely contradictory move, it continues to endorse a minimum teaching qualification in the sector, even though that qualification has itself lost the confidence of the profession.

The Productivity Commission claims its Draft Report is an objective, evidence based

study. It is not. It is a highly politicised and ideologically narrow study, which excludes as evidence anything which falls outside its narrow world view. And I think that this is the crux of the problem.

The future of the VET workforce will depend on the ability of the sector to grasp the opportunities which currently exist, and to engage in vigorous discussion and debate around the issues. We do not need, at this crucial moment, avenues and options to be closed, and for opportunities to be lost. We need to see effective public policy developed which confronts, probably for the first time in its history, collaboratively, and with all stakeholders, including the AEU, the challenge of TAFE and VET teacher development. ❖

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¹ Schofield, K, Public Infrastructure for skills and training development, Final Report, Vic 2002, p.4



BARRIERS

This problem is compounded by the fact that there are multiple and, indeed, conflicting objectives imposed on the publicly funded VET system.

This makes it impossible to precisely relate VET inputs to VET outputs.

According to the PC the publicly funded VET system has three objectives; provide workforce skills, encourage maximum participation of the population in training, and promote social inclusion. Surely it is simple to assess whether the VET system is meeting workforce skills and for government to pay private providers to meet these skills? Not so. The PC notes that only 30 per cent of VET graduates are employed in an occupation directly related to their qualification. Is this evidence of skills mismatch or broadly skilled, flexible workers? Without precisely specifying the quantities of VET outputs and their quality, there is simply no basis — in economic theory or empirically — for arguing that contracting-out publicly funded VET will result in better or more efficient training provision.

The simplest way to cut through these profound theoretical and empirical barriers is to ignore them. The PC does this by proposing to shift from the present system of publicly funded VET, based on payment for hours of teaching delivered, to 'outcomes based funding'. Payments are to be made for module or course completions or 'number of students passed or firms serviced'.

The use of such crude metrics of VET system performance will create perverse incentives for teachers and training providers, both public and private. The PC notes that this funding model "could lead to some reduction in VET standards, if successful completions are paramount". These perverse incentives

will be intensified by the PC recommendation to introduce performance based pay for VET teachers. In the absence of productivity and quality metrics, VET teacher 'performance' is likely to be measured by reductions in unit cost of delivery and increases in student graduations. Both can undermine quality.

There are many high quality and ethical private VET providers but there are also many stark examples of market and ethical failure in private VET provision. These include the recent foreign student debacle and the malfeasance on a grand scale revealed by NSW Independent Commission Against Corruption (ICAC) investigations into private VET training provision for construction equipment operators, residential house builders, structural engineers and the security industry. The ICAC noted corruption had become so extensive as to undermine the integrity of the VET system in the specific

‘The Productivity Commission recommendations are based on a fundamentally flawed understanding of the economics of publicly funded VET.’

fields of training. Because they could not compete against corrupt providers who would guarantee an 'outcome', ethical operators were driven out of the industries.

Deregistration of VET providers by state training regulators are focussed overwhelmingly on private providers. Corruption and malfeasance, of course, do occur in public VET provision but the publicly available evidence suggests these problems reside primarily in private provision. The economics of VET explain why this is so. Many private VET providers are sole operators or have only a few employees, resulting in fewer internal controls and checks. There can be very low barriers to entry and low exit costs for operators. Qualification requirements for operators and teachers are either low or easily circumvented. And quality in VET

provision is impossible to measure.

Contracts for private providers to deliver publicly funded VET are very short term with no certainty of renewal. This encourages opportunism and reduces the incentive to invest in the business. Deregistered providers can reappear as 'phoenix' operators. And as Bruce Baird observed in his review of the foreign student college debacle, "where profit is a key outcome from delivering education services, the quality of the service will at some point and for some providers come under pressure".

The risks in extending competitive tendering of publicly funded VET can be reduced to some extent by more intrusive regulation of public and private VET providers. But this is the system chasing its tail — increasing the scale of publicly funded private provision requires imposing ever more stringent controls. The rising cost of regulation undermines the case for contracting-out, and as the PC states, form-filling associated with such monitoring is one of the reasons teachers leave the VET system.

In outsourcing delivery of essential services, such as workforce training, government cannot dissociate itself from the need to guarantee continuity of service supply or from bearing other costs arising from the financial failure of a private supplier. There are many Australian examples of these risks being realised, such as ABC Learning and the 'rena-tionalisation' of privatised public transport systems and toll roads. Private agents contracted to supply essential services are aware of this implicit government guarantee. This creates a moral hazard or an incentive for the private agents to increase their risk preference — increasing the probability, and possibly scale, of the liabilities for which government may be responsible.

Publicly funded VET does not meet the minimum conditions required for efficient, competitive tendering. There is profound uncertainty about the quantity and quality of the goods and services being contracted out, and there are significant risks to the quality of the future workforce and public purse. ❖

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This is a brief summary of his response to the PC draft report. Go to uat.pc.gov.au/_data/assets/pdf_file/0019/106633/subdr079.pdf

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