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**SUBMISSION TO THE WORKING GROUP ON THE
PRODUCTIVITY AGENDA**

Change Management in Growing Australian Skills

Three Pillars toward Australian VET Productivity

NOVEMBER 2008

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SUMMARY

The COAG Working Group on the Productivity Agenda presents a multi-layered case for widespread restructure to affect productivity and widen capability in the Australian vocational education system.

The reform package is tempered by proposing the commissioning of various reviews on dedicated areas of the “VET” system, and appears modeled on proposals on productivity signaled by the Victorian Government, and market consultants.

The COAG Working Group Discussion Paper agenda would re-shape and more deliberately restructure elements of vocational education, including new financial models to support Australia’s post-secondary education sector.

TAFE Directors Australia argues that more fundamental review of what we regard to be the ‘three pillars’ of Australia’s productivity across vocational education is required to achieve the successful outcomes being identified by the COAG Productivity Working Group.

Specifically, looking toward a holistic reform model comprising:

- **Competition and contestability** – to drive flexibility, responsiveness and higher skill levels
- **Quality** – to drive continuous improvement and public esteem for VET
- **Social inclusion** – to drive access for the disadvantaged and disengaged.

SECTION I

COMPETITION AND CONTESTABILITY

1. Productivity agenda

The Australian Government (and some State Governments to varying degrees) has specifically embraced competition and contestability for Government funds as an important ingredient to its VET productivity agenda.

TAFE Directors Australia (TDA) argues that contestability/competition is only one element of productivity. The other two, quality and social inclusion, are equally important and without a coherent policy that incorporates the three elements and recognises them as interdependent, productivity will be compromised.

2. Background

- 2.1 The Australian Government maintains that “introducing greater competition to the training system, including contestability for Government funding, and providing public institutions with the flexibility to compete, will ensure that training providers are better able to respond to industry and employer needs” (*Skilling Australia for the Future*). The Government has also endorsed the view that ‘extending national competition policy reforms to the VET market would enable government to use market mechanisms to drive increases in flexibility and responsiveness’ (*Skills and Workforce Development*, September 2008)
- 2.2 The Council of Australian Governments (COAG) agreed to make funding of the VET system fully contestable by 2012. The Federal Government’s Productivity Places Program is predicated on achieving its outcomes via competition and contestability between registered training organisations.
- 2.3 The prevailing emphasis on contestability as the key device to achieve productivity, has led to fears in some quarters that there is an agenda for government to divest itself of responsibility for ongoing investment in TAFE or to

privatise it. For example: *‘What’s worrying some people in the sector is the prospect that in a contestable environment, TAFE could be starved of funds’.*¹

- 2.4 Victoria has taken the lead on responding to the contestability agenda. While there are still many unanswered questions about the detail of implementation, the broad philosophy behind the market reform is that:
- individuals will be eligible for government subsidised training as long as they are moving to higher qualification levels
 - the higher the qualification level, the greater the potential earning capacity and therefore the more the student pays
 - because of fee increases, students will have access to income contingent loans at the Diploma and Advanced Diploma (AQF 5/6) levels; however concessions will no longer be available at these levels
 - funding will follow the student, making government funding available to both public and private RTOs to drive responsiveness to individuals and enterprise needs².
- 2.5 Recent changes to Victorian administrative and funding arrangements for VET are seen by some Commonwealth policy makers to be the blueprint for the reform of the national system. However, some jurisdictions have indicated that this is not the direction they wish to pursue for their TAFE systems. Other jurisdictions have acknowledged the principle of full contestability but have indicated that their starting points differ and that therefore their objectives, targets and processes will differ accordingly. No jurisdiction has indicated that its first preference is for a single unified system under the sole control of the Commonwealth.
- 2.6 The \$12.6B education sector in Australia is much valued by Australia’s neighbours and industry clients with skill needs increasing across many developing markets. The VET contribution of the \$12.6B sector has approached the higher education inbound student intake, and with support from industry, and effective recent years of continuing international Education Expo calendars driven by Austrade and Australian Education International, is expected to remain critical.

¹ John Ross *Campus Review* 4 November 2008

² Virginia Simmons Presentation, *‘TAFE meets Parliament’*, 17 September 2008

COAG should note that our domestic vision in VET will likely drive further this expansion, however advancement of the AQTF, and quality of service of providers, will be a fundamental component to this export success – increasingly recognising Australian education as a leader in international skills, from schools to skills and across tertiary education.

The role of TAFE remains a key player in this market mix, and quality a pillar to reputation and brand for the sector as a whole, and leadership role of the AQF as an international standard.

3. Issues

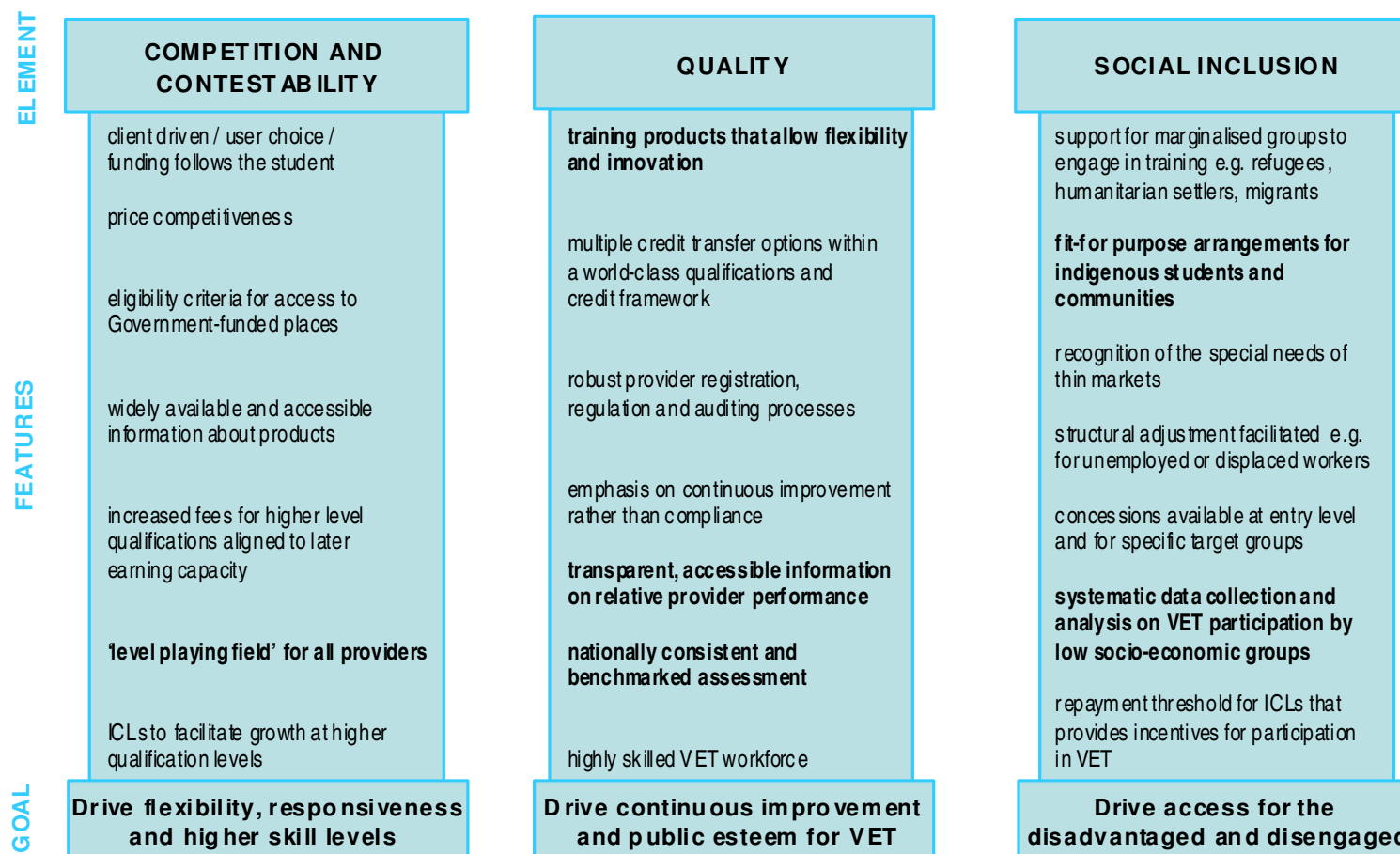
3.1 TDA argues that there are three key interdependent elements or ‘pillars’ to productivity:

- ***Competition and contestability*** – to drive flexibility, responsiveness and higher skill levels
- ***Quality*** – to drive continuous improvement and public esteem for VET
- ***Social inclusion*** – to drive access for the disadvantaged and disengaged

Figure 1 THREE ‘PILLARS’ OF PRODUCTIVITY

Targets:

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



- 3.2 Contestability/competition is but one element. The other two – quality and social inclusion – must have equally well-developed policy settings which are simultaneously introduced if undesirable consequences, that is consequences that undermine productivity, are to be avoided.
- 3.3 Figure 1 illustrates the three elements or pillars, the features of each and the associated goals. Viewed in this way, the interdependence of the three pillars is evident. However, the policies to support the features are in some cases only partly or not in place. The features highlighted are those which TDA believe should receive high priority for policy development. It is argued that introduction of some aspects of the policy before others represents a piecemeal approach which is likely to fail.
- 3.4 TDA also questions the cost benefit of opening up access to government funding to all RTOs. There are currently less than 60 TAFE institutes across Australia compared to approximately 4,500 private RTOs. The question arises as to the threshold number of RTOs required in order to ensure competition as opposed to the cost of registering, regulating and auditing an RTO pool of the current size.
- 3.5 By contrast, in Higher Education the sector has developed under Federal governance arrangements with Categories A, B and C segmentation which essentially assists with capability and institutional risk. Pending the Bradley review, the VET sector has little such capability segmentation and this dichotomy of governance further creates administrative challenges and costs, when access across more than 4,500 RTOs is considered as desirable in the context of open access.
- 3.6 TDA queries why Universities are not subject to the same contestability requirements as VET providers. In fact, the Government seems quite comfortable with the so-called Group of Eight as an elite sub-group within the Higher Education sector. No such recognition is afforded to TAFE and yet concerns are often expressed, particularly in a time of skill shortages, that too many parents and students see Higher Education as a more worthwhile study pathway.
- 3.7 All institutions, but particularly large ones, need a degree of stability and certainty to retain skilled staff, operate effectively and enable optimal investment decisions. Neither in the university sector nor the school sector is the level of funding uncertainty proposed that is the case in the VET sector.
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- 3.8 TAFE Institutes have considerably less market agility than either private providers or public universities brought about by a preponderance of Government policy and performance requirements. Policies on contestability need either to provide TAFE with equivalent autonomy or financially compensate Institutes for their disadvantage in what remains an uneven playing field.
- 3.9 The appropriateness of an industry-driven system, with all the influence that has entailed, appears now to be under question if the VET system is to be truly demand/client driven. Even without this some would argue that the influence of industry has been disproportionately high relative to its investment (either direct or indirect) in training.

4. Priority Areas for Attention

- 4.1 As outlined in 3.3 above, TDA argues for comprehensive and integrated policies on the three pillars of **contestability, quality and social inclusion**. This compares with the current tendency to rely primarily on contestability to achieve productivity with a much weaker policy framework for quality and social inclusion. **To expedite this re-balancing, TDA highlights six priority areas for policy attention:**

(i) Contestability – ‘Level playing field’ for all providers

Within the context of the different social and business goals of private providers, a number of important aspects of a level playing field are not in place. These include:

- industrial relations, salaries and conditions
- flexibility of governance structures
- financial powers.

(ii) Quality - Training products that allow flexibility and innovation

There is an urgent need to reform training products to allow providers to be more responsive to the requirements of industry and individuals. The current financial crisis with the potential for business closures, unemployment and significant numbers of out-of-trade apprentices is further reason to hasten this reform.

(iii) Quality - Transparent accessible information on relative provider performance

TDA is concerned about the claims of a number of RTOs that qualifications can be gained with training delivery reduced to a fraction of the specified nominal hours and minimal assessment. If the registration process has failed to exclude these RTOs from the market, then clients of the system have a right to publicly available

information of the outcomes of training provided by them. This is underway through the work of the National Quality Council but needs to be hastened.

(iv) Quality - Nationally consistent and benchmarked assessment

The introduction of initiatives that ensure nationally consistent assessment would assist in 'closing the loop' in ensuring quality. This is currently a major gap in a system that aspires to being world-class. Such initiatives could take into account workplace and off-the-job consistent, as well as consider some form of national assessment, such as national examinations. While this would have considerable resource implications, it is not inconsistent with the concept of a strong national system.

(v) Social Inclusion - Fit-for-purpose training arrangements for indigenous students and communities

This issue is covered in detail in TDA policy 'Closing the Indigenous Gap'. In summary, the experience of TDA members is that force-fitting indigenous students and communities into constructs such as training packages and productivity places are not serving their interests well, nor are the associated funding arrangements.

(vi) Social inclusion - Systematic data collection and analysis of VET participation by low socio-economic groups

Some of the proposed changes in VET, such as the introduction of income contingent loans, draw heavily on the experience in Higher Education. However, it remains to be seen whether this is valid, especially for the many low socio-economic groups currently accessing TAFE. It is imperative that research is undertaken to identify the extended impact of the changes on these groups so that any emerging issues of social exclusion can be addressed or, alternatively, benefits from the changes maximised.

- 4.2 By particularly singling out the areas identified in 4.1 above for priority attention, TDA does not intend to imply that all other features identified in Figure 1 are adequately covered by existing policy settings. In fact, differences between states are conducive to variation. Notably, the areas identified are those that require a national approach and therefore those most likely to have an immediate impact on national productivity.

4. TDA Position

Recommendations to Government

TDA recommends that Government:

- 4.1 adopt the 'three pillars' of productivity outlined in this paper and move as a matter of urgency to address those areas identified in this paper for priority attention
- 4.2 consider a cost/benefit analysis of the regulation of private RTOs
- 4.3 introduce full contestability into the Higher Education system or alternatively, articulate the rationale for contestability to be only applied in VET.
- 4.4 provide an assurance that TAFE institutes will have a base level of financial stability under contestability
- 4.5 review the dominance of the role of industry in the governance of VET in light of the system becoming client-driven.

SECTION II

Further TDA comments to the specific consultation questions in the Discussion Paper

2. Sector Capacity

2.1 Training Products

The discussion was directed at the adequacy of the current definition of competence; Training Packages and a credit system – within the current architecture of the Australian Qualifications Framework.

National Quality Council & the Working Group are conducting a project on training products.

2.3.1 Proposed reform action

2.4 Consultation questions

TDA's Response:

- TAFE institutes support the concept of industry standards, however Training Packages are too often:
 - o slow in development
 - o out of date by time of delivery
 - o unsuitable for young people undertaking VET in Schools programs; indigenous students; and international students
 - o overloaded with a myriad of requirements
 - Development of new qualifications needs to be pre-emptive, not reactive, especially for the new and emerging industries.
 - The Discussion Paper does not refer to skills sets, although there is increasing interest from industry
 - There has been mixed feedback in Victoria on Credit Matrix (the model for the proposed “credit system”)
 - Improvement of credit transfer/articulation should reference critical interface between VET and Higher education being examined in the Bradley report.
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2.2 VET Workforce

The Discussion Paper canvases the idea of a national action on workforce development, in the same vein as the national action on the Health Workforce.

There is a problem with the lack of comprehensive national data on VET workforce and with defining who is in the workforce and what their roles are.

TDA's response:

- TDA supports the importance of national data in this area with consistency in definitions of VET workforce
 - TAFE staff need opportunities for development, especially in gaining/maintaining industry currency
 - Considerable re-training benefits accrue from staff involvement in workplace training
 - TAFE staff need career paths
 - There are industrial relations constraints on TAFE institutes affecting recruitment and retention of staff, for example there is little or no flexibility to negotiate employment terms and conditions at the enterprise (i.e. the institution or college level)
 - Workforce planning is an important issue for TAFE institutes. There are models of best practice, for example the outcomes of a joint project on workforce planning conducted by the Victorian TAFE Development Centre and the State Services Authority (to be completed by the end of November 2008).
 - While there should be professional standards for VET professionals, Victoria's experience of a school's registration scheme suggests that a national registration scheme would be a bureaucratic nightmare.
 - TDA supports the Productivity Commission undertaking a project to develop options and models to ensure the effectiveness and capability of the VET workforce to meet future labour market skills needs and welcomes the opportunity to provide feedback.
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2.3 Governance framework

“In the light of the establishment of Skills Australia and COAG’s ambitious agenda, the governance framework of the training system needs to be reconsidered’ (p11)

TDA response:

- TDA has already submitted a response to the Skills Australia Discussion Paper, “*Future Governance Arrangements for the National Training System*”. In essence TDA would welcome a streamlining of national governance arrangements with a greater recognition of the TAFE model within the Australian VET sector, and acknowledgement of the significance played by TAFE institutes as a public sector source of advice on Australian training services
- There needs to be an analysis of the purchaser/provider models, as occurred in Victoria with Local Government best value model
- Action is required to streamline national governance arrangements for the VET sector and the role of the public provider in those arrangements
- Universities do not have governance structures interlinked with employment/unemployment systems, so why should TAFE?
- Is NSOC too remote from the stakeholders to make sensible decisions about State/Territory governance arrangements? Who are the officials consulting in the process?

3. Market Design

The Paper focuses on the third outcome agreed by COAG. At its July meeting, COAG endorsed the need for a new wave of national reform focussed more squarely on the users of the VET system, including in relation to competition and contestability, consumer information and regulation and quality assurance. These areas will be the basis of a National Partnership proposal from the Working Group to COAG.

3.4 Proposed Reform action

3.5 Consultation questions

TDA response

TDA notes the Ministerial Communiqué of 20 November, regarding further review sought on the market design proposals.

- TDA is concerned that the market design approach is a theoretical construct and may have problems in implementation. It needs to be piloted and changes made to key elements such as funding, within a micro economic reform package, and investment by governments given this is an industry sector change model being proposed.

- There is little recognition of the complexity and segmentation of the training market
- There needs to be recognition of full service provision by public providers
- Reform could see the failure of some TAFE institutes
- There needs to be analysis on the need for a micro – economic reform package to scope and mentor any proposed changes
- TAFE institutes may respond differently – some may move to becoming university colleges or polytechnics, others will remain focussed on their local communities (See submissions to Bradley Review)
- Quality assurance must be improved substantially, concurrent with the reforms
- Client choice only could lead to unintended consequences that is training that does not meet industry/community needs. May need policy levers to encourage clients to take up training in areas of national priority
- Needs to acknowledge full service provision by TAFE institutes
- There needs to be a focus on national acceptance of qualifications for licensing

4 Investment

If the COAG outcomes are to be achieved there will need to be a substantial increase in investment - to be shared between governments, industry, businesses and individuals. How should this happen? This section examines Government investment and private investment.

4.3 Proposed reform action

4.4 Consultation questions

- There are misconceptions about the underlying cost of VET
- Options to encourage greater industry investment in training are worth considering. This could include industry training levies and Commonwealth employer incentives
- An area, not covered in the Paper that could be considered, is student subsidies/bonds. The student/employee has an obligation through a bond or indenture not only to complete study, but demonstrate competence in the workplace. After three years studying VET if the student does not stay in the relevant industry for 18 months would need to refund fees to the Government.

5 Indigenous outcomes

The Paper examines targets for closing the gap on indigenous disadvantage; VET participation and educational attainment and proposed reform action including a research project.

Chris Eccles offered the perspective that perhaps there should not be a national approach to skills development for indigenous students, rather a localised response. Effective practice could be shared across regions.

5.3 Proposed reform action

5.4 Consultation questions

TDA response

- TDA has produced an Indigenous Charter and supporting Resource Materials, for exemplars to assist TAFE lecturers and teachers on community engagement and learning techniques
- The necessity for indigenous students to have access to foundation studies, including computer literacy
- The importance of access to E-learning
- The negative impact of fees, regardless of the availability of Income Contingent Loans
- Tie employment and training together with increased focus on workplace delivery
- Training Packages with their occupational focus may not be always suitable for indigenous students

6. Workforce development and skills utilisation

This COAG outcome focuses on workforce development and skill utilisation - "Skills are used effectively to increase labour market efficiency, productivity, innovation and ensure utilisation of human capital"

Chris Eccles made the point that Skills utilisation is an emerging area for consideration.

6.3 Proposed reform action

6.4 Consultation questions

TDA response:

- There needs to be a better way to motivate and engage SMEs. For example many trades' people have resisted taking on apprentices. Why? Tax incentives? Other issues?
- There may be scope for a direct interlinking project with the Minister for Workforce Participation, The Hon. Brendan O'Connor MP.

TDA notes possible gaps in the Discussion Paper:

NOTE: TDA acknowledges the comprehensive nature of the COAG Working Group Discussion Paper. However, after an invitation from the Paper for further feedback, several TDA members have noted the following:

- Ignores international education as a large export earner, and reputation of the TAFE model for export services in education
- Does not focus sufficiently on equity issues (see Three Pillars discussion)
- Needs to acknowledge the value of VET to community well-being
- PPP as a model of Federal Government intervention remains underfunded, and flexibility required for wider application to existing workforce, especially widening to skill sets.

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