



Copy of an address by
Richard King, Executive Director, Victorian TAFE Association Inc.
to
International Quality & Productivity Centre Conference
Funding and Financing Strategies for Education Sydney
28 – 29 October 2002

I am going to begin by reading a couple of lines from the Executive Summary of a report published in May this year, entitled, *Squeezing the VET Sector*, by Dr Louise Watson from the University of Canberra.

Quote:

‘From 1997 to 2000, the VET sector lost a cumulative total of \$386 million in revenue from the Commonwealth government – primarily through reductions in revenue from Specific Purpose Programs.

Over a period of the second ANTA agreement (1988 – 2000), the Commonwealth government required the VET sector to reduce the cost of course delivery by more than 10%. National VET policies also resulted in a 47% increase in the proportion of public funding directed to non-TAFE providers. An additional \$200 million in public VET expenditure was directed to non-TAFE providers between 1997 and 2000.

Emerging evidence suggests that the national VET policies are undermining the publicly funded VET systems’ capacity to:

Meet its social obligations in terms of providing access for disadvantaged learners; and
Fulfill its economic role of delivering high quality training and skills relevant to the knowledge- based economy’.

End Quote

A fairly graphic and depressing scenario for a working nation, a knowledge nation, an innovation economy or any of the other clichés that abound at the end of every electoral cycle but never quite find their way into the lexicon of Treasury officials.

When considering the subject of funding issues in TAFE, it appears to me that there is a natural gravitation to a solution that rests on the provision of more money from Government. More ‘funding’. As if funding and financing are synonymous. I would like to suggest that the two are not mutually dependent, that financing a publicly owned education system can be considered in terms other than of increased dependency on Government. Further, I will argue that while the outcome might well be additional fiscal resources, what we should be focusing on, in these times of Government abrogation is how those resources might best be generated.

In Victoria, one strategy that has been usefully deployed is the introduction of Corporate Governance in the public sector. If there was an underestimation on the part of those advocating for greater autonomy from Government, of the potential for corporate governance to be manipulated, it lay in an assumption that greater autonomy through self governing institutes meant greater freedom from administrative controls.

The TAFE experience in Victoria quickly realised that there is an inverse relationship between autonomy and freedom. Central bureaucracies rely on prescriptive administration to exercise power and control. Corporate governance relies on

transparency to ensure probity and accountability. And with accountability comes responsibility. Responsibility to meet targets and quotas, on time and on budget. Combine this with the fact the government is TAFE's largest customer and has the biggest cheque book and it quickly becomes apparent why the government doesn't loose power or control of its asset. Rather it simply chooses to focus on the outcomes and leave the means to the agency.

What TAFE in Victoria has come to realise, is that responsibility means that there is no-one to blame, no-one to bail you out at the end of a tough year, and usually, no-one to acknowledge the enormous amount of hard work and dedication of all those who work in the organisation, when things do go according to plan.

I have prepared a paper in which I have argued 3 key themes.

1. That when the government introduced the principle of self governing Institutes it was a funding and financing strategy to lessen the burden on the public purse.
2. That those provisions were mainly concerned with what I have referred to in the paper as **freedom from** issues; and
3. That we still have a long way to travel down the '**freedom to**' path

I'd like to talk about some of the thinking that might come from what I have written, and to stretch the debate about those issues and what they mean, or have the potential to mean for TAFE. I would like to set the scene as it were, and paint a picture about the resourcing of TAFE. Then I would like to talk about how governance and the responsible application of autonomous decision making became an integral part of the resourcing strategies employed by TAFE in Victoria.

It will come as no surprise to many when I say that I believe the Government's commitment to resource TAFE falls well below its need to do so. There are over 1.7 million VET students in Australia in publicly funded programs. They are supported by \$3.5 billion of Government provision. About \$1 billion of that is Commonwealth money and the rest comes from the States.

In the years 1997 -2000, the output of training delivery in this sector increased by 14.7% while at the same time Government funding fell by 2.7%. A more complete picture about the level of State and Territory commitment versus Commonwealth commitment to the sector can be appreciated when it's realised that Commonwealth funds fell by over 12½% and state funds increased by about 2½%. Hardly enough to keep up with inflation, let alone the rising costs of technology.

While delivery was increasing, employment costs actual fell by a little more than 1%, meaning that there are now less employees in the sector producing 14.7% more. But let's go back and have another look at the revenue base.

With the ever widening gap between Government funding and rising costs, the question is, where was the money to come from? Well the answer is in that line in every balance sheet called "other sources". Student fees, fee for service, ancillary trading, and other revenue combined to increase by 14½%. So you can see that the shortfall between the reduction in Government funding and the costs associated with a corresponding increase in output has been made up by revenue from non government sources.

What is even more informative when considering the question of whether governments are meeting their responsibility to provide access to public education is the proposition put by the Australian National Training Authority that Government revenue represents only about half of the estimated investment made to support Australia's vocational education and training system? The rest comes from industry.

So how does all of this fit with the governance structures that are in place in Victoria's TAFE Institutes?

To answer that let's have a look at the environment in Victoria in 1992, the start of the Kennett years.

TAFE in Victoria had been actively lobbying to be corporatised. The Government was divesting itself of its operational burdens, but for what ever reason, be it the size of the asset, a paucity of buyers, the practical difficulty of corporatised entities coexisting within a national public system, or perhaps even a community conscience, TAFE didn't follow the path of so many other former government owned instrumentalities. Instead, the reforms were confined to governance.

Legislative reform resulted in Institutes becoming incorporated bodies, governed by Councils that had all the exposure of Company boards in the private sector. Through the legislation, the actions of the Institute Council, and of course any liabilities they incurred were such that they could not be held to bind the Crown. They were, in fact, on their own. 12,000 Crown employees were transferred to Council employment and their employment, formerly regulated through various state statutes and departmental regulations was transferred eventually to the Federal Award system.

Councils became the employer and could hire and fire. Councils had a responsibility to set the strategic direction of the Institute, but were guided in this by a government continuing to exercise restraint when it came to relinquishing too much of the '**freedom from**' principle.

If I might digress here, what I am arguing is that autonomy can be described as **freedom from** prescription as well as **freedom to** exercise judicious actions.

A continuing difficult that we have in Victoria is that the government spells autonomy differently from us.

One of the **freedom to** initiatives, that had previously existed but was now being called upon like never before, was the capacity of Institutes to engage in commercial activities and most importantly to use their earnings to supplement the cost of public provision. Consequently, Institutes soon realised that the funding shortfall could only be alleviated by building their fee for service revenue. Soon, Victoria's TAFE Institutes were active in every state and territory and in over 40 countries around the world.

As I have shown in Table A.2 of my paper, growth in government funded programs in the past 5 years, when measured in terms of hours of training delivered grew by over 14½%. Contrast that with the growth in fee for service and the figure is 67%. In Victoria last year, fee for service, student fees and ancillary trading revenue topped \$312 million. That is just over a third of the total revenue for TAFE in Victoria and more than the rest of Australia combined. And it is this revenue source that supplements the contribution made by government and sustains the operating costs of the Institutes.

So TAFE in Victoria takes its capacity to operate autonomously very seriously. So too does the government, or more correctly, the treasury officials, because without that capacity to operate commercially, treasury coffers would be seriously hit.

I would have to say, that foremost among the drivers for Institutes to remain active and viable in the commercial market is what can only be described as an insidious and corrosive state government policy, euphemistically know as 'the productivity dividend'. Introduced in the early 1980's by the Cain Labour government and steadfastly supported by successive Liberal and Labor governments ever since, this policy removes 1½% from most government agency budgets each year on the pretext of creating a pool of monies from which major projects can be funded for the greater good of the state. For TAFE, already struggling under the fiscal burdens I have mentioned, it removes about \$7 million every year, and the cumulative effect over time is devastating. To give it some context, that equates to about 130 full time teachers being removed from the workforce each year.

So you can see, while autonomy might have seemed like a good thing at the time, the motivating force behind its introduction was probably not altruism.

Victoria's model of governance, and the capacity that it adds to the organisation has now become a treasury tool.

Some of you may have seen the excellent blueprint for TAFE in Victoria recently released by the State Minister for Education and Training, Lynne Kosky, called *Knowledge and Skills for the Innovation Economy*. Excellent in the sense that it projects a vision and a hope for the future and very firmly makes a statement about the role that TAFE in particular will have in the State's growth. It discusses the need for a greater investment in the TAFE workforce and the very real need for further financial investment in TAFE. Not so excellent however, because it stopped short of saying where the money to meet the costs of the anticipated increased participation in training as a result of the Government's policies was coming from. It is after all, we are told, a policy document, not a funding strategy. But what many now fear is that the current level of supplementation of government programs, from fee for service income, will increase, by up to 50%.

So once again we're plunged into the maelstrom.

Currently, TAFE institutes in Victoria only receive about 70% of the national average per publicly funded hour of delivery. In dollar terms, that's about \$9.50 per hour, with SA being the next at \$12.20 and WA at \$12.84. On the other side of the ledger, while the average price paid by government per hour of delivery is around \$9.50, the average cost last year, was reported as little over \$10.50. Add in depreciation for which Institutes are not funded, and the picture is even worse.

Now I acknowledge that there is some contention about these figures, which I might add come from ANTA data but the point here is extent of the discrepancy between what Victoria is funded and the rest of the country.

So what are some of the strategies that were put in place to combat this shortfall? To quote Emperor Hirohito when he announced the surrender of his country, 'the situation has developed not necessarily to our advantage'. And the situation for TAFE, after years of doing more with less, has developed not necessarily to our advantage.

TAFE in Victoria has been acclaimed by many as being the most efficient, the most entrepreneurial, and the most responsive in the country. Whether this is true or not, and I would like to think it is, when it comes to plead a case for more funding, the not unpredictable response from government is: Why would government want to give more money to a system that's delivering more and is the cheapest to run?

If you want more money, be more entrepreneurial. Use your **freedom to** capacity. And this is where my second point in my paper comes in.

I would argue that the state has an inherent responsibility not just to maintain but to ensure the growth of a viable, accessible and affordable post compulsory education system. My congratulations go to the university sector who are so wonderfully adept at having their cause promoted. By in large, journalist, politicians and bureaucrats all understand and probably look back with fond memories of their experiences of a university education. The other 60% of the population who choose not to engage that level of learning are not generally found in those positions of influence. So it is, that the per capita funding of TAFE is about 45% of a university student.

To combat this inequity, and to provide to their communities comprehensive, relevant and quality facilities, Institute Councils must exercise their decision making capacity to engage the Institute in undertakings that secure viable outcomes and ongoing community support for their institutes. They must work to build and grow their linkages with industry and the community, not only to secure material support, but to have industry willing to say to government, this TAFE Institute is ours, it belongs to the community, let it get on with its business. They must exercise their 'freedom to' powers, and they do.

But this is where the prevailing tensions lay in the Victorian system.

On the one hand, Institutes argue that they are being squeezed, through declining budgets and increased accountability in the form of audits and reporting requirements. On the other hand, they are being inhibited from moving too far from the public sector

norms while being compelled through fiscal exigencies, to pursue a more corporate approach to their business.

The freedom to principle is being tested.

There is a view that education, particularly vocational education is the product of a finite item in the government's forward estimates. X government dollars will buy Y hours of government funded programs. The dollars provided not surprisingly, match the hours that the government says are needed to sustain a competent and skilled community. A bit like $X = Y$ because $Y = X$. When challenged, the retort from Government is: If the community want more, then the community should pay, principles touted as user pays and mutual obligation.

And as I said earlier, pay it does.

But we would say, where is the government's community service obligations in all of this? Doesn't it have an obligation to do more than just to keep the doors open and the lights on? Doesn't it have an obligation beyond that of listening to the almost single voice of industry while apparently ignoring the voice of small business and the wider community? Isn't the cause of so much suffering and devastation around the world and in our own communities, city streets and lanes a result of a lack of educational opportunity and with it, the self esteem that participation and engagement with others in a learning environment brings?

It was so typical for the federal government to scope the extent of its enquiry into the interface between higher education and vocational education within the recent CrossRoads review, to exclude issues of funding.

How can you discuss in a meaningful way, creative solutions to Australia's education system without including a discussion about funding? The refusal to do so is as much the problem as the problems it causes.

The funding and financing strategies for education are, in my opinion, constrained by an acquiescence to the extent of the government's self defined need for education per se and its corresponding obligation to make due provision.

How many teachers, how many computers, broadband links, innovative curricula would one FA18 Hornet buy? What's more effective in turning aside bigotry, xenophobia, fear and ignorance: 1 Scud missile or a class room full of learners?

Until the benefits are understood, the need is accepted, and a corresponding commitment secured, adequate resourcing will not be realised.

I would argue that what we have to focus on is the appalling lack of commitment to educational provision by those charged to resource the sector. It seems to me that they are more concerned with funding quasi-education schemes to reduce the unemployment figures than to foster a learning culture.

I would also argue that there is no one single responsibility to make it happen.

Just as it is the responsibility of all of us to let our elected representatives know that learners are voters, so it is that we must let our communities know that earners are learners. And the more competent the learners, the better place our nation becomes.

I think that we in Victoria have nailed down the use of autonomy in governance when it comes to exercising freedom from. We have gone about as far as can be reasonably be expected in a political climate of independents holding the balance of power and the caution that that brings to decision making and risk taking by governments. Our challenge is to work up the pressure in the freedom to department. We have to pursue a more rigorous argument with those who seek constrain us, to put our capacity to reach our full potential, on the line.

We have to enter the debate and our governing councils are the ones who must rise to the challenge. They are the custodians of the public asset that is TAFE. They are the ones

who are drawn from the community because of their empathy with and knowledge of, community needs and expectations.

If our current model of governance or our competence to exercise our statutory responsibilities doesn't rise to the task, then our system will revert to the administrative culture that it was pre 1992. And the voice of small business, the community and the 1.7 million students will fade to a whisper. And with it, the only real voice that has the capacity to bring about a change to the way our governments treat vocational education and training in this country.

But by having a system where the community has a statutory role in planning the strategic direction of our TAFE Institutes we can ensure that the voice is heard. For as long as Institutes continue to push to exercise their **Freedom to** powers, they are able to take TAFE to their communities in ways like never before. Through strong and responsible governance there is an unfettered voice to keep the pressure up. If a governing council is muzzled by management, or intimidated by government, then it is not reaching its full potential.

It is now 8 years since the model of Governance currently operating in Victoria's TAFE institutes was introduced. I think we've come a long way. We have moved from being advisory boards with limited powers, to become independent Boards with clearly defined responsibilities, to shape and plan the strategic direction of the Institute in equal partnership with the senior management team. We have survived the onslaught of rationalisation through promoting the importance of TAFE to its community and the industry it serves. TAFE in Victoria, now more than ever, is a community asset. And as long as it continues to meet the needs of its many diverse communities, it remains safe from those who may one day seek to return TAFE the administrative culture that it once was.

The last word should go to a resource produced by the Victorian TAFE Association for its Members, entitled 'A Guide to Responsible Governance' in which the role of governance in the resourcing strategy of the Institute is defined as being: To provide direction and a sound strategic base for financial planning and from that the ongoing viability of the Institute.

In this way, Governance will remain an integral part of the funding and financing strategies for TAFE in Victoria, and the destiny of our Institutes will remain in the hands of those they were always intended to serve.

Thank You

Richard King
Executive Director
Victorian TAFE Association Inc

Tel (03) 9639 8100
email: rking@vta.vic.edu.au
www.vta.vic.edu.au