



Australian Education Union

Submission

to the

**Productivity Commission Inquiry into Human
Services Reform**

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Preamble

The Australian Education Union (AEU) is an organisation of employees registered under the provisions of the Fair Work (Registered Organisations) Act 2009. It represents the industrial and professional interests of more than 180,000 working Australians employed in government schools and public early childhood work locations, in TAFE and other public institutions of vocational education, in Adult Multicultural or Migrant Education Service centres, in Corrections Education settings and in Disability Services centres as teachers, school leaders, and education assistance and support workers.

The AEU welcomes the opportunity to provide a written submission in response to the Issues Paper published in June 2016 by the Productivity Commission following a reference by the Commonwealth Treasurer in April 2016. The reference arises from the Australian Government response to and support for (December 2015) the recommendations contained in the Final Report of the Competition Policy Review (The Harper Review) in March 2015.

The AEU endorses the submissions made by the ACTU in response to the Issues Paper.

In relation to human services, the Harper Review recommended that each Australian government should adopt choice and competition principles in the domain of human services through according user choice a central role, separating the policy/funding, regulation and provider roles of government, focussing on outcomes, encouraging a diversity of providers and ensuring or maintaining minimum standards of quality and access (Recommendation 1). In relation to government provision of human services, the Harper Review recommended reviewing, updating and reporting on compliance with competitive neutrality principles (Recommendations 15, 16 & 17).

It is self-evidently clear from the Inquiry's Terms of Reference that the Productivity Commission is not being tasked with assessing the utility of markets or market mechanisms in the provision of human services. Its role is constrained, initially, to identifying which sectors or sub-sectors of human services are best suited to the introduction of greater competition, contestability and informed user choice and, subsequently, to advising on how this might best be achieved.

The AEU submits that this deliberate constraint represents a wasted opportunity to re-assess the evidence concerning that sub-sector of human services which provides education & training.

To the extent that competition, contestability and user choice have been introduced into the education and training sub-sector, the evidence shows the effects have been disastrous. This is so whether the criteria used to assess that evidence is quality, equity, efficiency, accountability or responsiveness.

The position that the AEU advances, having assessed the evidence, is that it is not a matter of ‘tweaking the design’ so as to increase or improve market operations. Rather, use of market/s as such to provide education and training is inappropriate and does not work.

Early childhood education and care, school education and vocational education and training are not suitable human services sectors for any increased use of competition, contestability or user choice.

The AEU details below some examples and evidence of the inappropriateness of and/or failure in the operation of competition principles in the area of government funding or provision of education & training services.

Education Generally

Australia has 6 states and 2 territories. In each there is government, catholic and ‘independent’ provision of education at pre-school, school and Technical & Further Education or Vocational Education & Training levels. Within the catholic and independent sectors, there are both large or systemic providers and ‘single purpose’ or individual/small groups of providers. Consequently, there are at the very least, 24 and in the order of 80 different ‘systems’ of education. Governments provide substantial funding to them all.

There are some 9,000 pre-school providers, some 6,639 government schools, 1737 Catholic schools, 1028 independent schools, and some 4557 registered training organisations.¹

The AEU’s experience is in the area of government provision of early childhood education and care, school education and technical, further and vocational education and training.

¹ Commonwealth Department of Education & Training, *National Early Childhood Education and Care Workforce Census*, May 2013, Table 5.1

(https://docs.education.gov.au/system/files/doc/other/nwc_national_report_final_0.pdf)

(Note: the more recent ABS Cat 4240.0 - *Preschool Education, Australia, 2015* puts the figure at nearly 11,000 pre-school service providers. If the sector is expanded to include all approved child care providers, the number of providers reaches just over 17,000 - Commonwealth Department of Education & Training, *Early Childhood & Child Care in Summary, June Quarter 2015*, Table 13;

(https://docs.education.gov.au/system/files/doc/other/eccc_in_summary_june_quarter_2015_0.pdf); ABS, *Schools 2015*, Cat 4221, Table 31a; Australian Skills & Qualifications Authority, *Annual Report, 2014-2015*, p20 (http://www.asqa.gov.au/verve/_resources/ASQA_Annual_Report_2014-15.pdf)

In summary that experience indicates that:

- there should not be a separation between funder and provider of service delivery;
- there should be no privatisation or corporatisation;
- competitive neutrality policy has been disastrous where it has been introduced (primarily in Vocational Education and Training or VET);
- open, competitive markets do not and cannot work effectively in the provision of education; and
- to the extent that competition, contestability or user choice has been introduced into education delivery in early childhood, school or VET, its consequences have either been disastrous or counter-productive to public policy objectives.

Even a cursory glance across the literature and evidence yields the following conclusions:

- education & training outcomes decline or stagnate;
- costs to the consumer (whether student, family or industry) only ever increase;
- accountability and responsiveness become less publically transparent with cost-shifting and transaction cost increases and rise in provider 'rent-seeking' behaviour;
- discontinuation of courses and closure of centres, schools or colleges and campuses causes personal, familial, community and social dislocation and increased social costs;
- issues of access and equity arise for families of pre-school age children, for students in regional, rural & remote localities, from Indigenous, other culturally and linguistically diverse backgrounds, from lower socio economic backgrounds and for those students and workers seeking further education or training or re-entering, or being made redundant from, the workforce;
- there is increased segmentation or social stratification in provision of education within or between areas and social groupings of higher and lower socio-economic status; and
- the Australian community increasingly is risking not producing the appropriately educated and skilled citizenry and work force needed for informed participation in the civil society of the 21st century.

Early Childhood Education & Care

As noted above, there are a vast number of pre-school providers and the number expands considerably if the entire child care sector is considered. The sector is characterised also by a very considerable diversity in service provider models. There are Long Day Care centres, Family Day and In-home Care, Occasional Care and Outside School Hours Care and pre-schools or kindergartens. They can be run by state, territory or local governments, not-for-profit community organisations, local committees of management or incorporated associations and for-profit corporations.

In the sector, the operation of competition, contestability and user choice principles is self-evident and very extensive. It is also a sector where the workforce is highly feminised and where wages are predominantly lower than those elsewhere and where the patterns of employment are largely part-time or casual.²

The sector has grown very considerably since the 1970s and continues to grow. Federal Department of Education & Training figures for the June Quarter 2015 indicate some 31% of all children aged 0-12 and between 33% & 65% of all families were using some form of approved childcare – an increase of some 5.4% and 4.4% respectively on the same quarter in the previous year and the vast majority of service providers are located in the mainland Australian seaboard states.³ But too many continue to miss out.

It is now virtually universally accepted that access to high quality early childhood education and care results in better outcomes for the child/student educationally, personally, economically and socially. Access to affordable, high quality early childhood and care also parallels and facilitates increased workforce participation for parents, especially women, with all the attendant social and economic benefits. There are better outcomes socially and economically for society at large.

Acknowledgement of this in the Australian context has seen all governments endorse a National Quality Framework for Early Education and Care; all jurisdictions adopt an Education and Care Services National Law & Regulations and all jurisdictions moving towards providing all children with universal access to a minimum standard of early child education in the year before they commence school.

However, as the OECD makes the point:

*Sustained public funding is critical for supporting the growth and quality of early childhood education programmes.*⁴

There are a range of indicators showing that Australia faces very significant issues in this regard.

- About 45% of Australian children are enrolled in early childhood educational development programmes in public institutions compared to an OECD average of about 55%.⁵
- Government pre-schools constitute about 18% of all pre-school providers with Long Day Care Centres providing pre-school programmes constituting about 60%.⁶

² Productivity Commission (2011), *Early Childhood Development Workforce, Research Report*, Melbourne, pp xxviii & 63ff. (<http://www.pc.gov.au/inquiries/completed/education-workforce-early-childhood/report/early-childhood-report.pdf>)

³ Commonwealth Department of Education and Training, (2015), *Early Childhood and Child Care in Summary*, pp3 & 6, 10.

⁴ OECD (2015), *Education at a Glance 2015: OECD Indicators*, OECD Publishing. (<http://dx.doi.org/10.1787/eag-2015-en>), p328

⁵ Ibid, p327.

⁶ ABS Cat 4240.0 - *Preschool Education, Australia, 2015*, Expanded Key Findings, p9

- The proportion of all expenditure on early childhood education as a percentage of GDP is about half (0.4%) in Australia against an OECD average of 0.8%.⁷
- The proportion of this expenditure coming from all public sources in Australia is about 21% whereas the OECD average is 78%.⁸
- Fees only ever increase.⁹

The burden of these expenditure costs falls unevenly depending on income. Even in the privatised sector of Long Day Care, out of pocket expenses are higher for the lower income levels than they are for higher income levels. They are also higher even after taking into account the effect of government subsidies.¹⁰

In the words of the authors of the recently released *HILDA Report*:

“While government subsidies for child care are significant, there is little doubt that access to affordable and high quality childcare looms large in the minds of many parents with young children.”¹¹

International research on quality and equity consistently supports this proposition. As far back as 2009 a research report for the European Commission found that:

Private for profit ECEC services are variable but tend to offer the lowest quality services in all countries where they have been investigated. Private for profit provision may exacerbate social stratification.¹²

A Key Point from the 2014 Productivity Commission Inquiry Report into Childcare and Early Childhood Learning found that despite the very substantial increase in number of providers and the very substantial increase in Australian Government assistance programs, the consumer (i.e. parents) still found difficulty in accessing Early Childhood Education & Care at a location, price, quality and hours that they wanted.¹³

⁷ OECD (2015), *Education at a Glance 2015*, op cit, fn 4, p335

⁸ Ibid.

⁹ In the order of 4% pa. See Commonwealth Department of Education and Training, (2015), *Early Childhood and Child Care in Summary*, p11.

¹⁰ From 26.4% to 43.7% for Gross Family Income streams below \$95,000 pa compared to 16.5% to 13.9% for those streams above \$175,000 pa. See Commonwealth Department of Education and Training, (2015), *Early Childhood and Child Care in Summary*, p13. If median share of income spent on child care is used rather than out-of-pocket expenses, families in the lower 40% spend significantly more proportionally than those in the upper 60%. See the Household, Income & Labour Dynamics in Australia Survey, (2016), *Select Findings from Waves 1-14*, Figure 2.3, p13.

(https://www.melbourneinstitute.com/downloads/hilda/Stat_Report/statreport_2016.pdf)

¹¹ the Household, Income & Labour Dynamics in Australia Survey, (2016), *Select Findings from Waves 1-14*, p10.

¹² Penn, H and NESSE Network of Experts, (2009). *Early Childhood Education and Care Key Lessons from Research for Policy Makers. An independent report submitted to the European Commission by the NESSE networks of experts*, p.7. <http://www.nesse.fr/nesse/activities/reports/eccec-report-pdf>

¹³ Productivity Commission (2014), *Inquiry Report on Childcare & Early Childhood Learning*, Vol 1., p2 (<http://www.pc.gov.au/inquiries/completed/childcare/report/childcare-volume1.pdf>)

In the light of this evidence it is apparent that the use of competition, contestability and user choice has not worked to ensure the availability and accessibility of high quality early childhood education and care for all Australians who require it. It is clearly an example of continuing market failure and government interventions would be better directed to actually providing such services rather than to subsidising service providers.

School Education

In school education, competition between providers in the sense of competing for student enrolments or competing for increased allocations of funds whether from public or private sources is an inefficient mechanism which results in ‘winners and losers’ when the public policy objective, and the net public benefit, is determined by improvement in student outcomes and in the quality of school and system performance.

The OECD has warned that competition between schools can have a negative effect on equality of outcomes. In *Equity and Quality in Education – Supporting Disadvantaged Students and Schools* (February 2012), the OECD states:

“School choice advocates often argue that the introduction of market mechanisms in education allows equal access to high quality schooling for all...However evidence does not support these perceptions, as choice and associated market mechanisms can enhance segregation” (p64).

The OECD has also published a major analytical review of the research evidence concerning the introduction of market mechanisms, including competition, in countries across the world over the last 2-3 decades. One of the report’s many conclusions was:

“There is little evidence that the introduction of market mechanisms in education is more effective in reaching the “hard core of education” than other policies are.”

It is highly significant that the ‘hard core’ was defined as improvement in student outcomes.¹⁴

In the Australian context, the competitive approach – or the competition model – simply neglects the purposes or goals of Australian schooling. These have been agreed and enunciated by successive governments at all levels and all political persuasions: in the 1989 Hobart Declaration, the 1999 Adelaide Declaration and most recently in the 2008 Melbourne Declaration on Education Goals for Young Australians.

¹⁴ Waslander, S., C. Pater and M. van der Weide (2010), *Markets in Education: An Analytical Review of Empirical Research on Market Mechanisms in Education*, OECD Education Working Papers No. 52, OECD Publishing, p68 (<http://dx.doi.org/10.1787/5km4pskmkr27-en>)

These goals are:

- 1) that Australian schooling promotes equity and excellence; and
- 2) that all young Australians become:
 - successful learners;
 - confident and creative individuals; and
 - active and informed citizens.

The Melbourne Declaration commits all Australian Education Ministers to achieving the highest possible levels of collaboration with government, Catholic and independent school sectors and across and between all levels of government with the engagement of all stakeholders in the education of young Australians.

While it may be the guiding principle or assumption of some economic theories that more competition between schools will enhance the quality of education offered to the community, the AEU is not alone in its assessment of the evidence that excellent outcomes in education is not conditional upon a competitive educational environment.

In its *PISA 2009 Results: Executive Summary*, the OECD concludes:

“...countries that create a more competitive environment in which many schools compete for students do not systematically produce better results” (p. 15).

In its analysis of the PISA 2012 results, the OECD Report, *What Makes Schools Successful: Resources, Policies & Practices* (Vol 4, p17) notes further:

“High-performing countries and economies tend to allocate resources more equitably across socio-economically advantaged and disadvantaged schools. That said, PISA results show that in many school systems, resources are not allocated equitably: On average across OECD countries, while disadvantaged schools tend to have smaller classes, they tend to be more likely to suffer from teacher shortages, and shortages or inadequacy of educational materials and physical infrastructures than advantaged schools.”

In analysing Australia’s schooling performance across the three major international student test programmes (PISA, TIMSS & PIRLS), the Australian Council for Educational Research infers that countries’ policies which increase the gap between advantaged and disadvantaged students correlate with poorer or declining results and targeting resources to lift the performance of disadvantaged students would improve performance generally. It concludes:

“Clearly, it is possible to achieve excellence and equity in a school system”

(See ACER, *Snapshots: Global Assessment/Local Impact*, Issue 2 Nov 2013, p3.)

Extending the operation of competition policies more generally into the area of government service provision cannot guarantee more equitable distribution of resources. And more importantly the operation of competitive markets does not allow for the targeting of more resources to those areas where they are needed most.

In light of the evidence, including from the influential OECD studies to which we have referred, the AEU would particularly caution against extending the use of market mechanism, particularly, competition, contestability and informed user choice.

For an analytical study reviewing the evidence in relation to school education both nationally and internationally and a conclusion concerning the failed operation of market mechanisms, the Productivity Commission is referred to Jensen, B., Weidemann, B., and Farmer, J., 2013, *The Myth of Markets in Education*, Grattan Institute.

These authors find, interestingly in relation to both government and private provision of school education, that:

The structure of school education and the failures in the market are too great ... (competition) is just not a viable way of increasing the performance of school systems. (p35)

In relation to user choice and competition between school education providers, the Commission is referred to quite recent analyses by the OECD which show the relationship between school choice and student performance to be weak and that higher levels of competition amongst schools gives rise to lower levels of social inclusion.¹⁵

In school education, Australia already has a competitive market characterised by increasing user choice. But its schools are also characterised by a narrower socio-economic mix than schools in other OECD countries and that mix is narrowing further over time. Government schools enrol more students from lower socio-economic backgrounds than non-government schools and higher proportions of students from lower socio-economic backgrounds perform lower on international tests of student achievement.¹⁶

¹⁵ See OECD, *When is Competition between schools beneficial?* PISA in Focus No 42, August 2014. [http://www.oecd.org/pisa/pisaproducts/pisainfocus/PISA-in-Focus-N42-\(eng\)-FINAL.pdf](http://www.oecd.org/pisa/pisaproducts/pisainfocus/PISA-in-Focus-N42-(eng)-FINAL.pdf). More detailed analysis of low performance amongst 15 yr old school students can be found in OECD (2016), "Executive Summary", in *Low-Performing Students: Why They Fall Behind and How To Help Them Succeed*, OECD Publishing, Paris. DOI: <http://dx.doi.org/10.1787/9789264250246-2-en> This analysis strongly suggests that policies such as equity in resource allocation, higher social inclusion indices & greater school responsibility for curriculum and assessment are more likely to positively affect student performance than increasing school competition (p27).

¹⁶ Nous Group, (2011), *Schooling Challenges & Opportunities: A Report for the Review of Funding For School Panel*, Melbourne Graduate School of Education, Melbourne, pp 20, 109 (http://apo.org.au/files/Resource/nous-schoolingchallengesandopportunities_2011.pdf); Preston, B., (2013), *The Social Make-up of Schools*, Barbara Preston Research, Canberra, p6 (<http://www.barbaraprestonresearch.com.au/wp-content/uploads/2013-BPreston-Report-for-AEU-Social-make-up-of-schools-.pdf>)

It is students from these backgrounds that disproportionately miss out in preparation or readiness for schooling, in the middle & senior school years and in the transition from school to further education and training.¹⁷

Increase in user choice in schools coincides with declining student performance, increases in social segregation and favours particular kinds of families and their students.¹⁸

School funding policies have seen greater proportions of public funds allocated to private, i.e. non-government, schools with public schools increasingly residualised and becoming the 'default choice' for the disadvantaged. Such funding policies are ultimately inefficient mechanisms for the allocation of resources as they are allocating more resources to those that need it less and then compensating for this by spending more on the resulting inequity. Effectively the public is paying twice – to provide more students to private schools and to provide more compensation to the weakened public schools.¹⁹

Australia's declining levels of comparative student achievement, especially at the top end, its significant gap between its highest and lowest performing students and the link between low levels of achievements and educational disadvantage particularly among those from low socio-economic or Indigenous backgrounds pose significant risks not only to individual health, well-being, employment and earnings or to social inclusion but also to Australia's capacity to participate in a dynamic and globalised world.²⁰

Rather than promoting increased competition for students between schools, increasing competition between consumers and providers for government funding or the increased use of putative or quasi markets through the perceived threat of increasing parental choice between schools, addressing the issues identified above requires priority for resource allocation being accorded to the lowest performing students. The Australian Government's Review of School Funding, 2011 clearly articulated the critical importance of government policy ensuring that differences in educational outcomes are not the result of differences in wealth, income, power or possessions and that all students are educated to an accepted standard regardless of where they live or the school they attend.²¹

¹⁷ Lamb, S, Jackson, J, Walstab, A & Huo, S (2015), *Educational opportunity in Australia 2015: Who succeeds and who misses out*, Centre for International Research on Education Systems, Victoria University, for the Mitchell Institute, Melbourne, pp v-vii. (<http://www.mitchellinstitute.org.au/reports/educational-opportunity-in-australia-2015-who-succeeds-and-who-misses-out/>)

¹⁸ Bentley, T. and Cazaly, C. (2015). *The shared work of learning: Lifting educational achievement through collaboration*. Mitchell Institute research report No. 01/2015. Mitchell Institute for Health and Education Policy and the Centre for Strategic Education, Melbourne, pp1-2 (<http://www.mitchellinstitute.org.au/reports/the-shared-work-of-learning/>); Proctor, H. & Aitchison, C (2015), *Markets in Education :School Choice and Family Capital*, in Meagher, G., & Goodwin, S., (eds), (2015), *Markets, Rights & Power in Australia Social Policy*, Sydney University Press, Sydney, p336

¹⁹ Teese, R., (2011) *From Opportunity to Outcomes: The changing role of public schooling in Australia and national funding arrangements*, Centre for Research on Education Systems, Melbourne Graduate School of Education, University of Melbourne, p12 (http://apo.org.au/files/Resource/from_opportunity_to_outcomes_-_the_changing_role_of_public_schooling_in_australia_and_national_funding_arrangements.pdf)

²⁰ Australian Government, (2011), *Review of Funding for Schooling, Final Report*, p xviii (<https://docs.education.gov.au/system/files/doc/other/review-of-funding-for-schooling-final-report-dec-2011.pdf>)

²¹ Ibid, pp22, 105-106.

Vocational Education and Training

Competition policy principles have also been applied in the vocational education sector. In the area of government or public provision, this is TAFE. Here its application has been inappropriate and the outcomes close to catastrophic.

Throughout the first (1995-2005) and second (2005 – to date) phases of implementation of Competition Policy principles and their incorporation into a National Reform Agenda overseen by the Council of Australian Governments (COAG) and its Reform Council (CRC), governments at federal and state/territory level have increasingly used funding mechanisms to drive the penetration of competition principles. This has been achieved through both legislative means, e.g. the Commonwealth's *Skilling Australia's Workforce Act 2005* and multi-lateral government agreements such as the National Agreement on Skills and Workforce Development (2009-2012 & 2012-2017) and the National Partnership Agreement on Skills Reform (2012-2017).

These mechanisms have required:

- separation of the funding and provider functions of government;
- opening access to government funding to both public and private providers on an open or equal or 'contestable' basis; and
- transferring greater proportions of the cost of provision from the public purse to the private capacity of students and their families. This latter mechanism is augmented by the provision of income contingent loan schemes, e.g. VET Fee-HELP.

The effects of these policies are overwhelmingly evident. They have been documented in recent times in submissions to and/or the reports arising from the Commonwealth Parliament's House of Representatives' inquiries in 2013 and 2014 as well as its Senate inquiry in 2013 into the role of technical and further education and, in 2015, into the operation, regulation and funding of private VET providers.²² Data on the effects, in particular, are provided in AEU submissions to these inquiries. The Commission is referred to these and the AEU urges the Commission to take them into account.

The effects can be summarised:

- Declining levels of government (Commonwealth & State) funding;
- Increased course fees;
- Increased private debt levels for students and their families, especially those experiencing disadvantage and ill-equipped to service or repay that debt;
- Declining capacity for the consumer to access high quality vocational education & training;

²² Commonwealth of Australia, House of Representatives, Standing Committee on Education & Employment, *TAFE: An Australian Asset*, October 2014; Commonwealth of Australia, Senate Education & Employment References Committee, *Technical & Further Education in Australia*, May 2014; Commonwealth of Australia, Senate Education & Employment References Committee, *Getting Our Money's Worth: The operation, regulation & funding of private VET providers in Australia*, October 2015.

- Exponential growth in the number of for-profit VET providers receiving government funding whether directly or indirectly;
- Increase in unethical and unscrupulous business practices;
- Decline in public and industry confidence in VET qualifications;
- Sustained risk to the viability of TAFE as a public provider.

Many of these effects are corroborated in a number of research studies to which the Commission is referred.²³

They reflect the substantial risk associated with current policy directions in VET.

Reviewing the Australian experience of, and the research literature analysing, the creation of a competitive market in the provision of VET through contestability of funding and informed user choice, a recent analysis based on transaction cost economics stresses that the minimum conditions for the ‘contracting out’ of publically funded VET do not exist and that the economic and social consequences of inadequate quality VET provision are potentially severe.²⁴

The Commission is referred to this analysis which describes VET has having unsuitable characteristics for ‘trading’ as a marketable commodity. These characteristics are described as:

- multiple & overlapping objectives or purposes;
- an inability to align VET inputs to the achievement of those objectives;
- no accepted measures of productivity, efficiency or effectiveness;
- no valid or reliable metric for assessing whether VET matches or mismatches labour markets needs;
- difficulties for controlling for quality over time;
- information asymmetries between purchaser & provider and between consumer & provider; and
- opportunism, low barriers to provider entry and perverse incentives for consumers, employers and providers which mitigate against ensuring a high-quality market.²⁵

²³ On Government funding levels for VET see Noonan, P., Burke, G., Wade, A. & Pilcher, S., (2014) *Expenditure on Education & Training in Australia*, Mitchell Institute (<http://www.mitchellinstitute.org.au/reports/expenditure-on-education-and-training-in-australia/>), its *Update & Analysis* by the same authors in August 2015 (<http://www.mitchellinstitute.org.au/reports/expenditure-on-education-and-training-in-australia-update-and-analysis/>) and Noonan, P., (2016) *VET Funding in Australia*, Mitchell Institute (<http://www.mitchellinstitute.org.au/reports/vet-funding-in-australia-background-trends-and-future-options/>); On Australia’s large proportion of relatively small private VET providers, even by international comparisons and, also, the growth in the number of providers accessing the Government VET FEE-HELP scheme, see Korbel, P., & Misko, J., (2016) *VET provider market structures: history, growth & change*, NCVER, Adelaide, pp7-8 (<https://www.ncver.edu.au/publications/publications/all-publications/2871>)

²⁴ Toner, P., (2014) *Contracting-out publically funded vocational education: A transaction cost analysis*, The Economic & Labour Relations Review, vol 25(2) p222.

²⁵ Ibid, pp227-232.

In relation to the ‘rent-seeking’ risk associated with increasing contestability of funding and the increase of government funding of private provision in the VET sector, the commission is referred to Yu, S., & Oliver, D., (2015) *The Capture of Public Wealth by the For-Profit VET Sector*, Workplace Research Centre, the University of Sydney. In this sector where government policy has favoured increased competition, contestability and user choice, this research demonstrates effects such as the massive transfer of wealth from the taxpayer to ‘for profit’ providers, the significant undermining of vocational qualifications, the exploitation of ‘consumers’ especially those from disadvantaged backgrounds and the inability of regulation to control for such undesirable outcomes.²⁶

The effects of these policies are also reflected in the statistical databases established for national data collections by the National Centre for Vocational Education Research (NCVER). These effects include:

- The number of government funded VET students is lower in 2015 than it was in 2003 and, since 2014, this decline is evident across all provider types. (NCVER, Government-funded Students & Courses 2015 – Tables 1 & 9. There is also a decline in government funded subject enrolments, hours of delivery and all qualification (other than Certificate 3) completions between 2011 and 2014/15. (Tables 14 & 15).
- There are significantly less people in training (apprentices and trainees) in December 2015 than there were in December 2010 and this trend also occurs for commencements and completions. (NCVER, Apprentices & Trainees, 2015, December Quarter – Tables 2, 3 & 4 respectively).²⁷

The National Partnership Agreement on Skills Reform, referred to above, set 4 outcomes to be achieved in seeking improvement to the VET system so that it would deliver a productive and highly skilled workforce contributing to Australia’s economic future and enabling all working age Australians to develop the skills and qualifications needed to participate effectively in the labour market.

These outcomes were:

1. more accessible training for working age Australians and, in particular, a more equitable training system, which provides greater opportunities for participation in education and training;
2. a more transparent VET sector, which enables better understanding of the VET activity that is occurring in each jurisdiction;
3. a higher quality VET sector, which delivers learning experiences and qualifications that are relevant to individuals, employers and industry;
4. a more efficient VET sector, which is responsive to the needs of students, employers and industry.²⁸

²⁶ Yu, S., & Oliver, D., (2015) *The Capture of Public Wealth by the For-Profit VET Sector*, Workplace Research Centre, The University of Sydney, pp4-5

<http://www.aeufederal.org.au/application/files/9614/3315/0486/WRCAEU2015.pdf>

²⁷ These NCVER publications are available at: <https://www.ncver.edu.au/publications/all-publications/2872> and <https://www.ncver.edu.au/data/assets/file/0032/57992/apprentices-and-trainees-dec-qtr-2015-2863.pdf> respectively.

²⁸ National Partnership Agreement on Skills Reform, p5.

However, in what amounts to a fairly scathing account of the Agreement's achievements, the report commissioned by both Commonwealth and State governments reviewing the Agreement found:

- There is moderately strong evidence to conclude that the outcomes of accessibility and choice have increased since the baseline years of 2008-2009. In recent years, however, growth in a number of relevant indicators has been negative, including in the total number of courses available. (Key Finding 1 on Accessibility)
- Although all jurisdictions have made material investments in the development and provision of consumer information, further attention is required in relation to information on quality, price, and entitlement limitations in order to improve the transparency of the VET sector (Key Finding 2 on Transparency)
- There is strong evidence that the growth of training throughout the NP has been accompanied by significant quality issues related to provider practices. (Key Finding 3 on Quality)²⁹

These findings are reinforced by observations the Report makes on student satisfaction (derived from the Student Outcome Survey) and on employer views on the VET market.

On student outcomes/satisfaction, the report noted:

The fact that all providers have also seen varying degrees of falls in student ratings is a general issue. The fact that providers other than public providers generally declined in terms of student satisfaction is of particular concern given that one of the objectives of the NP is to promote greater innovation and responsiveness to the needs of students, and to increase competition in the market for VET. Whether or not these results are driven by implementation of entitlement models, or pre-date implementation, is unclear. However, the conclusion remains the same: using student satisfaction and student outcomes as a proxy for quality, there appears to have been deterioration in quality among the part of the sector that the NP has sought to grow.

And on employer satisfaction, it says:

Employer satisfaction with training as a job requirement ... has declined slightly across Australia since 2009. This reduction in employer satisfaction warrants careful monitoring, given the important role of industry and employers in identifying and raising the quality of training provision ... While the gradual reduction in satisfaction reversed somewhat between 2013 and 2015 for apprentices and trainees and nationally recognised training, for vocational qualifications the downward trend has continued ... satisfaction with apprentice and trainee training is low, relative to nationally recognised and unaccredited training and that, aside from apprentice and trainee training, satisfaction with training undertaken at TAFE is higher than that undertaken at private providers.³⁰

²⁹ ACIL Allen Consulting, *Review of the National Partnership Agreement on Skills Reform*, Final Report to the Commonwealth, States and Territories, 21 December 2015, pp iii-iv.

(https://docs.education.gov.au/system/files/doc/other/final_report_npa_review.pdf)

³⁰ Ibid, pp 41 & 43.

VET FEE-HELP

The VET FEE-HELP scheme can be examined as exemplary of why mechanisms of competition, contestability and informed user choice have not and cannot work in education.

The scheme is currently the subject of federal government departmental investigation and has been subject to major reviews and alteration in its design and regulation since it commenced operation in 2009.³¹ The Commission is referred to these Reviews and especially the AEU submission to the current investigation.³²

An income contingent loan scheme (of which VET FEE-HELP is an example) and a national entitlement to training (irrespective of provider) were two mechanisms chosen to increase entry to the market of an increasing diversity of provider and, ostensibly, to encourage greater ‘take-up’ of higher levels of VET qualifications.

Legislation for an income contingent loan scheme in the Australian vocational education system was first introduced into parliament in late 2007 by the Howard government, but with bipartisan support, as part of the HELP suite of student loans. VET FEE-HELP was legislated in 2008, and first used by providers in 2009. Conditions of access to the VET FEE-HELP scheme were weakened in the lead up to the negotiations for the *2012 National Agreement on Skills and Workforce Development*, and its introduction into the Australian VET system was one of the structural reforms required of states and territories to achieve the “reform directions” in the agreements. Introducing a national training entitlement (the National Entitlement) and increasing the take-up of income contingent loans (VET FEE-HELP) were two aspects of the reform process which the then government argued would improve accessibility, affordability and depth of skills in the system.

The rapid growth of the VET FEE-HELP scheme, especially since 2012, has seen it expand from 5,262 places in 2009 to 272,000 in 2015. This is a 50-fold increase³³. In 2009, the first year of its operation, \$26m was borrowed, and this grew rapidly to more than \$2.9b in 2015.³⁴ Total recurrent government expenditure on vocational education and training (excluding VET FEE-HELP) was \$5.2b in 2014.³⁵ VET FEE-HELP funding in 2014 was \$1.7billion – equivalent to the amount the Commonwealth outlaid through payments to the states for VET funding delivery (\$1.6 billion) in that same year.³⁶

³¹ For the current investigation, see Australian Government, (2016), *Redesigning VET FEE-HELP: Discussion Paper* (https://docs.education.gov.au/system/files/doc/other/redesigning_vet_fee-help_-_discussion_paper_0_0.pdf); there was a Post Implementation Review of the VET FEE-HELP Assistance Scheme, see Final Report – 30 September 2011; and the *Review of the National Partnership Agreement on Skills Reform*; see above fn 29.

³² AEU submission available on request.

³³ *Redesigning VET FEE-HELP: Discussion Paper*, op cit, fn 31, p.14

³⁴ Ibid, p.15

³⁵ Source: Steering Committee for the Review of Government Service Provision, *Report on Government Services 2016*, Table 5A.10

³⁶ Peter Noonan, (March 2016), *TAFE Futures*, Issue 1, p9. TAFE Directors Australia (http://www.tda.edu.au/resources/TDA095_A3_Quarterly_newsletter_V9_FILM_WEB.pdf)

The impact of VET FEE-HELP funding on the sector is very significant. Increases in total operating revenues by states, territories and the Commonwealth for Government funded VET from 2012 and onwards are attributable to the expansion of the VET FEE-HELP program.³⁷With the vast majority of the overall percentage share allocated to private providers.³⁸

As the Discussion Paper³⁹ in the federal government's current investigation shows, in the VET FEE-HELP scheme's relatively short history, far from leading to a more accessible and equitable VET system, it has resulted in:

- The targeting of vulnerable people through cold calling or door knocking of neighbourhoods of low socio-economic status (p14).
- Rapid and unsustainable growth, as a result of VET FEE-HELP in public borrowings in the HELP scheme (p15).
- Evidence that a large proportion of VET FEE-HELP loans are not expected to be repaid (p15).
- Significantly lower completion rates for VET FEE-HELP courses compared with the VET sector as a whole (p19).
- Evidence that the persistently lower completion rates amongst VET FEE-HELP students contributes to their reduced earnings potential, and therefore their capacity to repay (p16).
- Significant increases in the cost of courses as a consequence of VET FEE-HELP, and therefore of higher debt to students (p16).
- The cost of courses with access to VET FEE-HELP having no connection with the true cost of delivery (p17).
- Significantly higher course cost for students accessing VET FEE-HELP, than those accessing a state or territory subsidised programme for the same qualification (p17).
- Evidence that providers target disadvantaged students - disadvantaged students accrue higher fees and debts compared to their non-disadvantaged counterparts, particularly Indigenous and low SES students (p18).

These clear features of failure - massive budget blow-outs, appallingly low completion rates for qualifications, rapid and unconscionable increases in student fees, unsustainable rates of, and predicted growth rate in, "doubtful debt" – show that the policy setting of support for user pay funding models itself is a failure and that it is impossible to fix the problems of market design with more market design.

The evidence is clear that there is no warrant for identifying the VET sector as suitable for further use of competition, contestability or informed user choice.

³⁷ NCVER, (2016) *Trends in public and private VET provision: participation, finances and outcomes*, a consultancy report for TAFE Directors Australia, pp 101-102 (http://www.tda.edu.au/cb_pages/files/Trends-in-public-and-private-VET.pdf)

³⁸ Ibid, p107.

³⁹ See above fn 31. Page references are to this Discussion Paper.

CONCLUSION

The encouragement of greater competition, contestability and user choice – features of a ‘quasi-market’ - amongst an increasing number of providers of education does not result in net public benefit. There is no direct causal link between these mechanisms and innovation in education provision.⁴⁰

Markets operate to standardise their products. Diversity has to be distinguished from simply increased number of providers. Diversity relates more to catering for the individual (student or employer) needs of more diverse populations, and providing for more diverse outcomes rather than simply, in the words of a very recent research report, have more providers providing more of the same.⁴¹

Early childhood education and care, school education and vocational education and training are simply too important in human, social and economic terms to be delivered by increasing the penetration of market forces.

⁴⁰ Lubienski, C. (2009), *Do Quasi-markets Foster Innovation in Education? A Comparative Perspective*, OECD Education Working Papers, No. 25, OECD Publishing, Paris, p45.

<http://dx.doi.org/10.1787/221583463325>

⁴¹ Schubert R., Bentley, P.J. and Goedegebuure, L., (July 2016), *Profiling Institutional Diversity Across the Australian VET Sector*, LH Martin Institute, The University of Melbourne, p3
(<http://www.lhmartininstitute.edu.au/documents/publications/lhmi-vet-sector-diversity-briefing-web.pdf>)