



# BEHIND CLOSED DOORS

“The move to full competition and contestability of funding in VET has not been exposed to public scrutiny...”

By Pat Forward

“By allowing self-interested behaviour in competitive markets to create prosperity and using some of the proceeds to extend opportunity to all, a transition from self-interest to the public interest is attained.”

— (Craig Emerson, ALP Small Business Minister)

In April 2008, the Victorian government released *Securing our future economic prosperity*, its blueprint for reform of the Victorian TAFE system. If implemented, it has the potential to result in the dismantling of the public TAFE system through the creation of a fully contestable VET market. It has left the Victorian TAFE system in turmoil, raising more questions than answers. The government's proposed reforms are entirely

consistent with recommendations from the mid-term review of the *Skilling Australia's Workforce Agreement* prepared for the Ministerial Council for Vocational and Technical Education by the Boston Consulting Group (the BCG Report) completed in 2007. That review recommended, amongst other things, the creation of a completely open competitive training market, full contestability of funding between TAFEs and between TAFEs and private providers and the application of competitive neutrality principles to public TAFE providers. The BCG report also canvassed the idea of the creation of an income contingent loan scheme for TAFE and VET.

The Victorian Government reform involves a staged implementation of full contestability for all Victorian government funding over the next three years, the introduction of an income contingent loan scheme for students to 'offset' the effects of significant increases in costs to individual students, and the application of a competitive neutrality 'levy' to TAFE Institutes. It seems that TAFEs will have to pay a levy for resources they already own such as libraries and buildings, which is something universities never had to do when they took ownership of the resources bequeathed to them by government. TAFE directors in Victoria have submitted a list of more than a hundred questions to the government, arguing that the reform paper is "appallingly short on detail". Thus far, these questions have remained unanswered.

The proposed changes to the Victorian system

## WHAT SHOULD BE DONE?

- The reforms being proposed by state and federal governments will have serious and far reaching implications for the vocational education and training system, and for Australian society. Governments are undertaking these reforms secretly and in haste. The public interest demands a proper debate of the proposals, and a prudent pace.
- The reforms are underpinned by unsubstantiated assertions about the benefits of marketisation and competition. If these mechanisms for ensuring Australia's future prosperity, socially and economically are so effective, then governments should not fear proper empirical examination of their strategies.
- The Federal ALP needs to come clean about its election promises. Their disingenuous approach to the Productivity Places Program deserves greater scrutiny, and that greater scrutiny reveals that they are in fact going back on commitments made during the election.

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## COAG AND THE PRODUCTIVITY PLACES PROGRAM

As *The Australian TAFE Teacher* goes to press, the VET system is cascading towards the next COAG meeting, scheduled for 3 July 2008. While the Special Purpose Payment covering VET (the Commonwealth-State Agreement on VET funding) will form part of a larger Inter-Governmental Agreement (IGA) which will be negotiated over the next three COAG meetings (3 July, 2 October and 18 December), the states and territories are currently positioning themselves to deliver the Productivity Places Program (PPP). The Productivity Places Program was part of the Rudd government's package of election commitments. In November 2007, Rudd announced the delivery by Labor of 820,000 additional VET places over six years. Describing these places as variously "additional", "new" and "massively expanding" the VET system, the policy announcement which occurred immediately before the election also explicitly said:

*Current Commonwealth funding for State and Territory Governments, and through them the TAFE system, will not be disturbed. (p11)*

The policy also spelt out the mechanisms for allocating the "new" places:

*The funding for new places will be bundled together and allocated to strengthened and better resourced Industry Skills Councils.*

In April this year, the government shifted allocation of the Productivity Places Program away from ISCs and commenced negotiations directly with individual states and territories. In a briefing (the COAG Open Day chaired by Minister Gillard) held on 12 June, Minister Gillard declared her enthusiasm for the work of the Productivity Agenda Working Group (which she also chairs) and explained how the Federal Government intended to use the new National Partnership Agreement (NPA) to drive market reform in VET. **The Productivity Places Program will be used as part of this agreement to drive further contestability in the VET sector.**

In its election announcements, the now Rudd government did not declare its intention to deliver the Productivity Places contestably. It was made clear that funding for the "new" places would be contingent on the states providing 40 per cent, the Federal government 50 per cent and industry 10 per cent of the costs of the places. State governments were not party to any negotiations around this policy.

What is now becoming clear is that states and territories are intending to use existing (recurrent) state funding of TAFE to provide their 40 per cent of funding for the Productivity Places. This is exactly what the Federal Government means when it says that it will use the New Partnership Agreement to drive reform of the VET sector. In return for 50 per cent funding for a place which must be contestably delivered to public and private providers in an "open training market", the states must carve an additional 40 per cent of the cost of the place from their existing recurrent VET budgets, effectively driving further marketisation of the sector. The Federal government has also reneged on its election undertaking to require 10 per cent contribution from industry. This contribution can now be met by individuals, not industry, and some states are negotiating to lift this contribution to enable them to shift greater costs from state government funds to individuals.

**If state government's shift their proportion of funding from recurrent budgets to meet 40 per cent of the cost of the Productivity Places Program, there are no longer "additional" or "new" places**, instead, places currently being delivered in the TAFE system will need to be shut down in order to deliver the "new" places. This clearly abandons the election commitment. As well, the creation of New Partnership Agreement explicitly to drive reform and competition in the VET sector openly contradicts the Rudd commitment not to disturb current funding arrangements for the VET sector.

The Productivity Places Program costs being circulated at the moment are at least 50 per cent lower than the lowest price per student contact hour in the country. This also makes a mockery of the claim by the Federal government that TAFEs could position themselves to "win" most of the PP. **The only way that TAFEs could position themselves would be employ their teachers on non award conditions, or on casual rates.**

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have to be understood in the context of national VET reform. As well as these changes in Victoria, South Australia is proposing to put half of its public provision out for contestable funding by 2012. If the Victorian changes are implemented, they will drive down the costs of its VET delivery even further and provide the framework for driving down the costs of VET delivery nationally.

That this is what the Victorian and Commonwealth governments have in mind is evidenced by responses TAFEs have received from the Commonwealth when they tendered for the Productivity Places Program the Rudd government promised in the lead-up to the election and in the recent Budget. The Commonwealth originally was going to distribute the Productivity Places through the national Industry Skills Councils, but these places will now be distributed through states.

TAFE Institutes from around the country submitted expressions of interest to deliver the training places to the Commonwealth, many on the basis of the Victorian price per student contact hour, only to be told that they need to cut their costs by as much as 50 per cent. The Victorian cost per student contact hour was \$12.38 in 2006, 13.1 per cent below the national average which was \$14.24. (Skilling Australia's Workforce 2005-08 Mid-Term Review p.56) For most providers, public and private, this would make the Productivity Places Program impossible to deliver in anything which remotely resembles an effective manner. Public providers simply could not afford to deliver the training.

The Commonwealth is only funding half of the majority of the new Productivity Places. State and territory governments are required



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to contribute 40 per cent, and industry 10 per cent. Neither of these requirements was discussed with state and territory governments, nor with industry before the election. It now appears clear that the additional funds for this program will either need to come from existing funding allocations to TAFE from the state governments, or from individuals. It could be suggested the Victorian government is paving the way for the management of the Productivity Places Program through its proposed reforms to the Victorian system. In short, a fully marketised or privatised TAFE system in Victoria would shift considerable costs for the delivery onto individuals, and away from government.

There is no question that the proposals from the BCG Report and from the various state and territory governments' papers amount to a revolution in the system. It is not just a case of 'more of the same', and it is dishonest of any of the current governments involved in this exercise to argue that there is nothing new in these proposals because they have always supported competition. A shift to complete contestability and

the implementation of competitive neutrality principles amount to the dismantling of the public TAFE system and this was certainly not included in any policy proposals during any of the recent elections.

Effectively, competition is presented as a way of making the system 'demand-driven' rather than provider focused. However, providers will be forced into aberrant behaviours in the delivery of VET in order to manage competition for scarce government funds. This hardly results in a focus on students or

industry, but rather on economic survival in a market because TAFEs will have to deliver where it is most profitable and where costs are lowest.

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 that skills shortages have emerged. This is particularly the case in apprenticeships and traineeships which have been subjected to 'user-choice' policies for many years.

These changes are being implemented despite the fact that there is, to my knowledge, no research that provides evidence that training markets based on full contestability actually deliver better outcomes. *Campus Review* (22 April 2008) quoted a DEEWR spokesperson who said that the evidence in support of a full training market came from a range of government reports since 1990. However, apart from the fact that most of these reports were not about education, those that did discuss education cannot point to a system which is fully contestable and has delivered the outcomes they seek.

This shows that policy is being driven by an ideological belief in markets as the principle mechanism for achieving social objectives. Moreover, it is not good policy development. This is because it does not allow for public debate and scrutiny of these social objectives. State and Commonwealth governments are making policy on the run, behind closed doors, and away from the public scrutiny. The move to full competition and contestability of funding in VET has not been exposed to public scrutiny, and it is simply wrong to suggest that the current federal or any of the state governments have a mandate to do it. ❖

Pat Forward is  
Federal TAFE Secretary



## THE VICTORIAN DISCUSSION PAPER ON SKILLS REFORM

The Victorian Discussion Paper on Skills Reform contains very little detail of the government's proposed strategy. Stakeholders are struggling to make explicit what they have been told behind closed doors in briefings. One submission to the paper however makes some enlightening, but disturbing observations. Describing the discussion paper as "deliberately hazy and ambiguous", the submission argues that the reforms proposed in the discussion paper boil down to "increased costs of training for individuals and businesses, changing eligibility criteria for government supported training and the introduction of contestability of government funded places". It goes on:

*Strategies to increase completion rates would be more cost-effective and immediate than the upheaval to the VET sector proposed in the discussion paper. Additionally, an increase in the funding of places under existing VET structures would overcome the shortfall if student demand for these places actually exists or could be encouraged.*

The submission also makes some interesting observations about the contradictory nature of some of the policy proposals emerging from state and territory, and the Federal governments. The Federal Government has proposed removing fees altogether in one skills shortage area to encourage take up of training. This is entirely at odds with a strategy of increasing individual's costs, and then offering income contingent loans as a mechanism to increase take up of training.

The TAFE Institute outlines a range of concerns with the Victorian Discussion paper, including:

*The evidence base upon which the substantial reforms are proposed, the unconvincing relationship between the reforms and the stated objectives, the ambiguity regarding reforms with critical implications, and the speed at which inadequately planned changes will be implemented.*