
Report on Competitive Tendering in VET : Cheaper is not better

Prepared
for
The NSW Teachers Federation

September 2011

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CENTENNIAL



CONSULTANCY

Corporate & Government Consultants

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EXECUTIVE SUMMARY

The NSW Teachers Federation asked Centennial Consultancy to review the impact on the community of competitive tendering of vocational education and training (VET), with particular attention to recent outsourcing of delivery of the Language, Literacy and Numeracy Program (LLNP).

VET in Australia

- Since 1998 Commonwealth policies to vastly expand the proportion of the Australian population with educational qualifications, including in the area of VET, and to require States and Territories to open up VET to 'competition', have led to substantial changes in the delivery of VET.
- TAFE remains the dominant provider of VET in Australia. According to the National Centre for Vocational Education Research (NCVER) in 2010, 170 TAFEs (and other government providers) enrolled 1.3 million students, while community and other private sector Registered Training Organisations (RTOs) enrolled around 460,000. In 2010, government providers – mainly TAFE – also accounted for around 80 per cent of total student contact hours. In 2009, funding of public VET totalled nearly \$6.8 billion with 76 per cent coming from governments.
- However there are now more than 3,700 private RTOs providing some elements of VET, and an increasing proportion of public funding for VET has been diverted towards private sector providers. A Productivity Commission estimate of 2008 funding was that out of a total of \$4.1 billion of government recurrent funding, private providers received \$455 million (11 per cent).
- An NCVER listing of the recipients of public funding suggests that many are divisions of commercial organisations, or RTOs established to provide training solely for employees of such entities. That suggests that much of the training provided by these bodies is 'job specific', rather than training which is transferable to other workplaces. However this possibility does not appear to have been critically analysed by bodies like the Productivity Commission or the NCVER.
- Some private sector providers that specialise in training have enjoyed substantial revenues from student fees. In 2008 it was estimated that 'fee for service' delivery generated \$991 million to government providers and \$2,075 million to private providers.
- The changes have led to pressure on the TAFE system – with an average increase in enrolments of the publicly-funded system between 2007-10 of 7.3

per cent accompanied by tighter funding, particularly for NSW TAFE which received funding growth between 2005-2009 of 18.1 per cent. This was little more than CPI increases over the same period (15.6 per cent) and far less than the Australian average increase in funding of just under 35 per cent. Funding restrictions have led to increases in class sizes and increases in the workload of teachers. A high percentages of TAFE teachers – 70 per cent (NSW: 75 per cent) – have indicated that their TAFE did not have the capacity to meet industry needs, particularly in the local community. TAFE teachers point to the need for additional resources.

- Private sector providers appear to have focused on the more profitable activities in VET.

Performance of VET providers

Published assessments of the performance of the VET sector have focused on publicly funded providers.

A distinction should be drawn between the use of key performance indicators (KPIs) as a management tool to establish short-term targets that organisations are expected to achieve in light of current policies, and the selection of a suite of performance indicators (PIs) that would provide an indication of the performance of an organisation in meeting its overall objectives.

Published reports on VET performance reflect some confusion about the choice of indicators. For example:

- Some published assessments of the TAFE sector (notably the *Annual National Report of the Australian Vocational Education and Training System 2008* – prepared by DEEWR) have focused on KPIs – and hence have failed to provide data relevant to an assessment of the overall performance of the TAFE system. The following year the *Annual National Report* made no mention of ‘national priorities’. Yet the set of indicators was unchanged, save that one (‘community engagement and satisfaction with VET’) was dropped.
- The Productivity Commission’s *Reports on Government Service Provision* claim to have approached the development of performance indicators by reference to the objectives of VET established under the ‘national strategy for 2004–2010’, i.e.
 - industry will have a highly skilled workforce to support strong performance in the global economy;
 - employers and individuals will be at the centre of vocational education and training;
 - communities and regions will be strengthened economically and socially through learning and employment;

- indigenous Australians will have skills for viable jobs and their learning culture will be shared.

But in practice the Commission's reports do not present a set of indicators that directly relate to these objectives. In part this arises because only limited data relating to 'outcomes' has been collected.

However the main focus of the Commission's reports has been on indicators of *efficiency* – which supposedly relate information about the cost incurred by agencies to the number of units of service delivered.

The manner in which 'efficiency' indicators were selected and calculated by the Commission suggests that it has an agenda of exaggerating the costs of public service provision. In its calculation of costs the Commission has included hypothetical items such as payroll tax (which TAFEs do not pay). Further, the Commission adds its estimate of a notional expense, the 'cost of capital', using a rate of 8 per cent applied to the value of TAFE's investment in properties. From an accounting perspective, no such 'cost of capital' adjustments would be recorded in a government's financial statements – they are purely notional adjustments to costs actually incurred in delivering VET.

The overall effect has been to suggest that VET costs more than it really does in a real world, commercial sense. Possibly this was intended to add weight to arguments favouring the (supposed) savings to be made by outsourcing the delivery of VET to private sector providers.

- Another review of VET performance was undertaken by the Boston Consulting Group (BCG). It largely focused on processes undertaken to develop 'a national approach to the delivery of vocational education and training', and appeared to assume that a 'national approach' could only be secured by establishing a 'national competitive market'. Accordingly, the BCG report was critical of:
 - the extent to which there was 'genuine competition' between providers, noting, for example, that there was a need for the 'absence of barriers to new entrants' – without exploring whether there was a case for some regulatory oversight to ensure that newly-formed private providers had the resources to present quality programs;
 - the lack of flexibility in publicly-owned providers, citing in particular *the lack of uptake of individual workplace contracts ('AWAs or equivalent')*;
 - the lack of flexibility arising from the need for some TAFEs to obtain upstream approval for capital expenditure decisions above a certain threshold (a feature which is common within public sector and many other organisations); and
 - the absence of a separation between funders and providers. BCG did not examine the extent to which adoption of a 'funder-provider' model in some jurisdictions had added to administrative costs;

- the (supposed) difficulty for large employers to find a training provider that can serve their needs in multiple jurisdictions.

Accordingly BCG recommended the establishment of a 'competitive national market for VET', for the States and Territories to separate their roles as funders of VET and 'owners' of TAFEs, and for an increase in the proportion of funding 'that is truly contestable' between public, private, community, local or interstate based providers. These policy recommendations were hardly 'evidence based' – but nevertheless have largely been implemented through COAG.

- Measuring performance has involved surveys focussing on employer satisfaction with VET, and on student satisfaction with their experience with teaching and assessment. The NCVER has also considered student outcomes – considering changes in employment experience before and after training. Arguably the latter is one of the most valid measures of the effectiveness of VET (though it would be affected by economic conditions). Student satisfaction, while of interest, is likely to be closely correlated with student performance in assessments. Employer satisfaction may be closely related to perceptions of the relevance of training to its application in disparate workplaces.
- An overall assessment must of necessity consider not only the scores on a variety of indicators, but also *trends* in those scores.
- Despite the growth in the private provision of VET, most reliable and published information (from NCVER) is limited to *publicly funded* VET. Even this provides only limited data about the performance of TAFEs (with very little information about the performance of the TAFE system's 'competitors' in the delivery of VET, i.e. community or private providers.

Government policies regarding competitive tendering – in general

While under the Australian Constitution responsibility for VET is with the States and Territories, the Commonwealth plays a significant role through funding arrangements and direct program delivery. Co-operation between the various jurisdictions is largely through the Council of Australian Governments (COAG). In November 2008 COAG agreed to the *National Agreement for Skills and Workforce Development*. This Agreement sets out a commitment 'to work towards increasing the skill levels of all Australians, including Indigenous Australians'. The (ever-changing) institutional arrangements arising from this agreement are outlined.

Commonwealth government policy is to vastly expand the proportion of the Australian population with educational qualifications, including in the area of VET, requiring States and Territories to open up VET to 'competition'. The move towards competition in VET began in the late 1990s and has intensified in more recent years.

In short:

- there has been a shift in government policies regarding publicly funded VET, to the promotion of so-called demand-driven and competitive approaches;
- however governments have openly stated that government agencies (TAFEs) still have an essential role because of public interest in the sector's economic and social objectives, and because they play a critical role by investing in areas of 'market failure' (in other words, when private sector operators consider that their involvement would not be profitable). Indeed, COAG recently referred to the 'key role of TAFE' as including the 'delivery of high-cost technical training, encouraging participation of disadvantaged students and offering services in regional and remote areas' (*Communique*, 19 August 2011). In other words, TAFE's role included delivery of relatively high-cost and unprofitable courses;
- the effect of government policies is to allow private providers to engage in cream skimming.

It is noted that in the lead up to the March 2011 NSW election, several current Government Ministers, including the Deputy Premier and the Education Minister, signed pledges of support for the continuing support and investment in TAFE by the NSW Government.

Framework for the consideration of outsourcing proposals

- Outsourcing proposals should be evaluated so that affected parties (be they existing employees, or potential tenderers) can see that the process of evaluation is *systematic, factually based, and free from bias*.
- Such evaluation should consider both financial and quality factors.

Recent research on the merits or otherwise of outsourcing

A review of local research studies highlighted the popularisation of the claim that outsourcing could secure savings of around 20 per cent. However this claim has subsequently been discredited. Research has found that:

- claims about savings from contracting out usually failed to take account of compensation payments to redundant employees, other transaction costs, and subsequent costs of contract supervision;
- in many cases, outsourcing was undertaken in the absence of systematic analysis of costs incurred before or after those decisions to outsource were undertaken;

- public sector agencies have achieved savings from outsourcing (or the threat of outsourcing) in some situations, but not in others;
- any public sector cost savings may be absorbed through greater numbers of management positions and other rewards within an organisation;
- in some cases where cost savings were supposedly enjoyed from outsourcing, those savings were short term, and savings diminished or evaporated when private sector operators renewed their initial contracts.

Some of these studies have confirmed that:

- improvements in efficiency and effectiveness often depend upon the quality of management – and that while outsourcing may be one way of obtaining better management, it is not the only way; and
- outsourcing of some activities may bring with it other problems and challenges. In particular, the quality of services provided by contractors was a source of concern.

It was also noted that:

- some private sector firms have enjoyed profits of the scale usually associated with monopolistic markets after governments have chosen to outsource some activities in which there was minimal competition;
- one consequence of outsourcing is a diminution of accountability for public expenditure (this is illustrated by the absence of independent assessments of the performance of publicly funded private sector providers of VET generally, and LLNP in particular).

How should outsourcing proposals be evaluated?

Data obtained from internal accounting systems should not be taken at face value. If an agency was considering outsourcing some of its functions, then:

- it would be wrong to compare (a) the costs of in-house service provision (as *reported by internal accounting systems*) with (b) estimates of the cost of obtaining equivalent services from an external supplier;
- rather, the appropriate analysis would focus on projected cash flows, not the product of accounting entries, and would compare (a) the cash flows which would be *avoided* by outsourcing; and (b) estimates of the cash flows to be incurred by obtaining services of equivalent quality from an external supplier – in both cases, using discounted cash flow analysis to calculate the present values of the alternatives.

Recent government guidelines on service costing

It is only recently that government guidelines have acknowledged the validity of the foregoing observations. In particular, a 2007 NSW Treasury publication *Service Costing in General Government Agencies* acknowledged that when considering outsourcing, the relevant costs to look at in making this decision are not the 'full costs' of producing a service, but the *avoidable costs*. However the same publication:

- required agencies that sell goods or services in competition with the private sector or other government suppliers 'to price them on a competitively neutral basis'. This directive required agencies to set the price of a good or service that at least covers the long run avoidable cost of its production. (This was a misuse of terminology in the context of when an agency is tendering to secure or retain new business - possibly it was intended to refer to the economists' notion of 'long run marginal costs');
- required agencies to estimate the additional costs that the agency would incur if it were in private ownership – taxes and other charges which apply to the private sector but not to public sector entities, and the 'cost of capital' that would be incurred if an agency had to fund its own assets through borrowings or equity from the owners.

All this means that:

- private sector operators, if seeking to win contracts to provide VET, may need only to cover their marginal costs in order to obtain a foothold in the VET 'market', or to expand market share in the short term; and
- conversely TAFEs, in terms of Treasury directives for the pricing of tenders, would be required to cover not only their immediate marginal costs but also a proportion of their overheads, plus allowances for a series of notional or hypothetical charges that government agencies do not incur. *If followed to the letter, these Treasury requirements would doom TAFEs to losing tenders.*

Prior commentary on the impact of competitive tendering on VET

Relatively little analysis has been undertaken on the impact of competitive tendering on VET including its impact on TAFE and staff and students as well as on the community in general. The following summarises three recent commentaries.

- A 2005 report produced for NCVER reached the overall conclusion that 'some of the purported benefits of market reform remain unsubstantiated, even if not entirely disproved'. While suggesting that additional data are required before clear-cut conclusions can be reached, this report observed that 'on balance ...

the weight of available evidence suggests that, at the time of this study, negative rather than positive outcomes predominate' (NCVER, 2005, p. 10). The report noted that:

- the research 'raises questions about the impact of market reform on public interest objectives (including community service obligations and public accountability), thin markets, and the financial viability of providers, particularly TAFE institutes and small registered training organisations'; and
 - in conclusion, NCVER observed: 'overall, the research suggests that, as a result of market reform, TAFE institutes and non-TAFE registered training organisations are trading places with respect to income sources and organisational identity, values, and priorities, with non-TAFE organisations becoming more dependent on government VET funds and TAFE institutes less so. Such changes have potentially detrimental implications for the public good'.
- A second commentary was part of a judgment delivered by South Australia's Industrial Relations Commission in relation to an application from the SA Branch of the Australian Education Union in 2009 for increased salaries for TAFE members, and more appropriate workload regulation. The Commission accepted that policy changes and targets will require lecturers and educational managers to undertake additional and more responsible work. In summarising the impact of VET changes on TAFE, the Commission stated:

The ready availability of a skilled workforce is partly dependent upon TAFE responding to the targets put in place by government and TAFE cannot do so without the active involvement and cooperation of its educational workforce. It is lecturers, educational leaders who will be responsible for:

- Increasing the use of e-learning and other flexible forms of instruction.
 - Developing and implementing processes for RPL and workplace assessment.
 - Liaising with local industry to determine and manage their training needs and expectations.
 - Customising training so that student/clients may obtain qualifications or upskill to obtain additional competencies.
 - Undertaking professional development so that they can participate in these activities (para. 781).
- The third commentary was a report commissioned by the Australian Education Union and produced by the University of Sydney's Workplace Research Centre in June 2009. The report:
 - was highly critical of the notion that 'the development of a contestable market in VET' was an end in itself, observing that 'clearly this has not worked – for the economy at large or for workforce development';
 - focussed particular contention on claims that skill shortages reflected the failure of the TAFE system. It stated: 'Even at the peak of the trade cycle inadequacies in our workforce systems were manifest. These were initially defined as skill shortages and blamed on VET institutions – especially

TAFE. There is now growing recognition that many of the problems arose from the structure and flow of jobs’.

Case study: Language, Literacy and Numeracy Program

The requirement for TAFEs to tender to deliver LLNP saw private sector or community organisations being awarded contracts in May 2010 in preference to several TAFEs. Three-year contracts for the 34 organisations that would deliver the LLNP in more than 350 locations across Australia were worth more than \$240 million (though the dollar value of individual contracts or the basis of these contractual arrangements was not disclosed).

Obtaining information about many of the private sector or community providers proved difficult because, for example, they were either small proprietary companies or ‘consortia’ that are not required to place annual reports or financial information on the public record. A summary of some information follows. This information was augmented by the observations and experiences of interested parties.

- **Mission Australia**, a large and respected organisation, won five tenders (in one instance, as part of a consortium with the Navitas subsidiary ACL) to deliver the program in NSW, South Australia, Western Australia, Tasmania and the Northern Territory. However:
 - Mission Australia’s 2010 annual report showed that its ‘training’ business segment had produced a deficit of \$229,647 in 2009-10, and a deficit of \$3.2 million in 2008-09.
 - When the announcement of winning tenderers was made in May 2010, Mission Australia had largely abandoned the business of ‘training’ and in February 2009 had announced that it was outsourcing training activities to a small company based in WA, which in turn was said to have been acquired by Talent 2 International Ltd, a publicly listed company, the bulk of whose revenues come from executive recruitment and placement.

To summarise, government contracts had been awarded to an organisation that was experiencing financial problems in the delivery of training services – notwithstanding Commonwealth guidelines that require agencies to assess the ‘performance history’ of tenderers – and which had already outsourced delivery of its training programs to another organisation which at the same time was claiming to have merged with yet another entity.

- **NORTEC** is a not for profit company that operates in the north coast of NSW in an area already served by 17 TAFE campuses. Though it self-describes as ‘not-for-profit’, it operates several commercial enterprises, and its website asserts that any profits from its commercial enterprises support the delivery of community programs (though its financial statements are not published on its website). After winning a contract to deliver LLNP:

- NORTEC advertised for teachers and ‘assistants’, offering relatively low rates of pay;
- newly-engaged staff complained that they were not provided with adequate resources and were required to deliver three programs in combined classes;
- teachers claimed that NORTEC lacked sufficient and adequate classrooms — ‘often they were just shopfronts in a car park’ – and that ‘management had no educational background so did not understand the needs of students or teachers’;
- a recent initiative of NORTEC has been to refit semi-trailers as mobile classrooms – with classes being held in the back of trucks. Meantime local TAFEs (that were unsuccessful in bidding for the LLNP contract) have general purpose classrooms, computer classrooms, trade workshops, seminar and conference rooms, and other associated facilities.

It is difficult to reconcile these observations with the *Commonwealth Procurement Guidelines* (2008) which specify that factors to be considered when awarding contracts include ‘fitness for purpose’ ‘the performance history of each prospective supplier’ and ‘the relative risk of each proposal’.

- **Navitas Limited** is a listed public company that describes itself as a diversified global education provider that offers an extensive range of educational services for students and professionals including university programs, language training, workforce education and student recruitment. Navitas has certainly positioned itself as feeder for university enrolments, providing recruitment services for some institutions and also English language classes for international students seeking enrolment in local universities.

Some might regard this as giving rise to a conflict of interest (being both a recruiter and an arbiter of whether prospective students meet university language requirements) but Navitas’s 2010 annual report explains that its ‘English Division works closely with University Program colleges on joint marketing and student recruitment opportunities to bring benefits to both arms of the business’. Navitas’s website states: ‘after graduating from one of our Academic English courses, you can obtain direct entry to over 50 leading universities and colleges around Australia’.

Navitas:

- is highly profitable. For the year ended 30 June 2010, Navitas’s audited financial statements show a pre-tax profit of \$90.3 million representing a (pre-tax) rate of return on shareholders’ equity of 92 per cent - or 64 per cent after tax. While ‘university programs’ were the major source, the ‘English’ teaching segment contributed revenues of \$140.8 million and pre-tax profits of \$11.5 million;
- secured seven contracts to deliver the LLNP programs in NSW (including some via consortia involving Navitas subsidiary ACL). The 2011 financial statements show that (after acquisitions) the company’s pre-tax profit had

- increased to \$105.2 million (a pre-tax rate of return of 101.7 per cent) while after-tax profit was \$77.2 million (an after-tax rate of return of 74.7 per cent). (Again, 'university programs' were the major contributor to profits);
- (or consortia involving Navitas), according to TAFE teachers, have hired a high proportion of staff who were recently qualified (and hence could be engaged on relatively low pay), with only a small number of experienced and better qualified staff;
 - in common with other providers of VET programs, does not publish information about the qualifications of its staff (or any data relating to the mix of full-time employees and casuals). Nor, it appears, does the government agency NCVER collect this information. Yet it is highly relevant to any assessment of the 'inputs' to VET programs, if the Commonwealth's procurement policies are genuinely concerned to receive 'value for money'.

These examples – together with other anecdotal evidence - suggest that the assessments of 'value for money' during tenders for the LLNP were far from comprehensive, and were not consistent with Commonwealth guidelines for procurement. Possibly the greatest failure was to focus on pieces of paper regarding 'strategies to identify, select, induct and retain necessary and sufficient academic staff of the required standard' – rather than evidence about who was actually recruited. More needs to be said about the 'required standard' – given that it appears sufficient for a private sector provider to have untrained staff mentored by someone with only a Certificate IV qualification in Training and Assessment.

Questions must also be raised about the adequacy of verification processes applied to new private sector entrants to VET. Some of the stories told about the inadequacy of facilities, use of composite classes, the engagement of poorly-trained or unqualified staff, and outsourcing suggest the need for a much more rigorous approach to the registration of training organisations in future. Overall the evidence suggests the need for the newly-established National VET Regulator to weed out those providers who obtained registration on the basis of promises they were unable to meet.

What lies ahead - a diminished and damaged TAFE system

The foregoing review of experience with the introduction of 'competition' in VET raises a number of questions that public policy makers need to address as a matter of urgency if the nation is to preserve (let alone, enhance) some of its critical social infrastructure.

Did those responsible for assessing and accepting tenders actually consider the qualifications of teachers that would be engaged by bidders? Or whether the bidder's facilities were 'fit for purpose'? And whether they were better or worse than those already available in local TAFEs?

Were Commonwealth Procurement Guidelines (2008) actually followed by DEEWR or their commissioned contractors who undertook the task of assessing tenders?

What standards in relation to the qualifications and experience of staff were applied when evaluating bids from private sector bidders for VET contracts?

It appears that assessments of tenders were driven by price (not quality) – and that there was a determination to pursue outsourcing for its own sake, regardless of the impact this might make on the supply of VET or LLNP training in areas previously served by TAFEs and even though it would erode the capacity of the TAFE system, and even though there was no certainty as to what benefits (if any) would follow.

The strengthening of rules for education providers of international students (by requiring all colleges to re-register under new, stronger criteria by the end of 2010) is welcome. ASQA-registered training organisations must meet the requirements in the VET Quality Framework as defined in the National Vocational Education and Training Regulator Act 2011. However doubts must be held about the efficacy of some of these ‘reforms’ (notably those relating to the financial viability of RTOs) given that many of these entities would not be obliged to comply with all applicable Australian Accounting Standards). The ‘reforms’:

- do not involve any substantial change regarding the minimum qualifications of teachers and assessors;
- arguably the most significant elements of the supposed ‘reforms’ concern the level of assurance that the new national regulator will require regarding the quality of course offerings;
- RTOs are required to collect three ‘Quality Indicators’ which supposedly ‘have been designed to help RTOs conduct evidence-based and outcomes-focused continuous quality improvement, and assist a registering body to assess the risk of an RTO’s operations’. But the indicators chosen may not be valid indicators of the *quality* of the education and training services being provided:
 - for example, measures of ‘employer satisfaction’ would not be relevant to courses undertaken by students who are unemployed (such as those directed to the LLNP by Centrelink);
 - the measure of ‘learner engagement’ is not defined or explained and it appears that ‘learner engagement’ is a euphemism for a student’s ‘record of attendance’. Students will be regarded as ‘engaged’ if they turn up to class;
 - the third measure, ‘completion rates’ is better regarded as an ‘output’ indicator – a measure of the number of units of service produced (and in fact, number of completions is nominated as an ‘output’ indicator under the National Agreement for Skills and Workforce Development, 2008). Certainly

completion rates would not be an indicator of the quality of individual modules or courses, or of the educational experience provided by individual RTOs.

It is doubtful that these 'reforms' will ensure that all providers of VET have the *capacity* to deliver programs of an appropriate standard – and that they do indeed *deliver* such programs.

There may be a 'market' for VET – but what kind of market?

While COAG has accepted advice to establish a 'market' for VET, what it has done is establish a set of arrangements that, even to a casual observer, may *seem like a market* – but it is only a *quasi market*, and not really a truly *competitive* market. Indeed, the Productivity Commission has acknowledged that there are market imperfections – and that there was a case for government intervention 'to address market failures' that were leading to outcomes being 'sub-optimal from a community-wide perspective'. The facts are:

- truly competitive markets are characterised by a large number of willing and informed 'buyers' and 'sellers' for a given product or service;
- the 'buyers' of the LLNP, for example, are not necessarily 'willing buyers': they are required by Centrelink to attend as a condition of receiving unemployment benefits. The establishment of Skills Australia can be seen as artificially creating a demand through subsidisation of training that otherwise would be provided 'on the job' and paid for by employers;
- as for the supply side, the NCVER has noted that choice is relatively more restricted in rural/regional areas, as only one-third of all registered training organisations are located outside metropolitan areas. As a consequence, competition and choice are highly restricted, and in some cases, non-existent. This, together with other adverse effects, suggests that '*quasi-markets in VET are generally unviable in remote areas and many rural/regional areas*';
- a further element that is essential if a market is to be regarded as competitive is that buyers and sellers are both *well-informed* i.e. both have *information* about prices, and about the characteristics of the service being offered by individual suppliers. But present arrangements fail to ensure that potential buyers (students and their employers – or intermediaries) are fully informed about the human, physical and financial capacity of different providers to deliver programs that are of high quality. In particular, RTOs do not report publicly on the numbers of full-time or part-time staff that are available to deliver programs; they do not provide summary indicators (such as staff-student ratios), nor do they provide report the educational profile of teachers i.e. how many have degrees, diplomas or certificates. There are now requirements for organisations receiving government funds to publish

information about the *quality* of the programs they are delivering on behalf of the government.

In summary: while it may be claimed that governments have created a 'market' for VET services, what has been established is far from the ideal of a competitive market in which there are many sellers competing on a level playing field, and in which prospective buyers and sellers are well-informed about both prices, and about the quality of the services being provided.

Overall, advice to governments about the desirability of establishing 'competition' for VET may have failed to tell the whole picture i.e. that the introduction of competition on the basis of price (with little regard to the quality of teaching and facilities) may have serious dysfunctional consequences: damaging the institutional capability of the TAFE system, demoralising a generation of qualified teachers, while failing to achieve the government's goal of achieving a well-educated and highly skilled workforce.

Administration and transaction costs arising from the introduction of 'competition'

The introduction of 'competition' was supposed to enhance the efficiency of VET. But while bodies like the Productivity Commission prefer to consider efficiency in terms of indicators like 'cost per hour of teaching', this approach only examines some of the overall costs – expenditure on VET by State or Territory agencies – and disregards the costs associated with the Commonwealth's own administrative arrangements and does not explore the costs that the Commonwealth is imposing on State and Territory governments in relation to funding applications and acquittals:

- the latest available data from NCVER (while contestable in part) shows that there have been significant increases in administration costs of government training departments;
- overall, from 2005 to 2009, administration and general services increased by \$430 million (39.3 per cent). Much of this could have arisen from the demands for reports in terms of Commonwealth funding that was conditional on the introduction of 'competition'. Within the Commonwealth, expenditure by DEEWR (or its predecessors) increased from \$170.8 million in 2005 to \$397.4 million in 2009 – an increase of *132.7 per cent*.

In summary: it is not clear from the voluminous reports produced by bodies like NCVER exactly whether the promotion of 'competition' has actually led to improvements in the efficiency of delivery of VET, if transaction costs and on-going monitoring costs are taken into account

What needs to be done to remedy this situation

Arguably, the establishment of a national regulator comes after major damage has been inflicted on the quality of VET teaching, principally as a result of policies to promote 'competitive tendering' – for which read 'competition based on price'. To remedy this situation, the following ten points are proposed:

1. *COAG needs to recognise that setting crude targets for a nominated percentage of the population to attain some form of qualification can be expensive but produce limited community benefits, and have dysfunctional consequences for the education system.*
2. *The Department of Education, Employment and Workplace Relations needs to develop policies that will maintain and elevate the quality of teaching in VET.*
3. *The Department of Education, Employment and Workplace Relations should obtain information about the perceptions of experienced and qualified educators on the impact of 'competition' on the quality of Australia's post-secondary school educational programs.*
4. *Standards for RTOs should be revised to ensure that those organisations delivering programs (such as the LLNP) have engaged a minimum proportion of experienced and qualified teachers.*
5. *Standards for RTOs should be revised to require tenderers to demonstrate their capacity to deliver quality services at the outset of a contract (not simply that they have a strategy to obtain relevant resources at some stage during a contract.*
6. *The biases in guidelines on tendering by government agencies should be removed.*
7. *Steps should be taken to reduce paperwork and red tape in VET.*
8. *Steps should be taken to redress the impact of government policies that are closing pathways that would enable students to further develop their knowledge and skills.*
9. *Skills Australia and its associated advisory boards should refocus on assisting TAFE to develop new programs.*
10. *The Ministerial Council of Tertiary Education and Employment should commission a review of the costs already incurred in efforts to introduce quasi-competition to the VET sector, and of the outcomes. Data should be compiled by an independent agency, not previously involved in promoting 'competition'. Regard should be had to the costs of establishing, renaming, restructuring and dis-establishing agencies – (including the costs incurred by agencies that are 'off-balance sheet'). Benefits should be assessed on the*

basis of data regarding the extent to which students' knowledge, skills and competencies have been developed as a consequence of VET.

Overall, government policies should recognise that in VET (and education generally) ***cheaper is not better***.

Postscript: Beware the *gunna* response

Everyone knows someone who, when shortcomings in their performance are identified, responds by saying that they are 'going to fix that'. In Strine, that becomes 'I'm gunna fix that'. Within the public sector, that is characterised as the *gunna* response.

There are signs that the *gunna* response is already being used in relation to VET. To some extent, some of the issues raised in this report have been responded to, at least in words. For example:

- the Productivity Commission has alluded to the need for 'better data' about the performance of private sector providers; COAG has stated that 'the reforms should continue to drive improved quality in the sector, including through a renewed focus on VET teacher development and the introduction of stronger quality measures for VET providers';
- similarly, the Productivity Commission has acknowledged the presence of 'information asymmetries' as 'students have less information about the quality of courses than training providers do';
- COAG has noted that greater transparency in the system is needed to support informed choices by employers and students.

Other examples are detailed in the report.

One matter that as yet has been ignored by both the Productivity Commission and COAG is the criticism that (unlike TAFEs) private sector providers do not provide educational pathways to students. Both the Commission and COAG have applauded pathways *between* sectors (not *within* the VET sector).

There has been an enormous volume of reports produced by government agencies that have served as cheer leaders for the latest (often ideologically-based) statements about coming reforms. But there is another story to be told by those who are actually engaged in the delivery of educational programs, and who have a genuine concern for the welfare of their students.

The policy of promoting 'competition' in a quasi-market for VET was fated to produce sub-optimal results because it ignored the fact that private operators would seek to make a profit by cutting costs (and thereby reducing the quality of

services). And more detailed analysis seems likely to confirm many employers have formed subsidiaries or become RTOs simply to shift training costs to the public purse.

It is urgent that the 'competition in VET' policy be reconsidered, and substantially revised, before it wastes more funds on uncertain outcomes, and before it does further damage to social infrastructure

In the end, cheap education is no substitute for quality education.

REPORT ON COMPETITIVE TENDERING IN VET: CHEAPER IS NOT BETTER

1. INTRODUCTION

The NSW Teachers Federation asked Centennial Consultancy (see Attachment 1) to review the impact of competitive tendering on Vocational Education and Training (VET). This followed a decision by its 2010 Annual Conference. In essence the Conference asked that:

The Federation commission independent research on the impact on the community of competitive tendering of vocational education and training, and an investigation of available information on organisations that won recent contracts in the Language, Literacy and Numeracy Program.

Following this decision, the Federation proposed that this report should include:

1. An analysis of competitive tendering.
2. Investigation of available information on organisations that gained LLNP contracts.
3. Investigation of the impact of the loss of LLNP tenders.

This report is arranged as follows:

- Section 2 provides some facts on VET;
- Section 3 examines government VET policy;
- Section 4 analyses competitive tendering/outourcing;
- Sections 5 looks at some prior commentary on the impact of competitive tendering on VET;
- Section 6 focuses on the Language, Literacy and Numeracy Program as a case study of VET competitive tendering;
- Section 7 comments on the damaging impact of competitive tendering on the TAFE system;
- Section 8 outlines ten proposals to fix the situation, and stresses the need for immediate action rather than vague promises about addressing problems – at sometime in the future.

2. VET: SOME FACTS

2.1 Introduction

Skills Australia has described VET as follows:

The VET sector has unique capabilities as the 'adaptive layer' of the Australian education system. More than any other education sector, it connects learning with the labour market, the workplace and community development, as well as with individual learner and employer aspirations. It is pivotal as a lever in realising social and economic opportunity (3 May 2011, p. 2).

Tom Karmel from the National Centre for Vocational Education Research (NCVER), has suggested that there are difficulties in defining 'vocational education and training' (Karmel, 2011). He claimed that defining VET as occupation-specific training is naïve because while one would label trade training as vocational because it is designed to train tradespersons, much university training is also of this nature. (He described higher education courses in medicine, engineering, and accountancy and so on as having occupation-specific training as their focus, while much VET training at the Certificate III/IV level is quite generic in nature – with a low match between course and occupation.) Karmel concluded that this is only part of the problem. He argued that a simple definition of VET as 'occupational specific training'

is not helpful in explaining vocational education and training. Qualification levels are also not helpful. Rather, vocational education and training is distinguished from higher education by different funding and regulatory arrangements, and different teaching and learning styles. What really confuses the issue is that many providers are delivering both higher education and vocational education and training (p. 3).

Others may consider that the distinction between VET and higher education is that universities have traditionally sought to provide a broader education than contemplated by courses that focus on a single discipline and seek to do more than develop specific skills. While some university majors at bachelors level incorporate varying degrees of vocational training, their main concern goes beyond the development of specific competencies to encompass the development of students' knowledge and understanding of issues, research findings, and of the development of ideas. While this has changed somewhat with some universities developing courses aimed at equipping students for employment in specific occupations (such as hospital management or sports administration) higher education courses generally equip candidates for employment in a wide range of occupations e.g. a graduate in medicine may be equipped to operate in a wider

range of occupations than as a clinician; graduates in accounting may find employment not only in the field of public accounting (as independent practitioners providing professional services to clients) but also as managers in any area of commerce, industry or the public sector, while some have enjoyed a distinguished career as journalists. Possibly Karmel's claims reflected a desire to expand the 'territory' of VET beyond the development of specific competencies. A more fruitful approach would be to ensure that VET courses enable students to pursue pathways to higher levels of education either *within the VET sector* or beyond, through studies at a university.¹

Despite the growth in the private provision of VET, most reliable and published information (from NCVER) is limited to *publicly funded* VET. Even this provides only limited data about the performance of TAFEs - with very little information about the performance of the TAFE system's 'competitors' in the delivery of VET, i.e. community or private providers.

This section outlines some facts about VET providers and student enrolments, the sources of funding for VET – and what has been published about the performance of VET.

2.2 Participants in VET

2.2.1 VET providers and students: Australia

In 2010, there were 1,799,000 students enrolled in publicly funded VET – with about three quarters in TAFE and other government providers with the rest in community and other registered providers (NCVER, 7 July 2011). As shown in the table below, there were 170 main government providers (excluding schools) with 60 TAFEs still the major component of this sector. It was estimated that there were 2,624 community and other private RTOs.

¹ It is interesting to note that as recently as December 2006, IPART defined VET as 'the post-compulsory education and practical training that equips people with skills that enhance their job prospects and assist them in entering or re-entering the workforce, or in re-training or upgrading their existing skills. It does not cover the degree and higher level professional programs which are delivered by universities and other higher education institutions' (p. i).

Table 1
Broad indicators of publicly funded VET: Australia 2010²

	TAFE and other government providers	Community & other registered providers	Total
Number of students	1,338,600	460,400	1,799,000
Contact hours	375.7m	96.4m	472.2m
Certificate-level enrolments & Diploma or higher enrolments	1,068,200	374,500	1,442,700
Number of institutions	170	2,624	2,794

Source: Based on Tables 4, 11, 12, 14, NCVER, 7 July 2011, pp. 10, 15, 16.

According to NCVER, in 2010:

- 1.8 million students were enrolled in publicly funded VET;
- full-year training equivalents totalled 655,800;
- 2,794 training organisations were delivering publicly funded VET - public sector: 60 TAFEs and 110 other government providers, and private sector: 2,624 community and other registered training providers (RTOs);
- 472 million hours were delivered;
- the VET qualification most frequently studied was Certificate III (31 per cent of students);
- the most popular course was 'management and commerce' (20 per cent of students) followed by 'engineering and related technologies' (17 per cent of students) (7 July 2011).

Since 2006, there have been increases in the number of VET students, contact hours and certificate or higher enrolments, as shown in the table below.

Table 2
Broad indicators of publicly funded VET: Australia 2006-10

Measure	2006	2007	2008	2009	2010	Change 2006-10
Number of students (m)	1.676	1.665	1.700	1.707	1.799	7.3
Contact hours (m)	372.100	390.071	409.217	438.900	472.186	26.9
Certificate-level enrolments (m)	1.032	1.047	1.089	1.130	1.210	17.2
Diploma or higher enrolments	167,700	166,000	172,100	200,000	233,000	38.9

Source: Based on Tables 4, 11, 14, NCVER, 7 July 2011, pp. 10, 15, 16.

However, publicly funded VET is only part of the story. In addition, there are large enrolments with private training providers that receive no government funding, though there are no official estimates of these numbers (except for those students publicly funded and for international students) (Skills Australia, 18 March 2011). Any numbers available are flawed and/or unreliable. One attempt to assemble data by the Australian Council for Private Education and Training (ACPET)³ is a

² The NCVER data includes VET delivered by TAFE and other government providers; multi-sector higher education institutions; community providers; and private providers. It does not cover recreation, leisure and personal enrichment; fee-for-service VET by private providers; delivery undertaken at overseas campuses of Australian VET institutions; credit transfer; and VET delivered in schools, where the delivery has been undertaken by schools (NCVER, 7 July 2011, p. 4).

³ ACPET describes itself as the national industry association for independent providers of post-compulsory education and training, for Australian and international students (Internet site accessed 27 July 2011).

case in point. In 2010, it commissioned accounting firm WHK Howarth⁴ to undertake a survey of all private registered training organisations on ACPET's database. On the basis of the survey, it was estimated that private VET providers enrolled 1,467,000 equivalent full time students in 2010 – as shown in the table below. Combining this figure with the NCVER data of 511,300 full year equivalent enrolments, ACPET assumed a total of 1,978,300 full time equivalent students in VET, and a 74 per cent share in private providers of all VET enrolments (G. Moodie, Spring 2010).

Table 3
Broad indicators of VET: Australia

	TAFE and other non-school government providers	Private RTOs (incl ERTOs)	ERTOs	RTOs receiving public funds
Number of students	1,312,300	1,467,000	na	1,707,000
Student contact hours	368.2m	na	na	438.9m
Certificate-level enrolments	845,000	597,900	233,000	1,362,000
Diploma or higher enrolments	185,000	307,100	37,000	223,000
Number of institutions	182	3,732	211	Na

Note: All data in column2 (except for the number of institutions which are for 2010) and in column 5 are for 2009; in column 2 are ACPET estimates for 2010; in column 4 are Commission adjusted 2008 data (except for the number of institutions which are for 2010).

Source: Productivity Commission, April 2011, p. XXX.

Dr Gavin Moodie⁵ noted that the reasoning in the ACPET Howarth calculations is badly flawed in several ways and noted:

The response rate from the ACPET survey was only 12%, which is very low. The consultant asserts that the respondents were random and thus presumably represented the whole population but more than mere assertion is needed. The consultant should demonstrate that the respondents represented the population by comparing salient statistics on the respondents and the population.

The analyst extrapolated from a survey response of 178,000 students to estimate 1,467,000 students, an extrapolation of almost ten times which is very big and likely to magnify greatly small errors in the responses. The analyst therefore calculates a very big confidence interval, estimating total students numbers to be 1,440,000 plus or minus 372,000 or 26% (*The Australian TAFE Teacher*, p. 15).

⁴ WHK Horwarth is the same firm that supposedly 'audited' the Federal Coalition's pre-election promises just before the 2010 election. It was later revealed that Horwarths had only checked spreadsheet calculations without assessing the validity of the assumptions which were the basis of those calculations. See 'Hockey was economical with the truth: Lib poll costings never audited', *The Sydney Morning Herald*, 11 October 2010.

⁵ Dr Gavin Moodie has also analysed ABS data on total VET enrolments - see 'How many VET students are there?', *The Australian Teacher*, Spring 2010, pp. 14, 16.

He concluded, in part, as follows:

even taking ACPET's consultant's report at face value, it clearly reports survey data that aren't comparable with NCVER's reports of publicly funded VET. Taking into account all of the factors listed [in Dr Moodie's analysis] would reduce the consultant's estimate of private providers' vocational enrolments by at least 9.5% and by as much as 76.5%. The consultant's figures are therefore too uncertain to be relied on, especially since they have been commissioned by a contractor which distorts them so much (*idem*, p. 15).

On this basis, enrolments in private VET providers would fall somewhere within the very broad range of 344,745 to 1,327,635.

Even ACPET itself acknowledged that the reliability of the estimates was not high and recommended caution when analysing the results (Productivity Commission, April 2011, p. 316). Despite all this, the Productivity Commission then accepted the ACPET data at face value and reproduced it prominently in the Overview (and elsewhere) of its April 2011 report on VET (see table below) – although in a footnote to the table it acknowledged that 'Data in this table are indicative only, as they are not strictly comparable' (p. XXX).

According to the Commission, there are almost 5,000 public and private sector RTOs – once all schools and higher education institutions that are also RTOs are included (p. XXX). The private sector RTOs also include Enterprise Registered Training Organisations (ERTOs) – enterprises 'the principal business of which is not education and training' (p. XXI).

The table below shows the Commission's estimates on numbers and categorisation of RTOs. Close to 90 per cent of RTOs are private or community providers.

Table 4
Registered training organisations on the National Training Information Service
August 2010

	RTOs	
	No.	%
Higher education	12	0.2
University – government	11	0.2
University – non-government Catholic	1	0.0
Traditional VET providers	4,326	86.6
<i>TAFE and other government providers</i>	171	3.4
Technical and Further Education institute	59	1.2
Enterprise – Government	112	2.2
<i>Community-based adult education providers</i>	423	8.5
<i>Private training providers</i>	3,732	74.7
Education/training business or centre: Privately operated registered training organisation	3,147	63.0
Enterprise – non-Government	211	4.2
Equipment and/or product manufacturer or supplier	5	0.1
Industry association	332	6.6
Professional association	37	0.7
Schools	568	11.4
School – Australian Technical College	5	0.1
School – Catholic	105	2.1
School – Government	345	6.9
School – Independent	113	2.3
Other – not elsewhere classified	92	1.8
Total	4998	100.0

Source: Productivity Commission, April 2011, p. 314.

An NCVER listing of the recipients of public funding (Supplement to NCVER, 7 July 2011) suggests that many are divisions of commercial organisations, or RTOs established to provide training solely for employees of such entities. That suggests that much of the training provided by these bodies is ‘job specific’, rather than training which is transferable to other workplaces. However this possibility does not appear to have been analysed by bodies like the Productivity Commission or the NCVER.

2.2.2 VET providers and students: New South Wales

TAFE is the dominant provider of VET in New South Wales. The data presented in the table below for NSW VET encompasses TAFE and private providers receiving public funding.

Table 5
Broad indicators of publicly funded VET: New South Wales 2010

	TAFE and other government providers	Community & other registered providers	Total
Number of students	467,500	115,600	583,200
Contact hours	127.889m	18.992m	146.881m
Certificate-level enrolments & Diploma or higher enrolments	345,200	78,700	423,900
Number of institutions	117	516	634

Note: For a description of NCVER data see footnote 2 above.

Source: Based on Tables 11, 12, 14, NCVER, 7 July 2011.

There have been continuing increases in some broad indicators in NSW VET though not as high as the national average – other than ‘diploma or higher enrolments’.

Table 6
Broad indicators of publicly funded VET: New South Wales 2006-10

Measure	2006	2007	2008	2009	2010	% change NSW 2006-10	% change Australia 2006-10
Number of students	565,300	549,000	550,900	549,900	583,200	3.2	7.3
Contact hours (m)	125.134	128.434	134.272	140.451	146.881	17.4	26.9
Certificate-level enrolments	319,200	321,100	298,200	337,300	358,100	12.2	17.2
Diploma or higher enrolments	44,300	42,500	44,300	50,600	65,800	48.5	38.9

Source: Based on Supplementary Tables 4, 11, to NCVER, 7 July 2011.

In 2010, publicly funded VET in NSW:

- delivered nearly 147 million hours of training, an increase of 4.6 per cent on the previous year and 17.4 per cent on 2006;
- had 583,200 student enrolments, an increase of 6.1 per cent over the previous year and 3.2 per cent on 2006;
- 358,100 (61.4 per cent) of enrolments were at certificate-level compared with 319,200 (56.5 per cent) in 2006 – an increase of 12.2 per cent on 2006;
- 65,800 (11.3 per cent) of enrolments were at Diploma level and above compared to 44,300 (7.8 per cent) in 2006 – an increase of 48.5 per cent on 2006.

In summary, in the period 2006-10, NSW VET performed below the national average on the above indicators except for ‘diploma or higher enrolments’.

It is to be noted that the NSW DET Annual Report for 2010 presented different figures for TAFE NSW – see below. The differences are difficult to reconcile but may be explainable in part by grants and subsidies.

Table 7
Broad indicators of public VET: NSW TAFE 2010

Measure	2006	2007	2008	2009	2010	% change 2006-10
Number of students	500,410	497,747	504,009	524,838	556,340	11.2
Contact hours	108.8m	108.5m	112.7m	119.5m	119.2m	9.6
Certificate-level enrolments	234,562	235,294	242,688	262,088	282,552	20.5
Diploma or higher enrolments	45,400	45,099	47,185	54,731	61,915	36.4

Source: NSW DET, 2010 Annual Report.

2.2.3 VET workforce: Australia

The Productivity Commission noted that:

A focus on the workforce in a high-skilled and labour intensive activity such as education and training is justified. In this type of activity, the quality of the

service provided is critically dependent on the availability and quality of those who deliver the service (April 2011, p. XXIX).

It conceded that there are no available 'robust estimates of the overall VET workforce - which includes trainers and assessors, other VET professionals and general staff'. It appeared to admit that the only 'reliable data on the TAFE workforce, drawn from administrative collections, suggest that it currently numbers 73,000' (see table below).

Table 8
TAFE workforce by job category: Australia

Job category	Number of workers
Trainers and assessors	44,900
Other VET professionals	800
General staff	25,900
All TAFE workers	73,400

Note: Total is as shown in the Commission's Report – which is overstated by 1,800.

Source: Productivity Commission, April 2011, p. 347.

While stating that

Consistent national data about the size and characteristics of the VET workforce have long been lacking. The private VET sector is particularly poorly served by existing workforce data (p. XLVIII).

and that:

figures for the non-TAFE workforce ... are less accessible and much less reliable (p. XXXIV)

the Commission nevertheless estimated that non-TAFE providers, including private RTOs and ERTOS, employ about 150,000 workers (p. 37).

Yet the absence of this information did not stop the Commission from making some strong statements about the characteristics and qualifications of the VET workforce. Nor did it shrink from offering recommendations on these matters. For example, it recycled the old claim that 'a more flexible industrial relations regime in the TAFE sector' was a necessary reform 'that will improve the VET workforce's capacity and capability' (p. XXVIII). This was an ideological position that was not supported by any evidence provided in the report.

In short, the Commission failed to fulfil its brief which it summarised as follows:

the Commission was requested to consider the demand for and supply of VET workers, workforce composition and workforce planning, among other factors of significance (p. XXIX).

Instead of providing real information about the VET workforce, it repeated flawed data and outlined already known shortcomings and problems with available data – shortcomings already known to the Council of Australian Governments which had turned to it for answers.

2.2.4 VET workforce: NSW TAFE

The NSW TAFE workforce is estimated at 23,200 (Productivity Commission, April 2011, p. 347) and is made up as shown in the table below.

Table 9
TAFE workforce by job category, 2009-10

Job category	Number of workers
Trainers and assessors	16,510
Other VET professionals	540
General staff	6,200
All TAFE workers	23,200

Note: Total is as shown in the Commission's Report which is understated by 50.

Source: Productivity Commission, April 2011, p. 347.

Estimates of the shares of the workforce of each of the NSW TAFE job categories shown in the table above compared with national TAFE and non-TAFE figures are shown in the table below.

Table 10
Share of the VET workforce by job category, 2009-10

per cent of workers in TAFE & non-TAFE			
Job category	TAFE NSW	TAFE Australia	Non-TAFE Australia
Trainers and assessors	71.2	62.7	48.0
Other VET professionals	2.3	1.1	4.1
General staff	26.7	36.1	47.9
All TAFE workers	100.0	100.0	100.0

Source: Productivity Commission, April 2011, p. 347, for TAFE Australia and Non-TAFE Australia. TAFE NSW calculated on the basis of Productivity Commission data for NSW, p. 347.

On the basis of the data presented by the Productivity Commission, the proportion of the Australian TAFE workforce employed as general staff at 36 per cent is significantly lower than the non-TAFE sector at 48 per cent, with NSW an even lower proportion of 27 per cent.

In fact, the Commission confirmed that:

based on what little data are available for the non-TAFE sector, it is estimated that there is roughly one worker employed as an 'other VET professional' or 'general staff member' for every assessor or trainer (*ibid.*, p. 38).

Whereas

for every two trainers and assessors working in the TAFE sector, there is generally one other worker employed in a supportive role as an other VET professional or general staff member (*ibid.*, p. 37).

2.3 Funding of VET

2.3.1 Australian VET

According to the latest available data from NCVER, operating funding of public VET totalled nearly \$6.8 billion⁶ in 2009 – with the largest part (\$5.1 billion⁷) coming from government as shown in the table below. State and Territory funding continued to dominate, providing about two thirds of government funding.

Table 11
Funding of public VET: Australia

Revenue category	2005 \$m	2006 \$m	2007 \$m	2008 \$m	2009 \$m	% change 2005-09
State/territory government	2,730.4	2,821.3	2,992.7	3,091.4	3,210.4	17.6
Commonwealth government	1,172.4	1,229.3	1,438.6	1,489.0	1,918.7	63.7
Fee-for-service	637.3	730.8	823.8	991.3	1,065.8	67.2
Student fees and charges	235.4	243.9	251.4	275.9	292.8	24.4
Ancillary trading and other	244.2	275.4	251.0	263.3	279.3	14.4
Total	5,019.6	5,300.7	5,757.6	6,110.8	6,767.0	34.8

Source: Based on Table 1, NCVER, 6 October 2010, p. 9.

NCVER found:

- funding of the public VET system in 2009 was \$6,767.0 million,⁸ an increase in nominal terms of \$656.2 million (10.7 per cent), compared to 2008, with a 34.8 per cent increase over 2005;
- Australian Government funding increased by \$429.7 million (28.9 per cent) from 2008, with a 63.7 per cent increase over 2005;
- funding from State and Territory governments increased by \$119.1 million (3.9 per cent) from 2008, with a 17.6 per cent increase over 2005;
- revenues from fee-for-service activities increased by \$74.5 million (7.5 per cent) from 2008, with \$60.3 million (80.9 per cent) of the increase coming from

⁶ NCVER explains that data collection focuses on vocational education and training administered or provided by the main training authority or training department within each state and territory, their public training providers and the Department of Education, Employment and Workplace Relations (DEEWR). Public funding for training delivery paid to private providers by the department of DEEWR and state and territory training authorities or departments is also included in the collection (NCVER, October 2010, p. 4).

⁷ The government contribution may be higher since fee-for-service 'can include some government revenues when the entity reporting the revenue has not identified that the fee-paying client is funding the training from government-sourced revenue' (NCVER, October 2010, p. 4).

⁸ This data includes direct allocations from the Australian Government and state and territory governments but does not include funding allocated by governments for capital infrastructure and equipment. It also includes funding received from fee-for-service initiatives, student fees and charges, ancillary training and other activities (NCVER, October 2010, p. 14).

overseas students' fees and contracted overseas training. The increase over 2005 was 67.2 per cent;

- students' fees and charges, ancillary trading and other activities increased by \$33.0 million (6.1 per cent from 2008, with a 19.3 per cent increase over 2005);
- total operating expenditures were \$6,803.4 million, an increase of \$447.5 (7.0 per cent) over 2008, with a 29.3 per cent increase over 2005 (NCVER, 6 October 2010, pp. 1, 5-6, 7, 9-10).

In 2009, while there was an increase in funding coming from fees, some 76 per cent of funding of public VET still came from Commonwealth, State and Territory governments as shown in the table below.

Table 12
Major funding sources of public VET as a proportion of total: Australia

Revenue category	2005 %	2006 %	2007 %	2008 %	2009 %
State/territory government	54.4	53.2	52.0	50.6	47.4
Commonwealth government	23.4	23.2	25.0	24.4	28.4
Fee-for-service	12.7	13.8	14.3	16.2	15.7
Student fees and charges	4.7	4.6	4.4	4.5	4.3
Ancillary trading and other	4.9	5.2	4.3	4.3	4.1
Total	100.0	100.0	100.0	100.0	100.0

Source: Based on Table 1, NCVER, 6 October 2010, p. 9.

According to the Productivity Commission, revenue from governments pays for about 82 per cent of the hours delivered in the publicly funded VET as shown in the table below. This compares with nearly 89 per cent in 2000.

Table 13
Publicly funded VET system, students and hours of delivery by major funding source

	2000	2008	2009	Growth in hours 2000 to 2009
Hours of delivery	%	%	%	%
Funding source				
Commonwealth and state funding	88.7	82.3	81.8	29.5
Domestic full-fee paying	8.1	12.1	11.7	103.8
International full-fee paying	3.2	5.6	6.5	188.2
Total (per cent)	100.0	100.0	100.0	
Total hours of delivery (million)	312.3	409.2	438.9	40.5

Source: Based on Table B.13, Productivity Commission, April 2011, p. 328.

The Commission also presented estimates of public and private funding of VET for 2008 as shown in the table below. However, as noted above, data regarding funding of private providers, other than that produced by NCVER, should be treated with caution – especially since the Commission partly relied on unpublished ACPET data.

Table 14
VET funding of public and private providers, 2008

Source of funding	TAFE & other government providers \$m	Private providers \$m	Total \$m
Government recurrent funding	3,645	455	4,100
Fee for service	991	2,075	3,066
Enterprise funding in ERTOS	945	1,155	2,100
Total	5,581	3,685	9,266

Source: Based on Table 2.3, Productivity Commission, April 2011, p. 19.

According to the Commission, the 'fee for service' figures in the table above represent student fees. In 2008, they amounted to \$991 million to government providers and \$2,075 million to private providers, making a total of \$3,066 million. Not surprisingly, private fees and enterprise funding are the dominant source of funds for private providers.

Much of the growth in fee-for-service delivery has arisen from the increase in overseas students studying in Australia. There was an increase in overseas enrolments in VET from 30,000 to 230,000 between 2000 and 2009, with a particularly rapid expansion from 2007 to 2009 – with an increase of 45 per cent between 2007 and 2008 and a further 33 per cent between 2008 and 2009. Over the same period, there was a fall of 7.3 per cent in domestic students (see table below). Since February 2010, following the tightening of immigration policy combined with such factors as the appreciation of the Australian currency, there has been 'a significant reduction in the number of overseas students enrolled in VET and other educational institutions' (Productivity Commission, April 2011, p. XXXII).

Table 15
Domestic and international students in the VET System, 2000 and 2009

	2000 '000	2000 %	2009 '000	2009 %	Change 2000-09 '000
Public RTOs					
Domestic students	1,537.1	98.7	1,424.5	97.3	-112.6
International students	19.8	1.3	39.7	2.7	19.9
Private providers					
Domestic students	na	na	1,274.7	86.9	na
International students	11.0	na	192.3	13.1	181.3

Source: Productivity Commission, April 2011, p. XXXII.

2.3.2 NSW VET

Growth in funding of public NSW VET from 2005 to 2009 at 18.1 per cent was far below the Australian figure of just under 35 per cent as shown in the table below.

Table 16
Funding of public VET: New South Wales

Revenue category	2005 \$m	2006 \$m	2007 \$m	2008 \$m	2009 \$m	% change NSW 2005-09	% change Australia 2005-09
State government	934.9	977.8	994.0	1,016.5	996.1	6.5	17.6
Commonwealth government	328.0	341.9	354.5	360.6	459.4	40.1	63.7
Fee-for-service	197.7	228.4	237.2	300.9	305.0	54.3	67.2
Student fees & charges	69.0	71.4	68.9	78.0	75.1	8.8	24.4
Ancillary trading and other	80.2	89.6	65.9	68.0	64.9	-19.1	14.4
Total	1,609.7	1,709.2	1,720.6	1,824.0	1,900.7	18.1	34.8

Source: Based on Table 1, NCVET, 6 October 2010, p. 9.

Moreover, while there has been increasing reliance by TAFE NSW on 'fee for service', and an increase in the relative contribution of the Commonwealth, there has been a decline in the NSW Government's funding from 58 per cent in 2005 to 52 per cent in 2009 (as shown in the table below).

Table 17
Major funding sources of NSW public VET as a proportion of total

Revenue category	2005 %	2006 %	2007 %	2008 %	2009 %
State government	58.1	57.2	57.8	55.7	52.4
Commonwealth government	20.4	20.0	20.6	19.8	24.2
Fee-for-service	12.3	13.4	13.8	16.5	16.0
Student fees and charges	4.3	4.2	4.0	4.3	4.0
Ancillary trading and other	5.0	5.2	3.8	3.7	3.4
Total	100.0	100.0	100.0	100.0	100.0

Source: Based on Table 1, NCVET, 6 October 2010, p. 9.

By 2010, Commonwealth and NSW Governments funded 80.1 per cent of NSW public VET enrolments and 88.7 per cent of contact hours (see below).

Table 18
Funding sources of NSW public VET students and contact hours

	2006 ('000)	2007 ('000)	2008 ('000)	2009 ('000)	2010 ('000)	%
Number of students						
Commonwealth and state funding	469.1	452.8	447.2	446.9	467.1	80.1
Fee-for-service	93.8	88.8	97.2	95.5	108.5	18.6
Overseas full-fee paying	2.4	5.4	6.2	7.5	7.5	1.3
Total students	565.3	549.0	550.9	549.9	583.2	100.0
Number of hours of delivery						
Commonwealth and state funding	114,151.5	115,756.0	119,459.9	123,713.0	130,244.6	80.7
Fee-for-service	9,089.8	9,054.7	10,274.5	11,399.3	11,324.9	7.7
Overseas full-fee paying	1,892.5	3,623.5	4,537.7	5,338.6	5,311.1	3.6
Total hours of delivery	125,133.7	128,434.2	134,272.0	140,450.9	146,880.6	100.0

Source: Table 13, Supplement to NCVET, 7 July 2011.

2.4 Performance of VET: Economy, efficiency and effectiveness

When assessing the performance of a government program, it is appropriate to consider performance in terms of three categories: those relating to the three 'Es' – 'economy', 'efficiency' and 'effectiveness'. This framework is typically considered by public sector auditors when undertaking 'performance audits'. In broad terms, references to 'economy' concern whether governments have purchased goods or services for the best possible price. Assessments of 'efficiency' relate to the *relationship between 'inputs'* (such as the costs of acquiring goods and services) and 'outputs' in terms of services to the community. Indicators of efficiency are often expressed in terms of units of service (such as 'cost per student'). Assessments of 'effectiveness' are more difficult to undertake, as they concern whether government programs have delivered the outcomes that they were intended to provide. Difficulties arise, in part, because the effect of many programs on community well-being is not measurable in the short-term (e.g. the overall effectiveness of a health department program of community education designed to reduce the impact of cardio-vascular disease could probably only be assessed after a decade or more).

A second difficulty arises because intended 'outcomes' are often influenced by factors beyond the control of government (e.g. a program designed to reduce the amount of waste dumped in landfill may be overwhelmed by a rare hailstorm event that required the immediate removal of thousands of tonnes of roofing materials). In some cases it is difficult to distinguish the effect of a government program from other influences (e.g. a 'healthy rivers' program may make progress in maintaining river flows by restrictions on upstream irrigators, by reducing industrial pollution and run-off affected by farm fertilisers, but ultimately the major factor affecting the health of rivers is the rainfall). An on-going difficulty is that relevant data about 'outcomes' may not be available immediately (example: a nationwide-Census is not undertaken every year) or (apparently) not at all (e.g. the employment history of graduates at intervals of 5, 10 or 15 years).

In addition it is important to relate these matters to the context in which services are being delivered – which leads to considerations of equity and access (example: a metropolitan public transport system may appear to be 'efficient' insofar as it operates at a low cost per kilometre, and it may appear to be highly effective since customers are well-satisfied with the quality of the service being provided – but consideration of outcomes should also address whether that transport system is serving all or only a proportion of the population).

Finally, it is also important to treat performance indicators relating to efficiency and effectiveness for what they are – as mere *indicators*. In other words, a performance indicator may suggest a number of hypotheses as to what the underlying data represents, and these often warrant further investigation before a concluded view can be reached about trends in performance. That investigation

could include some analysis of the manner in which underlying data was calculated.

An alternative (and in some ways, preferable) approach is to compile information about performance in terms of indicators of 'inputs', 'outputs', 'efficiency (or cost-effectiveness)', and 'outcomes' – supplemented by contextual information. Such a framework has been developed in the USA by the Governmental Accounting Standards Board, and styled 'service efforts and accomplishments' (SEAs) reporting. The approach was modified in the late 1990s by the NSW Council on the Cost of Government which compiled reports not on an agency level but by reference to groups of agencies whose activities were consistent with the broad categories of policy areas of government, as defined by the Australian Bureau of Statistics (which in turn derives its categorisation of government activities from the United Nation's System of National Accounts). Within this framework, separate reports were prepared (within the 'government purpose' category of 'education') for school education, and vocational education and training. A second modification of the SEAs framework was to distinguish 'outcomes' and 'community outcomes'. The term 'outcomes' was used to refer to the impact of government activities on the community (or the environment), while the term 'community outcomes' was used to describe broader outcomes over which a government has no control and for which it could not be held accountable (see Walker, 2001, 2002).

Currently the International Federation of Accountants has a project on 'Reporting service performance information' which may lead to some international standardisation of the way that governments report on their performance.

In Australia, major sources of information about the performance of VET have been DEEWR's *Annual National Report of the Australian Vocational Education and Training System 2008* (published 21 December 2009), the 2009 edition (published May 2011),⁹ and the Productivity Commission's annual series of *Reports on Government Services* prepared for the Steering Committee for the Review of Government Service Provision (SCRGSP). The content of recent reports are examined in more detail below, but some major features might be noted.

First, these Commonwealth reports on the performance of VET in Australia have focused on *publicly funded* VET.

Second, the *Annual National Report of the Australian Vocational Education and Training System 2008* – prepared by DEEWR - referred not to **performance indicators** but to **performance measures**. Possibly this was in recognition of the public service saying, 'what gets measured gets done'. In other words, the report starts from an assumption that there was a 'need' to influence change in several areas, and the use of 'performance measures' was a way of holding public sector

⁹ DEEWR advises that the 2010 'annual report' is due to be published in November 2011.

managers accountable for the achievement of nominated changes. Accordingly the 'performance measures' do not necessarily reflect on the performance of VET *per se* but on the performance of public sector managers in securing the changes that have been nominated as 'national priorities'. As explained in the 2008 Annual Report:

Six key performance measures were developed to monitor student participation and achievement, outcomes and satisfaction experienced by key stakeholders (both students and employers), outcomes specific to Indigenous Australians, community engagement in vocational education and training (VET) and the efficiency of translating government funding for vocational education and training into skill outputs [*sic*] (p. 36).

The management literature commonly refers to the use of 'key performance indicators' (KPIs) as a tool to improve performance – and KPIs may change from year to year as some targets are achieved and attention is focused on other (possibly, new or emerging) issues. In other words, while there is nothing wrong with the use of KPIs (or 'key performance measures') as a management tool, the data produced in the course of these exercises are not necessarily appropriate reflections of the performance of services delivered to the community. Indeed, some could be regarded as only reflecting the context within which services are delivered, or an undue focus on cost reduction – with minimal concern with 'outcomes' in the form of individual skill development or overall community impact.

The 2009 *Annual National Report of the Australian Vocational Education and Training System* (May 2011) had a different focus. It no longer referred to 'national priorities', and it explained that the Report 'is no longer seen as the accountability report for VET system performance' as this was secured through reporting by the COAG Reform Council. 'Instead the report's aim is to cover all COAG performance measures of the VET system' (p. 3). Yet (apparently in recognition of the criticisms outlined above) the 2009 Report dropped reference to '*performance measures*' – they were restyled as '*indicators*'. The set of indicators was unchanged, save that one ('community engagement and satisfaction with VET') was dropped (p. 9).

Finally, mention might be made of the way that the Productivity Commission's *Reports on Government Services* for the COAG Reform Council have approached the development of performance indicators. The Commission states that its 'performance indicator framework' was 'developed around the VET objectives established under the national strategy for 2004–2010' i.e. industry will have a highly skilled workforce to support strong performance in the global economy; employers and individuals will be at the centre of vocational education and training; communities and regions will be strengthened economically and socially through learning and employment; indigenous Australians will have skills for viable jobs and their learning culture will be shared. But the connection between these objectives and the Commission's selection of indicators is not at all clear. The

Commission suggests that it focuses on 'equity', 'effectiveness' and 'efficiency'. These indicators will be considered in turn.

The notion of 'equity' relates to VET participation 'by target groups'. The use of this indicator illustrates how different indicators might be relevant for different purposes. If governments had set targets for *increased participation* by a particular target group (e.g. females, indigenous students, or students with disabilities) then this might be better regarded as a short-term KPI or management tool, rather than as an indicator of the performance of the VET system. To explain: an individual's enrolment in VET does not necessarily mean that the VET provider was successful in developing that individual's knowledge and skills. However data on VET participation rates would certainly explain the *context* within which VET is provided. For example, it is widely accepted that participation rates are affected by economic conditions. VET enrolments can also be affected by students' attitudes towards continuation of secondary school studies beyond year 10. In other words, participation rates could be regarded as contextual information rather than as measures of VET performance.

Indicators of 'effectiveness' are arguably the most significant measures of whether government policies are achieving their desired outcomes. Given such objectives as ensuring that 'industry will have a highly skilled workforce to support strong performance in the global economy', it is disappointing to find that the Commission reports 'there are currently no indicators for "skill profile"', and 'in the interim "skill outputs from VET" are reported under this indicator' (2010, p. 5.46). While the Commission noted that 'most accredited courses and modules have been phased out over the last five years as more industry training packages are endorsed' it might have been considered that some assessments would have been undertaken of the effectiveness of the newly-devised training packages – or of the remaining accredited courses (of which 'English proficiency' is cited as an example). In other words, after major changes in government policy reflected in major changes in the allocation of resources, the Commission has yet to devise ways of measuring whether current policies are actually working.

The Commission's reports pay greatest attention to 'efficiency' indicators – inputs per unit of output such as 'recurrent cost per annual hour of teaching', 'government recurrent expenditure per load pass', 'cost of capital per annual hour' and 'cost of capital per load pass', and 'total government VET costs per annual hour'. None of these reflect any of the 'objectives' that supposedly guide the Commission's choice of indicators.

Moreover, the manner in which 'efficiency' indicators were selected and calculated suggests that the Commission has an agenda of exaggerating the costs of public service provision. For example, the costs per hour of delivering VET courses would depend on the nature of the course (some are more expensive than others because of their use of equipment and supplies) and the level of enrolments (obviously smaller classes cost more per capita to deliver). With an objective of ensuring that 'communities and regions will be strengthened economically and

socially through learning and employment’ then one would expect that the Commission would recognise this and examine the extent to which VET was being delivered to regions and smaller communities (albeit at a higher cost than average). But this information was not presented. Instead, the Commission made adjustments to course mix weights (supposedly to ensure that data was comparable between jurisdictions) and then added some hypothetical costs such as payroll tax (when TAFEs do not pay this State-based tax).

Further, the Commission calculated data concerning the ‘cost of capital per annual hour’ and ‘cost of capital per load pass’ using a rate of 8 per cent applied to the value of TAFE’s investment in properties.¹⁰ From an accounting perspective, no such ‘cost of capital’ adjustments would be recorded in a government agency’s financial statements – they are purely notional adjustments to costs actually incurred in delivering VET.¹¹ Moreover, these notional ‘cost of capital’ charges would increase over time, as property values increased. Accounting standards prescribe that increases in property values be recorded as an increase in ‘comprehensive income’. The value of land and buildings held by government training departments increased by \$2.3 billion between 2005 and 2009 – and much of this would have come from upward asset revaluations¹² rather than the net effect of new acquisitions less asset sales (NCVER, October 2010, p. 13). Yet the Commission chose to report a notional ‘cost of capital’, while ignoring any ‘income’ arising from such increases in the value of properties. The overall effect has been to suggest that VET costs more than it really does in a real world, commercial sense. Possibly this was intended to add weight to arguments about the (supposed) savings to be made from outsourcing the delivery of VET to private sector providers.

It seems fair to say that reports prepared to date have not provided sufficient data to enable a considered assessment to be undertaken of the overall performance of the TAFE system or of VET in the new ‘competitive environment’ – particularly in relation to the principal desired outcome of significantly enhancing the skills of participants. And it is reiterated that even after policy decisions have been made to introduce ‘competition’ to the sector, no independent assessments have been prepared that compare the performance of TAFEs with publicly funded private sector providers in securing those outcomes.

¹⁰ The DEEWR’s *Annual National Report of the Australian Vocational Education and Training System 2008* also calculated indicators using an 8 per cent notional ‘cost of capital’ (p. 282) – and this practice was continued in the 2009 Report.

¹¹ The concept of ‘cost of capital’ was introduced in the literature of business finance to guide the screening of potential investment projects. The cost of capital was regarded as the weighted average of the cost of debt finance and the returns ‘demanded’ by shareholders. Hence it was argued that in order to increase the value of the firm, corporations should only invest in projects that promised a return in excess of their cost of capital. Note that the cost of capital is a theoretical construct since returns ‘demanded by shareholders’ are not observable. The application of this private sector concept to VET and indeed other government activities as the role of government is to provide services to the community, not to increase the value of government assets. See Walker and Con Walker (2000), pp. 300-321 for a fuller discussion.

¹² For example, the 2009 financial statements of the NSW Department of Education and Training show that properties are recorded at ‘fair value’ based on ‘best available market evidence, including current market selling prices for the same or similar assets’.

2.4.1 Australian VET

Boston Consulting Group 2007

Decisions for the Commonwealth, States and Territories to enter into a National Performance Agreement furthering the development of a 'competitive' market in VET followed a report from the Boston Consulting Group (2007) regarding the 'performance' of VET. In retrospect this report appears to have made some strong recommendations that were not supported by the data it presented.

The Boston Consulting Group (BCG) found that the performance of the VET sector over the five years to 2006 had improved against a number of measures. As can be seen in the table below, and as noted in the BCG report:

- satisfaction of government funded graduates was at a five-year high of 88 per cent;
- employer satisfaction with VET in general was 71 per cent (although their utilisation of accredited training was 24 per cent compared with their use of unaccredited training at 53 per cent);
- government recurrent cost per hour dropped from \$15.24 in 2004 to \$14.24 in 2006;
- capital costs per hour also fell slightly from \$2.01 in 2004 to \$1.99 in 2006;
- 77 per cent of government funded VET graduates were employed after their training in 2006 compared with 74 per cent in 2002;
- the proportion of employed people with VET qualifications as their highest qualification grew from 33.4 per cent in 2001 to 34.6 per cent in 2005;
- representation for key groups, such as indigenous Australians, students who speak a language other than English at home, students with a disability, and youth and mature-aged students had increased (pp. 15-16).

Table 19
Summary of key VET performance measures: Australia

Measure	2003	2004	2005	2006	Improving
Recurrent cost per hour	\$15.19	\$15.24	\$14.34	\$14.24	√
Capital cost per hour	-	\$2.01	\$1.95	\$1.99	√
Total cost per hour	-	\$17.25	\$16.30	\$16.23	√
Student satisfaction	82%	85%	88%	88%	√
Employer satisfaction	-	-	71%	-	
VET participation rate	12.1%	11.3%	11.4%	11.4%	x

Source: Boston Consulting Group, 2 October 2007, pp. 15-17.

The above data could be regarded as reporting 'good news'. However the BCG report also noted that:

- the overall national VET participation rate declined from 12.2 per cent in 2002 to 11.4 per cent in 2006, with student numbers steady at around 1.6 million participants; and

- the proportion of government funded students at the level of diploma or above declined from 14.2 per cent in 2001 to 11.7 per cent in 2006 (pp. 15-16).

BCG acknowledged that a decline in VET participation might be expected during a period of high employment and economic prosperity (p. 15) – yet in its executive summary, BCG re-stated this comment as ‘a concerning decline in participation’ (p. 4).

But to return to the data cited above. The BCG report did not explain the source of some of these figures, or how they were calculated. For example, the component of ‘capital cost’ could variously be interpreted as ‘depreciation’ as recorded in accounting records, or as a ‘capital charge’ on the current value of properties and other resources used by providers - and would probably ignore any gains from increases in the value of properties. The BCG report failed to explain what it had assumed in reporting about ‘costs’. But an underlying assumption was that a reduction in ‘costs’ per unit of service depicted an ‘improvement’. Yet the converse could be the case. For example, if the TAFE system or private sector providers were not using purpose-built educational facilities but were renting office space by the hour, they would show a decline in ‘capital cost per hour’ while at the same time providing a poorer service to students. Another example: recurrent cost per hour of instruction could have declined, but this could have been because of the use of poorly-paid unqualified teachers, or from excessively-large classes that limited the opportunities for students to ask questions or obtain individual attention.

A more fundamental concern relates to the failure of BCG to examine the *relative performance* of TAFEs versus government-funded private providers – and in particular, to examine in any depth information relating to ‘outcomes’. The one indicator highlighted was the results of a survey of ‘employer satisfaction’ (and then, that indicator apparently referred to programs in different areas, across Australia). Any data relating to ‘employer satisfaction’ should be interpreted with caution, since (as BCG itself acknowledged) there is a need to balance the objectives of skill development so that individuals can engage in ‘productive and rewarding employment’, as against the immediate needs of some employers (‘appropriate skills in the right industries’) (p. 9). Further, employers face incentives to shift the cost of ‘on the job’ training from themselves to the public purse (by becoming an RTO and obtaining government funding for courses they previously paid for themselves). Plainly the views of employers warrant respectful attention, but so too do the views of professional educators.

Overall, the BCG report largely focused on processes undertaken to develop ‘a national approach to the delivery of vocational education and training’, and appeared to assume that a ‘national approach’ could only be secured by establishing a ‘national competitive market’. In so doing it largely disregarded the first or primary objective of the *Skilling Australia’s Workforce Act 2005*, i.e.

to strengthen Australia's economic base through providing a highly skilled workforce that will meet the future needs of Australian businesses, industries, communities and individuals.

Accordingly, the BCG report was critical of the extent to which there was 'genuine competition' between providers, noting, for example, that there was a need for the 'absence of barriers to new entrants' – without exploring whether there was a case for some regulatory oversight to ensure that newly-formed private providers had the resources to present quality programs. BCG was critical of barriers established by licensing bodies 'in some occupations' – without giving details of the specific licensing conditions it regarded as establishing barriers to entry. Others would regard licensing arrangements as an important measure to protect consumers.

BCG was also critical of the lack of flexibility in publicly-owned providers, citing in particular **the lack of uptake of individual workplace contracts ('AWAs or equivalent')**. Other 'evidence' of a lack of flexibility was the need for some TAFEs to obtain upstream approval for capital expenditure decisions above a certain threshold (a feature which is common within public sector and many other organisations) and the absence of a separation between funders and providers. BCG did not examine the extent to which adoption of a 'funder-provider' model in some jurisdictions had added to administrative costs.

On the basis of these (and similar, contentious or ideologically-based) observations, BCG concluded:

The publicly-funded VET market remains largely non-competitive and State based, and is nowhere near as dynamic as it needs to be to support the needs of the economy and a diverse group of users.

Further 'conclusions' concerned the needs of large employers:

It is difficult for large employers to find a training provider that can serve their needs in multiple jurisdictions. While many TAFE institutes are now strong and commercially focused, their ability to expand into interstate markets is constrained by State arrangements restricting access to government funded training – indeed, we believe the biggest short term boost to dynamism in the VET sector could come from reducing the barriers that hinder TAFE colleges from competing in interstate markets (pp. 4-5).

No evidence was presented to support this contention about difficulties facing 'large employers'¹³ (and most large employers, one suspects, have historically provided their own on-the-job training).

¹³ BCG simply offered assertions e.g. 'many large and small employers work across State boundaries and workers often move between States. National employers require [*sic*] training providers that can partner with them nationally' (p. 34).

In the same vein, the BCG's recommendations included the establishment of a 'competitive national market for VET', for the States and Territories to separate their roles as funders of VET and 'owners' of TAFEs, and for an increase in the proportion of funding 'that is truly contestable' between public, private, community, local or interstate based providers.

These policy recommendations were hardly 'evidence based' – but have largely been implemented through COAG.¹⁴

NCVER Survey of Employer Use and Views of the VET System 2009

Findings from the NCVER *Survey of Employer Use and Views of the VET System* conducted in 2009 showed a high level of satisfaction among employers who used the VET system. Employer satisfaction with TAFE training was high, and improving over the responses to the previous survey (see table below).

Table 20
Satisfaction with the quality of training delivered by main provider in the last 12 months, by type and main provider, 2007 and 2009

Employers satisfied with the quality of training provided by main provider		
	2007 %	2009 %
Apprenticeships and traineeships (Base: all employers with apprentices/trainees and using provider as main provider)		
TAFE	78.6	81.1
Private training provider	76.8	86.3
Industry association	94.4	95.5
Nationally recognised training (Base: all employers using nationally recognised training and using provider as main provider)		
TAFE	85.4	87.6
University	95.5	84.6
Private training provider	87.7	93.6
Government department or agency	90.0	80.5
Professional association	99.7	98.0
Industry association	81.6	92.4
Unaccredited training (Base: all employers using unaccredited training and using provider as main provider)		
TAFE	98.2	99.7
Private training provider	94.4	96.3
Government department or agency	86.3	91.7
Professional association	97.7	96.1
Industry association	99.4	99.8
Supplier/manufacture of equipment and/or product	89.5	96.0

Note: 'Unaccredited training' is training that does not lead to nationally recognised qualification. The training activity must have a specified content or predetermined plan designed to develop employment-related skills and competencies

Source: NCVER, 14 December 2009, pp. 16, 18.

¹⁴ One exception concerned the proposal that Australian governments 'should work to increase the availability of information that will assist users make informed choices about VET products and providers' (pp. 6-7). The lack of information about the capabilities of VET providers is discussed later in this report.

As shown below, NCVER found that in 2009:

- 56.7 per cent of employers used the VET system – that is, recruited someone with vocational qualifications, employed at least one apprentice or trainee or had staff undertake other nationally recognised training (not part of an apprenticeship or traineeship);
- of those who hired a VET graduate, 83.4 per cent were satisfied that vocational qualifications provided employees with the skills they required for their jobs;
- among the 30.6 per cent of employers with apprentices and trainees, 83.2 per cent were satisfied that the training met their skill needs. Of the 10.2 per cent who were dissatisfied, 39.7 per cent believed that relevant skills were not taught, 32.1 per cent believed that the training was of poor quality and 29.7 per cent believed that there was not enough focus on practical skills;
- of the 30.6 per cent of employers with apprentices and trainees, 65.6 per cent use TAFE as their main provider. Of these, 81.1 per cent were satisfied with the quality of the training delivered by TAFE. 24.4 per cent expected to increase their use of apprentices and trainees over the next three years;
- 52.7 per cent of employers used unaccredited training and 95.3 per cent were satisfied (NCVER, 14 December 2009, pp. 1, 5-6).

Table 21
Summary of some employer VET performance measures: Australia

Measure	2007 %	2009 %	Improving
Training Choices			
Employers using the VET system (Base: all employers)	54.0	56.7	√
• with jobs that require vocational qualifications	33.3	34.2	√
• with apprentices and trainees	29.1	30.6	√
• using nationally recognised training	22.1	26.1	√
Employers using unaccredited training	49.0	52.7	√
Employers using informal training	71.0	76.8	√
Employers providing no training	13.9	9.3	
Training importance and satisfaction			
Vocational qualifications as a job requirement (base: all employers with jobs requiring a vocational qualification)			
• Employers who consider it important	90.1	90.9	√
• Employers who are satisfied	80.8	83.4	√
Apprenticeships & traineeships (Base: all employers with jobs apprentices/trainees)			
• Employers who consider it important	91.1	89.7	x
• Employers who are satisfied	83.3	83.2	√
Nationally recognised training (Base: all employers using nationally recognised training)			
• Employers who consider it important	76.7	81.6	√
• Employers who are satisfied	80.5	85.8	√
Unaccredited training (Base: all employers using unaccredited training)			
• Employers who consider it important	93.8	94.6	√
• Employers who are satisfied	92.5	95.3	√

Source: NCVER, 14 December 2009, p. 7.

Of employers who did not use the system, over 87 per cent said 'current employees adequately trained' or training was 'unsuitable or not relevant to the organisation'. Very few of respondents who had tried VET were dissatisfied (1 per cent) (NCVER, 14 December 2009, p. 14).

Given the priority given by government to assisting the unemployed to gain skills to enter the workforce, it is stressed that the above data reflects the perceptions of *employers*, and would not relate to programs such as Language, Literacy and Numeracy (and predecessor programs) – whose enrolments are principally new migrants, unemployed or indigenous students.

Productivity Commission: reference to *employer* satisfaction

The Productivity Commission noted that employers' satisfaction is likely to depend on a range of factors including cost, relevance and the quality of VET assessment received by their workers. It referred to another examination of industry views of competency assessment in the VET sector, in part through a survey of stakeholders by the National Quality Council in 2008 which found that:

- 67 per cent of stakeholders were satisfied or very satisfied with how people in their organisation had been assessed for competence, 19 per cent were neither satisfied nor dissatisfied, and a further 15 per cent were dissatisfied or very dissatisfied;
- 58 per cent of respondents agreed or strongly agreed that assessors conducted appropriate assessment to determine competence, 20 per cent were undecided, and a further 23 per cent disagreed or strongly disagreed (April 2011, p. 118).

The Commission referred to employer dissatisfaction with specific aspects of VET with calls by them for additional government funding. For example, it cited a 2009 study which found in part that employers with apprentices and trainees, particularly those in small- and medium-size businesses, believed that training improvements required additional government funding. Similarly, the Commission noted that the Australian Chamber of Commerce and Industry had previously argued that the system required additional funding (*idem*).

At the same time, the Commission referred to some industry stakeholders with a negative view of VET. However, the negative comments that were repeated commonly expressed the view that VET lacks the capacity to meet industry needs and that it is not responsive to the needs of industry (*ibid.*, pp. 119-120).

NCVER Student Outcomes Survey 2010

The NCVER, to its credit, has produced valuable statistical information about many aspects of the delivery of VET – including some updated information about 'outcomes'.

The 2010 Student Outcomes Survey (SOS), an annual survey run by NCVER found that, overall, student outcomes and satisfaction with the quality of their training in the publicly funded VET sector are high. It found that in 2010:

Employment

- 76.3 per cent of graduates¹⁵ were employed after training, down 1.5 percentage points from 2009;
- 73.5 of module completers were employed after training, a similar proportion to 2009;
- 42.8 per cent of graduates and 29.8 per cent of module completers who were not employed before training were employed after.

Benefits of training

Of those employed after training:

- 77.2 per cent of graduates and 63.1 per cent of module completers reported the training to be relevant to their current job.
- 70.9 per cent of graduates and 52.5 per cent of module completers received at least one job-related benefit.

Further study

- 32.1 per cent of graduates were enrolled in further study after training.
- 86.6 per cent of graduates were employed or in further study after training.

Satisfaction

- 88.9 per cent of graduates and 84.0 per cent of module completers were satisfied with the overall quality of training they undertook;
- 85.3 per cent of graduates and 80.1 per cent of module completers fully or partly achieved their main reason for doing the training (NCVER, 6 December 2010, pp. 1, 5-6).

The table below shows the movement in some of these indicators¹⁶ since 2005.

¹⁵ 'Graduates' are students who were awarded a qualification, while 'module completers' are students who completed part of a course and then left the VET system (NCVER, 6 December 2010, p. 4).

¹⁶ Data does not include 'module completers'.

Table 22
Summary of some student VET performance measures: Australia

Measure	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	Improving
AQF qualification completions ('000)	296.3	292.1	319.2	351.6	393.9	n.a.	√
Employed after training	79.3	79.6	81.1	80.7	77.8	76.3	X
Employed or further study	88.7	87.8	89.2	89.1	87.6	86.6	X
Further study	31.6	30.2	30.8	32.8	32.1	32.1	√
Fully/partly achieved main reason for training	86.0	86.5	86.7	87.9	86.4	85.3	X
Satisfied with training quality	87.1	88.1	88.8	89.0	89.1	88.9	√
Training relevant to job	74.2	73.9	75.2	75.5	77.5	77.2	√
Employed at higher skill level	16.2	18.6	19.2	19.5	20.9	18.6	√
Unemployed: employed post training	46.7	47.6	49.4	48.3	42.7	42.8	X

Note: All data are percentages except for 'AQF qualification completions' which is in '000s.

Source: NCVER, 6 December 2010, p. 9, 7 July 2011, p. 18, and *Historical time series of vocational education and training in Australia, from 1981, 2011*.

The NCVER has quite appropriately used the term 'outcomes' as relating to the impacts on the community of VET programs or activities. There has been a tendency in some quarters to use the term 'outcomes' extremely loosely¹⁷ and to categorise some variables (such as 'participation rates' or 'completion rates') as 'outcomes' when they should more correctly be regarded as 'outputs'.¹⁸

However in order to guide public policy it would be useful if the NCVER **disaggregated outcome data by programs in specific areas, and in terms of providers** – as has only recently been proposed in a report on the use of the Student Outcomes Survey (NCVER, 4 March 2011). The report recommends that a 'scoreboard' approach of post-study outcomes be adopted as a means of measuring quality – showing average outcomes by provider and field of education for a number of variables related to employment and training. Tom Karmel of NCVER stated that 'coincidentally, NCVER has a number of projects currently underway that align with these recommendations' (p. 3)

Further, it would be useful if the NCVER sought **information about 'outcomes' from a wider range of sources than surveys of the perceptions of employers and students**. For example, information about the 'outcomes' of high-volume English language programs designed to equip international students for further study – such as those presented by some private sector providers – could be obtained by surveying those who subsequently teach students who have completed these foundation courses.

¹⁷ For example, in 33 pages of text the 2011 report of the Allen Consulting Group included 123 references to 'outcomes', without defining the term, and often using it in a non-technical fashion (e.g. there were 29 references to unspecified 'equity outcomes'). Other references imported circularity (e.g. references to 'training outcomes' of Vocational Education and Training) or simply confusion (e.g. references to the objectives of raising 'educational attainment **and** outcomes').

¹⁸ This illustrates the difference between KPIs and performance indicators designed to describe the overall performance of an agency or program. If a government objective was to increase participation or completion rates, then these indicators might be regarded as 'outcomes'. If indicators were intended to reflect overall performance, numbers of participants could be regarded as 'inputs' and numbers of those who successfully completed a module or course would be counted as 'outputs'.

Productivity Commission: reference to *student* satisfaction

The Commission reported that ‘high levels of satisfaction appear to be achieved in the private VET sector’. However, the only supporting evidence for this claim is a survey of international students conducted not by the Commission but by the Australian Council for Private Education and Training (ACPET). In 2009 ACPET surveyed 10,000 international students and concluded:

This pilot research found that 86 [per cent] of international students studying at ACPET member institutions are satisfied or very satisfied with all aspects of their study experience (Productivity Commission quoting from ACPET submission, p. 95).

Productivity Commission: estimates of efficiency

The Commission’s calculations of VET efficiency – measured in terms of cost per hour of delivery – are presented in the table below, which is based on data contained in the Commission’s April 2011 report.

Table 23
Real government expenditure per hour of government-funded delivery, 2005 to 2009

Measure	2005	2006	2007	2008	2009
Real expenditure (\$m)	4,072	4,023	4,089	4,099	4,249
Hours of delivery (m)	362	372	390	409	439
\$ per hour of delivery	11.25	10.81	10.48	10.02	9.68

Source: Based on Tables D.20 and D.21, Productivity Commission, April 2011, pp. 416-7.

While a similar summarised table was included in the Commission’s October 2010 Draft Report (see table below), it was not included in its April 2011 Report. Perhaps the omission was because the numbers in the Final Report differed significantly from those in the Draft Report. (No explanation of these differences was provided.)

Table 24
Real government expenditure per hour of government-funded delivery, 2005 to 2009

Measure	2005	2006	2007	2008	2009
Real expenditure (\$m)	3,511	3,614	3,415	3,184	3,215
Hours of delivery (m)	310	318	333	345	368
\$ per hour of delivery	11.34	11.35	10.25	9.22	8.73

Source: Table D.18, Productivity Commission, 2010, p. D.22.

According to the Commission’s data, the estimates in Table 23 above:

- indicate quite large falls in expenditure per hour over the five years to 2009; and

- provide tentative support for a hypothesis that productivity has been increasing in the VET sector.

The Commission did not collect data itself – it relied on NCVER data (October 2010). In its Draft Report, the Commission observed that

Lower government expenditure by publicly-funded hour of VET delivered could be a reflection of a number of factors, including changes in the mix of courses delivered or in the share of student co-payments (Productivity Commission, October 2010, D.22).

However, NCVER does not ‘net off’ student co-payments against expenditure but shows them as revenues – so the Commission’s speculation was incorrect. That may be the reason this explanation was excluded from the Final Report.

2.4.2 NSW VET

Boston Consulting Group 2007

In the case of NSW VET, as shown in the table below, the BCG Report found that:

- unit costs had improved with cost per load pass hour in 2006 below the national average;
- despite comparatively high teaching costs per hour within the main provider, NSW was below the national average costs per hour;
- student satisfaction had been increasing over time and was above national average levels;
- employer satisfaction¹⁹ was slightly below, though not significantly different from, the national average;
- participation was above the national average (pp. 49-50).

Table 25
Summary of key VET performance measures: New South Wales

Measure	2003	2004	2006	National average 2006
Recurrent cost per hour	\$16.02	\$15.06	\$14.27	\$14.24
Capital cost per hour	-	\$2.03	\$1.86	\$1.99
Total cost per hour	-	\$17.09	\$16.13	\$16.23
Total cost per load pass hour			20.70	22.01
Student satisfaction	83%	86%	89%	88%
Employer satisfaction	-	-	69%	71%
VET participation rate	12.2%	10.9%	11.9%	11.4%

Source: Boston Consulting Group, 2 October 2007, pp. 49-50.

¹⁹ Overall employer satisfaction with VET is defined as ‘satisfaction with apprentices and trainees, nationally recognised training and formal vocational qualifications as a job requirement’ (Boston Consulting Group, 22 October 2007, p. 49).

In summary, according to the BCG Report, NSW VET had performed better than the national average on all but one of the measures presented.

NSW Department of Education and Training Annual Report 2010

As noted above and as stated in the 2010 Annual Report of the NSW Department of Education and Training (DET),²⁰ TAFE is the leading provider of VET in Australia with the largest number of students and the widest choice of qualifications on offer. It is made up of ten Institutes, one of which includes the Open Training and Education Network (OTEN); and they operate some 130 campuses and specialist centres. NSW TAFE was approved as a Higher Education Institution in 2010 and is commencing delivery of its first degree, the Bachelor of Design (Interior Design) in 2011 (p. 17). According to the DET Annual Report, NSW TAFE offers:

1,300 work related qualifications which are continuously reviewed in consultation with industry to ensure they accommodate the evolving patterns of employment in NSW. These qualifications are aligned with national qualifications and are delivered in a variety of innovative ways on campuses, in workplaces and online (p. 17).

In relation to VET and a skilled workforce, the former NSW Government's State Plan Targets were as follows:

- A 50% drop in 20-64 year olds without AQF Certificate III level or above qualifications between 2009 and 2020.
- A 100% increase in people achieving Diploma and Advanced Diploma qualifications between 2009 and 2020.
- Increase participation in green skills training (TAFE NSW and other publicly funded training) to 5% by 2013.

The new Coalition Government has reworded and made changes to these targets in its *NSW 2021: A Plan to Make NSW Number One* as follows:

- 50% increase in the proportion of people between the ages of 20 and 64 with qualifications at AQF Certificate III and above by 2020
- 100% increase in the number of completions in higher level qualifications at Diploma level and above by 2020
- 20% increase in the number of completions in higher level VET qualifications at AQF Certificate III and above by women by 2020
- 20% increase in the number of completions in higher level VET qualifications at AQF Certificate III and above by students in rural and regional NSW by 2020

²⁰ Known as the Department of Education and Communities since April 2011.

- 20% increase in the number of completions in higher level VET qualifications at AQF Certificate III and above by Aboriginal students by 2020 (September 2011, p. 14).

Meantime, according to TAFE NSW, in 2010, it met or exceeded all of its 2010 NSW Government commitment targets (NSW DET, pp. 17-18).

The table below presents some performance indicators for NSW public VET, including some 'outcome' indicators relating to post-training employment. It shows that NSW compared well with the Australian average – in line with some, a little below others and higher for the rest.

Table 26
Summary of some student VET performance measures:
New South Wales v Australia 2010

Measure		NSW	Australia
AQF qualification completions	'000	121.1	393.9
Employed after training	%	73.6	76.3
Employed or further study	%	86.3	86.6
Further study	%	35.5	32.1
Fully/partly achieved main reason for training	%	84.4	85.3
Satisfied with training quality	%	89.4	88.9
Training relevant to job	%	77.9	77.2
Received at least one job-related benefit	%	71.5	70.9
Employed at higher skill level	%	18.9	18.6
Unemployed: employed post training	%	40.7	42.8

Note: All data are percentages and are for 2010, except for 'AQF qualification completions' which are in '000s for 2009.

Source: NCVER, 6 December 2010, p. 9, 11, 7 July 2011, p. 18, and *Historical time series of vocational education and training in Australia, from 1981, 2011*.

TAFE NSW provided its own performance indicators over the period 2006 to 2010 as shown below.

Table 27
Summary of some student VET performance indicators: TAFE NSW

Measure	2006 %	2007 %	2008 %	2009 %	2010 %
Graduates employed 6 mths after training	76.0	74.8	73.1	71.1	70.0
Module completers employed after 6 mths	72.5	71.6	72.5	68.7	66.3
Graduates in further study after training	34.5	35.3	38.6	39.0	37.1
Graduates satisfied with training	88.4	89.6	90.0	90.0	89.0

Source: NSW DET, 2010 Annual Report.

The table shows that while a lower percentage of graduates and module completers was employed six months after training, a higher proportion of graduates was satisfied with training and a higher proportion was in further study.

2.5 Future VET Needs

Given the emphasis placed by bodies like NCVER on trends in enrolment statistics, it is important to place some of that data in context – particularly by reference to levels of demand for places in training modules or courses, and whether existing funding levels are adequate.

2.5.1 AEU State of our TAFEs Survey Report

Increasing pressures on the TAFE system were apparent in a survey conducted by the federal office of the Australian Education Union in the three weeks between 8 February and 1 March 2010. The survey was completed by 2,691 people working in TAFE across Australia of which 93 per cent were teachers and 7 per cent managers. The results of this survey are summarised below with the Australian results shown first, followed by the NSW results.

Table 28
AEU State of our TAFEs Survey Report

<p>Demand for Training and Education</p> <ul style="list-style-type: none"> • 46% (NSW: 63%) of respondents said they were aware of student waiting lists in their department or TAFE. • The areas where waiting lists were highest were engineering and related technologies (21%) (NSW: 17%), education (17%) (NSW: 19%) and language, literacy and numeracy (16%) (NSW: 16%). • 56% (NSW: 58%) of respondents said student demand in their area had increased in the last two years. • 58% (NSW: 76%) of respondents said they had been forced to turn students away in the last two years. • The primary reason why students were turned away (respondents could choose more than one reason) were lack of places (70%) (NSW: 77%), insufficient students (37%) (NSW: 36%) and resources (29%) (NSW: 30%). • The main areas where students were turned away were engineering (20%) (NSW: 16%; Information technology also 16%), education (13%) (NSW: 15%) and language, literacy and numeracy (13%) (NSW: 12%).
<p>Resources and Workloads</p> <ul style="list-style-type: none"> • 53% (NSW: 62%) of respondents said that the overall budget in their department had decreased in the last two years. • 49% (NSW: 48%) of respondents said class sizes had increased in the last two years. • 84% (NSW: 89%) of respondents said that their workload had increased in the last two years. • Respondents said that if additional resources were made available the highest priorities should be computers and technology (58%) (NSW: 63%), trade equipment (50%) (NSW: 57%), technical and admin support (49%) (NSW: 50%) and classrooms (46%) (NSW: 45%).
<p>Industry Demand</p> <ul style="list-style-type: none"> • 70% (NSW: 75%) of respondents said that their TAFE did not have the capacity to meet industry needs, particularly in the local community.

Source: Australian Education Union, *AEU State of our TAFEs Survey Report*, 8 February-1 March 2010.

Since that survey, there have been further improvements in Australia's employment situation and further pressures on VET are expected with the continuing needs of the mining industry.

2.5.2 Skills Australia

In a recent report, Skills Australia estimated that the nation will need an additional 2.4 million skilled workers by 2015²¹ and the number of extra workers needed will grow to 5.2 million by 2025 – to meet projected industry demand and to replace retiring workers. The increases represent around a 3 per cent growth per annum in tertiary graduates²² from now until 2025 (3 May 2011, pp. 2, 8, 21).

According to Skills Australia, this will require funding for the VET sector to grow at an average increase of 3 per cent a year, starting with \$310 million in extra funding in 2012-13, with total funding growing to an estimated \$10,283 million in 2015, to almost \$12 billion by 2020, and \$14 billion by 2025 (see table below) (Skills Australia, 3 May 2011, p. 299).²³ As noted by Skills Australia, the 3 per cent average annual rate is about the same rate as funding rose in real terms from 2003 to 2008 (*ibid.*, p. 142),²⁴ followed by a 6 per cent increase in 2009 (p. 149).²⁵

²¹ This refers to qualifications at Certificate III level and higher (Skills Australia, 3 May 2011, p. 21).

²² Skills Australia variably refers to a 3 per cent annual growth rate in 'graduates' and 'enrolments'. It is assumed that the figure refers to graduates.

²³ A March 2010 report prepared for the AEU by the Centre for the Economics of Education and Training at Monash University found that government recurrent expenditure per hour of training declined by 22.3 per cent from 1997 to 2008 (Monash University – ACER, March 2010, p. 2). It found that achieving the Council of Australian Governments (COAG) target to halve the proportion of the population without a Certificate III or higher qualification and the target of doubling the annual number of Diploma completions by 2020 will require an increase in government recurrent funding of \$2.2 billion – that is, an average increase in public expenditure on VET of an additional \$200 million each year between 2009 and 2020 (*ibid.*, 17-20). This was also the recommendation of the AEU in its *Submission to the Productivity Commission Study into the Vocational Education and Training Workforce* (July 2010, p. 40).

²⁴ The average annual growth rate of the base VET funding was 3.5 per cent in real terms during 2005-09. This included a large increase in Australian Government funding in 2009. The average for 2005-08 was 1.7 per cent (Skills Australia, 3 May 2011, p. 142).

²⁵ From 2002 to 2009, revenues from the states increased by less than 1 per cent per annum, while Australian government revenues increased by nearly 8 per cent per annum, after including a large increase in 2009. By 2009, states and territories no longer provided the majority of operating funding for the VET sector – with their proportion falling from 56.3 per cent in 2002 to 47.4 per cent in 2009, down from 50.5 per cent in 2008. As a result of increased funding of \$325 million under the Productivity Places Program National Partnership Agreement, the Australian Government share increased to 28.4 per cent in 2009 from 22.1 per cent in 2002. In addition, revenue from fee-for-service (including from overseas students) increased from 10.9 per cent in 2002 to 15.7 per cent in 2009 (Skills Australia, 3 May 2011, p. 149).

Table 29
Skills Australia recommendation for growth in funds for publicly supported VET to 2025

Source	2008	2010	2015	2020	2025
Student numbers '000	1670	1757	1943	2200	2502
Qualification completions '000	298	316	367	424	489
Funding for VET places (including 3% growth)	\$6,140	\$6,500	\$7,300	\$8,300	\$9,620
Existing support programs (3% growth applied)					
Student assistance (VET)	451	478	555	643	745
LLN support WELL	15	22	39	46	53
Programs LLNP	68	72	125	144	167
Sub-total LLN	83	94	164	190	220
Employer incentives and apprenticeship programs	\$1,612	\$1,700	\$1,773	\$2,006	\$2,295
Subtotal existing programs	\$2,146	\$2,273	\$2,472	\$2,839	\$3,261
New support initiatives (3% growth applied)					
Student assistance (VET start-up scholarship)			234	270	312
Support programs for disadvantaged learners (AWF)*			183.6	492.6	810.6
Workforce development programs Expansion of Enterprise Connect Program			26	26	26
Industry/regional cluster program			15	15	15
Workforce Development Observatory			4	4	4
(AWF) A new collaborative planning framework			2	2	2
Sub-total workforce development programs			46	46	46
VET workforce development strategy			42	47	52
Reform implementation initiatives			5	0	0
Subtotal new programs			\$511	\$855	\$1,212
Total	\$8,286	\$8,773	\$10,283	\$11,994	\$14,092

Note:

- Publicly supported VET includes all the funds of public providers and the public funds of private providers. The base funding for VET places in this table comprises operating and capital funding. Private funding is included except for funds from international students. Estimates based on NCVER financial information for 2008 and 2009. All other items listed in the table are currently government funded.
- Values are in 2008 dollars (millions).

Source: Skills Australia, 3 May 2011, p. 143.

2.6 Summary

This section outlined some facts about VET providers and students, the sources of funding for VET – and what has been published about VET's performance.

The overall picture which emerges is that Commonwealth policies to vastly expand the proportion of the Australian population with educational qualifications, including in the area of VET, and to require States and Territories to open up VET to 'competition', have led to substantial changes in the delivery of VET.

TAFE remains the dominant provider of VET in Australia. According to NCVER, in 2010, 170 TAFEs (and other government providers) enrolled 1.3 million students, while community and other private sector RTOs enrolled around 460,000. In 2010, government providers – mainly TAFE – also accounted for around 80 per cent of total student contact hours (Table 1). In 2009, funding of public VET totalled nearly \$6.8 billion with 76 per cent coming from governments.

However there are now more than 3,700 private RTOs providing some elements of VET, and an increasing proportion of public funding for VET has been diverted

towards private sector providers. A Productivity Commission estimate of 2008 funding was that out of a total of \$4.1 billion of government recurrent funding, private providers received \$455 million (11 per cent) (see Table 12 above).

Moreover, some private sector providers that specialise in training have enjoyed substantial revenues from student fees. In 2008 it was estimated that 'fee for service' delivery generated \$991 million to government providers and \$2,075 million to private providers.

The changes have also led to pressure on the TAFE system – with an average increase in enrolments of the publicly-funded system between 2007-10 of 7.3 per cent accompanied by tighter funding, particularly for NSW TAFE which received funding growth between 2005 and 2009 of 18.1 per cent. This was little more than CPI increases over the same period (15.6 per cent) and far less than the Australian average increase in funding of just under 35 per cent. Funding restrictions have led to increases in class sizes and increases in the workload of teachers. A high percentages of TAFE teachers – 70 per cent (NSW: 75 per cent) – have indicated that their TAFE did not have the capacity to meet industry needs, particularly in the local community. TAFE teachers point to the need for additional resources.

Private sector providers appear to have focused on the less costly and more profitable activities in VET. As such they are fulfilling government wishes to open up the VET sector to 'competition'. Meantime, governments have openly stated that government agencies (TAFEs) play a critical role by investing in areas of 'market failure' (in other words, when private sector operators consider that their involvement would not be profitable).

The effect of government policies is to allow private providers to engage in cream skimming.

Despite this, government agencies (and consultants to government) have focused on the 'efficiency' of publicly funded providers (principally, TAFEs) while ignoring the context in which many TAFE services are provided. By placing such emphasis on indicators of 'efficiency' (such as 'cost per student') they have implied criticism of the, by necessity, high-cost operators. At the same time, little attention has been paid to 'outcomes'.

Indeed, published reports on VET performance reflect some confusion about the choice of indicators. For example:

- some published assessments of the TAFE sector (notably the *Annual National Report of the Australian Vocational Education and Training System 2008* – prepared by DEEWR) have focused on KPIs – and hence have failed to provide data relevant to an assessment of the overall performance of the TAFE system.

- the Productivity Commission's *Reports on Government Service Provision* claim to have approached the development of performance indicators by reference to the objectives of VET established under the 'national strategy for 2004–2010' i.e.
 - industry will have a highly skilled workforce to support strong performance in the global economy;
 - employers and individuals will be at the centre of vocational education and training;
 - communities and regions will be strengthened economically and socially through learning and employment;
 - indigenous Australians will have skills for viable jobs and their learning culture will be shared.

But in practice the Commission's *Reports on Government Service Provision* do not present a set of indicators that directly relate to these objectives.

In part, this arises because only limited data relating to 'outcomes' has been collected. It is acknowledged that reviews of VET 'performance' undertaken by DEEWR, the Productivity Commission and the NCVER have attempted to consider 'outcomes' by referring to employer satisfaction with VET, and on student satisfaction with their experience with teaching and assessment. The NCVER has also considered outcomes for students – considering employment experience before and after training. Arguably the latter is one of the most valid measures of the effectiveness of VET (though it would be affected by changes in economic conditions). Student satisfaction, while of interest, is likely to be closely correlated with student performance in assessments. Employer satisfaction may be closely related to perceptions of the relevance of training to the tasks undertaken in disparate (and often highly specialised) workplaces.

An overall assessment of the effectiveness of VET must of necessity consider not only the scores on a variety of indicators, but also *trends* in those scores.

Despite the growth in the private provision of VET, most reliable and published information (from NCVER) is limited to *publicly funded* VET. Even this provides only limited data about the performance of TAFEs (with very little information about the performance of the TAFE system's 'competitors' in the delivery of VET, i.e. community or private providers.

3. GOVERNMENT VET POLICY

3.1 Introduction: Role of government

Until the early 1990s, Australian vocational education and training comprised the separate State TAFE institutes which provided technical and further education and which received all public funding. All this began to change when in 1992, the Commonwealth, States and Territories signed the Australian National Training Authority Agreement aimed at establishing a consistent VET system (IPART, December 2006, p. 60).

Following this Agreement, National Training Packages were introduced as were consistent policy frameworks incorporating national recognition of qualifications, quality assurance, teaching and learning, funding, statistical systems and performance measurement. As well, mechanisms were established to facilitate increased input from industry. All this was assisted by the creation of State Training Authorities (*idem*).²⁶

‘Technical and further education’ was changed to ‘vocational education and training’. In 1998, the VET market was opened to competition with the introduction of the national ‘User Choice’ policy (*idem*).

At the same time, there was a move towards more so-called demand-driven and competitive approaches to encourage a training market as noted by Skills Australia:

The landmark change in this direction for the VET sector was undertaken under the auspices of the Australian National Training Authority, following the Fitzgerald review of 1994. This review argued the case for the introduction of greater choice by individuals of training provider and the opening up of a training market to stimulate increased opportunity and flexibility for the take-up of training (3 May 2011, p. 36).

The emphasis on market processes in the VET sector has given rise to questions as to the quality of services provided, and the role and responsibilities of government.

There is however general agreement that the public sector plays a key role in Australian vocational education and training. Even those who advocate a major role for the private sector, concede that government also has an essential role. For example, one consultant stated in 2007:

²⁶ The NSW Board of Vocational Education and Training (BVET) was created in 1994 as the State Training Authority. Its role included advising the Minister on priorities for VET and the allocation of Commonwealth training funds (IPART, December 2006, p. 60).

The Australian vocational education and training (VET) system supports economic growth through the supply of skilled workers to industry, and assists individuals to gain the skills needed to engage in productive and rewarding working lives. The strong involvement of government in the VET sector reflects the public benefit attached to achieving these economic and social objectives (Boston Consulting Group, 2007, p. 4.)

This is the opening paragraph of the executive summary of that 2007 report. At the same time it stated that:

Government involvement in VET reflects the public interest in the sector's economic and social objectives, beyond the benefits delivered to individuals and firms (p. 10).

And:

government plays a critical role by investing in areas of market failure (p. 10).

More recently, Skills Australia advocated continuing government core funding of TAFE colleges since they fulfilled a 'public good' role not achievable through market forces. It has recognised the necessity of 'core or base (government) funding (of the VET sector) to enable public providers to fulfil a public good role that cannot be achieved through market-based arrangements' (3 May 2011, p. 13). In part, it recommended that Australian governments:

agree to maintenance by state and territory governments of core or base funding to enable public providers to fulfil a public good role that cannot be achieved through market-based arrangements. Such funding must be subject to clear performance outcomes and reform accountabilities, including greater flexibility in governance arrangements (*ibid.*, p. 75).

This position was supported by the Australian Industry Group in a submission to Skills Australia which stated in part:

Industry wants TAFE to continue to play important roles in community service, social inclusion and the provision of foundation skills (*ibid.*, p. 73).

Skills Australia referred to another industry body submission which stated:

Publicly funded organisations should be mandated to drive the difficult training issues identified by government policy direction e.g. regional delivery, equity and disadvantaged people. TAFE has always had a community education obligation component to its services that is not part of a competitive market ... Aside from that it has the greatest capacity to maintain and add to its training infrastructure due to its size and delivery profile. This has a cascading effect in that training provision in trade areas that require

significant infrastructure and resources tend to revolve around TAFE institutes and private RTOs (Registered Training Organisations] are unlikely to try and enter the market (*ibid.*, p. 73).

This is highly relevant to the increasing needs of tradespeople in the Australian economy. In fact, according to Skills Australia, many submissions to it praised the work-based delivery model of apprenticeships and traineeships as an invaluable hallmark of the Australian education and training systems, and quoted the Australian Industry Group as describing the Australian model as:

... the most recognised, accepted and utilised method of developing technical skills (*ibid.*, p. 60).

3.2 VET institutional and governance arrangements

While under the Australian Constitution responsibility for VET is with State and Territory Governments, the Commonwealth Government plays a significant role through funding arrangements and direct program delivery along with States and Territories. Following is a brief overview of the institutional and governance arrangements.

3.2.1 Ministerial and departmental framework

Co-operation between the various jurisdictions is largely through the Council of Australian Governments (COAG).

COAG agreed to the National Agreement for Skills and Workforce Development on 29 November 2008. The Agreement sets out the commitment between the Commonwealth and State and Territory Governments 'to work towards increasing the skill levels of all Australians, including Indigenous Australians' (*Communique*, 29 November 2008, p. 25). It:

defines the objectives, outcomes, outputs and performance measures, and clarifies the roles and responsibilities that will guide the Commonwealth and the States and Territories in delivery of services across the skills and workforce development sector (*National Agreement for Skills and Workforce Development*, 29 November 2008, p. 1).

Ministers from the Commonwealth and States and Territories oversee the VET sector through relevant training authorities or departments in their respective jurisdictions. The State and Territory agencies administer VET and (directly or indirectly) allocate funds, register training organisations and accredit courses. The ministers form the Ministerial Council for Tertiary Education and Employment (MCTEE).

MCTEE has overall oversight of the national training system (except for VET-in-Schools which is overseen by the Ministerial Council for Education, Early Childhood Development and Youth Affairs). Responsibilities of MCTEE include strategic policy, priority setting, planning and performance, and key cross-sectoral issues impacting on the national training system, such as skills forecasting, workforce planning (including skills needs) and articulation between VET and higher education (Productivity Council, April 2011, p. 422).

A range of advisory groups and support structures support MCTEE including the National Senior Officials Committee, the National Industry Skills Committee, the National VET Equity Advisory Council, and the National Quality Council (*idem*).

3.2.2 National skills advisory framework

Various organisations provide advice about the skills needs of the economy. The main such federal body is Skills Australia which advises the Minister for Tertiary Education, Skills, Jobs and Workplace Relations. It is supported by Industry Skills Councils.

Industry training advisory bodies are established in each state and territory (*ibid.*, pp. 422-3).

3.2.3 Regulation and quality assurance arrangements

The national regulatory framework comprises the National Skills Framework and promotes quality and national consistency in terms of qualifications and the delivery of training with three key elements namely: the Australian Quality Training Framework (AQTF), the Australian Qualifications Framework (AQF) and Training Packages (*ibid.*, p. 423).

The AQTF comprises national standards for the registration and auditing of RTOs, the accreditation of courses, and national standards for State and Territory registering authorities. The National Quality Council (NQC) ensures consistency in the application of AQTF standards and also oversees the endorsement of Training Packages (*ibid.*, pp. 423-4). A new National Skills Standards Council (NSC) assumed the functions of the NQC and its recommendations on standards (as approved by the MCTEE) will be implemented by the new VET regulator (National Skills Standards Council, 22 August 2011).

Only RTOs can provide nationally accredited content (usually that contained in the Training Packages). Training providers must meet AQTF standards in order to be registered. Registration with the relevant State or Territory registering authority must be renewed at least every five years. An RTO can be audited by the registering authority any time during its period of registration. RTOs operating across State or Territory borders (until recently) could have their registration and

audit arrangements managed nationally by the National Audit and Registration Agency (NARA) (Productivity Commission, April 2011, p. 425). A ministerial company, Technical and Vocational Education and Training (TVET) Australia managed NARA (*ibid.*, p. 426).

The new national regulator, the Australian Skills Quality Authority (ASQA) has been in place from 1 July 2011. It replaces NARA and is responsible for the registration and auditing of about 3,700 of the current 5,000 RTOs and the accreditation of courses (Skills Australia, 3 May 2011, p. 81).

Concerns have been expressed about the operations of the regulatory framework. For example, Skills Australia has expressed concerns that adequate funding be provided so that ASQA can implement critical reforms required 'to achieve a world-class VET sector acknowledged for its high-quality teaching and learning outcomes' (*idem*). Skills Australia has also expressed concern about the alleged variable quality in the delivery of the Training and Education (TAE) Certificate IV in Training and Assessment. It describes situations where:

... delivery that occurs in a matter of a few days and cases in which RTOs deliver to and assess their staff without independent scrutiny. A quick web search will identify many providers offering five-day programs (*ibid.*, p. 87).

And:

There is sufficient evidence of system-wide weakness and the failure of the current regulatory approach to support concerted action on a number of fronts, including not only more intensive auditing but the imposition of higher-level requirements for initial and renewal registration for providers that seek to deliver this qualification (*ibid.*, p. 88).

... there is a risk unless stronger quality arrangements are in place, there will be a 'rush' of providers into the market to meet the increased demand, thus potentially causing low-quality delivery of this central qualification to become more widespread (*idem*).

Skills Australia says that higher requirements are imposed in some jurisdictions and gives the example of New South Wales advising that 'those applying to have the Training and Education Training Package qualifications on their scope will be assessed by a small specialist pool of auditors and the evidence required will be more extensive' (*idem*).

3.2.4 Information and research

The National Centre for Vocational Education Research (NCVER), a company owned by Commonwealth and State and Territory ministers for training, is the main body responsible for collecting, managing, analysing, evaluating and

communicating research and statistics about VET nationally (Productivity Commission, April 2011, pp. 426-7).

3.2.5 Regulation of delivery to international students

The *Education Services for Overseas Students Act 2000* (Cwlth) (ESOS) with various State and Territory legislation for the registration of providers and accreditation of courses regulate the delivery of VET to international students. The ESOS Act is managed by DEEWR which can impose sanctions against an RTO, including suspending or cancelling its right to teach overseas students. Breaching the laws may also be a criminal offence attracting fines or imprisonment.

Recruiting, enrolling or teaching overseas students requires an RTO to be registered on the Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS). Such registration requires a provider to meet the requirements of the National Code of Practice for Registration Authorities and Providers of Education and Training to Overseas Students. This Code complements the national quality assurance frameworks (*ibid.*, p. 427).

Skills Australia recognises that while the international education market has undergone a period of adjustment following a period of growth, it remains an important export industry for Australia. Maintaining the strength of this industry places significant demands on the VET workforce to meet the needs of the international students (3 May 2011, p. 91).

3.3 Council of Australian Governments: Going to market

The *2005-08 Commonwealth-State Agreement for Skilling Australia's Workforce Agreement* (the SAW Agreement) was signed by the Commonwealth, States and Territories in 2005 – in accordance with the requirements of the *Skilling Australia's Workforce Act 2005*. It set out the framework for the Commonwealth to provide almost \$5 billion over four years to support State and Territory training systems over 2005-08. Included in the Agreement was the framework for a 'New National Training System'. The Agreement required maximising user choice for employers and apprentices, implementing more flexible employment arrangements for TAFEs, achieving full implementation of competency-based training and increasing the utilisation of publicly funded training infrastructure.

Included in the objects the *Skilling Australia's Workforce Act 2005* was the following:

- 4(c) to support a national training system that:
 - (i) is responsible to the needs of industry and employers and in which industry and employers drive the policies, priorities and delivery of vocational education and training

And as part of the conditions of grants for new apprentices, the Act stated in part:

- 11(1) The State must comply with the user choice policy and take action to maximise choice for employers and new apprentices, including:
- (a) by implementing arrangements to introduce genuine competition in the vocational education and training sector;
 - (b) by implementing arrangements to ensure that employers and new apprentices have greater choice and flexibility in relation to their VET provider and the method and location of the training provided

Thus the Council of Australian Governments (COAG) embarked on a program to change public vocational education and training by increasing the involvement of private providers through competitive tendering.

Following its 29 November 2008 meeting, COAG announced that it had agreed to a new *Vocational Education and Training – National Skills Workforce Development Agreement* to operate from 1 January 2009 to 30 June 2012 (COAG Communique, 29 November 2008, p. 25-27). Through this Agreement, COAG would monitor progress towards achieving the following outcomes:

- the working age population have gaps in foundation skill levels reduced to enable effective educational, labour market and social participation;
- the working age population has the depth and breadth of skills and capabilities required for the 21st century labour market;
- the supply of skills provided by the national training system responds to meet changing labour market demand; and
- skills are used effectively to increase labour market efficiency, productivity, innovation and ensure increased utilisation of human capital (p. 5).

The targets of the Agreement were to:

1. Halve the proportion of Australians aged 20-64 without qualifications at Certificate III level and above between 2009 and 2020.
2. Double the number of higher qualification completions (diploma and advanced diploma) between 2009 and 2020 (p. 6).

These targets were underpinned by various funding initiatives but, importantly, the Agreement required all parties to agree to policy and reform directions including the following:

- reforming training products, services, information systems and regulation to meet a more demand and client driven system;

- driving further competition in current training arrangements and strengthening capacity of providers and businesses to build the foundation and deeper and broader skills required by the 21st century labour market (pp. 7-8).

In the lead up to the November 2008 meeting it was emphasised that ‘the Commonwealth would continue to support all jurisdictions that engage in significant reform of the training system’ (*COAG Fact Sheet*, November 2008).

A number of outputs by State and Territories were to be used to measure progress towards achieving government targets. In the case of New South Wales, these outputs were to be as follows up to 2012. (As for other States and Territories, these outputs for New South Wales were shown to be constant over the four years of the Agreement.)

Table 30
Outputs under National Agreement for Skills and Workforce Development: New South Wales

Measure	2009	2010	2011	2012
1. Enrolments in VET	458,728	458,728	458,728	458,728
2. Course completions in VET	104,314	104,314	104,314	104,314
3. Unit/module completions in VET	2,626,015	2,626,015	2,626,015	2,626,015
4. Course completions by Indigenous Australians in VET	2,550	2,550	2,550	2,550
5. Enrolments by Indigenous Australians in higher level VET qualifications	6,268	6,268	6,268	6,268

Source: COAG, *National Agreement for Skills and Workforce Development*, November 2008, p. A-16.

The COAG Reform Council was to monitor and assess the performance of all governments.

Subsequent COAG meetings continued to emphasise the need for reform and developed plans and initiatives to address areas for reform.

For example, at its 7 December 2009 meeting, COAG reinforced its determination to ‘further reforming the vocational education and training (VET) sector, including actions to strengthen the trade apprenticeship system, recognising the need for a well-trained workforce as the economy recovers’ (Communique, 7 December 2009, p. 1). It agreed to the establishment of a national VET regulator responsible for the registration and audit of training providers, and accreditation of courses, and a National Standards Council. It also agreed to amend the Australian Quality Training Framework (AQTF) to strengthen the regulatory requirements underpinning the VET sector due to weaknesses becoming apparent in the international education sector (*ibid.*, pp. 1, 5).

The February 2011 COAG meeting agreed in principle to the Intergovernmental Agreement for Regulatory Reform of Vocational Education and Training to establish the national VET regulator (*Communique*, 13 February 2011, p. 4). While the August 2011 COAG meeting ‘agreed to adopt a new national framework of objectives and principles for a reformed national VET system’, the intention was

for the framework to guide development of reform proposals to be considered by COAG in 2012 (*Communique*, 19 August 2011).

3.4 2010-11 Commonwealth Budget

A Ministerial Statement accompanying the 2010-11 Commonwealth Budget repeated the Government's belief that 'Australia's VET system is pivotal to the development of skills contributing to this nation's wealth and helps support social cohesion in the community' and stated that the Government's aspirations for the future of vocational educations are built around the following pillars:

- A responsive national system with qualifications of breadth, depth and intrinsic merit that meet the skills needs of the economy and provide pathways into work, learning and the community.
- A quality system with transparency in governance, funding and performance.
- An accessible system for workers, youth, communities and industry.
- A diverse system encompassing high-quality public and private providers (Gillard and Albanese, pp. 22-23).

And in outlining Budget allocations the Government stated that it would:

seek State and Territory governments to undertake ambitious reforms of their vocational education and training (VET) systems (*2010-11 Budget Paper No. 2*, p. 149)

And that:

reforms must be significant in nature (*idem*).

3.5 2011-12 Commonwealth Budget

This year's Budget, continued to outline the Commonwealth's determination for increased competition in VET. It referred to the setting of new reform standards for its '\$7 billion over five years investment in the Skills and Workforce National Agreement' and also 'offer \$1.75 billion over five years (from 2012-13) to states and territories who are prepared to partner with the Commonwealth on more ambitious reform for VET' (*2011-12 Commonwealth Budget No. 1*, p. 4-34). As noted in a statement accompanying the Budget Papers:

The Budget delivers a major reform in VET through a new partnership between the Government and industry to lift the skills and capacity of Australia's workers.

The Government will set new benchmarks for improved quality, transparency and outcomes from the states and territories as a condition for its base agreement on VET, worth \$7 billion over the next five years.

In addition, the Government will offer an additional amount of up to \$1.75 billion from 2012-13 for those jurisdictions that are prepared to sign up to more ambitious reform to the performance and quality of their respective public training systems (2011-12 Commonwealth Budget, *Building Australia's Future Workforce: trained up and ready for work*, May 2011).

Note that while the word 'competition' was not used, one union official advised that it was clear to those attending Budget briefings that increasing competition in VET is a necessary prerequisite for Commonwealth funding.

3.6 NSW Government's recognition of the importance of TAFE in VET

As noted in the 2010 Annual Report of the NSW Department of Education and Training, TAFE NSW is the leading provider of VET in Australia with the largest number of students and the widest choice of qualifications on offer (p. 17).²⁷

In the lead up to the March 2011 State election, some 160 candidates recognised the importance of NSW TAFE (and, hence, Government) in VET when they signed pledges of support for the Teachers Federation's *Invest in TAFE for a Better State Campaign*. Those supporters and signatories included the now Deputy Premier Andrew Stoner, the now Minister for Education and Communities Adrian Piccoli and the now Minister for the Environment Robyn Parker. Copies of these signed pledges together with other supporting documents are at Attachment 2. These Ministers were very supportive of the TAFE campaign and of its Five Point Plan which highlighted the importance of government in VET and which opposed the contracting out of TAFE jobs and functions. The elements of the Plan are presented in the table below.

Table 31
TAFE Five Point Plan for a Better State

- | |
|--|
| <ol style="list-style-type: none"> 1. Invest in services – Government must guarantee TAFE funding. 2. Look after public assets – Ensure that TAFE jobs and functions are not contracted out to the private sector. 3. Plan long-term – Invest in infrastructure for TAFE that ensures a skilled workforce. 4. Back our workers – Increase permanent teaching positions and invest in teacher training. 5. Govern for the common good – Ensure that everyone in NSW has affordable access to a TAFE education. |
|--|

²⁷ On 3 April 2011 the name of the Department was changed to the Department of Education and Communities following the change of government.

The TAFE teachers who met with Mr Stoner advised, in part, that:

We discussed the five point plan and his views on TAFE and he was very supportive of TAFE and sympathetic towards the increased workloads and funding cuts forced upon us and said he was not looking to privatise TAFE (Email teacher representatives, 7 March 2011).

So supportive was Mr Stoner that he issued a Media Release stating in part:

I am happy to support the teacher's [sic] plan. I believe TAFE is a particularly important institution for vocational education and training in regional New South Wales and it is in areas like ours where I believe they need the greatest assistance.

The Coalition is committed to a strong vocational education sector and TAFE is a key provider delivering a broad range of courses and services critical to our regional workforce (8 March 2011).

The now-Minister for Transport Gladys Berejiklian also expressed support stating:

I strongly support the principles outlined in the 5-point plan that you presented me. TAFE plays such a critical role in preparing people with the skills for employment, but regrettably this has not been reflected in resources provided to TAFE (Letter to teacher representative, 14 February 2011).

4. ANALYSIS OF COMPETITIVE TENDERING/OUTSOURCING²⁸

4.1 Introduction²⁹

As noted above, one of the key elements of current government policies is the requirement that the delivery of VET should be subject to competition. In practice, this has meant requiring TAFEs to tender for contracts to provide courses in subject areas that previously had been delivered by those institutions in their local areas.

In other words, government policies have led to many activities previously provided by government agencies being outsourced to the private sector – and this trend seems likely to not only continue but escalate, given that the Commonwealth sees it as a vehicle for increasing the proportion of the Australian workforce that has some post secondary-school qualifications (including trade qualifications and other forms of vocational training). It has been recognised that a stepping stone towards this objective is also to improve the language, literacy and numeracy of the population and to develop such skills amongst migrants, the unemployed and indigenous Australians.

This section reviews some research evidence concerning the merits or otherwise of outsourcing, before specific consideration of the impact of competitive tendering on VET and on the provision of courses in Language, Literacy and Numeracy.

4.2 Governments can't do everything, and nor should they try

Governments have always bought goods and services from the private sector, simply because it made good business sense to do so. And governments should *continue* to buy goods and services from the private sector when it continues to make good business sense to do so – provided that the private sector can

- provide services of equivalent or better quality, and
- deliver those services efficiently and effectively to the community,

while ensuring that members of the community have equivalent or better access to those services.

²⁸ Competitive tendering is the process through which outsourcing is achieved. Outsourcing is the engagement of external organisations to provide services to a given entity. These terms are used interchangeably.

²⁹ This section draws on material previously included in R.G. Walker and B. Con Walker, *Privatisation – sell off or sell out? The Australian experience* (ABC Books, 2000, reprinted in 2006 and reissued in 2008 with a *New Introduction*, published by Sydney University Press). The material has been updated to refer to recent examples and some recently-published government guidelines.

But what makes ‘good business sense’? This section considers how outsourcing proposals should be evaluated – having regard to both financial and non-financial considerations.

Available evidence from a succession of parliamentary reports and academic research suggests that the governments from both sides of politics have not been well-served by public service advisers on this matter. Outsourcing decisions have been made on the basis of rudimentary analysis, or an unquestioning belief in the claims of consultants that outsourcing will be cost-effective.

To return to the sub-heading of this section: *governments can’t do everything, and nor should they try*. That proposition is worth repeating, since experience suggests that those who advocate and defend outsourcing and privatisation often engage in ideological advocacy to avoid intellectual engagement.

Moreover, proponents of outsourcing often resort to *ad hominem* arguments. Rather than address the substance of criticisms of the cost-effectiveness of outsourcing, they attack critics by suggesting that they hold extreme positions: for example, that governments should never change, that governments should only accumulate responsibilities and activities, and that governments should ‘own and do everything’.

That is certainly not the position taken here. It is recognised that contracting out or outsourcing often makes sense. Examples include the provision of support services or supplies. No one would suggest that governments should maintain lifts in government buildings – since the suppliers of lift cars and associated machinery have a comparative advantage in obtaining spares, training staff and maintaining the equipment. No one would suggest that governments should own factories to produce stationery – even though the public service is a prodigious user of paper.

On the other hand, since governments are bulk users of particular types of equipment (such as buses, railway rolling stock, or police vehicles) decisions were made in the past to have government-owned workshops handle that maintenance.

Sometimes highly specialised equipment (such as that used in large-scale electricity generation or water treatment) was only operated by public sector agencies. In many cases, that equipment had even been originally designed by government engineers. Hence, in the absence of private firms with equivalent experience, decisions were made to have that equipment maintained by government employees.

Overall, public sector agencies tended to outsource activities where private sector firms had a comparative advantage, and to provide services themselves where the work involved specialist activities, or where the scale of demand could support in-house service provision.

However, if a government had established an agency to provide services to the community in a particular area, those 'core' services were not outsourced. This was largely because governments had only become involved in some fields of service delivery – be they social services, or advice to farmers – because of 'market failure'. If the private sector had failed to provide adequate or comprehensive or reasonably priced services, then governments had intervened to fill the void. And of course, governments became involved in some areas of activity – assisting the aged and frail, or persons with intellectual or physical disabilities – simply because it was seen as 'the right thing to do'. It wasn't a question of whether the private sector was or was not providing similar services. Often a range of voluntary organisations were doing their best. But more resources were needed. And the provision of some forms of care – such as for the extremely disabled – were not attractive to private sector providers, as they were just not profitable.

This report starts from the basic assumption that whatever was done in the past is not necessarily the right thing to do in the future. Advances in information technology, and changes in market conditions, suggest the need for the public sector to re-think the way it does some things (as well as rethinking whether it really needs to do some things at all). Services that were once provided internally might well be provided more cheaply and more efficiently by external providers. And *vice versa*. Some activities which have been outsourced could also be returned to the public sector because experience suggests that they could be provided more cheaply and more effectively that way.

It is contended that proposals for outsourcing should be evaluated and in such a fashion that affected parties (be they existing employees, or potential tenderers) can see that the process of evaluation is:

- systematic;
- factually based; and
- free from bias.

Moreover, the evaluation should consider not only financial factors but also such factors as the *quality* of services provided.

Before outlining how such a process might proceed, it is worth revisiting past experience – if only to see how ideological considerations (or just plain self-interest) have led to misleading and inappropriate advice being provided to decision makers.

4.3 Rhetoric and outsourcing

Advocates of outsourcing (or 'contracting out') have relied to a large extent on rhetoric about the alleged need for smaller government, and for competition in service delivery. Occasionally, advocates of outsourcing recount anecdotes about the high cost of internal service provision versus the cost of obtaining similar services from external suppliers.

The examples cited in these commentaries may seem persuasive, but can often be regarded as unrepresentative, or as focusing unduly on financial considerations rather than speed and quality of service.

Consultants examined the costs of a workshop run by a Victorian electricity generator, and concluded that it should be closed down and maintenance services obtained from external contractors. An example cited by the consultants was the cost of re-wiring a small electric motor: the time taken by in-house staff plus on-costs exceeded quotes from external contractors, plus freight.

Union representatives argued that the example was both unfair and unrepresentative. The re-wiring job had been undertaken by an apprentice under supervision from a tradesman as a training exercise at a time when there was a low workload. The charges recorded included the time of both tradesman and apprentice, plus 'on-costs' which were allocations of overheads incurred elsewhere within the organisation, and which were outside the workshop's responsibility and control.

The workshop had been established to maintain infrastructure and to have the capacity to undertake major and urgent tasks. Closing down the workshop would lead to extensive delays in repairing facilities when repairs were most needed.

That example was contrasted with the observations of a private sector consulting firm about its own costs and fee structure. A high-flying lawyer working in mergers and acquisitions once explained:

Some people say we charge a lot. But they overlook the fact that we have to keep a lot of highly qualified staff on the payroll so that when a big job comes up we can throw a team onto it, and work night and day to see it through.

To one firm of consultants, the government-owned workshop was inefficient because of high labour costs from overmanning. To the other firm of consultants, high staff levels were not 'overmanning', but were necessary to have the capacity to undertake big and urgent jobs. It was just good business.

Plainly, one needs to look at a range of financial and non-financial factors to assess whether or not government agencies are efficient and effective – and whether outsourcing would be *more* efficient and *more* effective.

4.4 Claims about the benefits of separating ‘funders’ and ‘providers’

Arguments favouring outsourcing have been heavily influenced by proposals for a shake up of the (US) public sector as set out in D. Osborne & T. Gaebler’s *Reinventing Government* (1992). The authors presented a suite of management ideas about how to revitalise jaded and hierarchical bureaucracies. The ideas were not entirely new, but they were well-packaged. They included familiar admonitions. Empower employees. Question old ways of doing things. Look for alternative solutions to old problems.

Much of the appeal of *Reinventing Government* lay in its anecdotes about public sector inefficiency – which probably reminded readers of similar problems and issues which have arisen within their own workplaces (and, for other readers, confirmed their prejudices). Osborne & Gaebler coupled these stories with motivational passages about how energetic employees found ways to cut red tape or redesign processes.

Undoubtedly *Reinventing Government* found a receptive audience in some elements of the Australian public sector (for example, the then head of NSW Treasury bought books in bulk, to distribute within the organisation).

A key theme of *Reinventing Government* was that even though governments may be committed to provide services to the community, they do not need to actually be the *provider* of those services, just the *funder*. What really mattered was that a service was provided, not who provided it. They popularised a metaphor: governments needed to *steer*, but they did not have to *row*.

The underlying assumption was that government was not very good at ‘rowing’. They could equally have started from the assumption that government was not very good at *managing* – which might have led them to explore ways of improving public sector management rather than proposing the ‘solution’ of outsourcing.

Yet governments can actually be very good at service delivery. Then again, sometimes governments provide services which are so good that services of that quality may not be affordable.

The idea that governments should ‘steer not row’ was very attractive to advocates of ‘smaller government’, and also to Treasuries and other central agencies wanting to exert greater influence over resource allocation. If governments only *funded* the provision of services, and did not necessarily have to *provide* those services, then the public sector could be downsized, and government could simply pay private sector firms to provide services.

Where governments already provided grants or subsidies to non-government organisations (NGOs), the *funder/provider model* established a rationale for establishing contractual relationships between the government and NGOs regarding the nature and quality of services the latter were to provide.

The funder/provider model proposed the separation of the roles of those who managed resource allocation and those who provided services. The terminology was sometimes changed to refer to *purchasers* and *providers* – to suggest that government agencies were mere *purchasers* of services.

Some evidence about the impact of separating funders and providers came after the 1995 change in government in NSW. An analysis of trends in departmental expenditure undertaken by the Council on the Cost of Government (*First Report*, 1996) found that there had been significant increases in the costs of service delivery that could not be accounted for by increases in outputs. Between 1987-88 and 1994-95 – a period during which the then Coalition government actively promoted contracting out – expenditure in the general government sector increased by 56 per cent, or some 18 per cent in 'real' terms. Further analysis indicated that while some of these increases were 'volume driven' (i.e. associated with an expansion of services provided) others reflected increases in costs – including growth in overheads, through structural changes or administrative inefficiencies. In particular, one such structural change within that period was that the Coalition Government restructured the then Department of Training and Education Co-ordination (DTEC) and the NSW TAFE Commission so as to separate DTEC's role as a funding body and its role as a provider of services through TAFE NSW. Expenditure on Vocational Training programs increased by 7.1 per cent in real terms over the period 1991 to 1995 – accounted for in part by an increase in enrolments of some 6.2 per cent. Increases in unit costs were found to be

consistent with the hypothesis that some growth in recurrent spending has been associated with growth in overheads, through structural change or administrative inefficiencies' (NSW Council on the Cost of Government, June 1996 p. 15).

One can speculate why the introduction of the funder/provider model had the effect of increasing rather than reducing the total costs incurred in providing services. It led to the establishment of new agencies, the enlargement of others, and generally slowed down administrative processes because of the need to work through additional layers of bureaucracy. Where the Commonwealth government jointly funded programs, the burden of bureaucracy increased even further.

If nothing else, the experience in NSW highlights the need to consider the costs of managing and monitoring contracts for outsourcing.

It was also a stark illustration about how ideologically-based claims about the merits of outsourcing had been based on inadequate or incomplete data, as explained below.

4.5 Spurious claims about cost savings from outsourcing

One of the most cited – and misinterpreted – studies was undertaken by several UK academics in the 1980s. The study focused on local government. It claimed that contracting out of refuse collection services by local councils had produced savings of ‘broadly 20 per cent’ (Domberger *et al.*, 1986). The claim of ‘20 per cent savings from contracting out’ became part of the repertoire of catch-phrases favoured by privatisation advocates.

Yet the evidence provided by Domberger *et al.* (1986) did not support that claim, and the validity of their analysis has been seriously contested by a succession of authors. The study was undertaken at a time when private firms were actively lobbying the Thatcher government to make competitive tendering compulsory and were offering their services to some councils (Paddon, 1991). The claim of savings of 20 per cent was inferred from data from ‘a self selecting group of Councils which were already convinced of the benefits of contracting out and favourably disposed towards its procedures’ (Paddon, 1991). Ganley & Grahl (1987) pointed out that some of these contracts appeared to have been won by loss-leading behaviour, or had involved serious deterioration in the quality of services provided – citing evidence of firms seeking to increase their charges within the first year of winning tenders, of complaints from residents, or of penalties imposed by councils in response to failures to meet standards of performance. Hodge (1996) noted that the main analysis presented in the Domberger *et al.* (1986) paper did not produce any statistically significant association between contracting out and the overall cost of service provision – the main explanatory variables were the ‘number of units’ to which services were provided (suggesting economies of scale) and whether collections were more than once per week. Further,

Finding that the cost difference between contracting “out” and contracted “in” service was not statistically significant, Domberger *et al.* concluded that both resulted in cost reductions “of around 20%”. This is the origin of the now much quoted “20% cost reduction rule” used as a basis for contracting out and competitive tendering in public sector policy (Hodge, 1996).

The obvious point to be made is that if roughly 20 per cent savings could be achieved *by improving in-house performance*, then the case for contracting out was not compelling. Possibly the savings resulted from exposing these activities to competition, or the threat of contracting out. If so, possibly the same level of savings could have been achieved through better management of in-house operations.

The evidence presented on refuse collection did not indicate any significant differences in the efficiency gains achieved from contracting out as opposed to the gains achieved by in-house teams which feared having their jobs outsourced. This distinction was neatly fudged by the authors when they referred to savings **through** (rather than **from**) contracting out (Domberger, *et al*, 1988).

Simon Domberger later became a leading promoter of the benefits of outsourcing in Australia, establishing his own consultancy firm, and actively marketing the virtues of outsourcing through that firm's Internet site.

Domberger was commissioned by NSW Treasury in 1992 to design, perform and evaluate surveys into contracting out in the NSW public sector. In 1994, soon after the Coalition Government had required agencies to prepare 'action plans' for expanding outsourcing, which were to be reviewed by a steering committee, Domberger was engaged to administer another survey, asking agencies about how many activities had been contracted out. Further surveys by Domberger's consultancy were commissioned until 1998. It appears that in its haste to produce a report on the supposed merits of outsourcing, NSW Treasury had failed to subject this exercise to competitive tendering. Indeed, the NSW Auditor General later reported that Treasury had failed to call for tenders, and there was no evidence of any formal evaluation of the work undertaken on contracting out by this consultant – its main promoter/cheerleader (see NSW Auditor General, *Report to Parliament*, 1998).

Later reviews of State finances revealed that agencies had difficulties in identifying the cost of delivering different programs or activities, partly because of shortcomings in management information systems but probably because of a lack of staff with the skill to undertake basic financial analysis. In 1999 the NSW Council on the Cost of Government surveyed NSW agencies and invited them to nominate an activity from among those they were presently undertaking, and to indicate the extent to which they could provide advice on the costs of those activities in a timely fashion. Given prior admonitions that government agencies should understand their cost structures, this was an opportunity for government departments to demonstrate their efficiency. But the exercise produced the disturbing news that 54 per cent of the agencies that responded lacked the capacity to calculate the costs of major activities. Further, of the respondent agencies 'only 33 per cent provided a financial analysis of some kind, and many of these were rudimentary'.

Despite an apparent inability of government agencies to report basic information about the cost of their existing programs, Domberger's commissioned studies had (amazingly) reported massive savings from contracting out. Those claims were used by the Federal Coalition in its 1991 *Fightback* document (with Domberger's work cited in support):

Contracting out will improve efficiency in production and distribution, provide clear definitions of services costs and a mechanism to monitor them,

accelerate the delivery and reduce internal restrictions and cost impediments.

Empirical evidence (Domberger, 1989, Rimmer, 1991) suggests that contracting out can conservatively save 20 per cent in the costs of service provision. Domberger suggested these savings could be made in transport, maintenance, construction, cleaning and printing not already outsourced (*Fightback!* 1991).

Note how the claim of '20 per cent savings from contracting out' was reiterated as fact – notwithstanding other studies presenting conflicting evidence. For example, NSW Treasury was happy to translate the questionable Domberger claims as a finding from 'experience':

Extensive analysis has been undertaken both in Australia and overseas of the potential for contracting out and the savings and other benefits that can be achieved. Typically, experience shows that savings of the order of 20 per cent can be achieved after account is taken of all transitional [*sic*] costs (1991-92 NSW Budget Paper No. 2).

Thereafter, Domberger (still funded in part by NSW Treasury) produced a series of reports presenting further 'evidence' and extolling the merits of outsourcing. He stated that a 1993 survey of NSW agencies 'reported savings of approximately 20 per cent compared to previous expenditures' (Domberger, 1994). NSW Treasury later asserted that *average savings on services after contracting was 18 per cent* (NSW Treasury, May 1996). Then, on the basis of Domberger's survey work, it was claimed in 1996 that contracting out across the NSW public sector had produced annual savings of approximately \$266 million 'without sacrificing quality of services' (NSW Treasury, September 1996).

It seems that respondents to Domberger's NSW surveys were simply asked to provide their own estimates of savings – at a time when much publicity had been given to claims that savings of around 20 per cent were achievable from contracting out.

In terms of methodology, Domberger's approach was a textbook example of 'reactive research' (critically described in Webb et al, 1966). Domberger's evidence was collected from surveys of senior public sector managers, most of whom would have been on short-term contracts. Managers were asked, in effect, whether they had implemented government policies. Those managers would be unlikely to report that they had defied the government directives, or that their own efforts as managers had been less than successful.

As for the scale of savings secured by their efforts: NSW Treasury was saying that 20 per cent was achievable, and the designer of the survey had already publicly claimed that 20 per cent was an average saving. No one would be surprised if respondents to Domberger's surveys claimed savings of around 20 per cent. But

many researchers would suggest that survey responses collected in these circumstances could have been influenced by external events.

One need only consider the incentives that were faced by public sector managers, particularly if they were required to surrender 50 per cent of any savings. For many, the easiest response would have been to outsource some small-scale activities, and then to report savings of around 20 per cent of prior spending. That way they appeared to be diligently complying with government policy, without damaging their agency's budget. The evidence appears consistent with this speculation. The average size of the more than 82,000 contracts described in Domberger's 1994 survey (NSW Treasury, 1994) was less than \$13,000 per annum; if 68,000 legal aid contracts were excluded, the average was little more than \$72,000 per annum.

In the event, Domberger's estimates of savings were based on figures provided by a small minority of respondents and covering only 1.3 per cent of his sample, after excluding legal aid contracts (NSW Treasury, 1994). The estimates were not based on data extracted from accounting records, but from respondent's recollections of questionable data. It appears that Domberger's respondents were only asked to compare annual costs of providing a specific service *before* and *after* contracting – without counting the costs of establishing and administering the contracts, or the costs associated with paying out redundant employees.³⁰

The picture which emerged from this series of studies on contracting out is as follows:

- claims about savings from contracting out usually failed to take account of compensation payments to redundant employees, other transaction costs, and subsequent costs of contract supervision;
- public sector agencies have achieved savings from outsourcing in some situations, but not in others;
- savings from contracting out are not only achievable when the public sector contracts out to the private sector. Savings have also been achieved when private sector firms outsource functions to other private sector firms; similarly savings have been achieved when public sector agencies have outsourced functions to other public sector agencies;
- the threat of competition or outsourcing has been sufficient to encourage cost cutting in some situations;

³⁰ Some respondents to a later Domberger survey could estimate the costs of managing their contracts. Contract management costs for this small sample (only 1.5 per cent of the total number of contracts) were estimated to be 2.7 per cent of contract value (NSW Treasury, February 1997). Again, this Domberger study did not report how these costs had been estimated.

- public sector cost savings through contracting may not be passed on to the community but may be absorbed 'through greater numbers of management positions and other rewards to the organisation' (Hodge, 1996).

If Domberger's analysis was based on poor quality information, he was at least brave enough to recommend that existing guidelines on outsourcing should be revised to emphasise the importance of contract management and the need to establish systems for monitoring performance (NSW Treasury, 1996). Yet this seemed a case of 'do as I say, not as I do' (or, perhaps, 'what I have been asked to do').

Certainly Domberger's book *The Contracting Organization* (1998) avoided any systematic discussion of how to 'cost' services. Strangely for a work of academic pretensions, it also ignored published works which had attacked the quality of his analysis. Academics are normally quick to respond to such criticisms, if they have the evidence. Domberger even went so far as to dismiss the relevance of rigorous financial analysis of proposed outsourcing arrangements, by making the extraordinary claim that:

a purely economic accounting [*sic*] approach to contracting is more suited to understanding *ex post* outcomes than as an aid to decision making (Domberger, 1998).

This stance might be restated as 'don't let the facts get in the way of a good story'.

When providing this message through speaking engagements, Domberger was also able to report his findings about client attitudes regarding the quality of services being provided by private sector providers. At one function, Domberger displayed bar charts showing how many respondents considered that contracts were 'successful' or 'very successful'. Apparently no one thought the contracts were 'unsuccessful'.

A suspicious questioner asked that the chart be shown again, and enquired why the responses only added up to around 90 per cent of contracts? The speaker explained that the other contracts 'did not satisfy contractual requirements', but then declined to discuss whether a 10 per cent failure to meet contractual requirements was acceptable.

Later, a NSW Joint Parliamentary Committee report on its inquiry into *Competitive Tendering and Contracting in the NSW Public Sector* (1998) was highly sceptical about whether the analysis underpinning proposals for more extensive outsourcing was independent:

The Committee remains concerned that the government relies heavily on CTC [competitive tendering and contracting] research obtained through a limited number of consultants. This trend also raises concern about bias and

whether researchers have a vested interest in the outsourcing industry themselves.

The observations of this Parliamentary Committee only highlighted the fact that large-scale contracting out had been undertaken without effective oversight and scrutiny – and that many decisions to outsource had been made on the basis of incomplete, partial, or poor quality information.

4.6 Recent quantitative studies of claimed cost savings

There have been many other studies of the impact of contracting out. A large number of these have examined either outsourcing of work on information systems, or (rather curiously) waste collection by local government – the original subject of Domberger's widely misrepresented findings.

Of the papers on information systems outsourcing, some might collectively be described as 'advocacy literature', building on earlier observations about the desirability of outsourcing activities that were neither part of the core competencies of an organisation, nor a critical strategic need (see e.g., Quinn and Hilmer, 1994).

Correspondingly, there have been some strong challenges to claims that IT vendors have a cost advantage because of their economies of scale, or that 'efficiency' has been the primary criterion for outsourcing (see e.g., Lacity and Hirschheim, 1993, and later studies by these authors). Overall, one might conclude that while some organisations may benefit from outsourcing back-office processes, others may suffer from a lack of ready access to strategic information. Much depends on the nature of contractual arrangements, and how those arrangements are managed.

(The suggestion that outsourcing may be of particular merit where the activities are outside the 'core competencies' of an organisation is particularly salient in the current context – given that current activities in outsourcing language, literacy and numeracy, and other vocational training activities are largely at the expense of public sector agencies that have long specialised in these areas.)

Recent studies of outsourcing of waste collection in local government have produced some highly qualified findings. Research that found cost savings include an Irish study which reported that major cost savings had arisen from outsourcing (Reeves and Barrow, April 2000). In other words, consistent with Domberger's 1988 highly-qualified findings (Domberger *et al.*, 1988) the authors attributed cost savings to *tendering*, rather than to *outsourcing, per se*. In other words, the savings were *through* rather than *from* outsourcing. Moreover structured interviews with representatives of the contracting authorities indicated that contracted firms 'provide a cheaper service due to more flexible work practices', but that in some cases 'these gains are offset by the existence of poorer working conditions'.

A Canadian study found some cost savings after examining the experience of waste collection in 327 local governments (McDavid, 2001). While the overall findings generally supported contracting out as a way to reduce unit costs, it was found that this only occurred in small communities with a population of less than 10,000. The greater cost savings were enjoyed where local governments utilised a mix of in-house and external service provision – effectively maintaining some level of ‘competitiveness’ between suppliers. And finally, those local governments that engaged in competitive tendering enjoyed a cost saving compared to those that renewed their contract with an existing supplier. In other words, cost savings were short-lived.

Similar conclusions were offered by the Australian economist John Quiggin, who observed:

In the initial rounds of contracting, private firms have offered to deliver public services at a price far below the cost of public provision. As a range of hidden costs and problems have emerged, contractual terms have been tightened. The results have included improvements in performance, but also the loss of many of the financial savings that originally motivated the move to contracting (Quiggin, 2002).

Quiggin also suggested that governments ‘frequently use contracting out as a cover for deliberate reductions in the quality of service, designed to cut costs’.

It is more politically attractive to implement reductions in service quality at the time of contracting out than to reduce service quality first, then to call for tenders for the provision of service at the reduced quality level (*idem*).

Of the papers that examined a wider range of outsourcing activities, one Australian study focused on the outsourcing of engineering and facilities management in Australia (Clegg *et al*, September 2005). The authors presented evidence from two sources: a questionnaire and five detailed case studies (the case studies are discussed in the next section of this report). The questionnaire was administered to executives responsible for outsourcing contracts, who were asked to rank items in a list of 14 supposed ‘benefits’ from outsourcing. As noted above, this was a further example of ‘reactive research’, since respondents were hardly likely to say that their current employment produced poor outcomes. A total of 26 respondents ranked ‘cost reduction’ as, on average, the highest of 14 supposed benefits – and reported that 93 per cent of cost savings were achieved from reductions in the workforce (but were not asked to provide any costings associated with contract administration and monitoring). Yet the authors concluded that their study ‘supports the efficiency arguments of Domberger’, claiming a magnitude of savings of around 12 per cent – but, as did Domberger, relying on the claims of managers of outsourcing activities, rather than data extracted from accounting systems (and without defining what ‘costs’ were included). It might be noted that this study was funded in part by Transfield, ‘one of the big-five industry outsourcing companies’,

but the authors stressed that their research was ‘conducted independently of the company’.

Turning to Europe, mention might be made of a Swedish study of the relative costs of publicly-provided versus outsourced rubbish collection – the subject of the initial studies by Domberger and his colleagues (Ohlsson, 2003). The study, funded by the Swedish Competition Authority, noted that prior analyses had failed to allow for differences in the technologies used by different suppliers of rubbish collection services. Correcting for these shortcomings, Ohlsson’s analysis of data from 170 firms in 115 Swedish municipalities found that *public production costs* were 6 percent lower than *private production costs* – note, public costs were *below* private costs.

Academics from the University of Barcelona and Cornell University undertook an extensive review of prior econometric studies of water and waste production from ten countries since 1970 (Wel and Warner, 2008). They found little support for a link between privatisation and cost savings. Cost savings were not found in water delivery and were not systematic in waste. The authors concluded that ‘overall, the empirical results show the importance of market structure, industrial organization of the service sector, and government management, oversight and regulation’. In other words, factors affecting cost savings included the degree of competition among private sector providers, and how contracts were drafted and managed.

4.7 Recent case studies of outsourcing

The Australian experience with outsourcing the delivery of services has been the subject of a series of case studies, mainly focusing on unsuccessful examples in order to illustrate potential problems and weaknesses. Some of the ‘lessons’ suggested by those who have analysed various cases of outsourcing in various guises are worthy of repetition.

An exception involves the case studies examined by Clegg *et al*, (2005) which concerned engineering and facilities management. The authors focused on five organisations (out of 16 surveyed) ‘where satisfaction with outsourcing arrangements achieved highest levels’. Despite this approach to case selection, and repeated references to cost savings in certain areas, the authors were compelled to note a series of unanticipated and adverse consequences of the arrangements, including:

- problems with service delivery ‘as service provision is centralised’; excessive expenditure on travel costs to bring in contractors;
- timeliness of service provision from malfunctioning equipment; risk that technology innovations may leak to competitors with the same outsourcing arrangements;

- loss of intellectual knowledge by supervising managers caused perhaps even a deterioration in compliance; the value additions forecast and improved business processing did not live up to expectations;
 - excessive manpower overhead costs;
 - the contract was so poorly drawn up that it is difficult to hold the outsourcing organisation to its stipulations
- (*op cit.*, pp. 45-48)

Note again that these observations came from five organisations whose representatives had expressed the 'highest levels of satisfaction' with outsourcing. Certainly several of these observations cast doubt on corresponding claims by the same authors of 'cost reductions' – there may be reductions in direct wages and head counts, but not in the overall costs incurred by those organisations in relation to the nominated functions. And one can only wonder what executives from the remaining organisations might have said, when they had an opportunity to comment on a confidential basis.

A brief paper by Hayward and Aspin (2001) summarised Australian experience with outsourcing (in a range of areas, including transport, prison and detention centre management) as follows:

The evidence is pretty clear-cut: our governments have been sold a pup. The efficiency and cost saving claims advanced prior to the contracting out taking place were exaggerated, without foundation or based on highly optimistic projections. In some cases, no work was undertaken either before or after the contracts were signed that enabled even a rough estimate to be made as to whether savings eventuated. Effectiveness has not improved. In prisons it seems to have deteriorated, so much so that the Victorian government has renationalised one prison and the Commonwealth has agreed to put out to tender again the contract for running the immigration detention centres. Similarly, the New South Wales government has resumed control of the Sydney Airport rail link.

Rather than leading to increased accountability, contracting out appears to have lessened it in a number of ways. In most areas of social and public policy it is difficult to develop appropriate and meaningful performance indicators, whether this be in health, education or community service. Those being monitored can end up with an incentive to alter their behaviour to make sure that they do well according to the performance indicators, even though these don't mean very much.

Of course, many critical studies have focused on the privatisation of major activities that have customarily been provided by the public sector. It must be recognised that there may indeed be some cost savings for organisations that outsource some activities, particularly those that are not part of their core business (or 'core competencies'). For example, in the financial services industry,

government superannuation schemes and industry funds alike outsource administration activities to specialist providers. Similarly it is recognised that some Commonwealth or State government programs can well be delivered by local government, not-for-profit or private sector providers, particularly in the case of the delivery of services (such as HomeCare) in regional areas.

Then again, occasionally one encounters instances of outsourcing of activities that many would regard as part of the core responsibilities of government.

One such case is the work of Serco Australia Pty Limited (*Special Purpose Financial Reports* for the years ended 31 December 2009 and 31 December 2010):

Serco operates gaols and detention centres for the Commonwealth Government – a business which it describes as ‘facilities management’. Serco’s financial statements are described by its directors as part of a ‘special purpose report’ and hence they do not comply with all Australian accounting standards, notably those dealing with requirements for reports on segments of a firm’s activities. Nevertheless, some sense of Serco’s performance can be gleaned from published financial statements. For the year ended 31 December 2009, Serco recorded a profit from operations (before tax) of some \$26.6 million. Given that its shareholders’ equity at 1 January was \$69.7 million, that represented a pre-tax rate of return of 38% per annum.

The following year (after opening new ‘facilities’) Serco’s pre-tax profits jumped to \$88.4 million, a rate of return of an astonishing 72% per annum.

Of course this data can be interpreted in several ways. One possibility is that Serco is very good at cutting costs (and indeed some critics have alleged that Serco does not provide sufficient staff to adequately supervise occupants of those facilities, or to provide an appropriate level of services). Another interpretation is that, if a government-managed facility could be run with the same cost structure, Serco’s annual profit of \$88.4 million (or \$40.5 million after tax) is at the expense of taxpayers. Possibly the answer lies elsewhere – that successive governments have been prepared to pay a high price to engage private operators in the belief that it insulates them from direct accountability for how those facilities are operated.

At the same time, in handing over management of such facilities, governments are effectively transferring a public sector monopoly into private hands. Governments also lose control over the quality of service. Indeed private sector providers of prison services and detention facilities arguably have long experience in the drafting of contracts and the manner in which service standards can be specified – in a form that may seem as though quality services will be provided, but (as a 2011 Comcare investigation report demonstrates) the devil is in the detail. Serco’s contract only provided for it to maintain an ‘adequate’ level of staff (without the

specification of staff-inmate ratios). As a profit-seeking enterprise, it was able to avoid incurring substantially increased costs as occupancy rates exceeded those originally contemplated when Serco's contract was executed.

Finally, in an Australian study concerned with the delivery of employment services, the authors acknowledged that tendering could be 'a quick and effective way to change entrenched, archaic and deficient management practices'. But they claimed that experience suggested that non-government provision of services 'will not necessarily be superior' (Webster and Harding, 2001). The authors cited a series of evaluations of placement and case management services and found, for example, that the placement rate of community and private sector providers equalled the government provider rate after controlling for jobseeker category, jobseeker characteristics and the length of time that the provider had been providing this sort of service. Moreover, 'the government providers had a caseload which was at least 30 per cent higher than non-government providers', even though the government provider 'was the provider of last resort, was not paid on the basis of outcomes and was not facing market incentives'. The authors concluded with the mild observation that productivity gains are likely to come from a reform of management and work practices, and 'contracting out was not the only way to achieve this'. They might have said that the government providers were far more productive than their private sector counterparts.

In summary, after several more decades of experience with outsourcing, recent studies have found that:

- in some instances public sector providers were more productive than their private sector competitors;
- some private sector firms have enjoyed profits of the scale usually associated with monopolistic markets after governments have chosen to outsource some activities in which there was minimal competition;
- in many cases, outsourcing was undertaken in the absence of systematic analysis of costs incurred before or after those decisions to outsource were undertaken;
- the quality of services provided by contractors was a source of concern (even for those responsible for managing outsourcing);
- claims about savings from outsourcing often focused on direct costs, ignoring other costs (including non-financial costs) associated with contract administration;
- in some cases where cost savings were supposedly enjoyed from outsourcing, those savings were short term, and savings diminished or evaporated when private sector operators renewed their initial contracts.

Some of these studies have also echoed the observation that improvements in efficiency and effectiveness often depend upon the quality of management – and that while outsourcing may be one way of obtaining better management, it is not the only way. And outsourcing of some activities may bring with it other problems and challenges.

4.8 How should outsourcing proposals be evaluated?

Most of the studies cited above recognised that any evaluation of outsourcing proposals must necessarily have regard to both financial factors and non-financial factors. In other words, to use an ambiguous (and rarely defined) term, they should have regard to which option provides ‘value for money’ (or will ‘improve value for money’).

Accordingly, the decision as to whether or not to ‘outsource’ should, in principle, be preceded by an assessment of:

- the efficiency of in-house service provision;
- the quality of those services (including assessments of such issues as the extent of availability or access to those services to different groups within the community); and
- the relative costs of service provision ‘in house’ versus from outsourcing.

Indeed, one would expect good managers to routinely assess the relative costs of providing some types of services ‘in house’, or using contractors – particularly for ‘back office’ operations. Developments in information technology, in particular, have allowed many private sector firms to cut their costs by outsourcing routine transaction processing (for payrolls, accounts receivable and accounts payable). Some major Australian banks and insurance companies have entered into joint ventures in order to get the benefit of economies of scale in routine transaction processing. Conversely, many consumers report frustration about the quality of service provided by off-shore call centres.

A major difficulty for public sector managers is that traditional cash-based budgeting and accounting systems were not designed to track spending on ‘outputs’ or ‘activities’. Even though governments have decreed that agencies should use accrual accounting, these techniques have been introduced in a half-hearted manner, with the main use of those accounting systems being to compile little-read annual reports.

A second consideration is the need for managers to understand how their internal costings have been undertaken. When accounting systems report on the costs of

a given service or activity, a range of assumptions have been made about how costs are to be traced, or how costs which are common to two or more services are to be allocated between those services. Then assumptions are made about the way that the cost of some assets (such as cars or computers) are to be apportioned between periods, through bookkeeping entries for 'depreciation'.

The product of these calculations may be useful in analysing the internal costs, but these numbers may not be relevant when considering whether to retain or outsource a particular activity. Indeed (as outlined in Walker and Con Walker, 2000, chapter 6) managers might actually make bad financial choices if they focused on reported numbers without understanding what they represented. Indeed, if it appears that internal processes are costing far more than might be obtainable from outsourcing (or other arrangements) then it becomes necessary to look very carefully at the costings before concluding that outsourcing is the answer.

In fact, it would be absolutely wrong to simply compare

- (a) the costs of in-house service provision (*as reported by internal accounting systems*) with
- (b) estimates of the cost of obtaining equivalent services from an external supplier.

It would be wrong for a range of financial reasons, including:

- in-house costings may include depreciation on previously acquired assets - which may have a minimal value if scrapped or sold;
- some overhead costs which have been allocated to the service under scrutiny may still have to be paid regardless of whether delivery of those services is maintained or abandoned; and
- termination of in-house service delivery may immediately crystallise the need to make redundancy payments to employees.

Hence it is argued that, in principle, the appropriate analysis of costs would focus on projected cash flows, not the product of accounting entries, and would compare:

- (a) the cash flows which would be **avoided** by outsourcing; and
- (b) estimates of the cash flows to be incurred by obtaining services of equivalent quality from an external supplier

using discounted cash flow analysis to calculate the present values of alternatives.

Some of the implications of this approach are that any analysis should:

- ignore depreciation charges (which are internal bookkeeping entries);
- disregard internal allocations of overheads or service charges or 'on- costs';
- ignore accounting calculations of 'full costs';
- treat the acquisition of assets (such as the replacement of equipment) as the same as any other cash outlays;
- include as negative cash flows any new expenses which may be incurred (e.g. through contract management) as a result of outsourcing.

One of the paradoxes which emerges from identifying and analysing avoidable costs is that an agency may be better off continuing with in-house service provision even though the agency's accounting system suggests that the costs of those services are greater than the costs of outsourcing.

On the other hand, much depends on the choice of the time period used for the analysis. The longer the time horizon selected, the more the items of cost which will become 'avoidable'. For example, outsourcing payrolls may leave an agency with surplus office space for the term of a lease, so that rents previously allocated to the payroll function are not avoidable. However in the medium to long term, those rental costs are avoidable. Conversely the longer the time frame the greater the difficulty in assessing the costs of obtaining payroll services from contractors – since suppliers of payroll services would not want to enter into long-term fixed price contracts.

Arguably the appropriate time horizon should *at least* match the life cycle of major assets or contractual arrangements. Outsourcing may be financially more attractive *just before* major items of equipment need to be replaced or upgraded than *just after* asset replacement. But that statement must be accompanied by the economists' disclaimer, 'all other things being equal' (and other things are rarely equal).

If an agency is compelled to put its activities out to tender at a time when it has just reinvested in equipment, under conditions that a private sector tenderer can acquire that equipment at fire sale prices, then the exercise may involve significant wealth transfers from the public purse to a select and fortunate private sector business.

Similarly, if an agency is compelled to put its activities out to tender, and in-house teams are required to tender on the basis of full cost recovery (including overheads) then in-house teams are severely (and probably, fatally) handicapped.

A private sector bidder could readily win new business if it sets its bid on the basis of recovering its marginal costs. That pricing structure may not be sustainable in the long term – but in the long term, the private sector bidder may have grown in size, driven out competition, and be able to set its own price and earn monopolistic profits. For the agency engaging in compulsory competitive tendering, short term gain may generate long term pain.

(These observations are confirmed by the research studies, cited above, which indicated that while cost savings from outsourcing are sometimes secured initially, savings later significantly decline, or evaporate.)

But recent government guidelines have gone beyond requiring agencies to tender on the basis of full costs – *they are required to tender on the basis that their prices will cover some additional 'hypothetical' costs* (discussed below).

4.9 Government guidelines on procurement and outsourcing

Until recently, Government-issued guidelines on analysing the costs of in-house versus out-house service delivery have not canvassed in any detail the need to analyse cost structures in this way. Indeed, guidelines once issued by the Commonwealth's Department of Finance and Administration (1998) reflected an astonishing lack of knowledge of these issues. They listed as further reading on 'costing activities' the accounting profession's Statements of Accounting Standards. This was a farcical statement, since those documents, while sounding authoritative, had virtually nothing to say about the assignment of costs to units or activities.

Some government guidelines have directly discussed the assessment of the case for (or against) contracting out. Indeed, several of these appear to have been prepared as guides on *how to justify outsourcing* – not how to evaluate whether outsourcing made sense. For example, 1995 guidelines issued by the Victorian Department of Treasury and Finance, simply directed staff to prepare a 'business case' for outsourcing, by identifying potential external service providers. The 1996 WA Guidelines, produced by the WA Public Sector Management Office, went further, providing advice on *how to implement* outsourcing, including a *pro forma* 'deed of severance' for employees accepting redundancy payments, and a *pro forma* 'letter of resignation for employees moving to private sector employment'.

Several guidelines issued by State governments tried to do too much. They set out to be do-it-yourself kits on cost accounting (for readers who lacked any understanding of relevant accounting concepts). The contents pages told the story: they listed guidelines for costing services for use in 'output budgeting', or for preparing performance indicators, as well as for preparing a business case for outsourcing. As such, these publications were often confused, and confusing to a readership which may not have understood the maxim, 'different costs for different purposes'.

In so far as published government guidelines on 'costing' referred to the outsourcing decision, several contained technical flaws – flaws which usually biased any analysis in favour of 'outsourcing'. As such, these guidelines reflected a misunderstanding of three basic principles associated with the evaluation of alternative courses of financial action.

First, the costs and benefits of those alternatives should be evaluated by using estimates of *future cash flows* (not historical accounting information, or even projections of that data) and discounted cash flow analysis.

Second, the cash flows which should be examined are those (and only those) *which will be affected by the selection of one or other alternative*. When considering alternatives to in-house service provision, the relevant concept of 'cost' to be considered relates to those expenditures which can be *avoided* by outsourcing, together with any additional costs that may be incurred as a consequence of outsourcing.

Third, an emphasis on financial factors should not mean a lack of concern for the *quality of services available from alternatives*. None of the guidelines issued in the 1990s had much to say about how to measure the quality of services currently being provided, or how to assess or define the standards of service potentially available from external contractors.

In brief, the technical flaws in government guidelines relating to the selection of techniques of financial analysis include the following:

- guidelines have emphasised the need to look at the 'full' cost of providing a service. But, whatever methods were used to calculate 'full costs', the fact remains that in many instances, overheads will continue regardless of the outsourcing of one or other activity. Even though the 'full costs' of in-house service delivery may be higher than the costs quoted by external suppliers, outsourcing may not be the optimal financial outcome. Quite different solutions might be identified if the analysis focused on 'avoidable' costs – and analysed data representing cash flows rather than accounting accruals;
- virtually all guidelines proposed analysis of the *on-going* costs of service delivery from in-house or out-house suppliers – and ignored the short-term costs of staff redundancies. Draft Commonwealth Guidelines (1997) avoided discussion of redundancy costs by outlining approaches to the analysis of the costs of service delivery on a *long term basis*. In other words, given political imperatives, these guidelines could be saying that it would be wrong to assess the impact of outsourcing within (say) a five or ten year timeframe, because the numbers might not favour outsourcing;
- conversely, some guidelines illustrate the analysis of costs from in-house

versus out-house service delivery by suggesting use of an overly *short* time horizon for analysing costs – so that the analysis might then exclude the cash flows associated with the periodic replacement of equipment. Indeed, a common failing of the guidelines was to indicate what principles should guide the selection of the contract period. One exception was the Commonwealth's 1998 contribution, which suggested that the duration of a contract should be determined with regard to the likelihood of 'policy changes';

- similarly several government guidelines counted as part of the costs of service delivery the salaries and overhead costs associated with the management of in-house service delivery, but then failed to include the costs of preparing detailed contracts, and then of supervising the work of external contractors;
- some guidelines propose that the 'full cost' of services should include allowance for the annual use of capital through a 'capital charge'. They then suggest that projected costs should be subjected to discounted cash flow analysis. This is simply double-counting, since the time value of money is already taken into account in discounted cash flow analysis.

The overall impression to be gained from a critical reading of these documents – some running to hundreds of pages – is that they reflect muddled thinking. Possibly that arises from the fact that several of these guidelines were attempting to provide government-wide advice on costing practices – when the circumstances of individual agencies might be vastly different.

4.10 Recent recognition of the significance of 'avoidable costs'

Many of the criticisms of government costing guidelines detailed in Walker and Con Walker (2000) have been addressed (at least, in part) in some recent government publications.

A NSW Treasury publication on *Service Costing in General Government Agencies* (2007) refers to what it describes as the agency's 'service costing initiative'. It followed an earlier Treasury Circular 06/22, *Results and Services Plans*, which required all Budget dependent and selected non-Budget dependent General Government agencies to prepare plans which were based on knowledge of the cost of providing existing services – so that government could better assess the merits of continuing or abandoning the delivery of those services. These 2007 Treasury Guidelines acknowledged that when considering outsourcing, the relevant costs to look at in making this decision are not the 'full costs' of producing the service, but the *avoidable costs*.

Avoidable costs are those costs that would be avoided if a good or service is not produced.

The Guidelines even provided some illustrations of the application of the concept of 'avoidable costs' – to show that in some situations, outsourcing would not be a good idea:

For example, an agency has received an offer from an outside service provider to deliver a service at a price of \$90 per unit. The agency has calculated that it currently costs \$100 per unit (measured on a full cost attribution basis) to produce the service in-house. It appears that it is \$10 per unit cheaper to contract with the external provider to deliver the service. The agency, however, may not be able to capture these savings, particularly in the short term. The issue is whether it can actually avoid paying \$100 per unit. Suppose that \$15 of the \$100 is unavoidable in the short term; e.g., the \$15 relates to the service's share of the agency's building costs. If no other use can be found for the vacated building space the agency would continue to incur the \$15. The avoidable cost is only \$85 per unit in the short run and therefore the agency would lose money by contracting out the service (p. 13).

And later, under the general heading of 'costing for decision making' the Treasury publication refers to 'contracting out':

An agency is considering contracting out the provision of a service that it currently produces in-house. The annual cost to the agency of producing this service is \$460 per unit, of which \$70 worth of costs (in 'depreciation' and corporate services) are described as 'unavoidable'.

The agency has conducted a benchmarking study with a private sector organisation. The study revealed that it costs the private sector organisation only \$420 per unit, including a return on the owners' capital, to produce the same service.

The benchmarking study clearly indicates that the agency should closely examine its processes to determine why its benchmarking partner can produce the service at lower cost. It does not necessarily mean that it would be cost beneficial in the short term to contract out the provision of the service. The relevant costs to look at in making this decision are not the full costs of producing the service but the **avoidable costs**.

Avoidable costs are those costs that would be avoided if a good or service is not produced. In the above example the agency will still incur in the short term the same building and corporate service costs whether the service is produced in house or not. The only costs that are avoidable in the short term are the variable costs, i.e. employee related expenses and other operating expenses.

The agency would pay \$420 per unit to the external provider but only avoid \$390 per unit. Therefore, contracting out would cost the agency in the short term an extra \$30 per unit.

(NSW Treasury, 2007).

This latter illustration was all well and good - save that it ignored the fact that an agency engaged in outsourcing would incur costs in 'contract management' – i.e. in monitoring the performance of the external service provider. Nor did the illustration make any mention of the risks associated with outsourcing, such as the consequences of a loss of flexibility. If services are provided 'in house' they can be readily varied if conditions change. But if services are provided externally, any attempts to modify those arrangements would generally involve renegotiation of contracts or (more likely) additional costs. There are other risks, such as those cited by the managers interviewed for the Clegg, Burdon, and Nikolova (2005) study e.g. a loss of knowledge by supervising managers leading to a deterioration in compliance; a failure of promised services to live up to expectations; and difficulties in holding the outsourcing organisation to its stipulations.

The NSW Treasury example continued:

However over the longer term, contracting out may be beneficial from a cost perspective if higher costs in the short term are offset by longer term savings.

NSW Treasury could have added:

Or, over the longer term, contracting out may prove to be more expensive than in the short term.

Indeed, this was the finding of several of the studies of experience with outsourcing that were cited above (e.g. McDavid, 2001, Quiggin, 2002). The initial tendering process produced some cost savings that were eroded when contracts were renewed or after requirements were re-specified.

The 2007 NSW Treasury Guidelines on service costing had nothing to say about assessments of the supposed benefits of outsourcing. That aspect was addressed (very briefly) in a companion document, *NSW Government Procurement Policy* (2004), which stated that the 'fundamental objective' of the procurement policy was to ensure the achievement of 'value for money'. For this purpose, the concept of 'value for money' was defined as 'the benefits achieved compared to whole-of-life costs' (p. 4). Presumably it was intended that both 'benefits' and 'costs' would be interpreted as encompassing not only financial factors but also non-financial factors (such as changes in the quality of services to be delivered). But this was not explored in any depth in the NSW Guidelines.

4.11 NSW Government guidelines on the pricing of tenders if agencies are required to 'compete'.

The following is an extract from NSW Treasury, *Service Costing in General Government Agencies* (2007).

Agencies that sell goods or services in competition with the private sector or other government suppliers are required to price them on a competitively neutral basis.

Competitive neutrality requires the elimination of competitive advantages or disadvantages that arise solely through the ownership status of an entity. Its purpose is to ensure that goods and services across the economy are produced as efficiently as possible. This may not be the case if, e.g., public sector entities have lower costs simply as a result of their public ownership.

The commitment to implement competitive neutral pricing as part of the National Competition Policy reform agenda was reaffirmed during the Council of Australian Governments' meeting in February 2006.

Agencies are required to set the price of a good or service, sold in a competitive market at a level that at least covers the long run avoidable cost of its production. The reason for this is that any price above avoidable cost will generate a positive cash flow and is therefore considered to be an economically efficient decision for an agency to make.

In setting user charge prices under Competitive Neutrality, agencies are also required to estimate the additional costs that the agency would incur if it were in private ownership.

These estimated additional costs include:

- the cost of capital that would be incurred if an agency had to fund its own assets through borrowings or equity from the owners; and
- taxes and other charges which apply to the private sector but not to public sector entities.

This approach to pricing – if it was followed to the letter by TAFE financial officers – has simply doomed TAFEs to losing tenders.

First, while the concept of 'avoidable costs' is relevant when an agency is considering outsourcing, the terminology is misapplied in the context of when an agency is tendering to secure or retain new business (possibly it was intended to refer to the economists' notion of 'long run marginal costs').

Second, the requirements of so-called 'competitive neutrality' fundamentally bias comparisons between bidders. Government agencies are exempt from land tax and council rates. But compliance with NSW Treasury guidelines on application of the 'competitive neutrality' principle to tendering would require TAFEs to cover the costs of notional land taxes and notional council rates on TAFE properties (or at least some proportion of those hypothetical costs). Even more significant would be the requirement to incorporate allowances for the notional 'cost of capital' in relation to TAFE assets. Those assets have been bought with contributions from past generations of taxpayers. But the guidelines require that the actual cost structure of TAFEs be adjusted to add in notional payments for the 'capital' invested in property, plant and equipment. It is not entirely clear whether NSW Treasury would require use of something approaching a 'public sector' borrowing rate, or whether it would require the application of an estimate of the 'private sector' cost of capital.³¹

In other words, TAFEs have been required to count items like 'depreciation' on buildings and equipment as part of their costs, but also to include a percentage of the value of their net assets as a 'cost of capital' allowance (which might range from 5 per cent to 20 per cent per annum). When competing against bids from private sector operators that do not provide the same facilities, it is not surprising that their bids would be 'uncompetitive' – particularly if 'value for money' is narrowly interpreted in terms of efficiency indicators, such as 'cost per student hour', or 'cost per enrolment'. An illustration is presented below.

³¹ A NSW Government 'Green Paper', *Private Financing of Infrastructure Projects (2000)* took an extreme view about the choice of discount rates. Under the heading, 'Cost of public versus private finance', it acknowledged that the public sector can generally raise debt at a lower cost than the private sector. But it then asserted that 'to ensure efficient use of resources, the same cost of capital should be used for both sectors for assets of the same risk characteristics when investment decisions are made about public sector projects' (pp. 28-29). While this passage was later omitted from the 2001 guidelines, a 2007 NSW Treasury publication reiterated and extended this approach. It presented alternative discount rates for projects that were likely to generate a *net cost* to the public sector, and those likely to produce *net revenues*. For *net cost* projects, the paper advocated use of the risk-free discount rate (p. 10). For *net revenue* projects, the paper advocated use of a higher discount rate, reflecting market evaluations of the cost of capital in projects of equivalent risk (p. 62). It seems likely that NSW Treasury would argue for the use of higher discount rates to calculate the notional cost of capital attributable to TAFE assets that were to be used when tendering in a quasi-market.

Illustration: TAFE vs LearnEnglish Pty Limited

Suppose that both a TAFE and a private sector organisation (let's call it 'LearnEnglish Pty Limited') are both bidding for the right to deliver the LLNP program in a region where the enrolment is expected to be 18 students.

TAFE operates in a country town. It has a library, a student canteen, office accommodation for administrative staff, and five workshops and teaching rooms. The value of the property and associated facilities is estimated to be \$1 million. The TAFE has one permanent staff member on a salary of \$100,000 per annum who manages the facilities, oversights the TAFE offerings, and is accountable to a regional Institute. The TAFE also employs a full-time office worker on \$50,000 per annum. The TAFE uses the facilities to offer 6 courses throughout the year. To deliver the LLNP program, it expects to utilise casual staff for a total of 20 hours per week for 26 weeks. TAFE employs a graduate in education who has completed a post-graduate course in teaching English as a second language, and pays that casual employee the 2010 award rate of \$68.14 per hour. TAFE expects that the casual teacher will undertake pre-training assessments that will take one hour per candidate to complete.

LearnEnglish Pty Limited is anxious to break into the market to deliver LLNP for the unemployed in this region. The company also allows 20 hours class contact per week for 26 weeks, and plans to undertake pre-training assessments of students' capabilities within those class hours. The company's principals have advertised for teachers to express interest in taking the courses for \$25 per hour. The private sector provider has a Certificate IV employee in its head office, who will chat to the casual teachers each week. The classes will be held in a local office building where rooms can be rented on a part-time basis for three days per week at \$250 per week. There is no library or canteen, but a café is nearby.

TAFE's bid:

To cover costs (in terms of government guidelines), TAFE allows for the following (ignoring GST):

Direct costs: casual teacher

(20 hours x 26 weeks teaching) plus (1 hour per student x 18 students for pre-training assessments = 538 hours	
538 @ \$68.14 per hour =	\$36,659
On-costs charged by the TAFE Institute – 15% of salary	5,499

Indirect costs

As six programs are offered throughout the year and this program only takes six months - say 1/12 of overheads are applicable to this program
 1/12 of salaries of TAFE administrator and secretary
 (1/12 of \$160,000) plus 15% on-costs
 = \$13,333 + \$2,000

15,333

Sub-total

\$57,491

Competitive neutrality adjustments

Notional council rates and land taxes, say 1/12

250

Allowance for cost of capital 'invested' in TAFE property

\$1,000,000 plus working capital say \$100,000

Cost of capital allowance = (say, 16% p.a. on \$1,100,000)

for 6 months = \$176,000 x 6/12

88,000

Total direct, indirect and notional costs

\$145,741

TAFE may add an additional allowance for building maintenance, contingencies, etc. It would price its bid as greater than \$140,705 – possibly with a margin of 25% above cost (a

margin of 20% of the tender price). But suppose that it tenders on a 'break-even' basis:

Cost per student = (\$145,741 / 18) = **\$8,097**

LearnEnglish Pty Limited bid:

To cover costs, the company allows for the following (ignoring GST):

Direct costs: casual teacher

(20 hours x 26 weeks teaching) = 520 hours

520 @ \$25 per hour = \$13,000

Office rental \$250 per week for 26 weeks 6,500

On-costs say 15% of direct costs 2,925

Communications etc 200

Total direct, indirect and notional costs \$22,625

Cost per student = (\$22,625 / 18) = **\$ 1,257**

Discussion:

Under the assumptions specified in the illustration, the private sector operator's bid at a cost of \$1,257 per student would beat the TAFE bid of \$8,097 per student by a wide margin.

But most of the difference is the consequence of the requirement for TAFE to set prices which cover its long run avoidable costs – which include the provision of infrastructure specifically designed for educational purposes. In the long run, these costs would be 'avoidable' since the TAFE could close down if it abandoned educational activities or did not attract any students. But allocation of a proportion of these costs would handicap TAFE since if TAFE lost an existing contract to deliver a program, then, in terms of government guidelines, those overheads would then have to be allocated to the surviving programs.

Conformity to government guidelines would also require TAFE to make competitive neutrality adjustments for council rates, land taxes and 'cost of capital' even though as a public sector entity funded by taxpayers and established to provide services to the community it does not pay council rates or land taxes - while its 'capital' was provided by past generations of taxpayers so that the organisation could provide VET services. In effect, TAFE's would be penalised (through 'capital charges') for having good facilities.

Even ignoring arbitrary cost allocations and notional costs, another factor giving rise to a difference between bids is attributable to higher costs incurred by TAFE in engaging more qualified staff (these would comprise virtually all of the TAFE's 'marginal costs').

In attempting to obtain new business or expand its market share, the private sector organisation would be able to price its bid close to its marginal costs – which would be less than the costs that a TAFE would be required to cover under government guidelines.

If the competing bids were assessed on the basis of price, TAFE would lose.

If the bids were assessed with regard to the quality of service and the overall quality of the educational experience that both organisations were able to provide, the TAFE would be regarded as better 'value for money', since it would devote more teaching resources to the program, present the program in purpose-built facilities – and provide students with familiarity with TAFE and all that it offers, and the possibility of continuing their education through further studies with that organisation.

4.12 Non-financial considerations

There is little point in government agencies cutting costs by outsourcing if the end result is a sub-standard service.

There are a host of stories about some early disasters in outsourcing:

- Hospitals which terminated their staff cleaners and engaged contractors found that vomit in hallways might not be cleaned until the contractors arrived at their scheduled times. Moreover it became apparent that the now-dismissed staff cleaners, apart from cleaning, had also provided a valued social contact for often-lonely long-term patients, by chatting as they went about their work.
- School cleaning also suffered similar difficulties as contractors performed their tasks after school hours – leading to complaints from parents about unhygienic conditions in toilet blocks.

No doubt it would be argued that such cases reflected initial inexperience on the part of public servants in specifying contract conditions. Lessons were learned from those experiences, and outsourcing contracts were later improved.

Perhaps they were, though some tender documents (with page after page of specifications on the cleaning of washrooms) could have gone too far in the opposite direction. The two pages devoted to scheduling requirements for the cleaning of mirrors were probably too detailed and complex to be useful to those who would actually do the work.

Arguably there has been a tendency within the public sector to present the financial arguments for outsourcing, and then to only pay lip service to the idea that issues relating to service quality and delivery should also be considered. Most published research in contracting out has reinforced that approach, by emphasising the extent of cost savings which might be achieved from contracting out – very few studies have looked at service quality (see Hodge, 1996, for a review).

That said, the latest *Commonwealth Procurement Guidelines* (2008) avoided a narrow focus on financial factors. These Guidelines direct agencies to have regard to ‘all relevant costs and benefits of each proposal throughout the whole procurement cycle (whole-of-life costing)’ (p. 4). Some extracts follow:

Value for money is the core principle underpinning Australian Government procurement. In a procedure process this principle requires a comparative analysis of *all* relevant costs and benefits of each proposal throughout the whole procurement cycle (whole-of-life-costing).

* * *

Cost is not the only determining factor in assessment value for money. Rather, a whole-of-life value for money assessment would include consideration of factors such as:

- a) fitness for purpose;
 - b) the performance history of each prospective supplier;
 - c) the relative risk of each proposal;
 - d) the flexibility to adapt to possible change over the lifecycle of the property or service;
 - e) financial considerations including all relevant direct and indirect benefits and costs over the whole procurement cycle; and
 - f) the evaluation of contract options (for example, contract extension options).
- (p. 10).

These are all worthy sentiments. However what was left unexplained was how these factors are to be interpreted, and applied, in the context of (say) a government policy to 'encourage competition', or 'increase vocational education and training within the community'? It seems noteworthy that while the Guidelines included definitions of many key terms, no definitions were provided of such key concepts as 'fitness for purpose', or the 'lifecycle of a service'. And the interpretation of these concepts may shape decision-making, particularly in the area of education and training. For example:

- What qualifications of teachers or trainers are necessary for an organisation to claim that its staffing is 'fit for purpose'?
- What is the life cycle of an educational service - so many hours of instruction? Or the time necessary to ensure that individual participants have developed identified skills, knowledge or understandings? Or the time necessary to ensure that identified 'industry needs' for new cohorts of appropriately trained personnel have been satisfied?

Consideration of 'lifecycles' might also extend to market conditions. If a government abandons a field of activity to private sector firms, what will be the state of competition in future years? As was been noted in Walker and Con Walker (2000), private sector firms often deliberately source some materials from high-cost suppliers in order to keep them 'in the game', and to maintain some degree of competition. The alternative is to face monopolistic pricing from a dominant supplier in future years.

Some of these issues are explored in greater detail in following sections of this report.

4.13 Concluding comments

Some Australian governments have made mistakes in their pursuit of an ideological commitment to ‘competition’ as a way of imposing ‘efficiency’.

Some outsourcing contracts have been badly written, and inflexible.

In pursuing ‘competition’ (or ‘competitiveness’) in some fields (such as school cleaning) governments which have outsourced have simply created a series of regional monopolies in country areas.

In assessing ‘efficiency’ – the relationship between ‘inputs’ and ‘outputs’ – some governments have focused on the supposed cost per unit of service, when the ‘units of service’ were not of the same quality.

Ex ante it may be very difficult to assess the quality of service promised by different providers. One might suppose that private sector providers have more experience (and hence a comparative advantage) in responding to requests for tenders than public sector providers. Indeed, some private sector organisations that routinely tender for contracts may produce comprehensive and professional documents. Even then, caution needs to be exercised since experience suggests that the persons responsible for the bids may have nothing to do with actually delivering the services (or even oversighting quality) once a contract is awarded.

Finally, mention might be made of the difficulties faced by assessors when there are variations in both the cost and the likely quality of services to be provided by an existing (public sector) provider, and an external bidder. If a private sector provider can provide better services at lower cost, then (all other things being equal) the rational decision is to consider outsourcing. And *vice versa*: if the public sector can do better than the private sector, it is sensible to retain the *status quo*. But if the results are mixed (as set out in scenarios 2 and 3 below) the appropriate response may be more problematic.

Table 32
Service delivery in-house – compared to ‘out-house’

Existing service delivery in-house produces:		Possible response:
Scenario		
1	Lower costs and better services	Retain
2	Lower costs but poorer services	?
3	Higher costs but better services	?
4	Higher costs and poorer services	Consider outsourcing

Scenarios 2 and 3 suggest that difficult judgments have to be made about what are *acceptable* standards of service, and whether contracts can be devised which establish incentives and penalties for deviations from those standards.

Note that the rational response to scenario 4 is not to 'outsource' but only to 'consider outsourcing'. The *reasons* for those higher costs should be considered, before concluding that outsourcing is the solution. It may be, for example, that some costs were not controllable by the public sector providers, but were incurred because of the actions of others. Above all, careful consideration should be given to whether private sector operators really understand the 'market' – particularly the conditions and location in which services are to be delivered. It would be disruptive (and in the long run, costly) if public sector operators lose contracts on the basis of unrealistic bids from inexperienced private sector operators. It would be even more costly if contracts were lost to private firms that were then in a position to engage in monopolistic pricing.

Finally, it must be acknowledged that an implicit assumption underlying the foregoing discussion is that services are to be delivered at approximately the same volume as previously. The context in which outsourcing is being contemplated in the VET sector is somewhat different. Commonwealth government policy is to take steps to vastly expand the proportion of the Australian population with educational qualifications, including in the area of VET. The Commonwealth controls resource allocation to the States, and has made a condition of funding the acceptance by the States of opening up the VET sector to 'competition'.

Put simply, targets to expand the number of persons with educational qualifications might be achieved by:

- (a) expanding the availability of relevant courses (of an appropriate standard);
- (b) increasing enrolments in existing or new courses; or
- (c) taking steps to ensure that a higher proportion of entrants successfully complete their courses; or
- (d) a combination of the above steps.

All of these steps involve some degree of government intervention, and all introduce potential conflicts and tensions (and potentially dysfunctional consequences).

Step (a) could be achieved by investing so as to expand the capacity of existing institutions to deliver courses, maintain quality controls, and to innovate. But Government policy has been to seek to stretch its spending by introducing competition, which it assumes will lower costs. Government policy has also actively promoted the entrance of new providers.

Lower costs may be accompanied by a reduction in numbers of full-time staff, increased reliance on part-time (often untrained) casual staff, diminution in the quality of individual modules and programs.

Competition inevitably means that there will be winners and losers. Many private sector operators will be aiming to make a profit (or, where courses are run for the benefit of individual companies, to lower their in-house training costs, or make

training directly relevant to what are perceived to be their individual needs). Public sector providers will seek to preserve their funding. But the parties likely to be disadvantaged include career teachers who find their jobs at risk – sometimes on the basis of tenders prepared by the management of their institutions, or (as noted above) on the basis of opportunistic tenders lodged by private sector operators seeking to expand their market share. And other parties likely to be disadvantaged are the students taught by less-qualified teachers, or whose enrolments do not provide them with a pathway to other courses (such as can be provided by TAFE).

Step (b) is dependent in part on student demand. Changes in market conditions and technology may affect the relevance of some existing courses; the capacity of existing providers to adapt to those changes. Providers that do not have a 'critical mass' of trained teachers may find it difficult to adapt to change, or to promote new initiatives.

Increases in enrolments could also be secured through pricing mechanisms, or other incentives.

Step (c) could be achieved by ensuring that enrolments are limited to those with a high chance of success (which might prejudice the financial survival of a provider), or through more intensive teaching (which would be costly) – or by lowering standards. Government efforts to promote greater levels of 'efficiency' in VET teaching can be readily satisfied by increasing pass rates – in other words, by lowering standards (and the quality of courses).

There are associated risks. An overarching concern is that introducing competition into the VET sector may weaken the capacity of the existing TAFE system to contribute to the Commonwealth Government's objectives of upgrading educational qualifications. If the basis of provider selection is flawed, this can affect the careers of teachers and be damaging to morale across the sector. While no one could object to systematic, constructive and intelligent reviews of the quality of courses, there are risks that excessive bureaucracy may be demotivating and ultimately lead to the loss of committed teachers. And in such an environment, it may be difficult to attract new, suitably qualified teachers.

At the same time, if private providers are not adequately resourced (in terms of staff and facilities) then students are not likely to gain the maximum benefit from the education experience and contribute to a failure of the Government's objectives to upgrade educational qualifications.

This leads to what (arguably) should be a significant concern: the impact of outsourcing on accountability. When public sector agencies are funded to deliver services there is an expectation that public sector agencies will report on both their financial performance and on their performance in service delivery. When private sector agencies are funded to deliver some of the services that governments would otherwise provide, those agencies largely escape Parliamentary scrutiny.

5. SOME PRIOR COMMENTARY ON THE IMPACT OF COMPETITIVE TENDERING ON VET

5.1 Introduction

Despite the significant growth in competitive tendering relatively little analysis has been undertaken on its impact on VET including its impact on TAFE and staff and students as well as on the community in general. This section refers to three analyses from disparate sources, before focusing on the impact of competitive tendering on the provision of courses In Language, Numeracy and Literacy in the section that follows.

5.2 NCVER Study 2005

A study by Damon Anderson for the NCVER analysed the impact and outcomes of market reform in VET, particularly competitive tendering for government funds by all VET providers and 'user choice', where employers and their apprentices and trainees were able to choose their training provider and course elements (NCVER, 2005, p. 7). The most important data source was a national survey of registered training organisations.³²

According to the study:

Some of the purported benefits of market reform remain unsubstantiated, even if not entirely disproved. Additional data are required before clear-cut conclusions can be reached. On balance, however, the weight of available evidence suggests that, at the time of this study, negative rather than positive outcomes predominate (p. 10).

And:

Outcomes appear to be positive in relation to choice and diversity; responsiveness (to medium/large enterprises and fee-paying clients); flexibility; and innovation. Conversely, outcomes appear to be generally negative in relation to efficiency (due largely to high transaction costs and complexity); responsiveness (to small enterprises, local/surrounding communities and government-subsidised students); quality; and access and

³² The survey involved a sample of 2,581 registered training organisations which yielded 842 useable survey returns, representing a 33% response rate. According to the report, 'although this provides a reasonably sound basis on which to analyse the impacts and outcomes of market reform in VET, the survey tool has a number of limitations. These relate to cause-and-effect attribution (in this instance, outcomes may have been incorrectly attributed to market reform by survey respondents), the lack of comparative before-and-after data, and the partial and subjective nature of senior manager perspectives' (NCVER, 2005, p. 9).

equity. Overall, assessments by registered organisations of the global impact of market reform in VET are evenly divided, although a net majority of TAFE institutes and ACE centres delivered a negative verdict.

The research raises questions about the impact of market reform on public interest objectives (including community service obligations and public accountability), thin markets, and the financial viability of providers, particularly TAFE institutes and small registered training organisations (*idem*).

The study presented the policy objectives achieved and those not achieved for TAFE institutes and for all registered training organisations in the following table – though it does admit that the schematic representation is an oversimplification and should be read with the text (*ibid.*, p. 25).

Table 33
Scorecard of the intended outcomes of market reform in VET (as at 2001)¹

	TAFE	All RTOs
Increased choice and diversity		
Increased diversity of providers	√	√
Increased diversity of training options	√	√
Increased client control over outcomes ²	x√	x√
Increased efficiency		
Reduced costs of training delivery	x	x
More efficient use of public VET funds	x	x
Reduced costs of administration	x	x
Reduced complexity of administration	x	x
Reduced delivery costs outweighing increased transaction costs	x	x
Increased responsiveness		
Closer/more direct relations with clients	√	√
Increased responsiveness to individual student needs	x	√
Increased responsiveness to apprentice/trainee needs	√	√
Increased responsiveness to industry/employer demand	√	√
Improved skills supply to industry	x	√
Increased investment by industry/enterprises	x	X
Improved quality		
Improved quality of VET programs and services	x	√
Improved skill outcomes for students/apprentices	x	√
Increased flexibility	√	√
Increased Innovation	√	√
Increased access and equity		
Improved access for small enterprises	x	√
Improved access for medium/large enterprises	√	√
Improved access for local/surrounding communities	x	√
Improved access and equity for women	x	x
Improved access and equity for unemployed people	x	x
Improved access and equity for disadvantaged groups (e.g. migrants, disabled)	x	x
Improved accountability for use of public VET funds ³	x√	√

Note:

1. The respondent population comprised TAFE institutes (7%), ACE centres (12%) and other registered training organisations (81%).
2. Client control over outcomes has increased under user choice, but not under competitive tendering, from a TAFE perspective.
3. Accountability for public VET funds has increased under user choice, but not under competitive tendering, from a TAFE perspective.

Source: NCVER, 2005, p. 26.

The study concluded that:

Despite improvements in choice and diversity, internal efficiency, responsiveness, flexibility and innovation, the views of senior registered training organisation managers are evenly divided over the question of whether market reform in VET has been a positive or negative development. ... (p. 30).

Overall ... market reform in VET appears to have affected a larger proportion of public than private VET providers, and with generally more negative results. ...

Market reform also appears to be changing the values, priorities and motivation of VET providers in significant ways, with potentially adverse consequences for the public interest. As a result of market reform, TAFE institutes are driven more by efficiency and financial/commercial objectives than by equity and educational/skills formation objectives. Attracting full fee-paying clients and responding to short-term market demand have become relatively more important for TAFE institutes than competing for government-funded training places and responding to medium-or-long-term demand for skills. Overall, the imperatives of market competition appear to be overshadowing government policy and planning priorities as drivers of TAFE provision. In effect, doing business and remaining financially viable, if not profitable, seem to be incrementally supplanting the public interest role and responsibilities of TAFE institutes (p. 31).

In terms of efficiency:

... the bulk of evidence from the survey suggests that neither crude nor productive efficiency has ensued from training market reform. A majority of both TAFE institutes and registered training organisations indicated that the costs of training delivery have not declined, and that public VET funds are not used more efficiently, under either competitive tendering or user choice arrangements. Despite the fact that providers have been rationalising and streamlining internal administrative and planning systems and processes – in addition to implementing a wide range of cost-reduction strategies – high transaction costs, and greater complexity and uncertainty in quasi-markets, appear to have discounted or cancelled out any efficiency gains (p. 27).

And:

... the findings ... suggest that the reformation of the public VET system along market lines involves ongoing costs that appear to be having counter-productive effects on efficiency, quality, and access and equity outcomes. ... high transaction costs are incurred on both the provider and purchaser sides of contestable funding markets (p. 27).

So while TAFEs may have 'reduced production costs by retrenching ongoing teaching staff, switching to cheaper labour, increasing class sizes and reducing student contact hours', any gains have been offset by high transaction costs (p. 31). Moreover, 'such strategies are likely to diminish the depth and breadth of curriculum and teaching expertise in TAFE and reduce individualised attention for learners, thereby eroding the basis for high-quality program design and delivery and effective learning'. These factors together with 'reduced or deferred expenditure on curriculum development and maintenance, capital infrastructure, and student services in TAFE' are 'likely to contribute to a progressive "hollowing out" of TAFE institutes as educational and community resources'. These developments 'have potentially serious implications not only for the quality, responsiveness, flexibility and accessibility of VET programs and services, but also for the industries and communities that rely on TAFE institutes to underpin their economic and social capital through the provision of skilled workers and active citizens' (p. 31).

The study concluded:

Overall, the research suggests that, as a result of market reform, TAFE institutes and non-TAFE registered training organisations are trading places with respect to income sources and organisational identity, values and priorities, with non-TAFE organisations becoming more dependent on government VET funds and TAFE institutes less so. Such changes have potentially detrimental implications for the public good. The report concludes by arguing the need for a more creative and judicious mix of state planning and market forces, one which serves the needs and interests of all stakeholders and preserves the distinctive character and mission of the public VET sector (p. 11).

5.3 South Australian Industrial Commission TAFE Case 2009

Recent changes in VET have resulted in an increased workload for TAFE teachers. This was evident in a case run by the South Australian Branch of the Australian Education Union in the South Australian Industrial Relations Commission in 2009 for increased salaries for TAFE members, and more appropriate workload regulation. The South Australian AEU Branch argued that:

TAFE has been subject to considerable reform. That change and the workload impacts of it has been felt in this decade. The sources of change have been both national and South Australian. The result for TAFE lecturers and Educational Managers has been more work, work that is more complex, and significant increases in skill, responsibility and stress. As a result lecturers and Educational Managers have delivered the Employer a massive productivity bonus over the course of this decade (AEU, July 2010, p. 32).

It was submitted that the following areas have resulted in increased workload for TAFE teachers:

1. The introduction of business like practices;
2. The significant expansion in innovative forms of teaching (often referred to as flexible delivery) and particularly e-learning;
3. The increasing diversity of TAFE SA students and the need to meet individual needs;
4. The requirement to have extensive dealings with industry;
5. The significant expansion of Training Packages and the associated curriculum development work;
6. The increase in accountability associated with the introduction of the Australian Quality Training Framework (AQTF) as well as the associated administrative burden;
7. The significant expansion in Recognition of Prior Learning (RPL) and Workplace Assessment;
8. The reduction in administrative and other support;
9. The pressure on workload arising from an aging workforce and significant numbers of experienced lecturers leaving TAFE SA in the next five years;
10. The reduction in the number of Educational Managers and the impact of 'Repositioning';
11. The increase in hours worked and in curriculum hours; and
12. The implications of the Skills Strategy and the targets it sets for 2012 (*ibid.*, p. 33).

(Only the tenth and twelfth items may be said to be SA-specific.)

The SA Commission accepted the AEU's evidence about the impact of national and State VET changes on TAFE teachers and their workload. It stated in its decision:

policy reviews and their targets and the recently announced Commonwealth funded training programs have greatly hastened the pace of change in TAFE and require it to respond to new training initiatives which present opportunities for growth now and in the short-term (South Australian Industrial Relations Commission, February 2010, para. 766).

The Commission accepted that:

policy changes and targets will require lecturers and educational managers to undertake additional and more responsible work (para. 769).

And that:

contestability and budget pressure on publicly funded training will result in a greater need for lecturers and educational managers to tender for fee for service work, involving not only the time consuming preparation of tenders

but an entrepreneurial role to actively create the opportunities to tender for such work (para. 774).

In summarising the impact of VET changes on TAFE, the Commission stated:

The ready availability of a skilled workforce is partly dependent upon TAFE responding to the targets put in place by government and TAFE cannot do so without the active involvement and cooperation of its educational workforce. It is lecturers, educational leaders who will be responsible for:

- Increasing the use of e-learning and other flexible forms of instruction.
- Developing and implementing processes for RPL and workplace assessment.
- Liaising with local industry to determine and manage their training needs and expectations.
- Customising training so that student/clients may obtain qualifications or upskill to obtain additional competencies.
- Undertaking professional development so that they can participate in these activities (para. 781).

5.4 University of Sydney's Workplace Research Centre Report 2009

A report commissioned by the AEU and produced by the University of Sydney's Workplace Research Centre in June 2009 observed that:

For too long education in general and VET in particular, has accommodated other policy priorities such as the development of a contestable market in VET as an end in itself. Clearly this has not worked – for the economy at large or for workforce development (Buchanan *et al.*, June 2009, p. 4).

And:

Much VET policy today is pre-occupied with second order issues like 'contestability' and 'market design' (*idem*).

The report also dismissed the laying of blame for skill shortages on TAFE. It stated:

Even at the peak of the trade cycle inadequacies in our workforce systems were manifest. These were initially defined as skill shortages and blamed on VET institutions – especially TAFE. There is now growing recognition that many of the problems arose from the structure and flow of jobs (*ibid.*, p. 5).

6. CASE STUDY: LANGUAGE, LITERACY AND NUMERACY PROGRAM

6.1 Introduction

In 2010, the Commonwealth contracted out the Language, Literacy and Numeracy Program (LLNP) across Australia. This was despite the views of the National Quality Council / Council of Australian Government's Joint Steering Committee, as outlined in its April 2009 Report, *VET Products for the 21st Century*. This stated in part:

the exclusive use of accredited courses to deliver stand-alone LLN training would decrease the status and value of LLN provision (p. 21)

LLNP contracts were awarded to private sector or community providers that have been offering 'stand alone' LLN training – apparently because tenders from those providers were lower cost.

6.2 Firms that won LLNP contracts

In May 2010, then Deputy Prime Minister and Minister for Education, the Hon Julia Gillard, announced 'the 34 organisations that would deliver the Rudd Government's Language, Literacy and Numeracy Program (LLNP) in more than 350 locations across Australia' (Media Release, 26 May 2010).

The three-year contracts were 'worth more than \$240 million'. Successful tenderers are shown in the table below.

Table 34
Language, Literacy and Numeracy Program: Successful Tenderers May 2010

Face-to-face Training and Assessment Providers	
ACT	Canberra Institute of Technology
NSW	ACL Mission Australia Consortium ACL Riverina Community College Consortium ACL Western College Consortium Auswide Projects Mission Australia MTC Training Solutions Nortec Employment and Training Ltd TAFE NSW – Hunter Institute TAFE NSW – New England Institute TAFE NSW – Western Institute TAFE NSW – North Coast Institute TAFE NSW – Western Sydney Institute TAFE NSW – Northern Sydney Institute (TAFE NSW/NSW AMES Consortium)
NT	Mission Australia STEPS Training
QLD	Career Employment Australia Inc Outcomes – The Training People TAFE Qld
SA	Mission Australia Status Employment Services TAFE SA Adelaide South institute TAFE SA Regional
TAS	Mission Australia
VIC	AMES LLN Consortium BRACE Education Training and Employment Chisholm Institute of TAFE Djerriwarrh Employment and Education Services East Gippsland Institute of TAFE GippsTAFE Goulburn Ovens Institute of TAFE Northern LLANS Consortium Skills Plus Ltd Swinburne University
WA	Centacare Employment and Training Great Southern TAFE Kimberley TAFE Mission Australia SMYL Community Services
Distance Training and Assessment Provider	
National	Open Training and Education Network
Independent Verification Provider	
National	Linda Wyse and Associates Pty Ltd

Source: The Hon Julia Gillard, Media Release, 26 May 2011.

The dollar value of individual contacts or the basis of these contractual arrangements was not disclosed.

The above table indicates that even with the handicaps imposed by government guidelines on the pricing of agency tenders, TAFEs secured 15 out of the 37 contracts for delivering services in various States and Territories – though the majority were won by private providers. Two further tenders were won by Canberra Institute of Technology and Swinburne University, respectively.

Details follow regarding some of the private providers that won LLNP contracts in NSW. It was difficult to locate information about many of these providers because, for example, they were either ‘consortia’ or small proprietary companies that are not required to place annual reports or financial information on the public record. Hence what follows represents information provided from what information was publicly available, together with stories about the observations and experiences of interested parties.

6.3 Mission Australia: Training outsourced - and outsourced again

Among the 34 organisations that won contracts to deliver the LLNP was the non-government organisation, Mission Australia – which won five tenders (in one instance, as part of a consortium with the Navitas subsidiary ACL) to deliver the program in NSW, South Australia, Western Australia, Tasmania and the Northern Territory.

Mission Australia is a large and respected organisation. The parent entity is established as a company limited by guarantee under the Corporations Act, and controlled entities at 30 June 2010 were Mission Australia Housing Limited, Mission Australia Housing (VIC) Limited, Mission Australia Early Learning Services Limited, Mission International Limited, Many Rivers Opportunities Limited, Sir David Martin Foundation, and Mission Australia Foundation. The organisation has more than 3,000 employees, and net assets of \$83.3 million. The Mission Australia group reported total revenues in its 2009-10 financial year of some \$289.8 million.

It is not entirely clear what assessment procedures were undertaken before tenders were awarded. When the announcement of winning tenderers was issued in May 2010, Mission Australia had largely abandoned the field of training and announced that it was outsourcing its activities to a small proprietary company based in WA – a company which in turn was taken over by a listed public company some time later.

To assess whether Mission Australia was well-placed to provide well-resourced human services in this area, a review was undertaken of its 2010 annual report. This produced some surprising findings. Revenue from ‘training services’ was reported to have fallen in the 2009-10 year – from \$16.26 million to a modest \$193,185. However these figures did not line up with the KPMG-audited reports on the profitability of ‘reportable segments’, which showed external revenues of the ‘training’ business segment of only \$79,901, and that the ‘training’ segment had

produced a deficit of \$229,647. That was however a better result than in the prior financial year, when the training segment's deficit was \$3.2 million.

It is puzzling that government contracts could be awarded to an organisation that was experiencing financial problems in the delivery of training services – especially since Commonwealth guidelines require agencies to assess the 'performance history' of tenderers.

A further review of the annual report located a note:

In February 2009 part of the operations of training was sub-contracted to Sugar Holdings Australia Pty. Ltd.

That led to efforts to obtain information about Sugar Holdings Australia Pty Ltd – or rather what was styled the 'Sugar International Group'. The company's website reveals that Sugar started out by providing training and development programs for real estate agents. The website explains that CEO John Wall started in real estate at 19 years of age, and at 21 years of age was the 'youngest franchise owner in the real estate industry, going on to win numerous sales and marketing awards'. He was the inaugural winner of the WA Auctioneer of the Year in 1998 and repeated the feat in 1999 and 2000. He started Sugar in 2000, and apparently he is a motivational speaker: his biographical information records that he 'is often asked to inspire large audiences'.

Two other Sugar directors also had a background in real estate; another had a Master of Education (Adult) and a Master of Online Education (though the institution awarding these qualifications was not disclosed).

Sugar International was formed in 2006 and claims to now train 'over 30,000 people per annum in a range of industries including retail, real estate, banking, insurance, government departments and call centres'. Shareholders in Sugar International sold their interests to Talent 2 International Ltd, a publicly listed company, the bulk of whose revenues come from executive recruitment and placement. Talent 2 initially announced on 28 January 2010 that Sugar had annual revenues of approximately \$70 million and employed over 70 people – Talent 2 was to issue approximately 5,704,000 ordinary shares to the sellers of Sugar for an issue price of \$1.50 per share, and 'shareholder approval will not be sought for the issue'. However, it appears that the company's directors were unaware of basic regulatory requirements. Subsequently, at Talent 2's annual general meeting in October 2010, shareholders were asked 'for all purposes including ASX Listing Rule 7.4 to approve the issue of shares to the vendors of Sugar International Limited...'

Looking at this sequence of events: contracts from the Commonwealth for the delivery of training for adults in Language, Literacy and Numeracy were awarded to Mission Australia, which several months earlier had already outsourced delivery

of its training programs to another organisation which at the same time was claiming to have merged with yet another entity.

6.4 NORTEC

NORTEC was formed in 2007 via a merger between two pre-existing operations (TTEC Enterprises, said to be 'part of the Tweed community since 1979', and the Ballina Skills and Development Centre (BETC). Both organisations had operated in the northern rivers regions of NSW.

The organisation is described as 'not-for-profit' though it operates several commercial enterprises, and its website asserts that any profits from its commercial enterprises (NORTEC Labour Hire and also NORTEC Training) support NORTEC community program delivery. The commercial enterprises also include NORTEC Recruitment, which operates as a labour hire company, and advises potential customers that 'labour hire allows you to avoid the legalities and paywork [*sic*] as we look after the payroll'.

As NORTEC does not provide copies of its financial statements on its website it is not possible to assess the scale of its profits from commercial activities, or of its community contributions.

It recently started recruiting for Language, Literacy and Numeracy *teachers* and Language, Literacy and Numeracy *assistants*. Some experienced teachers who have worked for a time with the organisation report considerable dissatisfaction. For example:

I was employed by Nortec at its XXXX branch ... to deliver their LLNP program.

I found them to be totally unprepared for the task at hand in many ways:

- they lacked sufficient and adequate classrooms — often they were just shopfronts in a car park;
- their rooms did not meet OH&S standards. Computer chairs were old and did not meet the correct level of the desks or computers. To their credit, they changed this at XXXX upon my request;
- they have no curriculum branch so resources are extremely thin and often hand written;
- management had no educational background so did not understand the needs of the students or teachers;
- the head teacher had no qualifications or real experience as a team leader ...

Teachers were required to teach:

- ESOL students (my qualifications and experience were not current in this area)
- LLNP mature age Australians with low level literacy & numeracy skills (my qualifications and experience are current)
- Year 10 maths (I am not qualified to teach this). Most teachers did not even attempt this because they did not have qualifications or experience in teaching numeracy let alone maths)

The students were in the same room at the same time! And I was given no, or very basic, resources that lasted barely a month - if I was lucky! This meant I spent a lot of time trawling for resources for three different programs in my own time.

I had no break in the day. I was expected to stay with the students at all times. I worked from 8:30 - 3:00 without a break. Often I had to interview a prospective student immediately afterwards which meant that I worked from 8:30-5:15 pm without a break from the students.

Alternatively, I could interview prospective students on a non-teaching day, but as clients often failed to attend this would have meant a huge loss in working availability. Also if my room wasn't available on a non- teaching day, I was expected to interview prospective students in the cafe next door!

Writing up the interview report was tedious and time-consuming - it took most of us 1 1/2 - 2 hrs to write each report and 1 1/2 - 2 hrs to interview clients totalling 3-4 hours in all. We were only paid for 2 1/2 hrs.

Our pay rate was \$35.00 per hour with no sick or holiday leave.

* * *

By this stage I had had enough of unethical management issues and we agreed to part ways. I was exhausted. Teaching three programs all day proved to be too much for me and they have had difficulty in replacing me. I have heard that most of my original students left in disgust at the shemozzle that followed. I know this because many have enrolled in TAFE courses and we see each other on campus.

NORTEC's website indicates that its scope of registration currently extends to 41 courses. Thirty-seven of these are certificate courses (ranging from Certificate I to Certificate IV) in the areas of business, micro business operations, business administration, small business management, frontline management, human resources, retail, hospitality and aged care. Diploma courses are offered in the

fields of business, management, early childhood education and care, and employment services. The website does not provide any biographical particulars of senior personnel, and their academic qualifications.

It states that it has offices in Ballina, Bellingen, Brunswick Heads, Byron Bay, Casino, Coffs Harbour, Dorrigo, Grafton, Kyogle, Lismore, Pottsville, Murwillumbah, Nambucca, Tweed Heads, Woolgoolga, and Yamba.

NORTEC is operating in an area already served by 17 TAFE campuses that (according to the website of TAFE NSW - North Coast Institute) provide vocational education and training to 45,000 students each year. North Coast TAFE reports 'high student satisfaction rates'. Its campuses are located in Ballina, Casino, Coffs Harbour, Grafton, Tuncurry, Macksville, Kingscliff, Lismore, West Kempsey, Maclean, Port Macquarie, Taree, Junction Hill, Wauchope, and Wollongbar (with several campuses in some towns).

After NORTEC won an LLNP contract, the availability of classes in some areas has declined. One teacher reported:

Grafton TAFE had been a provider of the LLNP. The new contract holder Nortec has one class in Grafton, with no services to the rest of the Clarence Valley. Maclean TAFE has been servicing the Lower Clarence including Yamba, Illuka and Maclean. The Nortec class in Grafton has 15 students. 2 of Grafton TAFE's previous students have returned to TAFE telling Nortec that TAFE's teachers are much better (indeed we are, higher level of qualifications and years of teaching in the area).

Local TAFEs have general purpose classrooms, computer classrooms, trade workshops, seminar and conference rooms, and other associated facilities.

NORTEC's website refers to an 'exciting initiative': it was now able to bring classrooms to students from Nambucca to Tweed through mobile training units. According to NORTEC:

This exciting initiative consists of mobile classrooms, business and equipment trailers that can travel to regional areas where jobseekers or students may be disadvantaged by lack of transport or training options'.

The mobile training units are currently delivering a hospitality course in Nambucca and a horticulture course in Wiangaree, near Kyogle, as part of a Bush Tucker Project in conjunction with the LALC.

And

Mobile Training units (funded by the Australia Government ICET Program) consist of two refurbished semi-trailers, two vans and four trailers. The fully refurbished and equipped mobile classrooms will take accredited training

courses to jobseekers in rural regions where training opportunities are limited. Industry training in Hospitality, Horticulture, Aged Care and more will help regional jobseekers get skilled and get into work!

The mobile training units are [*sic*] been in operation since April 2010 and had minor modifications made to them as a result of being used to deliver Barista Training in Lismore on 17 May 2010.

Local teachers report that NORTEC

does some assessment and training in the truck, then that truck leaves and another one comes for them to do work experience.

Against this background, it may be worth recalling the statement in the *Commonwealth Procurement Guidelines* (2008) concerning factors that are relevant to an assessment of 'value for money':

Cost is not the only determining factor in assessment of value for money. Rather, a whole-of-life value for money assessment would include consideration of factors such as:

- a) fitness for purpose;
 - b) the performance history of each prospective supplier;
 - c) the relative risk of each proposal;
 - d) the flexibility to adapt to possible change over the lifecycle of the property or service;
 - e) financial considerations including all relevant direct and indirect benefits and costs over the whole procurement cycle; and
 - f) the evaluation of contract options (for example, contract extension options)
- (p. 10).

When considering 'fitness for purpose', there is a big difference between a shopfront office (or mobile classroom) and a 'campus'.

It may be that anecdotal evidence does not reflect the overall experience of teachers and students with this provider. But should there be an element of truth in these reports, then, as one former teacher commented,

woe betide education if this is to be the future for students.

6.5 Navitas

Navitas Limited is a listed public company that describes itself as a diversified global education provider that offers an extensive range of educational services for students and professionals including university programs, language training, workforce education and student recruitment. Once known as IBT (Institute of Business Technology), Navitas has a board of well-known and respected identities with strong connections with educational administration, business and the public service (notably non-executive director Mr. Bill Evans, former secretary of the Australian Treasury). It has been reported that in its earlier days, IBT's directors included Mr. Trevor Flugge (former chairman of the Australian Wheat Board, who resigned after public controversy about kickbacks paid in Iraq during the Oil for Food program); Prof. Di Yerbury, then Vice-Chancellor of Macquarie University, and the current Vice Chancellor of Macquarie, Prof. Stephen Schwartz (then at Brunel University) ('Navitas – a UCU Briefing', July 2008, available at www.ucu.org.uk).

A Navitas website provides the following history:

In the early 1990's [*sic*], Rod Jones and Peter Larsen identified a need for a different kind of pathway into university in Australia. This new pathway – aimed at international students – provided both academic and social support and addressed the cultural and linguistic challenges that international students studying in an English-speaking study environment face every day.

The first operation - a partnership with Edith Cowan University called the Perth Institute for Technology [*sic*.] (PIBT) – opened with 198 students in 1994. Within three years, similar programs had been rolled out at Victoria's Deakin University and Sydney-based Macquarie University. By 2009 Navitas had over 30,000 students a year studying in its network of colleges and campuses across seven countries. It had cemented its place as Australia's largest private education provider.

Today, Navitas operates under four divisions: University Programs, English, Workforce and Student Recruitment.

Navitas has certainly positioned itself as feeder for university enrolments, providing recruitment services for some institutions and also English language classes for international students seeking enrolment in local universities. Some might regard this as giving rise to a conflict of interest (being both a recruiter and an arbiter of whether prospective students meet university language requirements) but Navitas's 2010 annual report explains that its 'English Division works closely with University Program colleges on joint marketing and student recruitment opportunities to bring benefits to both arms of the business'.

Unlike many other providers, Navitas claims to provide 'pathways' to further education. The UK's University and College Union (UCU) noted that part of Navitas's marketing strategy was 'the promise of some variant of a "guaranteed progression" to an undergraduate degree at [a] partner institution' – citing some examples:

Swansea IBT says: 'On successful completion of the ICWS programme, students are guaranteed entry to the relevant degree programmes at Swansea University'.

Hertfordshire IBT says: 'All students who pass their course will automatically progress to the chosen pathway at the University of Hertfordshire'.

Brunel University's London IBT says: 'Our flexible entry system allows you to choose one of the three entry dates per year ... for undergraduate studies, allowing you to fast track your studies and enter the second year at university ahead of other students who have opted for the traditional UK academic entry dates....'

('Navitas – a UCU Briefing', *loc. cit.*)

Indeed, when accessed in August 2011 the Australian website states:

After graduating from one of our Academic English courses, you can obtain direct entry to over 50 leading universities and colleges around Australia. (see www.navitasenglish.com/academic_english.html)

But some from the university sector have misgivings about Navitas' 'partnership' arrangements, which allow it to operate from university campuses and to use university logos in their marketing material. Moreover, the UK's University and College Union comments that 'aspirations to recruit more students and keep profits up mean that students arrive with a lower than usual level of ability' and that offers of a fast track to an undergraduate degree place the staff delivering the courses 'under tremendous strain'.

In its 2010 annual report Navitas Limited noted that it has recently secured three-year Commonwealth LLNP contracts for seven business service areas in NSW, with total revenue of \$24 million over that period (including via consortia involving a subsidiary, ACL.) The contracts have the possibility of two three-year extensions. Further, Navitas well understands the attractions of co-locating its English programs with institutions that offer advanced courses:

Navitas English is contracted to manage the English language delivery for international students for Charles Darwin University and through its Hawthorn-Melbourne operation is the preferred provider for the University of Melbourne. Both centres are on the university campus. In addition Navitas English has authorised IELTS Test centres in Sydney and Melbourne.

For the year ended 30 June 2010, Navitas's audited financial statements show a pre-tax profit of \$90.3 million representing a (pre-tax) rate of return on shareholders' equity of 92 per cent - or 64 per cent after tax. While 'university programs' were the major source, the 'English' teaching segment contributed revenues of \$140.8 million and pre-tax profits of \$11.5 million.

The 2011 financial statements show that (after acquisitions) the company's pre-tax profit had increased to \$105.2 million (a pre-tax rate of return of 101.7 per cent) while after-tax profit was \$77.2 million (an after-tax rate of return of 74.7 per cent). (Again, 'university programs' were the major contributor to profits.).

While shareholders would be very happy with these results, other stakeholders may be less so. One teacher commented:

The Commonwealth is opting for what it calls 'value for money' yet a significant percentage of tax-payers' money is being directed to shareholders in listed companies. [Those are] funds that should be enhancing training for the unemployed and newly-arrived migrants and refugees.

Other TAFE teachers commented that Navitas (or consortia involving Navitas) hired a high proportion of staff who were recently qualified (and hence could be engaged on relatively low pay), with only a small number of experienced and better qualified staff (who would cost more).

As noted elsewhere in this report, the providers of VET programs do not publish information about the qualifications of their staff (or data relating to the mix of full-time employees and casuals). Nor, it appears, does the government agency NCVER collect this information. Yet it is highly relevant to any assessment of the 'inputs' to VET programs, if the Commonwealth is genuinely concerned to receive 'value for money'.

6.6 Some common themes

The foregoing case studies indicate that current or former TAFE teachers, in particular, are unhappy about the impact of competitive tendering on their employment situation, on their careers, and on what they see as poor outcomes for many incoming students. Further stories were received from those with experience in other providers and extracts from these are included below.

(Centennial Consultancy was concerned that the information provided to it *via* the Teachers' Federation may have been unduly weighted towards the views of members who were unhappy (perhaps, justifiably) about their employment prospects. Accordingly some independent enquiries were made of a selection of TAFE teachers (including some involved in LLNP). These interviews produced responses that were entirely consistent with the views and concerns expressed by members of the Federation.)

Some observations volunteered by TAFE teachers (or former teachers) were as follows:

- **A concern that for-profit or not-for-profit providers who had received contracts to provide courses were often engaging ‘volunteers’ or unqualified staff to deliver programs; at the expense of qualified teachers, thus lowering standards.**

One of my part time teachers applied to our local provider and was told that she was over qualified – she has a degree, a Dip Ed and a Certificate IV in TAA.

* * *

I, like others, spent thousands of dollars to attend UTS [University of Technology Sydney] in the 80s to retrain as an Adult Basic Education teacher. A very specialised skill. Now you can obtain a basic training diploma in LLN from a packet of Sugar Frosties!

* * *

I worked for [a Sydney provider] for a period of three months at the end of 2010 (after having to leave TAFE at the loss of the LLNP contract) and during that time, was appalled at the quality of training and management. So appalled, I had no option but to quit. Since then, I have heard quite a lot of negative feedback from various clients and employees. ... Teachers are unhappy (they're not able to do a professional job) and there is a very high turnover.

* * *

The decisions by the Commonwealth to select providers with lower wage rates and limited working conditions is directly affecting this workforce and especially impacting on work opportunities for women in rural NSW.

Forcing teachers in Rural areas with post graduate qualifications to work for half their salary is undermining the status of the teaching profession.

- **A related concern was that private sector providers were not hiring graduates with specialist training in teaching English as a second language because they were more expensive. Sometimes well-qualified staff were compelled to accept casual teaching at lower rates. Some illustrations follow.**

Rate of pay was \$22.00 per hour. No holiday loading. Use of own car with a car allowance as part of the \$22.00 per hour. 'Flexible' working hours with no time 'in lieu of' for work after hours and weekends.

* * *

After [TAFE] lost the contract, I applied for work at [the provider] (who had been awarded a contract). I was told they wanted my services, but that the top job would only pay me \$50k a year. The manager who interviewed me said that the only position to progress to was *her* job, and that she was going nowhere.

* * *

I have to travel between four TAFE campuses [in the Sydney metropolitan area] each week to make up half the hours that I previously had at [one TAFE], and I'm being paid far less per hour.

* * *

Just got a call from XXXX who is now working at [a private sector provider] teaching English. She is paid \$23 an hour and has to teach 6 hours a day, 3 hours in the morning and 3 in the afternoon. She is paid from 8.30am to 4.30pm and during that time she has to do LLNP reports on each student The supervisors bully the teachers who cannot complete their work in the time and they are not paid if they don't finish within the hours but lose their jobs if they don't complete all of the reports.

XXXX is the best qualified teacher there as they are using Cert IV as teachers and ... 4 week training without degrees as teachers (though they are not called 'teachers' - they are known as 'trainers' which is why they can use underqualified staff to teach English).

They have few facilities for disabled students and many of the students have mental health issues for which there is little assistance if any. She tells me most of the testing and recording of documents and qualifications as well as assessment is fraudulent as teachers are not sufficiently well qualified to do it and certainly not in the time frame given. She's been on sick leave as if the reports are to be written in paid time then there is no time to eat. She became unwell through not eating at work.

* * *

I have a friend, grew up in XXXX, did her Masters in Linguistics at Sydney University. Domiciled in Australia and had a child here. She is an Australian citizen. ... She has applied for jobs at both Navitas and Mission Australia and has never been offered work.

She worked with me at Sydney University, Centre for English Teaching and was considered a good teacher.

Two issues here, one is that with her experience the appropriate wage for her qualifications and experience makes her too expensive to consider. The second one is that she is black.

She's a great person and very good at her job but she is struggling here ... as no one will give her work

- **Annoyance that the non-TAFE providers lacked adequate facilities and teaching resources.**

Is it right that so called value for money competitive tendering can reduce professional standards to a level where some rural language and literacy teachers have to work for half their salary and deliver the LLNP out of trucks placed in car parks?

* * *

When the current LLNP provider eventually started, classes were being held in a room at the back of a small arcade in the retail area of [the town]. A hand printed sign on the door indicated the program. The room had little ventilation and was isolated from other sections of the provider's offices. There were initially few computers for student use.

* * *

We have had varying feedback from past TAFE students who are now attending LLNP with the new providers. Initially, the feedback was about the poor facilities (small room, no computers), the lack of negotiated programs (everyone working on the same program), and the large student to teacher ratio (about 20:1). More recently, the feedback from past TAFE students tells us that the private provider is moving to new premises next week (almost 12 months after the start of the contract) and that they now have about 6 computers for student use. The students 'go on excursions' to the local council library ...

* * *

No stationery was available. Teachers were asked to prepare resources written for the program (in their own time) that would be the property of [the provider].

- **A concern that the era of competition had brought with it demands for extensive paperwork and reporting.** For example:

I accept we have to be accountable for our work. But I wanted to be a teacher. The hours and hours of paper work are turning me into a bureaucrat. (Similar remarks were made by part-time teachers assisting special needs students in the school system.)

- **A concern that some providers were ‘pushing students through’ so they could report high completion rates, even though those students had not fully developed designated competencies:**

One of our [TAFE] students was taken off course by Centrelink and sent to an RTO who assessed her and placed her in Certificate III course level when she had very limited skills in literacy and numeracy. This student has now come back and resumed her course with us because she bitterly complained that she could not cope with the [Certificate III] course.

- **One insight about the challenges of developing literacy and numeracy skills was as follows:**

Consistent providers of literacy/numeracy services capture, over time, intergenerational literacy needs. That is, parents or siblings who come to a program will often bring or refer other family members when they feel comfortable and confident in the provision. This tends not to happen when the literacy/numeracy provider is changed often. The long term impacts of constant change are seldom recognised, particularly in regional areas.

- **The loss of a significant service to new migrants was lamented:**

[Our area] is in the heartland of refugee accommodation and other recent migrants to Australia. These people new to Australia are seeking quality assistance and support in their language learning to gain the language skills to negotiate their way into the new environment not only socially but also to have the ability with language to negotiate the educational and employment system and so establish themselves in the community with dignity and independence.

State funding has not been sufficient in recent years to accommodate all applicants. LLNP programs addressed this need with an employment focus.

LLNP funding also provided advanced English Programs e.g. preparing overseas teachers for the University of NSW Professional English Assessment for Teachers (PEAT) in conjunction with the Institute of Teachers and the Education Dept.

It has been difficult to watch what was a thriving, well established, quality provider with sincere and dedicated teachers, being depleted of funds which deprived the community of the language training offered.

6.7 Qualifications of providers (and 'verification' assessors)

A review of the annual reports and websites of organisations that were successful in obtaining LLNP contracts indicated a marked reluctance of these entities to provide any information about the educational or other qualifications of the persons who would be responsible for delivery of the programs.

Even the winner of the contract to provide 'independent verification' services for the LLNP, Lynda Wyse and Associates (LWA), was notably coy about the qualifications of its staff. This firm explained:

Under the new LLNP contract LWA has responsibility for

- Verification of client files across LLNP providers nationally
- Review of provider Training, Assessment and Delivery Strategies (TADS)
- Delivery of annual moderation workshops in all States and Territories (LLNP Newsletter July 2010, at www.lwa.au.com accessed 27/02/2011)

LWA's website provides a little more detail:

Client assessments and supporting materials are examined and reviewed to ensure:

- Clients have achieved the claimed curricula Learning outcomes/Australian Core Skills Framework (ACSF) indicators (*sic*)
 - The ACSF has been accurately applied.
- ('Language, Literacy and Numeracy Program' at www.lwa.au.com accessed February 2011.)

The firm's website also provides access to a newsletter with a header showing the Australian Government crest and then the name of the Commonwealth Department of Education, Employment and Workplace Relations. The newsletter includes the claim:

The directors (Kath Brewer and Linda Wyse) and staff, are all highly qualified and experienced in adult English language, literacy and numeracy ...

but without providing any information about those qualifications.

On 25 February 2011, Centennial Consultancy emailed Ms Brewer and Ms Wyse advising that research was being undertaken into the operation of outsourcing of the LLNP, noting their firm had successfully tendered to provide 'independent verification' of the capabilities of tenderers, and requesting a copy of their cv and the cvs of their staff. After an exchange of further emails, on 2 March the following was received:

We would still actually like to know why and for whom you are conducting the research. However, as per the LLNP guidelines, we all have teaching quals, postgrad ESL quals and Cert IV TAA.

It was not clear what exactly was meant by 'teaching quals'.

6.8 Need for scrutiny of the tender process and the performance of RTOs

Following the announcement of the LLNP tenders the NSW Teachers Federation wrote to then Minister Gillard outlining its concerns including the loss of \$50 million of funding from NSW TAFE and AMES for LLNP courses over three years and a request for an investigation into the tendering process. Not having received a response, the Federation wrote to new Minister Simon Crean. The Minister's representative finally provided a copy of a response sent to the Secretary of Unions NSW which stated in part:

The tender itself was managed within the Department of Education, Employment and Workplace Relations in accordance with the Commonwealth Procurement Guidelines. ...

LLNP business was allocated in each Business Service Area (BSA) to the tenderer(s) which best met the Department's requirements as set out in the Request for Tender documentation and represented best value for money. ... the value for money process is a comprehensive assessment of price, quality against the published evaluation criteria, service coverage across the BSA as well as an assessment of the financial viability of the tenderer.

In addition, all tenderers were obliged ... to demonstrate their capability and capacity to deliver the required LLNP services including their capacity to provide consistent and quality LLNP services all delivery sites within the BSA.

... Tenderers were also required to outline their organisation's strategies to identify, select, induct and retain necessary and sufficient academic staff of the required standard, and to provide development opportunities for staff (Response to Mr Mark Lennon, Unions NSW, from K. Shrugg, Department of Education, Employment and Workplace Relations, 19 July 2010).

The case studies and the anecdotal evidence illustrated above suggest that the assessments of 'value for money' in the tendering process were less comprehensive than claimed by the Department. Possibly the greatest failure was to focus on pieces of paper regarding 'strategies to identify, select, induct and retain necessary and sufficient academic staff of the required standard' - rather than evidence about who was actually recruited. More needs to be said about the 'required standard' – given that it appears sufficient for a private sector provider to have untrained staff mentored by someone with only a Certificate IV qualification in Training and Assessment.

Questions must also be raised about the adequacy of verification processes applied to new private sector entrants to VET. Some of the stories told about the inadequacy of facilities, use of composite classes, the engagement of poorly-trained or unqualified staff, and outsourcing suggest the need for a much more rigorous approach in future by the newly-established National VET Regulator, to weed out those providers who obtained registration on the basis of promises they were unable to meet.

7. WHAT LIES AHEAD – A DIMINISHED AND DAMAGED TAFE SYSTEM

7.1 Introduction

All agree that Australia needs a highly skilled workforce. At issue is how best to achieve that objective. The provision of Vocational Education and Training is recognised as a key component.

Historically, the TAFE system has performed two roles - providing vocational education and training, and providing opportunities for personal development via courses geared towards interests and hobbies.

In recent years government policies – at both Commonwealth and State level – have been shaped by the notion that **competition** will ensure **greater efficiency** in the delivery of education and training. Further hardening of Commonwealth policy has made some funding to the States conditional upon their opening up the delivery of VET to competition.

Victoria and South Australia have taken this step the furthest.

The basis for this approach from the Commonwealth has not been fully enunciated. Possibly support for such an approach has been shaped by simplistic notions that ‘competition’ brings lower prices and better quality services. Possibly private sector training businesses lobbied to secure greater access to what they saw as a potentially profitable business opportunity. Possibly politicians were responding to complaints about the shortage of workers during the current mining boom, and saw such a step as ‘evidence-based policy’. But, as has been noted,

even at the peak of the trade cycle inadequacies in our workforce systems were manifest. These were initially defined as skill shortages and blamed on VET institutions – especially TAFE. There is now growing recognition that many of the problems arose from the structure and flow of jobs (Buchanan *et al.*, 2009, p. 4).

Certainly employment patterns change radically over time. One review of the performance of NSW VET institutions over a decade ago noted that employment in agriculture, mining and manufacturing had declined from 28 per cent to 20 per cent between 1980 and 1995 (Council on the Cost of Government, 1997, p.23). In the last decade, employment in the mining industry has surged.

Whatever prompted the push to introduce ‘competition’ in VET, that decision ignored accumulating evidence from empirical research and case studies both in Australia and overseas. That evidence was that competitive tendering by the

public sector has often led to a loss of quality in service delivery, that any savings in costs 'through' outsourcing often evaporate over time, and that those who have claimed that outsourcing leads to savings often overlooked the costs of monitoring and managing contracts.

Already a new 'industry' of private sector deliverers of VET courses has been created.

Already extensive (some would say, bureaucratic) arrangements have been established to register providers, encourage engagement by employers, ensure compliance with centrally-determined standards of assessment, issue rulings about the expected outcomes of different qualifications, compile statistics and undertake surveys of the attitudes of students and employers. But not much of this new bureaucracy is aimed at improving the effectiveness of services.

Leaving aside the additional costs of administration accompanying the introduction of 'competition', there has been a major shift in resource allocation – from the TAFE system to private sector providers.

As funding for TAFE has been reduced, TAFE Institutes have responded by cutting costs, increasing the casualisation of staff, reducing teaching hours, and focusing on the more-profitable offerings. A 2005 NCVER-funded survey of representatives of both TAFE and private sector registered training organisations produced the following findings:

With respect to cost-reduction strategies, considerably more TAFE institutes than registered training organisations as a whole have been increasing average class sizes; reducing face-to-face student contact hours; discontinuing courses/subjects/modules with low enrolments; and increasing the use of sessional teachers/trainers. A large majority of TAFE institutes were also found to be redirecting resources from low- to high-demand areas of training provision, and placing higher priority on attracting full fee-paying clients than government-funded training places.

Overall, these findings suggest that TAFE institutes, to a much greater extent than most registered training organisations, have been engaged in a process of organisational restructuring to enable them to respond effectively to the demands of a more competitive and unpredictable market environment. In a context where TAFE institutes are guaranteed considerably less government funding on a recurrent basis than previously, a more market-oriented system has necessitated greater responsiveness and flexibility in organisational strategy and infrastructure, especially in relation to human, but also physical resources. At the same time, they have been refocusing their program profiles on commercial training markets, and vigorously pursuing a range of cost-reduction strategies in an effort to both manage the impact of declining government funds, and to put themselves on a more competitive footing in all market segments (NCVER, 2005, p. 25).

Note the reference to increased use of 'sessional teachers/trainers'. In other words, TAFEs have been compelled to place greater reliance on casual staff (who are paid less than full-time employees).

Meantime experience to date suggests that some of the successful private sector tenderers for VET contracts have delivered sub-standard programs using poorly qualified staff in sub-standard facilities – even in areas that were already served by TAFEs.

Correspondingly, some operators have been successful in expanding the scope of their activities – and, in the process, making substantial profits. But the fact remains that operators who are delivering courses in the VET space are subject to 'light touch' regulation. Monitoring systems are yet to be established to assess whether the courses that are being delivered are of high quality – and are effective.

This section of the report explores some of the consequences to date of the pursuit of these government policies – and their likely implications for the delivery of VET in future years. It includes some questions that public policy makers need to address as a matter of urgency if the nation is to preserve (let alone, enhance) some of its critical social infrastructure.

7.2 Assessment of competitive tendering driven by price (not quality)

The requirement to tender for the delivery of courses was imposed on a TAFE workforce that had little or no prior experience in the preparation of commercial tenders.

In contrast, many private sector professional firms have in-house teams that specialise in the preparation of marketing materials and tender documents. Much of that material is developed by interstate or overseas affiliates, and has been progressively refined. Indeed, experience suggests that the personnel that prepare and present tender proposals often have little to do with the subsequent delivery of services.

A lack of experience may have affected the capability of some TAFEs to prepare attractive submissions. But a more telling point is that feedback to staff of individual TAFEs that had lost tenders has indicated that the TAFE bids were not competitive on **price**. No feedback made mention of qualitative factors.

This was confirmed by the Director-General of the Department of Education and Training, Mr. Michael Coutts-Trotter, during an appearance before the NSW Parliament's General Purpose Standing Committee No. 2 in September 2010. Referring to the Language, Literacy and Numeracy Program he acknowledged that

NSW TAFE had lost considerable funding - some \$32 million over the coming three years.³³ Asked to estimate the number of full-time equivalent teaching positions that as a result would be lost to TAFE, he replied

It is about 420 positions, but I do not know if they are full-time equivalent. It is a mix of casual and full-time staff, but it will have a significant impact on us. We sought and received advice and feedback from the Federal agency responsible for running the tendering process to see whether there was anything we could learn from it. Essentially, we were not competitive on cost and price in some areas of the State.

And later he added:

The reality is that we are increasingly competing for public and private funding with public sector and private sector organisations that have cost structures that are significantly below ours.

Members of the Parliamentary Committee did not explore whether TAFE's bids were based on 'full cost' or 'marginal cost' pricing. But one asked 'what would you have to do to lower the price?', and whether this would involve either lower wages or a reduction in the number of contact hours? Mr. Coutts-Trotter replied:

It may not be quite as simple as that, but they [are] two things I assume we would have to look at.

It was noted above that it is not unknown for private sector firms to engage in 'low balling' to secure a foot in the door in a new market – and thereafter to raise their prices when contracts are due for renewal. A series of academic studies (reviewed earlier in this Report) have noted that competitive tendering may lead to initial reductions in costs, but that costs may increase subsequently – so that initial 'savings' are eroded.

As consumers, Australians may not care too much if private sector firms compete on price. As taxpayers, we should be wary if competition in this form erodes the capability of public sector agencies that have a track record of delivering quality services and impairs the value of past investment in physical and social infrastructure.

To return to the major point: TAFEs have lost tenders on the basis of price, in some cases to entities that do not have a track record of delivering courses in a nominated field (such as the LLNP program). Little regard seems to be had for the likely quality of service delivery, and the qualifications of those bidding in this supposed 'market'.

³³ Mr. Coutts-Trotter explained that 'it was worth \$48 million over three years. It will be worth about \$16 million over the coming three years'. Later, during the same meeting Minister Verity Firth referred to a 'reduction in federal funding from \$43.5 million to \$16.8 million'.

Indeed, the performance of some successful private sector tenderers in the area of LLNP indicates that some serious questions must be raised about how competing bids were assessed. Several successful private sector tenderers do not appear to meet the supposed basic requirements for consideration as a training provider. For example:

- classes offered by some NGOs were presented in sub-standard (often rented) facilities;
- staff were not provided with rooms or other spaces to interview potential candidates expressing interest in LLNP courses – compelling part-time staff to conduct interviews in nearby cafes;
- students at different levels of accomplishment were taught in composite classes – thus affecting the educational experience of more advanced students who had to wait for others to catch up;
- staff engaged by private sector providers were often less-qualified or experienced than TAFE teachers (though some providers offered work to well-qualified and experienced TAFE teachers, but at low rates of pay).

Correspondence from the Department of Education, Employment and Workplace Relations (DEEWR) to Unions NSW in July 2010 regarding how tenders for the LLNP program were evaluated (referred to earlier in this Report) made no mention of the qualifications of teachers, the adequacy of physical facilities or of whether tenderers proposed to combine students of differing abilities within the one group.

This raises the question:

Did those responsible for assessing and accepting tenders actually consider the qualifications of teachers that would be engaged by bidders? Or whether the bidder's facilities were 'fit for purpose'? And whether they were better or worse than those already available in local TAFEs?

And a broader question:

Were Commonwealth Procurement Guidelines (2008) actually followed by DEEWR or their commissioned contractors who undertook the task of assessing tenders?

Recall that the Commonwealth Guidelines assert that 'cost is not the only determining factor in assessing value for money', and that a 'whole-of-life value for money assessment' would include consideration of factors such as '**fitness for purpose**' and 'the performance history of each prospective supplier'. Yet, on the

face of it, tenders were won by bidders some of whom lacked facilities (and, as noted above, had yet to employ appropriately trained staff, and lacked experience in delivering LLNP). Concerns might also be had regarding cases where students from a town that already had a TAFE were required to travel 30 km or more to the rented offices of the nearest private sector provider. Or the case where funding was lost by a TAFE that was in 'the heartland of refugee accommodation and other recent migrants to Australia'.

The fact that some private sector providers were operating in areas already serviced by TAFEs with established physical infrastructure might suggest a determination ***to pursue outsourcing for its own sake, regardless of the impact this might make on the supply of LLN training in areas previously served by TAFEs and even though it would erode the capacity of the TAFE system, and even though there was no certainty as to what benefits (if any) would follow.***

Tenders were called within 'business service areas'. It is not clear whether the definition of 'business service areas' had regard to the distribution of existing TAFE facilities, or the potential demand for services from immigrants in some localities. It is absurd that well-equipped TAFE facilities are under-utilised while private sector operators hold classes nearby (or kilometres away) in poorly-equipped office space.

7.3 Tenders won by entities that lacked trained teachers

Successive government policies appear to have reflected concern that many teachers in the TAFE system (particularly part-time teachers) lacked formal qualifications.

In the 1990s it was claimed that 'the importance of quality teacher/trainer education appears to be largely neglected and more and more untrained or inadequately trained part-time and casual teachers are being employed in the vocational sector' (Cornford, 1999). It was also reported that while NSW TAFE had previously required a degree or a post-graduate Diploma in Vocational Education as qualification for full-time employment, during the late 1990s 'anecdotal evidence suggests that some teachers aspiring to full-time permanent positions in TAFE are undertaking a Certificate IV in Assessment and Workplace Training' (*ibid.*).

One response to such criticisms in the 1990s was that the then Australian National Training Authority (ANTA) introduced registration requirements by Registered Training Organisations and Quality Endorsed Training Organisations.³⁴ These included requirements for RTOs:

³⁴ ANTA was abolished in June 2005 and its responsibilities transferred to the Commonwealth Department of Education, Science and Training (DEST) – the name of which has also changed.

- to have systems in place to plan for and provide quality training and assessment across all of its operations;
- to ensure that each member of the RTO's staff who is involved in training, assessment or client service is competent for the functions they perform.

In relation to the latter, the bar was not set very high. For example:

The RTO must ensure that training is delivered by a person who (i) has all the competencies in the Certificate IV ... (or has demonstrated the equivalent competencies) or who is under the direct supervision of a person with these competencies; and (ii) is able to demonstrate vocational competencies at least to the level of those being delivered (Australian National Training Authority, 2001, p. 17).

In December 2009 the National Quality Council specified requirements to be met by RTOs throughout their period of registration. An extract from the 2010 revised version of these requirements is as follows:

Standard 1 The RTO provides quality training and assessment across all of its operations.

Element 1.4 Training and assessment are delivered by trainers and assessors who:

- a) have the training and assessment competencies determined by the National Quality Council or its successors
- b) have relevant vocational competencies at least to the level being delivered or assessed
- c) continue to develop their vocational training and assessment competencies to support continuous improvement in the delivery of RTO services.

The current National Quality Council policy in relation to Standard 1.4(a) is shown below.

Trainers must:

- i) hold the Certificate IV in Training and Assessment (TAA40104) from the Training and Assessment Training Package; or
- ii) be able to demonstrate equivalent competencies; or
- iii) hold the Certificate IV in Assessment and Workplace Training from the superseded Training Package for Assessment and Workplace Training (BSZ98); or
- iv) be able to demonstrate that prior to 23 November 2005 they had been assessed as holding equivalent competencies to the Certificate IV in Assessment and Workplace Training from the Training Package for Assessment and Workplace Training (BSZ98); or

- v) work under the direct supervision of a person who has the competencies specified in (i) or (ii) or (iii) or (iv) above; and be able to demonstrate vocational competencies at least to the level of those being delivered.

Note: Direct supervision is achieved when a person delivering training on behalf of the RTO has regular guidance, support and direction from a person designated by the RTO who has the trainer competencies in (i), (ii), (iii) or (iv) above and who monitors and is accountable for the training delivery. It is not necessary for the supervising person to be present during all training delivery.

Assessors must:

- i) hold the following three competencies from the Training and Assessment Training Package (TAA04):
 - (a) TAAASS401A Plan and organise assessment
 - (b) TAAASS402A Assess competence
 - (c) TAAASS404A Participate in assessment validation; or
- ii) be able to demonstrate equivalent competencies to all three units of competency listed in (i); or
- iii) hold the following competencies from the superseded Training Package for Assessment and Workplace Training (BSZ98): BSZ401A Plan assessment, BSZ402A Conduct assessment, and BSZ403A Review assessment; or
- iv) be able to demonstrate that prior to 23 November 2005 they had been assessed as holding equivalent competencies to all three units of competency listed in (iii) above.

Note: If a person does not have the assessment competencies as defined in (i) (ii), (iii) or (iv) above and the relevant vocational competencies at least to the level being assessed, one person with all the assessment competencies listed in (i) (ii), (iii) or (iv) above and one or more persons who have the relevant vocational competencies at least to the level being assessed may work together to conduct the assessments.

These prolix requirements indicate that it is **necessary** to have one person with Certificate IV credentials engaged (possibly part time) by a provider. But the requirements also suggest that it is **sufficient** to have only one qualified person employed by a provider that may be delivering courses at multiple sites. Perhaps it was assumed that it is sufficient to have just one Certificate IV-qualified person to be available (perhaps by telephone or email) to engage in 'mentoring'.

The documentation does not elaborate on what is intended by 'regular guidance, support and direction' – for example, whether it would involve reviewing the design of an LLNP course, or of an individual instructor's teaching plans (all, of course, having regard to the characteristics of the incoming enrolment). At present it appears that DEEWR has engaged assessors to review the files of providers to consider whether the extensive paperwork required to be prepared for each student conforms to the requirements for Pre-training Assessments and the preparation of Individual Training Plans. In particular, whether staff of a provider

have appropriately applied and interpreted tests for categorising students' skills at entry into the LLNP in terms of various levels of reading, writing, learning, and numeracy - by detailed reference to elements of a 180 page document explaining the ACSF.

(The authors of this report fear that they would fail dismally if they undertook work in this area. One teacher's files recorded that a candidate undertaking diagnostic tests was able to perform a series of simple arithmetic calculations. The teacher then asked the student - as required by the ACSF - how he had performed those tasks? The teacher dutifully recorded the student's response 'I worked it out in my head'. The 'verifier' then observed that the teacher's files were inadequate as she/he had not required the student to detail the steps of the calculation undertaken 'in his head'.)

The low 'minimum' standards for RTOs (and their teachers and assessors) as introduced by ANTA and later adopted with minor changes by the National Quality Council may be viewed with concern as they allowed new entrants to the 'market' for VET to use staff with lower qualifications than had previously been expected of teachers in TAFEs.

The lowering of standards flowed through to NSW TAFE. In January 2008 the then Director-General of Education and Training (and Managing Director of TAFE NSW) Michael Coutts-Trotter determined that the minimum teaching training requirements for all NSW TAFE teachers would be 'standardised as the Certificate IV in Training and Assessment (Correspondence to the General Secretary of the NSW Teachers Federation, 31 January 2008). In so doing, NSW was following other States: Mr. Coutts-Trotter was careful to note that similar minimum standards had already been adopted in Victoria, Queensland, South Australia and Tasmania, while the Northern Territory required prospective teachers to be 'prepared to obtain' a Certificate IV within 12 months of appointment; Western Australia expected newly-appointed teachers to complete a Certificate IV within two years of appointment. The ACT had no requirements on appointment.

It might be noted that an Australian Education Union survey of 2,800 of its teaching members found that '99% held teaching qualifications at or higher than a CIV TAA [Certificate IV Teaching and Assessment] (78% held teaching qualifications higher than a CIV)' (Forward, 2011, p. 8).

As noted above, in December 2009, COAG agreed to establish a national regulator for the VET sector. All jurisdictions except Victoria and Western Australia agreed to refer powers to the Commonwealth to establish the national regulator. The national regulator, the Australian Skills Quality Authority (ASQA) was established as a Commonwealth statutory authority by the National Vocational Education and Training Regulator Act 2011, and is now responsible for registering training organisations and accrediting courses. One Government website explains that 'while the approach is new, most of the regulatory requirements have not changed at all'.

This leads to another question about how these rules and guidelines were applied in practice:

What standards in relation to the qualifications and experience of staff were applied (before the establishment of ASQA) when evaluating bids from private sector bidders for VET contracts?

Recall the experience with LLNP contracts, described above:

- an NGO won a contract to deliver the LLNP in a number of areas, despite incurring major financial losses from these activities in a prior financial year and (apparently in an effort to stem those losses) it had itself started outsourcing to another provider;
- an NGO won a contract to deliver the LLNP program in a regional area – but then advertised for ‘volunteers’ to teach the course;
- former TAFE staff engaged by an NGO on a part-time basis on relatively low hourly rates then found they were expected to undertake many additional hours of unpaid work;
- those involved in teaching the LLNP suggest that it is sufficient for just **one** employee of an RTO to have the minimum qualification of Certificate IV.

It might be contended that TAFE itself lacks suitably qualified teachers in many areas – and there is some substance to that claim. Historically NSW TAFE has required (full-time) teachers to either hold degrees, diplomas or (since 2008) the Certificate IV in Training and Assessment. But funding cuts have led to the increasing casualisation of TAFE staff.

From the perspective of an educational administrator, there would be some merit in having a (modest) proportion of staff engaged on a part-time basis. Such arrangements afford some flexibility that would enable resources to be shifted from one area to another in the event of changes in demand for different types of courses. The employment of casual staff enables some potential employees to be ‘tried out’ and to develop their skills. In some areas, part-time staff with current industry experience can contribute their knowledge and ideas to upgrade the content of the curriculum [or ‘training package’] or to develop new courses – particularly if resources allow for ‘team teaching’ (which would be rare in the TAFE sector).

But high levels of casualisation may mean that some TAFEs would be reduced to only a few full-time staff – while in the new era of ‘competition’, qualified and experienced casual staff are only offered limited opportunities to teach (sometimes

less than half the teaching load they previously enjoyed – and even then, some LLNP teachers travel between three or four TAFEs to secure 10 to 14 hours of work per week).

Again, educational administrators often recognise that innovation and curriculum development is facilitated if a teaching organisation has a 'critical mass' of staff, who are able to interact and exchange ideas about teaching strategies and assessment methods. Many TAFEs – particularly in rural and regional areas – appear to have been reduced to a bare minimum of full-time trained teaching staff, who are increasingly burdened with administrative tasks. During an interview one LLNP teacher bemoaned this fact:

I went into teaching because I enjoyed it, and wanted to work with students. Now I'm expected to spend half my time filling in forms and documenting assessments. I've been turned into a bureaucrat.

One of the curiosities of the NSW TAFE system is that individual Institutes prepare detailed annual reports – but without reporting on the numbers of full-time and part-time staff, or their qualifications. Nor was the data located in the annual report of the Department of Education and Training. When enquiries were made to a TAFE information service about the availability of any publication summarising the profile of all NSW TAFE staff (e.g. numbers of FT and PT staff, and their qualifications) the following response was received:

Thank you for your enquiry. Unfortunately there is no publication like this.

7.4 Requirements for maintenance of RTO registration

On the face of it, the evidence cited earlier in this Report suggests that reviewers (or auditors) may have turned a blind eye to substantive failures by some providers to meet nominated standards in program delivery.

Recall also the advice (reproduced earlier in this Report) that tenderers were not required to have appropriately qualified staff *before* being awarded a contract – or even to have appropriately qualified staff on stand-by. Tenderers were merely required

to outline their organisation's strategies to identify, select, induct and retain necessary and sufficient academic staff of the required standard, and to provide development opportunities for staff

Even more alarming is the fact that ASQA's website stated:

The period of registration is for up to 5 years regardless of whether it is a new registration or renewal.

Organisations that successfully meet the standards through a compliance audit will be granted registration for up to a further 5 years.

In other words, the capacity of most training organisations to deliver programs - even those organisations with little experience, few staff and modest facilities - will only be reviewed every five years. While it must be acknowledged that, with around 5,000 providers already registered, the task of reviewing their work would be formidable, the planned minimal oversight of RTOs seems consistent with the supposition that those implementing government policies to promote 'competition' are affording new entrants a form of concessional treatment with the aim of allowing them to expand their market share. But this is at the expense of past investment in the physical and social infrastructure provided by TAFEs.

The anecdotal evidence cited above regarding the performance of some private sector providers – particularly in relation to the human and physical resources they devote to VET – raises questions about the adequacy of the processes undertaken to review the performance of providers following their initial registration as a training organisation.

There have been other problems, with complaints about misleading marketing material, the poor performance of some providers of educational services, and the commercial failure of others.

Indeed, it appears that recent government decisions represent an admission that prior arrangements for the registration of providers were defective. As a media release put it:

The Minister for Education, Julia Gillard, has welcomed the strengthening of rules for education providers of international students by requiring all colleges to re-register under new, stronger criteria by the end of 2010.

The new rules come under the Education Services for Overseas Students Amendment (Re-registration of Providers and Other Measures) Bill 2009 which passed the Senate yesterday and will help weed out dodgy providers from the industry.

This will mean that all education and training providers currently registered on the Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS) will have to re-register under the strengthened criteria by 31 December 2010.

This is intended to reinforce confidence in the quality of the Australian international education sector and to strengthen the registration process. Only those who have met the strengthened entry requirements will remain on the register from 1 January 2011.

Providers will also have to prove that education is their principal purpose and that they are able to deliver that education to a high standard.

COAG endorsed reforms to the 2007 AQTF Essential Standards for Registration on 7 December 2009. These 'important' changes were said 'to strengthen the AQTF and ensure regulators have the tools they need to protect the interests of all students undertaking vocational education and training in Australia'. The changes were to be reflected in:

- essential Conditions and Standards for Initial Registration for organisations seeking registration for the first time
- essential Conditions and Standards for Continuing Registration for existing RTOs.

And regulatory changes continue to occur.

Under the new regime of 'competition' in VET there is a requirement that ASQA-registered training organisations must meet the requirements for registration, including the requirements in the VET Quality Framework as defined in the National Vocational Education and Training Regulator Act 2011. To quote:

The VET Quality Framework is a set of standards and conditions that ASQA will use to assess whether an RTO meets the requirements for registration. The VET Quality Framework comprises:

- the Standards for NVR Registered Training Organisations
- the Australian Qualifications Framework
- the Fit and Proper Person Requirements
- the Financial Viability Risk Assessment Requirements
- the Data Provision Requirements.

A quick assessment of the 90 page AQTF *Users' Guide to the Essential Conditions and Standards for Continuing Registration* raises doubts about the efficacy of some of these 'reforms'.

For example, the new rules were claimed to 'strengthen requirements in areas of financial viability [and] financial management' by requiring RTOs to 'have their accounts certified [*sic*] by a qualified Accountant as being prepared in accordance with Australian Accounting Standards'. Presumably most of the RTOs whose financial viability may be questionable would be smaller organisations (e.g. small proprietary companies). As explained earlier, under Australian Accounting Standards these organisations could self-describe themselves as not being 'reporting entities' and hence choose to avoid compliance with most applicable Australian Accounting Standards (particularly those that affect how assets or liabilities are to be recognised and measured). Larger RTOs that are not listed on the Australian Securities Exchange could avoid providing 'segment' reports

disclosing the profitability of their VET activities. Even RTOs that are listed public companies could choose to describe VET as only part of a wider range of their activities, such as 'educational services'.

Other 'essential requirements' in relation to financial management concerned the 'fee protection and governance conditions' – for example, how student fees paid in advance were to be managed – and will not be examined in detail here.

As for the minimum qualifications of teachers and assessors, the 'reforms' did not involve any substantial change. Training and assessment is to be delivered by trainers and assessors who:

- a) have the necessary training and assessment competencies as determined by the National Quality Council or its successors, and
- b) have the relevant vocational competencies at least to the level being delivered or assessed, and
- c) can demonstrate current industry skills directly relevant to the training/assessment being undertaken, and
- d) continue to develop their Vocational Education and Training (VET) knowledge and skills as well as their industry currency and trainer/assessor competence.

This is much the same as what ANTA 'prescribed' in 2001. Item (d) is a case in point: there was no suggestion that the regulator will require RTOs to assist trainers and assessors to 'continue to develop their Vocational Education and Training (VET) knowledge and skills' by, for example, sponsoring programs of continuing education or requiring RTOs to assist their staff to upgrade their qualifications.

Arguably the most significant elements of the supposed 'reforms' concern the level of assurance that the national regulator will require regarding the quality of course offerings. RTOs are required to collect three 'Quality Indicators' which supposedly 'have been designed to help RTOs conduct evidence-based and outcomes-focused continuous quality improvement, and assist a registering body to assess the risk of an RTO's operations'. Fine words. But the indicators chosen may not be valid indicators of the *quality* of the education and training services being provided. The three nominated indicators are:

1. Employer satisfaction (competency development, and training and assessment quality).
This indicator focuses on employers' evaluations of learners' competency development, its relevance to work and further training, and the overall quality of the training and assessment.
2. Learner engagement (learner engagement and competency development).

This indicator focuses on the extent to which learners are engaging in activities likely to promote high-quality skill outcomes, as well as learners' perceptions of the quality of their competency development and the support they receive from RTOs.

3. Competency completion rate.

This is calculated for qualifications and units of competency/modules delivered, based on data provided by RTOs on the previous calendar year's number of enrolments and qualifications completed and/or units of competency/modules awarded

(Users' Guide, p. 65).

Plainly, item 1 – measures of 'employer satisfaction' – would not be relevant to courses undertaken by students who are unemployed (such as those directed to the LLNP by Centrelink). In relation to other cohorts of students, it would certainly be a relevant indicator of educational *outcomes*, particularly if assessed some years *after* certificate or diploma courses had been completed. There is a risk that in the short run, employers' responses regarding the relevance of a program may be related to perceptions as to whether individual employees are hard working and more therefore more productive in the short term (as opposed to whether the courses that those employees are undertaking will equip them with relevant knowledge, skills and understandings that will make them productive throughout their careers).

As for item 2 – 'learner engagement' – the *Users' Guide to the Essential Conditions and Standards for Continuing Registration* does not explain how this is to be interpreted or measured. A search of the *Users' Guide* for relevant references to student engagement only identified seven references to 'pre-engagement information' provided to students – in other words, the marketing information provided to students before they enrol. Accordingly it appears that the term 'learner engagement' relates to what students do after they enrol – so that the term 'learner engagement' is a euphemism for a student's 'record of attendance'. Students will be regarded as 'engaged' if they turn up to class.

Finally, item 3 'completion rates' - should be treated with suspicion. It is easily manipulated. As every career teacher knows, the easiest way to secure high completion rates (and to improve 'student satisfaction') is to adjust marks so that all students 'pass'. It is better regarded as an 'output' indicator – a measure of the number of units of service produced. In fact, number of completions is nominated as an 'output' indicator under the National Agreement for Skills and Workforce Development (2008). Certainly completion rates would not be an indicator of the quality of individual modules or courses, or of the educational experience provided by individual RTOs.³⁵

³⁵ The NSW Council on the Cost of Government (1997) noted that 'VET often provides a second-chance educational opportunity for many of its participants who have not experienced satisfactory outcomes in formal education. Thus, for these students, undertaking any formal education represents a success in itself. On this basis it is not realistic to assume all participants will complete the course they started' (p. 21)

For the LLN Program, a better indicator of outcomes would relate to the development of students capabilities in the areas of literacy and numeracy – and whether students who have developed those skills have obtained work (if previously unemployed) or been able to embark on a higher standard of education. Ironically, students who abandon LLN Programs because they have found work are not counted in completion rates.

It is doubtful that the latest ideologically-driven ‘reforms’ will ensure that all providers of VET have the capacity to deliver programs of an appropriate standard – and that they do indeed deliver such programs.

7.5 There may be a ‘market’ for VET – but what kind of market?

Much has been said about how COAG approved the introduction of a ‘market’ for VET. But in announcing this policy, COAG did not explain what type of ‘market’ it wished to establish.

While the former Coalition Government had stated that it would introduce so-called ‘genuine competition’, subsequent commentaries have cheerfully referred to government policies as establishing a ‘quasi-market’ for educational services – but without explaining how that term is to be interpreted.

The prefix ‘quasi’ comes from the Latin word for ‘as if’. The Oxford Dictionary explains that ‘quasi’ is to be interpreted as

seemingly, but not really

which seems to be an appropriate description. While COAG has accepted advice to establish a ‘market’ for VET, what it has done is establish a set of arrangements that, even to a casual observer, may ***seem like a market*** – but are ***not really a (truly competitive) market at all***.

For its part, the Productivity Commission’s 2011 report avoided discussing the nature of the supposed ‘market’ for VET – beyond comparisons between what might be found in a ‘free market’, and with what was occurring currently in VET. In so doing, the Commission at least acknowledged that there were market imperfections – and that there was a case for government intervention ‘to address market failures’ that were leading to outcomes being ‘sub-optimal from a community-wide perspective’ (p. 60).

Truly competitive markets are characterised by a large number of willing and informed ‘buyers’ and ‘sellers’ for a given product or service. For the moment, it is sufficient to characterise the service as ‘VET’.

The 'buyers' of the LLNP are not necessarily 'willing buyers': they are required by Centrelink to attend as a condition of receiving unemployment benefits.

The establishment of Skills Australia was intended to facilitate the purchasing of services by employers in commerce or industry. In practice, some bodies intended to identify the 'skills' needed within specific industry groups have been imploring employers to become engaged with the process, and to suggest the areas in which training was 'needed'. This could be seen as a worthy enterprise in its own right. It can also be seen as an effort to implement government policy for new-style market-design VET by artificially creating a demand through subsidisation of training that otherwise would be provided 'on the job' and paid for by employers.

The number of 'suppliers' of VET has certainly increased, the major growth has been in the number of for-profit and not-for-profit organisations offering certificates and diplomas in industry-specific fields, ranging from Aged Care and Animal Studies to Visual Merchandising and Youth Work. On the face of it, this has enhanced the availability of choice – though as an NCVER-funded study reported, while the number and range of providers has expanded,

choice is relatively more restricted in rural/regional areas, as only one-third of all registered training organisations are located outside metropolitan areas.

The same study concluded:

Despite the apparent influx of registered training organisations into rural/regional areas, the existence of thin markets on the supply side is an ongoing problem, especially in remote areas. As a consequence, competition and choice are highly restricted, and in some cases, non-existent. This, together with other adverse effects, suggests that ***quasi-markets in VET are generally unviable in remote areas and many rural/regional areas*** (NCVER, 2005, pp. 26-27, emphasis added).

Understandably, for-profit registered training organisations would face incentives to focus on courses that were likely to produce the greatest financial returns – the low-cost courses with larger enrolments (which would usually be those offered in major cities).

Similarly, many not-for-profit entities have established divisions, units or subsidiaries to deliver courses with the aim of making a profit (since if profits are utilised for benevolent purposes then the concessional tax treatment of charitable organisations can be maintained). This in itself prompted a critical response from some for-profit providers who complain that they are faced with unfair competition from charities that enjoy benefits in terms of relief from stamp duties, property taxes, and fringe benefits taxes that allow them to provide effectively higher remuneration packages to employees (see, for example, the submission to the Productivity Commission's review of the not-for-profit sector prepared by Deloitte on behalf of ACL, a wholly-owned subsidiary of Navitas Limited).

Turning to LLNP, by insisting that the unemployed undertake some kind of training as a condition of receiving unemployment benefits, government policies may have increased the number of (indirect) purchasers of a service (even if some of the long-term unemployed may not have been 'willing'). By directing the unemployed to the LLNP program (rather than other language or numeracy programs) the Commonwealth Government has restricted choice, while establishing an artificial demand for that course in some regions.

But to return to the conditions necessary for the establishment of a competitive market: the first condition is that there be a large number of buyers and sellers. The economists' 'ideal' of a perfectly competitive market assumes that the product or service available for sale is homogenous. Obviously that would not be the case since 'VET' encompasses many different programs – and even a single program (such as LLNP) could be regarded as non-homogenous since it is offered in different locations, and to cohorts of students with differing accomplishments. But, that matter aside, an element that is essential if a market is to be regarded as competitive is that buyers and sellers are both **well-informed** i.e. both have **information** about the characteristics of the service being offered by individual suppliers. Both should also have access to the prices previously offered in a market.

Some of the materials presented earlier in this Report highlight the failure of present arrangements to ensure that potential buyers (students and their employers - or intermediaries) are informed about the human, physical and financial capacity of different providers to deliver programs that are of high quality:

- while TAFEs prepare annual reports, their capacity to deliver programs is not explained – for example, NSW TAFE is part of the NSW Department of Education and Training (labelled 'Department of Education and Communities since April 2011), and the annual reports and financial statements of that Department do not detail what funds are allocated to the TAFE system or to individual Institutes or TAFEs. Some information is available from NSW Budget Papers, but only at a highly aggregated level;
- the NSW TAFE Commission, and individual TAFEs or TAFE Institutes, do not report publicly on the numbers of full-time or part-time staff that are available to deliver programs. Nor are summary indicators (such as staff-student ratios) readily available. Also not available is any data concerning the educational profile of TAFE teachers i.e. how many have degrees, diplomas or certificates.

But whatever the shortcomings of available information about the TAFE system, at least (in public ownership) TAFE produces a series of annual reports, while the performance of the TAFE system is subject to Parliamentary scrutiny and oversight.

Greater concerns arise when considering the quality and scope of information publicly available about the new, private sector entrants in the VET 'market'.

Many do not publish annual reports, since as small proprietary companies (or trusts) they are not required to do so by the Corporations Act. And if they do publish annual reports and place financial statements on the public record, those financial statements may not disclose all the financial information that one would expect from public companies – because they are not required to comply with all relevant accounting standards. The reason? The full suite of Australian Accounting Standards only apply to public companies, borrowing corporations and other entities that are considered by their directors or trustees to be 'reporting entities'.

This points to a major anomaly in Australia's reporting requirements – the existence of an overly-broad exemption that does not only apply to providers of VET. For example, charities that seek donations and which enjoy major tax concessions may self-describe themselves as not 'reporting entities' and hence avoid more fulsome financial reporting. Similarly, the directors of corporate trustees of superannuation funds – some responsible for the management of billions of dollars of members' funds – have not needed to disclose more information than a small family company, let alone comply with the disclosure requirements that are applied to listed public companies whose market capitalisation is a fraction of their size.³⁶

It also seems anomalous that organisations that are major recipients of government funds are not required to disclose information about their operating results and their financial position. Recall references in an earlier section of this report to how one contractor – Serco Australia – is enjoying a 72 per cent *pre-tax* return on shareholders' funds from its operations which include the operation of gaols and detention centres – activities that otherwise would have been undertaken directly by government were it not for a commitment to outsourcing. Even that return was exceeded by Navitas Limited, with a pre-tax rate of return during its 2010-11 financial year of 101.7 per cent (74.7 per cent after tax) – though only part of this comes from English language teaching. In the case of Navitas, information is publicly available since Navitas is ASX-listed and as such is obliged to report *inter alia* on the profitability of its business segments. Far less is revealed by NGOs and smaller for-profit entities whose business is also largely derived from government contracts.

Nor are organisations receiving government funds required to publish information about the *quality* of the programs they are delivering on behalf of the government.

³⁶ For a fuller discussion of these issues, see R.G. Walker, 'Reporting entity concept: a case study of the failure of principles-based regulation', *Abacus*, 43(1) 2007. Some of these loopholes have been closed with the issue in June 2010 of AASB 1053 'Application of Tiers of Accounting Standards' which specifically extends reporting requirements to superannuation schemes and investment schemes, while at the same time reducing the reporting requirements of many public sector entities. However even though AASB 1053 refers to a notion of 'public accountability' it does not apply this concept to entities deriving major revenues from government contracts.

As noted above, 'competition' was introduced into VET in 1998, with the introduction of the national 'User Choice' policy. It has taken until 2011 for a Commonwealth agency to publish a report acknowledging that little information is available for students to assess how well courses meet their needs, and that 'without information on the quality of training, there is the risk that providers will compete on fees alone' (NCVER, 4 March 2011. p. 7).

More generally, this points to a further loophole in public accountability – while governments are expected to publish performance indicators in relation to the operation of their major programs, this can be avoided if governments 'steer not row' and provide services indirectly, via outsourcing.

For its part, the government does not even publish how much each successful tenderer will receive from contracts, such as those for the LLNP.

Hence there is a lack of public accountability concerning the financial impact and other outcomes of the outsourcing of functions the provision of which is accepted as part of the responsibilities of government.

In summary: governments may persist in claiming that they have created a 'market' for VET services, but what has been established is far from the ideal of a competitive market in which there are many sellers competing on a level playing field, and in which prospective buyers and sellers are well-informed about both prices, and about the quality of the services being provided.

There is a dearth of information about the quality of courses being provided in the market, let alone about the outcomes of current policies - in the sense of their impact on local communities as TAFEs with strong community links are downsized with resources being redirected to a multitude of small providers and a handful of large commercial enterprises.

While the TAFE system is still a major player in this 'market', individual TAFEs have been restricted in their capacity to compete in some areas, as approval processes, funding restrictions and associated 'casualisation' have reduced institutional capability. Those funding restrictions arise in part from the diversion of resources to private sector providers. The TAFEs, as public sector entities, have to operate within (ever tighter) annual budgetary allocations. If some TAFE offerings are profitable, any surpluses are used to subsidise other courses or (possibly) to enhance their facilities.

The for-profit private sector providers, for their part, have focused on the high-volume high-profit sectors of the quasi-market. The record profit of Navitas illustrates how the introduction of 'competition' is actually involving significant transfers of wealth to the private sector.

As public sector agencies, TAFEs are required to tender for VET contracts on the basis of recovering their marginal costs plus overheads plus some 'notional' costs

(the so-called 'competitive neutrality' adjustments). On the other hand, private sector providers are free to engage in 'low balling' to win contracts that may be unprofitable in the short term with the aim of expanding market share over time, and driving out competition.

Overall, advice to governments about the desirability of establishing competition for VET may have failed to tell the whole picture i.e. that the introduction of competition on the basis of price (with little regard to the quality of teaching and facilities) may have serious dysfunctional consequences:

- damaging the institutional capability of the TAFE system,
- demoralising a generation of qualified teachers, while
- failing to achieve the government's goal of achieving a well-educated workforce.

The market has been characterised by a lack of high quality information about the services being provided by some RTOs and the qualifications of their staff. The recent Commonwealth Government 'reforms' have responded to complaints about misleading marketing materials, but still do not require RTOs to publish details of the full or part-time status of teachers (or 'trainers') and their qualifications.

By allowing RTOs to sell courses delivered by poorly qualified staff, there is a substantial risk that the quality of these many courses has been seriously compromised.

Driving all this is the belief that competition may lead to lower costs to government. But government policies have established a series of ever-changing centralised bureaucracies that are supposed to register training organisations, oversight and monitor their financial viability, and collate indicators of their performance. Arguably – as has been the experience for several decades - these administrative costs may largely erode any supposed savings.

7.6 Administration and transaction costs arising from the introduction of 'competition'

The introduction of 'competition' was supposed to enhance the efficiency of VET. But while bodies like the Productivity Commission prefer to consider efficiency in terms of indicators like 'cost per hour of teaching', this approach only examines some of the overall costs – expenditure on VET by State or Territory agencies – and disregards the costs associated with the Commonwealth's own administrative arrangements and does not explore the costs that the Commonwealth is imposing on State and Territory governments in relation to funding applications and acquittals.

However financial statistics produced by NCVER about expenditure by the States and the Commonwealth's DEEWR provide a starting point (even if this data does not cover the overall costs incurred in the introduction of 'competition').

The latest available data comes from the NCVER's 2009 *Australian Vocational Education and Training Statistics: Financial Information (October 2010)*. Expenditure data is on an accrual accounting basis and includes depreciation on buildings and other plant and equipment, which represents \$295 million of total expenditure of \$6,803 million (or 4.34 per cent). As noted earlier in this report, these amounts could be affected by upward asset revaluations of properties (which would lead to higher depreciation charges and hence higher expenditure figures). Conversely the gains recorded in upward asset revaluations are considered part of an entity's 'comprehensive income', but NCVER (along with the Productivity Commission) does not appear to have taken these gains into account when reporting on overall 'costs' (and certainly it does not discuss them). NCVER simply notes that it relies on data submitted by State or Territory Treasuries, and acknowledges that there are differences in their accounting policies.

Table 35
Operating expenditures for government training departments 2005-09

	2005 \$m	2006 \$m	2007 \$m	2008 \$m	2009 \$m	% change 2005-09
NSW	1,743.8	1,787.8	1,849.5	1,887.6	1,935.1	11.0
Vic	1,312.2	1,402.0	1,488.5	1,678.9	1,778.2	35.5
Qld	800.4	824.4	941.4	1,014.4	1,110.0	38.7
WA	517.9	527.7	563.4	603.0	683.5	32.0
SA	381.3	392.9	412.8	414.0	462.5	21.3
Tas	116.3	123.2	129.1	140.3	156.4	34.4
NT	109.4	111.7	113.1	122.8	141.8	26.6
ACT	109.1	111.7	113.1	122.8	141.8	29.9
DEEWR	170.8	193.9	353.2	365.8	397.4	132.7
Total	5,261.3	5,474.1	5,973.2	6,355.9	6,803.4	29.3

Source: Based on Table 2, NCVER, October 2010, p. 10.

The Commonwealth's operating expenditure is principally via DEEWR. It has a role in the administration of funds allocated for VET. The Department also provides funds for certain agencies established for the purpose of promoting 'competition' – such as Skills Australia and TVET. Expenditure by DEEWR (or its predecessors) increased from \$170.8 million in 2005 to \$397.4 million in 2009. It should be noted that these figures mainly encompass administrative expenditures and do not include grants to the States and Territories for VET. Nor do they include subsidies paid to external parties for vocational and educational training (2009: \$759.94 million) or direct payments of 'personal benefits' in relation to VET (2009: \$73.81 million). These items are regarded as expenditure *administered* by the Department, not expenditure *of* the Department.

Focusing on DEEWR's direct administrative expenditure between 2005 and 2009, this increased by **132.7 per cent**. That increase is significant in 'real' terms (the CPI only increased by around 15.6 per cent over that same period). Increased expenditure of around \$226 million would largely erode much of the supposed

'efficiency gains' arising from the introduction of competition from the establishment of a quasi-market. And that sum only relates to part of the expenditure incurred by the Commonwealth. For example, it appears that DEEWR funds the activities of bodies like Skills Australia, and its 11 Industry Skills Councils, the National Quality Council, and the Australian Qualifications Framework Council (though this is not evident from DEEWR's annual financial statements – those reports show aggregate expenditure for 2008-09 of \$1,974.56 million). The annual report of Skills Australia makes no mention of its funding.³⁷

The use of incorporated vehicles to implement government policies places them outside of the usual reporting requirements imposed on other public sector agencies (and oversight by Parliamentary Committees). It was noted, for example, that the annual reports of Skills Australia or its offshoots do not disclose what was being paid to its directors.

Additional monitoring costs have been incurred not via DEEWR but for many years by other bodies, such as the Productivity Commission (whose 2009-10 funding from government was \$34.4 million). In addition, some bodies have been established as 'special purpose entities' and their aggregate expenditure may not be included in the consolidated financial statements of any one government or agency. For example, shares in TVET Australia Ltd, a company limited by guarantee, are owned by members of the Ministerial Council for Tertiary Education and Employment.

Spending by the Commonwealth in promoting a so-called 'competitive market' in VET would be the driver of much of the significant increases in expenditure incurred by State and Territory training departments. Their expenditure on 'administration and general services' increased from \$1,092.9 million in 2005 to \$1,522.8 million in 2009 – **an increase of \$429.9 million, or 39.3 per cent.** (NCVER, October 2010, p. 11). Much of this is likely to have arisen from the demands (for example) of reports in terms of Commonwealth funding that was conditional on the introduction of competition. The reasons for these increases deserves to be examined (using Activity Based Costing) if an assessment is ever to be undertaken as to whether the policies to introduce 'competition in VET have been cost-effective.

In summary: it is not clear from the voluminous reports produced by bodies like NCVER whether the promotion of 'competition' has actually led to improvements in the efficiency of delivery of VET, if transaction costs and on-going monitoring costs are taken into account.

Nor is it apparent that there have been improvements in the effectiveness of VET as the result of the involvement of private sector firms – since assessments of the outcomes of programs have focused on intermediate

³⁷ Skills Australia advised that it is 'funded by DEEWR' and that details can be found in budget papers.

variables (such as 'student engagement' or 'student satisfaction') rather than assessments of the extent of skill enhancement.

8. FIXING VET

8.1 What needs to be done to remedy the situation

Arguably, the establishment of a national regulator comes after major damage has been inflicted on the quality of VET teaching, principally as a result of policies to promote 'competitive tendering' – for which read 'competition based on price'.

To remedy this situation, the following proposals are recommended for consideration by decision makers in government.

- 1. COAG needs to recognise that setting crude targets for a nominated percentage of the population to attain some form of qualification can be expensive but produce limited community benefits, and have dysfunctional consequences for the education system.***

The promotion of 'credentialism' may have seemed appealing to government ministers who were advised that the major spend on unemployment benefits reflected the inability of many unemployed to obtain jobs because of a lack of training (or the unavailability of jobs that matched their skills in their local areas).

There is merit in aiming to enhance the knowledge, skills and understandings of the Australian community. But that objective will not necessarily be achieved by establishing crude targets – such as x per cent of school leavers should have university degrees, and y per cent some other form of qualification - be it a diploma, or certificate – or some other qualification (such as 'associate degrees'), some yet to be invented.

That is because there is no point in having more people with 'qualifications' if they have not significantly enhanced their skills and competencies.

In relation to the LLNP, it seems noteworthy that one of the main points to emerge from a forum on outcomes from this program was the view that 'we should be funding *learning* and not qualifications for qualifications' sake' (NCVER, March 2011, p. 44).

Teachers with long experience working in post-secondary education almost universally complain about the impact of a decline in public funding (and greater reliance on fee paying students) upon standards. There are undoubted pressures to ensure higher 'pass' rates. A common complaint from experienced teachers (not only in VET) is that courses have been 'dumbed down' – often in recognition of the difficulties faced by full fee paying international students. Current arrangements for the registration of training organisations establish incentives for

providers to ensure that students *complete* modules – and this itself lowers educational standards.

A related issue concerns what completion of a module, or a Certificate, actually represents. What training (as distinct from work experience) is actually provided in publicly funded VET programs? No one would question programs in which employers genuinely provide opportunities for students to obtain skills and understandings that are readily transferable to other workplaces. But questions deserve to be asked about the merits of governments paying for training that is job specific i.e. only equips them for work with their immediate employer. For example, to what extent does such publicly-funded training differ from the program of workplace orientation and on-the-job training traditionally supplied for new employees?

To illustrate: the ‘learning outcomes’ nominated for a Certificate I are as follows: ‘demonstrate knowledge by recall in a narrow range of areas; demonstrate basic practical skills such as the use of relevant tools, perform a sequence of routine tasks given clear direction’, and ‘receive and pass on messages/information’ (AQF Advisory Board, 2007, p. 11). All of these are acknowledged as potentially encompassing ‘preparatory access and participation skills, broad-based induction skills and/or specific workplace skills’ (p. 8). Similarly, the requirements for Certificate II and Certificate III can be interpreted as developing competencies for a specific workplace. Government funding for such programs can be seen as a subsidy for larger employers for whom it is cost-effective to register as a training organisation³⁸.

2. *The Department of Education, Employment and Workplace Relations needs to develop policies that will maintain and elevate the quality of teaching in VET.*

It seems remarkable that Mr. Terry Moran, the former secretary of the Department of Prime Minister and Cabinet – who many regard as the architect of the ‘competition reforms’ in VET through his earlier role as the head of ANTA – was recently reported as saying:

If I were king for a day ... I would put all my effort into how we find really bright young kids and develop them to be teachers and keep them in that profession... and how we find really talented teachers who have the potential to be school leaders, invest in their development and pay them accordingly (Sydney Morning Herald, 5 August 2011).

³⁸ For example: McDonalds Australia Limited, is a registered RTO and according to NCVER statistics, was one of the larger private providers. In 2010 McDonalds had 3,505 students enrolled for 33,239 subjects in Certificates I to III. 97 per cent of the students were part time, and 86 per cent were aged 15 to 19 years. (Supplement to NCVER, 7 July 2011).

He also stated:

Efficiency in education spending involve[s] an investment in teacher quality (*idem*).

Yet the policies implemented by ANTA and its successors have involved disinvestment in teacher quality.

(Then again, those driven by an ideological commitment to ‘competition’ may dismiss such concerns as the inevitable consequence of ‘marketisation’ – whereby there will be winners and losers. It would be a sad day if the career aspirations of virtually all members of the teaching profession were regarded as ‘collateral damage’.)

Any one involved in post-secondary education would be aware of the regularity with which students are invited to provide feedback on their satisfaction with teachers and courses. But there have been few (if any) surveys of ‘teacher satisfaction’. Which suggests another step:

3. *The Department of Education, Employment and Workplace Relations should obtain information about the perceptions of experienced and qualified educators on the impact of ‘competition’ on the quality of Australia’s post-secondary school educational programs.*

The government-sponsored NCVER compiles copious statistics about VET, usually at an aggregate level (without any disaggregation of data in relation to different classes of programs as delivered by public or private providers).

Participants in a recent forum on adult language, numeracy and literacy noted (with some understatement) that ‘having both pre- and post-assessment would assist in determining longer-term outcomes from programs’ (NCVER, March 2011, p. 43)) – recognising that minimal data is available about the impact of those programs on enrolled students.

However, current policies involve a great deal of data collection from everyone but those actually engaged at the coal-face – the teachers.

It would be instructive for NCVER to explore the perceptions of teachers about the nature of the teaching experience after the introduction of ‘competition’ to their field of employment. Teachers are also well aware of the quality of the facilities in which they have to teach.

Responses to these surveys should be anonymous, and questionnaires should be designed and administered by an independent government agency (not by RTOs).

4. Standards for RTOs should be revised to ensure that those organisations delivering programs (such as the LLNP) have engaged a minimum proportion of experienced and qualified teachers.

The staffing requirements for RTOs have been set at too low a level. It is inappropriate for courses like the LLNP to be delivered by 'volunteers' or unqualified 'trainers' under the supervision of someone with only a Certificate IV in Training and Assessment (or as it is now known, 'Training and Education').

The Certificate IV qualification was intended to establish a *minimum* qualification for staff of RTOs and individual trainers. It has become the minimum qualification for TAFEs in most States. But with the increase in enrolments supported by the proliferation of private sector training organisations, it appears that a Certificate IV qualification has become the *maximum* qualification required for some engaged in the delivery of VET courses.

While there may be a case for some short training programs (designed in collaboration with qualified teachers) to be delivered by experienced practitioners, this is not the case for LLNP in particular. In future assessment of any tenders for the delivery of modules or programs should place far greater weight on the staffing profile of bidders, with preference given to organisations that employ graduates (particularly those with specialised post-graduate qualifications in education).

Such an initiative may go some way towards removing the incentives facing profit-seeking RTOs to cut costs by hiring relatively unqualified staff.

5. Standards for RTOs should be revised to require tenderers to demonstrate their capacity to deliver quality services at the outset of a contract (not simply that they have a strategy to obtain relevant resources at some stage during a contract).

The Australian Skills Quality Authority and its predecessor ANTA have devoted a lot of time and energy (and funding) to developing manuals and statements of what is required of trainers and assessors - but they have set the bar too low.

Tenders should not only be evaluated on price – regard should be had for the quality of the services that are to be provided and the track record of participants. While DEEWR maintains that it assesses not only price but also 'quality against the published evaluation criteria', 'service coverage across the Business Service Area' and 'the financial viability of the tenderer', some examples suggest that DEEWR has either been misled, made errors of judgment, or has not been very diligent in its assessments. It is unacceptable that bids could be won by NGOs (for example) that have outsourced the delivery of programs to others. If bidders lacked the capacity to deliver, then a contract should have been awarded to the under-bidder.

There is a need for contracts to incorporate escape clauses whereby the Department can reassign contracts in the event of the outsourced entity choosing to itself outsource to a third entity its responsibilities to deliver programs.

6. *The biases in guidelines on tendering by government agencies should be removed.*

Taxpayers have invested heavily in social and physical infrastructure. It is absurd that TAFE physical infrastructure (including libraries and canteens) stands idle while poorly-resourced private sector training organisations operate without equivalent facilities, in rented rooms not designed for teaching purposes. The solution to that waste is not to allow private providers to have cheap access to TAFE facilities, but for biases in the tendering process to be removed.

And it must be recognised that new entrants to the 'quasi market' may seek to drive out competition from TAFEs by initially pricing services at (or even below) their marginal costs.

A starting point would be for State governments to withdraw costing guidelines which handicap TAFEs from competing for Commonwealth contracts, by (conceptually flawed) references to covering their 'long-run avoidable costs'. A better basis for pricing in a fiercely competitive environment would have regard to the marginal costs of delivering a service over the period of a contract, and some allowance for overheads.

As noted earlier in this report, the supposed 'competitive neutrality' provisions actually doom public sector providers to lose tenders by requiring them to allocate a wider range of costs – and also to add 'capital charges' for their investment in facilities, such as purpose-built classrooms, libraries and canteens. In any event, TAFE properties are probably appreciating in value. It is absurd that TAFEs are required to price their tenders so as to include allowances for hypothetical council rates, hypothetical land taxes, and a 'capital charge' for investment in their facilities. It is even more absurd that they are required to calculate that 'capital charge' with regard to the supposed 'cost of capital' of private sector firms in similar industries. To make matters worse, private sector RTOs are not providing facilities of an equivalent standard – but these factors do not appear to have been taken into account when contracts have been awarded.

7. *Steps should be taken to reduce paperwork and red tape in VET.*

There needs to be a balance between requiring RTOs and teachers to be accountable for their performance, and respecting the professional judgment of trained and well qualified teachers.

Current requirements for extensive paperwork may have been adopted in recognition that 'competition' in VET would inevitably lead to the engagement of less-qualified teachers (or 'trainers'). For example, the detailed requirements for RTOs to undertake pre-training assessments for each client (on the basis of fairly simplistic manuals) may have been a good way to ensure that less qualified teachers were systematic in their assessments. But the requirement to spend hours of (often, unpaid) time on paperwork is demoralising a entire generation of the teaching profession.

Adding to the difficulties facing the teaching profession is the constant establishment of new agencies that issue new rules or guidelines, or new editions of those rules or guidelines, before being re-named or dismantled. The sector is in a state of regulatory turmoil that was reflected in the title of a recent column by John Ross in *The Australian* (28 July 2011):

It's raining acronyms, as VET hits a traffic snarl.

An accompanying table listed the titles (and accompanying acronyms) of seventeen entities that were either 'coming or here', 'going or gone', 'moving', or status 'uncertain'.

A more telling example of the complexity of the environment for the delivery of VET under current government policies is provided by a recent report of TVET Australia - the body which acts as a secretariat to 'key decision making bodies of the national training system', and provides 'access to a range of catalogues listing quality teaching, learning and assessment resources'. TVET also managed the audit and registration of multi-jurisdictional training organisations until this function was subsumed by the new national VET regulator, AQSA.

The TVET report, *Summary of key policy drivers* (December 2010) was the 3rd edition of this publication. In the words of TVET's CEO:

TVET received overwhelming support for the first and second *Summaries*, which helped our stakeholders to navigate the multiple, interconnected policies and priorities for Australia's national training system (p. 4).

The second edition was published in May 2010 – so within seven months a third edition of 41 pages was deemed necessary to enable stakeholders to identify and understand the role and responsibilities of on-going and newly-formed agencies. Even then, the *Summary* (3rd ed.) included a cautionary note:

The summary represents a snapshot in time as at November 2010 Further policy developments may have occurred since November... (p. 6).

It seems ironic that a Commonwealth Government would impose such complexity in bureaucratic processes while at the same time establishing a Ministry for De-regulation.

8. Steps should be taken to redress the impact of government policies that are closing pathways that would enable students to further develop their knowledge and skills.

When candidates undertake the LLNP through a TAFE, they are exposed to the possibility of undertaking further courses through the TAFE system. Some students have undertaken the School Certificate (shortly to be abandoned in NSW). Some have been able to progress to the Higher School Certificate. Some may undertake apprenticeships. By attending a TAFE, students are placed on a pathway to other educational opportunities. This is not the case for students who are exposed to courses being offered 'on the cheap', by part-time and lowly-paid staff in rented facilities. Those students do not have the opportunity to interact with students engaged in other courses of study.

One of the potential impacts of quasi-competition – ignored by the Productivity Commission and proponents of competition in VET – is that many TAFEs may lose the capacity to offer a wide range of programs. Educational institutions often use the funds derived from high-enrolment and relatively low-cost courses to cross-subsidise other courses that are either expensive to mount or which do not attract the same enrolments. The introduction of (price-based) competition limits opportunities for cross-subsidisation. The practice of private sector operators of engaging in *cream-skimming* – by only tendering for VET courses that promise to be the most profitable – would leave TAFEs facing the loss of tenders, or having to lower their prices to retain a course. In either case they would have a diminished capacity to cross-subsidise. The consequence of this will be a reduction in the offerings that could be provided by TAFEs.

This would particularly, but not exclusively, affect rural and regional areas.

9. Skills Australia and its associated advisory boards should refocus on assisting TAFE to develop new programs.

Government investment in the establishment of Skills Australia and its associated companies has been a positive step in identifying needs for VET and in collating ideas about 'what should be taught' in training programs that are immediately relevant to different industries.

At the same time such initiatives can be viewed as a means of subsidising what would otherwise be regarded as 'on the job' training previously funded directly by employers. These initiatives – and the whole concept of 'market driven' design of educational programs – seem likely to lead to the narrowing of VET to meet the immediate and specific needs of the most vocal (and usually, the larger) employers. That, in the short-run, may well enable some to gain employment. In the long run it may provide workers with skills that have a limited currency, and are specific to the needs of a few employers. It may not provide education that is of

value 'for life' – and in many cases would not provide a pathway to other programs and opportunities.

Yet any arrangements that provide information and advice to those engaged in the teaching profession have value. Moreover, the Skills Australia initiative may be likened to the manner in which large businesses that provide professional services engage 'relationship managers' to ensure that their services are meeting clients' needs and to provide early warnings of problems with service quality or the performance of staff. Individual TAFEs have not had the resources to emulate these practices. Refocussed industry based boards under the umbrella of Skills Australia could give priority to assisting, improving and growing enrolments in TAFEs programs – rather than facilitating the subsidisation of employer-delivered training or the development of private sector RTOs.

- 10. The Ministerial Council of Tertiary Education and Employment should commission a review of the costs already incurred in efforts to introduce quasi-competition to the VET sector, and of the outcomes. Data should be compiled by an independent agency, not previously involved in promoting 'competition'. Regard should be had to the costs of establishing, renaming, restructuring and dis-establishing agencies – (including the costs incurred by agencies that are 'off-balance sheet'). Benefits should be assessed on the basis of data regarding the extent to which students' knowledge, skills and competencies have been developed as a consequence of VET.**

The policy of introducing (the illusion of) 'competition' has led the public sector to incur significant additional costs in promotions, in encouraging industry support, in managing outsourcing contracts, and (to a lesser extent) in monitoring outputs and outcomes. At the same time, it has led to a significant diversion of government funding from TAFEs to private sector organisations. This has created mobility problems for teachers in those TAFEs that have lost tenders. But (as noted above) it has also diminished the capability of the TAFE system to do the very things that government policies are intended to encourage: innovation, flexibility, and adaptation in the face of technological change.

Those are the costs. What are the benefits? Outsourcing may initially have produced a 'benefit' by reducing the financial cost of delivering some programs. Experience suggests that such gains may be short-lived, as private sector providers endeavoured to gain market share in the early rounds of tenders – prices may increase in future.

But what about the quality (and effectiveness) of teaching? Evidence suggests that some private sector providers have sought to reduce their own costs by engaging less-qualified teachers (even volunteers) in some programs, such as the LLNP. Do we really want (as some well-qualified teachers in the area of Language Literacy and Numeracy have put it) 'third world teaching standards' for Australia

because 'it is cheaper'? As has long been noted, more people can not successfully complete vocational education and training courses without having highly skilled and qualified vocational educators.

Overall, government policies should recognise that in VET (and education generally), ***cheaper is not better***.

8.2 Postscript: Beware the *gunna* response

Everyone knows someone who, when shortcomings in their performance are identified, responds by saying that are 'going to fix that'. In Strine, that becomes 'I'm gunna fix that'.

Within the public sector, that is characterised as the *gunna response* - while those who are always going to fix something, but rarely do, are commonly known as '*gunnas*'.

There are grounds to suspect that some will attempt to dismiss many of the concerns identified in this report with the *gunna response*. Sometimes this arises from simple laziness. In the world of public policy, it may reflect a limited capacity for intellectual engagement. Or perhaps deviousness and obfuscation. Saying that a problem is recognised (followed by the *gunna response*) is a means of avoiding debate, or evading or dismissing criticism, while continuing to pursue the same policies that have been subject to adverse comment.

There are signs that the *gunna response* is already being used. Consider the following.

To criticisms of the low standard of qualifications of VET teachers, particularly among private sector providers:

The response might be along the following lines:

- The Productivity Commission (2011) has referred to the need for better data – particularly covering the private VET sector... (p. XXVIII);

Clear options and pathways for study beyond the Certificate IV in TAA should be available to the sector, but higher-level qualifications should not be mandated (p. 247).

Opportunities for PD [professional development] beyond the Certificate IV in TAA within the sector are not adequate. Governments need to collaborate to identify what effective PD requires, then assess the adequacy of their funding

provisions. RTOs need to assess capability gaps within their workforces, and target resources accordingly (*ibid.*, 247).

- COAG has stated that 'the reforms should continue to drive improved quality in the sector, including through a renewed focus on VET teacher development and the introduction of stronger quality measures for VET providers' (COAG, August 2011).

To criticisms of the lack of information available about the qualifications of teachers and the quality of courses:

This criticism is not new. The Boston Consulting Group's 2007 report cautioned that a necessary condition for the operation of a 'competitive' national market was that employers and individuals could make 'informed choices about training products, services and providers, on the basis of objective, comprehensive and relevant information' (p. 5). But little has been done to ensure that stakeholders are adequately informed:

- The Productivity Commission (2011) acknowledged that there were 'information asymmetries' as 'students have less information about the quality of courses than training providers do' (p. 60).
- All governments agreed that greater transparency in the system is needed to support informed choices by employers and students (COAG, August 2011).

The NCVER has recently reported that it has projects underway aimed at ensuring that certain 'outcome' data from student surveys are 'better used', but that more comprehensive information about outcomes by provider and field of education would 'necessitate a larger sample than that currently obtained' for its surveys (5 March 2011, p. 30). Hence that proposal may not even progress to the 'gunna' stage.

Meantime there has been no suggestion that providers should compile and publish information about the *qualifications of teachers* (let alone assessments of course quality).

To criticisms of poor quality teaching provided by private sector providers:

- The Productivity Commission (2011) proposed the need for a 'wider base of the VET workforce that has at least basic educational capabilities'; 'more consistent delivery of the Certificate IV in Training and Assessment (TAA) to the required regulatory standard to improve basic educational capability and consumer confidence' (*ibid.*); more targeted and evidence-based professional development [of teachers]... (p. XXVIII).

- COAG stated that reforms should introduce 'stronger quality measures for VET providers' (COAG, August 2011).

But there was no suggestion that the accreditation and registration processes should be upgraded. Possibly that was to be left to 'self-regulation' by private sector providers - and indeed, the website of the Australian Council for Private Education and Training acknowledges 'the need for higher quality standards to protect students and the industry'.³⁹

To criticisms of poor management practices of private sector VET providers:

- The Productivity Commission proposed that necessary reforms include the 'development of managerial and leadership skills' (p. XXVIII).

But such a statement merely implies that something should or would be done to address a problem – without proposing a plan of action.

And finally, in response to **complaints about the reduction in funding for the TAFE system:**

COAG has 'recognised and supported' the key role of TAFE as the public provider in a competitive market (COAG, August 2011).

This reference to 'recognising and supporting' the key role of TAFE was an extraordinary claim, given that the COAG *Communiqué* (as noted earlier in this report) continued:

...including its delivery of **high-cost technical training**, encouraging participation of disadvantaged students and offering services in regional and remote areas [*emphasis added*].

In other words, TAFE had a 'key role' in delivering the high-cost (potentially unprofitable) services.

These words suggest that COAG both recognised and endorsed 'cream skimming' by private sector providers.

* * *

³⁹ 'In response to feedback from members, ACPET is working hard to continually strengthen the standards for entry to and increase its own role in self-regulating the education and training sector'. 'ACPET membership restructure FAQs', www.acpet.edu.au accessed 26 August 2011.

One criticism noted above has completely been ignored by both the Productivity Commission (2011) and COAG (August 2011), that is:

The criticism that (unlike TAFEs) private sector providers do not provide educational pathways to students:

- The terms of reference of the Productivity Commission's 2011 Report included the direction to consider and provide advice on

Qualifications pathways particularly pathways that will ensure accessibility and appropriateness of training to meet the qualifications and competencies required for the various occupations in the workforce (p. V)

The Commission discussed at some length the development of pathways between the VET and university sectors (see e.g. p. LII, p. 9, pp. 26-29, p. 88 and p. 147). But it gave scant attention to the potential for TAFE students to be exposed to the possibilities of further vocational education and training ***within the TAFE system***. The only reference located within the Commission's report was a passing reference to one submission that had referred to pathways between Certificate I and Certificate II by low SES groups (p. 27 and p. 141). But no discussion was to be found in the Commission's 491 page report of the role of pathways for further education *within the TAFE system*, or of *the absence of similar opportunities for students enrolled with private providers*.

- Similarly COAG focused on pathways ***between sectors*** (not within the VET sector), stating that 'the importance of strengthened pathways between sectors was ... acknowledged as an important objective of reform' (COAG, August 2011).

It is perhaps understandable that politicians may be impressed by the sheer volume of reports from government agencies that serve as cheer leaders for the latest (often ideologically-based) statements about coming 'reforms'. But there is another story to be told by those who are actually engaged in the delivery of educational programs, and who have a genuine concern for the welfare of their students.

The policy of promoting 'competition' in a quasi-market for VET was fated to produce sub-optimal results because it ignored the fact that profit-seeking operators would seek to make a profit by cutting costs (and thereby reducing the quality of services). And more detailed analysis seems likely to confirm many employers have formed subsidiaries or become RTOs simply to shift training costs to the public purse.

It is urgent that the 'competition in VET' policy be reconsidered, and substantially revised, before it wastes more funds on uncertain outcomes, and before it does further damage to social infrastructure

In the end, cheap education is no substitute for quality education.

September 2011

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Attachment 1**Centennial Consultancy**

Centennial Consultancy is located in Sydney and its contact details are:

40 Lang Road
Centennial Park NSW
Telephone: 02 9360 4537
Mobile: 0409 360 453
Fax: 02 9360 4538
Email: walkerbob@bigpond.com

It undertakes work in both the private and public sectors.

The principals of Centennial Consultancy are as follows.

Dr Betty Con Walker BEc (Sydney) Dip Ed (Sydney) PhD (Sydney)

Dr Betty Con Walker is an economist with experience in both the private and public sectors.

She worked at CSR Ltd (during which she was nominated for the 'Business Woman of the Year Award', and taught part-time at the University of Sydney). She has served on various government advisory agencies. They included the Centennial Park Board of Advice to the NSW Premier, the Australian Council on Population and Ethnic Affairs chaired by the Minister for Immigration and Ethnic Affairs, the National Committee on Discrimination in Employment and Occupation reporting first to the Federal Industrial Relations Minister and then to the Attorney-General, and the Australian Institute of Multicultural Affairs reporting to the Minister for Immigration and Ethnic Affairs.

She then joined the NSW Premier's Department followed by the NSW Treasury. She has worked with various governments on policy and legislative development, and the preparation of NSW State Budgets. Her employment in government included four years as a financial adviser and spokeswoman for a former NSW Premier and Treasurer.

This was followed by her setting up Centennial Consultancy which provides advice to government and various industries including the education, finance, health, hotel, resources, and retail sectors.

Her publications include joint authorship with Prof Bob Walker of *Privatisation: Sell off or sell out?* (published by the Australian Broadcasting Commission, 2000, reissued in 2006, and republished with a *New Introduction* by Sydney University Press in 2008) and a chapter in *Economics as a Social Science: Readings in Political Economy*, edited by George Argyrous & Frank Stilwell (published by Pluto Press, 2003). Her most recent book *Casino Clubs NSW: Profits, tax, sport and politics* (Sydney University Press) was published in October 2009.

Prof Bob Walker BCom (NSW) MEd (Sydney) PhD (Sydney) FCA

Prof Bob Walker was a Professor of Accounting at the University of Sydney until July 2011 and now is an Honorary Professor. From 1978 to 2004 he was a Professor of Accounting at the University of NSW.

He is the author or joint author of six books and monographs and more than 60 articles in academic or professional journals or chapters in books.

His specialist interests include public sector finances, corporate regulation, and corporate governance. In parallel with academic activities, Bob Walker's professional involvements and community activities include serving for six years as the chairman or deputy chairman of the Australian Shareholders' Association. He was a foundation member of the Accounting Standards Review Board.

He has served as a consultant to a range of organisations in the public and private sectors. Public sector consultancies include the National Companies and Securities Commission, the Australian Securities Commission, the Australian Stock Exchange, Treasury Departments in NSW and the Northern Territory, and Public Accounts Committees in NSW, Victoria and the Northern Territory. Many of his activities have involved working with government in policy development. His work with the NCSC led to the most fundamental change in the regulation of corporate disclosure requirements since the 1940s. He was a member of the Companies and Securities Advisory Committee to the Commonwealth Attorney-General, and a member of the advisory committee to the Commonwealth Auditor-General.

From 1995-99 he served as Chairman of the NSW Council on the Cost of Government, a standing 'commission of audit' appointed by the NSW Government to review state finances and develop proposals for reform. In that capacity he reported directly to the Premier and the NSW Parliament. From 1993-97 he served as a director of a Commonwealth statutory authority, and from 1999-2007 as chairman of a NSW state owned corporation, Pillar Administration.

Attachment 2

NSW Government Commitments to Sustaining TAFE

Oxley

From: Myers, John
Sent: Monday, 7 March 2011 4:03 PM
To: Nicholson, Katherine; Long, Robert (TAFE); 'Linda Simon'
Cc: Sherrin, Jodie; Derwent, Beris
Subject: Tafe 5 point plan

Dear All

I have just returned from a meeting with Andrew Stoner that was also attended by Jodie Sherrin and Beris Derwent.

We discussed the 5 point plan and his views on Tafe and he was very supportive of Tafe and sympathetic towards the increased workloads and funding cuts forced upon us and said he was not looking to privatise Tafe.

Mr Stoner signed the 5 point plan and a staff member took a photo which I will forward tomorrow when I receive it. I will bring the signed form down on Friday.

Regards

John Myers

Tafe Ta Fed Rep

TAFE North Coast

Kempsey Campus

T.I.C MF & Welding

☎ 65602948 ext 52948

Fax 65627415

email John.Myers@det.nsw.edu.au



We acknowledge the Bundjalung, Yaegl, Gumbaynggirr, Dunghutti, Biripi and Worimi people, the traditional custodians of the land on which we learn and work together, and commit to building relationships, respect and

8/03/2011



8 March 2011

Stoner signs local TAFE Teacher's 5-point plan

Local TAFE teachers have met with State Nationals Leader and Member for Oxley Andrew Stoner to discuss the future of TAFE and their 5-point plan to improve the delivery of TAFE courses and services.

Mr Stoner met with local TAFE teachers Jodie Sherrin, John Myers and Beris Derwent (pictured) who outlined the plan.

"I am happy to support the teacher's plan. I believe TAFE is a particularly important institution for vocational education and training in regional New South Wales and it is in areas like ours where I believe they need the greatest assistance," Mr Stoner said.

"The Coalition is committed to a strong vocational education sector and TAFE is a key provider delivering a broad range of courses and services critical to our regional workforce," he added.

The Five Point Plan for TAFE includes:

1. Invest in services – Government must guarantee TAFE funding.
2. Look after public assets – Ensure that TAFE jobs and courses are not contracted out to the private sector.
3. Plan long-term – Invest in infrastructure for TAFE that ensures a skilled workforce.
4. Back our workers – Increase permanent teaching positions and invest in teacher training.
5. Govern for the common good – Ensure that everyone in NSW has affordable access to a TAFE education.

Andrew Stoner MP, Member for Oxley, mobile 0427 164 092
Oxley Electorate Office: Tel: 6562 6190
Office of the Leader NSW Nationals: 02 9230 2281



Andrew Stoner
Orley
NAT.

Skills Charter for a Better State

We all want a better state where there is a strong economy and thriving communities - a well trained state where there are jobs, economic growth and our standard of living is enhanced. Research undertaken by the Allen Consulting Group found that every dollar invested in TAFE returns \$6 to the economy of NSW.

Governments need to invest in TAFE for a better state.

Teachers at KEMPSEY TAFE campus call upon political candidates to demonstrate commitment to a better state by signing this Skills Charter.

The 5 Point TAFE plan for a better state is:

1. *Invest in services - Government must guarantee TAFE funding.*
2. *Look after public assets - Ensure that TAFE jobs and functions are not contracted out to the private sector.*
3. *Plan long-term - Invest in infrastructure for TAFE that ensures a skilled workforce.*
4. *Back our workers - Increase permanent teaching positions and invest in teacher training.*
5. *Govern for the common good - Ensure that everyone in NSW has affordable access to a TAFE education.*

I pledge, if elected to the NSW Parliament I will work towards realisation of this 5 Point plan for TAFE.

Signed: _____

Date: _____

7/3/11

Adrian Piccoli



Skills Charter for a Better State

We all want a better state where there is a strong economy and thriving communities - a well trained state where there are jobs, economic growth and our standard of living is enhanced. Research undertaken by the Allen Consulting Group found that every dollar invested in TAFE returns \$6 to the economy of NSW.

Governments need to invest in TAFE for a better state.

Teachers at CCOMA TAFE campus call upon political candidates to demonstrate commitment to a better state by signing this Skills Charter.

The 5 Point TAFE plan for a better state is:

1. *Invest in services - Government must guarantee TAFE funding.*
2. *Look after public assets - Ensure that TAFE jobs and functions are not contracted out to the private sector.*
3. *Plan long-term - Invest in infrastructure for TAFE that ensures a skilled workforce.*
4. *Back our workers - Increase permanent teaching positions and invest in teacher training.*
5. *Govern for the common good - Ensure that everyone in NSW has affordable access to a TAFE education.*

I pledge, if elected to the NSW Parliament I will work towards realisation of this 5 Point plan for TAFE.

Signed: [Signature]

Date: 24/2/11

Authorised by Jenny Diamond, General Secretary, NSW Teachers Federation, 23-33 Mary Street, Surry Hills 2010

Deputy Premier and Education Minister sign TAFE Pledge





Gladys Berejiklian MP

STATE MEMBER FOR WILLOUGHBY

PO Box 311 Willoughby NSW 2068
280 Willoughby Road Naremburn NSW 2065

tel 9439 4199 fax 9439 9299 email gladys.berejiklian@parliament.nsw.gov.au

14 February 2011

Our Ref 11/5804

Mr Pierre Masse
1/506 Pacific Highway
LANE COVE NORTH NSW 2066

Pierre,
Dear Mr Masse,

Thank you for meeting with me today, regarding your concerns about the future of TAFE.

I strongly support the principles outlined in the 5-point plan that you presented to me. TAFE plays such a critical role in preparing people with the skills for employment, but regrettably this has not been reflected in resources provided to TAFE.

Again, thank you for bringing this matter to my attention and your ongoing vigilance on this important issue.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Gladys', written over a horizontal line.

Gladys Berejiklian MP
Member for Willoughby

Working for Willoughby



Robyn PARKER
Liberal Candidate for
Maitland
State election 26/3/11

Skills Charter for a Better State

We all want a better state where there is a strong economy and thriving communities - a well trained state where there are jobs, economic growth and our standard of living is enhanced. Research undertaken by the Allen Consulting Group found that every dollar invested in TAFE returns \$6 to the economy of NSW.

Governments need to invest in TAFE for a better state.

Teachers at Maitland TAFE campus call upon political candidates to demonstrate commitment to a better state by signing this Skills Charter.

The 5 Point TAFE plan for a better state is:

1. *Invest in services - Government must guarantee TAFE funding.*
2. *Look after public assets - Ensure that TAFE jobs and functions are not contracted out to the private sector.*
3. *Plan long-term - Invest in infrastructure for TAFE that ensures a skilled workforce.*
4. *Back our workers - Increase permanent teaching positions and invest in teacher training.*
5. *Govern for the common good - Ensure that everyone in NSW has affordable access to a TAFE education.*

I pledge, if elected to the NSW Parliament I will work towards realisation of this 5 Point plan for TAFE.

Signed: Robyn Parker

Date: 25/2/11

Authorised by Jenny Diamond, General Secretary, NSW Teachers Federation, 23-33 Mary Street, Surry Hills 2010