



NSW TEACHERS FEDERATION

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Please address all correspondence to
THE GENERAL SECRETARY

Via website:

www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission

5 May 2013

In reply please quote: 508/2013/MM/SS:tc

Pricing VET under Smart and Skilled
Independent Pricing and Regulatory Tribunal (IPART)
P O Box Q290
QVB Post Office NSW 1230

Dear Sir/Madam

Re: Submission – Pricing VET under Smart and Skilled, Other Industries – Issues Paper Apr 13

Please find enclosed a submission by the NSW Teachers Federation.

Yours sincerely

Jenny Diamond
General Secretary

Attach. Submission



NEW SOUTH WALES TEACHERS FEDERATION

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SUBMISSION

TO

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
(IPART)**

ON

**Pricing VET under Smart and Skilled,
Other Industries – Issues Paper April 2013**

Authorised by

**Jenny Diamond
General Secretary
NSW Teachers Federation**

3 May 2013

NEW SOUTH WALES TEACHERS FEDERATION

The New South Wales Teachers Federation is the state registered trade union with coverage of NSW public education teachers. Federation represents teachers in New South Wales public pre-schools, infants, primary and secondary schools, Schools for Specific Purposes, teachers working in consultant/advisory positions, teachers in Corrective Services and teachers in NSW TAFE. The current financial membership totals over 69,000 practising permanent, temporary and part-time teachers and student teacher members. Federation is administered by 47 elected union officials and three presidential officers. It is the largest state based public education union in Australia.

Federation on competitive VET markets

The establishment of competitive markets across the whole government funded VET sector is a dangerous and foolish neoliberal experiment. It is being pursued nowhere else in the world. Its purpose is to drive down costs and shift more of the costs of acquiring skills onto students. In the process, government funding is diverted to private providers who are less accountable to the Parliament than the public provider TAFE.

The quality standards and the regulatory framework to enforce minimal standards is inadequate. Students and employers do not have comprehensive information on the full range of quality measures to make an informed choice of provider. The introduction of a training voucher will create further inefficiencies in planning for providers including TAFE NSW.

There has been no public evaluation of the impact of competitive tendering on TAFE NSW and quality across the NSW VET sector. In the absence of any government inquiry, in 2010 Federation commissioned Professor Bob Walker and Dr Betty Con Walker of Centennial Consultancy to analyse, as far as is possible from the public record, the tendering of the Literacy, Language and Numeracy Program (LLNP). Their *Report on Competitive Tendering in VET: Cheaper is not better*, (September 2011) shows that low price had come at the expense of quality. Investments in quality such as high teacher qualifications, decent salaries, good working conditions, security of employment, career paths and professional development, appear to have been devalued in the tender process.

In March 2013 the federal government established a parliamentary inquiry into TAFE, the first in many decades. Its terms of reference include examination of the operation of a competitive training market. It will only however be reporting after IPART conducts its Inquiry.

With even more budget cuts; tender processes that emphasise price at the expense of quality plus the strictures of "competitive neutrality" on public providers, the quality brand that is TAFE NSW is not likely to survive as a full service public institution. In a further blow to TAFE, the O'Farrell Government announced last month its intention to fund part of its commitment to the introduction of the Gonski school reforms from increasing fees and reducing subsidies in VET .

Federation on student fees

Federation believes that a fundamental responsibility of government is to provide free and accessible public education and training to its people. A progressive taxation system has the capacity to recognise the private benefit of education and training. The shift in the political consensus around free public education arises from a more assertive neoliberal ideology that the role of government is as a regulator rather than universal provider; choice and competition in an educational market will improve educational quality and that the user should pay. Vestiges of earlier beliefs in the role of government in providing for the public good remain in the notion that public provision provides for where profits are not easily made – in rural and remote areas, in the provision of services for the disabled.

Federation's response to the IPART Issues Paper

Federation's response to the IPART Issues Paper raises the dangers for TAFE NSW from a full VET market. Federation seeks to expose the inconsistencies between government support for TAFE as a public institution including TAFE's role in facilitating the state's economic and social objectives, and concurrent government support for demand-driven competitive tendering, which threatens that very public purpose.

Whilst rejecting the operation of a VET market, Federation recommends that any study on pricing needs to take into account failures in quality provision under current competitive tendering. The introduction of *Smart and Skilled* will destroy TAFE as a public institution if the pricing mechanism fails to address the barriers to TAFE under "competitive neutrality" and fails to encompass tighter definitions of "quality standard".

TAFE is a large, public institution that can provide multiple pathways for training across the full range of courses. It provides the full suite of student support services and career paths for its teachers. The quality of TAFE provision will suffer if its role becomes residualised to providing courses that are not profitable for private providers such as in regional and remote areas. The quality of TAFE as a provider for disadvantaged groups will suffer if the pressure to tender on price diminishes the quality of TAFE support services.

Federation's submission focuses on:

1. TAFE as a public institution;
2. TAFE funding;
3. "competitive neutrality" and its impact on TAFE, the government provider;
4. "efficient costs" and the "quality standard";
5. community service obligations and equity loadings; and
6. student fees.

INTRODUCTION

Smart and Skilled

Smart and Skilled will introduce:

- an entitlement for entry level training up to and including Certificate III;
- targeted "purchased" training in pre-vocational training, skill sets and higher level qualifications (Certificate IV, Diploma and Advanced Diploma); and
- income contingent loans for higher level qualifications.

According to the Issues Paper, only 17% of Commonwealth and State VET funding is currently contestable funding. Fees are currently charged per year or semester as opposed to per qualification and fees charged by private providers competing with TAFE in the contestable market are set at the same level as TAFE fees.

Under Smart and Skilled, all public funding of VET will be fully contestable:

- students will choose their provider of training;
- students will be able to access entitlement training, subsidised training or full fee training;
- the skills list that defines what courses will be funded as entitlement or subsidised has not yet been published;
- public subsidised training will cost the same whether provided by TAFE or private providers;
- RTOs will be free to set fees for qualifications not on the skills list;
- exemptions and concessions will be retained for ATSI students, students with a disability and welfare beneficiaries; and

- students with previous qualifications at Certificate IV or higher will pay a higher subsidised fee for a course up to and including Certificate III whilst students with previous qualifications at Certificate IV or higher, who do not meet the age and eligibility criteria will pay the commercial fee for a course up to and including Certificate III.

IPART has been asked by the NSW Government to develop a methodology to determining the price RTOs can charge for VET. This includes determining how much of the price will be paid by the student and how much will be paid by the government.

IPART suggests the methodology should cover:

- the base price for qualifications;
- the breakdown of each base price into government subsidy and a student fee;
- the government funded loadings for higher cost learners – regional and remote areas, Aboriginal and Torres Strait Islander students, students with a disability and long term unemployed students;
- identification and testing of thin markets in order to determine community service obligations – social obligations with low levels of demand and high operating costs.

VET in schools will continue under existing funding arrangements.

FEDERATION IN SUPPORT OF QUALITY PUBLIC PROVISION

1. TAFE NSW as a public institution

The Issues Paper states that key reforms in *Smart and Skilled* include recognition of the role and function of TAFE NSW as the public provider. Any methodology must be clear as to how TAFE NSW's future will be secured under full competitive tendering.

TAFE NSW is currently the dominant provider of vocational education and training across NSW. Under full competitive tendering TAFE in Victoria is no longer the dominant vocational education provider. In 2008, TAFE market share was 66% compared to 14% for private RTOs. In 2012, TAFE's share had fallen to 45.6% with private providers increasing to 46% of market share. Much of the growth in private provision has been in low quality, short duration courses where there is little interaction with teachers or trainers and perfunctory assessment.

TAFE NSW as the government provider is publicly accountable to the people of New South Wales through the NSW Parliament. As such it is in a special position to enact government workforce policy as recognised by IPART in its 2006 Up-Skilling NSW Inquiry:

As the largest public provider of VET, TAFE NSW is in a position to strategically influence the ability of NSW to meet its future skill needs.”¹

In the same Inquiry, IPART recognised TAFE NSW's uniqueness as constituting:

- *the breadth and diversity of delivery across Training Packages;*
- *its unique value to the state in terms of its extensive training capability, network of campuses, and contribution to communities and the economy;*
- *its functioning within a broader social policy framework of economic and community capacity building, especially in rural and remote areas and in their work with indigenous communities;*
- *its product development capacity that enables it to develop customised services to meet industry requirements where training packages are not available, or do not fully meet industry or enterprise needs”.*²

¹ IPART, Up-Skilling NSW, Final Report, December 2006, p.75.

² IPART, Up-Skilling NSW, Final Report, December 2006, p.61.

TAFE NSW should not be allowed to become just another provider and should neither be dismantled nor relegated to be the provider of last resort. Full marketisation threatens the viability of TAFE as a public institution providing a range of education and training and support services. For students and teachers there are the benefits of cross fertilisation and cross articulation of courses. For communities, a viable TAFE college with a proud history and a secure future brings economic benefits. The Victorian experience shows that the weakening TAFE colleges has been vigorously resisted by local communities.

In 2006, IPART recognised that competitive tendering ‘will have an impact on TAFE NSW’ and more generally recognised “that increasing competition in the VET sector poses a risk to the quality of VET programs, and that arrangements for the registration, accreditation and auditing of RTOs needs to manage this risk”.³ In the same report, IPART praised an enterprise agreement between TAFE NSW Riverina Institute and the Federation for the provision of aviation technical training for the Australian Defence Force at the National Aerospace Training Centre of Excellence (NATCOE). The agreement had as a specific aim “to ensure the commercial viability of NATCOE and the long term employment of its educational [TAFE] staff”. The agreement was praised for its entrepreneurial flexibility as teacher salaries and working conditions were more flexible than provided by the general TAFE teachers enterprise agreement. Increases in salaries and hourly rates were pegged to the ABS Wage Cost Index.⁴ Despite such flexibilities and TAFE delivering the training from 1994, TAFE NSW lost the contract in 2012.

2. TAFE funding

In its 2006 Inquiry, IPART called for the federal and NSW governments “to contribute additional funding to VET”.⁵ IPART recognised that NSW government recurrent expenditure per publicly funded curriculum hour, was “just below the national average” and cited Productivity Commission measures of real government recurrent expenditure per publicly funded load, which showed NSW had the lowest funding per hour than all jurisdictions except Victoria.⁶

The recent report of the Australian Workforce and Productivity Agency (AWPA), *Future focus- 2013 National Workforce Development Strategy* links concerns around “quality “ in the VET sector to “a persistent decline in funding per annual student contact hour, and ... [the failure of total funding] to keep pace with the substantial growth in full-time equivalent students”.⁷ AWPA calls for a review of funding in the VET sector, arguing that this is needed to determine “an appropriate price for the delivery of high quality VET”.⁸

The current Issues Paper refers to VET funding being “finite”.⁹ TAFE funding has been diminishing rather than increasing. Every financial year since 2006/07 TAFE has been subject to ‘efficiency dividends’ of 1-1.5 %, despite student enrolments being relatively steady. Last year’s NSW State Budget imposed in addition to a 1.5% efficiency dividend, a “labour expense cap” of 1.2% per year for the next four years. This means cuts of 2.7% over the next four years. The cuts are equivalent to the loss of 800 positions across TAFE NSW. Student fee increases are camouflaging some of the cuts. TAFE fees were increased by 9.5% in the 2012 State Budget. The O’Farrell Government’s recent announcement that part of the NSW Government funding for the Gonski school reforms “will flow from the Government’s VET reforms, including the level of fees and subsidies which are currently being considered by IPART”¹⁰ marks another blow as TAFE fee revenue will be diverted away from TAFE to other areas of government expenditure.

As funding for TAFE has been reduced, TAFE Institutes 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. There is a greater focus on more profitable offerings which attract full fee paying clients

³ IPART, Up-Skilling NSW, Final Report, December 2006, p.99

⁴ IPART, Up-Skilling NSW, Final Report, December 2006, p.80

⁵ IPART, Up-Skilling NSW, Final Report, December 2006, p.ix.

⁶ IPART, Up-Skilling NSW, Final Report, December 2006, pp.63 – 64.

⁷ Australian Workforce and Productivity Agency, *Future focus – 2013 National Workforce Development Strategy*, p.15.

⁸ Australian Workforce and Productivity Agency, *Future focus – 2013 National Workforce Development Strategy*, p.15.

⁹ IPART, Pricing VET under Smart and Skilled, Issues Paper, April 2013, p.1.

¹⁰ Barry O’Farrell media release 23 April 2013

including involvement in overseas markets. But unlike for universities and other sectors of industry, there has never once been an offer of structural adjustment for TAFE.

TAFE Institutes are cutting costs. More casuals are being employed, class sizes are increasing with cuts in course delivery hours. Courses with low enrolments are being discontinued. It is becoming increasingly difficult for TAFE to plan its courses and will become more so with full competitive tendering. A former TAFE institute director recently stated:

How do you plan when you're not sure what your intake's going to be? You have a certain number of subsidised places and you have to budget for a certain level of fees".¹¹

She argued that threatened fee rises would deter students, which in turn created a vicious cycle where fewer students made some courses unviable, in turn discouraging more students.

Cuts to budgets have led to reduced education support services including disabilities support, psychological counselling and library services. Quality is being compromised through the loss of additional funding and resourcing for curriculum and professional development. Liaison with local industry, to undertake market analysis to see what it is that local industry and individuals want and to develop relationships with them is compromised by funding shortfalls.

3. Competitive neutrality and pricing VET

In its 2006 Inquiry, IPART took the view that "more competition can be introduced progressively into the publicly funded VET system without compromising the viability of the TAFE system".¹²

Governments in Australia have dictated that public sector 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 through the ownership status of an entity.

In the case of TAFE, it must eliminate its advantages by including in its pricing the cost of capital as well as taxes and other charges for which it is not liable. But at the same time, TAFE is not permitted to make adjustments to its pricing for a range of overheads which are not necessarily incurred by the private sector. These include the cost of public sector wages and employment conditions which have developed incrementally over many years as with any other NSW public sector agency. These wages and conditions are enshrined in Industrial Awards. In addition, TAFE is required to manage and maintain massive infrastructure across the state in city centres, regional locations and small towns. None of TAFE's competitors have these requirements which place private training providers in an advantageous position in the pricing of their tendered services.

TAFE Institutes have been required to count items like depreciation on buildings and equipment in their costs as well as a percentage of the value of their net assets as a cost of capital. When competing against bids from private sector operators that do not provide the same facilities, it is not surprising that TAFE's bids would be uncompetitive.

TAFE incurs other overheads that do not apply in general to private sector providers. The cost of corporate governance in TAFE will always be higher than for private providers. As a public sector agency funded to deliver services, TAFE is required to formally report financial and service performance to the government. This requires a level of bureaucracy that would not be necessary in the private sector.

¹¹ John Ross, *The Australian* online 26 April 2013.

¹² IPART, *Up-Skilling NSW*, Final Report, December 2006, p.98.

The competitive neutrality approach to pricing has simply doomed TAFE to losing tenders when private sector providers can tender prices based on marginal costs, minimal overheads and in some cases, questionable standards of quality. An overarching concern is that introducing further competition into the VET sector may weaken the capacity of the existing TAFE system to contribute to state and federal government objectives to enhance skills and upgrade educational qualifications.

These issues are covered extensively in the Centennial Consultancy *Report on Competitive Tendering in VET*. They are clearly illustrated in the example of TAFE vs LearnEnglish Pty Limited (Appendix 1). In this example, the cost of providing the Language, Literacy and Numeracy Program (LLNP) in TAFE is shown to be much higher than the cost of providing a "similar" service in a private training organisation. This is due to the inclusion of a range of oncosts in TAFE, higher salary levels as well as notional council rates, land taxes and the user cost of capital.

In addition to the matter of tender pricing, there are other issues which need to be considered when reviewing competitive bids for the provision of VET services. These relate to the skill levels and qualifications of teachers/trainers, the standard and suitability of facilities, the application of approved procurement guidelines and the standard of quality being provided. The Centennial Consultancy Report discloses a number of cases where it appears that the assessment of tenders was driven purely by price and not quality. (Appendix 2) 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 has led to the conclusion that the assessments of "value for money" in the tendering process were less comprehensive than they should have been. It could also be considered that the establishment of prices for VET courses and qualifications does not mean that quality and value for money can be assured.

The introduction of competition on the basis of price (with little regard to the quality of teaching and facilities) poses a significant threat to the institutional capability of the TAFE system, potentially demoralising a generation of qualified teachers, while failing to achieve government goals of achieving a well-educated and highly skilled workforce.

4. "Efficient costs" and the "quality standard"

The first step in the proposed IPART methodology will involve "investigating and understanding the efficient costs of providing VET courses, qualifications, part qualifications and units of competency to the required quality standard."¹³

Federation understands that as part of its review, IPART will investigate and understand "efficient costs" by examining previous reviews of VET, the examination of VET and TAFE finances being undertaken by KPMG and other available sources.

In developing a methodology for setting efficient prices for VET, Federation stresses the need for IPART to have a comprehensive understanding of the workings of the TAFE budget. Specifically, it is vitally important that IPART has an understanding of why TAFE incurs costs that are not necessarily incurred by private sector training providers. There are many underlying reasons why the cost structure of TAFE can vary so greatly from that of a private provider. Some of the unique characteristics of TAFE which contribute to its higher cost structure include:

- an extensive infrastructure (buildings, facilities, equipment) across the state in cities, regional centres and remote locations;
- heritage buildings with high cost maintenance and preservation requirements;
- the need to provide services for disadvantaged members of the community;
- site inefficiencies at some TAFE locations due to split sites, changes in student numbers and industry requirements, population shifts, community expectations and ageing infrastructure;

¹³ IPART, Pricing VET under Smart and Skilled, Issues Paper, April 2013, p.25.

- an extensive annual capital works program for new facilities, upgrades, renovations and maintenance;
- industrial awards which provide for public sector salaries and conditions of employment;
- a sizeable bureaucracy at central and regional levels which is required to service government and Parliament;
- extensive monitoring and reporting requirements prescribed by state and federal governments;
- extensive financial reporting requirements and full compliance with Accounting Standards, Treasury Regulations, Financial Audit and Annual Reporting legislation, Auditor General requirements, ICAC and Ombudsman Review, Parliamentary Estimates Committee and Parliamentary Public Accounts Committee oversight.

TAFE will always have higher overheads than the private sector. Federation seeks assurance that the methodology to be developed by IPART fully takes account of these aspects in order that TAFE is in no way disadvantaged in the setting of “efficient” prices for VET.

The danger for TAFE is that because of its cost structure, the setting of a so called “efficient” price could effectively push TAFE out of large slices of the VET market and even could lead to a partial dismantling of TAFE as we know it. This cannot be allowed to occur. The supposed “competitive neutrality” provisions of VET tendering have already doomed public sector providers to lose tenders by requiring them to allocate a wider range of costs (capital charge, notional rates and taxes, systemic overheads, the cost of servicing Government, extensive reporting and monitoring requirements).

Further, the mechanisms to monitor competitive markets, can give rise to inefficient use of public funds as funding is being diverted from learning to regulation and quality assurance.

The Issues Paper cites the NSW Commission of Audit’s criticism of TAFE teacher salaries and working conditions. Federation argues that decent pay and working conditions attract and retain the staff necessary to be innovative and responsive to industry needs. The NSW Commission of Audit refers to “challenges for the delivery of national training needs at a national and state wide level”.¹⁴ It does not offer any definition of “a high quality training system” as required by COAG. Not once does it use the word “quality” or even recognise an issue around standards. No mention is made of teachers other than as needing to be more “productive” in the sense of working three hours more in front of a class.

The Issues Paper discusses the best method to determine the base price of courses and qualifications that reflects their efficient costs¹⁵ Whilst decisions about class size are now made at the Institute level, Federation’s TAFE class sizes policy specifies class size maxima based on the mode of instruction; Work, Health and Safety considerations as well as recognising students with special needs. In addition, Federation policy supports earlier TAFE approved guidelines for minimum class enrolments for country and metropolitan TAFE colleges and for certificate and diploma levels. Class size policies ensure a minimum quality standard as a protection for quality for students and teachers.

The definition of “required quality standard” for teacher/trainer qualifications is regulated by ASQA through the VET Quality Framework. The minimum Certificate IV in Training and Assessment (TAE40110) has been retained as a minimum qualification for teachers of vocational education and training. It can be attained with little difficulty from a huge range of providers. TAFE teachers until the early 2000s were required to have a university qualification in adult education. In the schools area, governments are focussing on improving teacher quality. Standards for entry to the profession are being raised and more funding provided for professional development. The opposite is occurring in VET despite recognition of the importance of skill development for the Australian workforce.

Federation is not aware of what the NSW Government intends around additional quality requirements for RTOs who will be eligible for government subsidy, contracting arrangements and monitoring of these organisations.

¹⁴ IPART, Pricing VET under Smart and Skilled, Issues Paper, April 2013, p.31.

¹⁵ IPART, Pricing VET under Smart and Skilled, Issues Paper, April 2013, p.32-33.

IPART in 2006 commented that “little comparative information on the performance of individual providers within the VET system is publicly available.”¹⁶ Little appears to have changed. Strengthening of quality standards and regulation must occur to ensure student, employer and teacher trust in vocational education across TAFE and all providers.

5. Community Service Obligations and equity loadings

TAFE has been able to provide training across the state in courses where student numbers are low but for a variety of reasons (industry needs, regional needs, social objectives), there has been a demonstrated need for the course to be delivered. The relatively high cost of delivering these courses has meant that they are predominantly supplied by the public training provider.

The Federation has noted that IPART intends to develop a methodology to test for thin markets to help the government identify where Community Service Obligation (CSO) payments may be warranted.

At present, TAFE meets the cost of training for thin markets from its annual budget allocation provided through the state budget. Each TAFE Institute is allocated a share of the annual budget and is then required to develop its course profile based on industry needs, student demand, local requirements, societal issues and other factors including the needs of disadvantaged groups in the community. The overall level of funding available to each TAFE Institute ultimately determines the resources that can be allocated to service thin markets.

The introduction of a CSO payment to cover the cost of training for thin markets suggests that private providers will be encouraged to compete in these markets. Once again, TAFE will be disadvantaged if it is required to compete with private providers for CSO payments when competitive neutrality requirements do not allow for a level playing field.

The potential impact of the introduction of CSO payments for thin markets is a further loss of market share for TAFE with all of its consequences, a reduction in the level of resources to service disadvantaged groups and an erosion in the quality of services to be provided.

In 2006, IPART identified “those with low educational attainment – especially those without post-school qualifications – and those who do not maintain the currency of their skills” as “in general” not being “easy to engage in training. They often have low motivation or poor self-esteem, and therefore require a supportive, individualised program that encompasses personal development, communication and teamwork skills, and work habits and customs, as well as job-specific skills”. Successful programs would need to include “intensive personal support”.¹⁷

TAFE currently provides services to encourage participation through the provision of:

- library services;
- counselling services including career and personal counselling;
- child care services;
- facilities for students with disabilities, eg ramps, disabled toilets;
- special materials, e.g. braille readers, coloured paper handouts; and
- canteens.

Students who engage with TAFE may be very young, having disengaged with the school system or they may be second chance learners, for example women hoping to return to the workforce. The full service provision of TAFE assists in their staying engaged with learning.

¹⁶ IPART, Up-Skilling NSW, Final Report, December 2006, p.85.

¹⁷ IPART, Up-Skilling NSW, Final Report, December 2006, p.50.

To fund every VET provider for community service obligations and equity groups, no matter how big or small, risks distributing VET funding even more thinly. The thin distribution of additional equity funding risks it being meaningless and therefore not valued. There is then the greater risk that in the event governments seek to reprioritise funding, such extra funding in the form of loadings could be easily taken away. The impact of such funding cuts appears less when calculated across thousands of organisations. The effectiveness of any additional CSO funding is diluted the more providers are in the market.

When aggregated in a large institution as TAFE, funds can be used more efficiently and effectively because of the economies of scale. Similarly if funding is withdrawn, it is noticed by the community who can question such decisions through the range of forums such as Parliament that TAFE is publicly accountable to.

6. Student fees

Over the last ten years, the NSW Government has been steadily reducing its proportion of the funding of TAFE, the public provider and increasing the proportion of TAFE's funding from student fees. Data from NCVET reveal that in 1997 student fees accounted for 14% of training funding in NSW compared to 24% in 2010.¹⁸ The 2012 Budget imposed a 9.5% increase in fees.

The Issues Paper states: "Knowing that an additional contribution will need to be made to undertake a subsequent qualification should encourage an individual to make the best education decision in the first place". The paper goes on to acknowledge "that this approach assumes that students (and potential students) have complete information about the costs and potential earnings from undertaking different courses and qualifications. In practice this may not be the case. However, we note that Smart and Skilled envisages improved information provision so that consumers 'have better information to make informed choices about training'".

Any examination of the current My Skills website reveals just how difficult it is to negotiate the mix of promotional material and government mandated statistics on course offerings. Finding courses for certificate III on hairdressing on the My Skills website, as just one example, reveals pages of RTOs. Trying to gauge the quality of course offerings involves looking behind the promotional blurbs of the RTOs. The statistical data available is more designed to provide RTO accountability to regulators rather than provide information to students. There is no provision for comparison of qualifications of staff, the standard of premises and the professional development of staff.

The level of fees impacts most on those who have the least capacity to pay and those with the least motivation to train. Subsidised training up to Certificate IV only allows for basic training. Employers may be able to shift to government the cost of low level training, whilst government shifts the costs and risks to students for higher level training. The introduction of income contingent loans (ICL) shifts the cost of funding from government onto individuals. Rather than encouraging participation, they may well discourage young people from disadvantaged backgrounds from training.

CONCLUSION

Whilst not endorsing *Smart and Skilled*, Federation requests IPART to fully consider the issues in this submission. Federation strongly believes that TAFE NSW should be strengthened as a public institution by additional funding rather than be weakened by an experimental choice and competition policy that transforms TAFE into yet another private provider. Federation looks forward to further dialogue with IPART concerning *Smart and Skilled*.

¹⁸ <http://www.ncver.edu.au/publications/2426.html>

Appendix 1

Extract from Centennial Consultancy, *Report on Competitive tendering in VET: Cheaper is not better*, pp.92-93.

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, oversees 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	
+	1 hour per student x 18 students for pre-training assessments = 538 hours	
	538 hours @\$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 + 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 + 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 hours @\$25 per hour	\$13,000
	Office rental \$250 per week for 26 weeks	\$6,500
	On-cost 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, TAFEs 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.

Language, Literacy and Numeracy Program

Centennial Consultancy was commissioned by the Teachers Federation to conduct an independent study into the consequences of the competitive tendering of contracts for the delivery of the Language, Literacy and Numeracy Program (LLNP). Private sector or community organisations were awarded contracts in May 2010 in preference to several NSW TAFE institutes.

Centennial Consultancy found it difficult to obtain information about many of the private sector or community providers 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.

Their report showed the inadequacy of current regulation in providing for financial viability let alone quality provision. Centennial Consultancy commented on the difficulty of reconciling 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 with the realities that emerged.

One successful tenderer was an organisation whose training business segment was in financial difficulties despite Commonwealth guidelines that require agencies to assess the performance history of tenderers. It outsourced delivery of its training programs to another organisation which at the same time was claiming to have merged with yet another entity.

Another successful tenderer was a not for profit company operating in an area already served by 17 TAFE campuses. Newly-engaged staff complained that they were not provided with adequate resources and were required to deliver three programs in combined classes. Teachers complained of insufficient and inadequate classrooms including the use of shopfronts and refitted semitrailers. Management were said to have no educational background so were not able to understand the needs of students or teachers. Meantime local TAFEs, that were unsuccessful in bidding for the LLNP contract, had general purpose classrooms, computer classrooms, trade workshops, seminar and conference rooms, and other associated facilities.

A third successful tenderer, a listed public company, was highly profitable. According to TAFE teachers, consortia involving this company 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.

The government agency NCVET does not collect information on staff qualifications, despite such information being highly relevant to determine if the federal government's procurement policies are genuinely concerned to receive value for money.

Centennial Consultancy commented:

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.¹⁹

¹⁹ Centennial Consultancy, *Report on Competitive Tendering in VET: Cheaper is not better*, September 2011, pp.9-11.