



Funding for TAFE

A TDA Position Paper

August 2004

EXECUTIVE SUMMARY

A sustained investment in TAFE is vital if Australia is to meet its future skill needs. Without it, will continue to face skills shortages with resultant higher costs to producers and higher prices for consumers. The international competitiveness of our industries will be jeopardised. Those without skills will continue to have poor employment prospects and there will continue to be unnecessarily high numbers dependent on welfare.

The economic benefits of investing in vocational education and training are clear but despite the evidence and the political rhetoric about the importance of education and training this has not yet translated into the sustained lift in funding that is needed to ensure that we get maximum public benefit from our vocational education and training system.

TAFE is a major educational pathway from school to work for many young Australians. It plays a far greater role than any other education sector in up-skilling and re-skilling Australians through their working lives. Yet despite its importance and the very large numbers of students, the publicly funded VET system receives much less funding than either the school sector or universities.

Funding has failed to keep pace with the growth in demand for VET and as a result funding per annual curriculum hour is now very much less than it was in 1997. In 2002 (latest available figure) funding was only \$13.4 per hour, compared with \$16.5 in 1997 in real terms, a decline of 19 per cent; ie a fall of 4% per annum.

Australian Government cutbacks particularly over the period 1997-2000 have been a major contributing factor. Total Australian Government expenditure was some 7% less in real terms in 2002 than it was in 1997. The pressure on TAFE has been particularly severe because funding for private providers was significantly increased at a time when overall funding was being cut back. Australian Government funding going to public providers fell in real terms by 24% over the period 1997 to 2000.

The Australian Government did provide some modest funding for growth over the period 2001-2003 but has not been prepared to offer any additional growth funding under a new ANTA Agreement that should have commenced in 2004. The failure of the Australian Government and the States and Territories to reach agreement on a reasonable funding deal means that Australian Government funding under the ANTA agreement for 2004 is less in real terms than it was in 2003. This is exacerbating an already serious situation.

The impact that funding cuts have had on TAFE is now drawing serious criticism from various quarters including the Victorian Auditor-General and business groups.

Governments at both the Australian and State Government level need to commit to maintaining and strengthening TAFE. The Australian Government needs to show stronger leadership in developing a collaborative approach to ensuring that this extraordinarily valuable national asset fulfils its full potential to contribute to Australia's social and economic development.

Additional funding is urgently needed to meet existing unmet demand (42,800 places in 2003) and cater for future growth. We can expect demand to grow significantly. Drivers will include action to attract people into areas currently experiencing skills shortages; training for the mature aged with a view to extending their participation in the workforce; providing better opportunities for young people including for those currently dropping out; and the need for existing workers to

upgrade their skills, and for some to re-skill, as technology changes. Funding is also urgently needed for improvements to equipment and facilities, as well as for other areas affecting the quality of delivery.

Action is also required to review funding indexation measures and to address deficiencies in current funding allocation models. Greater account needs to be taken of course mix, location, numbers of students with special needs and other circumstances which can have a significant impact on the cost of delivery.

FUNDING OF TAFE

Fiscal discipline is a necessary but not sufficient ingredient for success in the global economy. As well as balanced budgets, countries need to invest in the skills of their people and in modern infrastructure.

The Australian Financial Review 28 July 2004

1. The Importance of Better Funding for TAFE

A sustained investment in TAFE is vital if Australia is to meet its future skill needs. Australia is dependent on a high quality TAFE system if the nation's requirements for skilled tradespeople, technicians, paraprofessionals in the health and community sectors, IT workers, office administrators and skilled workers in many other sectors right across the economy are to be met.

The international competitiveness of Australian industries hinges on our having a vocational education and training system that is equal to the world's best and that can produce leading edge skills. Our skill levels need to be world class if we are to support innovative, globally competitive industries. More broadly, education and skills training are fundamental drivers of productivity and therefore a key to economic growth and higher income levels.

As Australia's workforce ages, economic growth will also be dependent to a significant extent on increasing labour force participation rates. This in itself will require a substantial investment in training. Participation rates for men and women with no post-school education are significantly lower than those with post school qualifications. And the numbers of those without post school qualifications are large – 60% in the case of prime-age women (25-54). The participation rate for prime-age men with no post-school education has fallen in a particularly dramatic fashion in recent years and would seem to be linked with the decline in full time, low skill jobs.

Clearly, providing greatly increased opportunities for skills upgrading, retraining and acquiring new skills will be a vital factor if we are to be successful in raising the participation rates of older workers in the future.¹ This underlines the importance of VET and TAFE in particular. TAFE plays a far greater role than any other education sector in re-skilling and up-skilling Australians throughout their working lives.

These economic benefits of investing in education and training are widely recognised. But education and training has other economic and social benefits as well including better health and reduced crime. Providing better education opportunities for the disadvantaged is also widely acknowledged as important in promoting social capital and social cohesion.

The National VET Strategy covering the period to 2010, which has been endorsed by the Australian and all the State and Territory Governments, acknowledges the need for making a sustained investment in TAFE.

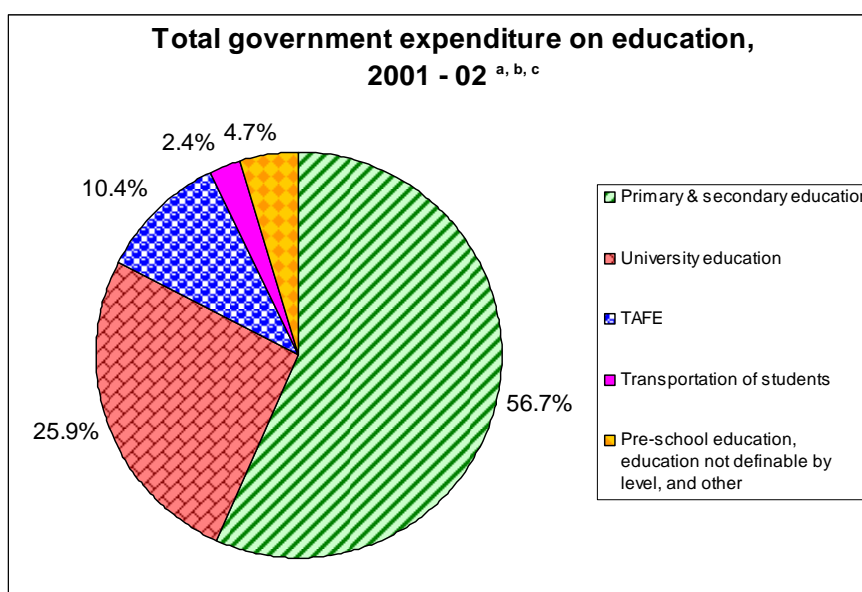
¹ Source: article by Alan Mitchell in the Australian Financial Review, 15 November 2003 referring to a Treasury paper by Steven Kennedy and David Hedley

Yet despite all the evidence and indeed the political rhetoric about the importance of education and training and the knowledge economy, this has not translated into the sustained lift in funding that is needed to ensure that we get maximum public benefit from our vocational education and training system. On the contrary.

It is urgent that we take action now and make adequate provision for the future. Those countries that do not ensure increased skill levels face the prospect of a 'low skills, low wage outcome' with the difficulty of maintaining social cohesion if inequality widens. For the immediate future, we will continue to face skills shortages, higher costs to producers and higher prices for consumers. Those without skills will continue to have poor employment prospects and there will continue to be unnecessarily high numbers dependent on welfare.

2. The Situation is Urgent

Despite its importance and the large numbers of students (over 1.7 million a year), the publicly funded VET system receives much less funding than either the school sector or universities. The TAFE sector represents only around 10% of total government (Australian Government and State) spending on education.² By way of comparison, universities account for 26% and schools for 57%. Moreover, TAFE's share of the education dollar has fallen in recent years.



^a Totals may not add to 100 as a result of rounding. ^b Based on accrual operating expenses for education. ^c 'Other' includes tertiary other.

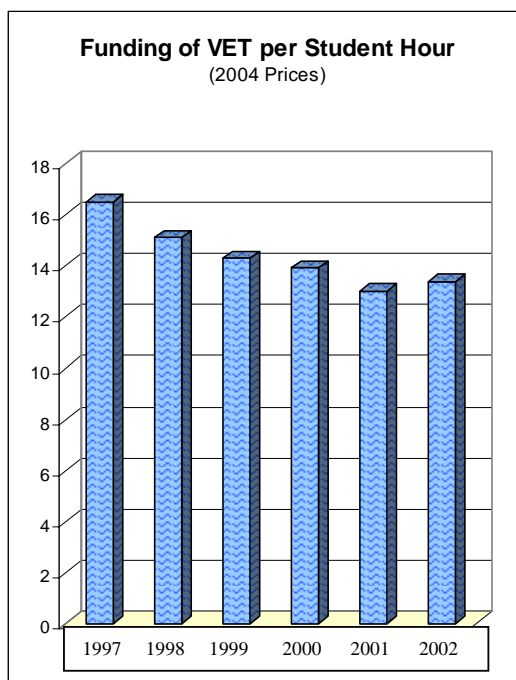
SCRGSP Report on Government Services, Productivity Commission, 2004

The funding of institutions providing vocational education and training has been severely constrained since 1997.

Funding has failed to keep pace with the growth in demand for vocational education and training and as a result funding per annual curriculum hour is now very much less than it was in 1997. In

² Steering Committee for the Review of Government Service Provision 2004, *Report on Government Services 2004*, Productivity Commission, Canberra 2004

2002 (latest available figure) funding was only \$13.4 per hour, compared with \$16.5 in 1997 in real terms, a decline of 19 per cent, ie an average fall of 4% per annum.³



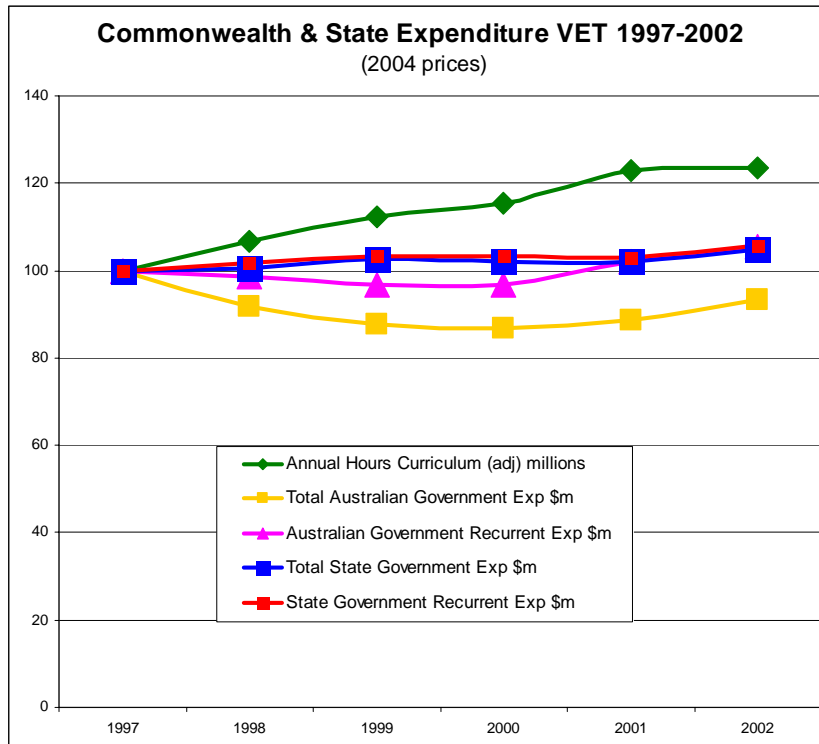
Source: ANTA Annual Reports and ABS catalogue 6206.0 – Australian National Accounts: National Income, Expenditure and Product – March 2004

Both the Australian Government and the State and Territory Governments have responsibilities for VET funding and are open to criticism about deficiencies in funding for VET and TAFE in particular. Over the period 1997 to 2002 student enrolments and curriculum hours delivered grew significantly. The growth in curriculum hours was 23.5%. However total Australian Government expenditure (ie including capital and special purpose funding) over this time fell by 6.7% in real terms. State expenditure increased (by 4.7 per cent) but not in line with the increased demand.

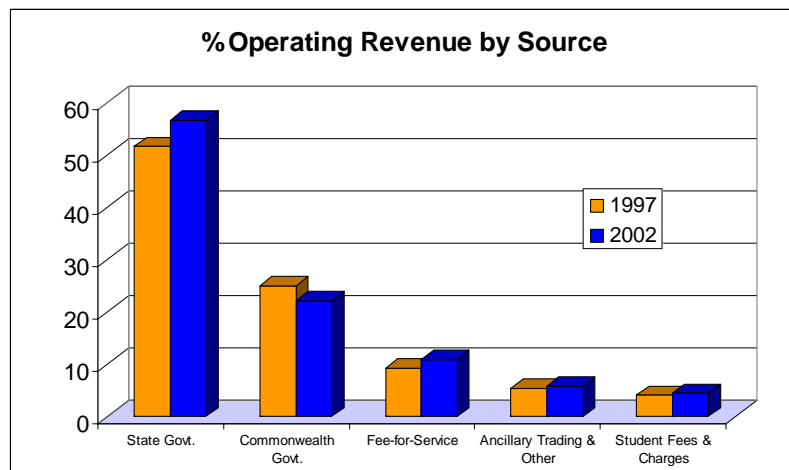
During this period, the Commonwealth's share of overall government funding going to the publicly funded VET system fell from 33.5% in 1997 to 30.1% in 2000; its share recovered slightly to 31.2% in 2002. The States and Territories' proportion rose from 62.9% in 1997 to 66.3% in 2000 and 65.7% in 2002.⁴

³ The analysis underlying the statistics in this document uses the most recent non-farm GDP (NFGDP) deflator from ABS catalogue 6206.0 published June 2004 since the NFGDP is the deflator used in ANTA reports. Note that the NFGDP deflator produces a conservative picture since it does not fully reflect the situation in the education sector where wages make up a large proportion of the costs. Alternative deflators developed by the ABS such as the Education Cost Index (ECI) show an even greater decline. If the ECI were used, the average annual decline in funding per annual curriculum hour would be of the order of 5% a year instead of 4% using the NFGDP.

⁴ NCVET Financial Information 2002 and Financial Data 2001



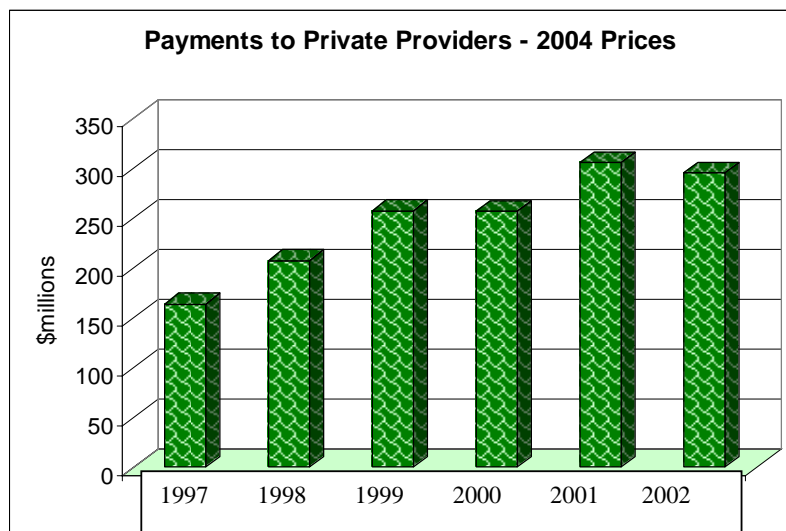
In response to resource constraints, TAFE has had to look increasingly to revenue from non-government sources, especially fee for service provision. The Australian Government's share of total operating revenue for the public VET system declined from 25% in 1997 to 22.2% in 2002.



Significant funding was lost to the system by Australian Government budget cuts in 1996-97 and 1997-98 and the subsequent freezing of Australian Government funding provision in real terms for the three years 1998-2000. In fact, in terms of 2004 prices, total Australian Government expenditure on VET declined in real terms from \$1,261.4m in 1997 to \$1,094.7m in 2000, a fall of \$166.7 million or 13.2%.

TAFE Institutes were particularly seriously affected by the Australian Government cutbacks over this period because there was a very significant diversion of funds to private providers, with payments to private providers actually showing a very significant increase. The result was that

in terms of 2004 prices net Australian Government funding going to public providers fell from \$1,104 million in 1997 to \$826 million in 2000, a reduction of \$262 million or 24% in real terms.⁵



Source: NCVET Financial Information 2002 and earlier

The Australian Government did provide some much needed funding for growth over the period 2001-2003 but was not prepared to offer additional growth funding under a new ANTA Agreement that should have commenced in 2004. The failure of the Australian Government and the States and Territories to reach agreement on a reasonable funding deal means that Australian Government funding under the ANTA agreement for 2004 is less in real terms than it was in 2003. This is exacerbating an already serious situation.

The level of funding provided to Institutes varies among the States and Territories and indeed within States. But all TAFE Institutes have experienced severe funding constraints in recent years and there is little evidence that they have benefited from whatever increases in overall VET funding has taken place in the last few years.

The Victorian Auditor General has found in a recent report that the current student contact hour funding provided in Victoria does not fully cover the costs of delivery, including the cost of depreciation, teaching equipment, course development, support for early school leavers and people with disabilities. The Report also found that where Institutes attempt to move their delivery from lower to high cost programs (such as from traineeships to higher-cost apprenticeship programs) the funding is often inadequate.⁶ He found that almost all TAFE Institutes have underlying operating deficits and that four have negative net operating cash flows. He concluded that these results are not sustainable in the medium to long-term and has recommended that the Government reassess the current method of funding to ensure that sufficient funding is provided to TAFE Institutes to effectively maintain their operating capacity.

Victorian TAFE Institutes receive the lowest average level of funding across Australia and the situation that they have faced has been particularly serious. However TAFE Institutes in other States also face severe difficulties and some of the observations made in the Victorian report are pertinent to their situation as well. The Victorian Auditor General has sounded a much needed

⁵ Data derived from NCVET Financial Information 2002 and Financial Data 2001

⁶ Auditor General Victoria *Report on Public Sector Agencies*, May 2004 p45

alarm bell and his findings underline the pressing need for an early reassessment of the adequacy of VET funding across the country.

3. Recent Fee Increases

The contribution of student fees and charges has been increasing steadily. In 2002 student fees and charges accounted for around 4.5% of general operating revenues in the publicly funded VET system. This compares with a figure of 3.8% in 1997.

TAFE fees are generally modest compared with university fees and there are provisions for concessions for disadvantaged students. Nevertheless, up front fees can constitute an impediment to students undertaking courses and it is important that TAFE courses remain affordable. Governments should be considered to have a particular responsibility for ensuring that entry level training programs are available to all.

Further, the cost of concessions to students from disadvantaged backgrounds are borne by individual Institutes and they are not necessarily funded to cover these costs.

In 2004 both the New South Wales and the Victorian Governments moved to increase TAFE fees. In Victoria the fees were increased by 25 per cent, bringing the fee per student contact hour from \$1.00 to \$1.25. Fees are also to be indexed each year. This represented the first increase in student fees since 1995. This increased revenue is being used by the Victorian Government for targeted allocations to individual Institutes. It is not being reflected in an increase in base funding. NSW course fees were increased from the previous range of \$210-\$710 to a new range of \$350-\$1650.

4. Governments need to give greater priority to VET

There would seem to be several reasons why governments, Australian and State, have not accorded vocational education and training the importance it deserves.

First, they have typically taken a short term view about the funding of VET, as they have about funding of some other vital infrastructure. They tend to ignore the long term benefits and are preoccupied with the short term cost to the budget. Governments fail to see spending on education and training as an essential investment in the future and therefore to make the necessary commitment based on positive long term rates of return.

Budget policy at both Australian Government and State levels is generally speaking directed at maintaining budget surpluses and where possible reducing the level of government debt. This approach is quite different to that taken in many other countries which have better recognised the value of investing in essential infrastructure. Australia's level of general government debt (21.8% of GDP in 2002) is strikingly low compared with other advanced economies. The comparable figure in the United States in 2002 was 60.7% and for the OECD as a whole it was 75.0%⁷.

Second, Australian vocational education and training generally has a good reputation, including internationally, and the community has not so far perceived the system as being under serious

⁷ David Hayward and John Quiggin, "A Financial Vision for a Long Term Labor Government in Victoria" in *Visions for Victoria* edited by David Hayward and Peter Ewer, 2003

threat. The standing of our qualifications remains high and to date our TAFE Institutes have been able through various means, including cost cutting, fee increases and the development of new fee for service income streams, to manage their way through very difficult financial circumstances. This approach is not, however, a viable long term solution if national economic and social goals are to be achieved.

Third, and fundamentally, our VET system and our TAFE system in particular, has been the victim of shared responsibilities in a federal system. The Australian Government and the States and Territories do not have an agreed understanding, in any ongoing way, on funding responsibilities and each attributes shortcomings and deficiencies to the other. Governments would be more responsive if there were clear lines of accountability. From that point of view there would be benefit if either the States/Territories or the Australian Government had full responsibility for funding and administering VET. But this is likely to be difficult to achieve. It is therefore clearly desirable from a national perspective that the Australian Government show much stronger leadership in developing a collaborative approach which provides the sustained increase in funding that is required, including a significantly increased Australian Government commitment.

5. Essential Funding Needs

Funding for new places – providing for growth

There is a need for more tertiary vocational education and training places if Australia's future skill needs are to be met. That has been recognised by Access Economics.

Indeed TDA considers that the national goal should be to provide the opportunity for all Australians to have at least two years of post-school education and training including vocational qualifications typically to a minimum of Certificate III or IV.

There is already very significant unmet demand and it is growing year by year. Australian Bureau of Statistics figures show that in 2003, 42,800 students had applied but were unable to get placement in a course at TAFE. This was a very substantial increase on the level two years before (34,600). It was also very much higher than the unmet demand for higher education.

We can expect demand for TAFE places to grow significantly; drivers of this demand will include

- actions to attract people into areas currently experiencing skills shortages who will need quality training;
- providing better opportunities for those young people currently dropping out;
- providing alternative opportunities for those young people who are unable to get funded university places as a result of the changes to higher education funding;
- the needs of those in the workforce who are seeking to upgrade their skills;
- those who need to re-skill because of labour market changes or the rapidly changing nature of work;
- those seeking to re-skill to stay in the workforce in response to government encouragement to postpone retirement to an older age; and
- those who are seeking to re-enter the workforce.

Additional places need to be quality places and need to be properly funded. They should not be limited to apprenticeship places; nor should they assume a shift to an on the job component.

Failure to provide sufficient funding to meet demand will either mean continued growth in unmet demand and even more acute skills shortages or it will force further fee increases raising significant access and equity issues.

In the negotiations last year, the Australian Government did not offer any new funding over and above the 2003 funding, apart from some special funding offered as part of welfare reform measures (known as Australians Working Together and RICP programs⁸ that was previously under another program and was to be brought within the ambit of the ANTA Agreement. That is, the so-called growth funds did not provide for any further growth in the number of general places over the 2003 levels.

The failure to offer any new growth funding was taken notwithstanding existing levels of unmet demand and estimates by Access Economics of continuing growth for VET places. Access Economics developed more than one scenario in preparing their estimates and there was disagreement between the Australian Government and the States/Territories over which estimate was to be preferred.⁹ The Australian Government agreed with the Access estimate of 2.9% average annual growth over the period 2004-2006 but did not offer funding to support this growth.

Funding for Infrastructure

Current funding for infrastructure is woefully inadequate given the need for IT equipment, including equipment to support on-line delivery, as well as the need to give students experience and training in using modern, technologically advanced equipment.

The Business Council of Australia has recently expressed concern¹⁰ about the difficulties that many TAFE Institutes face in obtaining and maintaining up to date equipment for use in training because of funding constraints. It emerges very clearly from the BCA report that industry will not continue to have confidence in public providers if their ability to deliver high quality and relevant training is compromised by inadequate funding, including the funding necessary to maintain up to date facilities.

The Australian Government has in recent times offered the States flexibility in using infrastructure funds for additional places. However this position on infrastructure appears to be very short sighted since it encourages meeting current requirements for places at the cost of long term quality of provision.

In Victoria, the state provides capital grants for the replacement and renewal of capital items but does not directly fund the cost of depreciation. The Auditor-General has found¹¹ that this contributes to poor operating results and if continued will lead to a run-down of their operating capacity. Institutes have to supplement any shortfalls in capital funding via savings made in other areas of expenditures, placing a further burden on their cash reserves.

⁸ Recognising and Improving the Capacity of People with a Disability initiative

⁹ The estimate favoured by the States was a growth rate of 5.2% per annum.

¹⁰ Business Council of Australia, *The Vocational Education and Training System Key Issues for Large Enterprises*, A report prepared for the Business Council of Australia by The Allen Consulting Group, 2004

¹¹ Auditor General Victoria *Report on Public Sector Agencies*, May 2004, p46

Funding for other areas affecting the quality of delivery - professional development, curriculum development and improved student support services

Providing for Australia's future needs is not just a matter of providing funding for additional places and upgrading equipment. If we are to ensure that TAFE delivery is to be of the necessary high quality there needs to be improved support for students while they are studying. This means that TAFE Institutes need to be funded to

- improve on-line delivery, curriculum development and learning materials;
- invest in teacher professional development including to meet the needs of a flexible learning environment;
- improve library, counselling and other services that make up the totality of the learning environment;
- improve the provision of support services to full time students, so critically important in improving completion rates; and
- provide funding for Institute based VET research, particularly in areas of applied innovation.

Funding models need modifying

Current funding rates are inadequate in all States and Territories. As well as the overall quantum being insufficient there are real deficiencies in the funding models currently employed which have as their basis an average dollar rate per annual curriculum hour. Greater account needs to be taken of the course mix being offered, and more realistic weighting given than is the case at present to those courses that are more expensive to deliver such as those in the skilled trades. Existing disincentives to responding to changing skill demands and responding to areas of acute skills shortage need to be removed.

There also needs to be greater acknowledgement given to TAFE's multiple roles, including those relating to second chance learning and skills development for those who are disadvantaged, and the additional costs that are associated with meeting these needs. In addition, consideration needs to be given to a differential model that takes into much better account the special features of regional and remote delivery and their cost impact to ensure that TAFE Institutes and Colleges are in a position to contribute to community sustainability.

Indexation of Funding

The university sector has argued strongly that the Government's existing indexation measures are inappropriate and that funding has been considerably less than it should have been using an index that takes into account actual costs in the sector where the wage component is significant.

The comment applies with as much, if not more, force to the index used to adjust base level TAFE funding which is significantly less favourable than the indexation measures used for many other parts of the education sector, including Australian Government funding for private schools. Indexation measures should be reviewed to ensure that the value of public investment in TAFE is maintained and to ensure consistency of treatment between sectors with similar cost structures.¹²

¹² For a more detailed discussion of this issue see papers by Gerald Burke and Paul White *Price Measures in Education and Training: opening a discussion*, Paper for AVETRA Conference, CEET, Monash University, 2004 and Jane Nicholls *Indexation Matters An Issue about the adequacy of Commonwealth TAFE funding policy*, a paper presented to the VISTA conference May 2004

6. Conclusion and Recommended Plan of Action

It is imperative that governments, at both the Australian Government and State level, commit now to maintaining and strengthening TAFE, the public provider of Australia's vocational education and training, and in that context ensuring that

- TAFE is kept affordable;
- it can provide high quality education and training for our young people to equip them with the skills that will be needed to sustain them in the workforce of the future;
- TAFE can respond to growing demand and play its role in meeting Australia's overall future skill needs including requirements for skills refreshing and upgrading, as well as the retraining of older workers;
- TAFE can work responsively with industry to address areas of skills shortage;
- TAFE has the up to date, modern equipment and facilities that are essential for ensuring that students have the opportunity to acquire cutting edge skills;
- it can discharge its community service roles;
- it can fulfil its potential to be a catalyst for and contribute to regional development projects; and that
- TAFE fulfils its full potential to support innovation and economic growth through the development and implementation of new technologies, including contributing to applied research.

To implement this commitment, significant additional funding will be required

- to provide for new growth funds on an ongoing basis to cater for increased demand for vocational education and training including the implementation of a training guarantee for all Australians;
- to support a programme of infrastructure modernisation;
- for essential quality improvement programmes; and
- to enable improved delivery in regional and remote areas.

In addition, governments should give consideration to

- a more appropriate indexation formula which reflects costs in the education sector; and
- the development of funding models which take better account of course mix, location, numbers of students with special needs and other circumstances which can have a significant impact on the cost of delivery.

TDA recommends that as an immediate first step, the Australian Government commit to

- providing additional growth funding of at least 5% per year (or around \$180 million over three years in 2004 prices) under a new ANTA Agreement, ie new funding over and above the total level of funds being provided in 2004; and in addition
- bringing the funding currently being provided separately for *Australians Working Together* and RICP programs within the Agreement as originally proposed.

The effect of this recommendation would be to provide an additional \$57 million in year one, \$60 million in year two and \$63 million in year three in much needed additional growth funds.

It would also bring back within the ANTA Agreement the special purpose funds (estimated to total around \$119 million over the three years 2004-2006) for people with a disability, older workers and parents returning to work, most of which were removed from the ambit of the

Agreement following the breakdown of the negotiations between the Australian Government and the States at the end of December 2003.

These additional funds would be augmented if the Australian Government required the States and Territories to provide some matching funding.

The increase in aggregate funding would enable progress to be made towards reducing the current level of unmet demand, provide additional places for young people and the mature aged in response to recommended policy initiatives and assist the TAFE sector to respond effectively to general increases in demand including especially in areas of severe skill shortage.

There are, however, fundamental longer term issues about the adequacy of funding including for quality improvement, modernisation of equipment and facilities and better student support services, as well as about the adequacy of current funding models that would still need to be addressed.

TDA also recommends that the Australian Government initiate a high-level, independent review of Australia's future vocational education and training needs and how these should best be met.

This review should be required, inter alia, to examine and make recommendations on:

- the role of vocational education and training in meeting Australia's skills needs, its importance as a major part of the tertiary education sector and its relationship and interaction with other education sectors;
- the role of TAFE;
- the role of a competitive market;
- funding responsibilities, including those of industry and the individual as well as government;
- the amount of government funding support required to support a world class system, taking into account both operating and capital equipment needs;
- funding allocation models; and
- the most appropriate indexation measure to be used in maintaining the value of government funding in real terms.

Such a review would provide the opportunity to examine in a holistic way the role of vocational education and training, its relationship with the other major education sectors and what needs to be done to ensure that Australia's future needs for world class skills are met.

There would be benefit in a high level review examining the issues involved, including the respective roles of industry and government, and what needs to be done to ensure that Australia has an effective and efficient system of public delivery and one that meets broader community expectations.