

## **Discussion Paper**

### **Competition, contestability and TAFE**

#### **1. Introduction**

In this paper five documents currently informing VET policy in Australia are analysed. There is a brief history of competition in the sector and a brief summary of Damon Anderson's work on the impact of marketisation and Kaye Schofield's work on the impact of marketisation on policy development. A few key areas are then examined and the AEU's position in relation to them is summarised.

#### **2. Five papers**

There are five policy documents currently feeding into the development of approaches to VET funding in Australia at the moment. Three of them have emerged from state governments. These are *Qualifications and Skills for Tasmania Tomorrow June 2007* (Attachment 1), *A Skills Strategy for South Australia's Future 19 March 2008* (Attachment 2), and *Securing our future economic prosperity – Discussion paper on Skills Reform – Victoria, April 2008* (Attachment 3). These three documents are proposals for major reform of the VET and TAFE system in Tasmania, South Australia and Victoria. Analysis of the *Skilling Australia's Workforce 2005-08 Mid-Term Review – Boston Consulting Group, 22 October 2007* (the BCG Report) (Attachment 4), and *Skilling Australia for the future – Discussion paper – Commonwealth, April 2008* (Attachment 5). The BCG Report was commissioned under the Howard government by the Ministerial Council for Vocational and Technical Education (MCVTE), and released to bureaucrats in October 2007 before the election. The *Skilling Australia for the future* document is a discussion paper released by the Commonwealth government in April 2008 dealing with the government's election commitments to TAFE and VET. The attachments to this discussion paper summarise the main points of these policies.

Each of the five papers promotes greater competition and commercialisation of the VET and TAFE sector. While there is nothing new in governments espousing and promoting competition as a way of disciplining TAFEs to engage in market behaviours to make them "demand driven", "flexible" and "efficient", there are several features of the current convergence of circumstances which are very problematic for the public TAFE system.

The BCG Report advocates 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. It also canvasses the full introduction of Income Contingent Loans in the VET sector. There is no doubt that if these recommendations were to be adopted, the existence of the public provision of VET would be threatened. Indeed it is difficult to see how TAFEs could survive in their current form. While the ALP Federal Government has argued that the BCG Report is only one of a range of documents they and the states and territories are considering, they have not said what the other discussion documents are, and they have not denied that they are considering the BCG recommendations.

Both the Victorian and South Australian papers have been strongly influenced by the same ideas which have informed the BCG Report and both papers acknowledge this in their reference to policy directions coming from the Federal Government. The South Australian paper proposes a move to 50% contestability of funds by 2012. The Victorian proposal not fleshed out in full in the attached paper, is a plan to move to full competition and full contestability of all VET funds in the next three years. It is at best disingenuous of the Federal and State Governments to deny the influence that the BCG Report is having on their approach to VET funding, and dishonest of them not to debate such a significant policy change with stakeholders in the broader community.

While it is true to say, and this paper shows, that market theory has been very influential in VET policy for more than 15 years, the proposals coming 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 this. **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 canvassed in any discussions during the federal election, or in recent state elections.**

Indeed, one of the purposes of comparing the pre-election ALP skills policy and the *Skilling Australia for the future* discussion paper is to show just how disingenuous the ALP was being during the election, given what appears to be an intention to promote much greater levels of competition in the system.

In each of the attached reports, competition is presented as a commonsense and uncontroversial solution to a range of "problems" inherent in the training system. Effectively, competition is presented as a way of making the system "demand-driven" rather than provider focused. However, RTOs will be forced into aberrant behaviours in the delivery of VET in order to manage competition for scarce government funds. This hardly results in focus on students or industry, but rather on economic survival in a market where the primary focus is reducing the costs of delivery.

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. **Skills shortages are arguably the best example of the failure of the competitive market in VET.**

Competition is presented as neutral – not ideological. However, it is based on a world view which sees monetary incentives and reward, and individual advancement as the sole driver of human behavior. It is many respects an anathema to education, where the activity of learning, of acquiring knowledge and skills is based on cooperation and collaboration.

Marketisation and competition have had a significant impact on the costs of learning and studying for TAFE students everywhere. The TAFE Futures Inquiry documented high levels of student poverty, prohibitive course costs and an increased tendency to shift delivery costs directly onto students. Explicit in the BCG Report and the National Senior Officials Committee (NSOC) paper prepared for the first NSOC meeting this year are arguments around human capital which emphasise the individual benefits of VET qualifications. These perceived benefits are then used as an argument for increasing the proportion of income derived directly from individuals. In many states and territories, student fees and charges have risen, and many state and territory, and Commonwealth bureaucrats are openly discussing the further extension of income contingent loans in the VET sector. The BCG recommended the extension of an Income Contingent Loan Scheme into the VET sector, as does the Victorian Skills Reform paper.

This paper outlines a quick history of competition in the VET sector, a critique of marketisation and competition from a number of key academics, and then presents a brief analysis of each of the five attached papers. However, several critical things need to be emphasised about the current state of the debate.

The AEU strongly rejects the efficacy and the ethics of using Commonwealth funds to leverage contentious policy outcomes from the states, particularly around competition and contestability. The Productivity Places Program, which requires the states to fund 40% of the existing worker places, and all of which must be delivered contestably is an attempt by the Federal Government to leverage policy changes in the states and territories. The Howard Government was rightly condemned for using the same strategy in respect of their unpopular industrial relations agenda. The Rudd Government should not pursue a similar strategy in negotiating the next Commonwealth state funding agreement. That is not negotiation – that is coercion.

But it is clear that the Rudd Government is going to use the Productivity Places Program as a way of imposing the marketisation agenda on the states and territories. Budget Paper No 3, in restating the Federal Government's commitment to 'cooperative federalism' promotes a 'reinvigorated CoAG' driving 'a new wave of economic and social reform'. In promoting its reforms to relationships between the states and the Commonwealth, the Federal Government has established a new "framework" for federal financial relations. Within this framework, the Commonwealth-State VET Agreement (currently the Skilling Australia's Workforce Agreement 2006-8) will be one of a reduced number of Specific Purpose Payments (SPPs). In addition, however, the Commonwealth will use National Partnership (NP) payments or agreements 'to support the delivery of specified projects, and facilitate or reward reforms.'<sup>1</sup> The Federal Government had been canvassing the allocation of its *Skilling Australia for the future* Productivity Places program as a NP payment. Late in April, the Federal Government informed the Industry Skills Councils (ISCs) that contrary to the election announcement which said that the ISCs would play the key role in the allocation of the Productivity Places the program would now be managed by the state and territory governments. The Productivity Places program will become an NP payment.

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<sup>1</sup> Budget paper No 3, 2008-09 p 15

The marketisation agenda is not confined to federal bureaucrats. Full competition and contestability are the goals of a number of state bureaucrats who have managed to survive successive elections, and re-emerge in the national arena as key players in economic policy. The shift to increasing power at the level of CoAG, and the inclination for governments to pursue policy reforms at a level which removes the capacity for the community to engage in debate over the proposed reforms is essentially undemocratic – and it is poor policy. It is no accident in the current circumstances that elected MPs have been sidelined in the process, and that bureaucrats have been elevated. MPs make poor contentious policy advocates because they fear the electoral backlash which may result from the implementation of poor or unpopular policy.

When policy formation is removed from public scrutiny and debate, and left in the hands of a narrow range of ideologically driven bureaucrats, it leads to poor policy. A policy which the government believes is sound, and in the public interest should be one which stands up to public scrutiny and debate. The move to full competition and contestability of funding in VET has not been exposed to public scrutiny, and it is simply incorrect to suggest that the current Federal, or any of the state governments have a mandate to do it.

### **3. The history of competition in the vocational education and training sector**

At the 1997 NCVER National Training Markets Conference in 1997, Terry Moran said:

In concluding, I would like to reflect on the debate on the training market. Why is the subject of introducing market reform often discussed with such consternation? Are we as a sector so arrogant as to think that ... we are ... immune from change? That education is special, different and exempt?

There is change all around us – that is a fact ... yet debate still tends to focus on the intellectual niceties of “who is the client”, “what are the benefits of competition?” and so forth.

It is disappointing to me that much debate gets caught up on these minor issues, given the challenges in front of us. I am particularly concerned that these messages consistently come from the research community during our ... consultations. While I am not against intellectual rigor, there comes a time when you need to look at the bigger picture and move on.

(Terry Moran, then CEO ANTA, 1997)

Despite the fact that competition is presented as a new and innovative solution to the alleged problems confronting VET at the moment, in the range of papers currently circulating at the national and state level, competition is not new in vocational education and training.

Damon Anderson, describing what he calls the redesign of VET along market lines ‘a radical and unprecedented policy experiment in Australia’ traces the origins of the move to marketisation thus:

Since the late 1980s, the vocational education and training (VET) sector in Australia has undergone profound and far-reaching reform with the aim of producing a more highly skilled and flexible workforce. Among the most important of these reforms has been the development of a competitive training market. Governments at a national and State/Territory level have restructured and reoriented their policy, financial and regulatory frameworks for VET along market lines. In the process, the purposes of VET have been redefined, and the roles, responsibilities and relationships of key stakeholders have been reconfigured. The main objectives of market reform in VET have been to increase the efficiency, quality and responsiveness of VET provision to industry needs so as to increase the productivity and international competitiveness of the Australian economy (Dawkins & Holding 1987; Deveson 1990; ANTA 1996a).

Anderson says that ‘By the late 1990s ... the concept, practices and language of markets and competition were commonplace and widespread in the VET sector.’

Anderson says that the Deveson Review (1990) argued that market reform would produce a range of beneficial outcomes not otherwise possible through centralised state planning and bureaucratic controls:

Drawing on economic theory, but unsubstantiated by empirical evidence, it asserted that market-based competition would result in greater choice and diversity, efficiency, responsiveness and quality, without adverse consequences for access and equity ...

Despite the fact that market reform has been a feature of VET policy for more than 15 years, there has been no comprehensive evaluation of its impact and outcomes to date. User Choice was evaluated nationally, but at an early stage of implementation (KPMG 1999). Several reviews of State government VET policies identified problems in VET markets, especially in relation to quality. The Senate inquiry into the quality of VET (2000) proposed that an independent national evaluation of competition and market reform in VET be conducted, but such an evaluation has never occurred. Indeed, it is Anderson’s own study of the impact of market reform which remains one of the few contributions to an evaluation of marketisation.

#### 4. Damon Anderson and the negative effects of competition

Damon Anderson's study of the impact of market reform on VET<sup>2</sup> found that training market reform – through competition and User Choice:

- Did not produce efficiency
- Did not result in a decline in training delivery costs
- Resulted in high transaction costs, greater complexity and uncertainty in quasi-markets which cancelled out any savings in streamlining internal administrative and planning systems
- Increased the reliance of a large proportion of private providers on government funding which resulted in unnecessary duplication between private and public, and between public providers (p28)

Anderson's study also showed that market reform had been accompanied by reductions in expenditure on:

- Direct delivery
- Infrastructure maintenance
- Curriculum development and maintenance
- Student services (p29)

The reductions in direct delivery costs were achieved through:

- Increasing class sizes
- Reducing face-to-face teaching hours
- Discontinuing courses with low enrolments
- Increasing the use of sessional teachers. (p25)

Anderson's study found that more TAFEs than private RTOs engaged in cost reduction strategies in response to market competition.

Anderson also found that quality was compromised as a result of market reform because TAFE institutes and RTOs:

- Were less inclined to share information and resources
- Diverted resources from training delivery to administration and marketing
- Gave higher priority to cost-reduction than quality improvement (p29)

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<sup>2</sup> Damon Anderson, Trading Places: The impact and outcomes of market reform in vocational education and training, NCVET 2005

For TAFE, the main restrictions on their capacity to compete with private providers came from:

- Industrial awards and conditions for teachers
- Costs of meeting community service obligations
- Geographic location
- Attracting and retaining experience and qualified teachers (p24)

Andersons argues that in the absence of compensatory action, in rural and regional areas in particular, marketisation through competition compromises efficiency, quality, flexibility and access and equity. (p24)

## **5. Kaye Schofield and the impact of competition on teachers' work and TAFE in post Kennett Victoria**

In 2002, Kaye Schofield was commissioned to do a study<sup>3</sup> for the Victorian government in the post-Kennett era. At this stage, TAFE institutes in Victoria had been made autonomous, and had implemented market approaches to VET more completely than most other states and territories.

Schofield refers to the policies and approaches which ensued during the Kennett years which resulted in increased levels of casual employment, inadequate workforce planning strategies, and minimal investment in professional development. In arguing that the sustainability of the TAFE system is ultimately dependent on the competence of the TAFE workforce, and that staff competence that will remain the single most valuable source of future value, she says that in the autonomous Victorian system:

There is strong evidence of underinvestment and inadequate planning in this area that poses a high risk to sustainability. p.4

Schofield argued for a model of collaboration between TAFE institutes as a way of addressing the problems which resulted from competition:

TAFE Institutes should be actively encouraged to collaborate in maintaining and enhancing high standards of professional knowledge and practice amongst all full-time, contract and sessional TAFE teachers. This will require the funding, development and implementation of strategically driven developmental activities ... across the TAFE network. p.5

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<sup>3</sup> A new balance: investing in public infrastructure to sustain Victoria's training and skills development system – Kaye Schofield – OTTE review 2002

Schofield argues that the focus on competition between Victorian TAFE Institutes under Kennett and Kemp:

provided few incentives for the development of knowledge or work networks between TAFE entities. Despite this, TAFE Institutes have voluntarily collaborated in some areas where collaboration rather than competition is perceived to yield mutual benefits. But the TAFE network is relatively weak and there are few incentives provided by the policy to strengthen it.

Schofield also criticises the purchaser-provider split approach to the organisation of TAFE, a key feature of the BCG Report:

Within a narrowly conceived purchaser-provider policy framework, which dominated in Victoria for over a decade, organisational and management arrangements have emphasised the separation of policy making (purchaser) and policy implementation (provider). However, research suggests that policy implementation needs to be considered part of the policy making process and developed in close collaboration with operational staff. Modern policy making demands that policy making and policy implementation needs to be re-integrated into a single seamless flexible process.<sup>4</sup>

In those states and territories which most fully implemented User Choice and competition during the 1990s under a conservative federal, and conservative state governments, the impact of these reforms were dire, threatening the financial viability of many TAFE institutes.

The requirement flagged in the BCG report for the implementation of more complete purchaser provider splits by state governments in the management of public TAFE institutes is based on a desire to exclude those at the operational level from any input into the development of policy. While the purchaser provider split is promoted as a vehicle for greater transparency and efficiency in the management of government funds in government providers, its consequences have been detrimental to the training system, encouraging an increasingly large cavern to develop between the funders of the system (governments), and those who teach and work in it. Policy development occurs in an increasingly esoteric way, and this has been compounded in recent times by the elevation of CoAG and the ascendancy of bureaucrats in the making of policy in a range of sectors.

The ascendancy of the bureaucracy is based firmly on a mistrust of politicians and the political processes. Contemporary bureaucrats see elected politicians as vulnerable to the electoral processes for the obvious reason that they can be lobbied and approached by their constituents, and more significantly, they can be voted out of office. They also articulate a frustration with politicians, who cannot be relied upon to implement a policy, such as pure competition, in its complete form.

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<sup>4</sup> . p.22, *A New Balance*, Schofield.

So, for example in the CoAG processes, state ministers do not figure prominently because not only can they not be relied upon in terms of their input into the policy, but they must also be excluded from the implementation because they have a tendency to panic when they see criticisms of an approach, and therefore water it down. The champions of the current full contestability push coming through CoAG analyse the partial marketisation of the TAFE and VET sector over the last few years as a failure of politicians to grasp the mettle and do what they should have done at the start, twenty years ago – privatize VET.

## **6. AEU position**

*Flexibility* – The AEU supports flexibility in TAFE. Work organisation and practices, delivery of training, return to industry programs, and professional development programs all leave themselves open to more flexible approaches from managers and organisations. The industrial Awards and Agreements currently in place in TAFE provide the capacity for delivery of training at a wide range of times and places, and in all modes – online, face to face, workplace. The critical issue for the employer is not the flexibility of awards and agreements, but rather the willingness or capacity to pay. The same applies to the overuse of casual teachers. Casualisation is driven by the need to drive down costs, not the requirement for flexibility. TAFE employers use casuals because they are cheap, not because they are flexible. The AEU supports flexibility, but it does not support increased casualisation, cost cutting and attacks on teachers’ wages and conditions.

*Skills Australia* – The newly established Skills Australia, which has a brief to undertake significant work on behalf of the Australian Government in relation to vocational education and training needs to increase its scope and establish relationships with a broader range of stakeholders and interest groups in the sector. In particular, Skills Australia needs to seek advice from teachers and educationalists working within vocational education and training, and to consult with the students in the sector about future policy directions.

*Industry Skills Councils* – The AEU supports increased support for Industry Skills Councils, but also believes that ISCs need to increase their representation to include teachers working within VET to ensure a broad and comprehensive approach to vocational education across all industries, and to allow for sophisticated longer term planning around the needs of individuals, industry and the community.

*Skilling Australia for the future – the Productivity Places Program* – Coherent links and connections need to be established between the Productivity Places Program, and existing and future arrangements for funding and resourcing the vocational education and training sector, and in particular the next Commonwealth/State VET funding agreement. It is crucial that the program is integrated into and supports the development of a collaborative Commonwealth/State approach to the funding and resourcing of the sector.

In particular, the Australian Government needs to address the market failure which has resulted in widespread skills shortages across the economy by ensuring that its funding plays a role in the development of coherent longer term strategies in the VET system which take account of the needs of the economy and the community. This can only be achieved if the allocation of the combined resources of Commonwealth and State and territory governments is managed in an integrated and coherent way.

*Competition and Contestability* – The AEU believes that competition between TAFEs and between TAFEs and private providers does not create efficiency, effectiveness and flexibility. The AEU believes that it is fundamentally about driving costs down, and allowing governments to reduce their funding share of vocational education and training. The Federal government, and State and Territory governments need to properly evaluate the impact on TAFE of competition and contestability, and engage stakeholders in discussion about future policy developments. The AEU argues that training outcomes for individuals are much more likely to translate into both employment outcomes, and successful engagement in lifelong learning if teachers and students participate in decision making at all levels.

*Fees and charges and Income Contingent Loans* – The AEU opposes increasing the cost burden of vocational education and training for students. Any proposals to introduce Income Contingent Loans will be opposed because they are a Trojan horse for increasing fees and charges. Sufficient evidence exists about the impact on individuals of increased fees and charges, and on the effects of the introduction of a loans system on demand for VET to justify opposition.

**Pat Forward**  
**July 2008**

**Qualifications and Skills for Tasmania Tomorrow June 2007**

In June 2007, Tasmania announced major changes to their senior education system, including TAFE. Effectively, the announcement involved the dismantling of the public TAFE system, replacing it with a polytechnic and a training enterprise. The stated context for the proposed reforms in Tasmania is low retention and completion rates amongst the State's students and the need to increase productivity by increasing the skills of the workforce. The proposal to split the delivery of post year 10 education into an academic, polytechnic and enterprise stream is based on rhetoric around the need to separate those focused on academic and applied learning at the year 11 and 12 level, and to make post school vocational education enterprise and work-placed focused. One of the main aims of the newly created board which will govern the Training Enterprise will be to:

Shift away from a high dependence on government funds towards a greater investment in training by industry. (p11)

The paper goes on to argue that:

The funding of some training, such as apprenticeships, is a shared responsibility between governments, industry and individuals. However, training for workforce skills is primarily a responsibility of the enterprise. Enterprises are willing to pay for training if they see the value in it and it meets their needs. Meeting industry demands requires a training provider that is aligned to their needs and that can respond as a business, on businesslike terms. A training enterprise will have the opportunity to increase skills development and improve productivity by leveraging industry's investment with government funds. (p11)

The Tasmanian proposal predated the commissioning of the Boston Consulting Group Report, but it would appear that the arrangements being proposed for the organisation of training through the Training Enterprise would dovetail very neatly with the Boston recommendations.

The major concerns with the Tasmanian proposal are that it describes a very narrow, employer-driven vision of vocational education and training, and appears to be driven by a desire to drive down costs of delivery. The Tasmanian government has identified Award conditions for TAFE teachers as a major obstacle to flexibility and innovation, and there is little doubt that the shift to the enterprise training model is an attempt to breach the connection between institutional delivery through TAFE under teaching conditions, and a reconceived notion of so-called flexible delivery in the workplace. In some senses, it draws its rationale from the earliest conceptions of VET in the National Training Reform Agenda which saw the primary focus of delivery in the workplace by so-called "trainers", rather than institutional delivery by TAFE teachers.

Much of VET policy at the moment is replete with proposals for “leveraging” arrangements with private industry using government funds. The irony that at the same time as governments want to give industry greater control over the direction of the sector, they are arguing that individuals should pay a greater share because they get greater returns as a result of completing a VET qualifications. This will be discussed later in this document, but the Tasmanian proposal uses as one of its rationales a need to increase the share of funding contributed by industry.

The Tasmanian proposal is perhaps most concerning for its very narrow instrumentalist view of vocational training, arguing that industry should get the skills it needs, and nothing more. This completely ignores the rights of individuals to a broad based vocational education and training experience. The Tasmanian proposal is also replete with references to the need for training providers to “respond like business on business-like terms”.

**A Skills Strategy for South Australia's Future 19 March 2008**

On 22 April, the Adelaide Advertiser described the South Australian Skills Strategy thus:

The principle aim is to help lower the costs of publicly funded training and free up more cash for training places.

A Skills Strategy for South Australia's Future was released as a discussion paper on 19 March. The objective of the report and the "communication and consultation" process which is currently going on is to 'achieve understanding and support for the strategy and to stimulate change'. The objectives of the proposal are to:

- Ensure all DFEEST staff are informed and understand the Skills Strategy
- Gain TAFE SA staff commitment for the implementation of improved business practices required of a demand-driven, customer focused VET system
- Ensure primary external stakeholders are informed, understand and are supportive of the changes required to meet the skills needs of the State.

At no stage does the Skills Strategy discussion paper propose genuine consultation around the significant changes proposed in the paper. The so-called communication and consultation process is around eliciting support for the strategy to ensure its smooth implementation. It is not about engaging stakeholders in a critical analysis of the proposed changes.

The context for the SA Skills Strategy is solely economic. It is replete with the same arguments around productivity that are contained in both the Commonwealth and other state proposals. The report, however, uses as one of its dominant rationales for the changes the high cost of delivery of publicly-funded training in the state. Using the rhetoric of efficiency and effectiveness, the core of the South Australian proposal is to reduce costs.

The SA Skills Strategy outlines six things that will be different in a "Dynamic Training Environment". These include:

- This plan will detail how much of the required training delivery should be by the public provider, TAFE SA, and how much (and in what areas) will be put to tender in an increasingly more competitive training market
- There will be significant increase in the level of State Government funding available on a contestable basis. This will be complemented by changes occurring as part of the new Commonwealth policies and will see an increase from 25% of total funding being contestable to close to 50% by 2012
- There will be greater opportunities for Registered Training Organisations (RTOs) such as paid access to public facilities

- In planning to significantly increase the level of contestability, it is critically important to position TAFE SA to operate in this more commercial, dynamic business environment. This includes a revised financial management framework with a focus on encouraging external revenue generation, investment of surpluses, and a more commercially accountable and incentive driven approach. (p4)

The report goes on to list a number of other things that will be different, including that the unit cost delivery of publicly funded training will be 10% lower by 2012. (p5)

The SA Skills Strategy is about cost cutting. There is no mechanism in the process for “consultation and communication” for challenging or changing the key direction of the report. Interestingly, the report argues that its proposals are designed to “complement” changes occurring ‘as part of the new Commonwealth policies’.

**Securing our future economic prosperity – Discussion paper on Skills Reform –  
Victoria, April 2008**

After weeks of rumors about an impending “skills” announcement, the Victorian government released a discussion paper – Securing our future economic prosperity – in early May. The Victorian discussion paper uses as its context skills shortages and an aging population.

The Victorian Discussion paper is remarkably light on for detail of its proposals, despite saying that ‘the scope of the reforms is intended to be considerable.’ (p12) The report summarises its proposed reforms thus:

- Increasing access for eligible Victorians to a government supported training place and increasing investment from those who benefit most from training: government; business; and individuals;
- Strengthening our TAFE and Adult , Community and Further Education (ACFE) sectors;
- Improving choice and contestability by enabling individuals and businesses to access government supported training at a broader range of public, private and community providers; and
- Improving information to make it easier for individuals and businesses to understand and use the training system. (p13)

The paper also sets itself in the context of “national change” and argues that the Victorian proposals are ‘broadly consistent with the policy directions identified in the Federal Government’s recently released Skilling Australia for the Future discussion paper.

In putting forward what it describes as “a new investment model”, the paper argues that this ‘would involve some students making a greater contribution towards the cost of their training’ with the rider that ‘...it would need to maintain access to some form of concession and maintain a maximum annual charge.’ Despite this, the report also says that:

The Government is also considering whether to allow training providers to compete on price – by allowing them to determine their own level of student fees, up to a government determined maximum. This could potentially result in fee levels below the maximum charge. (p17)

Under the heading “Improving the capacity of the public training system and improving choice and contestability”, the paper argues that the government’s aims are about ‘supporting a broader range of providers to encourage greater competition in the VET market.’ (p16)

The paper argues that in acknowledging the role of Victoria's Adult, Community and Further Education (ACFE) providers in the education system, the government will 'assist the sector to operate effectively within a contestable environment.' The AEU understands that part of the Victorian government's plan is to lift the current student contact hour payment for ACE providers to act as an incentive for ACE to compete for more of the "contestable" funding. While acknowledging the role that the sector plays in education, it is clear that the main reason the government wishes to encourage ACE providers to deliver more of the states training effort is because they have a largely un-unionised workforce and they are therefore considerable cheaper.

While the stated aim of the discussion paper is to "facilitate public debate" this is virtually impossible because the Victorian government has neglected to include in the paper any detail of the considerable work that has already been done around their proposed reforms.

Broadly, the AEU understands that the scope of the reforms include progressive moves to full contestability of all government funding of VET within three years and the implementation of an income contingent or deferred loan scheme along the line of HECS or FEE HELP. Critical to the reforms are the renewed focus on the ACFE sector, largely because it is a cheaper provider, and increased contribution to the cost of the deliver by individual students. Despite the report arguing that 'industry will have access to as many government supported places as they can generate demand for', and explaining in detail the need for individuals to make a greater contribution to their training because they benefit so much from it (p14) the report makes no mention whatsoever of strategies to increase industry's contribution to the cost of the training which they will have unfettered access to.

The Victorian report is about driving down the cost of delivery to the government, and shifting the cost to students and individuals through increasing competition and contestability. It is also about undermining the working conditions of TAFE teachers by blatantly attempting to shift vocational education and training effort into the largely unionised ACE and private RTO sector. Public TAFE providers simply cannot compete on price with these sectors.

**Skilling Australia's Workforce 2005-08 Mid-Term Review – Boston Consulting Group 22 October 2007 (the BCG Report)**

Midway through 2007, MCVTE commissioned the Boston Consulting Group to undertake a mid-term review of the Skilling Australia Workforce Agreement, in preparation for the development of the next agreement.

The Executive Summary of the report argues:

The end of the SAW Agreement in 2008 offers a real opportunity to lay the foundations for very significant reform in the VET sector. A multilateral process, possibly supported by CoAG, could be used to commit to the development of a national competitive market, supported by the division of Federal and State Government purchasing responsibilities and therefore reducing reliance on a Specific Purpose Payment such as the SAW Agreement to drive change.

The BCG Report contains ten key recommendations. The critical ones for the future of the public TAFE system are:

- The Commonwealth and the State/Territory Governments should agree – potentially as part of the CoAG negotiations – on the creation of a competitive national market for VET as a key goal of the next agreement.
- The Commonwealth and the State/Territory Governments should minimize reliance on Specific Purpose Payment by agreeing on an appropriate division of purchasing responsibilities in VET with the Commonwealth taking accountability for purchasing training in agreed areas of responsibility.
- All governments should work towards the development of a short targeted multilateral agreement linked to a portion of Commonwealth funding that provides the framework for a nationally consistent regulatory regime and a competitive national market in VET.
- To provide the basis for genuinely competitive purchasing arrangements, the State/Territories should clearly separate their roles as purchasers of VET and owners of VET providers and provide for more arms length governance arrangements for owned providers.
- The Commonwealth should negotiate with each State/Territory a separate bilateral agreement that covers the remaining Commonwealth funding, formalizes the division of responsibilities in VET and defines that jurisdiction's specific objectives, funding and administrative arrangements. The Commonwealth could consider including in some bilateral agreements the delegation of its purchasing responsibilities to states/Territories where sufficiently competitive purchasing arrangements are in place. The bilateral agreements should provide a consistent framework with streamlined reporting arrangements covering the breadth of VET programs in each jurisdiction, but with the flexibility to adapt each year as needs change.

- Governments should, over time increase the proportion of funding that is truly contestable among public, private, community, local or interstate providers.
- Governments should move to a system that allows part funding of selected training places (as well as full funding of others) supported by industry and employer investment and FEE-HELP loans, to better reflect the balance between public and private benefit.

The Report also argues that:

National Competition Policy competitive neutrality principles aim to remove the unfair advantages of public ownership such as exemption from taxes, lower costs of finance, due to government guarantees, and exemption from regulations affecting private sector activity. The principles also remove the impediment to efficient resource allocation that arises from the regulatory advantage of government owned businesses. (p22)

The Report recommend that these broad principles be operationalised by “allowing providers to compete fairly for all contestable funds and to operate across Australia without additional costs or barriers to entry”; and that the capital competitive advantage of TAFE be neutralised by “corporatising current publicly owned VET capital, or where this is not pursued, operate capital charging arrangements (in order to promote fair funding arrangements between public and private providers)”.

It is instructive to pull out some of the statements in the paper which form the rationale for the recommendations listed above. These include:

... flexibility is sometimes limited by work practices, industrial conditions and culture. For public providers in particular, a lack of autonomy can slow responses to changing demands, and a failure to provide incentives (eg, the ability to retain and re-invest surpluses) can discourage responses to industry and community needs. (p13)

And a direct quote from a TAFE Institute Chairman:

We have currently hit a glass ceiling in terms of agility and flexibility due to the current award. The old schools type institution with school holidays and Friday afternoon downtime is just not our business anymore. Our clients are working so why not us? I don't care about individual agreements, but we do need an EBA with more flexibility built in. (p13)

### **Skilling Australia for the future – Discussion paper – Commonwealth, April 2008**

The ALP announced its Skilling Australia for the future policy during the election. The policy announced the delivery of 820,000 additional VET places over the next six years, with 450,000 to be delivered over the next four. The policy overview says:

The new places will be delivered in a comprehensively reformed system which meets the concerns of industry groups such as the Australian Chamber of Commerce and Industry (ACCI) who have called for a more responsive training system.(p1)

In the section of the report which details the funding for the new places, the policy says:

This will be negotiated (the 40% contribution from States/territories) as part of the next Commonwealth–State Agreement for Skilling Australia’s Workforce. (Ironic that the ALP should continue to refer to the Commonwealth State Agreement by the name given it by the Howard government through the legislation which imposed a set of draconian industrial requirements on the states including AWAs) (p12)

Later in the policy document, immediately preceding a comment that “Labor will not pursue ideologically driven changes to public private or corporate status of institutes such as TAFE”, the paper claims:

Competition for industry-held places will drive TAFE to become more entrepreneurial in identifying and responding proactively to future demands in workplaces. (p16)

Under a section which is called “Continuity with the current system”, the following is listed as a fourth key element of an industry led approach in the existing national framework:

A Rudd Labor government will act to promote effective competition between public and private, profit and not for profit training providers. (p17)

At no stage does the paper say explicitly that the ALP intends to make the 450,000 or the 820,000 fully contestable, even though it could be argued that this is implicit in the paper. It is difficult therefore for the ALP to argue, as it has done, that it has a mandate for this process. More significantly, however, it is difficult to argue that what has followed, in the Skilling Australia for the future discussion paper, is anything other than an ideologically-driven, marketised approach to the delivery of government VET funding.

By the time the Skilling Australia discussion paper has been written, the ALP is much less coy.

The discussion paper, conflates the so-called “demand-driven system” with the need for greater competition:

The current training system is highly centralized, with state-run TAFEs dominating the market and government funding delivered primarily to these and other public institutions (p2)

In arguing that a demand-driven system provides incentives for providers to be flexible and innovative, the paper argues:

Introducing greater competition into the training system, including contestability for government funding, and providing public institutions with the flexibility to compete, will ensure that training providers are better able to respond to industry and employer needs. (p2)

Ominously, in discussing the funding mechanisms for the productivity places, the paper argues that the states and territories will provide 40% funding for these places “through a new model for Commonwealth and State and Territory cooperation”. Boston Consulting advocates the use of Commonwealth funds to drive the reform process with the states, in the context of the next Commonwealth–State funding agreement. This in much the same way as the Howard government used its funding through the Skilling Australia’s Workforce Agreement to attempt to implement its IR agenda. The Rudd Labor government has pursued a narrow, neo-liberal ideological approach in its allocation of the Productivity Places, and given the fact that the BCG report advocates using Commonwealth funds to drive competition and contestability in the states and territories VET system, it will be interesting to see the substance of the next Commonwealth State agreement.