The Virtual IT Training affair:  
A case study of market failure and neoliberalism in VET

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Abstract

This paper examines the influence of neoliberal economics on vocational education and training (VET) policy in Australia by analysing government financing and regulation of apprenticeship training. After outlining the policy context, particularly the creation of a training market, the paper focuses on the recent abuse by a private Registered Training Organisation (RTO) of funding guidelines for Information Technology training under the federal Government’s New Apprenticeships Incentive Programme. The circumstances surrounding this incident and its aftermath are described, and the immediate repercussions are examined. The relationship and tensions between training quality and business imperatives are discussed, and it is suggested that the conditions have been created for a potential decline in trainer and workforce skills. In light of this discussion and evidence of endemic quality and probity problems, the links between neoliberalism and current VET policies are analysed in order to identify the deeper causes and consequences of market failure.

Introduction

During the 1990s, the longstanding practice of directing the vast bulk of public funds for the delivery of vocational education and training (VET) programs to publicly owned and controlled Technical and Further Education institutes came to an end. Following the Deveson Report (1990), all States and Territories adopted a market-based approach to VET funding and provision in the Australian VET sector. Among other things, the marketisation of VET has involved the diversification of training supply, via government registration of private training providers (both non-profit and for-profit), and the allocation of a significant proportion of public VET funds on a competitive basis to both public and private Registered Training Organisations (Anderson 1997; Anderson in press).

Following the election of the pro-market Howard Coalition government in late 1996, the New Apprenticeship scheme was established in an effort to increase participation in apprenticeship and traineeship training, and enhance the responsiveness of such training to employer needs (Kemp 1996). The latter objective was promoted via the introduction of industry-driven training packages and ‘User Choice’ (MINCO 1997), which together enable employers (theoretically in conjunction with their apprentices or trainees) to select the training provider of their choice, either public or private, and most aspects of training content and delivery. As a demand-driven resource allocation mechanism, User Choice is a concrete manifestation of neoliberal public choice theory, with its preference for individual consumer choice over state planning and bureaucratic control. In many instances, users have opted for external private Registered Training Organisations (RTOs) as their preferred provider of apprenticeship or traineeship training (KPMG 1999).
In order to increase employer uptake of new apprentices and trainees, the federal Government also introduced the New Apprenticeships Incentive Programme (NAIP), which provides employers with significant financial payments to off-set some of the costs of apprentice training. Government considers this use of public monies to be a worthwhile investment in the development of a highly skilled and productive workforce (DEST 2004). What is not stated, however, is that the apprentice market was likely to fail in the absence of such incentives, due to the history of under-investment by Australian industry in such training (Anderson 1997).

In the wake of government-commissioned reports highlighting the poor quality of much apprentice and trainee training (e.g. Schofield 1999, 2000a), the federal and State/Territory governments agreed to tighten up training market regulation via the introduction of the Australian Quality Training Framework (AQTF) from mid-2001 onwards. The main aims of the AQTF are to assure the quality of training provision and protect consumer interests in the new deregulated market context. To date, however, the AQTF has not been evaluated and its efficacy remains in question.

Against this background, this paper examines an incidence of training market failure that occurred in Victoria following the introduction of the AQTF, and explores some of its repercussions for trainer and workforce skills. The paper is based on research and analysis of extant documentary evidence, primarily newspaper reports, government reviews and the Hansard, and anecdotal evidence drawn from the principal author’s experiences in a private RTO. It concludes by arguing that the conjunction of global economic forces, neoliberal ideology and training market policies are promoting private over public interests in the VET sector.

The Virtual IT Training affair

In July 2003, Melbourne’s Herald Sun reported the suspension of ‘Virtual IT Training Pty Ltd’, the largest registered information technology (IT) training company in Victoria, for alleged irregularities in the administration of its accredited IT training program (O’Brien 2003). A subsequent report in The Age indicated that complaints from unions had prompted an investigation by the Victorian Department of Education and Training (DET), which found that Virtual IT’s Certificate III Information Technology (Software Applications) training program did not comply with federal or State guidelines (Robinson 2003). The company had reportedly received around $18 million in Commonwealth funding for organising Certificate III Information Technology (Software Applications) training courses for employers, with thousands of trainees enrolled in the program. Virtual IT was paid incentives of up to $6700 per trainee, $3500 of which it retained while the remaining $2500 was paid to the employer. In a business environment where demand for IT skills and training was already high and increasing (ACG 1999), computer training courses funded under the NAIP were being widely advertised on the basis that they ‘won’t cost your company a cent because it’s funded by the Federal Government.’ (Broadscope Training n.d.)

The Victorian Trades Hall Council (VTHC) claimed that this affair was just one example of an endemic problem in the national trainee program which, due to poor administration and exploitation by employers and private training companies, was wasting millions of dollars of federal and State funding. Such claims were supported by the DET audit, which found ‘non-compliance’ among ‘a very large proportion’ of
other funded training programs. The VTHC also claimed that the NAIP was providing labour subsidies for unethical employers who were substituting ‘trainees’, with few work rights, for more expensive permanent and casual employees (Robinson 2003).

Earlier in 2003, owners and staff of other Victorian RTOs, including the small, Melbourne-based ‘Alpha IT Pty Ltd’, had begun to hear industry whispers that Virtual IT was being audited by the Victorian Office of Training and Tertiary Education (OTTE). While details were hazy and rumours abounded, Alpha IT’s owners, like many of their counterparts, were surprised (and quietly pleased) that the dominant player in their market had reportedly been caught ‘doctoring’ IT certificate programs and colluding with employers to obtain government funding. The training and assessment methods employed by the company were also under question. In July 2003, the rumours were confirmed with the official suspension of the company concerned, accompanied by a media release from the federal Minister for Education, Science and Training (Nelson 2003). However, any smugness was quickly dispelled when, following the OTTE audit and a State government investigation that pointed to widespread misapplication of government funding by employers, RTOs and New Apprenticeship Centres, government funding for Certificate III Information Technology (Software Applications) was suddenly withdrawn.

Repercussions for business and training quality

The financial repercussions of this decision were felt immediately throughout Victoria’s registered IT training providers, by training staff, trainees, employers, and New Apprenticeship Centres, and reached as far afield as a Senate legislation committee (Hansard 2003). Smaller RTOs, like Alpha IT Pty Ltd, were particularly affected. In Alpha IT’s case, the owners had established the company in late 2002 primarily to deliver the then newly approved Certificate III Information Technology (Software Applications) training package, and to access the User Choice funding provided under the federal government’s New Apprenticeships scheme. As this training was the core business of Alpha IT and other private RTOs, the withdrawal of government funding effectively strangled it.

To stay in business with critically reduced cash flows and typically limited capital reserves, Alpha IT and other RTOs in a similar predicament immediately cut their numbers of specialist IT training staff. They rapidly dusted off or compiled courses for other training programs listed on their AQTF scopes of registration, which included commercial fee-for-service programs. To generate revenue from a market already well supplied by other training providers, the drivers for these programs necessarily became quick and cost-effective production and vigorous marketing, rather than sound course development. Courses were based almost entirely on the often limited training package support materials, and were marketed aggressively on the basis of short course duration and below-market prices. A common strategy among such RTOs was to mount short courses (e.g. of five-day duration) in the Certificate IV in Assessment and Workplace Training for private fee-paying clients.

The repercussions of the government decision to suspend IT training funds extended beyond the immediate financial viability of RTOs to the quality of training provision. Many trainees undertook the new courses in Assessment and Workplace Training, were certified as ‘competent’, and proceeded to practise as workplace trainers and
assessors. Due to the hasty development, rapid delivery and thin resource base of such courses, however, it is highly questionable whether such graduates were as competent as their certification avowed. The wider consequences are particularly serious with regard to the Certificate IV in Assessment and Workplace Training as this qualification is both the basic requirement for employment as a workplace trainer and assessor, and the central platform for delivering and assessing accredited, competency-based training in the VET sector.

Not long before the influx of new RTOs into the workplace trainer and assessor marketplace in the latter half of 2003, the standard of courses being delivered for this certificate had been identified as a major concern in a Strategic Audit Report for OTTE (Bateman and Dyson 2003). This audit involved sixteen RTOs, fifteen of whom were private RTOs and one public RTO. As the auditors noted:

The central importance of the (workplace training and assessment) competencies to the vocational education and training sector is evidenced by their integration into the AQTF Standards for RTOs. The qualification is also identified as an area of high risk at both state and national level. (p.2)

Low levels of compliance were found among a majority of RTOs with respect to the AQTF standards for the development of appropriate learning and assessment strategies, and the provision of accurate and ethical marketing and advertising, and of access and equity and client services. Training plans and resources were ‘generally inadequate’, and misinterpretation of a number of units of competency was ‘a serious problem’. A large proportion of RTO assessments neither complied with the AQTF guidelines or training package requirements for validity and reliability, nor focused on the application of knowledge and skills to all aspects or standards of workplace performance. Overall, the auditors concluded that:

The providers … seldom modelled good practice in terms of training and assessment. In a number of instances, trainers and assessors of the Training Package, although competent against the requirements, could not be considered experienced and knowledgeable trainers/assessors with respect to the Training Package … In addition, providers were struggling to meet the requirements of the AQTF Standards for RTOs, often due to a lack of knowledge … A consistent lack of knowledge in terms of what constitutes a quality training and assessment system that supports delivery rather than just ‘complies’ with the AQTF was evident across a number of providers. (p.7)

As noted above and elsewhere (Selby Smith et al. 2001), teachers/trainers perform a key role in the delivery of VET programs in workplaces and RTOs, and the standard of their work has a critical impact on the quality and relevance of the skills, knowledge and attitudes produced through the VET system. By implication, substandard courses that produce less-than-competent workplace trainers and assessors – whose substandard training and assessing then produces poorly trained workers – could trigger a downward spiral in the quality and standard of workplace skills, with serious consequences for industry and the national economy. If left unchecked, such a trend may in turn lead to industry demand for increased regulation or withdrawal from the training market, thereby imposing greater financial pressures on RTOs, particularly smaller, privately owned training companies. In response, as
the post-Virtual IT experience demonstrates, such RTOs may revert to more of the same cost-cutting measures that undermined training quality and triggered the downward skills spiral in the first place. Although hypothetical, such market dynamics highlight the profound tensions that exist between the imperative for commercial survival (and the profit motive) on the one hand, and the quality of provision on the other, in a competitive market-based VET system.

**The training and business relationship**

The downward spiral hypothesis, however likely or unlikely, at least highlights the relationship between the quality of training and business success. Although ‘the role of training at enterprise level is not straightforward’, the research suggests that the combined forces of globalisation, technological change and workplace reorganisation have created a relationship of mutual dependency between an enterprise’s ‘bottom line’ and skill levels (Selby Smith et al 2001, p.14). It is generally accepted that ‘changes at the enterprise level are increasing the demand for new skills and knowledge, and hence for VET’, if for no other reason than that economic growth and employment are shifting towards more skill-intensive occupations and industries (Selby Smith et al 2001, p.19). On the one hand, therefore, the growth and profitability of an enterprise depends, at least in part, on training for the supply of skilled labour – theoretically, as training quality increases, so too do the skill levels, flexibility and efficiency of an enterprise, thereby leading to higher productivity and profitability. As the Allen Consulting Group (1999, p.iv) found, ‘companies see a significant increase in the relationship between the quality of training and their competitive edge over the next three to five years.’ On the other hand, vocational and workplace training, particularly in the new competitive market environment, is dependent on business success for its own existence and growth – as enterprises become more profitable and expand, the demand for workforce skills development increases (ACG 1999), thereby providing RTOs with scope for investing more in capital and research and development to improve the quality of provision. In such ways, these inter-dependencies can produce a productive relationship between, and upward spiral of, demand for and supply of quality training.

What can also be recognised from the downward spiral hypothesis is the influence that economic factors have on the quality of training provision, particularly when training is itself a business with its own internal pressures and imperatives. Whether that influence enhances or detracts from training quality relies on an equitable partnering between training and enterprise, characterised by collaboration and reciprocal recognition of value and importance. Yet in the context of a demand-driven market, the relationship between business enterprise and training provider often presents more as master and servant respectively, rather than as partners collaborating for mutual benefit. Business enterprises may view training positively as an investment in their own future success, or negatively as a cost to be minimised and managed (Selby Smith et al. 2001). Either approach will have a corresponding effect on the quality of training. It should be acknowledged, however, that the equation between business success and training quality described above is an over-simplification as it does not incorporate the complex range and interaction of internal and external economic factors that influence demand for training, especially those related to the global economy (ACG 1999; Selby Smith et al 2001).
National training schemes, training markets and neoliberal economics

The business crisis experienced by Alpha IT Pty Ltd and some other RTOs in 2003 was largely attributed to the misdeeds of one of their competitors and a regrettable (for affected RTOs), but understandable, reaction by government departments. In the immediacy of dealing with the fall-out of the Virtual IT affair, all parties – Alpha IT and its counterparts, the State and federal government departments, the unions that had sounded the alarm bells, and affected employers and trainees – laid blame variously on the company involved, the system, elements within the system, or all of these combined. However, unacknowledged in the background was the far-reaching influence of the global economy and the ideological hegemony of neoliberalism.

Virtual IT Pty Ltd, many of the employers who engaged it for their IT training, and the New Apprenticeship Centres involved allegedly colluded in, or contributed to, the exploitation of a government-funded training incentive scheme, the NAIP. As noted already, the NAIP arose in the first place from government policy designed to increase the contribution of Australian industry to the nation’s international competitiveness. The most recent government publication for the scheme states that:

The objective of the New Apprenticeships Incentives Programme is to develop a more skilled Australian workforce that delivers long-term benefits for our nation and our international competitiveness. This is achieved by encouraging employers to open up genuine opportunities for skills-based training of their employees, through provision by the Commonwealth of financial incentives to employers who take on and train a New Apprentice (apprentice or trainee). (DEST 2004, p.1)

This statement reflects several key underlying issues that the government was seeking to address. These included the need for Australia to become an increasingly engaged and competitive trader in the global marketplace, the need for a strong national economy driven by a ‘smart’ workforce (Gerber and Lankshear 2000), and the need to provide stimulus to the development of the workforce through public funding incentives. As previously mentioned, this included the User Choice policy to increase the responsiveness of VET supply to the training needs of users (i.e. employers and apprentices or trainees). While User Choice appears to have largely achieved this outcome, at least with respect to large employers (Anderson in press), it has also opened the door to corrupt practices and unethical behaviour (Schofield 2000b), such as the Virtual IT scam described above.

These government initiatives are manifestations of neoliberal economic theory, otherwise known as ‘economic rationalism’ (Bell 1998; Marginson 1993), which arose and prevailed in Australia since the early 1990s, with its preference for market mechanisms and consumer choice in VET (Anderson in press). These initiatives are echoed around the world, with national governments employing various market-oriented options for financing VET (Anderson et al 2004). The global issue of ‘who should pay how much’ for vocational education and training (Singh 1999, p.6) is still contested among the predominant funding parties – the state, employers and workers – with each arguing that the others should bear more, if not all, of the cost burden. The approach adopted by the current federal government in Australia corresponds with that outlined by Atchoarena (1999, p.87):
Training benefits workers and the businesses employing them. It seems consistent for training to be financed by those benefiting from it, namely the businesses and/or the employees. However, distortions in the market provide a basis for State intervention … Under-investment in training by businesses is one of the most common and severe forms of market deficiency in a highly competitive global environment. This situation constitutes particularly strong grounds for corrective action by the State.

The latter issue of under-investment in training by business is significant. It serves to highlight the crucial influence that decisions by business can have on the balance of financial contributions to training. It also points to the longstanding reluctance of many employers to invest in workforce training, a practice endorsed by neoliberal economics, in particular human capital theory. Contemporary human capital theory deems that each individual worker should bear the costs of their education and training, as higher individual investment in education ostensibly translate into higher individual earnings (Baptiste 2001). Atchoarena’s comments above regarding ‘market deficiencies’ also illustrate neoliberalism’s flawed assumption of ‘perfectly balanced, competitive free markets … ubiquitous and all pervasive, determining, legitimizing and regulating every aspect of human life and social behaviour … (through) … the coordinated forces of price, supply and demand.’ (Baptiste 2001, pp.191-2, 196)

As noted earlier, the NAIP was introduced by the Howard Coalition government in recognition of the potential for market failure should apprentice training be left to the private sector and the free-play of market forces alone. In effect, the government intervened on the demand side of the publicly funded training market through the allocation of substantial incentives to employers. This has enabled unscrupulous employers not only to substitute cheaper ‘trainees’ for permanent employees, but also to shift the costs of training from the private to the public purse. Simultaneously, the federal government has consistently advocated the merits of unleashing market forces and private enterprise in the public VET sector. Accordingly, it has extended the use of market mechanisms for allocating public VET funds, and deregulated training provision by cutting ‘red tape’ and ‘streamlining’ accountability processes. Although State governments have powers under the AQTF to monitor RTOs’ training quality and financial probity, such powers are largely retrospective in nature and do not enable them to prevent market failure of the kind evidenced by the Virtual IT affair.

A more recent OTTE-commissioned review of the Victorian User Choice market suggests that incidents such as the Virtual IT affair are not isolated, and that market failure under the AQTF may be widespread (SCR 2003). This review found evidence of cost-shifting and trainee substitution by employers, endemic breaches of AQTF standards by private RTOs, and a general lack of accountability for training expenditure. As a *Herald Sun* editorial (2003, p.20) commented:

> On face value, at least, job training is a worthy use of taxpayers’ money … But … when big corporate players have their normal training expenses paid by the taxpayer, the questions mount. Since 1999, more than $100 million of our taxes have been doled out in training funds – to no clearly measurable effect.
Consequently, while the AQTF was introduced to strengthen market regulation, provider registration processes and auditing of RTOs remain imperfect mechanisms for assuring the quality of training provision and ensuring that public VET funds are used for their intended purposes. As the aforementioned SCR review (2003, p.24) concluded, ‘Audits of compliance with AQTF standards go some way to assessing the capacity of RTOs to deliver quality training but not whether it actually occurs.’

Much of the literature concerning the economic context of adult education is critical of the global hegemonic influence of neoliberal economics (e.g. Bell 1998; Emy 1998; Nevile 1998; Baptiste 2001; Walters et al 2004). Such writers argue that economic rationalism systematically privileges the private interests of capital through its advocacy of the infallibility of ‘market forces’, low inflation in preference to low unemployment, decreased State intervention, and a preference for individualism and consumerism over collective sacrifice and investment for the future. Nevile (1998, p.179) highlights the ideological nature of economic rationalism, concluding that:

Economic rationalism does not, in any fundamental way, spring from economics but from social philosophy. Thus, the distinguishing state that emerges when thoroughgoing economic rationalism is applied is that it is a libertarian state … a state which has explicitly rejected … a social contract to maintain full employment.

The above analysis suggests that economic rationalism is capitalism’s contemporary driving force in a global economy, and that the economic dimension of globalisation reaches down to enterprise level, affecting demand for VET and the quality of provision. In light of the Virtual IT affair and other abuses, Nevile’s analysis raises serious questions about the outcomes, and motives, of neoliberal government. On the one hand, action is taken to prevent market failure on the demand side of the training market via substantial financial incentives for employers. On the other hand, the conditions for market failure on the supply side have been created through training market deregulation and the establishment of ineffective quality assurance and accountability mechanisms. As an opposition senator observed at a Legislation Committee hearing in 2004, which discussed the Virtual IT affair and earlier rorts:

We do not really know what might have been happening … So there is a history of failure there. You provide all of the money but do not have any discretionary power or do any independent probity checks of RTOs. It just seems a little nonsensical. (Hansard 2004, EWRE 11)

Notwithstanding the separation of responsibilities between the federal and State levels of government to which he was referring, the persistent inaction of government in the face of training market failure suggests that policy and funding arrangements in the VET sector have been organised so as to serve private interests, those of employers and private RTOs, rather than to protect the wider public interest. Ideology, rather than rational economics, would appear therefore to be the hidden hand of the market.

Conclusion

This paper has attempted to illustrate the complex and far-reaching influence of the global economy and effects of neoliberal economics on VET. It has shown how the
free-market orientation of neoliberal economics has shaped government policy for the financing and provision of VET, and influenced the balance of financial contributions to training by business, state and individual. As the Virtual IT saga demonstrates, the combination of a deregulated market orientation to training as signified by User Choice, public funding of employer incentive schemes and inadequate regulation of training supply, produced a system open to exploitation by unscrupulous parties. The corrective action taken by government in response to the Virtual IT scam had wider repercussions amongst IT training providers, and in particular increased the tension between business imperatives and training quality, with potentially adverse implications for skill levels in the VET system and workplace. Such market dynamics and their flow-on effects cast serious doubt on the compatibility of the profit motive with the provision of quality training, particularly in a deregulated marketplace.

Finally, this paper has shown how government has intervened in the training market via the NAIP to stimulate and underwrite employer demand for new apprentices. In contrast, it has chosen not to intervene as decisively on the supply side to safeguard training quality and probity. The ongoing subsidisation of employers and funding of private RTOs in a context of widespread and persistent market failure suggests that current VET policies are serving narrow private interests, rather than the wider public good. As such, VET policy is an ideological construct that is open to contestation and realignment with stakeholder interests other than those promoted by neoliberalism.

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