

Trading places: The impact and outcomes of market reform in vocational education and training—Support document

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Executive summary

The redesign of vocational education and training (VET) along market lines is a radical and unprecedented policy experiment in Australia, if not internationally. Twenty years ago, it would have been almost unthinkable to speak of 'markets' for publicly funded VET. By the late 1990s, however, the concept, practices and language of markets and competition were commonplace and widespread in the VET sector.

Market reform entails major changes in the way that VET has traditionally been organised, financed and delivered, with significant implications for key stakeholders. It challenges longstanding assumptions about the nature and purposes of VET, and reframes the roles, responsibilities and relationships of government, providers and clients. Government has attenuated its traditional role as planner, funder and provider of VET, and has increasingly adopted the roles of market facilitator, regulator, and purchaser of programs and services on behalf of individual students. Under 'User Choice', employers and their apprentices and trainees have been empowered to choose their providers and course elements. Public and private providers are now viewed as 'suppliers' or 'sellers' of VET programs and services who compete with one another on a 'level playing field' for government funds, new apprentices, and private fee-paying clients. Individual learners and enterprises are variously viewed as 'clients', 'users', 'buyers', 'customers' and 'consumers' who are expected to pay more for the VET programs and services, or 'VET products', that they use.

In these ways, the development of a competitive training market represents a decisive shift away from the centralised model of state planning, financing and provision of VET that prevailed following the Kangan Report (ACOTAFE 1974). Above all, market reforms 'represent the dismantling of the walls of monopoly' (NBEET 1991, p.25). Since the introduction of private provider recognition, competitive tendering and User Choice, Technical and Further Education (TAFE) institutes are no longer the sole recipients of public VET funds and recognition, as they had largely been. Instead, they are now viewed by government as one of many of VET providers, alongside and in competition with schools, adult and community education (ACE) centres, and industry and private providers.

The Deveson Review (1990) argued that market reform would produce a range of beneficial outcomes not otherwise possible through centralised state planning and bureaucratic controls. Drawing on economic theory, but unsubstantiated by empirical evidence, it asserted that market-based competition would result in greater choice and diversity, efficiency, responsiveness and quality, without adverse consequences for access and equity. Subsequent government policy statements have made similar claims (e.g. ANTA 1996a). Conversely, critics have argued that market reform will have adverse effects on the public interest in VET, also without clear evidence.

Despite the significance and potential implications of market reform in VET, there has been no comprehensive evaluation of its impact and outcomes to date. User Choice was evaluated nationally, but at an early stage of implementation (KPMG 1999). Several reviews of State government VET policies identified problems in VET markets, especially in relation to quality. The Senate inquiry into the quality of VET (2000) proposed that an independent national evaluation of competition and market reform in VET be conducted. No such evaluation has subsequently been undertaken.

The principal purpose of this study is to evaluate the impact and outcomes of market reform in VET, particularly competitive tendering and User Choice, from a national perspective. It aims to do so by examining the structure, composition and dynamics of contestable or 'quasi-markets' for VET; assessing the impact and effects of market reform on providers and clients;

and evaluating the outcomes, both intended and unintended, of market reform in VET. It also attempts to identify how existing market arrangements could be improved so as to produce more efficacious outcomes.

The research for this study comprises several elements as follows: a review of local and international literature on market reform in public services, including VET; an examination of the policy, financial and regulatory framework for VET markets, including market mechanisms; an analysis of national data on participation and finances in VET; an investigation of the structure, composition and dynamics of VET markets; and an evaluation of the outcomes of market reform in VET against key pre-conditions and performance indicators. The main sources of data are: policy documents, research reports and government reviews; official statistical collections on participation and finances in the VET sector; stakeholder consultations and focus group interviews; and a national survey of Registered Training Organisations (RTOs).

The most important data source was the national survey of RTOs. A sample of 2,581 RTOs was constructed, which yielded 842 useable survey returns, representing a 33% response rate. Although this provides a reasonably sound basis on which to analyse the impacts and outcomes of market reform in VET, the survey tool has a number of limitations relating to: cause-and-effect attribution; the lack of comparative before-and-after data; and the partial and subjective nature of senior manager perspectives.

The research finds that a substantial amount of recurrent VET revenue, normally allocated directly to TAFE institutes, was diverted to the new quasi-markets for VET from the early 1990s. Competitive tendering was used to allocate about 5% of national recurrent funds in 1999. User Choice was used to allocate up to 18% of recurrent VET funds in 2001. By 2001, government revenue allocated via non-competitive processes accounted for only 70% of TAFE's total revenue (including student fees and charges) for VET delivery, down from about 82% in 1992. Revenue from quasi and commercial markets accounted collectively for 35% of total VET (mostly TAFE) revenue in 2001, almost double what it had been at the outset of market reform.

From 1997-2001, payments to post-school non-TAFE providers grew by a remarkable 87% nationally. In 2001, they won 44% of contestable VET funds nationally, equivalent to almost 8% of total recurrent revenue for VET delivery. In consequence, a considerable proportion of non-TAFE providers have become heavily reliant on government VET funds. Conversely, TAFEs derived about 13% of their total delivery revenue in 2001 from quasi-markets, and 16% from commercial markets.

Despite considerable progress towards the creation of a national training market, under the steerage of the Australian National Training Authority, only a modest proportion of RTOs were found to be delivering nationally recognised training across State/Territory borders. However, a considerable number are competing for business outside their local markets, particularly in rural/regional markets and also export markets to a smaller degree. TAFE institutes continue to dominate the primary and secondary industry training markets, although less so than prior to market reform. They appear to face more competition from a wider range of non-TAFE RTOs in most industry training and qualifications markets, but especially in those for the growing services industries/occupations.

Despite efforts to place RTOs on an equal footing through 'competitive neutrality' arrangements, the 'playing field' is far from level. Around half of all TAFE institutes and non-TAFE RTOs identified at least one factor that restricts their ability to compete effectively. The most significant restriction on RTOs as a whole, and the second most significant restriction on TAFE institutes, is the capital costs of entering new markets. The main restriction on the competitiveness of TAFE institutes is industrial awards and conditions

for teachers/trainers, while the costs of meeting community service obligations are also significant. The main competitive restrictions on rural/regional RTOs are their geographical location (thin markets), and difficulties experienced in attracting or retaining experienced or qualified teachers/trainers. Such restrictions increase production costs and disadvantage the affected providers.

The introduction of market mechanisms into VET resource allocation processes has triggered complex chains of interactive effects that are often difficult to interpret. The conclusions reached about the outcomes of market reform in VET are tentative, due to the broad-scope nature of this study and limitations in research methodology. Nonetheless, the research findings are akin to a weather vane pointing in the general direction of market reform outcomes.

This study identifies several benefits and costs of markets in VET. Some of the purported benefits of market reform remain unproven, even if not yet entirely disproved. Additional data are required before clear-cut conclusions can be reached. On balance, however, the weight of available evidence suggests that the accumulation of current trends is tipping the scales away from positive towards negative outcomes. Outcomes appear to be positive in relation to: choice and diversity; responsiveness (to medium/large enterprises and fee-paying clients); flexibility; and innovation. Conversely, outcomes appear to be generally negative in relation to: efficiency (due largely to high transaction costs and complexity); responsiveness (to small enterprises, local/surrounding communities, and government-subsidised students); quality; and access and equity. A scorecard showing the outcomes of market reform is presented on the next page. However, it should be emphasised that the scorecard oversimplifies the research findings, and should therefore be read in conjunction with the relevant reportage and analysis in Part V of this report. Overall, RTO assessments of the global impact of market reform in VET are evenly divided, although a net majority of TAFE institutes and ACE centres delivered a negative verdict.

The research raises questions about the impact of market reform on public interest objectives (including community service obligations and public accountability), thin markets, and the financial viability of providers, particularly TAFE institutes and small RTOs. Several changes to existing policy arrangements are proposed in order to improve the operation and outcomes of VET markets. Issues requiring further research are also identified.

Overall, the research suggests that, as a result of market reform, TAFE institutes and non-TAFE RTOs are trading places not only as sellers of training programs and services to government purchasers and private customers in contestable and commercial VET markets respectively, but also with respect to their income sources and organisational identities, values and priorities. Such changes have potentially detrimental implications for the public good. The report concludes by arguing the need for a more creative and judicious mix of state planning and market forces that serves the needs and interests of all stakeholders, and preserves the distinctive character and mission of the publicly funded VET sector.

Note: The research study has resulted in this substantial report, the detail of which will be of limited interest to most readers. However, a concise and accessible summary of the main findings and conclusions is provided in Part VII.

Scorecard of the intended outcomes of market reform in VET (a)

	TAFE	All RTOs
Increased choice and diversity		
Increased diversity of providers	✓	✓
Increased diversity of training options	✓	✓
Increased client control over outcomes (b)	x✓	x✓
Increased efficiency		
Reduced costs of training delivery	x	x
More efficient use of public VET funds	x	x
Reduced costs of administration	x	x
Reduced complexity of administration	x	x
Reduced delivery costs outweigh increased transaction costs	x	x
Increased responsiveness		
Closer/more direct relations with clients	✓	✓
Increased responsiveness to individual student needs	x	✓
Increased responsiveness to apprentice/trainee needs	✓	✓
Increased responsiveness to industry/employer demand	✓	✓
Improved skills supply to industry	x	✓
Increased investment by industry/enterprises	x	x
Improved quality		
Improved quality of VET programs and services	x	✓
Improved skill outcomes for students/apprentices	x	✓
Increased flexibility		
Increased innovation		
Increased access and equity		
Improved access for small enterprises	x	✓
Improved access for medium/large enterprises	✓	✓
Improved access for local/surrounding communities	x	✓
Improved access and equity for women	x	x
Improved access and equity for unemployed people	x	x
Improved access and equity for disadvantaged groups (e.g. migrants, disabled)	x	x
Improved accountability for use of public VET funds (c)		
	x✓	✓

Notes:

- The respondent population comprised TAFE institutes (7%), ACE centres (12%), and other registered training organisations (81%).
- Client control over outcomes has increased under User Choice, but not under competitive tendering, from a TAFE perspective.
- Accountability for public VET funds has increased under User Choice, but not under competitive tendering, from a TAFE perspective.

Part I Introduction and overview

Background

Since the late 1980s, the vocational education and training (VET) sector in Australia has undergone profound and far-reaching reform with the aim of producing a more highly skilled and flexible workforce. Among the most important of these reforms has been the development of a competitive training market. Governments at a national and State/Territory level have restructured and reoriented their policy, financial and regulatory frameworks for VET along market lines. In the process, the purposes of VET have been redefined, and the roles, responsibilities and relationships of key stakeholders have been reconfigured. The main objectives of market reform in VET have been to increase the efficiency, quality and responsiveness of VET provision to industry needs so as to increase the productivity and international competitiveness of the Australian economy (Dawkins & Holding 1987; Deveson 1990; ANTA 1996a).

For almost two decades prior to these reforms, VET programs and services had been delivered primarily through the public Technical and Further Education (TAFE) system, which was formally established following the seminal report of the Australian Committee on Technical and Further Education (ACOTAFE 1974), commonly known as the Kangan Report. This report advocated universal access to recurrent education as a social entitlement, and viewed TAFE provision as a key responsibility of government, due to its crucial role in promoting national economic and social development. Rather than leave the provision of TAFE to the vagaries of the market, Kangan argued that it should be planned, funded, coordinated and delivered by government through an integrated system of state-owned and operated institutions, in conjunction with non-profit, adult and community-based providers of further education.

The TAFE system underwent dramatic growth and expansion throughout the late 1970s and early 1980s as a result of increased Commonwealth funding of recurrent and capital programs, the introduction of student subsidies and a legislative embargo on tuition fees in TAFE (Goozee 1993). By the mid-1980s, there were 230 TAFE institutions operating in about 1,000 different locations (Cantor 1989). With the minor exception of some fee-for-service provision, TAFE programs were financed and delivered under non-market conditions, and TAFE colleges were bureaucratically controlled by State and Territory TAFE departments. In effect, up to the late 1980s, the state not only planned, financed and accredited TAFE programs, but it also provided them. During this period, the eight State-based public TAFE systems enjoyed a near-monopoly of government funding and recognition, and were subject to high levels of government regulation and accountability (Anderson 1996a).

Adults seeking education and employment skills for personal and community development and workforce re-entry could also enrol in programs delivered by adult and community education (ACE) providers, such as Councils of Adult Education, neighbourhood houses and community-based learning centres. ACE providers were non-profit in status and generally relied on a mix of public and private contributions. Their clients were drawn from local communities, and their program provision was strongly influenced by consumer demand. ACE courses were non-accredited and catered for clients whose needs were not met by other providers (Connell 1993).

Coexisting with, but operating in almost total isolation from, the public TAFE system was a private training sector which comprised a diverse mix of industry, enterprise and commercial providers. Clear lines of demarcation were drawn between the public and private VET sectors, and government funding, regulatory and skills recognition arrangements prevented non-government providers from encroaching on TAFE territory. In particular, TAFE colleges enjoyed almost exclusive rights to deliver apprenticeship training, which effectively cemented

their position as the dominant provider of trade training for industry. In the mid-1980s, it was estimated that approximately 83% of apprentices undertook their training in TAFE, 16% combined off-the-job training in TAFE with on-the-job components in industry training centres, and only 1% received their training fully on the job (Cantor 1989).

Collectively, industry and professional organisations, together with public and private enterprises, accounted for a large share of training by private non-TAFE providers. In addition to some on-the-job apprenticeship training, industry and large enterprises provided initial training and retraining for their employees. According to Cantor (1989, p.62) however, these were 'very much the exception rather than the rule', due to the relatively large number of small firms in Australia, and because 'many executives seem to feel that vocational training is largely a public responsibility.' Industry training generally attracted neither government subsidies nor formal recognition, and was delivered either by in-house trainers or by external public or private providers on a commercial basis. According to the Deveson Review (1990), industry training amounted to \$1.3 billion in 1989, slightly less than total recurrent TAFE funding which amounted to around \$1.5 billion nationally in the same year.

Smaller in size than the industry training sector, the commercial training sector operated on the margins of the public TAFE system and comprised independent for-profit and non-profit providers (mainly secretarial and business colleges). These providers were privately owned and controlled and, like most industry and enterprise trainers, received no formal public recognition or government funding. The main exception was during the late 1970s when private non-profit secretarial colleges received Commonwealth subsidies to compensate for income lost due to the 1973 embargo on tuition fees in tertiary education. Otherwise, up until the late 1980s, commercial providers were financially self-sufficient and autonomous organisations, relying on fee-paying clients and awarding their own certificates outside the public qualifications framework. Their survival depended on their ability to satisfy market demand, primarily from individuals seeking skills required in the new and emerging service industries and occupations, which were under-supplied by TAFE (Anderson 1995a, 1996a).

Although non-TAFE training institutions performed an important role in the provision of certain forms of VET during the 1970s and 1980s, they were generally ignored by government. Unlike the secondary school system where public and private schools had long shared access to a common public award system and government funding, the post-secondary VET system was characterised by a strict separation between public and private providers with respect to curriculum, administration, jurisdiction and finance. In effect, up until the end of the 1980s, a dual system of post-school VET provision existed in Australia, comprising a mass public sector operating largely under non-market conditions and a parallel private sector operating under free market conditions.

By the mid-1990s, the VET landscape was vastly different. The eight State-based TAFE systems were being progressively restructured within a market framework. Drawing on the concepts and language of economics, government had redefined VET as a 'product' that was subject to the market forces of 'supply' and 'demand', driven respectively by the principles of 'competition' and 'choice'. Private providers had been granted access to government recognition and funding, and were being encouraged to compete with TAFE institutes. VET legislation was reformed in most State/Territory jurisdictions so as to create a 'level playing field', placing TAFE and non-TAFE providers on a more equal footing. Nationally, the supply side of the new markets for VET comprised a diverse array of public and private providers – including 84 TAFE institutes and around 2,500 registered non-TAFE providers (ANTA 1996a) – in competition for a growing proportion of core VET funds to deliver nationally recognised VET programs and qualifications. Having once been the sole provider of publicly recognised VET qualifications, TAFE institutes were now seen by government as one of many potential suppliers.

Governments were reducing their traditional role as funders and providers of VET and assuming more limited responsibilities for developing strategic policy, facilitating and regulating market conduct, and purchasing training places. Relationships between government and providers were reframed as market-based transactions managed via contracts, in place of conventional public service models of central planning, bureaucratic control and budgetary allocation. 'Steering from a distance' characterised the new public management approach, which devolved greater responsibility for resource management and service delivery to providers. In effect, not only was policy separated from service delivery, but government also assumed the role of 'buyer' or 'purchaser' of training places from 'sellers' or 'providers', both public and private, in the new marketplace for VET. To a large extent, the VET 'product' was standardised via competency-based training reform to stimulate market competition among providers (Marginson 1993). By the late 1990s, the proliferation of accredited VET courses had been curtailed by the introduction of nationally mandated Training Packages comprising industry-determined competency standards, one purpose of which was to promote a more nationally consistent framework of VET qualifications.

While the new buzzword among VET providers was 'competition', prospective students and employers seeking skills for their employees were being empowered to exercise 'choice'. Individual students were redefined as the 'immediate clients of training providers' and 'consumers' of VET programs and services, whilst industry and enterprises were viewed as 'end-users' and the 'principal clients of the training market' (ANTA 1996a). Although individuals and employers had always been able to choose between public and private providers, those seeking recognised VET (and especially trade) qualifications were largely restricted to TAFE providers and programs. In the new marketplace for VET, however, the potential scope for choice had been expanded well beyond the TAFE alternatives to include government-registered ACE, industry, enterprise and commercial providers. Theoretically at least, VET clients had been empowered to 'shop around' for their provider and program of choice. If dissatisfied, they could exercise their power of 'exit' by switching to another preferred provider (Kemp 1996). The *quid pro quo* was that users, both individual and industry clients, were expected to pay more for their training following the removal of the legislative prohibition on tuition fees and increasing commercialisation of TAFE provision from the early 1990s.

The shift from the dual structure of a near-monopolistic public TAFE system and a parallel private training sector that prevailed throughout the 1970s and 1980s, to the more unified framework of public VET markets in the 1990s was neither total nor clear-cut. TAFE institutes continued to receive a significant, though declining, proportion of their core VET revenue directly from government on a non-competitive basis. But the decisions by government in the early 1990s to increase participation rates in post-compulsory education and training, extract greater efficiency from publicly funded VET, and divert a significant proportion of core VET funds to the construction of competitive markets for VET, placed TAFE institutes under immense pressure. Firstly, they were required to implement major productivity measures so as to maintain or increase student throughput at lower unit costs. Secondly, they were forced to meet the resulting financial shortfall and ensure their future viability by competing for government contracts and fee-paying clients. Conversely, while private providers gained access to a new pool of public VET funds, most continued to compete for individual and industry clients in commercial markets.

Despite such continuities, VET was progressively redesigned within a market framework during the 1990s by a succession of governments at both national and State/Territory levels. The reasons why governments transformed the traditional model of VET provision so fundamentally are complex and multi-faceted. The peculiar conjunction of ideological, political, economic and cultural forces during the 1980s wrought a new crucible in which the foundations and key elements of the post-war Keynesian welfare state were replaced by a new policy architecture designed by corporate stakeholders in VET: government, employers and

unions (Marginson 1997b; Seddon and Angus 2000; Anderson et al 2004). Suffice to say, the longstanding social democratic principles and processes which had underpinned the Kangan conception of TAFE were dismantled. In their place, a new order was established, based on neo-liberal economics and public choice theory and shaped by a new set of bipartisan policy priorities. The key assumptions underpinning the reforms are that competitive markets allocate resources more efficiently and effectively than centralised state planning, and that client choice ensures a better match between supply and demand. This paradigmatic shift was not confined to the VET sector, which is only one instance in the wholesale redesign of public service provision. Both schooling and higher education, for example, have also been reformed along market lines, although arguably neither has to date undergone such a radical insertion of market mechanisms as has occurred in the VET sector.

To speak of VET in explicit market terms would have been unthinkable during the post-Kangan era. By the mid-1990s however, ‘competition’, ‘client focus’, and ‘market share’ had become part of the everyday vernacular of VET policy makers and providers. Business plans and marketing strategies had become indispensable tools of trade for TAFE institutes who were actively searching out new markets and private revenue sources. On the opposite side of the playing field, private for-profit and other non-TAFE providers had entered the arena of contestable government markets and were redeveloping their product range and administrative processes to win public recognition and funding. In the centre of the playing field, government had assumed the role of umpire, setting the rules and regulations for market conduct, awarding successful contestants with contracts to deliver training places, and monitoring provider performance. A new era of market competition in VET had begun.

Rationale for the research study

From the inception of market reform in the VET sector, there has been vigorous and deeply polarised debate about its efficacy and potential consequences. Policy makers and other advocates of market reform in VET claim that a competitive training market will produce substantial net benefits unattainable through centralised state planning (e.g. Deveson 1990; Carmichael 1992; Sweet 1993, 1994; ACG 1994a,b; FitzGerald 1995; ANTA 1996b; Moran 1997). The imputed benefits of market reform in VET typically include increased choice, efficiency, responsiveness, quality, flexibility and innovation. Such claims were based on assumptions and deductions from economic theory and lacked any supporting empirical evidence. Conversely, critics argue that the costs of market reform in VET are greater than any potential benefits, and that unfettered competition will undermine key public policy objectives, including educational quality and social access and equity. Such criticisms were mounted on an equally thin evidential basis (for an overview of the debate, see Anderson 1997a).

In a review of research prepared for the National Centre for Vocational Education Research (NCVER), it was noted that ‘at present ... there appears to be insufficient empirical evidence either to support or refute claims that increased competition in the training market will produce a wide range of benefits not otherwise possible’ (NCVER 1997a, p.4). At a subsequent national conference, the then federal minister for schools and VET (Kemp 1997, p.5) observed that:

The National Centre’s submission to ANTA ... provides some useful insights on training market issues. Of particular interest is the need ... identified for a stronger empirical base for the development of training market policy.

A more comprehensive ‘stocktake’ of research on competition and market reform in the Australian VET sector concluded that emerging trends suggested that, in balance, the

potential economic benefits of competitive markets may be outweighed by adverse social, economic, educational and other consequences:

Before a final verdict can be delivered either way, there is a need for further investigation of the impact and consequences of the full range of competition and market reforms in the VET sector (Anderson 1997a, p.63).

Subsequent government reviews in various States and Territories suggest that policies and strategies to adopt a more competitive market-based approach to VET provision have had profound and, in some respects, adverse effects. The 1998 Bannikoff Review of TAFE in Queensland found that the impact of contestable funding arrangements, both competitive tendering and User Choice, on the financial position and future viability of TAFE institutes had been ‘devastating’, due to the substantial loss of recurrent base revenue and private provider competition. Moreover, Bannikoff (1998, p.9) concluded that market reform in general, and competitive tendering in particular, had failed to satisfy key public interest criteria:

(T)he operation of the training market does not lead to optimal levels of skills in the community. Nor does it lead to appropriate standards, efficiency or fairness. It is a clear case of market failure – the market does not, of itself, invest in socially or economically optimal levels of training.

Problems relating to quality, information provision, thin markets and financial viability were among the main issues identified in the Schofield reviews (1999a,b, 2000) of the new apprenticeship and traineeship markets in three States. Overall, however, Schofield found that the positive effects of User Choice outweighed the negative effects, and rejected a return to a ‘public monopoly’ of apprenticeship and traineeship funding. Nonetheless, as the User Choice markets were then at a relatively immature stage of development, Schofield (2000) emphasised the need to assess their impact on quality over a longer timeframe. More positive outcomes, and fewer problems, were identified by KPMG (1999) in its national evaluation of User Choice, albeit also at a relatively early stage of its implementation.

In the light of the concerns identified in the aforementioned reviews and numerous submissions, the Senate Employment, Workplace Relations, Small Business and Education Committee of Inquiry into the Quality of VET in Australia (2000) recommended an evaluation of the impact of competition and market reform in VET:

(A)n independent national investigation of the impact of competition policies and User Choice on the viability of TAFE should consider ... whether ... User Choice has delivered net benefits to stakeholders. (Paragraph 7.85, original emphasis)

Despite a commitment by the Australian National Training Authority (ANTA) Ministerial Council (MINCO) to evaluate User Choice (ANTA 2000c, clause ix) as ‘an integral element of continuous improvement’, Selby Smith & Ferrier note that ‘there is no process of ongoing evaluation at a national level of the outcomes of User Choice against the objectives which have been set for it’ (2001, p.20). In effect, the need for an evaluation of the efficacy of market reform in VET has been clearly recognised, and mandated at a national level. To date, therefore, the application of market principles to VET provision continues largely unabated and the impact and outcomes of market reform in VET has not yet been subject to comprehensive evaluation.

The steps taken by government to redesign the VET sector along market lines represent an unprecedented policy experiment with potentially major implications for VET providers, clients/users and the wider community. Given that almost a decade had passed since Australian governments agreed to develop a national training market, it seemed an

appropriate time to review what has since been a central plank of national VET policy. Moreover, despite the lapse of time, the claims of policy makers and market advocates remain largely untested, and the counterclaims of critics remain unsubstantiated. As discussed in more detail later, the range of issues and problems identified in research to date highlights the need for a broad-scope evaluation of the impact and effects of this policy experiment. Notwithstanding prior research, important questions are still to be answered. Is market reform in VET producing the outcomes that were intended? Have there been any unintended effects? Whose interests are being served? How can existing market arrangements be improved so as to promote more efficacious outcomes? Are there more effective policy alternatives to market-based VET provision? Here lies the warrant for this study.

Study aims and research questions

The principal purpose of this study was to undertake a national evaluation of the impact and outcomes of market reform in the Australian VET sector. In broad terms, it aimed to:

- examine the structure, composition and dynamics of markets in VET;
- identify the impact and effects of market reform in VET on providers, and by implication their clients; and
- evaluate the outcomes, both intended and unintended, of market reform in VET.

To these ends, the study addressed the following research questions:

- How are markets structured and organised in the VET sector?
- How are providers responding to market mechanisms in VET, particularly competitive tendering and User Choice?
- How has market reform in VET impacted on providers and affected their capacity to satisfy the needs of clients?
- To what extent has market reform in VET achieved the intended outcomes, as stated in official policy?
- Has market reform in VET produced any unintended outcomes?
- What policy changes might improve the operation and outcomes of market arrangements with respect to efficiency, responsiveness and equity?

This study primarily evaluates market reform on its own terms, specifically the extent to which the intended outcomes of market reform have eventuated. As indicated in Part III, policy makers claim that market reform in VET will increase the:

- *choice and diversity* of providers and programs/services;
- *efficiency* of publicly-funded VET provision;
- *responsiveness* to client needs;
- *quality* of VET programs and services;
- *flexibility* of VET delivery;
- *innovation* in VET programs and services; and
- *access and equity* for under-represented and disadvantaged client groups.

As discussed in Part IV, the design of the evaluation framework adopted for this study was influenced by the theory of quasi-markets developed by Le Grand and Bartlett (1993) and Le

Grand (1994), and elaborated by Bartlett et al (1994). Defined in more detail later, the term ‘quasi-markets’ was created to distinguish the new government-funded markets for public services from privately financed ‘free markets’. The associated theoretical framework identifies certain conditions for successful quasi-markets, and proposes five criteria for evaluating their efficacy: choice and diversity; efficiency; responsiveness; quality; and access and equity. These criteria correspond directly with above-stated objectives of market reform in the Australian VET sector, with two exceptions: flexibility and innovation. As both the latter items figure frequently in official policy statements as intended outcomes of market reform in VET, they have also been included as evaluation criteria.

As the new publicly funded markets for VET in Australia are by definition quasi-markets, the evaluation framework for this study draws directly and explicitly on quasi-market theory, and evaluates the extent to which:

- the structure of markets in VET satisfy the specified conditions for successful quasi-markets, and
- market reform in VET has produced outcomes against the specified criteria for effective quasi-markets.

The operational definitions and indicators of the conditions and criteria are specified in Part IV of this report.

In the above respects, this study constitutes a fairly conventional policy evaluation. It neither questions whether market reforms in VET were necessary or desirable in the first place, nor examines whether the same or similar outcomes could have been achieved by different means. Nonetheless, it does adopt a critical approach to the question of whether market mechanisms, such as competitive tendering and User Choice, are producing the outcomes claimed in official policy statements. To the extent permitted by the findings, this study also attempts to: identify any unanticipated effects and unintended outcomes of market reforms; assess whether demonstrated benefits outweigh associated costs or *vice versa*; detect any significant shifts in the values, priorities and motivations of providers; and ascertain the degree to which market reforms are serving the needs and interests of key stakeholders.

Focus and scope of the research

This study comprises a broad-scope evaluation of market reform in the Australian VET sector. ‘Market reform’ is a complex and multi-faceted phenomenon that entails changes in the policy, financial and regulatory framework for the provision of VET programs and services. Unlike many other government reforms which are introduced at a specific point in time, market reform has unfolded over a relatively extended period and has involved a series of inter-connected and interactive changes. In this sense, market reform is a process that has entailed the progressive re-engineering of the VET sector along market lines, rather than the introduction of a single change program or set of policy initiatives. The term ‘reform’ is used in this report not to connote positive change or improvement, but to refer to the process of remaking or reconstructing VET, for better or worse.

Overt aspects of market reform in VET include: the registration of private providers; the partial deregulation of export markets, fee-charging in TAFE; and the introduction of contracts, competitive tendering and User Choice. However, it can also be argued that the establishment of industry training advisory boards and the introduction of competency-based training, Training Packages and a national VET qualifications framework are elements of market reform in that they collectively empower users over providers, and constitute the ‘product’ exchanged in the VET marketplace. It is also difficult to draw clear boundaries

between market reform and the changes associated with the new public management model introduced over the past decade. Ryan (1995) suggests that the growth of entrepreneurialism and 'being business-like' in TAFE facilitated the shift to market-based provision during the early 1990s. The imposition of corporate management structures, devolution of financial responsibility, and use of performance targets have all contributed to the development of a more market-oriented approach to management in the VET sector.

This study neither discounts the importance of the aforementioned product, regulatory and managerial changes in the process of constructing VET markets, nor overlooks evidence of their significant effects. Indeed, in the absence of such reforms, government would have been unable to construct markets in VET and stimulate market-like behaviour. However, a decision was made, informed by prior research and consultations, to concentrate primarily on the impact and outcomes of two market mechanisms that were adopted with the explicit objective of reforming the traditional model of state planning and resource allocation: competitive tendering and User Choice. The impact of other important elements of market reform (such as student fees and commercial activity) was also examined, but to a more limited degree.

Competitive tendering and User Choice involve significant changes not only to the administrative and financial architecture of the VET sector, but also to the roles and relationships of government, providers and clients (Anderson 1997b). As discussed later, these two mechanisms have not previously been evaluated in a comprehensive and systematic manner. In this regard, an attempt has been made in this study to overcome some of the perceived shortcomings of prior studies which have mostly focused on one market mechanism in isolation from others. Hence, while competitive tendering and User Choice were intentionally brought to the foreground, account has been taken of how they articulate and interact with each other, and with other reforms.

The research for this study is national in scope in that it comprises an evaluation of market reform in general, and competitive tendering and User Choice in particular, in all State/Territory jurisdictions. Although, by implication, it is an evaluation of the *national* training market, it should be acknowledged that the term 'market reform' is somewhat misleading as it suggests that there is a single model and approach in all VET systems in Australia. While governments at both the national and State/Territory levels collectively agreed in 1992 to develop a 'national training market', the subsequent process of market development has fallen short of the nationally consistent approach sought by successive federal governments. As detailed later in this report, the design and implementation of market mechanisms vary considerably between different State/Territory jurisdictions, with the result that the nature, scale and pace of market reform is less uniform than is often assumed.

Nevertheless, by the time of this study there was sufficient commonality in the policy frameworks and market mechanisms adopted in the eight State and Territory VET systems to warrant a national evaluation of market reform. All State/Territory governments had introduced competitive tendering by 1995 to allocate part of their core VET funds. User Choice was implemented on a national basis, except in NSW, from 1998 onwards, and was in full operation by the time of the present study. National financial data also show that all VET systems were engaged in commercial provision, and students in publicly funded VET programs in all States and Territories were subject to fees and charges.

Structure of the report

This report is organised into five main parts. Part II outlines the research design and methodology, provides a justification for the research strategy, and discusses its limitations. Part III presents an analysis of the policy context for market reform in the Australian VET sector, including the main market mechanisms employed at the time of this study. It also

reviews prior research on the impact and effects of market reform. Part IV provides an overview of the conceptual and evaluation framework developed for this study. It includes a brief discussion of economic theory about the new phenomenon of quasi-markets in public service provision, and draws upon this body of theory to construct a set of criteria for evaluating the structure, performance and outcomes of markets for VET in Australia. Part V reports and analyses the findings of this study, based primarily on data derived from national statistical collections on participation and finances in VET, and the results of a national survey of registered training organisations. In the light of these analyses, Part VI presents some proposals for improving the operation and outcomes of VET markets, as suggested by quasi-market theory and respondents to the aforementioned survey. Part VII summarises the key findings of the study, identifies issues for further research, and concludes with some closing reflections on the implications of the research for current and future policy directions.

Part II The research study

Research design and methodology

Overview

As previously stated, this research study was conceived and designed as a broad-scope evaluation of the impact and outcomes of market reform in the VET sector from a national perspective. The research design and evaluation methodology were informed primarily by: literature dealing with the theory of ‘quasi-markets’ in public sector provision; and an analysis of policy and research literature relating to market reform in the Australian VET sector, as presented in the next Part. The key elements of the research methodology are outlined below. The conceptual and evaluation framework is discussed in Part IV.

As indicated below, a wide range of informants were consulted during the processes of designing and conducting the research study. Data were also collected from several key sources, including relevant literature, published VET statistics, stakeholder groups, and registered training organisations (RTOs). However, as the national survey of RTOs was the main research instrument, this group of informants was the principal source of data for the study. The underlying rationale and resulting limitations of this approach are discussed below.

Review of policy and research literature

The first phase entailed a review of theoretical, research and policy literature, local and international, relating to the development, impact and outcomes of markets for VET. Such literature was identified through extensive searches of library databases and the VOCED database – the UNESCO/NCVER international database for technical and vocational education and training research. Official documents were also requested from State/Territory Training Authorities (STAs), including policy statements, research reports, program evaluations, information on contestable funding programs, and other publications.

Analysis of published statistics

National statistical data on participation and finances in the VET sector were analysed in order to:

- assess the overall size, structure and composition of markets in VET; and
- identify national trends in market participation, patterns of provider revenue and expenditure, and funds allocated in specific markets sectors.

The data were used to construct a profile of the non-market and market sectors in VET, as a background to the findings of the national survey of RTOs (see details below). The main sources of statistical data were publications of the Australian Bureau of Statistics (ABS), NCVER, and the Steering Committee for the Review of Commonwealth/State Service Provision of the Productivity Commission.

Stakeholder consultations and focus group interviews

Consultations were undertaken with relevant stakeholders, including ANTA, STAs, academic researchers and peak bodies representing VET providers and clients. Focus group interviews were also conducted with stakeholder groups in metropolitan and regional Victoria. The focus

groups comprised managers, teachers, student services staff, and students/apprentices in TAFE and non-TAFE providers.

The purposes of the consultations and interviews were to seek input on a range of matters, including: conditions, patterns and trends on the supply and demand sides of the VET market; the impact of market reforms on providers and clients; and key policy issues and concerns relating to the operation and outcomes of markets in VET. This information was used both to inform the design of the national survey of RTOs, and to clarify certain issues and implications arising from the survey.

National survey of registered training organisations

A national survey of a large constructed sample of RTOs (TAFE and non-TAFE) by questionnaire was the main research instrument used for this study. In addition to general background information about respondents and their providers, the survey sought information about the:

- nature and extent of provider participation in geographical markets, industry training markets, qualification markets, and client/funding markets;
- degree of perceived market competition and contestability in VET markets;
- restrictions on provider competitiveness;
- main sources, and changing patterns, of income from VET delivery;
- changing patterns of expenditure due to increased contestability;
- provider responses to increased contestability;
- effects (impact and outcomes) of competitive tendering and User Choice on providers and their clients;
- benefits and costs of competitive tendering and User Choice;
- positive and negative trends instigated by the development of competitive training markets, as suggested by prior research; and
- global outcomes of market reform in VET.

Respondents were also invited to propose changes to government policy and strategies for improving the operation and outcomes of markets in VET, and to provide open-ended comments on any matters relevant to the impact and consequences of market reform.

Questionnaire design

Consultations regarding the availability of data items and data collection methods were undertaken with the following groups, most of which were also represented on the Project Reference Group:

- industry/business associations, including the Australian Industry Group and Victorian Employers' Chamber of Commerce and Industry;
- peak VET/TAFE provider associations, including the Australian Council for Private Education and Training, Victorian Association of TAFE Directors, and Adult, Community and Further Education providers; and
- government agencies, including the Australian National Training Authority; the Office of Post-compulsory Education, Training and Employment, Victoria; and the Adult, Community and Further Education Board, Victoria.

The questionnaire was initially designed in consultation with a cross-section of senior RTO managers and a research reference group comprising members of the Centre for the Economics of Education and Training, Monash University (see details below). It was then reviewed by the Project Reference Group, which included representatives of key stakeholder groups (see details below). A group of fifteen senior managers from a cross-section of TAFE and non-TAFE RTOs pilot-tested the questionnaire, after which it underwent further revisions in the light of stakeholder consultations and focus group interviews. The revised questionnaire was pilot-tested again with eight of the original group of senior RTO managers, and refined in response to their feedback.

Three other key considerations affected the selection and framing of survey questions. Firstly, the ABS National Statistical Clearing House required that the burden on respondents be minimised. Significant changes were made to the draft questionnaire to secure the approval of the ABS National Statistical Clearing House. Among other things, the number and complexity of questions was substantially reduced. Secondly, in the interests of maximising the quantity and quality of responses, efforts were made to select and design questions that would be relatively easy for senior managers to answer. This involved consideration of the type of information available to senior managers, their potential ability and willingness to provide such information, and the form in which such information could be most easily provided. The complexity and commercial sensitivity of information, particularly relating to finances, were taken into account. Thirdly, as the study aimed to evaluate the impact and effects of market reform in a comprehensive and integrated manner, the depth and detail of information solicited was necessarily sacrificed to some extent in the interests of breadth.

Population and sample

A large sample of RTOs from all States and Territories was constructed for the survey. The sample was selected from ANTA's National Training Information System (NTIS), which is based on lists supplied by each STA. Mutual Recognition arrangements, which require RTOs to register in only one State or Territory, minimise the likelihood of duplication across States and Territories within the aggregated list.

The sample was stratified by the State or Territory of registration of the provider and type of provider as follows: adult and community education; commercial; enterprise; government; industry and professional; other; school; TAFE; and university.

The NTIS listed 4,306 RTOs. The questionnaire was sent to 2,581 RTOs. Useable responses were received from 842 RTOs. Hence the response rate was 32.6%. The structure and composition of the sample and respondents populations are detailed in the Technical Note (Appendix 1).

Survey administration

The questionnaire was administered in late 2001 and survey returns were accepted up to the end of November for inclusion in the database.

Initially, the sample population received a hard copy of the questionnaire by mail, together with: a covering letter explaining the aims of the research, alternative methods of participation, and confidentiality arrangements; a pre-paid self-addressed envelope in which to return the questionnaire, and an invitation to submit their survey return via the internet, fax or mail. A reminder letter was sent by mail to RTOs that had not returned the questionnaire within four weeks. One week later, a follow-up hard copy of the questionnaire was also sent to non-respondents.

Ethics and government clearance

Prior to implementation, the research instruments (questionnaire and interview schedules) were submitted to, and cleared by, the Monash University Standing Committee on Ethics in Research on Humans.

As required by federal government policy, the questionnaire was also submitted to, and approved by, the ABS Commonwealth Government Statistical Clearing House (Approval Number 00489-01).

Project management

A Project Reference Group was established to provide advice and guidance in the development and implementation of the research strategy. The Project Reference Group comprised nominees of key stakeholder groups as follows:

- Australian Education Union (TAFE Division)
- Australian Council for Private Education and Training
- Australian Industry Group
- National Centre for Vocational Education Research
- Network of Women in Further Education
- Office of Training and Further Education, Victoria
- Victorian Council of Social Service
- Victorian Employers' Chamber of Commerce and Industry
- Victorian TAFE Directors
- Victorian TAFE Students and Apprentices Network

A research reference group was also established to provide expert advice on research design and methodological issues. This group comprised:

- Professor Gerald Burke, Executive Director of the Centre for the Economics of Education and Training (CEET);
- Dr Phillip McKenzie, Deputy Head, Policy Division, Australian Council for Educational Research (ACER), and Director of CEET;
- Mr Michael Long, Senior Research Fellow, CEET/ACER;
- Professor Chris Selby Smith, Department of Management, Monash University; Director of CEET; and
- Dr Chandra Shah, Senior Research Fellow, CEET.

Feedback from other researchers was also sought via the presentation of conference papers (e.g. Anderson 2000a).

Justification of the research strategy

As previously stated, this study aims to evaluate the extent to which market reform in VET has produced the outcomes intended by policy makers. It neither questions whether such reforms were necessary or desirable in the first place, nor examines whether the same or similar outcomes could have been achieved by different means. In a discussion of approaches to the evaluation of new public management reforms in the UK and elsewhere, Pollitt (1995) outlines the rationale for measuring results against the benefits claimed by the proponents of reform:

The degree to which intended effects are achieved is almost always a prime interest of evaluators, even if they go on to consider, in addition, *unintended* effects and other, processual features of a project or program. Intended effects (impacts, outcomes) are of interest in themselves, but also have the useful property of indicating (implicitly or explicitly) the *criteria* by which policy-makers apparently wish to be judged. (p.136)

As indicated above, the main research instrument for this study was a national survey of RTOs, and senior managers of RTOs were the principal source of information about market performance and outcomes. The decision to adopt such an approach was shaped by a number of considerations relating to the quality and availability of data. Firstly, the lack of reliable baseline data, counterfactuals or benchmarks for comparing before-and-after performance (Anderson 1998d) was a major reason for evaluating market reform in VET from a provider perspective. In the absence of any objective measures, the next best approach was to rely on the professional judgment of those most closely involved in the reform process, namely the chief executive officers and senior managers of TAFE institutes and non-TAFE RTOs. These informants occupy a unique vantage-point which enables them to comment on the full spectrum of their organisations' activities and any significant changes in organisational priorities, directions and circumstances that have occurred as a result of market reform. Consequently, senior managers are more likely than other provider staff – whose purview and range of experiences tend to be comparatively restricted – to be in a position to comment on the broad scope of financial, commercial, organisational and other matters material to this evaluation. Senior managers also have access to financial and other relevant data that is otherwise confidential and off-limits for other provider personnel.

Secondly, a number of studies have already investigated the views and opinions of stakeholders on the demand side of the market, specifically employers and, to a lesser extent, individual students (see for example, Anderson 1999; Ferrier and Selby Smith 2001, 2003, KPMG 1999; Schofield 2000). While such studies are worthwhile, they suffer to some degree from the more limited understanding and short-run experience of most employers and students with respect to market reform in VET. As the clients and users of programs and services that have been designed, developed, and delivered under circumstances of which they are largely unaware, theirs are necessarily more restricted points of view, often being limited to a fairly short time span and narrow, if not singular, range of programs and services.

Thirdly, given that market reform was primarily intended to alter the orientation and behaviour of providers, it makes strategic sense to investigate the impact and effects from a provider perspective. Unless providers react to the new structure of market-like incentives and disincentives as intended by government, it is improbable that the expected benefits will eventuate. Moreover, because the market 'as a mechanism is also driven by choices made by producers' (Bowe & Ball 1992, p.62), it is important to gain some insight into the reactions and underlying values, motives and priorities of VET providers.

Fourthly, as official policy rhetoric suggests, providers interface directly with clients/users and receive regular feedback about the quality, relevance and outcomes of their VET programs and services (ANTA 1996a). Providers are also required to act as training brokers in order to balance the competing interests of government and industry purchasers on the one hand and those of learners on the other (e.g. KPMG 1999). As providers have an overview of inputs, processes and outputs/outcomes, together with a broad appreciation of client needs, preferences and interests, they are therefore well-positioned to assess market reform.

An evaluation of market reform in the VET sector from a provider perspective is open to the potential criticism that it may reflect the views of supply-side stakeholders with vested interests in maintaining the *status quo*. Public choice theorists, for instance, claim that public services are subject to 'provider capture' and typically dismiss the views of public sector

managers and staff as self-interested and biased (Marginson 1993). Two factors insulate this study against such a criticism. The survey sample includes not only public, but also private, providers of VET. As indicated elsewhere, survey respondents comprised a broadly representative mix and balance of both public and private VET providers. TAFE providers, for instance, accounted for only 7% of all survey respondents. Also, prior research suggests that senior managers of TAFE institutes are not necessarily predisposed to oppose market reform, as indicated shortly.

Limitations of the research strategy

Due to the approach and methodology adopted for this study, the depth, reliability and validity of the research findings are limited in some potentially significant respects. A literal approach to evaluating market reform against 'intended outcomes' has its limitations. Firstly, it assumes a direct correspondence between policy makers' statements and intentions, thus overlooking the ways in which policy texts can be used to divert attention from the real, underlying motives of reformers, so as to secure public consent for potentially unpopular reforms. Secondly, it assumes that market reform is essentially a neutral, consensual and technical-rational process involving a relatively stable and linear relationship between 'inputs' on the one hand, and 'outputs' and 'outcomes' on the other. Such an assumption tends to obscure the interplay of complex contextual factors, and the ways that power relations and the conflicting values and interests of policy actors shape and influence both the process and outcomes. Thirdly, it overlooks the potentially significant symbolic and cultural effects of the new linguistic and conceptual paradigm accompanying market reform (Ball 1990; Taylor-Gooby & Lawson 1993; Pollitt 2002; Taylor et al 1997). Such issues and perspectives are undoubtedly important, but largely fall outside the scope of this study. For all its limitations, however, the more conventional evaluative approach used for this study is an effective and widely accepted method for subjecting official claims to critical scrutiny, and assessing the relative costs and benefits of government policies, such as market reform.

As previously stated, this study comprises a broad-scope evaluation of market reform in the Australian VET sector. Despite the collective agreement and concerted effort of successive governments at all levels to develop a nationally integrated training market over the past decade or so, there was still considerable variation in the approaches adopted by different State/Territory governments at the time of this study. Given available resources, it would have been impossible to document and evaluate all such variations and their implications, including how they may have affected overall patterns and trends in the research findings. Moreover, few STAs responded to the requests for all relevant policy documentation. While interstate variations from national statistical trends have generally been overlooked (although the survey data are available for further analysis), some attention has been given to analysing differential impacts at an aggregate level on various provider types, and variations between metropolitan and non-metropolitan markets. Nevertheless, as the national overview of impacts and outcomes presented herein is the product of statistical aggregation, micro variations from macro trends have mostly gone unacknowledged.

Some researchers are critical of macro-level studies of education markets, especially those of a statistical variety (e.g. Gewirtz et al 1995). In their view, education markets can only be fully understood when data is collected about the workings and effects of 'lived markets' at a micro-level. Foskett and Hemsley-Brown (2001) also recognise the importance of 'knowing the local market', observing that: 'Markets are dynamic and individual, defined as much by local geography and history as by any overriding principles of the economics of supply and demand.' (p.17) However, they concur with the position advanced by Foskett and Hesketh (1997):

(E)mpirical investigation must recognise that market forces are the aggregate of individual behaviour. Whilst a great deal of rich data ... is lost through the large-scale analysis of educational markets, the true impact of market forces can in fact be detected. We argue, therefore, that both levels of macro and micro research are complementary and essential as they represent two sides of the same education market coin. (pp.3-4)

In order to produce a broad-scope evaluation of market reform in VET, it has been necessary to adopt a macro-level approach to the research. The drawback, however, is that variations in the operation and outcomes of VET markets at a local level are obscured.

The snapshot approach adopted for this evaluation, whilst illuminating, has potential limitations. The resulting picture may confound transitional and ongoing costs, and fail to capture longer term trends (up or down) in continuing costs or benefits. At the time this study was conducted, the process of market reform in VET was still unfolding and the structure and organisation of VET markets were continuing to evolve. Nonetheless, by the time the survey was administered in late 2001, competitive tendering had been in place in most jurisdictions for around seven years, User Choice was approaching its fifth year of implementation, and fee-charging activities were already well established. Although there are no clear criteria for ascertaining when a market has reached 'maturity', Ferrier and Selby Smith (2003, p.23) suggest that 'it is now almost five years since User Choice was implemented in January 1998. Over this period, both positive and negative effects of the policy have become clearer'. Even so, however, some long-run trends and ramifications of market reform in VET may not have emerged fully at the time of the present study.

Also hidden from view are the effects and longer term consequences of more recent modifications to the market framework at a national and State level. The introduction of the Australian Quality Training Framework and caps on User Choice in some States, for instance, occurred not long before the national survey was conducted. Such significant policy changes are likely to have substantial impacts on TAFE and non-TAFE RTOs over time. These impacts, however, would not have been evident when this study was conducted.

Another problem confronting any study that attempts to evaluate the impact and outcomes of public sector reform programs is that of attribution. From a technical perspective, it is often difficult to establish clear relationships between inputs and outputs, and to link outputs to outcomes, due to the nature of production technologies in the education and training sectors (Marginson 1993). In such a complex, multi-faceted and rapidly changing policy and operational environment, it is also frequently difficult to distinguish between the impact and direct effects of one reform from those of another. As Polidano et al (1998, p.281) suggest:

To some extent it will always be difficult to draw definitive conclusions about the success of the new public management on the basis of observed outcomes. Where end results disappoint, is this due to defective outputs – that is, flawed reforms – or to intervening variables beyond the control of reformers?

The problem of attribution identified by Anderson (1998b) was also acknowledged by KPMG (1999) and Schofield (2000) in their evaluations of User Choice.

A number of limitations stem from the significant reliance of this study on input from senior managers of RTOs. Firstly, their experiences and viewpoints do not reflect the diverse range of perspectives on market reform within VET providers. Prior research and project consultations suggest that the absence of input from middle managers, teachers/trainers, and student services and administrative staff is likely to have produced a partial and incomplete picture of impacts at a provider level. The latter groups' perceptions and experiences of market reform and its effects are likely to vary from those of senior management as they have

been mediated and shaped by a range of differential factors relating to: work roles and responsibilities, qualifications background, professional values, and employment status, and so on. For instance, Lundberg (1996) found that middle managers in TAFE were generally less supportive of market reforms than were senior managers. Generally, such personnel are closer to the provider-client interface than senior managers. As there is no single 'provider perspective', it is necessary to acknowledge, therefore, that this study presents a provider-based, *senior management perspective* on market reform in VET.

Secondly, the loss of corporate memory, due to high turnover in the senior ranks of TAFE management since the mid-1980s, may have reduced the reliability of some survey returns. While turnover has been partly due to natural attrition, many TAFE directors in the 1980s were casualties of the new public management, particularly corporate restructuring and institutional amalgamations. Amalgamations in Victoria, for instance, led to a dramatic reduction in the number of TAFE institutes (and hence directors) from the mid-1980s (Anderson 1998d). At the time of this study, only two of the eighteen TAFE directors in Victoria had held their positions prior to market reform. As indicated later, the total number of TAFEs declined nationally from 107 in 1994 to 75 in 2001, due largely to amalgamations. Relatively few respondents would therefore be equipped to make authoritative before-and-after comparisons. The limited, pre-market reform experience of some TAFE senior managers, compounded by the absence of reliable baseline data and benchmarks, suggests that their assessments of the impact of market reform may be fairly speculative in some instances. Such assessments may also be subject to *post hoc* rationalisation.

Thirdly, reliance on senior managers' assessments of market reform poses the problem of subjectivity. Many of the key evaluation criteria are difficult to define and measure. The general problem with respect to defining the evaluation criteria is that there is rarely a clear and widely held understanding of key terms, such as 'efficiency', 'responsiveness' and 'quality'. Despite extensive prior consultations with RTOs about the concepts and terminology used in the questionnaire for the present study, there was no guarantee that respondents would share a common understanding of the evaluation criteria, or that their interpretations correspond with those of policy makers – which are often fluid and elusive (Anderson 1997a). Whilst survey questions were framed and selected so as to minimise subjective interpretations, the findings of this study rest to some degree on the admittedly bold presumption that statistical aggregation of survey responses from a large-scale sample would iron out any significant variations among respondents' understanding of key terms.

For this reason, in combination with the earlier-mentioned considerations that influenced the survey design, the questionnaire is less than a perfect instrument for measuring the outcomes of market reform. Relatively few 'hard' data about provider performance were requested from participants. In many instances, the performance measures implicit in the survey questions are indirect and approximate indicators of outcomes at best. Nonetheless, every effort was made to relate survey questions to senior managers' experiential knowledge (rather than like/dislike opinions) of market reform. It must be acknowledged, however, that the findings and conclusions of this study are based to a considerable degree on the statistical balance of responses in a positive or negative direction about the impact and outcomes of market reform.

Finally, it could be argued that many current TAFE directors are the beneficiaries, if not the products, of the new public management and market reform. As a result, they may lack independence and be disinclined to 'bite the hand that feeds them'. As previously stated, a national survey conducted in the mid-1990s found that 73% of TAFE directors favoured the development of a more open market for training services in Australia (Lundberg 1996). More recently, however, TAFE directors have shown a preparedness to adopt a more critical stance on government VET policy, including market reform (TDA 1999, 2000). Account must also be taken of the possibility that senior managers of non-TAFE RTOs may also be reluctant to criticise market reforms, given that most are now recipients of government funds.

Part III Policy and research context

Overview

The development of markets in the Australian VET sector needs to be located in its policy context before their structure, organisation and outcomes can be evaluated. This section traces the formation of VET markets from their genesis in the late 1980s, and highlights the key milestones in their development up to the time of this study. The rationale and objectives of market reform in VET are analysed, and the main characteristics of the national framework for market development and operations are outlined. A chronology of market reforms in VET is presented in Figure 1. The range of market mechanisms introduced to allocate resources on a competitive basis is then examined, and graphically depicted in Figure 2.

Early market reforms

Although private markets for adult and vocational education and training have existed in Australia since the late nineteenth century (Anderson 1994; Ryan 1996), the creation of a market for publicly financed and recognised VET is a relatively recent phenomenon. Its origins lie in the 1986 balance of payments crisis and the rise of neo-liberal economics and public choice theory in government during the 1980s. The conjunction of these forces led to a process of structural adjustment, involving micro-economic reforms to increase efficiency and productivity by reducing the size and role of government, restraining public expenditure, redesigning public sector management along private sector lines, and subjecting public services provision to market competition (Pusey 1991; Marginson 1993; Anderson 1996b).

A central role was assigned to skill formation in the process of structural adjustment, and high priority was placed on reforming the public TAFE sector so as to promote greater responsiveness to the human capital requirements of industry (Dawkins and Holding 1987). In the late 1980s, work commenced on the development of an 'industry-driven' training system based on a new approach to skills recognition and the adoption of competency-based training. The pursuit of efficiency, in a context of government budgetary restraint, led to a search for new modes of government resource allocation and sources of private income. The 'user-pays' principle was promoted with a view to increasing investment in training by individuals and industry (Dawkins 1989a,b; DEET 1988).

As a result of these trends, a disparate array of market-oriented policies and financial mechanisms was introduced during the latter half of the 1980s at a national and State level. The most explicit of these involved the progressive deregulation of export education from 1986 and the use of competitive tendering to allocate resources in the context of the Australian Traineeship System and Commonwealth labour market training programs in the late 1980s. TAFE colleges were encouraged to enter joint ventures with industry partners through the provision of Commonwealth government incentives. Although not technically a market reform, the Training Guarantee Levy (1989-1994) expanded the size of the industry-funded training market and generated more competition among TAFE and private providers (Anderson 1994).

By 1989, a number of States had introduced measures to improve the responsiveness and efficiency of TAFE, including: the use of performance agreements and business plans; fee-for-service course provision to industry; and increased entrepreneurial activity (ESFC 1989, pp.23-24). Some States, such as South Australia and Victoria, had taken steps to inject a stronger commercial orientation into TAFE colleges by giving them more managerial independence and financial incentives, including the ability to retain funds earned from

consultancies and fee-for-service provision (ESFC 1989, p.39). The Employment and Skills Formation Council (ESFC) strongly argued the need for all States and Territories to develop 'a more entrepreneurial TAFE system' (1989, p.40), and noted the support of the South Australian and Queensland governments for the concept of a national training market. Some States and Territories had also begun to establish their own training registration systems to enable private and industry providers to award publicly recognised VET qualifications and seek accreditation for their own training delivery (Anderson 1994, 1995a, 1996).

In 1990, a national survey of commercial activity in TAFE noted that:

Fee-for-service programs have been a marginal yet long-standing activity of TAFE colleges, throughout Australia. In the main, they have been comprised of short training courses, in response to the specific needs of employers and the community. Since 1986, when the Federal Government began encouraging educational export, additional activities have commenced. Over the past two years, the significance of these activities has grown and is increasingly being supported by Governments as a means of meeting growth in demand for enterprise specific training ... on a user-pay basis. (STBV 1990, p.155)

According to this report, most STAs had established centralised units to coordinate business development activities in their TAFE systems. In 1990, half of all TAFE colleges provided fee-for-service programs, including customised training, short courses and consultancy to industry. Total revenue generated from fee-for-service activity (excluding Commonwealth labour market program and student fees) was estimated to be \$71 million in 1989/90, equivalent to about 4% of recurrent funding. Nationally, an estimated 807 equivalent full-time (EFT) teaching staff and 245 EFT other staff were involved in fee-for-service provision.

Introduced in an incremental and nationally inconsistent manner, these initiatives did not amount to a coherent strategy of market reform. Overall, their impact was limited and the virtual TAFE monopoly of public funding and qualifications remained largely intact. However, they represented unprecedented experiments in commercialisation and market-based resource allocation that foreshadowed the future directions of national and State VET policies (Anderson 1996a,b).

Open training market

The concept of an 'open training market' comprising a diverse array of public and private providers was explicitly promoted in Australia by the Deveson Report (1990). Drawing on neo-liberal economic theory, Deveson argued that traditional state planning models of resource allocation were inefficient and wasteful due to the absence of any price mechanism for registering the true value of goods and services. A market-based approach was advocated on the grounds that increased client choice and provider competition would increase efficiency, quality, responsiveness, and private investment in training. To these ends, the Deveson Report proposed the partial deregulation of fee-charging in TAFE, increased commercialisation of TAFE provision, and diversification of training supply through the creation of a national recognition system for private and industry providers.

The in-principle adoption of the Deveson Review proposals in 1990 by Commonwealth and State/Territory VET ministers signalled the emergence of a more concerted approach to training market development. In 1992, the creation of 'an efficient, effective, responsive and integrated training market' was endorsed by the Ministers of Vocational Education, Employment and Training as part of a national plan for the coordinated reform of the training system (MOVEET 1992).

Established from a Heads of Government agreement in 1992, and operational from early 1994, ANTA gave priority to the development of 'a more client-responsive National Vocational Education and Training System by establishing a competitive training market' (1993, p.8). ANTA growth funds were used to encourage States and Territories to allocate an increasing proportion of their VET funds on a competitive basis to TAFE and non-TAFE RTOs.

The increasing emphasis on competition as an instrument of market reform in the VET sector also reflected the influence of the Hilmer Report (1993). This report recommended the development of an open and integrated national market in most spheres of government provision through: removal of regulations which restrict competition; restructuring of public monopolies; 'competitive neutrality' between government and private businesses; and facilitation of 'third party' access to public facilities. In 1995, the Council of Australian Governments agreed to implement a National Competition Policy based on the Hilmer principles. Although the application of National Competition Policy in the VET sector has been limited, the principle of competitive neutrality was adopted in several State jurisdictions (Selby Smith 1995; ANTA 1996a). 'Competitive neutrality' is defined in the Glossary.

Rationale for market reform

From the late 1980s, the adoption of a market-based approach to VET provision has been portrayed by policy makers as a necessary response to globalisation, technological change and industrial restructuring: According to Moran (1997, p.177), then Chief Executive of ANTA:

Technology ... renders State-Territory borders meaningless and national borders porous. This ... highlights the need for a national training market ... Alongside the technological revolution and analogous to the breaking down of State and Territory barriers and opening up of new markets is the increasing internationalisation of the economy. So not only are we facing the pressures of domestic competition but there is now the pressure to be competitive in a global market place ... (N)ot only do we face these pressures as a sector ourselves, but as VET is a major factor underpinning the success of other industries, it is absolutely crucial that we keep up with ... industries to help secure their position in a highly competitive marketplace.

Influenced by neo-liberal economic and public choice theory, policy makers portrayed the public TAFE system as inefficient, inflexible and unresponsive, if not irrelevant, to the needs of industry and the national economy. This state of affairs was variously attributed to TAFE's monopoly of public funding and recognition, its protection from competition, and 'provider capture' or control by TAFE bureaucrats and educators who were deemed to be self-serving rather than client focused (see Dawkins & Holding 1987; Scott 1989; Deveson 1990; ESFC 1991; NBEET 1991; ANTA 1994a; and also Ryan 1999 for a critical analysis). Only thoroughgoing reform along market lines, it was argued, would realign VET to the needs of industry and ensure that the Australian economy was internationally competitive. In this vein, ANTA argued in *Developing the Training Market of the Future: A Consultation Paper* that:

In order to develop the skills which underpin the competitiveness of business, reform in vocational education and training must keep pace with reform in the industries it services. Otherwise, Australia will have difficulty in responding to competitive pressures. Indications are that vocational education and training at present does not fully address the needs of business. Employers want more relevant, flexible and cost-effective training. They also want more input into training content and stronger more responsive relationships with providers. A more competitive and effective market for vocational education and training, or training market, will help achieve these goals. (1996a, p.1)

Implicit in this rationale (and more generally in the national training reform agenda) are the assumptions that: the main purpose of VET is to promote productivity and employment through the development of 'a more highly skilled and flexible workforce'; and because enterprises are 'the end-users of skills acquired through training', they are the 'key clients of the training market' (ANTA 1996a, p.7). Market-based provision of VET, it was asserted, would ensure that the supply of work-related skills was driven by client demand, and would therefore be more relevant and adaptable to the changing requirements of industry and enterprises.

Achievement of the imputed benefits of market reform in VET at a macro level is said to be contingent upon the pursuit of specific objectives at a micro level. As ANTA (1996a, p.3) states:

... the *training market* is intended to bring about responsiveness, diversity, quality and efficiency in training.

The overall benefits of market reform in VET were summarised as follows:

'(W)hat are the benefits of competition in a market? In VET, this translates to:

- greater choice and diversity of products and services for consumers at a reasonable cost
- more flexibility, innovation and responsiveness to client needs by providers

This will result in increased quality and quantity of VET provision ... We would, thereby, reduce wastage of government resources and maximise returns on the private training dollar with the ultimate goal of developing a deeper and more dynamic national skills pool that is necessary to support industry.' (Moran 1997, p.178)

According to the economic theory underpinning market reform in VET, the key to an effective training market is competition, in the absence of which the desired outcomes are unlikely to eventuate (ACG 1994a,b; Deveson 1990). Consequently, 'the goal of the training market ... is to optimise the use of competition ... to deliver quality, efficient and responsive training' (ANTA 1996a, p.1). However, as Taylor (1996) emphasised, competition should not be an end in itself, but rather a *means* by which to achieve the desired ends of market reform in VET.

Objectives of market reform

Although the policy objectives are not always clearly and consistently stated (Anderson 1997a), official documents suggest that market reform in VET is primarily intended to increase:

- *choice* and *diversity* of providers and programs/services;
- *efficiency* of publicly-funded VET provision;
- *responsiveness* to client needs;
- *quality* of VET programs and services
- *flexibility* of VET delivery; and
- *innovation* in VET products and services.

Several other objectives and outcomes of market reform have been identified at various times, such as: lower costs; greater transparency and accountability for resource allocation decisions; increased private investment in training by individuals and industry/enterprises; better skill outcomes for students and apprentices/trainees; and improved skills supply to industry, particularly small business (Anderson 1997a).

Improved access and equity has consistently featured among national and State/Territory policy priorities for VET, but has never been identified as an explicit objective of market reform. Deveson (1990) acknowledged that a training market, by itself, would probably fail to produce fair and equitable access. In order to counteract any adverse effects, it was argued that government should actively intervene with targeted subsidies for disadvantaged people: 'Through this approach, the causes of both equity ... and efficiency can be served simultaneously' (p.10).

Since Deveson, national VET policy has been rather ambiguous on the question of access and equity in the context of VET markets. On the one hand, ANTA has suggested that the needs of disadvantaged people would be met more effectively because market forces would stimulate 'greater responsiveness by training providers to client diversity' (1994b, p.5). On the other hand, ANTA (1996a) has acknowledged the potential for market failure on equity grounds and identified a role for government in promoting equitable access by purchasing training places for targeted groups.

ANTA (1996b, p.3) states in *Equity 2001: Strategies to achieve access and equity in vocational education and training for the new millenium* (sic) that: 'Improving access will continue to be a priority issue, particularly in the context of a more open and competitive training market.' It acknowledges that government intervention may be required not only to ensure equitable *access* to VET markets, but also to promote more equitable *outcomes*:

As we all know, not all Australians live on the 'level playing field'. Simply letting people through the front door of vocational education and training will not guarantee quality participation and successful training and employment outcomes. Strategies for equity – i.e. training and employment outcomes at least on a par with the community average – need to encompass all of these goals: equal access, quality participation and successful outcomes. (p.3)

The groups listed as being under-represented and/or disadvantaged in VET include: Aboriginal and Torres Strait Islander peoples; people with a disability; people from non-English speaking countries and backgrounds; women; people living in rural and remote areas; and 'various emerging groups in the community such as people leaving institutional settings' (p.3). Three strategies relevant to this study were proposed for implementation up to 2001, specifically to: ensure that funding arrangements take account of differential and long-term requirements for successful outcomes by equity target groups; improve the provision of student/employee support services; and 'evaluate the efficacy and equity of current user choice arrangements, and where necessary, make adjustments' (ANTA 1996b, p.10).

Some negative effects of market reform have been anticipated. ANTA conceded that the benefits may be accompanied by some costs during the transitional phase, including higher information and transaction costs, and greater complexity. But 'these costs will be of a short term nature and should not detract from the improved longer term viability of a competitive training market.' (ANTA 1996a, p.1) Overall, the general consensus among policy makers is that market reform in VET will produce 'major net national benefits' (FitzGerald 1995, p.55).

National Training Framework

As indicated earlier, market reform in VET has been guided by the Hilmer (1993) vision of establishing a single, nationally integrated market. With responsibility for national training market development, ANTA has attempted to harmonise the policy, financial and regulatory frameworks of the eight State and Territory VET markets:

The aim is to have a *national* training market, that is, a training market with no state boundaries where providers can compete for clients in other States and Territories and where clients can choose the provider which will deliver the training that best suits their needs, regardless of where the provider is located. (ANTA 1996a, p.9, emphasis added)

In May 1997, Commonwealth, State and Territory Ministers agreed to align their market arrangements with the National Training Framework (NTF) to ensure greater national consistency and mutual recognition of Training Packages and qualifications. Broadly speaking, the NTF comprises a set of common rules and standards for market conduct and performance, based on the following model:

Government's main role is not in determining outcomes but in setting the framework and rules for the market to work: maintaining the 'social currency' of a public qualifications framework assisting the wide portability of skills; correcting market failures, particularly in the production and dissemination of market information; and ensuring consumer protection. The government's role as regulator in VET should reflect the broader Hilmer policy principles – i.e. have promotion of competition as a central aim. (FitzGerald 1995, p.51)

The four main inter-related elements of the NTF are:

- Australian Qualifications Framework;
- Australian Recognition Framework/Australian Quality Training Framework;
- New Apprenticeships; and
- Training Packages.

Each of these elements is outlined below.

Australian Qualifications Framework

The Australian Qualifications Framework (AQF) is a credentialing framework for nationally recognised education and training outcomes, ranging from secondary school certificates to doctoral level qualifications. At the time of this study, VET qualifications were awarded at certificate, diploma, and advanced diploma level (AQF levels 1 to 6 inclusive):

Table 1: Australian Qualifications Framework levels and titles

AQF level	Primary qualification title
1	Certificate I
2	Certificate II
3	Certificate III
4	Certificate IV
5	Diploma
6	Advanced Diploma

According to ANTA (1998, p.6), the AQF ‘incorporates clear criteria governing VET qualifications to ensure that they are of consistent quality, meet Training Package requirements and can be recognised nationally’. The AQF guidelines define each qualification, together with principles and protocols covering articulation, issuance of qualifications and transition arrangements.

Australian Recognition Framework/Australian Quality Training Framework

Since the inception of training market reform, there have been three different national frameworks for assuring the quality of publicly-funded VET provision. The National Framework for the Recognition of Training (NFROT) was introduced in 1992, and replaced by the Australian Recognition Framework (ARF) in early 1998 to coincide with the national implementation of New Apprenticeships, User Choice and Training Packages. The ARF was progressively replaced by the Australian Quality Training Framework (AQTF) during 2001.

Established in 1992, the NFROT comprised systems of provider registration and course accreditation, which were designed to increase the number and diversity of authorised suppliers of national VET qualifications, while at the same time providing a mechanism for promoting quality assurance and protecting consumer interests. Although the NFROT facilitated a rapid expansion in the number and range of registered private providers (Anderson 1996a), it was criticised in government reports for being ‘slow, cumbersome and bureaucratic’ (ANTA 1996a, p.24), erecting unnecessary barriers to market entry by new private providers, and hindering the formation of a national training market (ACG 1994a,b; Hawke and McDonald 1996; Taylor 1996; Wiltshire 1997). Reflecting these concerns, the then new Minister for Schools, Vocational Education and Training stated that:

Changes to industry training over the last decade have too often been seen as excessively complex, confusing, costly and inaccessible by business especially by small and medium sized enterprises. (Kemp 1996, p.1)

Consequently, the NFROT was replaced by the ARF in order to:

- simplify and streamline arrangements for the recognition of training organisations, products and services, thereby reducing costs and complexity;
- facilitate the development of a nationally integrated training market via Mutual Recognition arrangements between States and Territories, Registered Training Organisations (RTOs) and industries;
- support the introduction of training packages and fully on-the-job training and assessment; and
- develop more flexible and nationally integrated arrangements for quality assurance. (ANTA 1998b)

Following a series of reports highlighting flaws in mutual recognition and quality assurance arrangements under the ARF (SEWRSBERC 2000; Schofield 1999a,b, 2000), the ARF was reviewed during the latter half of 2000 and early 2001, and was replaced by the AQTF, following endorsement by the ANTA MINCO on 30 June 2001. The AQTF as a set of nationally agreed standards which aim to ensure that:

- the quality of the delivery and assessment systems, client services and administrative systems of RTOs is assured on a more rigorous and nationally consistent basis; and
- all RTOs and the qualifications they issue are recognised throughout Australia. (ANTA 2002b)

As the AQTF was introduced progressively from mid-2001 onwards, its nature and implications had not been fully digested by RTOs at the time of this study.

New Apprenticeships

New Apprenticeships – which incorporate both traditional apprenticeships and the shorter term traineeships delivered under the Australian Traineeship System – are employment-based training arrangements which aim to:

- offer new career pathways in traditional and non-traditional industries;
- provide flexibility for employers to choose a trainer and negotiate an individualised training program;
- offer learners recognised vocational training opportunities which can begin at school or be undertaken part-time; and
- combine employment with structured training to cover both theoretical and practical training for the workplace. (ANTA 1999a, p.3)

New Apprenticeships comprise contracts of structured training and employment between an employer and apprentice or trainee. Once the contract has been registered, the employer is eligible for Commonwealth government wage subsidies and, in some States and Territories, additional subsidies or exemptions from payroll tax. These subsidies and taxation exemptions act as incentives to encourage employers to take on new apprentices and trainees.

New Apprenticeships are supported by the User Choice policy ‘which is part of a national strategy for developing an open training market by enabling employers and learners – the “users” of training – to choose which Registered Training Organisation will deliver their training ... Employers will be able to negotiate with training organisations registered for their industry area on the timing, location and mode of delivery, who conducts the assessment, and how the training is evaluated.’ (ANTA 1999a, p.3) The training subsidies that flow to RTOs are separate from the wage subsidies paid directly to employers. However if the employing organisation is also an RTO, then it is eligible to receive both the wage and training subsidies. User Choice is examined in more detail in a later section.

Training Packages

Prior to the advent of the NTF, nationally recognised competency standards, assessment and qualifications were delivered in the form of accredited courses, comprising curriculum specifications with identified learning outcomes and nominal contact hours for module delivery. Training Packages were phased in from 1997 onwards in an effort to increase the flexibility, accessibility and responsiveness of training to the needs of industry in general, and individual enterprises in particular.

Each Training Package comprises a set of nationally endorsed competency standards and qualifications for recognising and assessing skills. The skills required to perform competently in the workplace are identified, but how they are acquired is not prescribed. Learning strategies are developed by teachers and trainers according to learners’ needs, abilities and circumstances. Training Package assessment is referenced to industry-determined competency standards, rather than learning outcomes and nominal contact hours. In these respects, and because they are designed primarily for delivery in the workplace, Training Packages represent a radical departure from the traditional approach to curriculum design and delivery in VET.

Training Packages are developed through national industry training advisory bodies, Recognised Bodies or by individual enterprises to meet identified training needs. Once endorsed, they can also be customised to meet the specific needs of individual enterprises, within nationally mandated guidelines for the packaging of units of competence and national qualifications. Training Packages are reviewed on a three-yearly cycle to ensure they remain up-to-date and relevant to changing industry and enterprise needs (ANTA 1999a, 2002a).

Growth and efficiency strategies

Throughout the period of market reform, the Commonwealth government consistently pursued efficiency gains in the VET sector, initially under 'maintenance of effort' provisions in the original ANTA Agreement, and then under the 'growth through efficiencies' strategy in the revised ANTA Agreement (1998-2000). Such provisions aimed to ensure that State and Territory governments would maintain their resourcing of VET at consistent levels and achieved annual efficiency gains. This occurred against the background of a considerable increase in Commonwealth VET funding from 1991 to 1996, primarily due to the \$100 million additional TAFE recurrent funding allocated in the 1991 *One Nation* economic statement. In the same year, national targets for increasing the participation of young people in post-compulsory education and training were set by the Finn Review (1991). Due also to the projected increase in industry demand for training resulting from award restructuring (Deveson 1990), participation in VET programs as a whole was expected to grow considerably.

As a result, the Commonwealth Labor government agreed to inject an additional \$70 million in growth funds for each year of the 1993-1995 triennium, which was also extended into 1996 and 1997. However, the subsequent federal Coalition government terminated annual growth funding in the revised ANTA Agreement for 1998-2000. Instead, in return for the maintenance of Commonwealth funding in real terms for five years, the States and Territories were required to achieve targets for 'growth through efficiencies' by increasing Annual Hours Curriculum (AHC) and student enrolments within existing resource levels. Performance was measured against the 1997 level of activity and reductions in unit costs per AHC for each State and Territory (ANTA 1998).

Each State and Territory developed 'growth through efficiencies' plans, in addition to their own annual VET plans, for endorsement by the ANTA MINCO. State and Territories also identified annual 'efficiency dividends' to be achieved within their own VET systems. Competitive tendering and User Choice arrangements were explicitly used to achieve greater efficiency and stimulate growth in the VET sector. In effect, publicly funded VET providers were required to achieve annual efficiency gains throughout the 1990s, at the same time as adapting their internal operations to the new market-oriented environment.

Market mechanisms

As previously indicated, all State and Territory governments embarked on processes of market reform in their VET systems following the national agreement in 1992 to develop a competitive training market. Due to the federal structure of the Australian VET sector and historical differences among States and Territory VET systems, the ways in which markets have been designed, and the rates at which they have been developed, vary markedly (ACG 1994a,b). Significant modifications have been made over time in response to changing economic and labour market conditions, the recommendations of governmental reviews and evaluations, and the ideological stances and policy priorities of newly elected governments at both a national and State/Territory level. Notwithstanding interstate differences and inconsistencies, the mechanisms used in State and Territory VET markets are broadly similar in form and character.

Figure 1: Chronology of market reforms in VET

- 1986 Deregulation of export education (including VET) commenced
Funding for Australian Traineeship System opened up to private providers by tender
- 1987 *Skills for Australia* (Dawkins & Holding 1987)
Introduction of Commonwealth-State Resource Agreements/college performance agreements
Commonwealth capital and equipment grants for TAFE-industry collaboration
- 1988 Competitive tendering introduced for Commonwealth labour market programs funds
- 1989 *Industry Training in Australia: The Need for Change* (Dawkins 1989)
Introduction of the Training Guarantee Levy
- 1990 *Training Costs of Award Restructuring* (Deveson 1990)
• promotion of training market concept and associated reforms (e.g. national skills recognition; commercialisation of TAFE; tuition fees in TAFE)
Special Ministerial Conference endorses training market concept
- 1991 Removal of Commonwealth prohibition on TAFE tuition fees
- 1992 *National Goals for Vocational Education and Training* (MOVEET 1992) endorses:
• open training market
• National Framework for the Recognition of Training
• competency-based training
• national industry competency standards
Establishment of ANTA to facilitate and coordinate national training market development
- 1993 Release of the Hilmer Report (1993) on national competition policy
ANTA Priorities for 1994: a 'client-focussed' system and market competition (ANTA 1993)
Competitive tendering programs introduced in the ACT and Victoria VET systems
Extension of Austudy to private sector students
- 1994 *Successful Reform* (ACG 1994a)
• recommended the introduction of demand-driven resource allocation for apprenticeship training (initially named 'user buys', subsequently renamed 'user choice')
ANTA growth funds allocated by competitive tender in most States and Territories
Abolition of the Training Guarantee Levy
- 1995 ANTA implements 'user choice' pilot program
- 1996 *Developing the Training Market of the Future. A Consultation Paper* (ANTA 1996a)
- 1997 Establishment of the National Training Framework, including the:
• Australian Qualifications Framework
• Australian Recognition Framework (ARF)
• New Apprenticeships
• Training Packages
- 1998 National implementation of User Choice (except for NSW)
- 1999 National Evaluation of User Choice (KPMG 1999)
Caps on User Choice introduced in Queensland, Tasmania and Victoria
- 2000 Senate Inquiry into the quality of VET recommends national evaluation of user choice
- 2001 ARF replaced by the Australian Quality Training Framework

State and Territory governments commenced the process of market reform from different starting points, and the pace and trajectory of their reform processes were influenced by the prevailing mix of local political, industrial, financial and other conditions in their respective jurisdictions. At the outset of the reform process, the Victorian and NSW VET systems were arguably located at opposite ends of the spectrum (see ACG 1994b, p.57 for a profile of State government approaches). The Victorian Training System comprised a set of relatively autonomous TAFE institutes, with highly devolved managerial powers and relatively strong involvement in commercial activities (ESFC 1989). By comparison, the NSW TAFE system was highly bureaucratized and generally non-commercial in orientation (Scott 1989). During the early 1990s, the rate of commercial development was faster in Victoria and Queensland (ACG 1994a), and both States adopted a more radical approach to market reform in the mid-1990s, particularly in Victoria under the Kennett Coalition government (Angus and Seddon 2000). By the end of the 1990s, however, new State governments in both Queensland and Victoria had reduced the pace of market reform with the introduction of caps on User Choice in the private provider sector and increases in the proportion of public funding allocated directly to TAFE institutes.

Although the eight State and Territory governments have pursued their own distinctive market reform agendas, there has been general agreement about the form and direction of market development. While falling short of national consistency, State-based approaches have been converging to a greater extent in recent years under the steerage of ANTA and within the National Training Framework. Simultaneously, processes of resource allocation have been reformed along market lines as a means to achieve the annual efficiency targets set by Commonwealth and State/Territory governments.

The repertoire of market mechanisms is quite extensive and has evolved over time. Most techniques for injecting market elements into the public VET sector were initially borrowed from overseas, particularly the UK and New Zealand, and adapted to local conditions (ACG 1994a,b). The insertion of such mechanisms into the public VET sector has in turn created a new structure of markets for VET alongside the direct (profile) funding sector (see Part V). The market mechanisms adopted in the Australian VET sector are examined below, and some key interstate differences in their design and operation are highlighted. Their main characteristics are depicted in Figure 2 at the end of this section.

Charging mechanisms

Three main charging mechanisms, based on the ‘user-pays’ principle, are used in the VET sector:

- student fees and charges in the direct (profile) funding sector;
- full fees in the open and commercial market; and
- internal charging.

The main purpose of these mechanisms is to recover the partial or full costs of service delivery via fees and charges imposed on clients. Their main features are as follows.

Student fees and charges

Following the removal of the Commonwealth prohibition on tuition fees in 1991, user charges were introduced in TAFE to enable partial cost recovery, rather than as a fully-fledged market pricing mechanism. The Deveson Review (1990) justified student fees on the grounds that the foreshadowed increase in demand for training places under award restructuring ‘will require contributions from system users as well as from government’; and because ‘a moderate level

of charges may engender a sense of commitment', thereby increasing student retention and completion rates and reducing wastage (p.39). Potential barriers to access, it was argued, could be addressed by granting fee concessions and exemptions for women, unemployed people, low income earners and recipients of Commonwealth welfare benefits.

Despite the Deveson (1990, p.48) proposal to develop 'more open, rational and equitable charging arrangements in TAFE', subsequent research shows that fee charging varies considerably among State and Territory VET systems (Kronemann 2002; Watson 2003). Each State and Territory government determines its own fees and charges policy, including levels of cost recovery and concessions and exemptions relating to recurrently funded VET courses. Fee charging arrangements also vary considerably within individual State and Territory VET systems. At a local level, TAFE institutes in most States and Territories enjoy considerable discretion in the interpretation and application of government policies.

At the time of the study, fees paid by students enrolled in profile-funded VET courses fell into two broad categories, as follows:

- *tuition fees*, which are generally charged on the basis of a flat rate per nominal curriculum hour, or a sliding scale for different courses in some States/Territory VET systems. Burke (2002, p.4) notes that 'Most State and Territory authorities cap the level of tuition fees at about \$1 per student contact hour and partially or fully exempt low income or disadvantaged students.' Although fees for certain full-time TAFE courses in some States range up to almost \$2,000 per annum, the average fee paid by the bulk of TAFE students (most of whom are part-time) is around \$100 per annum (Kronemann 2002). State policies on tuition fees apply to all publicly funded training places, including those delivered by private providers.
- *non-tuition fees and other charges*, including those that apply to course-related materials, consumables, recognition/assessment of prior learning, student services and amenities, student administration, among other things. Due to wide variations among and within State and Territory VET systems, it is impossible to provide a comprehensive and accurate profile of all types of non-tuition fees and charges imposed on students.

Fee concessions and exemptions for targeted equity groups typically range from a 50% discount to full exemptions in some States and Territories (Kronemann 2002). They are generally granted to recipients of Commonwealth allowances and benefits, including AUSTUDY and other student allowances, and holders of Health Care, Pensioner Concession and Veterans Affairs Pensioner Concession cards. Fee concessions and exemptions also apply to some courses, including: basic literacy and numeracy, English as a Second Language, prevocational, and targeted access and equity courses. Borthwick (1999) estimates that, in many States and Territories, between 20-30% of TAFE students are granted fee concessions or exemptions.

Full fees and fee-for-service activity

Fee-for-service provision involves the fully commercial production and marketing of VET programs and services to individual, industry, enterprise and other clients (e.g. governments, aid agencies) in Australia and overseas. Fees are set by individual providers at a level to recover all tuition and other costs, and to generate a profit or surplus. Except in the on-shore market for overseas students, where only RTOs are authorised to deliver VET programs and services, non-registered providers are able to offer fee-for-service programs in the open and commercial market.

As noted above, fee-for-service arrangements existed in TAFE prior to the market reform process, and are a major source of revenue for many private providers. Fee-for-service provision has expanded since the Commonwealth government began to partially deregulate export markets in 1986, and following the Deveson Review (1990) which encouraged State and Territory TAFE systems to become more entrepreneurial and compete in commercial training markets. Governments have stopped short of the wholesale privatisation of VET financing via fee-for-service provision, due to concerns about potential market failure, particularly on access and equity grounds (Deveson 1990; ACG 1994a,b).

Internal charging

The construction of markets within the State/Territory VET systems has, in some cases, also spawned the development of market-like processes within individual TAFE institutes. In Victoria and Queensland during the early 1990s, for instance, a number of TAFE institutes reorganised their service delivery departments into semi-autonomous business units (Anderson 1994, Burroughs 1995). Increased financial responsibility was devolved to unit managers within a framework of internal performance agreements. Such agreements often included annual targets for fee-for-service income, reinforced by performance-based pay systems, and encouraged units to charge for internal service provision on a cost-recovery basis. As data on such activities are not publicly available, they are not examined in this study.

Performance agreements

Performance agreements are a quasi-contractual mechanism for allocating public funds on the basis of specified outputs and funding levels, which are subject to some negotiation between the State/Territory training authority and provider. These agreements are also shaped by the prior input of demand-side planning information, such as skill needs projections, from bodies such as Industry Training Advisory Boards and professional associations.

Although performance agreements foreshadowed the subsequent use of market mechanisms to promote greater efficiency and accountability, they were not initially adopted as an explicit market reform strategy in VET. However, they are important in that they create a partial purchaser/provider split (by placing government agencies at arm's length from providers), increasing the scope for managerial discretion at a provider level, and drawing clearer links between resource inputs and outputs.

At the time of this study, performance agreements were used in the context of profile funding arrangements, which involve the direct and non-competitive allocation of recurrent funding to individual TAFE institutes against an agreed profile of training outputs. In effect, such agreements provide a basis for measuring and comparing provider performance against quantifiable output indicators. Although less directive than the traditional public sector model of budget allocation, the profile funding process and performance agreements still involve a relatively high degree of centralised planning and bureaucratic accountability.

Contestable funding mechanisms

The main tools used by government to allocate public resources in a market-like manner are competitive or contestable funding mechanisms. Such arrangements aim to promote direct competition among public and/or private providers within a framework of rules and regulations established by government, in this case the National Training Framework. Contestable funding mechanisms are based on a:

- *monopsony model*, in which government assumes the role of single purchaser to buy, on behalf of clients/users, programs and services from providers, via competitive tendering and other bidding mechanisms; and
- *user choice model*, in which purchasing power is allocated to users (or, in some cases, intermediaries) in the form of simulated or quasi-vouchers which enable users (or their agents) to choose a preferred supplier from a range of approved providers, to whom government then directs public funds.

In both models, government determines the purchasing price and the range of VET programs and services to be delivered in advance of the market-based competition. Both models require successful bidders to enter contracts with government, which specify the price, type and level of services to be delivered, among other things.

At the time of this study, the two main quasi-market mechanisms used for allocating government VET funds on a contestable basis were:

- *competitive tendering* in the context of non-apprenticeship VET programs; and
- *User Choice* in the context of New Apprenticeships and traineeships.

The main features of each mechanism are outlined below.

Competitive tendering

Competitive tendering refers to the practice of public and/or private providers bidding against each other for government contracts (and hence public funds) to deliver VET programs and services, generally in the form of training places. A monopsony (single buyer) generally exists within competitive tendering markets, with STAs purchasing training places on behalf of individual clients within their own markets. Purchasing priorities are influenced by demand-side planning inputs from industry training advisory boards, and measurable outputs are specified in contracts, for which providers are held accountable. The basis for provider competition may comprise one or more factors, including price, quality, service standards and other criteria. Prior to the introduction of competitive tendering, core VET delivery funds were allocated directly to public TAFE providers and a small number of other government-maintained providers, such as agricultural colleges, on a non-competitive basis.

User Choice

User Choice is a simulated or quasi-voucher scheme which operates in the context of the New Apprenticeship scheme, and aims to stimulate direct competition among providers and thereby drive improvements in efficiency, quality and responsiveness by empowering clients over providers (ANTA 1996a). Under User Choice, employers and their employees (apprentices and trainees), or their agents, choose their preferred provider (public or private), and key elements of the training – including content, timing, sequencing, location, mode of delivery, assessment and choice of trainer – within the limits set by the National Training Framework and Training Package guidelines in particular. Where an enterprise is both an RTO and employer of the apprentice/trainee, the employer can choose to deliver the training in their own workplace, and thereby qualify to receive government VET funds. Once a customised training plan has been negotiated and agreed between the user and provider, funds for delivery are then directed by the relevant STA to the chosen provider (ANTA 1996). The purchase price is calculated against rates determined by each STA. In effect, the purchasing role under User Choice is shared between the user (who *chooses* the provider) and government (who subsequently *pays* the chosen provider).

User Choice was introduced because ‘Employers, apprentices and trainees have not been able to influence training provision directly by “taking their business elsewhere” if the service offered does not meet their needs.’ (Kemp 1996, p.14) Prior to User Choice, the bulk of government funds for apprenticeship training was directed to public TAFE providers via non-competitive budgetary allocations, and apprentices generally enrolled in the nearest available or most convenient TAFE provider to undertake their off-the-job training. Funds for delivery of the off-the-job training components of the Australian Traineeship System were allocated via competitive tender in the 1980s (Anderson 1996a).

The organisation and operation of User Choice programs at a State/Territory level are governed by a set of nationally agreed principles and operational guidelines which specify, among other things, that: the User Choice market is national in scope and not limited by State/Territory borders; pricing arrangements are to be transparent, with scope for access and equity loadings; clients may purchase top-up services over and above the publicly-funded level of provision; User Choice programs will improve access and equity outcomes; States/Territories may limit User Choice in thin markets; national and State/Territory regulatory frameworks and administrative arrangements are to be complementary; and outcomes are to be evaluated against program objectives as an integral element of continuous improvement (ANTA 2000c). The national principles and guidelines for User Choice are contained in Appendix 2.

User Choice incorporates two other market mechanisms, specifically fee-for-service provision and brokers or intermediaries:

- *Fee-for-service*: User Choice policy states that: ‘Training over and above that which is essential to the qualification outcome for the apprentice or trainee, and is above that which is funded publicly, can be negotiated and purchased by the client.’ (ANTA 2002c)
- *Brokers/intermediaries*: Established and funded by the federal government, New Apprenticeship Centres (NACs) act as brokers or intermediaries who: market and promote New Apprenticeships; provide information to clients about training arrangements, training agreements and financial incentives under the New Apprenticeships system; and administer Commonwealth incentive payments to employers.

Competitive neutrality

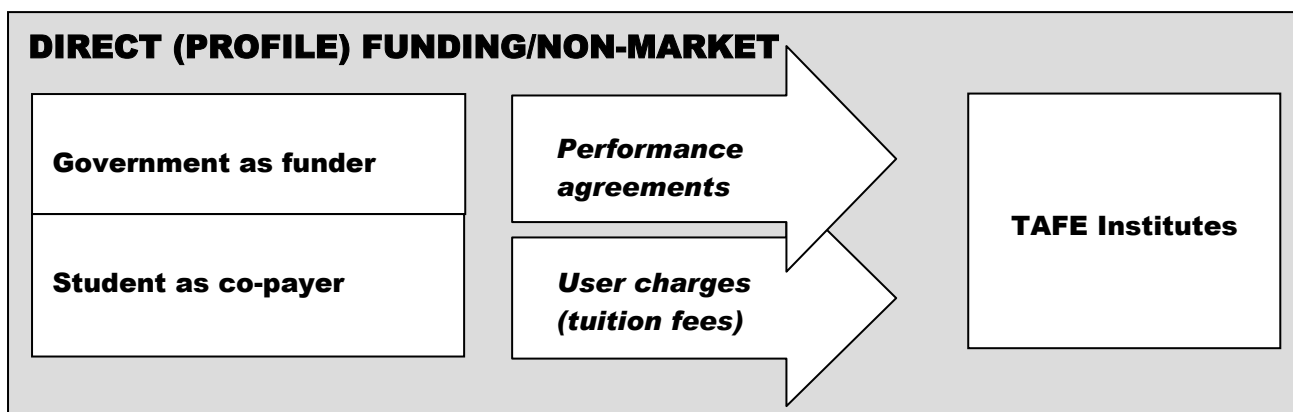
Following the adoption of National Competition Policy in 1994, State and Territory governments introduced policies and guidelines to promote ‘competitive neutrality’ in all portfolios, including VET. ‘Competitive neutrality’ is ‘the situation where no provider, public or private, has a competitive advantage or disadvantage as a result of government policy regulations.’ (ANTA 1996a, p.7) The main aim of competitive neutrality arrangements is to ensure that public and private providers compete on a ‘level playing field’.

Public providers are generally considered to enjoy greater net competitive advantages over private providers as a result of state ownership and investment in capital, curriculum and other factors of production (Harmsworth 1996, p.2). In Victoria, for instance, TAFE institutes are required to comply with competitive neutrality requirements in the conduct of commercial activities, such as tendering for public monies (SGV 1996; DOE 1996). ‘Third party access’ regimes have been established in some State/Territory jurisdictions to give private providers access to public VET curriculum and facilities (Selby Smith and Selby Smith 1997).

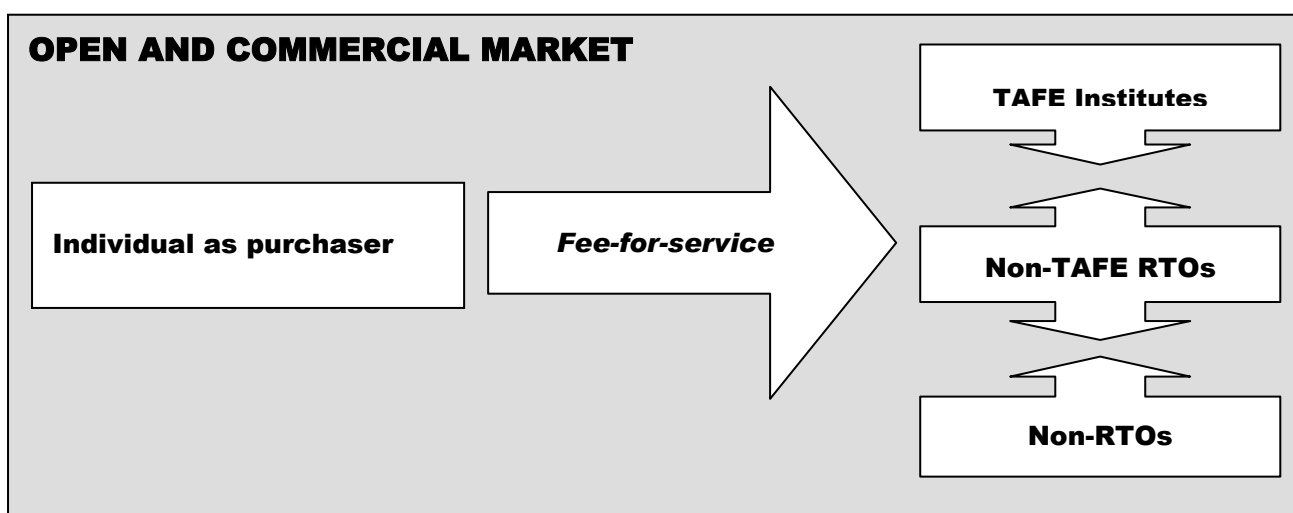
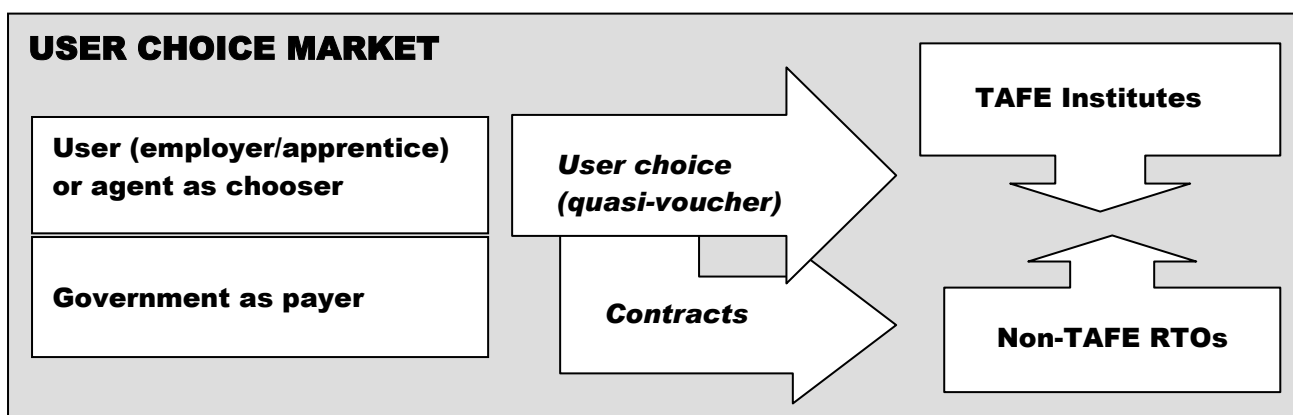
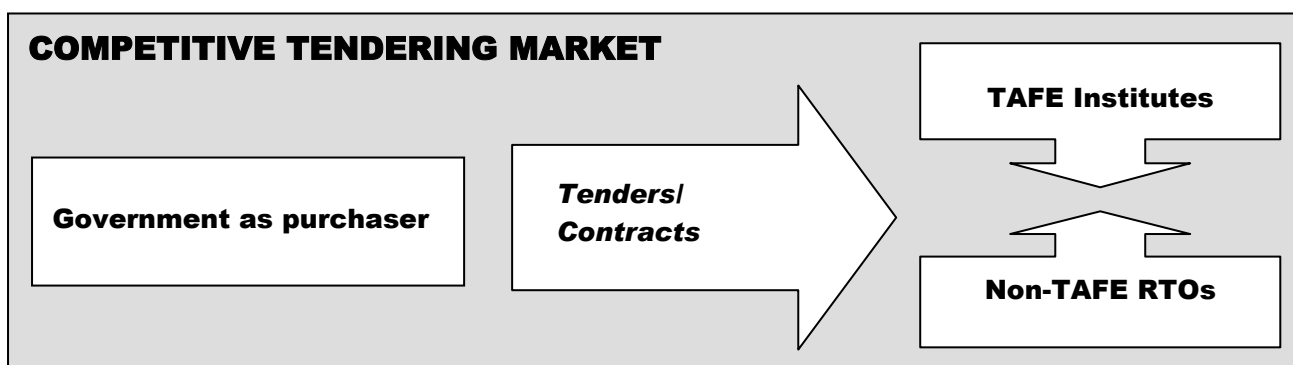
Conversely, a major disadvantage experienced by public providers relates to community service obligations, which are socially valuable (but commercially unprofitable) activities which are likely to be under-produced in a fully competitive market context. The Allen Consulting Group (1994b) argued that providers should be compensated for the costs of meeting community service obligations, so as to remove any financial disincentive to deliver training that promotes important economic and social policy objectives. To date, however, no State or Territory funding regime for VET provision has explicitly recognised the costs of community service obligations, which are difficult to specify and quantify. The appropriateness of the concept of community service obligations in the context of VET has also been questioned on social and educational grounds (Burckhardt and Corben 1996; Powles and Anderson 1996), and from a market economic and financing perspective (KPMG Management Consulting 1996). Nonetheless, some STAs (including those in the Northern Territory and Victoria) adjust their purchase prices to take account of the additional costs involved in delivering training services in rural and remote areas (Burke 2003a).

Figure 2: Main market mechanisms in VET

PARTIAL PURCHASER/PROVIDER SPLIT:



FULL PURCHASER/PROVIDER SPLIT:



Overview

The explicit and concerted construction of quasi-markets for VET appears to be a phenomenon unique to Australia. As Fisher (1993, p.27) noted, ‘the “training market” appears to be a peculiarly Australian contribution to public policy – the concept is effectively absent from equivalent policy debates in North America and Asia.’ The UK has experimented with: Training Credits, a quasi-voucher scheme for young people introduced in 1991; a form of performance-based funding in the further education sector; and the introduction of CBT and a national vocational qualifications framework (Finkelstein and Norton Grubb 2000). Competitive tendering has been used to a limited extent in New Zealand, Sweden and the United States of America (USA), generally in the context of labour market training programs for unemployed people. The USA is also unique in that, by and large, it ‘represents an example of the operation of unfettered market forces in the provision of vocational education and training’ (ACG 1994b, p.169). Consequently, while there are a few evaluative studies of individual market mechanisms, such as those of Training Credits for young people in the UK (e.g. Coopers and Lybrand 1994; Hodkinson et al 1996), they are of limited relevance to the Australian experience due to differences in the policy context and market design.

Much of the early research on VET markets in Australia was implementation, rather than outcomes, oriented, in that it was concerned with analysing market structure and operations and identifying the conditions under which the reform objectives could be achieved. Such an approach was to be expected, given the relative novelty of markets in VET at the time and the absence of any policy precedents. This early research is not discussed in detail below as it is somewhat dated and has been reviewed elsewhere at length (Anderson 1996b, 1997a).

More recent research on the operation and effects of quasi-markets in VET is patchy and inconclusive. It tends to focus on one market mechanism to the exclusion of others (e.g. Ferrier and Selby Smith 2001, 2003; KPMG 1999; Smith 1998; Schofield 1999a,b, 2000; Selby Smith et al 1996). Few studies have evaluated market reform in VET in its totality, the exceptions being the Bannikoff Review (1998) which examined the impact of all contestable funding mechanisms on TAFE institutes in Queensland, and the Western Australian ministerial review of the training sector (WAMT 2001) which investigated the impact and efficacy of ‘managed competition’ in that State. As previously argued, the impact and outcomes of market reform in VET can only be fully understood through broad-scope evaluations which take account of the coexistence, interaction and combined effects of market mechanisms as a whole.

Research to date has produced an incomplete and inconclusive picture due to its restricted focus and scope. Most government reviews of market mechanisms focus on one particular State jurisdiction (e.g. Bannikoff 1998; Schofield 1999a,b, 2000; WAMT 2001), as does Saggars et al. (2002). Most other research takes the form of micro-level case studies conducted at a single provider site, usually a TAFE institute (e.g. Angus and Seddon 2000; Kell et al. 1996), or in a single region (e.g. Noble et al. 1999). Research into client perspectives on market reform is partial and largely comprises single point-in-time surveys of employers (e.g. KPMG 1999), and TAFE students (e.g. Anderson 1998b, 1999).

Some of the available research, particularly reviews conducted by or for government, tends to be rather thin in terms of explaining the evidential sources and bases on which conclusions were reached. The methodological complexities of evaluating market reform, and the resulting limitations of the research, are frequently under-stated (if at all). Nevertheless, the

body of empirical data on trends and issues in VET markets has been growing steadily. Considered together, the research to date provides some significant insights into the workings and effects of market mechanisms in VET, the wider applicability of which the present study sought to test. Salient findings from prior research are briefly discussed below.

Competitive tendering

Research findings on competitive tendering are mixed, though on balance they suggest that the costs are likely to outweigh any benefits. Early research suggested that competitive tendering had reduced costs to government. However, overemphasis on price competition was seen to have potentially compromised quality (ACG 1994a,b). The Employment and Skills Formation Council (ESFC 1994, p.67) found that the tendering process for federal government labour market programs had 'a number of unintended and unwanted consequences'. The pursuit of government contracts had assumed greater importance for providers than meeting client needs. Other problems included unproductive rivalry and waste through duplication of services and facilities within regions and even towns, high tender administration costs, a perceived lack of transparency in funding decisions, and provider insecurity arising from short-term contracts.

A national study suggested that 'competitive tendering ... along with other elements of training reform, are helping to stimulate a more diverse, responsive, customer focused, outcomes-oriented and cost-conscious VET System' (WADOT 1996, p.6). It found 'little evidence' of negative effects, but highlighted several issues, including: under-provision in rural and regional areas due to diseconomies of scale and thin markets; information deficiencies; access and equity concerns; high administrative costs and complexity; and cost-shifting or substitution of public for private training resources. However, the report concluded that the full implications and the relative costs and benefits of competitive tendering were 'far from being fully documented'.

The Bannikoff Review (1998) in Queensland identified inefficiencies arising from competitive tendering, including duplication of effort, and under-utilisation and inadequate maintenance of TAFE capital infrastructure due to a loss of government contracts. Resources had been diverted from TAFE to the private training sector, and within TAFE from training delivery to market administration. As a result, the financial viability of TAFE institutes had been undermined, with adverse consequences for: the public interest element of TAFE activity; the quality of product development and delivery; human resource development; access and equity; employment outcomes for students; and other government policy objectives and priorities. Bannikoff (1998) concluded that competitive tendering was producing sub-optimal social and economic outcomes, and should therefore be restricted to areas of new and untested demand and high volume/high contestability areas of training, with annual budgets set to ensure continuity of supply in thin markets.

User Choice

Overall, research suggests that User Choice is a more effective mechanism than competitive tendering for increasing choice and responsiveness, although efficiency gains and quality improvements are less evident. In an early evaluation of User Choice in the context of traineeships in Queensland, Smith (1998) identified three positive outcomes as follows: a wider range of training options for employers; increased interaction between employers and providers, particularly TAFE providers; and a more business-like approach by government agencies. However, 'both the training and the outcomes of training under the User Choice system in Queensland are of highly variable and dubious quality, particularly where full on-the-job arrangements are in place' (p.vi).

Many of the problems, Smith argued, were due not to the concept of User Choice but rather to deficiencies in policy implementation, resourcing levels, and market management, specifically inadequate contract monitoring, enforcement, and quality assurance. Other problems included: a lack of impartial and comprehensive information for clients; high administrative costs; declining quality due to an over-emphasis on marketing and selling; inflexibility and unresponsiveness to employers' needs and circumstances; and systemic fragmentation due to inter-TAFE rivalry.

The Bannikoff Review (1998) of contestable markets in the Queensland confirmed many of Smith's (1998) findings. Although User Choice was found to have promoted more provider-client interaction and responsiveness, choice of providers and products was limited, clients were unable to make informed choices due to inadequate information, and demand signals were diluted due to complex administrative processes. Cost-shifting and substitution of public for private investment in training was highlighted as major problems. Bannikoff found that the administrative costs of User Choice had been shifted to TAFE institutes, without any corresponding increase in funding allocations. A \$9 million reduction in industry-funded training at TAFE institutes in the 1997/98 financial year was attributed to decisions by enterprises to transfer existing employees into government-subsidised traineeship positions. User Choice had also disrupted the stability and continuity of skills supply to industry, particularly in thin markets in rural/regional and remote areas, resulting in sub-optimal skill levels. Overall, User Choice, in tandem with competitive tendering, had failed to promote 'appropriate standards, efficiency or fairness' (p.10).

In a subsequent review of traineeship training in Queensland, Schofield (1999a, p.55) argued that '*if managed wisely ... contestability ... can help agencies to become more efficient without impairing their effectiveness.*' She found that the User Choice market in Queensland suffered from two 'fundamental flaws'. 'Proxy purchasing' by training brokers had reduced effective client choice, created conflicts of interest, and increased administrative complexity. 'Market viability' had been undermined by imperfect information and insufficient providers in some areas. Such flaws, argued Schofield, reflected adversely on the ability of government to organise and manage its market effectively, but not on the concept of User Choice itself.

Schofield (1999a) identified a range of other specific problems, including:

- pricing policies and practices that promote quantity and efficiency at the expense of quality and effectiveness;
- overly complex and resource-intensive administrative systems, resulting in the diversion of funds from training delivery;
- a lack of rigour in quality control, particularly during contract allocation; and
- under-investment by providers in human resource and capital infrastructure development, due to inadequate funding and short-term, uncertain contracts.

Commissioned by ANTA, a national evaluation of User Choice (KPMG 1999) suggested that the benefits outweigh the costs, at least from an employer perspective. Employers indicated high levels of satisfaction with the scope for exercising choice, the degree of provider responsiveness to their needs, and the information received about training products. In contrast, increases in employer satisfaction with training delivery and quality were lower. Relatively few employers had altered their market choices. Only 7% had changed their provider since User Choice began. Apprentices and trainees had exercised limited (if any) choice of provider, but had exercised more choice in relation to training content and delivery mode and timing.

From a provider perspective, User Choice was found to have enhanced responsiveness to employer needs. But administrative complexity had increased, and efficiency had possibly decreased due to higher administrative, marketing and advertising costs. Some evidence suggested that quality may also have been compromised. Only 38% of RTOs said that User Choice had been a success. Significantly, 37% of respondents to the KPMG survey were both employers and RTOs. However, as the survey data is presented in an aggregated manner, it is impossible to compare their responses with other non-employer RTOs. As Smart Consulting and Research (2003) notes in a review of government purchasing from private RTOs, the conflict of interest embedded in conjoint employer-RTO arrangements limits the reliability and validity of research data from this source. Specifically, 'The use and interpretation of employer surveys are likely to be of little value where the RTO and the employer are the same entity.' (p.24)

Overall, KPMG concluded that: 'Positive progress is being made in achieving the objectives of the User Choice policy' (p.22). 'Over-bureaucratisation of choice' was identified as a 'hot spot' and the need for a better 'balance between internal and external labour market aspirations of the two User Choice clients' – namely employers and apprentices/trainees – was also noted (p.26).

In a study of User Choice in regional NSW, Noble et al (1999) highlight the problems created by thin markets in sparsely populated areas and small industry sectors:

In numerically-thin markets, it is possible that user choice may lead to discontinuity of supply. If a large employer removes its apprentices or trainees from the major provider, either to another provider, or more particularly to train them itself, the TAFE course might then become unviable. As a result apprentices and trainees from other companies have no training available locally – or in the case of industrially thin markets – even in the entire State. (p.12)

All twelve regions which they investigated were found to suffer from numerically thin markets. The development of strategic alliances and partnerships between TAFE, private providers and industry is identified as a means to ensure greater continuity of supply in thin markets.

In a review of Victoria's apprenticeship and traineeship system, Schofield (2000) found that the share of government-funded apprenticeship and traineeship training held by private and ACE providers had increased from about 20% in 1998 to around 40% in 1999. State government funding for apprenticeship and traineeship training in Victoria amounted to \$151.1 million in 1999.

Schofield (2000) found 'considerable evidence' that User Choice had produced: more innovative and flexible approaches to training; a stronger focus on client service; better management and training practices; greater responsiveness to industry and employer needs; stronger capacity to balance supply and demand for training; more effective use of resources to develop niche expertise; and more collaborative industry partnerships and alliances. However, major deficiencies in the design and administration of the regulatory framework for quality assurance were highlighted for corrective action. Schofield argued that these problems were not a direct result of User Choice, but could erode training quality if left unaddressed.

Schofield's review was conducted soon after the newly elected Victorian State Labor government froze User Choice funding allocations to non-TAFE RTOs at existing levels. Schofield found that the freeze had had 'mixed effects'. On the positive side, 'it has slowed uncontrolled growth so as to provide a clear space for re-assessment of the competition-quality nexus and other factors which affect quality training (and) has sent a strong signal to the market that quality now matters.' (2000, p.30) On the negative side, Schofield reported

that it had: raised barriers to market entry; adversely affected the business plans of private RTOs, especially those who had entered the market shortly before the freeze; limited choice for employers dissatisfied with TAFE provision; and limited the capacity of private providers to respond to industry demand.

Managed competition

The most recent and comprehensive evaluation of market reform was the ministerial review of the training sector in Western Australia (WA) in 2001. Although its scope extended beyond training market arrangements, the review examined the impact and efficacy of that State's policy of 'managed competition', the aims of which were:

... to ensure the State system has the capacity to meet its commitments to access and participation, and community service, as well as protecting the public investment in the TAFE network and its infrastructure, within a widely dispersed training market. Protecting what are considered to be 'thin markets' has seen the application of competitive principles limited to areas of training delivery that were identified as capable of supporting an increased number of providers. (WAMT 2001, p.17)

At that time, the WA managed competition policy was being implemented via the Competitively Allocated Training (CAT) Program, a form of competitive tendering, and the User Choice program for apprenticeship/traineeship training.

The Review found that managed competition had increased: responsiveness to the skill needs of enterprises, industries and equity target groups; choice and diversity of providers and programs; flexibility in training provision; innovation in service delivery; and growth in training delivery. Negative effects on TAFE colleges included: course closures due to unviable class sizes; increased administrative overheads; the diversion of funding from training delivery to advertising and marketing; fragmentation of service delivery; and less coordination and collaboration across the TAFE college network, which had reduced the capacity for the flexible management and deployment of human resources. Other evidence of 'unnecessary and wasteful' competition between TAFE colleges included duplication in the research, development and marketing of TAFE products. The review concluded that:

... there is an increasing imperative for colleges to collaborate in the interests of achieving a coordinated training system. ... A culture of collaboration is critical to achieving greater responsiveness in the training sector to industry, community and student needs.' (pp.21, 29)

Among other things, the Review recommended the creation of a Shared Services Organisation to achieve better economies of scale in marketing and advertising by the TAFE college network; and inclusion of a 'partnership criterion' in funding submissions under the CAT program.

Managed competition had also created significant tensions at a systemic level. The scope for government to set and resource strategic priorities for skills development had become increasingly limited under User Choice, as placements depend on the availability of employment for apprentices and trainees. Only 8% of total contestable funds were available for discretionary allocation to meet identified strategic skill priorities. In light of these concerns, the Review noted that 'If competition is to be viewed as a key mechanism for leveraging responsiveness to State and community development priorities, the question remains as to whether the current mix and level of funding is appropriate for this purpose.' (p.20) It also identified a misalignment of system-level information and resourcing on the one hand, and regional and local needs and drivers in a diversified and deregulated market

environment on the other. The Review concluded that these systemic issues required consideration in the context of a strategic, sector-wide, planning strategy, based on closer and more integrated links with colleges and local communities.

In a subsequent discussion paper, entitled *Competition policy in vocational education and training*, Mitchell (2003) examines key requirements arising from State VET legislation in WA and national competition policy, and identifies several challenges, including those of:

- containing private provision under User Choice to limit private reliance on government funding in a restrained budgetary context, and to stem the decline in TAFE delivery and under-utilisation of public training infrastructure;
- identifying and managing ‘thin’ markets, particularly in rural/regional and remote areas;
- ensuring public funds are directed to areas of strategic priority; and
- establishing an appropriate and sustainable competitive threshold or target.

Underlying many of these issues is the aforementioned problem of demand management created by the open-ended and market-driven nature of User Choice resource allocation and provision. With a restricted training budget – a significant proportion of which is already locked into existing User Choice agreements – and an ongoing policy commitment to fund apprenticeship and traineeship training, government faces a major dilemma:

How should the Department manage demand, remembering that to a large extent demand is linked to employment, when apprentices/trainees commence and which industries are employing apprentices/trainees? (Mitchell 2003, p.7)

Mitchell concludes that: ‘There is a need to revisit our approach to competition and develop a policy position that enables us to manage the challenges at a strategic and operational level. Currently real pressure points exist in the User Choice training market, which will be exacerbated by the additional requirements arising from the recent MINCO resolutions related to User Choice arrangements.’ (p.9)

This review of available research confirms the need for a broad-scope evaluation of the impact and outcomes on market reforms in the Australian VET sector – one that is national in scope and integrated in its assessment of market mechanisms and their combined effects. As reflected above, the research illuminates a number of significant trends and issues which, in combination, suggest that market reform has had mixed outcomes, both positive and negative. Whilst common themes emerge from this body of research, variations are also apparent in the effects of market reform in different State and Territory jurisdictions. Such commonalities and differences were taken into account in the process of designing the evaluation framework and survey instrument for the present study. In particular, this study attempts to test and ascertain the extent to which those outcomes most commonly identified in prior research are more generally evident across the eight State and Territory market jurisdictions that comprise the national training market.

**Part IV Conceptual and evaluation
framework**

Overview

This section briefly outlines the theory and construction of ‘quasi-markets’ in public service provision, a conceptual category into which publicly funded markets in VET fall. The theory of quasi-markets addresses their associated policy objectives and conditions for successful operation. These in turn provide a set of criteria which constitute a framework for evaluating the outcomes of quasi-markets, the elements of which are explained in the subsequent section.

The theory of quasi-markets

Reform of the provision and financing of public services along market lines is a recent phenomenon, dating from the 1980s when ‘new public management’ emerged as ‘an identifiable movement towards an international redefinition of the way public services operate’ (Taylor-Gooby and Lawson 1993, p.12). The origins of new public management lie in: public choice economics, which questions the ability of governments to deliver services efficiently and bureaucracies to act other than in their own interests; and management theory, which argued that the public sector should be remodelled along private sector lines, so as to promote the rise of ‘entrepreneurial government’ (Osborne and Gaebler 1992). New public management is characterised by ‘an emphasis on *accountability, results, competition* and *efficiency* (but) is as much a doctrine or ideology as a simple neutral technique for improving performance and service delivery’, due to the fundamental changes in public sector values, priorities and orientations that it entails (Taylor-Gooby and Lawson 1993, p.12).

One of the distinctive goals of new public management is to redesign public sector institutions in ways that mimic private enterprise, involving, among other things, the use of ‘market mechanisms wherever possible, either in the form of quasi-markets to introduce competition between public providers, or by contracting out or privatizing services which were previously undertaken directly by the state.’ (Pollitt 2002, p.276) The use of market mechanisms and competition to allocate government funds represents a radical departure from the traditional approach to public sector management, which is characterised by centralised planning, hierarchical authority, bureaucratic control and the delivery of services through state-owned and operated providers. As Walsh (1995a, p.29) observes:

The two key developments in the management of the public services in recent years have been the development of markets and the introduction of competition ... It involves a fundamental change of institutional structure, and there will need to be an explicit process of institution building that addresses the difficulties that are involved. The move will not be to free and unregulated markets, but to what Le Grand (1991) calls quasi-markets, which are governed by their own rules and procedures.

As Le Grand and Bartlett (1993) explain, quasi-markets are qualitatively different from free markets, despite the operation of choice and competition principles, and the allocation of public funds to private providers:

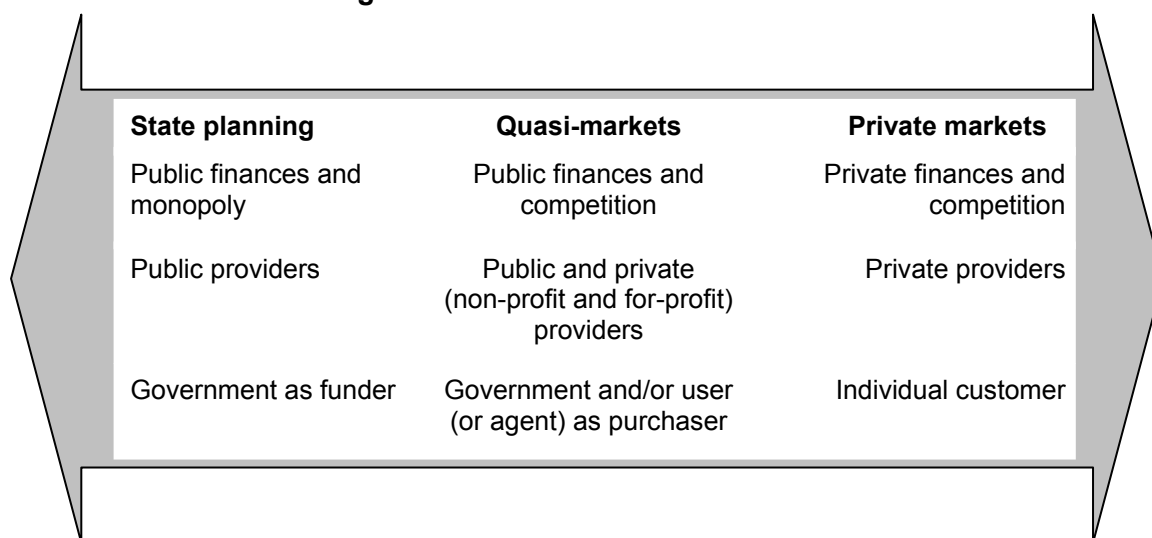
(Quasi-markets) are ‘markets’ because they replace monopolistic state providers with competitive independent ones. They are ‘quasi’ because they differ from conventional markets in a number of key ways (such as) non-profit organisations competing for public contracts, sometimes in competition with for-profit organisations; consumer purchasing power either centralised in a single purchasing agency or allocated to users in the form of vouchers rather than cash; and, in some cases, the consumers represented in the market by agents instead of operating by themselves. (p.10)

Unlike free markets, quasi-markets are closely regulated by government:

The market that is developing for public services is managed. There is close regulation of the way it operates, and control of the pattern of change. ... What is emerging is a new form of organisation that is neither market nor hierarchy, but which lies rather uncomfortably between the two. (Walsh 1995a, p.xviii)

In these respects, quasi-markets combine elements of both planning and market approaches to the provision of public services, as depicted in Figure 3.

Figure 3: State-market continuum



By subjecting the financing and provision of public services to competition, quasi-markets are intended to overcome the perceived defects of bureaucratic approaches, which are variously characterised as wasteful, inefficient, inflexible, and unresponsive to client needs (Bartlett et al 1994). They are also seen as a means by which government can gain the benefits of markets, whilst avoiding their failures:

The possibility of government control through contracts, regulation and other mechanisms opens up the attractive opportunity of taking advantage of market mechanisms within a context of public control, and so gaining the benefits both of government and markets. Much of the recent change in the management of the public service has involved the attempt to gain the advantages of market mechanisms, while still operating within the public sector. (Walsh 1995a, p.26)

Theoretically, quasi-markets offer the possibility of promoting 'increased efficiency, responsiveness and choice, without adverse consequences in terms of increased inequity' (Le Grand and Bartlett 1993, p.19).

Any account of the quasi-market experiment in public services provision must acknowledge the ideological and political context in which it emerged. As Bartlett et al (1998) explain, the 'revolutionary' shift in social policy away from a 'planned economy' towards market-based provision of public services:

... was based on ideological commitments to market principles and the belief that only by introducing them into what was perceived as sluggish unresponsive bureaucratic apparatuses of the welfare state could efficient services, responsive to

consumers' choices, be delivered. However, the ideology provided only the framework for a more pragmatic objective: to contain spiralling cost pressures in all sectors of the welfare state. (p.2)

Similarly, market reform in VET was inspired by ideological commitments to neo-liberal market principles and public choice theory, and driven by the efficiency imperative (for more detailed analyses, see Anderson 1996b; Marginson 1993).

The construction of quasi-markets

The reconstruction of public service financing and provision within a competitive market framework is no simple matter, and there are no historical precedents or readily available models to mimic. Walsh (1995a, pp.54-55) notes that:

The creation of an effective, market-based system of management within the public service depends upon the development of an appropriate institutional framework within which it can operate ... It will be fairly straightforward to develop market-based approaches, but it will be more difficult to ensure that they operate in such a way as to create efficient and effective management.

As quasi-markets are radical innovations in public sector financing and provision, they are therefore likely to require constant review and modification` in the early phases of development.

Le Grand and Bartlett (1993) identify the following conditions for the development of successful quasi-markets:

- a competitive market structure comprising many purchasers and providers;
- access to accurate, independent information about costs for providers, and about quality for purchasers;
- transaction costs, particularly those associated with uncertainty, kept to a minimum;
- providers motivated at least in part by financial considerations, and purchasers by user interests; and
- an absence of incentives for 'cream-skimming' by providers and purchasers, so as to ensure that less expensive users are not favoured.

These conditions in turn provide a framework of criteria for evaluating quasi-markets, as discussed in more detail later.

Market reform in the public sector generally occurs in two stages (Common et al 1992). The key elements of these two stages and related issues are outlined below.

Purchaser/provider split and contracts

The first stage of market reform entails the creation of a 'purchaser/provider split'. This involves the separation of the roles of funding and provision that were previously integrated in the traditional public service model, and the allocation of responsibility for purchasing and provision to two discrete bodies – central government agencies and local service providers respectively. The purchaser/provider split reframes the relationship between government and providers in terms of demand and supply, or 'buyers' and 'sellers', and thereby creates the conditions for market transactions and contractual relationships. As Street (1994) notes, 'A purchaser/provider separation is designed to use contractual arrangements to introduce competitive elements into what remains essentially a publicly managed ... system.'

In combination with the purchaser/provider split, contracts are a key element of market infrastructure in that they provide the legal mechanism by which the 'principal' (in this case, government), as the buyer or purchaser of services, relates to the 'agent' (in this case, RTOs) as the seller or provider of services. As Walsh (1995a, p.110) explains:

Contracts involve a move from a hierarchical to a market-based approach to the organisation of public services, in which the roles of principal and agent are clearly separated and property rights more explicit. The public sector, as client, commissioner or purchaser, contracts with those who actually provide the service, the providers or contractors. The responsibility of the purchaser is to define what is wanted, to let the contract, and to monitor performance; the provider is responsible for the actual production and delivery of the service.

Government can choose whether to use fully fledged legal contracts or quasi-contracts, such as performance agreements, to contract services out to the private sector or allow public providers to compete with private contractors for the right to deliver the specified services, as generally occurs under competitive tendering arrangements.

Theoretically, contracts enable government as the purchaser of training places to:

- achieve clearer service specifications;
- separate and clarify the roles of government and as purchaser and provider as service deliverer;
- specify the conditions on which funds are allocated;
- specify outcomes and the process for monitoring performance;
- clarify the requirements for accountability; and
- set out the sanctions and process for dealing with non-compliance.

In conjunction with the purchaser/provider split, contracts are therefore supposed to clarify purchasing priorities and objectives, focus attention on outcomes, and increase provider efficiency, responsiveness and accountability (Walsh 1995).

Competition and contestability

The second stage of market reform involves the introduction of competition or contestability among providers, either within the public sector, or between public and private providers. Common et al (1992) provide a taxonomy of markets in which different models of competition operate. Those most relevant to this study are:

- a monopsony/competitive market, in which 'there is still a single purchaser, but the purchaser is still able to organize competition among providers';
- a competitive internal market, in which publicly owned and operated providers compete against each other for government contracts; and
- an open market, in which internal providers compete with external (private sector) suppliers. (Common et al 1992, pp.16-17)

Walsh (1995a) notes that monopoly (i.e. a single provider) in quasi-markets 'need not be a problem', provided that such markets are contestable:

(T)he appropriate form of organisation of the production and delivery of public services depends upon the contestability of the market, not simply competition within it. A market is contestable ... if the costs of entry and exit are low, because there are few sunk costs. (p.25)

The Industry Commission (1995, p.ix, emphasis added) defines ‘contestability’ as:

The degree of ease with which firms can enter or leave a market reflecting the level of *potential* competition. In a contestable market, the threat of new entrants causes incumbent firms to operate at levels approaching that expected in a competitive market.

The concept of ‘contestable funding markets’ has been increasingly used in the VET sector to refer to the opening up of government resource allocation processes to actual or potential competition among providers.

Overview

As indicated above, the theory of quasi-markets proposes a set of criteria for evaluating their structural design, outcomes and overall efficacy as instruments of public policy reform. Described below, the ‘conditions for success’ and outcomes-related criteria identified by Le Grand and Bartlett (1993), and elaborated in other quasi-market literature, constitute the overarching framework for this evaluation of market reform in the Australian VET sector.

Few studies have adopted the evaluation framework proposed by Le Grand and Bartlett (1993) in its entirety, and even fewer have undertaken broad-scope evaluations of quasi-markets. Most concentrate on one particular public sector, such as health, education (usually secondary schooling) and welfare, and typically examine the effects of a single or small selection of market mechanisms. Overall, case study evaluations of quasi-market reforms to date draw attention to the potential for sub-optimal performance, or even market failure, across a range of sectors. In their early overview evaluation of the quasi-market experiment in the UK, Le Grand and Bartlett (1993) found that many of the conditions for effective choice and competition had not been met, for example in the health and education sectors. Subsequent evaluations by Bartlett et al. (1994) identify problems arising from, among other things: information asymmetry (the situation where providers have access to more information, and hence greater market power, than clients); barriers to market entry, poor information on outcomes; and new monopolistic relationships. Evaluation findings also point to the inability of contracts to overcome market failure (due to the potential for cream-skimming or cost reduction at the expense of service improvement); and a lack of appropriate skills among users’ agents, in addition to conflicts of interest.

There have also been several studies of quasi-markets in human services sectors other than education and training in Australia, although none adopt Le Grand and Bartlett’s (1993) framework (for example, see DEWRSB 2000; Ernst, Glanville & Murfitt 1997; HRSCFCA 1998; IC 1995; Kelly et al 1999). Their relevance to the present study of markets in VET is also limited due to significant differences in market structure, organisation, financial mechanisms, service characteristics, and provider-client relationships. Market reforms in the school and higher education sectors in Australia have also been the subject of quite extensive analysis and some empirical research (for example, see Marginson 1993, 1997a). But their relevance to market reform in the VET sector is also limited.

Conditions for success

The first of two main components of the evaluation framework developed by Le Grand and Bartlett (1993), supplemented by Le Grand (1994), relates to the extent to which quasi-markets satisfy specified conditions for success with respect to market structure; information; and motivation. The definitions and indicators of these key criteria are outlined below, and then related to this evaluation of quasi-markets in the Australian VET sector.

Market structure

Le Grand (1994, p.253) notes that: ‘For the allocation of service by a quasi-market to be efficient, to offer choice to users and to be responsive to users’ needs and wants, the market concerned has to be *competitive* on both the purchaser and providers side.’ In order to be competitive, the market must comprise large or sufficient numbers of providers, actual or

potential, and purchasers. A lack of providers, or market dominance by large providers, can reduce choice and undermine efficiency and quality due to a lack of competitive pressure. Also, 'an important requirement for quasi-market efficiency is that the relevant providers have hard budget constraints and therefore face a real risk of losing their provider status if they exceed those constraints.' (Le Grand and Bartlett 1993, p.24)

With respect to the demand side of the market, Le Grand (1994) notes that:

(A) monopoly purchaser dealing with many small providers could be harmful, driving down the returns to providers below acceptable limits. Also, monopoly purchasers have fewer incentives to respond directly to users than competitive ones. If purchasers are to be properly responsive to users, it is desirable that users have a choice of potential purchasers to act on their behalf. (pp.253-254)

In markets where prices are administered by government, rather than formed by genuine market forces, 'user participation in the decision making processes of the agencies may be a precondition of efficient price setting on the demand side.' (Le Grand and Bartlett 1993, p.23)

Information

The second condition that markets in VET must satisfy, if they are to function effectively, relates to information. Le Grand (1994, pp.255-256) states that:

(A)ccurate information about costs, prices, quality and other attributes of goods and services should be available to all participants. In particular, the monitoring of quality has to be an essential part of any quasi-market system. Otherwise providers may engage in ... opportunistic behaviour, exploiting their informational advantage to reduce costs at the expense of quality.

Considerable research has been undertaken or commissioned by government in an effort to improve the quality of information available to providers about the costs of VET delivery. However, Burke finds that available studies of the costs of VET delivery are limited in key respects, and generally lack analytical rigour. Delivery costs in VET are difficult to calculate precisely, and most on-campus and workplace-based programs 'are delivered for the (public) funds available' (Burke 2003b, p.18).

Inadequate information on the demand side of the market is identified as a source of potential market failure, despite considerable public investment in the establishment of the NTIS and a series of national and State/Territory information strategies. Such information deficiencies are used as the key justification for government acting as the purchaser of training places on behalf of individual students (ANTA 1996a). Kinsman (1998, p.134) argues however that the official justification for government acting as purchaser 'based on anticipated rather than actual evidence of market failure.'

Research has suggested for some time that the quality and accuracy of provider and course information available to individual VET clients is inadequate (for an overview, see Anderson 1997a; NCVET 1997). Policy reviews also identify the poor quality of information available to clients as a major flaw in VET markets (e.g. Bannikoff 1998; Schofield 1999a,b, 2000). However, the most recent study of client choice and information provision in VET (Anderson 2003) provides some countervailing evidence. Although the sample for this study was self-selected, small and largely unrepresentative of the total VET student population, it found that a large majority of respondents were satisfied with their course and provider choices, and with the information on which their choices were based.

Motivation

The motivations of providers and purchasers comprise another criterion for evaluating whether quasi-markets are likely to operate in an efficient and effective manner:

All providers should be at least in part financially motivated: that is motivated to minimise their costs. If they are not motivated in this way, they will not respond appropriately to market signals. (Le Grand 1994, p.258)

While the present study aims to determine whether VET providers are motivated accordingly, it also departs from the technical-rational model underlying the above approach. Instead, a more critical stance is adopted to the question of values and motivations in VET markets. The reason for doing so is that the above approach is based on the misleading assumption that quasi-markets in public service provision are value-free and neutral mechanisms for improving performance and service delivery.

In reality, the design and management of markets entail political choices and decisions about which values are to be maximised, and whose interests are to be prioritised. As Walsh (1995a) notes, the development of markets for public services entails a shift from bureaucratic control and professionalism to the use of market-like incentives to reshape the value commitments, orientations and motivations of service providers. This approach was adopted to ensure that service providers would act in a more 'business-like' and entrepreneurial manner. As a consequence, it is argued that the traditional values and normative commitments associated with public service are being replaced with those of private enterprise:

The fundamental logic of 'economy, efficiency and effectiveness' (and 'value for money') is now widely accepted, providing the frame of reference within which decisions must be justified. In the process, alternative forms of legitimation and justification (such as those concerned with equity ...) have been marginalised. (Clarke et al 1994, p.229)

Research suggests that market reform in VET has led to a similar shift in the values, orientations and priorities of the public TAFE sector (Anderson 1997a; Angus and Seddon 2000). In summary, the research suggests that TAFE providers are driven more by: the goal of cost-reduction than quality improvement; short-term than medium or long-term demand for skills; financial and commercial imperatives than by educational and skills formation objectives; and efficiency objectives than by equity goals. Such changes in the values and priorities of TAFE institutes may have unintended effects on the nature of VET provision, with adverse economic, social and educational consequences. The research also suggests that providers are less inclined to share information and resources to protect commercial confidentiality, thereby potentially undermining provider collaboration, systemic efficiency and effectiveness. The survey sought feedback on all the above matters.

Le Grand (1994) identifies the need for a close correspondence between purchasers' motivations and user needs. The question of purchaser motivations is not addressed in this study as to do so would have required an additional survey. As employers are the main drivers of purchasing decisions under User Choice arrangements, the correspondence between such decisions and user needs is likely to be direct. The extent to which such decisions reflect the needs of apprentices and trainees is less clear, as they generally exercise less influence in the choice process (KPMG 1999; Schofield 2000). The question of whether purchasing decisions by government under competitive tendering reflect user needs requires further research. Le Grand (1994, p.258) argues that in these circumstances, 'there is clearly a problem in ensuring that purchasers will act in the interests of users, and not pursue their own agendas. Hence it is

important that there be some mechanism for ensuring that purchasers do take account of users' welfare and views in making their purchasing decisions.'

As previously stated, market reform in VET was in part initiated in an effort to ensure a closer correspondence between skills supply and demand. For this to occur, it is reasonable to assume that providers' decisions would increasingly be driven by market forces than by government policy and planning priorities. Consequently, the survey included a question along these lines.

Outcomes of market reform

As stated earlier, this study aims to evaluate the extent to which market reform in VET has performed against the specified criteria for effective quasi-markets, and produced the outcomes intended by policy makers, as follows:

- *choice* and *diversity* of providers and programs/services;
- *efficiency* of publicly-funded VET provision;
- *responsiveness* to client needs;
- *quality* of VET programs and services;
- *flexibility* of VET delivery;
- *innovation* in VET programs and services; and
- *access and equity* for under-represented and disadvantaged client groups.

Definitions of these criteria, associated performance indicators, the means by which they were operationalised in the survey, and related issues and pitfalls, are discussed below. Evaluative data are drawn mainly from the national RTO survey, supplemented by information from other available sources.

Choice and diversity

As evaluation criteria, choice and diversity are inter-related. In the context of VET markets, 'choice' refers to the process in which individual and industry clients select a preferred provider and program/service from a range of alternatives available within the NTF. In official policy literature, increased choice is identified as both a desirable outcome in itself, and a means by which to stimulate greater competition and responsiveness to client needs (e.g. Deveson 1990, ANTA 1996a). Firstly, the exercise of choice in itself theoretically enables clients to select VET programs and services that correspond with their diverse skill needs. Any increase in the range and diversity of VET provision is significant in that it means clients have access to a wider range of options from which to make choices. Provided that clients are able to exercise choice in a relatively unconstrained manner, increased diversity in the range of VET providers and programs/services therefore indicates that the scope for choice has been expanded. Consequently, the diversity of VET providers and programs/services is used in this study as a proxy measure of increased choice in VET markets.

Secondly, when clients exercise choice in a market context, they are expressing their preferences for particular VET programs and services. Provided that relations between clients and providers are close and direct, the expression of client preferences sends clear signals to providers about the nature of demand in VET markets. In order to attract clients and secure their custom, providers must respond to these demand signals and compete with each other to offer programs and services that best meet client needs. In effect, the exercise of choice is

meant to exert competitive pressure on providers to respond efficiently and effectively to client needs and preferences with respect to price, quality and other factors. The extent to which relations between clients and providers are closer and more direct is therefore used in this study as another measure of the degree to which market reform has enhanced choice.

While relations between clients and providers may have become closer and more direct, this does not necessarily mean that clients are more able to exert a stronger influence over the characteristics of the VET programs and services. VET programs and services are 'experience goods', in that their quality and relevance to client needs cannot be fully known at the time of purchase, and can only be assessed during or after their use (Walsh 1995a). It is only through the prior specification of outcomes that clients can have some confidence that their chosen programs and services will match their needs and expectations. Consequently one indicator, albeit approximate, of the extent to which clients are able to make more effective choices in VET markets is whether or not they are able to exert greater control over the outcomes of their training experience.

Choice is a more complex concept than is commonly assumed, and changes in the actual scope for choice in VET markets are difficult to measure in a meaningful way. The evaluation of choice in VET markets requires consideration of other contextual issues and questions. For example, it is necessary to determine which clients are empowered to make choices in different VET markets, and which aspects of VET provision are subject to client choice. In doing so, the extent to which the scope for choice is constrained by policy, regulatory and financial arrangements must be taken into account. As Taylor-Gooby and Lawson (1993, p.141) note in a consideration of factors that may constrain choice:

Since some crucial factors – most importantly overall budget and policy objectives – are decided at the political level, some possibilities are necessarily ignored by the system ... (T)he political choices which shape the freedom of the operation of markets and the action of managers are of fundamental importance.

Such issues and questions are considered in a later section of the report.

Efficiency

Le Grand and Bartlett (1993) identify two criteria for evaluating efficiency in quasi-markets:

- 'crude efficiency', which refers to a reduction in the *total costs* of service delivery, regardless of whether the quality or quantity of output is maintained; and
- 'productive efficiency', which refers to a minimisation of the costs of delivering a given quality or quantity of a service – i.e. more outputs per input or the same outputs for reduced inputs – which is often referred to as achieving 'value for money'.

Both types of efficiency are identified in official policy statements as intended outcomes and expected benefits of market reform in VET. For instance, ANTA (1994a, pp.1, 7) states that competitive markets are a means by which to 'contain or reduce costs' (crude efficiency) and to achieve 'value for money' (productive efficiency). Although often inter-related, the achievement of increased crude efficiency or cost reductions does not automatically lead to increased productive efficiency if, for example, the quality of service delivery declines as a consequence of cost-cutting. The problem of attribution should also be emphasised. In particular, the effects of contestable funding processes are difficult to distinguish from those of reduced government funding per hour of VET delivery.

'Allocative efficiency' is another form of efficiency, wherein resources are allocated in a way that maximises the net benefit attained through their use, and produces proper quantities of

the products that consumers value most. However, as allocative efficiency is neither included by Le Grand and Bartlett (1993) among their evaluation criteria for quasi-markets, nor identified in policy statements as an intended outcome of market reform in VET, it was not examined in this study.

Efficiency can also be defined at an organisational and systemic level. Organisational efficiency relates to the internal business operations of providers, while systemic efficiency relates to the overall functioning of the VET sector. Increased efficiency at the level of discrete organisational units, such as improved financial management and information systems, does not necessarily translate into greater efficiency at a systemic level. For example, although each TAFE and non-TAFE RTOs may achieve greater internal efficiency due to the pressures of market competition, the system as a whole may be less efficient as a consequence of provider duplication and reduced economies of scale. As ANTA (1996a, p.17) notes, 'Care will also be needed to ensure that a network of private providers dependent on public funds is not established, duplicating elements of the public sector.'

Organisational and systemic efficiency are also affected by transaction costs, which are the costs involved in making exchanges. As Le Grand (1994, p.257) observes:

The transactions which take place in quasi-markets are often quite complex and multi-dimensional, involving the provision of sophisticated service activities rather than the relatively basic provision of material commodities with which traditional markets deal.

The transaction costs can be either transitional or ongoing in nature, and take the form of *ex ante* (before) and *ex post* (after) costs (Le Grand 1994). Transaction costs associated with the creation and management of quasi-markets can be quite high, and relate to the: introduction of new organisational and managerial systems, including new information, marketing/communications, planning and financial management systems; contract preparation, development and letting; contract monitoring and compliance; and performance reporting and auditing. The separation of purchaser and provider, together with the use of devolved budgets and contracts, imposes considerable new costs on government agencies and service providers. However, it is difficult to assess these costs and quantify the resulting savings, if any (Walsh 1995a).

Transaction costs must be kept to a minimum if potential efficiency gains resulting from market reform are not to be reduced or lost altogether. As Le Grand and Bartlett (1993, p.30) state, if quasi-markets are 'to be more efficient than the systems they replace, any extra transaction costs they create must not be higher than any cost savings that may be generated by the forces of competition or by other aspects of the quasi-market.'

The existence of uncertainty and complexity in providers' operational environments can also contribute to transaction costs – particularly with respect to planning for future service delivery – and must therefore also be minimised. As Le Grand and Bartlett (1993, p.28) note, the 'existence of uncertainty may threaten the efficient operation of quasi-markets because it restricts the ability of ... providers to plan ahead for the level of service which will be required.'

Efficiency is evaluated in this study using a number of proxy (and highly subjective), indicators, including provider assessments of whether market mechanisms have: reduced the costs of training delivery and the complexity and costs of administration, and resulted in a more efficient use of public training resources. In order to evaluate the significance and impact of transaction costs, providers were asked: whether they are redirecting resources from training delivery to administration (e.g. planning, financial management) and/or marketing

information and communication; and whether reductions in delivery costs outweigh any increases in administration and marketing costs (transaction costs).

The relationship between two key outcomes measures was assessed by asking providers whether they are giving priority to cost-reduction or quality improvement in the context of contestable funding markets. Individually and in combination, these questions aim to shed light on the degree to which crude and/or productive efficiency has been achieved in VET markets, and whether any such gains have been reduced or lost due to transaction costs. Other relevant survey findings, such as those relating to private provider reliance on public funds, and extant evidence of organisational and systemic efficiency are also taken into account.

Pollitt (2002) suggests that considerable caution must be exercised when interpreting evidence relating to efficiency, and that it would be prudent not to take claims of efficiency gains at face value. Elsewhere, he notes the interpretive difficulty involved in attributing efficiency gains to policy reforms in a context of budget cuts: 'how far are they simply the result of relatively traditional bureaucratic responses to budget cuts? In other words, would much of the productivity gain have been achieved simply by insisting on budget cuts and leaving officials to get on with adjusting to the consequences?' (Pollitt 1995, p.142)

Responsiveness

As an evaluation criterion, responsiveness is relatively more straightforward than others. However, the distinctions between responsiveness and other criteria are less clear-cut than is generally assumed:

Responsiveness could be viewed as part of the quality of the service and hence as a factor determining the level of 'benefits' derived from it; it could therefore be merged with the definition of productive efficiency to produce an omnibus criterion. However, since considerations of responsiveness appear so prominently in the debates concerning the desirability or otherwise of the (quasi-market) reforms, it seems useful to treat them separately ... (Le Grand and Bartlett 1993, p.16)

The same approach has been adopted in the present study for the same reasons.

Responsiveness is not a neutral concept operating in a value-free context. Insufficient attention is generally given to the question of *whose* needs market-driven providers are supposed to respond to more effectively (for an overview of the debate, see Anderson 1998b). As Taylor-Gooby and Lawson (1993) point out, political and financial considerations are likely to determine the nature and direction of increased responsiveness in a demand-driven market. To a significant degree, clients who are most empowered to exercise choice in VET markets are by implication also likely to be the major beneficiaries of increased responsiveness. Decisions about who exercises choice, and therefore enjoys the benefits of increased responsiveness, are political in nature and reflect the balance of power relations among stakeholders in VET.

Even in the context of official policy statements, the answer to the question, 'to whom should providers respond?', is not altogether clear as government has shifted ground over time. In 1994, ANTA stated categorically that its reform agenda aimed to better 'accommodate the needs of *industry* as the *principal client*' (1994a, foreword, emphases added). Following the election of the current federal Coalition government, 'industry' (employers and unions) was replaced by 'enterprises' (employers only) and individual students were reinserted into the picture, albeit in a subordinate position:

At the heart of reform in vocational education and training is the need to give clients more control over training delivery outcomes. Fundamentally, *enterprises* are the *key clients of the training market* ... However it is clear that the current publicly funded training arrangements are not adequately meeting the client needs ... *Individual students* are, of course, the *immediate clients of training providers* (ANTA 1996a, p.7, emphases added).

Earlier definitions of VET clients also included 'the community' (ESFC 1991), and high priority has since been placed on increasing responsiveness to the needs of small business (ANTA 1994a, 1996a).

The evaluation of responsiveness is further complicated by variations in the definition of 'clients' and the scope for client choice in the different market sectors. Under User Choice arrangements, for example, a stronger emphasis has been placed on meeting the needs of enterprises, which 'must have the right to choose (with their apprentices and trainees) the off-the-job training which best suits their needs' (Kemp 1996, p.13).

The existence of multiple client groups and the complexities of meeting their potentially divergent needs and interests have been recognised by ANTA:

Any reform will need to account for the potentially competing demands of client groups. For example, balances will need to be achieved between individual employers (who may prefer enterprise specific training), individual students (who may prefer more general and transferable skills) and industry bodies (who may prefer national consistency in training). (1996a, p.7)

Although ANTA has given higher priority to meeting the needs of industry and enterprises, it must be presumed that the market reform is intended to increase increased responsiveness to the full range of client needs in a balanced and equitable manner. TAFE institutes in particular, as publicly owned providers, 'will face the continuing challenge of balancing commitments to industry, community and government while remaining responsive to all.' (ANTA 1996a, p.22)

For the purposes of evaluating the extent to which market reform has increased provider responsiveness, therefore, the following groups are defined as VET clients:

- large and medium enterprises;
- small enterprises;
- individual students and apprentices/trainees; and
- local/surrounding communities.

In short, this study evaluates the extent to which market mechanisms have increased provider responsiveness to the needs of the abovementioned client groups; and whether they are more demand-driven, in terms of redirecting resources from low-demand to high-demand areas of training provision. The latter is also a possible indicator of productive efficiency.

Two related indicators of responsiveness were also included in the survey. Firstly, providers were asked whether competitive tendering and User Choice have improved the supply of skilled labour to industry. One of the main aims of market reform is to overcome the perceived failure of state planning to synchronise skills supply with industry demand. ANTA (1996a, p.4) identifies 'the need to better align training provision with industry needs' as a key goal of market reform. Consequently, the survey also sought feedback from provider management on this account.

Secondly, one of the aims of developing a training market is to 'encourage industries to spend more on training' (ANTA 1995, p.10). It is argued that increasing provider responsiveness to industry/enterprise needs through market reform will leverage increased investment in workforce development by industry (Moran 1997). In order to facilitate increased employer investment, a specific 'top-up' funding clause was included in the User Choice principles:

Training over and above that which is essential to the qualification outcome for the apprentice or trainee, and is above that which is funded publicly, can be negotiated and purchased by the client. (ANTA 2000c, principle vi)

Consequently, the survey sought to determine whether income from private sources has increased as a corollary of competitive tendering and User Choice.

Quality

Defining and measuring quality improvements in VET are highly problematic. The factors that impact on quality are multiple and difficult to disentangle and quantify (Gibb 2003). There is neither a consensus about, nor reliable indicators of, 'quality' across the public and private VET sectors (Anderson 1994). Within TAFE itself, two different, and sometimes conflicting, perceptions of quality exist among institute managers and teachers/trainers: respectively, 'quality as procedures/processes and quality as a philosophy' (Gibb 2003, p.41). For TAFE managers, 'quality is fitness for purpose; it is about achieving consistency and thus it is essentially about accountability.' (p.34) In contrast, TAFE teachers view quality in terms of academic excellence, educational standards, and the transformative nature of the actual learning experience. Even where agreement may exist about the basis of quality, assessments are likely to be highly subjective:

Quality is even more difficult to deal with conceptually than efficiency, and involves the possibility of conflict between the values held by different individuals more obviously. It is perfectly possible for one person to see a service as being of high quality and another to see it as of poor quality, with both citing precisely the same criteria in support of their argument. The market has always had difficulty dealing with the issue of quality, especially in the case of complex services. (Walsh 1995a, pp.248-9)

One important indicator of quality in VET is the level of client satisfaction (Gibb 2003). Regular national surveys of employer and student satisfaction and annual graduate destination studies only began in 1995, and cannot therefore be used to compare satisfaction levels prior to and after the process of market reform commenced in VET. Moreover, these surveys are at best partial indicators of student satisfaction and imperfect measures of quality. Non-TAFE providers are not covered by the survey. Only successful completers of whole courses and modules are surveyed, students who withdraw or drop out are excluded, and 'client satisfaction' does not necessarily equate with 'quality learning' or the value added by participation in VET (Gibb 2003).

In the absence of any reliable measures, this study accepts that quality is a multi-dimensional concept open to varying interpretations. Consequently, it relies on providers' subjective evaluations of: the extent to which market mechanisms have improved the quality of training products and services; and whether priority has been placed on enhancing service quality or reducing delivery costs. Information is also collected on a number of proxy measures of quality (e.g. class sizes, face-to-face contact hours, use of sessional teachers), though their relationship to quality is unclear (Burke 1999).

As another measure of quality, providers were also asked whether competitive tendering and User Choice have improved skill outcomes for individual students and apprentices/trainees respectively. ANTA (1996a, p.2) states that 'success' in a competitive training market should be 'measured in terms of improvements to the skill pool and vocational outcomes of individual learners.' Consequently, provider assessments of improved skill outcomes are used as an approximate indicator of the quality of VET in a market context.

Flexibility

Increased flexibility is variously identified as both an outcome of market reform, and a means to improve the responsiveness, quality and efficiency of VET provision. ANTA argues that the pressure of market competition is sufficient in itself to ensure that VET providers, particularly TAFE institutes, develop 'more flexible ways of delivering training' (1996a, p.4). However, ANTA also recognises that the ability of providers to increase flexibility is partly contingent on the scope to alter the balance and mix of factors of production in response to changing demand. On this account, private providers enjoy a significant advantage over TAFE institutes. As ANTA notes, 'in many cases, the ability for TAFE to effectively operate in a competitive market is restrained by its current administrative framework.' (1996a, p.5)

Moreover, the industrial awards and work practices of TAFE teachers are also frequently identified as a major source of rigidity as they 'are hindering TAFE's ability to better adapt to the new approaches to training and the emerging competitive environment.' (p.23) Consequently, efforts have been made to increase the flexibility of TAFE through a range of supply-side reforms, for instance by increasing the autonomy of TAFE institutes, devolving greater responsibility for resource management closer to the point of delivery, and deregulating industrial awards for TAFE teachers through enterprise bargaining.

Contestable funding mechanisms in themselves are intended to promote greater systemic flexibility, in that STAs are more able to alter their mix of purchasing priorities and shift resources from one industry area to another with relatively greater ease. The use of short-term contracts for training delivery is the primary means by which systemic flexibility is facilitated. However, prior research suggests that this form of flexibility may have adverse consequences for providers, due to a possible increase in the degree of uncertainty or unpredictability in their operating environment (Anderson 1997a).

As indicators of flexibility, the survey asked providers to: assess the extent to which competitive tendering and User Choice have increased the flexibility of their training delivery; and identify factors that restrict their competitiveness, including structural and other inflexibilities. As an indicator of increased uncertainty, they were also asked whether their program profiles were becoming less coherent and consistent from one year to the next, due to short-term government contracts.

Innovation

The introduction of markets in VET places a high premium on innovation to meet new and developing needs. Increased innovation both contributes to, and reflects, improvements in the quality, responsiveness and flexibility of provision. As greater innovation is frequently identified as an intended outcome of market reform in VET, providers were asked to indicate: whether they had initiated a range of specified innovations in VET design and delivery in direct response to increased market contestability; and the extent to which market mechanisms have stimulated greater innovation in program/service development and delivery.

Access and equity

The concept of access is relatively simple and straightforward to evaluate as it is generally understood to mean 'getting into' a VET program. Consequently, the survey asked providers whether access to VET has improved for women, unemployed people, and disadvantaged groups (e.g. migrants, disabled) under competitive tendering and User Choice arrangements. Arguably the range of groups or categories of VET clients could have been more differentiated and precise. However, the selection was informed by the following considerations: the prominence of the three chosen categories in official policy statements; their inclusiveness of most equity groups; their ease of recognition by providers; and the need to minimise respondent burden.

The concept of equity is more complex, subject to differing interpretations, and difficult to measure. Le Grand and Bartlett (1993, p.19) suggest that 'equity' can be defined 'in relation to need' and 'the question to be asked of a quasi-market service ... is whether it improves the correspondence between individuals' resource requirements and the use of a welfare service.' Consequently, this study evaluates the equity outcomes of market reform by asking providers to assess the extent to which their capacity to satisfy the needs of the aforementioned client groups has improved under competitive tendering and User Choice arrangements.

One of the main concerns about markets in VET is that they may undermine access and equity by creating perverse incentives for providers to prioritise and respond to the needs of relatively advantaged clients over those of other relatively disadvantaged clients (Anderson 1997a). There are two dimensions to this issue. Firstly, concern has been expressed that there may be an inherent tendency in VET markets to create a two-tiered system, in that certain client groups may become more attractive than others to providers, and consequently enjoy better access and service provision in VET. To test the validity of such claims, the survey asked providers whether their capacity to satisfy the needs of the following client groups has improved under competitive tendering and User Choice arrangements: full fee-paying clients, and government-funded individuals. The category of 'local/surrounding communities' was also included as a means by which to compare the impact of market reform on public or community access in general with access by industry.

Secondly, concern has also been expressed about the related possibility that market reform may create perverse incentives for providers to engage in the practice of 'cream-skimming' or adverse selection. As Le Grand and Bartlett (1993, p.34) observe, if the goal of equity is to be upheld in quasi-markets, there should be 'no incentive for providers or purchasers to discriminate between users in favour of those who are least expensive'. In the context of VET markets, cream-skimming refers to the practice whereby providers actively select government-subsidised clients who are less likely to be eligible for fee concessions and/or who are more likely to complete their training, and to do so with minimal levels of support.

Incentives for providers to engage in adverse selection are potentially greatest under fixed-price contracts for VET delivery that include no additional loading for equity groups. Under such arrangements, providers have an incentive to avoid selecting clients who are likely to require above-average levels of tuition and support, and thereby contribute to possible budget over-runs. If this occurs, service provision 'becomes *inversely* related to need, rather than directly as a needs-related interpretation of equity of equity would require.' (Le Grand 1994, p.251) Any trend towards adverse selection among VET providers would have the likely effect of residualising already disadvantaged groups, thereby implicating VET in the wider reproduction of social inequality. Consequently, the survey asked providers whether they are more inclined to select students who can afford to pay fees and/or are more likely to complete their training with minimum support.

Additional, indirect indicators relating to access and equity were built into the survey. Providers were asked: whether their expenditure on student services (e.g. counselling, child care) has changed as a consequence of the increased contestability of government VET funds; whether they have raised fees and charges for government-funded students; and whether they are motivated more by efficiency objectives than by equity goals as a result of market reform.

Finally, it is important to note that the stated objectives of market reform in VET are often inter-related and interactive. If market reform increases flexibility in program and service delivery, providers should be more able to respond to diverse client needs. Increased responsiveness may in turn alter the pattern and mix of program and service provision in ways that correspond more directly with client needs. If supply and demand are better synchronised, efficiency is more likely to increase at a systemic level. At the same time however, tensions exist between market reform objectives. Unless resources are managed carefully, increased flexibility and responsiveness to myriad client needs could translate into higher delivery costs and decreased efficiency. If access for disadvantaged learners improves, delivery costs may increase, with adverse implications for efficiency. Conversely, over-emphasis on efficiency (specifically cost-cutting) objectives may undermine the quality of program and service provision.

Global evaluation of market reform

As reflected above, the impact and outcomes of market reform in VET are evaluated against a number of individual criteria that correspond with the stated intentions of policy makers. Although provider assessments against these criteria collectively provide an insight into the efficacy of market reform on a number of key accounts, they do not provide a global perspective on market reform in VET. The survey asked whether, on balance, the increased contestability of government training funds (via competitive tendering and User Choice) has had a positive or negative impact on providers.

Financial viability

A question concerning the impact of contestable funding mechanism on the financial viability of providers was included to ascertain whether TAFEs and non-TAFE RTOs, and metropolitan and rural/regional RTOs, have been affected differentially. As the Bannikoff Review (1998) concluded, adverse financial impacts on providers have potentially negative implications for continuity of supply, particularly in thin markets.

Accountability

Although not identified by Le Grand and Bartlett (1993) as a criterion for evaluating quasi-markets, the need to determine the impact of market reform on accountability is highlighted by other researchers.

It is over issues of accountability that the new public management raises the most basic questions. ... The move is from professional and political to market-based accountability. (Walsh 1995a, pp.xx-xxi)

ANTA notes that 'as more registered private providers gain access to public recurrent funds, appropriate accountability mechanisms will need to be established to ensure that agreed results are achieved with public funds' (1996a, p.17). Pollitt (1995) criticises the approach adopted in most evaluations of management and market reforms for overlooking issues relating to public accountability. Consequently, the survey for the present study asked providers whether market reform has increased accountability for the use of public VET funds.

Values, priorities and public interest objectives

A number of questions concerning the impact of market reform on the values, priorities and public interest objectives of providers were included in order to evaluate whether and how providers are reorienting their organisational identities and missions in response to the new incentives structure inherent in quasi-markets for VET. Such changes, if detected, may have significant implications for the extent to which government is able to pursue public policy objectives through the publicly funded VET sector.

Part V Findings and analysis

Overview

The structure of markets in VET, and changing patterns of participation and finance in the VET sector since the inception of market reform, forms an important backdrop to this study. In this section, a typology of VET markets is presented as a frame-of-reference for the subsequent presentation and analysis of research findings about the structure, organisation and operation of VET markets. Statistical data, primarily sourced from NCVER publications, are then analysed in order to develop a national profile of participation and finances in the VET sector as a whole and, to the extent that such data permit, in the new markets for VET.

Structure of VET markets in Australia

A few typologies of VET markets in Australia have been devised, none of which is entirely adequate from a conceptual perspective (for a summary, see Anderson 1997a). All are somewhat dated, if not obsolete, due to subsequent changes in the policy and regulatory framework for VET markets, such as those accompanying the introduction of the NTF in 1997. Changes in government policy have also opened up new markets, for example in export VET and, more recently, workplace assessment. Based on the financial mechanisms in use at the time of this study, a new typology of markets in VET is presented below, after which the key features and distinctive characteristics of each market sector are outlined.

At the time of this study, the main markets for VET in Australia were the:

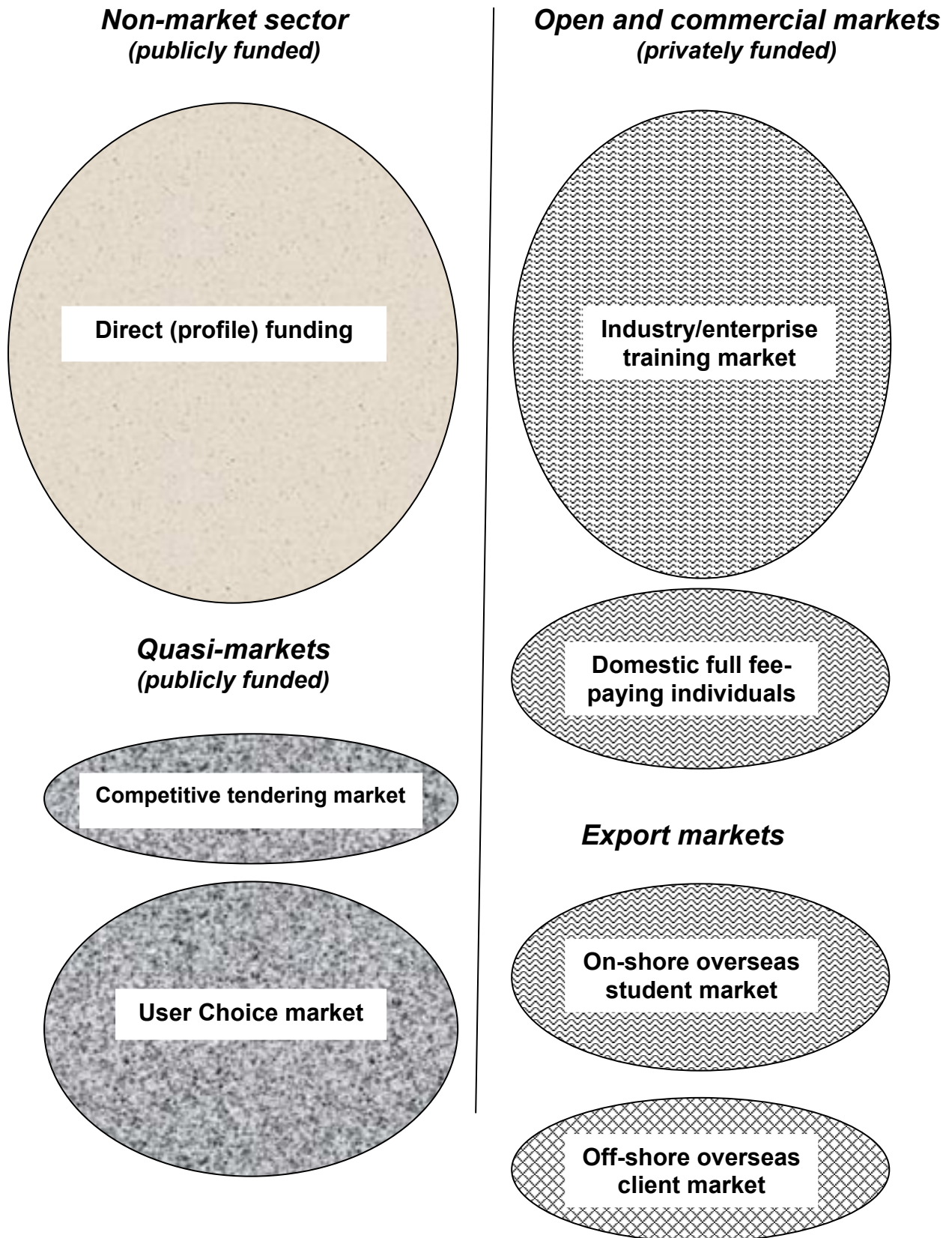
- non-competitive or direct (profile) funding sector;
- quasi or contestable funding markets, including the:
 - competitive tendering market, and
 - User Choice market;
- open and commercial markets, including the:
 - domestic markets for fee-paying industry/enterprise and individual clients, and
 - export markets for on-shore overseas students and off-shore fee-paying clients.

A key distinction to be noted is that the direct (profile) funding sector and the new quasi or contestable funding markets are publicly funded, whereas open and commercial markets are privately financed. These various market sectors are depicted in Figure 4, an overview of the structure and composition of VET markets is provided in Figure 5, and a provider perspective on VET markets is shown in Figure 6.

Direct (profile) funding sector

In the direct (profile) funding sector, government VET funds are allocated directly by STAs to public (primarily TAFE) providers on a non-competitive basis. Typically recurrent government funding is allocated 'via the training profiles process, where a range of programs are run by institutes in return for an agreed level of recurrent funding' (ANTA 1996a, p.18). Under profile funding arrangements, resource expenditure and VET delivery are subject to relatively high levels of government planning, regulation and accountability. In many respects, the direct (profile) funding sector is an extension of the non-competitive model of state financing and provision of TAFE that existed prior to market reform. Under this model, government allocated all or most public monies to state-owned and operated (mostly TAFE) providers via non-competitive budget processes.

Figure 4: Markets for VET



However, the direct (profile) funding sector does incorporate some new market-like elements, including quasi-contractual performance agreements, which involve a degree of prior negotiation between government-as-purchaser and provider around performance outputs and funding levels (for further details, see the section on market mechanisms). In addition, the non-competitive or direct funding sector includes the following market-like elements:

- the prior input of demand-side planning information and projections from industry training advisory boards and other external bodies (e.g. research consultants);
- financial incentives and support for public providers to enter joint ventures with industry and other private partners for purposes such as resource sharing and collaborative program development and delivery; and
- partial deregulation of fee-charging by public providers for tuition provided to government-subsidised students.

The direct funding sector can also be viewed as an internal public market, wherein access to government revenues for recurrent VET delivery, capital and other purposes is restricted to public VET providers. Within this public market, funding allocations are subject to implicit competition among public VET providers who aim to improve their financial positions by attracting increased public resources and greater numbers of partial fee-paying students.

The public VET market is technically insulated from external competition, given that funding allocations are restricted to public VET providers. However, it is contiguous with other post-compulsory education and training markets, including those for ACE, private for-profit VET provision, higher education and also to some extent post-compulsory VET in Schools programs. All such providers are indirectly competing with one another to attract school leavers and other prospective clients, such as university students and graduates and mature-aged people returning to work.

Contestable funding markets

At the time of this study, two contestable funding markets existed in the VET sector, based around competitive tendering and User Choice. The key characteristics of each market mechanism are outlined in Part III of this report.

Competitive tendering

A self-contained market for VET has developed around the use of competitive tendering as a mechanism for allocating government VET funds. Competitive tendering has been used in every State/Territory VET system to allocate part of the core VET funds for non-apprenticeship programs since 1995, although pilot programs were conducted in the early 1990s in some jurisdictions. States and Territory VET systems have devised their own competitive tendering policies, programs and processes within the context of the NTF. The type and proportion of VET funding allocated via competitive tendering processes also vary from one jurisdiction to another, and can change (up or down) from one year to the next, depending on government priorities.

Competitive tendering has generally taken two forms, which in turn constitute sub-sectors of the competitive tendering market:

- *open tendering*, under which the tendering process is open to all public and private RTOs; and

- *limited tendering*, under which the tendering process is limited to a select group of RTOs, for instance either TAFE or ACE or private providers only. This approach, sometimes referred to as ‘quarantining’, has been used by some States and Territories VET authorities the ability to phase in open tendering arrangements in immature markets or to address perceived problems in thin markets in certain industries and occupations and in rural and remote areas, for instance in Queensland and the Northern Territory.

Although smaller than the competitive tendering programs administered by State/Territory VET authorities, some other government agencies at a national and State level use competitive tendering and contracting mechanisms to allocate their own funds for the training components of special programs – for example the Green Corps Program, Job Network Program, Job Pathways Program, literacy and numeracy programs, the Aboriginal Tutorial Assistance Scheme, and other programs such as Adult Migrants Education Services, prison and agricultural training.

User Choice

A separate, self-contained market for VET has also developed as a result of the introduction of User Choice arrangements to allocate government funds for apprenticeship and traineeship training. Although preceded by a number of ANTA-funded pilot programs, User Choice was only implemented on a national basis from January 1998 onwards. The exception was New South Wales which reserved its position, although ‘in practice it has implemented User Choice on a careful, considered and measured basis’ (Selby Smith and Ferrier 2001, p.9).

Despite the existence of a national framework for User Choice, approaches to implementation among State and Territory jurisdictions vary and are often inconsistent with the agreed principles (Selby Smith and Ferrier 2001). Contrary to the agreed goal of developing an integrated national market for User Choice, some STAs have placed restrictions on market entry by RTOs based in other States and Territories. Consequently, most apprentices continue to be trained by RTOs from their own State/Territory. According to Selby Smith and Ferrier (2001, p.14), ‘there appears to be acceptance by STAs of inter-State cooperation in relation to TAFE systems, but concern about inter-State competition.’ Significant differences also exist between the financial settings in States and Territories, including those relating to pricing, costing and charging structures, and also competitive neutrality arrangements.

The scope for choice by users is highly variable and substantially limited in many jurisdictions with respect to provider numbers, particular courses, qualification levels, geographical region and specific client groups. Some States and Territories have placed restrictions on choice in relation to thin markets and existing workers, and also remote indigenous communities. Three States, specifically Victoria, Queensland and Tasmania, have also ‘frozen’ contestable funding programs since 1998/99. While the reasons for each freeze vary to some degree, the financial implications of the rapid growth in apprentice/trainee numbers in the first few years has been a major concern for State and Territory governments in the context of declining Commonwealth budgetary allocations.

Evidence of failure in the Queensland User Choice market – including ‘dubious quality’, ‘non-viability’ of thin markets, poor coverage of industry sectors and geographical areas, and discontinuity of supply – prompted the Queensland government to introduce a new User Choice purchasing system in 2000 (QDETIR 1999). In addition to imposing a freeze on new contracts, the government generated a new ‘Approved User Choice Provider List’ and a range of strategies for enhancing ‘quality, coverage and continuity’, ‘managing (non-viable) markets’, ‘improving the price list’, and ‘safeguarding and capitalising on public

infrastructure' (pp.6, 11). During the period covered by this study, the freezes on contestable funding levels in all three States of Victoria, Queensland and Tasmania remained in place.

Contrary to nationally agreed principles, there is a general absence of a concerted and strategic approach to promoting access and equity through User Choice, both within and among States and Territories. Although some STAs load purchase prices to compensate for the additional costs of delivery in remote areas, loadings for equity groups are rare. Overall, access and equity initiatives under User Choice tend to be 'piecemeal and inconsistent between jurisdictions' (Selby Smith and Ferrier 2001, p.17).

Open and commercial markets

Open and commercial markets are those in which VET providers compete to deliver fee-for-service programs and services to private fee-paying clients, both in Australia and overseas. In these markets, transactions are subject to relevant Commonwealth and State legislation and business regulations – for example those relating to competition and consumer affairs, occupational health and safety, disabilities, equal opportunity and so on – but not to VET legislation and regulation. The sole exception relates to providers operating in the on-shore student market, as explained below. Open and commercial markets are genuine free markets in a conventional economic sense. They comprise domestic and export markets, each of which includes two sub-sectors, as outlined below.

Domestic markets

Domestic markets for VET programs and services include student-funded and industry-funded markets:

Student-funded markets are those in which registered and unregistered VET providers compete to deliver fee-for-service programs and services to domestic individuals on a fully commercial basis. As government has no regulatory role in these privately-funded VET markets, neither the providers nor their programs and services are required to comply with the National Training Framework.

Industry-funded markets are those in which registered and unregistered VET providers compete for contracts to deliver fee-for-service programs and services to domestic industry and enterprise clients on a fully commercial basis. As government has no regulatory role in these privately-funded VET markets, neither the providers nor their programs and services are required to comply with the National Training Framework, unless specified by the purchaser in the service delivery contract.

Export markets

Export markets for VET programs and services include on-shore student markets and off-shore student and other markets:

On-shore student markets are those in which registered VET providers compete for private and government-sponsored overseas students on a fully commercial fee-for-service basis. Under the Commonwealth Educational Services for Overseas Students (ESOS) Act 2000 and associated legislation (which applied at the time of this study, but has since been revised), any provider of education and training that seeks to recruit, enrol or teach overseas students in Australia must be registered on the Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS). The provider must be registered for each course it offers to overseas students, and for each State or Territory in which it offers the course(s). To be registered on CRICOS, a provider must be approved by a State or Territory authority in line

with that State or Territory's registration requirements, and compliant with a National Code of Practice, breaches of which can lead to the imposition of sanctions, including suspension or cancellation. Another precondition for CRICOS registration is Australian residency, although this does not preclude foreign ownership of an Australian registered company (DEST 2001).

According to AEI data analysed in Burke (2003a), enrolments by overseas students in VET courses more than doubled from around 19,000 in 1994 to around 40,000 in 2001. About two thirds of overseas VET students in 2001 were enrolled in private VET providers. Burke notes that the total numbers of overseas students in public VET courses 'may have increased more quickly than in private providers in recent years' (p.28). In total, overseas VET students paid \$34 million in course fees in 2000.

Off-shore student and other markets are those in which registered and unregistered VET providers deliver programs and services on a fully commercial basis to: overseas students who are self-funded or subsidised by local enterprises/employers and various overseas trade, professional or government organisations, or involved in projects tendered out by international or regional aid and development agencies. Such programs and services are generally delivered by Australian RTO staff at off-shore venues (including stand-alone or joint venture campuses), via distance and online education, and in workplace and community settings in other countries. They can also involve 'twinning arrangements' and partnerships with local education and industry bodies, government and community development agencies. Australian VET providers operating in off-shore locations are subject to the legislative and regulatory requirements of overseas governments. Smart, Gullan and Asquith (1999, p.30) note that although the market for the off-shore delivery of VET programs and services by Australian RTOs is unquantified, 'the information that does exist indicates that off-shore delivery is sizeable and could be as large as the on-shore market'.

The restructured market environment in which Australian VET providers – both TAFE institutes and non-TAFE RTOs – now operate is reflected in the following two diagrams. Figure 5 provides an overview of the structure and composition of VET markets with respect to their supply, product and demand dimensions. The three key points of government regulation – provider registration, training recognition, and quality audits – are also shown. Figure 6 depicts the provider perspective on VET markets, of which there are seven main ones, including the direct (profile) funding sector which is reserved largely for TAFE institutes.

Figure 5: Structure and composition of VET markets

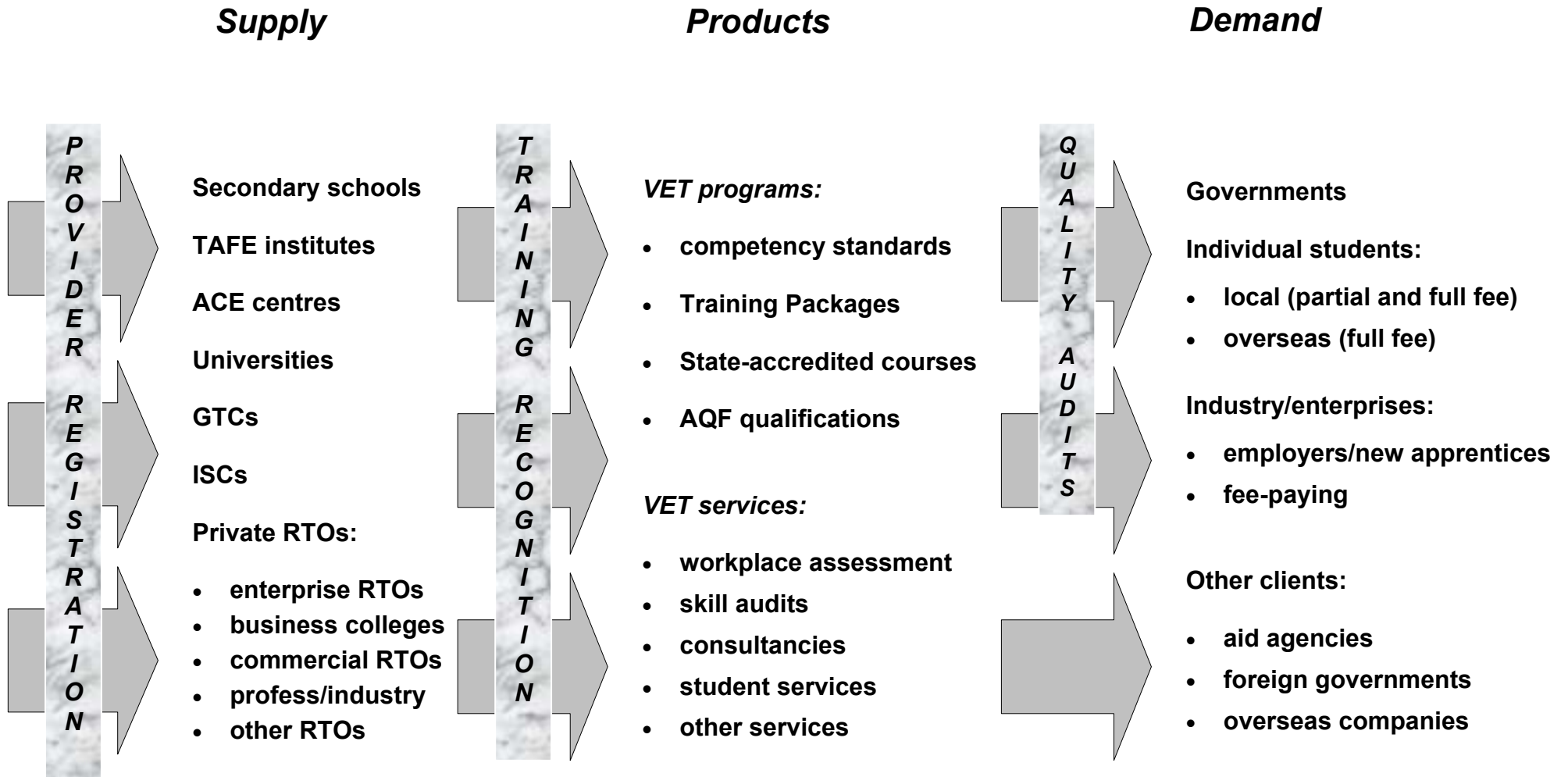


Figure 6: Provider perspective on VET markets



Note: The direct (profile) funding sector is largely reserved for TAFE institutes.

Participation: a national profile

A brief overview of patterns of participation in the publicly funded VET sector as a whole, and also the User Choice market, is provided below. However, participation data for competitive tendering markets cannot be disaggregated from the NCVET database.

Publicly funded VET

As reflected in Table 2, total student throughput increased significantly in the VET sector during the period from 1997 to 2001. Enrolments grew by 20% from 1997 to 2001, module/unit enrolments grew by 37%, and annual hours grew by 25%.

Table 2: VET activity by provider type, Australia 1997-2001 (a) (b)

	1997	1998	1999	2000	2001
<i>TAFE and other government providers (c)</i>					
Students ('000)	1,140.8	1,150.7	1,232.3	1,320.7	1,294.5
Students (%)	78.2	75.0	74.8	75.5	73.7
Module/unit enrolments ('000)	8,738.7	8,980.0	9,456.2	9,888.6	10,426.1
Module/unit enrolments (%)	88.4	83.9	81.2	80.4	77.3
Annual hours ('000,000)	272.0	270.1	279.9	291.0	306.2
Annual hours (%)	90.0	86.4	84.6	84.1	81.1
<i>Community education providers</i>					
Students ('000)	225.2	233.8	235.8	227.9	229.6
Students (%)	15.4	15.2	14.3	13.0	13.1
Module/unit enrolments ('000)	365.6	407.8	455.1	488.6	492.7
Module/unit enrolments (%)	3.7	3.8	3.9	4.0	3.7
Annual hours ('000,000)	11.0	10.9	11.7	12.6	12.7
Annual hours (%)	3.7	3.5	3.5	3.6	3.4
<i>Other registered providers (d)</i>					
Students ('000)	92.6	150.8	179.1	200.8	232.7
Students (%)	6.3	9.8	10.9	11.5	13.2
Module/unit enrolments ('000)	776.5	1,317.5	1,729.5	1,915.5	2,572.5
Module/unit enrolments (%)	7.9	12.3	14.9	15.6	19.1
Annual hours ('000,000)	19.2	31.8	39.5	42.6	58.7
Annual hours (%)	6.3	10.2	11.9	12.3	15.5
<i>Total</i>					
Students ('000)	1,458.6	1,535.2	1,647.2	1,749.9	1,756.8
Students (%)	100.0	100.0	100.0	100.0	100.0
Module/unit enrolments ('000)	9,880.7	10,706.1	11,640.8	12,292.7	13,491.3
Module/unit enrolments (%)	100.0	100.0	100.0	100.0	100.0
Annual hours ('000,000)	302.2	312.8	331.1	346.1	377.6
Annual hours (%)	100.0	100.0	100.0	100.0	100.0

Source: NCVET (2002 and earlier years) *Australian vocational education and training statistics: at a glance*.

Notes:

- Due to rounding, percentages do not always sum to 100%.
- Data exclude fee-for-service delivery by private RTOs, but include privately funded TAFE students.
- Includes TAFE institutes and other government providers (i.e. some schools and universities).
- Includes all other registered providers, including private providers that receive public funding.

TAFE and other government providers accounted for 74% of VET students, 77% of enrolments in modules and units of competency, and 81% of total annual hours delivered in 2001. Community education providers accounted for 13% of VET students, 4% of enrolments in modules and units of competency, and 3% of total annual hours delivered in 2001. Other registered providers, including private providers, accounted for 13% of VET students, 19% of enrolments in modules and units of competency, and 16% of total annual hours delivered in 2001. Overall therefore, non-TAFE providers accounted for 26% of VET students, 23% of enrolments in modules and units of competency, and 19% of total annual hours delivered in 2001.

During the period from 1997-2001, TAFE's share of the total VET student population fell by 5%, its share of enrolments in modules and units of competency fell by 11%, and its share of total annual hours delivered fell by 9%. Community education providers' share of the VET student population fell by 2%, their share of enrolments in modules and units of competency remained steady, and their share of total annual hours delivered fell marginally. In contrast, other registered providers' share of the VET student population grew by 7%, their share of enrolments in modules and units of competency grew by 11%, and their share of total annual hours delivered grew by 9%. In effect, TAFE's share of VET students, module and unit enrolments, and total annual hours delivered declined significantly, whereas the share of other registered providers increased correspondingly. The NCVER data suggest that the total private RTO share of publicly-funded training at AQF levels 1-3 inclusive grew from 6% 1997 to 10% in 1998.

Although data on student enrolments in the competitive tendering market cannot be disaggregated from those for the direct (profile) funding sector, data are available about the total numbers of apprentices and trainees in the User Choice market. These data, together with some indicative data on TAFE and private RTO shares are examined below.

User Choice market

Following the introduction of the New Apprenticeship scheme, apprentice and trainee enrolments increased by a massive 78% from 1997 to 2001, almost four times as fast as the growth in total VET enrolments during the same period (see Tables 3 and 4). In December 2001, soon after the survey for this study was administered, apprentices and trainees accounted for about 19% of total enrolments in publicly funded VET.

Table 3: Apprentices and trainees, Australia 1997-2001

	1997	1998	1999	2000	2001
No. of persons (000s)					
In-training as at 31 Dec	185.5	216.9	255.2	294.9	329.6
Commencements	114.3	154.9	198.4	210.2	228.5
Completions	51.3	60.4	74.4	84.4	96.3
Cancellations/withdrawals	43.4	54.5	72.9	82.0	92.5

Source: NCVER (2002c) *Australian apprentice and trainee statistics, annual 2001*

Note: In-training values are as at 31 December for the given year, whereas commencements, completions and cancellations are for the whole year.

Enrolment data in the Schofield (2000) report on apprenticeship and traineeship training in Victoria show that private RTOs attracted most of the growth in enrolments from 1998-99. TAFE institute enrolments declined marginally from 37,607 to 37,001, or 1.6%, while private RTO enrolments increased dramatically from 7,717 to 25,752, or 234%. These data suggest that, during the period from 1998-99 when total apprentice and trainee enrolments in Victoria increased by 39%, the TAFE share fell from 83% to 59%, and the private RTO share

increased from 17% to 41%. Of course, there were almost no apprentice and trainee enrolments in the private RTOs prior to the introduction of User Choice in Victoria in 1996. The contact hour data in Table 4, however, suggest that TAFE's share of the User Choice market in Victoria in 1999 was about 67%, with its share of regional/rural markets falling 3% short of its market share in metropolitan Melbourne.

Table 4: Apprentice/trainee contact hours by provider type, Victoria 1999

Region	TAFE	Private RTO
Total metropolitan Melbourne	70	30
Total rural and regional	67	33
Total State	67	31

Source: Anderson (2000c)

As indicated in Table 14 and the accompanying discussion below, the Victorian government froze User Choice allocations at 1999 levels from 2000 and beyond. Consequently the private RTO share of the User Choice market did not expand beyond its 1999 share. No publicly available data are available about TAFE and private RTO shares of User Choice markets in other States or Territories.

In a report on apprentice and trainee training in Victoria, Smart Consulting and Research (2003) finds that TAFE institutes and private RTO are operating in highly differentiated segments of the User Choice market. The report notes that there was rapid growth in the private RTO share of total delivery from 1996 to 1999. Private RTOs enrolments are concentrated far more in the traineeship than the apprenticeship segment of the User Choice market. In 2001, there were only 3,669 apprentices enrolled in private RTOs, representing approximately 5% of total apprentice and trainee enrolments in private RTOs. In contrast, over 30,000 apprentices were enrolled in TAFE institutes, representing about 75% of total apprentice and trainee enrolments in TAFE institutes.

While private RTOs apprenticeship training programs experienced growth in most industry sectors, expansion in business services and wholesale, retail and personal services was far greater. Both industry sectors accounted for about half of all private RTO delivery in 2001. By comparison, TAFE institutes were dominant in the following industry sectors, in order of significance: automotive; metals and engineering; primary and forestry; building and construction; and general manufacturing.

Table 5: Profile of private RTO and TAFE shares of User Choice market, Victoria 2001

Market segments	Private RTO	TAFE
Enrolment types	Apprentices: 5% Trainees: 95%	Apprentices: 70% Trainees: 30%
Main industry sectors	Business services Wholesale, retail & personal services	Automotive Metals & engineering Building and construction
AQF levels	AQF 1-2: 40% AQF 3-4: 58% AQF Diploma: 2%	AQF 1-2: 19% AQF 3-4: 81% AQF Diploma: Nil
Geographical location	Metropolitan: 82% Rural/regional: 18%	Metropolitan: 69% Rural/regional: 31%

Source: Smart Consulting & Research (2003)

Growth in higher level AQF qualifications has been more rapid in private RTOs than in TAFE institutes. In 1997, AQF levels 1-2 accounted for 63% of total apprentice and trainee enrolments in private RTOs, falling to 40% in 2001. With respect to geographical segments of the User Choice market, private RTOs enrolments in metropolitan markets increased by 12%, from 70% in 1997 to 82% in 2001. In contrast, TAFE enrolments in metropolitan markets decreased by 8% during the same period. The key characteristics of the private RTO and TAFE shares of the User Choice market in Victoria are reflected in Table 5.

Finances: a national profile

The following profile and analysis of finances in the VET sector are based largely on national data compiled by NCVET using the Australian Vocational Education and Training Management Information Statistical Standard (AVETMISS). The aim is to provide a broad overview of financial trends across a national VET system undergoing a process of market reform, rather than detailed analyses at the level of individual States and Territories. Such an analysis however is problematic in several respects, and therefore requires some prior qualifications.

Firstly, the scope and composition of NCVET financial reports for the VET sector place some limitations on the analysis of patterns of revenue and expenditure across the whole VET sector. As NCVET financial reports are concerned solely with public sector accounting, the financial accounts of non-TAFE providers fall outside the scope of data collection, with the exception of public monies they receive for VET delivery or other purposes. For the same reason, the accounts of commercial arms of TAFE providers are excluded from the purview of national financial reports. As a result, it is impossible to construct a comprehensive profile of revenue and expenditure for the entire VET sector, including TAFE and non-TAFE providers. In effect, the following analysis is largely confined to the finances of TAFE providers, except where available data relate explicitly to non-TAFE providers.

Secondly, it should be noted that there are inconsistencies in how different STAs treat and report various items of revenue and expenditure. Also the organisation and provision of adult, community and further education differs among States and Territories, as does the reporting of related financial data. Although such differences affect reporting on particular items, they do not skew the overall picture of VET finances to any great extent. For this reason and due to space limitations, such differences are overlooked in the following analysis, but can be identified in the Technical Notes of NCVET financial reports.

Thirdly, there have been changes in the scope of AVETMISS data collections and some breaks in time series data over the past decade. The most significant change with respect to financial reporting was the introduction of accrual accounting from 1997 onwards, which therefore renders accurate comparisons between financial data before and after 1997 impossible. Consequently the following analysis concentrates largely on the five-year period from 1997-2001. Other relevant issues are addressed in the notes accompanying the tabulated data below.

Fourthly, as previously noted, despite the collective commitment of State and Territory VET ministers in 1992 to develop a national training market, the process of market reform has been uneven across Australia. Some States, notably Queensland and Victoria, have adopted a more aggressive approach to the construction of quasi-markets and the commercialisation of TAFE provision. By comparison other States, such as New South Wales and Tasmania, tend to have adopted a more gradual approach. Although certain distinctive financial trends in individual States and Territories are highlighted in the following analysis, significant differences tend to be ironed out in a national overview.

Finally, as NCVER financial reports comprise data collated at a State/Territory level, the often considerable variations among different regions within and between States and Territories, and also between individual TAFE institutes, are obscured. For instance, the patterns of income and expenditure of rural TAFE institutes differ considerably from those of metropolitan TAFE institutes. Such differences are not reflected in NCVER financial data or, as a consequence, the following analysis.

As national financial data are reported in nominal prices, they do not allow for analyses of patterns of revenue and expenditure at constant prices over time. In order to enhance comparability therefore, the data below have been converted to 2001 prices using the non-farm Gross Domestic Product deflator.

Government and non-government revenue

Total VET revenues at 2001 prices declined from just under \$4.5 billion in 1997 to just over \$4.4 billion in 2001, as reflected in Table 7. Government remains the largest source of revenue despite a proportional decline in the late 1990s. The Commonwealth and State/Territory governments provided about 84% of revenue in the early 1990s (Burke 2002), falling to 83% in 1997 and to 80% in both 2000 and 2001. Between 1997 and 2001, total government revenue decreased by \$123.3 million, or 3.4% as a proportion of total VET revenue. While Commonwealth and State recurrent government funding increased by 2.9% from 1997-2001, Commonwealth and State capital revenue and Commonwealth specific purpose funds declined by 13.2% and 56.1% respectively.

As noted in the earlier examination of the policy context, two Commonwealth funding policies exerted a significant influence on the operating environment, particularly of TAFE institutes, during the period of training market reform. The first of these involved the annual injection of an additional \$70 million in Commonwealth growth funds during the term of the first ANTA Agreement. A proportion of these funds were allocated in various States and Territories via contestable funding processes from 1994, as identified below. The effect of this additional growth funding was to raise the level of the Commonwealth financial contribution as a proportion of total government revenues to over 30% by 1995 (SEETRC 1995). The allocation of the additional Commonwealth funding was accompanied by 'maintenance of effort' provisions, under which States and Territories were required to maintain their level of contribution to VET over the life of the first ANTA Agreement. According to ANTA (1996c), Commonwealth growth funds totalled \$380 million in 1996.

The second significant Commonwealth funding arrangement came into effect under the revised ANTA Agreement for the period 1998-2000, following substantial cuts to State grants in the 1996-97 budget. Under this new framework, the 'growth through efficiencies' policy replaced the maintenance of effort provisions, and the Commonwealth agreed to maintain base funding in real terms at 1997 levels for five years, provided that State and Territory VET systems achieved their growth through efficiency targets.

Burke (2002) notes that under the 'growth through efficiencies' framework, total publicly-provided Annual Hours Curriculum (AHC) increased by 14% from 1997 to 2000 while expenditure per AHC declined by 7% in actual dollars, and by 11% in 2000 prices measured by the non-farm GDP deflator. Burke also notes that expenditure per contact hour differs remarkably among States and Territories, due to variations in funding and staffing policies and special needs.

Revenue from non-government sources grew by 13.5% from 1997-2001. As a result, non-government revenue as a proportion of total VET revenue increased steadily from about 17%

in 1996 and 1997 to almost 20% in 2001. There are four main sources of non-government VET revenue as follows: fee-for-service; student fees and charges; ancillary trading; and other. For the purposes of this analysis, the latter two sources have been combined.

Table 6: Government recurrent expenditure on VET per publicly funded annual hour of curriculum, Australia, States and Territories, 1997-2001, \$ (a) (b)

	1997	1998	1999	2000	2001	2001 as % 1997
<i>2001 prices (estimated with non-farm GDP deflator)</i>						
NSW	15.97	16.24	15.45	14.41	13.03	82
Vic	11.10	11.05	9.88	9.92	10.75	97
Qld	15.79	13.04	14.19	14.93	12.9	82
SA	16.55	14.42	12.49	12.73	11.36	69
WA	16.06	14.22	13.84	13.39	13.73	86
Tas	20.05	17.62	16.83	15.91	14.32	71
NT	30.54	29.45	20.85	21.56	19.73	65
ACT	18.28	18.18	16.07	13.67	11.98	66
Australia	14.84	14.10	13.37	13.11	12.42	84
<i>2001 prices (estimated using alternative Wage Cost Index and GDP deflator)</i>						
Australia	15.42	14.48	13.49	13.06	12.42	81

Source: Burke (2003, p.35)

Notes:

- a) Estimates in 2001 prices using the non-farm GDP deflator.
- b) Expenditure data include student fees.

Fee-for-service revenue grew by 16.8% from 1997-2001, and accounted for 10% of total VET revenue in 2000 and 2001. Fee-for-service revenues are reported under three categories: other; adult and community education (ACE); and government agencies. 'Other' fee-for-service revenue is the largest of the three categories. Revenue from this source grew by 32.9% from 1997-2001, and accounted for 5.5% of total VET revenue in 1997 and 7.4% in 2001. Other fee-for-service revenues derive mainly from overseas student fees, payments by industry, and full-fee payments by (or for) domestic individuals. The second category of fee-for-service revenue, ACE courses, accounted for only 0.2% of total non-government VET revenue in 2001, a proportion which has been relatively static for most years since 1997.

The third source of fee-for-service revenue, 'government agencies', decreased by 15.2% from 1997-2001, accounting for 2.4% of total VET revenue in 2001, down from 2.9% in 1997. This category includes payments by non-VET government departments that purchase training via tenders and contracts for particular client groups (e.g. unemployed people, migrants, prisoners) outside regular VET funding from STAs. Arguably income from this source should be counted as government revenue, given that it comprises public monies allocated by government departments. If combined with regular VET funding from national and STAs, government revenue as a share of total VET revenue rises to 82.6% for 2001, and 'non-government' revenue falls correspondingly to 17.4%.

It should also be noted that fees paid by statutory authorities, instrumentalities and 'quangos', whose funding is provided substantially 'off' Commonwealth and State budgets, are reported under 'other' fee-for-service revenue (AVETMISS, Release 1.3, July 2001). National VET financial statements however do not allow for these data to be disaggregated.

Student fees and charges for recurrently funded programs and services, revenue from which grew by 7.7% from 1997-2001, accounted annually for about 4% of total VET revenue during this five-year period. As previously noted, fee regimes vary considerably across Australia, as each State and Territory government determines its own fee policy, including level of cost recovery and concessions and exemptions relating to recurrently funded VET courses – including those delivered by non-TAFE providers. In its review of the role of TAFE, the House of Representatives Standing Committee on Employment, Education and Training (HRSCEET 1998) noted that student fee concessions and exemptions translate directly into a reduction in the annual operational budgets of TAFE institutes. The financial impact of forgone fee revenue is compounded for TAFE institutes with high enrolments of financially disadvantaged students, resulting in ‘appalling inequity’ as ‘the TAFE institutes which forego the most revenue are (those) being called upon to support the highest proportion of disadvantaged students.’ (HRSCEET 1998, p.11)

Table 7: Government and non-government VET revenue, Australia 1996-2001 (a)

	1996 (b)	1997	1998	1999	2000	2001
Government revenue (2001 \$m)						
Commonwealth recurrent	852.5	794.0	783.4	766.1	768.1	809.9
Commonwealth capital	227.8	206.8	207.3	206.0	200.0	184.8
Commonwealth specific purpose – ANTA	na	114.9	56.7	57.2	57.5	55.2
Commonwealth specific purpose – Other	na	119.5	86.6	52.1	45.3	47.8
State recurrent	2,070.5	2,176.3	2,211.5	2,241.0	2,247.9	2,245.7
State capital	143.2	141.7	121.0	135.9	113.9	117.7
Other government	na	132.5	135.3	128.8	128.9	101.4
Total government (2001 \$m)	3,294.0	3,685.9	3,601.7	3,586.8	3,561.4	3,562.6
Non-government revenue (2001 \$m)						
Fee for service – Government agencies	na	127.8	85.4	92.6	117.5	108.4
Fee for service – Other	na	245.9	248.9	260.8	318.5	326.8
Fee for service – ACE	na	7.5	11.0	9.7	9.2	9.8
Fee for service – Total	346.5	381.2	345.3	362.9	445.2	445.1
Student fees and charges	148.9	169.1	165.4	169.8	178.6	182.1
Ancillary trading and other	174.9	224.3	206.3	208.6	268.1	251.8
Total non-government (2001 \$m)	670.3	774.6	717.0	741.3	891.9	879.0
TOTAL (2001 \$m)	3,964.3	4,460.5	4,318.7	4,328.2	4,453.3	4,441.6
Total government (%)	83.1	82.6	83.4	82.9	80.0	80.2
Fee for service – Government agencies	na	2.9	2.0	2.1	2.6	2.4
Fee for service – Other	na	5.5	5.8	6.0	7.2	7.4
Fee for service – ACE	na	0.2	0.3	0.2	0.2	0.2
Fee for service – Total	8.7	8.5	8.0	8.4	10.0	10.0
Student fees and charges	3.8	3.8	3.8	3.9	4.0	4.1
Ancillary trading and other	4.4	5.0	4.8	4.8	6.0	5.7
Total non-government (%)	16.9	17.4	16.6	17.1	20.0	19.8
TOTAL (%)	100	100	100	100	100	100

Sources: NCVER (2002 and earlier years) *Australian VET Statistics: Financial Data*.

na not available

Notes:

a) Data for 1997-2001 are in 2001 prices using the non-farm GDP deflator.

b) The 1996 data are cash based, whereas data for following years are accrual based. This limits any direct comparison between data for 1996 and following years.

As student fees and charges for recurrently funded VET courses are subject to government policy determinations, the capacity of VET providers to raise additional revenue from this source is restricted. Unless governments decide to lift their caps on fee-charging, growth in such revenue is linked directly to increases in student enrolments. To this extent, revenue from student fees and charges is market-based. Government caps however do not apply to fee-for-service courses, the income from which is included in the category of ‘other’ fee-for-service revenues discussed above.

‘Ancillary trading and other’ is an aggregation of two separate revenue items in NCVER reports and comprises income derived from ‘ancillary trading’ – a mixed bag of commercial and consulting activities that are associated with the delivery of VET courses (e.g. production and sale of books and supporting materials, joint ventures, and provision of canteen and cafeteria, printing and child care services) – and ‘other’ non-government revenue not included elsewhere, such as the sale of non-current assets, investment income, residential charges, administrative recoveries, car parking services, donations and contributions. Taken together, ancillary trading and other income accounted for 5.7% of total revenue in 2001.

Profile of competitive tendering allocations

Competitive tendering was used to allocate Australian Traineeship System and other non-core training funds from the mid-1980s (Anderson 1996b), but it was not until the early 1990s that competitive tendering was employed to allocate core VET funds. In 1993, the Australian Capital Territory (ACT) implemented a private provider funding program and Victoria adopted competitive tendering on a restricted basis to allocate \$2.2 million of State VET funds. Other States and Territories first employed competitive tendering to allocate core VET funds from 1994. ANTA (1995a) estimates that more than \$12 million of Commonwealth growth funds were made available nationally for open competitive tendering activities during 1994. A profile of competitive tendering activities by States and Territories in 1993 and 1994 is provided in Table 8.

Table 8: Competitive tendering activities by State/Territory, 1993-94

ACT	1993: Private provider program commenced 1994: 10% of total competitive funding to private providers
NSW	1994: \$3m for open tendering
NT	1994: 25% of ANTA growth funds
QLD	1993/4: \$2m allocated to supply-driven processes 1994/5: \$7m allocated to extend the pilot
SA	1994: Small private provider pilot program (using ANTA growth funds)
TAS	1994: 10% of ANTA growth funds for a pilot private provider program
VIC	1993: \$2.2m of state funds for a pilot private provider program 1994: \$3.1m of state funds for a pilot private provider program 1994: \$7.7m of Commonwealth pre-vocational program funds: <ul style="list-style-type: none"> ▪ \$1.5m to private providers ▪ \$6.2m to TAFE
WA	1994: \$2.8m to a pilot program for public and private providers 1995: \$7.6m to a pilot program for public and private providers

Sources: WADOT (1995) *Developing the training market. Issues and best practice arising from state/territory pilot activities*, Vol.1, WADOT, Perth; and ANTA (1995b) *Australia's Vocational Education and Training System. Annual Report 1994*, Vol.2, ANTA, Brisbane.

**Table 9: Allocation of recurrent government funds by Competitive Tendering, 1995
(\$'000)**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Total funds tendered	21,828	30,475	4,692	7,460	3,415	945	989	2,232	69,683
Recurrent expenditure	1,252,290	769,070	452,087	290,757	236,766	77,058	77,380	64,140	3,306,880

Source: SCRCSSP (1997) *Report on Government Service Provision*, Vol.1.

State and Territory governments allocated almost \$70 million of VET funds by competitive tender in 1995, which included \$21 million of ANTA growth funds (see Table 9). In total, funds allocated by competitive tender accounted for 2% of national recurrent revenue for VET in 1995, of which 52% was awarded to private providers and 48% to public providers.

Table 10: Allocation of recurrent government funds by Competitive Tendering, 1996-2001 (%)

	NSW	Vic (a) (b)	Qld (c)	WA (d)	SA (e)	Tas	ACT	NT	Aust
<i>Open (public and private) tendering</i>									
1996	5	2.7	6.6	na	5.5	4	4.5	12	na
1997	3.3	6.9	5.3	5.2	5.5	1.5	2.1	--	na
1998	2.4	5.6	6.7	5.1	4.2	1.7	3.7	na	na
1999	3.6	6.8	6.2	6.7	3.9	1.7	4.6	2.2	5.0
2000	3.2	2.7	7.2	7.7	3.8	1.8	5.7	2.7	4.2
2001	3.9	1.9	5.7	4.7	2.9	2.1	5.6	--	3.6
<i>Limited (public or private only) tendering</i>									
1996	--	4.1	--	na	--	--	--	--	na
1997	--	1.5	0.5	--	--	--	--	--	na
1998	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	na
1999	--	--	--	--	--	--	--	--	--
2000	--	--	0.4	--	0.6	--	--	2.2	0.1
2001	--	0.9	0.4	--	0.5	--	--	--	0.3
<i>Total tendering</i>									
1996	5	6.8	6.6	na	5.5	4	4.5	12	na
1997	3.3	8.4	5.8	5.2	5.5	1.5	2.1	--	na
1998	2.4	5.8	6.7	5.1	4.2	1.7	3.7	na	na
1999	3.6	6.8	6.2	6.7	3.9	1.7	4.6	2.2	5.1
2000	3.2	2.7	7.6	7.7	4.4	1.8	5.7	4.9	4.3
2001	3.9	2.8	6.1	4.7	3.4	2.1	5.6	--	3.9

Sources: SCRCSSP (2003 and earlier years) *Report on Government Services*.

-- not applicable

na not available

Notes:

- 1996 figure for open tendering includes 0.3% which was open to competitive tendering from two of the following categories: public and ACE providers, or private and ACE providers.
- 1996 figure for limited tendering includes competitive funding for ACE VET programs.
- Data for open and limited tendering relate to contracts awarded during 2000.
- Data for 1997 are accrual-based recurrent expenditure and include Access funding in the open tendering process.
- Open tendering data include ACE.

From 1995, the amount of government funding allocated via open and limited competitive tendering processes to TAFE and registered private VET providers increased steadily. As reflected in Table 10, the largest amount and proportion of VET funds allocated via competitive tendering on a national basis in the period up to and including 2001 was recorded in 1999, when \$144.9 million or 5.1% of total recurrent government funds were allocated via competitive tenders. The largest proportions of VET revenue allocated via competitive tendering were recorded by Western Australia and Queensland in 2000, when 7.7% and 7.6% respectively of recurrent government funding for VET delivery were allocated by this mechanism. After the peak reached in 1999, the proportion of VET funds allocated via competitive tenders declined to 3.9% in 2001.

Profile of User Choice allocations

User Choice was implemented in all States and Territories, except New South Wales, from January 1998. However a few States, notably Queensland, South Australia and Victoria implemented significant User Choice funding programs from 1996. As reflected in Table 11, the national proportion of recurrent government funding for VET delivery allocated via User Choice reached 18.3% by 2001. In that year, the proportion of recurrent government VET funding allocated via User Choice ranged from 9.9% in Western Australia to 22.1% in Victoria.

Table 11: Allocation of recurrent government funds via User Choice, 1996-2001 (%)

	NSW (a) (b) (c)	Vic (d)	Qld (e)	WA	SA (f)	Tas	ACT	NT (g)	Aust (h)
1996	--	1.9	5.0	na	3.2	1.5	--	--	na
1997	2.3	15.3	9.5	1.6	0.5	3.5	2.1	2	na
1998	3.2	7.6	13.6	2.2	6.9	16.2	8.0	na	na
1999	18.8	14.3	10.2	12.0	18.4	15.7	8.7	5.8	15.0
2000	20.2	18.5	17.1	11.7	18.5	19.2	12.7	11.2	18.0
2001	19.2	22.1	17.7	9.9	17.2	20.1	12.3	10.9	18.3

Sources: SCRCSSP (2003 and earlier years) *Report on Government Services*.

-- not applicable

na not available

Notes:

- Funds allocated for traineeships only through flexible delivery using User Choice principles in a competitive environment. From July 1998 under the NSW Training Market Commitment, employees and employers were to have greatly increased capacity to select their preferred public or private training provider.
- 1999 percentage includes an estimated cost of apprenticeships in TAFE.
- 2000 percentage includes an estimate of \$163 million for apprenticeships in TAFE.
- The 1998 percentage appears to have been misreported or distorted by some unknown factor.
- As data reported for User Choice allocations during 2000 and 2001 in Queensland cover more than one calendar year, the tabulated percentages for 2000 and 2001 are approximations, calculated by halving the reported data for each respective year.
- 1996 percentage includes some early State-initiated user choice pilots and funding for traineeship programs allocated under a type of User Choice process.
- Although User Choice policy (under New Apprenticeships) was to be implemented from 1998, in 1997 the NT government spent \$125,000 on Pilot Projects and \$903,000 on off-the-job training dispensed on User Choice principles (that is, industry-selected training providers for trainees).
- Percentages for User Choice payments for 2000 and 2001 in Australia have been adjusted as Queensland data reported for each of these years cover more than one calendar year.

Contestable funding revenue: overview

Nationally, VET funds allocated via contestable processes (including competitive tendering and User Choice) accounted for just over 22% of recurrent government expenditure in 2000 and 2001. As reflected in Table 12, the highest proportion was reached in Victoria, which allocated almost 25% of its recurrent VET funds in 2001 via contestable processes (although the data in Table 14 below suggest that contestable funding actually reached 25% of the State VET budget in 1999, and was halved for 2000 following the imposition of the freeze on User Choice). Conversely the proportion of funds allocated via contestable processes in both Western Australia and the Northern Territory declined by 5% between 2000 and 2001.

The data also show that while the proportion of recurrent government funding allocated via competitive tendering up to 1997 was significant, particularly in Victoria and Queensland, the introduction of User Choice on a national basis from 1998 onwards accelerated the process of market reform.

Table 12: Allocation of recurrent government funds by contestable processes, 1996-2001 (%)

	<i>NSW</i>	<i>Vic</i>	<i>Qld (a)</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>Aust</i>
1996	5	8.7	11.6	Na	8.7	5.5	4.5	12	na
1997	5.6	23.7	15.3	6.8	6.0	5.0	4.2	2	na
1998	5.6	13.4	20.3	7.3	11.1	17.9	11.7	na	na
1999	22.3	21.2	16.4	18.3	22.3	17.2	13.4	8.0	20.1
2000	23.4	21.2	24.6	19.4	22.9	21.0	18.4	16.2	22.4
2001	23.1	24.9	23.8	14.6	20.6	22.2	17.9	11.0	22.2

Sources: SCRCSSP (2003 and earlier years) *Report on Government Services*

na not available

Notes:

- a) The percentages for 2000 and 2001 in Queensland, and as a consequence Australia, have been adjusted as data reported for each of these years cover more than one calendar year.

A more detailed breakdown of contestable funding allocations in each State and Territory between 1999 and 2001 inclusive, the years for which the most complete data are available, is provided in Table 13. In 2001, \$672.8 million were allocated nationally via contestable processes. The data show that the proportion of recurrent VET funds allocated via User Choice has been increasing steadily on an annual basis, whereas allocations via competitive tendering decreased between 1999 and 2001.

However, the tabulated data on contestable funding allocations in competitive tendering and User Choice markets may be unreliable, as data sourced from STAs often varies from those contained in reports of the Steering Committee for the Review of Commonwealth/State Service Provision of the Productivity Commission. A comparison of the tabulated data above for Victoria with those of the Victorian Office of Post-compulsory Education, Training and Employment in Table 14 reveals major discrepancies.

Table 13: Contestable funding allocations by State/Territory, 1999-2001

	NSW (c)	Vic (d)	Qld (e)	WA (f)	SA (g)	Tas	ACT	NT	Aust
1999									
Amounts allocated (2001 \$m)									
Open competitive tendering	37.9	45.4	33.5	20.3	8.4	1.3	3.1	1.4	151.3
Limited competitive tendering (a)	--	--	--	--	--	--	--	--	--
User choice	199.3	94.8	55.0	36.2	39.8	12.0	5.8	3.7	446.6
Total contestable	237.2	140.2	88.5	56.5	48.3	13.2	9.0	5.0	597.9
% of recurrent govt funding									
Open competitive tendering	3.6	6.8	6.2	6.7	3.9	1.7	4.6	2.2	5.1
Limited competitive tendering	--	--	--	--	--	--	--	--	--
User choice	18.8	14.3	10.2	12.0	18.4	15.7	8.7	5.8	15.0
Total contestable	22.3	21.2	16.4	18.3	22.3	17.2	13.4	8.0	20.1
Recurrent govt funding (2001 \$m) (b)	1,062.1	662.7	537.5	301.3	216.9	76.6	67.4	62.4	2,986.9
2000									
Amounts allocated (2001 \$m)									
Open competitive tendering	34.5	19.3	37.6	20.4	8.1	1.3	3.4	1.8	126.4
Limited competitive tendering (a)	--	--	1.9	--	1.3	--	--	1.5	4.7
User choice	216.7	132.1	89.6	30.9	39.9	13.2	7.6	7.3	537.3
Total	251.2	151.4	129.0	51.3	49.2	14.5	11.0	10.5	668.4
% of recurrent govt funding									
Open competitive tendering	3.2	2.7	7.2	7.7	3.8	1.8	5.7	2.7	4.2
Limited competitive tendering	--	--	0.4	--	0.6	--	--	2.2	0.2
User choice	20.2	18.5	17.1	11.7	18.5	19.2	12.7	11.2	18.0
Total contestable	23.4	21.2	24.6	19.4	22.9	21.0	18.4	16.2	22.4
Recurrent govt funding (2001 \$m) (b)	1073.0	714.1	525.1	265.0	214.9	69.1	59.8	64.9	2986.0
2001									
Amounts allocated (2001 \$m)									
Open competitive tendering	39.2	14.5	30.9	14.6	6.3	1.5	3.3	--	110.3
Limited competitive tendering (a)	--	6.5	2.0	--	1.2	--	--	--	9.7
User choice	194.1	166.2	96.0	30.5	37.2	14.3	7.3	7.2	552.8
Total	233.3	187.2	128.9	45.1	44.7	15.8	10.6	7.2	672.8
% of recurrent govt funding									
Open competitive tendering	3.9	1.9	5.7	4.7	2.9	2.1	5.6	--	3.6
Limited competitive tendering	--	0.9	0.4	--	0.5	--	--	--	0.3
User choice	19.2	22.1	17.7	9.9	17.2	20.1	12.3	10.9	18.3
Total contestable	23.1	24.9	23.8	14.6	20.6	22.2	17.9	11.0	22.2
Recurrent govt funding (2001 \$m) (b)	1009.0	752.7	541.1	308.4	216.8	71.3	59.3	65.5	3024.2

Sources: SCRCSSP (2003 and earlier years) *Report on Government Services*, and NCVER (2002 and earlier years) *Australian VET Statistics: Financial Data*.

-- not applicable

Notes:

- Limited competitive tendering* is restricted to community groups that deliver ACE VET programs.
- Recurrent funding* includes State recurrent funding and Commonwealth general purpose recurrent funding.
- For NSW in 2000, the user choice data include an estimate of \$163 million for TAFE apprenticeships.
- Victorian TAFE institutes and ACE centres are not eligible to apply for open competitive tendering.
- For Queensland the amounts for 2001 open competitive tendering and limited competitive tendering are for contracts awarded in 2001. The contestable funding figures for 2000 and 2001 have been adjusted as data reported to NCVER for each of these years cover more than one calendar year. As a consequence, the national data and percentages have also been adjusted accordingly.
- Data for 2000 and 2001 in Western Australia include User Choice funding paid to TAFEs.
- Open competitive tendering data for 2000 in South Australia include ACE.

Table 14: Contestable funding allocations by Victoria, 1995-2000

Year	PETP Tender		User Choice		Total Contestable	
	\$ million	% of budget	\$ million	% of budget	\$ million	% of budget
1995	6.2	1.2	--	--	6.2	1.2
1996	14.5	2.8	--	--	14.5	2.8
1997	32.5	6.2	10.5	2.0	43.0	8.2
1998	34.6	6.6	46.4	8.8	81.0	15.4
1999	42.7	8.2	89.3	17.2	132.0	25.4
2000	21.2	3.9	47	8.6	68.2	12.5

Source: OPETE 2000
 -- not applicable

The data show that since 1995 an increasing proportion of government funds has been moved from the TAFE institute funding base to contestable funding arrangements, specifically competitive tendering under the Priority Education and Training Program (PETP) and User Choice. By 1999, the total proportion of the State budget for VET allocated via contestable funding processes had reached 25%. However, total contestable funding allocations (as a proportion of the State VET budget) were halved in 2000, following the introduction of the freeze by the then newly elected State Labor government. Had the State government not imposed the freeze on contestable funding levels, around 34% of the State VET budget would have been subject to competition among TAFE and non-TAFE RTOs in 2000. This approaches the level of contestable funding reached in Queensland, which was estimated by Bannikoff (1998) to be around 35% of the State VET budget in 1998.

Non-market and market revenue

National financial data can be analysed in terms of revenue from 'non-market' and 'market' sources. 'Non-market revenue' refers to funding that is allocated directly by Commonwealth and State/Territory governments to VET providers (largely, but not only, TAFE institutes) for recurrent, capital and specific purposes. The allocation of such revenue is not subject to direct competition among VET providers. 'Market revenue' is allocated in the context of either quasi-markets for public funds or open and commercial training markets for private funds. In quasi-markets, public VET funds are allocated by governments through contestable processes, specifically competitive tendering and User Choice, as previously discussed. In open and commercial markets, VET providers compete directly for private funds. In both market sectors, VET providers have no guarantee of securing revenue from government or non-government clients from one year to the next. Market revenue can be viewed therefore as 'soft money', the level of which is subject to fluctuations in market demand that cannot be predicted accurately or influenced directly by VET providers.

As previously noted, it is impossible to construct a comprehensive profile of non-market and market revenue for the entire VET sector, including TAFE and non-TAFE providers. Not only do the private accounts of non-TAFE providers fall outside the scope of NCVER financial data collections, but also the reported data do not distinguish between contestable and non-contestable (government) funding allocated to VET providers, both of which are classified as recurrent government revenue. However, data reported by the Steering Committee for the Review of Commonwealth/State Service Provision (SCRCSSP) provide some indication of the amounts and proportion of public funding allocated via contestable processes, as shown below.

Table 15: Market and non-market VET revenue, Australia 1997-2001 (a)

	1997	1998	1999	2000	2001
Non-market revenue (2001 \$m)					
Non-contestable recurrent	na	2,419.6	2,409.2	2,347.6	2,382.8
Student fees and charges (b)	169.1	165.4	169.8	178.6	182.1
Total non-market	na	2,585.0	2,579.0	2,526.2	2,564.9
Quasi-market revenue (2001 \$m)					
User Choice	na	na	446.6	537.3	552.8
Competitive tendering (open & limited)	na	na	151.3	131.1	120.0
Total contestable VET	na	575.3	597.9	668.4	672.8
Fee for service – Government agencies	127.8	85.4	92.6	117.5	108.4
Total quasi-market	na	660.7	690.5	785.9	781.2
Open market revenue (2001 \$m)					
Fee for service – Other	245.9	248.9	260.8	318.5	326.8
Fee for service – ACE	7.5	11.0	9.7	9.2	9.8
Ancillary trading and other	224.3	206.3	208.6	268.1	251.8
Total open market	477.7	466.2	479.1	595.8	588.4
Total market (2001 \$m)	na	1,126.9	1,169.6	1,381.7	1,369.6
TOTAL (2001 \$m)	3,745.0	3,711.9	3,748.4	3,907.9	3,934.6
Non-market revenue (%)					
Non-contestable recurrent	na	65.2	64.3	60.1	60.6
Student fees and charges (a)	na	4.5	4.5	4.6	4.6
Total non-market	na	69.7	68.8	64.7	65.2
Quasi-market revenue (%)					
User Choice	na	na	11.9	13.8	14.0
Competitive tendering (open & limited)	na	na	4.0	3.4	3.0
Total contestable VET	na	15.5	16.0	17.1	17.1
Fee for service – Government agencies	na	2.3	2.5	3.0	2.8
Total quasi-market	na	17.8	18.5	20.1	19.9
Open market revenue (%)					
Fee for service – Other	na	6.7	7.0	8.2	8.3
Fee for service – ACE	na	0.3	0.3	0.2	0.2
Ancillary trading and Other	na	5.6	5.6	6.9	6.4
Total open market	na	12.6	12.9	15.3	14.9
Total market (%)	na	30.4	31.2	35.3	34.8
TOTAL (%)	100.0	100.0	100.0	100.0	100.0

Sources: NCVER (2002 and earlier years) *Australian VET Statistics: Financial Data*; and SCRCSSP (2003 and earlier years) *Report on Government Services*.

na not available

Notes:

- a) Rows and columns do not always total precisely due to rounding
- b) An unknown proportion of 'Student fees and charges' were paid by students and apprentices/trainees enrolled in competitive tendering and User Choice programs in TAFE (comprising between 15-20% of total VET enrolments in 2001). Technically, the amounts paid by these individuals should be included under 'quasi-market revenue'.

In conjunction with NCVET financial reports, SCRCSSP data allow for some estimates of the relative proportions of non-market and market revenue for VET delivery from 1998, prior to which data on contestable government funding were incomplete. As shown in Table 12, VET funding allocated via contestable processes amounted to about 19% of recurrent VET revenue in 1998, rising to around 22% in both 2000 and 2001. In effect, over one fifth of recurrent VET revenue in these years was allocated in the context of quasi-markets for VET.

In Table 15, national data on total revenue for VET delivery (i.e. excluding government revenue for capital, specific and other purposes) have been categorised into 'market revenue' (including quasi-market revenue and open and commercial market revenue), and 'non-market revenue' (i.e. non-competitive recurrent VET funds and student fees and charges). Quasi-market revenues include contestable recurrent VET funds and fee-for-service revenue from other (non-VET) government agencies, as the latter is allocated generally on a competitive tendering/bidding basis (AVETMISS, Release 1.3, July 2001). National financial reports include contestable VET funding won by both TAFE and non-TAFE providers, and revenue derived by TAFE (but not non-TAFE providers) from other (non-VET) government agencies.

Open and commercial market revenue includes income raised from private sources, including domestic and overseas students and industry/enterprise clients. Non-market revenue includes recurrent government funds allocated directly to VET providers (almost exclusively TAFE institutes) on a non-contestable basis. However, as previously noted, national financial reports do not include private revenue raised by non-TAFE providers in open and commercial markets, or from other (non-VET) government agencies.

These data show that revenue from quasi-markets and open and commercial markets accounted for almost 20% and 15% respectively of total revenue for VET delivery in 2001. Overall, market revenues increased proportionally by 20% from 1998-2001, accounting for 30% of total revenue for VET delivery in 1998 compared to 35% in 2001. Non-market revenues declined by 1% from 1998-2001, accounting for around 70% of total revenue for VET delivery in 1998 compared to 65% in 2001.

By 2001, therefore, the proportion of revenue derived from market sources reached 35% of total revenue for VET delivery. This increase in market revenue can be attributed only in part to the 2% proportional increase in revenue from open and commercial markets between 1992 and 2001. The main reason for the relative shift in balance from non-market to market revenue was the introduction of contestable processes to allocate a steadily increasing proportion of recurrent VET revenue from the mid-1990s onwards. The upshot is that in less than a decade, around one-fifth of base national recurrent funding for VET delivery – traditionally allocated directly to TAFE – has been diverted to contestable funding markets. The data on market and non-market revenues tabulated above, and the associated changes in patterns of revenue raising revenues, are analysed further below in terms of their implications for TAFE and non-TAFE providers.

Payments to TAFE and non-TAFE providers

Since the introduction of contestable funding processes in the mid-1990s, an increasing proportion of government revenue for VET delivery has been paid to post-school non-TAFE providers, including: private, enterprise, industry, community and local government providers, and Group Training Companies. Some States and Territories also make payments from VET budgets to other non-TAFE providers, such as private and public secondary schools, and tertiary education providers such as independent agricultural colleges. In 2001, payments to post-school non-TAFE providers accounted for 94% of payments to all non-TAFE providers. The analysis below concentrates on payments to post-school non-TAFE providers, as they comprise TAFE's main competitors for contestable VET revenue.

**Table 16: Payments to post-school non-TAFE providers by State/Territory, 1997-2001
(2001 \$'000)**

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>Aust</i>
1997	46,355	35,010	37,909	14,333	17,584	2,124	3,206	3,145	159,667
% of State Total	3.1	3.4	5.7	3.6	5.6	2.1	3.4	4.4	3.7
1998	57,514	56,428	48,502	11,874	17,749	2,696	3,384	3,316	201,464
% of State Total	3.8	5.6	7.4	3.1	5.6	2.6	3.5	4.4	4.8
1999	58,960	76,945	47,298	25,099	26,860	3,333	5,046	7,151	250,690
% of State Total	4.0	7.6	7.4	6.1	8.6	3.3	5.8	5.9	6.0
2000	65,483	76,311	46,358	23,642	24,542	3,808	6,850	5,978	252,972
% of State Total	4.4	7.1	6.6	5.7	7.8	3.8	8.3	6.4	5.8
2001	75,826	101,243	53,301	22,010	28,483	4,540	7,135	6,239	298,777
% of State Total	5.2	8.7	8.0	5.3	8.5	4.6	8.9	7.3	6.8
<i>1997-2001</i>									
% change	64	189	41	54	62	114	123	98	87
% change of State Total	2.1	5.3	2.3	1.7	2.9	2.5	5.5	2.9	3.1

Sources: NCVET (2002 and earlier years) *Australian VET Statistics: Financial Data*.

Note: This table shows payments by STAs to non-TAFE providers (including private, enterprise, industry, community and local government providers, and GTCs) for VET delivery (i.e. generally Student Contact/Curriculum Hours). It excludes payments to public and private secondary schools and other government providers, such as independent agricultural colleges.

As shown in Table 16, payments to post-school non-TAFE providers, as a proportion of total VET revenue, increased nationally by 3% between 1997 and 2001. Of total VET revenue in 2001, post-school non-TAFE providers received 8.9% in the ACT, 8.7% in Victoria, 8.5% in South Australia, and 8.0% in Queensland. Payments to post-school non-TAFE providers as a proportion of total VET revenue were below the national average for 2001 in Tasmania (4.6%), New South Wales (5.2%) and Western Australia (5.3%). From 1997 to 2001, payments to post-school non-TAFE providers increased nationally by 87%. The largest proportional increases in payments to selected non-TAFE providers during this period occurred in Victoria (189%) and the ACT (123%).

Table 17: Payments to post-school non-TAFE providers and government revenue, 1997-2001

	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
Payments to non-TAFEs (2001 \$m)	159.7	201.5	250.7	253.0	298.8
% of contestable revenue	na	37.5	41.9	37.9	44.4
% of recurrent govt. revenue	5.4	6.7	8.3	8.4	9.8
Total contestable (2001 \$m)	na	537.3	597.9	668.4	672.8
Recurrent govt. revenue (2001 \$m)	2,970.3	2,994.9	3,007.1	3,016.0	3,055.6

Sources: NCVET (2002) *Australian VET Statistics: Financial Data*; SCRCSSP (2001 and earlier years) *Report on Government Services*.

na not available

Table 17 shows that payments to post-school non-TAFE providers as a proportion of recurrent government revenue increased nationally by over 4% between 1997 and 2001. In 2001, payments to post-school non-TAFE providers accounted for 44% of all contestable VET funds, equivalent to almost 10% of recurrent government revenue for VET delivery.

The amounts and proportions of contestable government funding allocated to post-school non-TAFE providers have increased steadily up to 2001, although there is considerable variance among States and Territories as reflected in Table 18. At the high end, payments to post-school non-TAFE providers in 2001 equated to 86% of contestable government funding in the Northern Territory, 67% in the Australian Capital Territory, and almost 64% in South Australia. At the low end, payments to post-school non-TAFE providers in 2001 equated to 29% of contestable government funding in Tasmania and 32% in New South Wales.

Table 18: Contestable funds to TAFE and post-school non-TAFE providers, 1999-2001

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT (a)</i>	<i>Aust</i>
1999									
Amounts allocated (2001\$m)									
<i>Post-school non-TAFEs</i>	59.0	77.0	47.3	25.0	26.9	3.3	5.0	7.2	250.7
<i>TAFEs</i>	178.2	63.2	41.0	31.5	21.4	9.9	4.0	na	347.2
% of contestable funding									
<i>Post-school non-TAFEs</i>	24.9	54.9	53.6	44.2	55.7	25.0	55.6	na	41.9
<i>TAFEs</i>	75.1	45.1	46.4	35.7	44.3	75.0	44.4	na	58.1
<i>Total contestable funding (2001\$m)</i>	237.2	140.2	88.3	56.5	48.3	13.2	9.0	5.0	597.9
2000									
Amounts allocated (2001\$m)									
<i>Post-school non-TAFEs</i>	65.5	76.3	46.4	23.6	24.5	3.8	6.9	6.0	253.0
<i>TAFEs</i>	185.7	75.1	82.6	27.7	24.7	10.7	4.1	4.5	413.9
% of contestable funding									
<i>Post-school non-TAFEs</i>	26.1	50.4	36.0	46.0	49.8	26.2	62.7	57.1	37.9
<i>TAFEs</i>	73.9	49.6	64.0	54.0	50.2	73.8	37.3	42.9	62.1
<i>Total contestable funding (2001\$m)</i>	251.2	151.4	129.0	51.3	49.2	14.5	11.0	10.5	668.4
2001									
Amounts allocated (2001\$m)									
<i>Post-school non-TAFEs</i>	75.3	101.2	53.3	22.0	28.5	4.5	7.1	6.2	298.8
<i>TAFEs</i>	158.0	86.0	75.4	23.1	16.2	11.3	3.5	1.0	374.0
% of contestable funding									
<i>Post-school non-TAFEs</i>	32.3	54.1	41.3	48.8	63.8	28.5	67.0	86.1	44.4
<i>TAFEs</i>	67.7	45.9	58.5	51.2	36.2	71.5	33.0	13.9	55.6
<i>Total contestable funding (2001\$m)</i>	233.3	187.2	128.9	45.1	44.7	15.8	10.6	7.2	672.8

Note:

- a) Northern Territory data on payments to post-school non-TAFE providers in 1999 exceed the reported amount of VET funds allocated via contestable processes in 1999.

As payments to post-school non-TAFE providers have increased since the introduction of contestable funding processes in the mid-1990s, the share of quasi-market revenue won by TAFEs has decreased as a result. Consequently, while TAFE institutes raised over 16% on average of their total VET revenue in open and commercial markets in 2001 (see Table 19), they won only 56% of contestable VET funds (see Table 18), which equates to only 10% of their total VET revenue. In financial terms, therefore, open market revenue is significantly more important for TAFE institutes than quasi-market revenue.

The following table reflects the amount and proportional distribution of TAFE and post-school non-TAFE provider revenue from various sources from 1997-2001, after the allocation of contestable VET revenue. It shows that non-contestable funding received by TAFE providers in 2001 accounted for 65% on average of their total revenue for VET delivery, a decline of 3 per cent since 1998. Consequently, by 2001 TAFE institutes could rely on

receiving only two thirds of their total revenue for VET delivery directly from government and partial fee-paying students, and without the threat of competition from other providers, including other TAFE and non-TAFE providers. Any revenue above that base line now has to be raised in the context of either quasi-markets or open and commercial markets, and as such is subject to the uncertainties arising from market competition. In 2001, income from quasi-markets and open and commercial markets accounted for 13% and 16% respectively of national TAFE revenue for VET delivery. In effect, income derived by TAFE providers from market sources accounted for 26% of their total delivery revenue in 1998 and 30% in 2001, representing an increase of over 4% during this four-year period.

The significance of these data becomes more apparent when viewed in historical context. In 1992, prior to the creation of quasi-markets, recurrent government funds accounted for about 82% of total TAFE revenue (excluding Commonwealth and State revenues for capital purposes). Revenues raised in open and commercial markets – from fee-for-service activities, ancillary trading and other non-government sources – accounted for the remaining 18% of TAFE's total revenue in 1992 (Burke 2002). Hence, while less than two in every ten dollars received by TAFE institutes in 1992 was 'soft money', this increased to three in every ten dollars on average by 2001.

Table 19: TAFE and non-TAFE provider revenue, Australia 1997-2001 (a)

	1997	1998	1999	2000	2001
TAFE PROVIDERS					
Non-market revenue (2001 \$m)					
Non-contestable recurrent	Na	2,388.6	2,392.6	2,321.4	2,362.9
Student fees and charges (b)	169.1	165.4	169.8	178.6	182.1
Total non-contestable	na	2,504.0	2,562.4	2,500.0	2,545.0
Quasi-market revenue (2001 \$m)					
Contestable VET	na	335.8	347.2	413.9	374.0
Fee for service – Government agencies	127.8	85.4	92.6	117.5	108.4
Total quasi-market	na	421.2	439.8	531.4	482.4
Open market revenue (2001 \$m)					
Fee for service – Other	245.9	248.9	260.8	318.5	326.8
Fee for service – ACE	7.5	11.0	9.7	9.2	9.8
Ancillary trading and other	224.3	206.3	208.6	268.1	251.8
Total open market	646.8	466.2	479.1	595.8	588.4
Total market (2001 \$m)	na	887.4	918.9	1,127.2	1,070.8
TOTAL TAFE (2001 \$m)	na	3,479.4	3,481.8	3,628.7	3,615.7
Non-market revenue (%)					
Non-contestable recurrent	na	68.6	68.7	64.0	65.4
Student fees and charges (a)	na	4.8	4.9	4.9	5.0
Total non-contestable	na	73.4	73.6	68.9	70.4
Quasi-market revenue (%)					
Contestable VET	na	9.7	10.0	11.4	10.3
Fee for service – Government agencies	na	2.5	2.7	3.2	3.0
Total quasi-market	na	12.1	12.6	14.6	13.3
Open market revenue (%)					
Fee for service – Other	na	7.2	7.5	8.8	9.0
Fee for service – ACE	na	0.3	0.3	0.3	0.3
Ancillary trading and other	na	5.9	6.0	7.4	7.0
Total open market	na	13.4	13.7	16.4	16.3
Total market (%)	na	25.5	26.4	31.1	29.7
TOTAL TAFE (%)	100.0	100.0	100.0	100.0	100.0
POST-SCHOOL NON-TAFE PROVIDERS					
Contestable VET revenue (2001 \$m)	159.7	201.5	250.7	253.0	298.8
% of total VET	na	5.4	6.7	6.5	7.6
OTHER NON-TAFE PROVIDERS					
Payments from recurrent revenue (2001 \$m)	31.3	31.0	16.6	26.2	19.9
% of total VET	0.8	0.8	0.4	0.7	0.5
TOTAL VET (2001 \$m)	3,745.0	3,711.9	3,748.4	3,907.9	3,934.6

Sources: NCVER (2002 and earlier years) *Australian VET Statistics: Financial Data*; and SCRCSSP (2003 and earlier years) *Report on Government Services*.

Notes: Notes:

- a) Rows and columns do not always total precisely due to rounding
 - b) An unknown proportion of 'Student fees and charges' were paid by students and apprentices/trainees enrolled in competitive tendering and User Choice programs in TAFE (comprising between 15-20% of total VET enrolments in 2001). Technically, the amounts paid by these individuals should be included under 'quasi-market revenue'.
- na not available

Expenditure: a national profile

Overall, total operating expenses increased by 2.2% from 1997-2001. Expenditure increased on two of four main items during this period. National expenditure on delivery provision and support increased by 2% from 1997-2001, and remained relatively steady at around 68% of total operating expenses during the same period. Expenditure on property, plant and equipment services increased by 78% from 1997-2001 to reach just over 10% of total operating expenses in 2001, an increase of 4.3% from 1997. Expenditure on the above two items increased collectively by 6.4% as a proportion of total operating expenses between 1997 and 2001.

Conversely, expenditure on two other main items fell between 1997 and 2001. Expenditure on administration and general services decreased by almost 11% from 1997-2001. As a proportion of total operating expenses, administration and general services fell by 2.6% from 1997-2001 to account for 18% of total operating expenses in 2001. Expenditure on student services and other services fell by 29% from 1997-2001, accounting for less than 4% of total operating expenses by 2001. In effect, the two main targets for reduction in expenditure in TAFE appear to have been administration and general services, and student services and other services. Expenditure on these two items declined collectively by 4.2% as a proportion of total operating expenses between 1997 and 2001.

As shown in Table 21, decomposition of expenditure on student services and other services shows that expenditure on staff redundancies increased by 92% from 1997-2001. Expenditure on commercial trading and 'other' services rose by 43% and 10% respectively. Conversely, expenditure on student services declined by a remarkable 51% from 1997-2001, falling from 4.2% of total operating expenses in 1997 to 1.4% in 2001. The latter item includes expenditure on the provision of non-academic services to students such as counselling, disabilities, health services, employment services, child care, accommodation, student amenities and student associations.

As reflected in Table 20, the decline in expenditure on student services from 1997-2001 can be attributed to substantial reductions in the three largest States. Expenditure on student services fell by 92% in NSW, 81% in Queensland, and 52% in Victoria. Conversely expenditure on this item increased in all other States and Territories. Although expenditure on student services fell steadily in Victoria from 1997-2001, the size of the falls in two States in the space of one year – 77% in Queensland from 1997-1998 and 76% in NSW from 1998-1999 – are so great as to warrant further investigation. Similarly, the reasons for the 111% increase in expenditure on student services from 1997-1998 in South Australia are unclear. However, even if 1998 is taken as the starting point, thereby discounting the massive increase in South Australia and the fall in Queensland from 1997-1998, expenditure on student services still fell nationally by a substantial 38% to 2001.

Table 20: Operating expenditures by activity: student services, 1997-2001 (2001 \$m)

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>Aust</i>
1997	57.4	68.4	23.5	11.5	4.5	5.1	3.6	5.0	178.8
1998	55.2	43.8	5.5	12.5	9.5	4.8	1.7	10.1	143.0
1999	13.5	41.8	7.9	17.5	9.1	5.4	2.6	4.5	102.2
2000	10.6	40.3	7.6	16.2	10.1	5.2	2.8	8.9	101.7
2001	4.7	32.8	4.5	17.7	10.8	5.4	4.0	8.2	88.1
% change 1997-2001	-91.8	-52.0	-80.9	53.9	140.0	5.9	11.1	39.0	-50.7

Source: NCVET (2002) *Australian VET Statistics: Financial Data 2001*.

Table 21: Operating expenditures by activity, Australia 1997-2001 (\$m)

	1997	1998	1999	2000	2001	% change
Delivery provision and support	2,862.8	2,814.1	2,859.7	2,934.5	2,923.6	2.1
% of State Total	68.3	67.7	69.4	68.6	68.3	0.0
Administration and general services	858.3	786.4	693.4	752.7	765.8	-10.8
% of State Total	20.5	18.9	16.8	17.6	17.9	-2.6
Property, plant and equipment services	245.3	296.9	398.5	406.4	435.7	77.6
% of State Total	5.9	7.1	9.7	9.5	10.2	4.3
Student services and other services	223.9	257.7	169.4	185.0	158.4	-29.3
% of State Total	5.3	6.2	4.1	4.3	3.7	-1.6
TOTAL	4,190.2	4,155.1	4,121.0	4,278.5	4,283.5	2.2
Student services and other services (c)						
<i>Student services</i>	178.8	143.0	102.2	101.7	88.1	-50.7
<i>% of State Total</i>	4.2	3.4	2.5	2.4	1.4	-2.8
<i>Staff redundancies</i>	17.6	70.9	27.4	41.5	33.7	91.5
<i>% of State Total</i>	0.4	1.7	0.7	1.0	0.8	0.4
<i>Commercial trading</i>	20.1	33.7	30.0	31.6	28.7	42.8
<i>% of State Total</i>	0.5	1.7	0.7	0.7	0.7	0.2
<i>Other</i>	7.3	10.0	9.9	10.2	8.0	9.6
<i>% of State Total</i>	0.2	0.2	0.2	0.2	0.2	0.0

Sources: NCVER (2002 and earlier years) *Australian VET Statistics: Financial Data*.

Note:

- 'Post-school non-TAFE providers' includes private, enterprise, industry, community and local government providers, and GTCs.
- 'Other non-TAFE providers' includes public and private secondary schools and other government providers, such as independent agricultural colleges.
- Expenditure on items included in 'Student services and other services' is disaggregated in rows below.

Overall, the data suggest that as a proportion of total operating expenses from 1997 to 2001, property, plant and equipment services experienced the largest increase (4.3%), while administration and general services experienced the largest decline (-2.6%). However when data for students services and other services are disaggregated, they reveal that student services experienced the largest proportional decline in expenditure of any single item (-2.8%). Consequently while the ratio of expenditure on administration and general services to student services was roughly 5:1 in 1997, it increased to almost 9:1 by 2001.

As previously noted, payments to post-school non-TAFE providers – which are counted as expenditure on delivery provision and support in NCVER Financial Reports – increased steadily from 1997-2001. Table 22 shows that, as a proportion of expenditure on delivery provision and support, payments to non-TAFE providers increased nationally from 6.7% in 1997 to 10.9% in 2001. In other words, over one in every ten dollars recorded as expenditure on delivery provision and support was paid to post-school non-TAFE providers in 2001.

While payments to all non-TAFE providers as a proportion of national expenditure on delivery provision and support increased by 4.2% from 1997-2001, TAFE's expenditure on this item declined by the same proportion. Overall, TAFE expenditure on delivery provision and support fell by 2.5% from 1997-2001, whereas payments to non-TAFE providers rose by 67%.

Table 22: Payments to VET providers and operating expenses, Australia 1997-2001

	1997	1998	1999	2000	2001	% change
Total operating expenses (2001 \$m)	4,190.2	4,155.1	4,121.0	4,278.5	4,283.5	2.2
Delivery provision and support (2001 \$m)	2,862.8	2,814.1	2,859.7	2,934.5	2,923.6	2.1
% of Total operating expenses	68.3	67.7	69.4	68.6	68.3	0.0
TAFE providers (2001 \$m)	2,671.8	2,581.6	2,592.4	2,655.3	2,604.9	-2.5
% of Delivery provision and support (a)	93.3	91.7	90.7	90.5	89.1	-4.2
% of Total operating expenses	63.7	62.1	62.9	62.1	60.8	-2.9
Post-school non-TAFE providers (2001 \$m)	159.7	201.5	250.7	253.0	299.0	87.2
% of Delivery provision and support (b)	5.6	7.2	8.8	8.6	10.2	4.6
% of Total operating expenses	3.8	4.8	6.1	5.9	7.0	3.2
Other non-TAFE providers (2001 \$m) (c)	31.3	31.0	16.6	26.2	19.9	-36.4
% of Delivery provision and support (b)	1.1	1.1	0.6	0.9	0.7	-0.4
% of Total operating expenses	0.7	0.7	0.4	0.6	0.5	-0.2
Total non-TAFE providers (2001 \$m)	191.0	232.5	267.3	279.2	318.7	66.9
% of Delivery provision and support (b)	6.7	8.3	9.4	9.5	10.9	4.2
% of Total operating expenses	4.5	5.5	6.5	6.5	7.5	3.0

Source: NCVET (2002) *Australian VET Statistics: Financial Data*.

Note:

- This item shows expenditure on delivery provision and support by TAFE, after payments to non-TAFE providers have been subtracted from total expenditure on this item.
- Payments to non-TAFE providers are reported as expenditure on delivery provision and support in NCVET Financial Reports.
- 'Other non-TAFE providers' includes public and private secondary schools and other government providers, such as independent agricultural colleges.

Overview analysis

The above analysis of national VET finances highlights several significant trends pertinent to this study. While total VET revenues (in 2001 prices) decreased by about 3% from 1997-2001, expenditure increased by just over 2% during the same period. Coinciding with the widening gap between revenue and expenditure was a 20% increase in VET enrolments from 1997-2001. As Burke (2002) notes, one outcome of the 'growth through efficiencies' strategy adopted by ANTA from 1995 onwards is that revenue per Student Contact Hour (SCH) has been steadily declining on a national basis, although variations among States and Territories are considerable. As a result, while total publicly provided hours of training increased nationally by 14% from 1997-2000, expenditure per SCH declined by 7% in actual dollars, and by 11% in 2000 prices measured by the GDP deflator.

The balance of total VET (mainly TAFE) revenue drawn from government and non-government sources shifted towards the latter during the 1990s. Although government VET revenue still accounted for the largest share of VET revenue, it fell by 2.4% as a proportion of total VET revenue from 1997-2001. Non-government revenue increased by the same proportion from 1997-2001, and accounted for almost 20% of total VET revenue in 2001. These data indicate, therefore, that TAFE institutes have become correspondingly more reliant on non-government revenues during the period of market reform in VET.

Overall, there has been a shift in the balance of total VET revenues from non-market to market income, with the latter increasing from 18% of total (mostly TAFE) revenue for VET delivery in 1992 to 30% in 2001. As open and commercial market revenue increased by only

2% as a proportion of total revenue for VET delivery from 1992-2001, the bulk of this growth in 'soft money' from 1992-2001 can be attributed to the progressive diversion of a significant proportion of TAFE's base recurrent funding from the early 1990s onwards to newly constructed quasi-markets. As a consequence, TAFE providers received, on average, just over 60% of their total revenue for VET delivery in 2001 directly from government on a non-competitive basis – down from about 82% in 1992. TAFE also derived around 5% from partial fees and charges paid by students enrolled in government-subsidised programs.

Compounding the sizable loss of base recurrent government revenue, TAFE's share of quasi-market revenue declined steadily between 1998 and 2001, with TAFE providers winning only 56% of contestable funds in 2001 – equivalent to 10% of their total VET revenue.

Conversely, payments to post-school non-TAFE providers, TAFE's main competitors in quasi-markets for VET funds, increased nationally by 87% from 1997-2001. For each of the years from 1998-2001, post-school non-TAFE providers won well over one third of contestable government funds. As a proportion of recurrent government revenue, payments to post-school non-TAFE providers increased by over 4% from 1997 to 2001. Consequently, post-school non-TAFE providers have been winning a growing share of quasi-market funds, thereby increasing their reliance on non-market (government) revenue.

Although national expenditure on delivery provision and support increased by 2% from 1997-2001, expenditure on this item in TAFE (as a proportion of total operating expenses) decreased by almost 4%. Payments to non-TAFE providers increased by the same proportion. As a result, payments to non-TAFE providers accounted for just over 11% of national expenditure on delivery provision and support in 2001.

Expenditure on property, plant and equipment services rose by 78% from 1997-2001, while expenditure on administration and general services fell by 11%. Expenditure on both administration and general services and student services fell by almost 3% as a proportion of total operating expenses between 1997 and 2001. However while expenditure on student services and other services declined by 2% from 1997-2001, student services alone appear to have borne the brunt of this fall with a 51% decline in expenditure. In contrast, expenditure on staff redundancies and commercial trading rose by 92% and 43% respectively.

Overall, these national trends in operating expenditure suggest that TAFE institutes have been responding to the radically altered financial environment, characterised by declining government revenue per SCH and increasing competition for and reliance on market revenues, in part by:

- reducing expenditure on administration and general services, delivery provision and support, and student services provision; and
- increasing expenditure on property, plant and equipment services, staff redundancies and commercial trading.

Apart from adjusting to imposed financial stringency through cost-reduction strategies, these types of responses suggest that TAFE institutes have been engaged in a process of organisational restructuring and reorientation to meet the new demands of a more competitive and unpredictable financial environment in which they are exposed to market forces to an historically unprecedented level. In a context where TAFE institutes are guaranteed less government funding on a recurrent basis, a more market-oriented environment would necessitate greater responsiveness and flexibility in organisational infrastructure, especially human but also physical resources.

Although it cannot be assumed that social and educational effectiveness will be adversely affected by cost reduction strategies, falls in expenditure on delivery provision and support

and student services provision have potentially negative implications for quality and access and equity. This possibility is heightened in a context where the rate of total student enrolment, and the proportional representation of traditionally under-represented and disadvantaged groups, has increased (NCVER 2002b).

Greater reliance on private revenues or 'soft money' also suggests that TAFE institutes are likely to have been engaged in activities to, among other things: expand existing and enter new high-demand, and preferably low-cost, markets; reduce their involvement in low-demand, declining and possibly high-cost markets; and increase profit margins, through a combination of cost reduction and/or price increases. Both of the latter two strategies also carry risks that access for unemployed people, low-income earners, disadvantaged groups and people from rural and remote areas may be attenuated. Such hypotheses are tested in part through the national survey of RTOs, the results of which follow.

Finally, it should be noted that the data on which the above analyses are based were drawn from two main sources: NCVER statistical collections and the SCRCSSP's (various years) annual *Report on Government Services*. Due to inconsistencies between the two data sources, and in some instances within SCRCSSP reports, it is not always possible to reconcile one with the other or, as a result, to make accurate comparisons. Before a more precise database on market and non-market revenue in the VET sector can be compiled and compared over time, significant improvements in the quality and detail of the data collections are required. In particular, STAs should be required to provide more detailed data on funding allocated via contestable processes, separate from those reported for profile funding allocations. Improvements in NCVER data on items of expenditure, especially student services, are also required to ensure that policy making in VET is better informed.

Survey findings and analysis

Overview

The national RTO survey produced a wealth of data about the nature of VET markets and provider participation in market sectors, financial trends, their responses to the new contestable funding environment, and the impact and outcomes of market reform. Responses to each survey question were aggregated and analysed primarily by provider type and geographical location. Due to space considerations, the raw data tables and specific analyses have not been included in this document. The key findings of the survey, in combination with other research data, are synthesised and analysed below with reference to the aims and objectives for this study. Survey response rates and the relative significance of provider responses require some prior explanation.

Survey response rates

As reflected in Table 23, an overall response rate of 33% was achieved from a total sample population of 2,581 RTOs (including TAFEs). Consequently, the survey data provide a reasonably sound basis on which to evaluate the impact and outcomes of market reform in VET. More details about response rates can be found in Appendix 1.

Table 23: Provider type by sectoral size and response rates (%)

	VET students (a)	VET hours (b)	Response rate (c)	% of total (d)
TAFE (e)	74	81	71	7
Adult or Community Education centre	13	3	25	12
Other registered providers (f)	13	16	33	81
<i>Secondary school</i>	-	-	25	7
<i>University</i>	-	-	9	0
<i>Commercial subsidiary of school/TAFE/uni</i>	-	-	-	0
<i>Business College</i>	-	-	-	6
<i>Commercial training provider</i>	-	-	-	36
<i>Enterprise trainer</i>	-	-	38	10
<i>Group Training Company</i>	-	-	27	3
<i>Industry Skills Centre</i>	-	-	-	3
<i>Professional or industry assn</i>	-	-	-	6
<i>Other</i>	-	-	-	9
Total	100	100	33	100

Notes:

- 'VET students' denotes students enrolled in nationally recognised VET qualifications in 2001 (NCVER 2002). These data are not available for identified RTO types.
- 'VET hours' denotes the total hours of training delivered in 2001 towards nationally recognised VET qualifications (NCVER 2002). These data are not available for identified RTO types.
- 'Response rate' denotes the response rate of individual RTO categories as a proportion of their RTO-specific sample population.
- '% of total' refers to the response rates of individual RTO categories as a proportion of the total respondent population. Due to rounding, percentages in this column do not total 100%.
- 'TAFE' includes all TAFE institutes (including TAFE divisions of universities) and five TAFE-related entries listed on the NTIS.
- 'Other registered providers' includes all RTOs other than TAFE providers and ACE centres.

As reflected in Table 23, TAFEs accounted for 74% of all VET students and 81% of total hours of VET delivery in 2001 (the year when the survey was administered). As the market reforms were intended primarily to influence nationally recognised and publicly-funded training delivery, an evaluation of their impact on TAFE is of significant interest from a public policy perspective. An evaluation of the impact on non-TAFE RTOs is also of interest given that they collectively accounted for 26% of all VET students and 18% of total hours of VET delivery in 2001. In view of the relative significance of TAFEs in the VET sector, their survey responses should be given correspondingly greater weight than those of non-TAFE RTOs.

The response rates for ACE centres (25%) and other non-TAFE providers (33%) are large enough to warrant analysis. Response rates for most specific types of non-TAFE RTOs are acceptable. However, caution should be exercised in relation to the responses of Industry Skills Centres and Group Training Companies (GTCs) as they each represent a statistically small proportion of the total respondent population. Negligible returns were received from 'universities' and 'commercial subsidiaries of schools, TAFEs or universities', so their survey responses are discounted altogether.

The generic acronym 'RTOs' is used below to refer to *both* TAFE and non-TAFE RTOs. As TAFEs comprise only 7% of the total respondent population, aggregation of TAFE responses with those of non-TAFE RTOs, who comprise 93% of the respondent population, is unlikely to have unduly skewed the trend of survey responses. The aggregate responses of TAFEs are also reported alongside those of all RTOs (i.e. including TAFEs) so as to enable comparisons between the two groups. The reason for comparing the survey responses of TAFEs and RTOs as a whole is that TAFEs collectively hold the largest share of the market for nationally recognised VET qualifications.

Note on analytical approach

Market reform in VET has been an incremental and uneven process extending over the past decade or so. The pace of reform accelerated from 1995 onwards with the widening application of competitive tendering processes to the allocation of core government funding for VET delivery, and in particular after the national implementation of User Choice in 1998. During the subsequent period, the impact and effects of market mechanisms have become more apparent, and quasi-markets for VET appear to have reached a sufficiently mature stage of development to be able to evaluate whether or not the intended outcomes have resulted. Nonetheless, nascent trends and effects may have gone undetected in this study and others may have since emerged as a consequence of more recent changes to the framework for VET markets, such as the full implementation of the AQTF.

In many respects, market reform and its effects and outcomes are irreducibly complex and multi-faceted. As noted previously, although there is a national framework for market reform in the VET sector, the market arrangements in each State and Territory jurisdiction reflect the particularities of their contexts, thereby further complicating a study of this kind. It is also difficult to disentangle the effects of market mechanisms from those of other parallel reforms in VET, and to quantify their effects and outcomes, as already acknowledged.

Quasi-markets in VET are policy constructions. They were constructed through the purposive action of government to redesign the *pre-existing* institutional form and character of VET in Australia. These government interventions have necessarily intersected and interacted with the non-market structures and processes that constituted the publicly-funded VET system up to the beginning of the 1990s. As a consequence, the forms which quasi-markets in VET take, and the outcomes which they produce, are affected by a diverse range of factors, including

historical patterns of provision and financing, established organisational infrastructure and culture, existing provider relations with industry and community, entrenched stakeholder interests and so on. The many constellations of such variables suggest that the ‘playing field’ into which market mechanisms were interposed was far from being ‘level’, and that providers were on differential footings when the umpire’s whistle blew (or rather *whistles* in eight different States and Territories) to begin the contest. The particularities of quasi-markets in VET, together with the absence of a ‘level playing field’ at their inception, have undoubtedly shaped the dynamics and outcomes of market reform in VET in significant, and possibly unintended, ways.

Nevertheless, these are the conditions under which market reform in VET was instigated. Indeed they are part and parcel of the reasons *why* quasi-markets were created, so the resulting effects and outcomes should be evaluated in their own right. Few, if any, policy reforms have ever been implemented under ‘ideal’ conditions or on a clean slate. The ability of quasi-markets to achieve the intended policy outcomes will undoubtedly be affected to some extent by the legacy of the past. Although the effect of ‘extenuating circumstances’ must be taken into some account, the quasi-market experiment in VET must to a large extent either stand or fall on its own terms.

This part of the report synthesises the key findings of the research, including those presented so far, and in doing so addresses the research aims which were to:

- examine the structure, composition and dynamics of markets in VET;
- identify the impact and effects of market reform in VET on providers, and by implication their clients; and
- evaluate the outcomes, both intended and unintended, of market reform in VET.

The following sections address each of these research aims in sequential order.

This report does not purport to cover all possible bases or to measure the outcomes of market reform in VET in their totality. Nor does it exhaust the full range of possible insights from the extensive database generated by the national survey of RTOs. The survey data could be disaggregated and correlated in many ways other than the permutations and combinations produced for this report. Correlations of provider responses by main income source or market segment with various performance indicators may well shed different light on certain trends and effects of market reform.

Structure, composition and dynamics of markets in VET

This section discusses the research findings about the structure and composition of VET markets in the following subsections: national markets; international markets; regional markets; industry markets; qualifications markets; and client/funding markets; and income sources. Market dynamics are examined in the subsequent subsections, which deal with competition, contestability and provider competitiveness in VET markets.

National training market

In late 2001, there were 4,306 Registered Training Organisations (RTOs) listed on the National Training Information Service (NTIS). The NTIS data show that the largest proportions of RTOs were located in Victoria (25%), NSW (22%), Queensland (22%), and Western Australia (16%). Table 24 presents a profile of RTOs by provider type and State of Registration at the time of this study.

Table 24: Number of RTOs by provider type and State of Registration, 2001 (a)

<i>Provider type</i>	<i>ACT</i>	<i>NSW</i>	<i>NT</i>	<i>QLD</i>	<i>SA</i>	<i>TAS</i>	<i>VIC</i>	<i>WA</i>	<i>Total</i>	<i>% total</i>
<i>ACE</i>	4	133	8	57	5	12	290	8	517	12.0
<i>Commercial</i>	53	507	4	532	2	53	318	154	1623	37.7
<i>Enterprise</i>	0	113	4	145	0	11	124	10	407	9.5
<i>Government</i>	23	75	0	43	0	7	3	14	165	3.8
<i>Industry & Prof</i>	6	69	4	50	4	6	225	38	402	9.3
<i>Other</i>	7	39	55	19	274	2	7	452	855	19.9
<i>School</i>	15	8	6	67	2	31	106	11	246	5.7
<i>University</i>	0	1	1	5	0	1	0	3	11	0.3
<i>TAFE (b)</i>	1	12	3	17	10	1	20	16	80	1.9
<i>Total</i>	109	957	85	935	297	124	1093	706	4306	100.0
<i>% of total</i>	2.5	22.2	2.0	21.7	6.9	2.9	25.4	16.4	100.0	100.0

Source: ANTA National Training Information System (NTIS).

Notes:

- The NTIS included an unknown, but not insignificant, number of RTOs that had either ceased to exist, or had not renewed their registration, at the time the survey was conducted.
- 'TAFE' includes all TAFE institutes (including TAFE divisions of universities) and five TAFE-related entries listed on the NTIS.

By comparison, there were only 1,209 RTOs in Australia in 1994. Given that 1995 was the year when contestable funding arrangements were implemented in every State and Territory jurisdiction, these figures suggest that the number of RTOs increased by 256% during the main period of training market reform up to 2001. The already high numbers of RTOs in Queensland, Victoria and Western Australia in 1994 reflect the more advanced stages of market development in these jurisdictions in the early 1990s (ACG 1994b).

Table 25: Number of RTOs by provider type and State of Registration, 1994

<i>Provider type</i>	<i>ACT</i>	<i>NSW</i>	<i>NT</i>	<i>QLD</i>	<i>SA</i>	<i>TAS</i>	<i>VIC</i>	<i>WA</i>	<i>Total</i>	<i>% total</i>
<i>ACE</i>	1	8	15	58	34	11	120	42	289	23.9
<i>Commercial</i>	6	80	7	200	29	29	55	41	447	37.0
<i>Enterprise</i>	2	36	2	75	11	10	45	32	213	17.6
<i>Industry & Prof</i>	6	19	13	55	13	15	52	19	192	15.9
<i>Other</i>	5	7	9	12	1	5	18	11	68	5.6
<i>TAFE (a) (b)</i>	1	11	5	26	19	4	31	10	107	8.8
<i>Total</i>	20	150	46	400	88	70	290	145	1209	100.0
<i>% of total</i>	1.7	12.4	3.8	33.1	7.3	5.8	24.0	12.0	100.0	100.0

Sources: ACG (1994b, p.15); NCVER (1994, 1995) *Selected vocational education and training statistics*

Notes:

- 'TAFE' includes TAFE colleges and institutes only, and does not include the many training provider locations listed in NCVER reports.
- The numbers of TAFE colleges listed for SA and WA are estimates, based on NCVER data.

Comparison of the 1994 and 2001 data also shows that the RTO type with the highest rate of registration was commercial training providers, the number of which grew by 263% from 1994-2001. Registrations for industry and professional associations experienced the second highest rate, increasing by 109% during the same period.

The ABS (1996) found there were 3,174 'commercial training providers' in Australia in 1994. However, as the ABS definition of 'commercial training provider' encompassed a broader range of provider types – including professional and industry associations, in-house (i.e. enterprise) trainers, equipment manufacturer/supplier, and 'other' providers (p.2) – its data

are not directly comparable to those collected for this study. The ABS reported that the main factors that decreased the level of training activity of commercial training providers were: ‘lack of investment capital’ (46%); ‘costs or difficulties with accreditation procedures’ (27%); and ‘lack of national accreditation standards’ (24%).

These findings suggest that the growth in the number of commercial RTOs from 1994-2001 was facilitated by the progressive simplification and standardisation of provider recognition frameworks in States and Territories – particularly following the introduction of the NTF and Mutual Recognition in 1997 – in combination with the increased accessibility of government funds to non-TAFE providers via contestable funding processes. The survey for this study found that 63% of all RTOs, and 89% of TAFEs, delivered at least three quarters (75% or more) of their training hours under the NTF in the previous 12 months. Over one quarter (26%) of all RTOs, compared to only 11% of TAFEs, delivered all of their training under the NTF. Only 4% of RTOs had delivered all of their training outside the NTF in the previous 12 months. By comparison, the ABS (1996) found that 87% of commercial training providers did not conduct any accredited courses in 1994.

Although approximate at best, these data suggest that there has been a substantial increase since 1994 in the proportion of training delivered by non-TAFE providers within national regulatory frameworks for VET, which included NFROT and transitional arrangements up to 1997, and the NTF thereafter. Conversely, a large proportion of TAFEs are delivering a significant amount of training outside the NTF. In broad terms, these findings imply that an increasing number of non-TAFE RTOs are operating within the context of the national training market regulated by government, and that many TAFEs are delivering a significant proportion of their training outside the NTF.

Table 26: Provider type by hours of delivery under the NTF (%)

	Nil	1-24%	25-49%	50-74%	75-99%	100%	Don't know	Total
TAFE	0	0	2	5	78	11	4	100
Total RTOs	4	12	7	10	37	26	4	100

Note: Due to rounding, percentages in this table may not always total 100%.

As indicated below, a majority of RTOs continue to operate within the market boundaries of their State/Territory of Registration (SoR), although a modest number of RTOs are delivering nationally recognised training at interstate venues. Specifically, 17% of all RTOs (and 18% of TAFEs) identified metropolitan areas, and 14% of RTOs (and 21% of TAFEs) identified rural/regional areas, in another State (i.e. other than their SoR) among their three main areas of delivery. In effect, almost a decade after VET ministers agreed to develop a national training market, and four years after the introduction of the NTF and Mutual Recognition, a relatively limited number of RTOs are delivering training in locations outside their own SoR.

Contestable funding markets

Survey participants were asked to indicate the years in which they had competed for government training funds under competitive tendering and/or User Choice for the training delivery years up to and including 2001. A total of 453 RTOs, or 55% of all RTOs, had competed for government funds via competitive tendering arrangements for at least one training delivery year in the period up to and including 2001. A total of 396 RTOs, or 48% of all RTOs, had competed for clients under User Choice arrangements for at least one training delivery year in the period up to and including 2001.

Geographic markets

Survey findings relating to provider participation in metropolitan and rural/regional markets in Australia, and in international markets, are discussed below.

Metropolitan and rural/regional markets

In terms of geographical location, the survey data suggest that just over one third (36%) of all RTOs are based in rural/regional areas and almost two thirds (64%) are located in metropolitan areas. Private RTOs are mostly located in metropolitan areas, including 87% of professional or industry associations, 73% of Business Colleges, and 71% of commercial training providers. This geographical distribution of non-TAFE providers has not changed significantly since 1994 (Anderson 1996a). Conversely, a majority of public VET providers are located in rural/regional areas, including 59% of TAFEs and 53% of ACEs.

Table 27: Provider type by geographical location (%) (a) (b)

	Rural/regional	Metropolitan	% of total
Secondary school	49	51	7
TAFE or tech. college (incl. TAFE divisions of unis)	59	41	7
Adult or Community Education centre	53	47	12
Business College	27	73	6
Commercial training provider (other than Bus. Coll.)	29	71	36
Enterprise trainer (trains own firm's employees only)	28	72	10
Group Training Company	41	59	3
Industry Skills Centre	33	67	3
Professional or industry association	13	87	6
Other	37	63	9
Total	36	64	100

Notes:

a) Due to rounding, percentages in this table do not total 100%.

b) University and Commercial subsidiary of school, TAFE or uni are excluded due to small sample sizes

Despite their geographical location however, over three quarters (76%) of all RTOs identified metropolitan area(s) in their State/Territory of Registration (SoR) among their three main areas of delivery, and over two thirds (68%) identified regional/rural area(s) in their SoR.

Table 28: Three main geographical areas of training delivery (%)

	Main		2 nd main		3 rd main		Total	
	TAFE	Total	TAFE	Total	TAFE	Total	TAFE	Total
Metropolitan area(s) in State of Registration	46	61	18	13	2	2	66	76
Regional/rural area(s) in State of Registration	54	34	32	30	5	4	91	68
Metropolitan area(s) in another State	0	3	2	7	16	7	18	17
Regional/rural area(s) in another State	0	1	9	6	12	7	21	14
Outside Australia	0	0	7	1	16	5	23	6
Not applicable	0	0	33	43	49	76	N/A	N/A
Total	100	100	100	100	100	100	N/A	N/A

Note: Due to rounding, percentages in this table may not always total 100%.

Although a large proportion of TAFEs (33%) and all RTOs (43%) continue to operate in single geographical markets, a majority of RTOs are competing in more than one geographical market. Overall, 67% of TAFEs and 57% of all RTOs, deliver most of their nationally recognised training in at least two main geographical markets. Only one third (36%) of metropolitan RTOs, compared to 58% of rural/regional RTOs, deliver nationally recognised training in one main geographical area only. In effect, 42% of rural/regional RTOs and 64% of metropolitan RTOs deliver nationally recognised training in at least two main geographical areas.

Location remains an important influence on RTO participation in geographical markets. Nine in ten metropolitan RTOs (91%) deliver most of their nationally recognised training in metropolitan markets in their SoR, and the converse applies to rural/regional RTOs. However, while 64% of RTOs are located in metropolitan areas and 34% are based in rural/regional locations, a substantial proportion of both metropolitan and rural/regional RTOs are competing in geographical markets outside their own localities, although mainly within their SoR. Just over half (52%) of all metropolitan RTOs identified rural/regional areas in their own SoR among their three main geographical areas of delivery. Conversely, almost one third (31%) of all rural/regional RTOs identified metropolitan areas in their own SoR among their three main geographical areas of delivery.

Overall, the data suggest that relatively higher proportions of RTOs who are operating in one or more geographical markets beyond their own are competing for business in rural/regional markets, rather than in metropolitan markets. This includes both rural/regional and metropolitan RTOs. In all, 76% of all RTOs nominated metropolitan markets in their SoR among their three main geographical areas of delivery, whereas 68% of RTOs nominated rural/regional areas in their own SoRs.

Although there are no baseline data against which to measure this apparent trend, it would appear that the influx of metropolitan RTOs into rural/regional training markets has been greater than the influx of rural/regional RTOs into metropolitan training markets. As indicated above, over half of all metropolitan RTOs (who comprise 64% of all RTOs) identified rural/regional areas in their own SoR among their three main geographical areas of delivery. Conversely, less than one third of rural/regional RTOs (who comprise only 36% of all RTOs) identified metropolitan areas in their own SoRs among their three main geographical areas of delivery. The proportion of metropolitan RTOs delivering training in rural/regional areas in another State also significantly outweighs the proportion of rural/regional RTOs delivering training in metropolitan areas in another State.

International markets

As prior research has found with respect to private fee-for-service VET providers (Anderson 2000b), the concept and reality of international markets for VET are more significant than the national training market for many RTOs. As reflected in Table 28, a small though noteworthy proportion of RTOs competed in export markets. The survey found that 72% of TAFEs, and 12% of all RTOs, competed for on-shore overseas students. On-shore overseas students were also identified by 7% of RTOs (and 11% of TAFEs) among their three largest sources of income. Although less significant in terms of RTO participation and income, 9% of all RTOs (and 63% of TAFEs) were competing in off-shore export markets. In effect, 6% of all RTOs (and 23% of TAFEs) delivered training at off-shore venues. In all, 4% of RTOs (and 2% of TAFEs) identified off-shore fee-paying clients (e.g. aid agencies, companies) among their three largest sources of income.

The data show that non-TAFE RTOs are the most numerous players in both on-shore and off-shore export markets, although larger proportions of TAFEs are competing in such markets,

and appear to be deriving a relatively significant share of their market-based income from full fee overseas students and other clients. Of non-TAFE RTOs, Business Colleges figure most prominently in the on-shore market for overseas students. While domestic markets remain the major sources of income for all TAFEs and a majority of non-TAFE RTOs, on-shore and off-shore export markets are important, and potentially growing, sources of income. As noted later, significant proportions of TAFEs and all RTOs have increased their involvement in export VET markets in response to the increased contestability of government funds. Despite the considerable costs of entering new export markets (Anderson 2000b), it would appear therefore that they are outweighed by the financial returns.

Industry markets

Prior research has identified the tendency of non-TAFE providers to specialise in the provision of training for a single industry or occupational grouping, or a relatively narrow band of related industries and occupations. It has also found that non-TAFE providers are heavily concentrated in training markets for the services sector. By comparison, TAFEs typically participate in a broader and more diverse range of markets for industry and occupational training, and have traditionally dominated the primary and secondary industry training markets (ACG 1994b; Anderson 1994, 1995a). The survey data suggest that these patterns of market participation have changed in significant respects during the period of market reform in the VET sector.

Although almost one third (32%) of all RTOs deliver nationally recognised training in only one industry sector, 15% supply training to two industry markets, and 53% operate in at least three industry sector markets. By comparison, 95% of TAFEs operate in at least three, and typically most, of the seventeen industry sectors in the Australian Standard Classification of Occupations (ASCO). The industry training markets that are most heavily populated on the supply side are those for:

- Health and community services (32% RTOs: 43% TAFEs);
- Property and business services (27% RTOs: 75% TAFEs); and
- Education (27% RTOs: 26% TAFEs).

TAFEs identified the same three ASCO sectors among their three main industry markets, but in a different order of significance as reflected in the above percentages.

The next most populated industry training markets, by RTOs as a whole, were:

- Personal and other services (20% RTOs: 4% TAFEs);
- Retail trade (16% RTOs: 8% TAFEs);
- Communication services (14% RTOs: 23% TAFEs);
- Accommodation, cafes and restaurants (13% RTOs: 22% TAFEs); and
- Manufacturing (11% RTOs: 25% TAFEs).

The above data suggest that TAFEs and non-TAFE RTOs are competing most intensively in training markets for services industries, and to some extent in the training market for the manufacturing industry. The main exceptions are the markets for training in personal and other services and the retail trade, in which non-TAFE RTOs are more highly concentrated than TAFEs. Conversely, a larger proportion of TAFEs than all RTOs populated the training markets for agriculture, forestry and fishing, and mining.

The non-TAFE RTOs who compete with TAFEs across the broadest range of industry training markets are GTCs, professional or industry associations, and commercial training providers. TAFE's main competitors in the manufacturing industry training market that it

once dominated are enterprise trainers, GTCs and Industry Skills Centres. Business Colleges are strongly concentrated in the property and business services training market.

The above trends suggest that although TAFEs continue to dominate the training markets for most primary and secondary industries, they face more intense competition from non-TAFE providers in a wider range of industry training markets than was the case at the outset of training market reform. Equally notable is the extent to which non-TAFE providers are collectively competing in virtually the full spectrum of industry training markets.

Qualifications markets

From a national perspective, both TAFEs and non-TAFE RTOs are competing primarily in markets for certificate III, II and IV qualifications, in that order of significance. However while all TAFEs deliver training in at least three qualifications markets, 38% of all RTOs compete in only one or two qualifications markets.

With respect to provider type, TAFEs dominate all three qualifications markets at AQF levels II-IV inclusive. TAFE's main competitors in certificate III qualifications markets appear to be: commercial training providers, enterprise trainers, GTCs and Industry Skills Centres. TAFE's main competitors in certificate II qualifications markets are: schools, GTCs, ACE centres, enterprise trainers and commercial training providers. In certificate IV qualifications markets, TAFE's main competitors are: professional or industry associations, commercial training providers, and other RTOs.

Table 29: Provider type by three main national qualifications (%)

	Main		2 nd main		3 rd main		Total	
	TAFE	Total	TAFE	Total	TAFE	Total	TAFE	Total
Senior Secondary Certificate	0	4	2	1	0	1	2	6
Certificate I	0	9	2	8	10	8	12	25
Certificate II	12	27	41	25	20	10	73	62
Certificate III	59	32	20	24	14	12	93	68
Certificate IV	18	18	22	16	27	21	67	55
Diploma	12	9	12	6	22	8	46	23
Advanced Diploma	0	1	2	3	8	2	10	6
Graduate Certificate	0	0	0	1	0	1	0	2
Graduate Diploma	0	1	0	0	0	1	0	2
N/A	0	0	0	17	0	38	N/A	N/A
Total	100	100	100	100	100	100	N/A	N/A

Note: Due to rounding, percentages in this table may not always total 100%.

Qualifications markets at the upper end of the AQF appear also to be dominated by TAFEs. Twice the proportion of TAFEs than of non-TAFE providers identified diploma and advanced diploma markets among their three main markets. TAFE's main competitors in the diploma market are Business Colleges (41%) and professional or industry associations (12%). TAFEs are comparatively less prominent at the lower end of the AQF qualifications market. The proportion of non-TAFE RTOs supplying training to the market for certificate I level qualifications is roughly double the proportion of TAFEs. ACE centres (22%), Industry Skills Centres (16%) and schools (13%) are fairly concentrated in this market, which only 12% of TAFEs nominated among their three main qualifications markets.

Overall, the data suggest that qualifications markets are heavily segmented, with different types of RTOs clustering at the lower, middle and upper ends. The proportional distribution of RTOs across qualifications markets suggests that competition is most concentrated in the market for certificate III level qualifications, followed by the markets for certificate II, certificate IV, certificate I, diploma and associate diploma qualifications. This pattern of provider participation across qualifications markets largely reflects the funding priorities of STAs, which focus largely on certificate II-III qualifications, and to a lesser extent certificate IV and I qualifications. Considerably less government funding is directed towards diploma and associate diploma level qualifications, which are populated by a relatively high proportion of private for-profit providers (Anderson 2002b).

Client/funding markets

Traditionally, TAFEs have tended to operate primarily in mass markets comprising government-funded students, whereas private providers have typically serviced niche markets for fee-paying clients (ACG 1994b; Anderson 1994, 1995a). Although this still holds true to a large extent, the survey findings suggest that these patterns of market segmentation and participation are changing to some extent in the wake of training market reform.

The survey found that more RTOs as a whole are competing in private markets for individual and, to a lesser extent, industry/enterprise fee-paying clients than in quasi-markets for contestable government funds under competitive tendering and User Choice arrangements. The five main markets in which RTOs competed for clients/funds in the previous twelve months were:

- fee-for-service courses for domestic individuals (60% RTOs: 91% TAFEs);
- fee-for-service training for industry/enterprise clients (49% RTOs: 95% TAFEs);
- apprenticeship/traineeship training via User Choice (48% RTOs: 95% TAFEs);
- non-apprenticeship training funded via Competitive Tendering (42% RTOs: 88% TAFEs); and
- workplace assessment services (37% RTOs: 95% TAFEs).

A comparatively small proportion of RTOs as a whole competed in export markets, as previously noted; and 9% of RTOs, compared to 67% of TAFEs, competed in the online training market.

Aside from the rapid growth of contestable funding markets and their importance as a source of revenue for both TAFE and non-TAFE RTOs, another notable development is the recent emergence of the market for workplace assessment services. The main catalyst for this has been the introduction of Training Packages since 1997 and the associated shift to workplace delivery, which has in turn created demand for the services of RTOs registered to conduct on-the-job assessment.

Overall, a significantly larger proportion of TAFEs than of non-TAFE RTOs competed in all domestic and export markets. TAFE's main competitors in competitive tendering markets appear to be: commercial training providers, ACE centres, GTCs, and Industry Skills Centres. TAFE's main competitors in User Choice markets appear to be: enterprise trainers, GTCs, commercial training providers, and Industry Skills Centres.

In fully commercial domestic markets, TAFE's main competitors for fee-paying individuals appear to be: Business Colleges, Industry Skills Centres, ACE centres, and commercial training providers. TAFE's main competitors for fee-paying industry/enterprise clients appear to be: professional or industry associations, commercial training providers, Industry Skills Centres, and Business Colleges. In the market for workplace assessment services, TAFE's

main competitors appear to be: commercial training providers, professional or industry associations, ACE centres, and Business Colleges.

The abovementioned concentration of non-TAFE RTOs on one or two industry and qualifications markets suggests that they operate in niche markets, as has always been the case (Anderson 1994, 1995a). While TAFEs continue to operate in the mass VET markets funded by government, other survey data suggest that TAFEs are increasingly moving into niche markets and expanding their participation in commercial markets. TAFEs reported having adopted the following income generation strategies to a 'major' extent over the preceding four years:

- 31% had developed new training products and services for niche markets;
- 45% had increased their involvement in commercial industry/enterprise markets;
- 30% had increased their range of fee-for-service courses for domestic clients; and
- 16% had increased their involvement in export markets (on-shore and/or off-shore).

These findings suggest that TAFEs have adopted a far more aggressive approach to producing and marketing fee-for-service programs and services for a wider range of clientele in more specialised market segments than has previously been the case.

Income sources

The introduction of contestable funding markets by government has resulted in a diversification of the income sources of TAFEs and most types of non-TAFE RTOs, reflecting in part the range of client/funding markets in which they compete as discussed above. The survey found that 61% of RTOs (including all TAFEs) derive income for VET delivery from three or more main sources. Domestic VET markets continue to provide the vast majority of RTOs with their largest sources of income. RTOs identified the following domestic sources of income from VET delivery among their three largest:

- domestic full fee-paying individuals (52% RTOs: 20% TAFEs);
- domestic fee-paying industry/enterprise clients (47% RTOs: 57% TAFEs);
- government via User Choice (39% RTOs: 61% TAFEs);
- government via competitive tendering (34% RTOs: 51% TAFEs);
- government via non-competitive funding processes (31% RTOs: 98% TAFEs);
- 'other' source(s) (15% RTOs: 2% TAFEs); and
- own firm's internal training budget (12% RTOs: nil TAFEs).

As reflected in the following table, 51% of all RTOs (compared to 98% of TAFEs) derived at least half of their total training revenue in 2000/2001 from government sources (including non-competitive and/or contestable funds). Over one in five (22%) RTOs (mainly TAFEs, secondary schools and ACE centres) relied on non-competitive (recurrent/profile) funding from government as their main income source. Only 22% of all RTOs derived none of their revenue from government sources.

Contestable funding markets have become a major source of revenue for both TAFE and non-TAFE providers. Three in ten RTOs (30%), all of whom are non-TAFE RTOs, relied on contestable government funding (via competitive tendering and User Choice) as their main source of income. Government funding allocated via competitive tendering was the largest source of income for: 24% of other RTOs; 23% of ACE centres; and 17% of Industry Skills Centres. It was the second largest source of income for: 30% of GTCs; 25% of Industry Skills Centres; 23% of TAFEs; and 15% of ACE centres. Government funding allocated via User Choice was the largest source of income for: 63% of GTCs; 42% of Industry Skills Centres; 32% of enterprise trainers; and 24% of commercial training providers.

Table 30: Provider type by government funds as % of total VET revenue, 2000/2001 (%)

Provider type	Nil	1-24%	25-49%	50-74%	75-99%	100%	Total
Secondary school	2	19	2	10	27	40	100
TAFE	0	0	2	26	70	2	100
ACE centre	4	17	14	22	30	13	100
Business College	45	28	15	6	6	0	100
Commercial training provider	30	21	10	16	22	1	100
Enterprise trainer	2	32	7	12	22	24	100
Group Training Company	11	7	7	15	44	15	100
Industry Skills Centre	17	17	17	21	29	0	100
Professional or industry assn	38	27	13	13	9	0	100
Other	32	17	5	9	25	12	100
Total	22	19	9	16	27	8	100

Notes:

a) Due to rounding, percentages in this table do not total 100%.

b) University and Commercial subsidiary of school, TAFE or uni are excluded due to small sample sizes

A smaller proportion of all RTOs derived most of their income for VET from various private sources. Almost one in four (37%) providers, all non-TAFE RTOs, relied mainly on fee-paying individual and/or industry/enterprise clients in domestic markets. Domestic full fee-paying individuals were the largest source of VET-related income for: 57% of Business Colleges; 33% of professional or industry associations; 25% of commercial training providers; and 21% of secondary schools. Domestic fee-paying industry/enterprise clients were the largest source of VET-related income for: 31% of professional or industry associations; 27% of commercial training providers; and 20% of Industry Skills Centres.

By comparison, TAFEs identified the following sources of income from VET delivery among their three largest:

- government via non-competitive funding processes (98%);
- government via User Choice (61%);
- domestic fee-paying industry/enterprise clients (57%);
- government via competitive tendering (51%);
- domestic full fee-paying individuals (20%); and
- 'other' source(s) (2%).

These data reflect the continuing reliance of TAFEs on non-contestable (recurrent/profile) government funding as their main source of income. Noteworthy however is the spread of TAFE income sources across quasi and commercial markets, and the proportion of TAFEs that now rely on income from domestic fee-paying industry/enterprise clients in particular. By comparison, a much smaller proportion of TAFEs than all RTOs identified income from domestic fee-paying individuals among their three main sources.

In contrast to TAFEs, non-TAFE providers are comparatively more reliant on income from domestic fee-paying individuals than from fee-paying industry/enterprise clients. Although there are no precise data about relative shares of domestic private markets, the survey data suggest that TAFE's share of commercial industry training markets may be larger than that held by non-TAFE RTOs. Conversely, the non-TAFE RTO share of markets for fee-paying individuals is probably greater than TAFE's. Such extrapolations however are tentative and

could only be verified by a comparison of the actual revenue derived from domestic commercial markets by TAFE and non-TAFE providers.

Overall, the survey data suggest that just over half of all RTOs now rely on government as their primary source of income, while over one third rely primarily on private fee-paying clients in domestic markets. Most reliant on government funds are: TAFEs, secondary schools and ACE centres. Least reliant on government funds are: Business Colleges, commercial training providers, and professional or industry associations. The ABS (1996) found that, in 1994, the types of courses generating most revenue for private training providers were: scheduled/public courses (51%); courses for specific employers (43%); and courses under government labour market programs (7%). Given that only 13% of these providers conducted accredited training courses, it can be inferred that private fee-paying individuals and industry/enterprise clients comprised the largest sources of training-related income.

Although a direct comparison is problematic for reasons already identified, the ABS data and those from the present survey suggest that market reform has resulted in a substantial increase in the extent to which private providers rely on government income sources. This in turn implies that the traditional sectoral demarcation between public/private funding has dissolved to a considerable extent since the introduction of contestable funding markets, as a majority of RTOs (including TAFEs) rely on a more diverse range of income sources, both government and non-government, than was the case prior to 1995.

Just over six in ten (61%) rural/regional RTOs, and almost five in ten (48%) metropolitan RTOs, derived at least half of their total training revenue in 2000/2001 from government sources (including non-competitive and/or contestable funds). Compared to metropolitan RTOs (15%), over twice as many rural/regional RTOs (33%) relied on non-competitive government funds as their main source of income. A larger proportion of metropolitan RTOs relied on User Choice funding and income from domestic fee-paying individual and industry/enterprise clients, than on non-competitive government funding.

Competition, contestability and competitiveness

This section examines the degree of perceived competition in VET markets and the impact of contestable funding processes on provider perceptions of market competition. As previously noted, it is not so much the reality of direct competition that matters in contestable markets, but rather the *perception* of potential competition from new market entrants. The extent to which the competitiveness of different provider types is restricted by various factors is then examined.

Perceptions of market competition

The degree of market competition is perceived to be 'very strong' or 'strong' by 65% of all RTOs, and 69% of TAFEs. However, perceived competition is 'very strong' for a much higher proportion of RTOs as a whole (32%) than of TAFEs (18%). The survey findings suggest that competition is perceived to be relatively more intense by RTOs operating primarily in open and commercial markets than in quasi-markets funded by government. Only 8% of RTOs, and nil TAFEs, said competition was 'weak' or 'very weak'.

No difference was found between the degree of perceived competition in metropolitan and rural/regional markets. This runs counter to expectations given the more aggressive manner in which metropolitan and rural/regional RTOs are moving into regional/rural markets, both in their own SoR and in other States. One possible explanation suggested by the survey findings is that rural/regional RTOs are significantly more reliant on non-contestable government funding than are metropolitan RTOs.

Impact of contestable funding processes

Overall 69% of RTOs, and 98% of TAFEs, indicated that the introduction of contestable funding processes (competitive tendering and User Choice) has increased the degree of market competition. Contestable funding processes have increased the degree of perceived competition in the proportions shown in parentheses:

- ‘greatly’ (32% RTOs: 51% TAFEs);
- ‘moderately’ (26% RTOs: 40% TAFEs);
- ‘slightly’ (11% RTOs: 7% TAFEs); and
- ‘not at all’ (18% RTOs: 2% TAFEs).

A larger proportion of rural/regional RTOs (65%) than of metropolitan RTOs (54%) said the degree of competition had increased ‘greatly’ or ‘moderately’ since the introduction of contestable funding arrangements. This difference can be attributed to the findings that: a comparatively larger proportion of rural/regional RTOs are reliant on government funds, both non-competitive and contestable; and that both metropolitan and rural/regional RTOs have been moving more aggressively into regional/rural than metropolitan markets in their own SoR and other States.

Restrictions on competitiveness

Almost half (45%) of all RTOs (and 56% of TAFEs) said their ability to compete effectively in VET markets is not restricted at all. Over half (55%) of all RTOs said their competitiveness is restricted by a range of factors, the most significant of which are the: costs of entering new markets (e.g. facilities and equipment, advertising) (42%); costs of maintaining existing capital assets (i.e. property, plant and equipment) (22%); difficulties attracting and/or retaining experienced/qualified teachers/trainers (19%); geographical location (e.g. insufficient local demand, poor public transport access) (17%); and government training regulations (e.g. ARF/AQTF) (17%).

Table 31: TAFE and total RTOs by factors that restrict competitiveness (%)

	TAFE	Total
Nil or negligible factors	56	45
Geographical location (e.g. insufficient local demand, poor public transport)	28	17
Costs of entering new markets (e.g. facilities and equipment, advertising)	46	42
Costs of maintaining existing capital assets (i.e. property, plant and equipment)	37	22
Costs of meeting community service obligations	39	10
Insufficient autonomy from government planning and control	26	14
Government training regulations (e.g. ARF/AQTF)	7	17
Inflexibility in RTO's staff profile/skills mix	23	6
Difficulties attracting and/or retaining experienced/qualified teachers/trainers	26	19
Industrial awards and conditions for teachers/trainers	51	7
Other factors	9	20

Note: Percentages do not sum to 100% as respondents were permitted to select up to three main factors as applicable.

The restrictions identified by different types of non-TAFE RTO vary considerably, although ‘costs of entering new markets’ featured prominently in most non-TAFE responses. A

noteworthy finding is that only 17% of all RTOs identified ‘government training regulations (e.g. ARF/AQTF)’ as a restriction on their competitiveness. ‘Over-regulation’ by government has figured prominently among criticisms of quasi-markets in submissions to government reviews by commercial training providers (e.g. ACPET 1999). The survey data suggest, however, that it is not a significant restriction on the competitiveness of the majority of non-TAFE RTOs.

TAFE responses vary notably from those of RTOs as a whole. For TAFEs, the five main restrictions are: ‘industrial awards and conditions for teachers/trainers’ (51%); ‘costs of entering new markets (e.g. facilities and equipment, advertising)’ (46%); ‘costs of meeting community service obligations’ (39%); and ‘costs of maintaining existing capital assets (i.e. property, plant and equipment)’ (37%); and ‘geographical location (e.g. insufficient local demand, poor public transport access)’ (28%). No other provider type nominated industrial relations factors or the costs of meeting community service obligations in such large proportions. Overall, TAFEs also nominated the full range of competitive restrictions more frequently than all RTOs.

Over three times more rural/regional (34%) than metropolitan RTOs (9%) nominated ‘geographical location’ as a restriction. Although not the most frequently identified restriction by rural/regional RTOs, their relative geographical remoteness significantly constrains their capacity to enter and compete effectively in new markets, relative to metropolitan RTOs. ‘Difficulties attracting and/or retaining experienced/qualified teachers/trainers’ is another restriction experienced to a greater extent by rural/regional RTOs (27%) than by metropolitan RTOs (19%).

The above findings suggest that the competitive neutrality arrangements introduced by State and Territory governments are based on the misleading assumption that only private RTOs are relatively disadvantaged in contestable markets, due to the sunk investment in public providers’ capital and human infrastructure. As suggested earlier, the construction of quasi-markets did not occur on a *tabula rasa*, but rather on a complex terrain shaped by historical, institutional, geographical and other factors outside the purview of competitive neutrality policies.

Any attempt to create a ‘level playing field’ for public and RTOs needs to take account of the differential factors that impact on the ability of providers to compete with one another on an equal footing. While competitive neutrality policies may well have reduced the purported competitive edge enjoyed by public VET providers, they have done nothing to address the significant factors that restrict the competitiveness of TAFEs and rural/regional RTOs (including non-TAFE providers). Such factors contribute to higher production costs and complexity, and potentially undermine the efficiency and viability of providers and, by implication, the sustainability of quasi-markets in VET, especially in remote and rural/regional areas. A number of strategies for addressing the above restrictions are proposed later.

Impact of market reform on providers

The second research aim was to identify the impact of market reforms on providers, particularly with respect to contestable markets for government funding under competitive tendering and User Choice arrangements. This section begins with a discussion of the research findings about the impact of contestable funding processes on patterns of provider revenue and expenditure since 1998. Due to the relatively lower response rates of non-TAFE RTOs to questions concerning revenue and expenditure, the related trends identified below should be treated with some caution. Provider responses to the climate of increased contestability are then examined. The impact and effects of competitive tendering and User

Choice on providers are also analysed further in the section below that examines the outcomes of market reform in VET.

Provider revenue

In general, most RTOs experienced increases in revenue during the four year period from 1998 to 2001. Three quarters (75%) of all RTOs (and 77% of TAFEs) said that their total annual training revenue had increased to a 'major' or 'minor' extent over the previous 4 years. In comparison to other types of RTO, a larger proportion of TAFEs reported only 'minor' increases.

Increases in training revenue from domestic fee-paying clients in open and commercial markets appear to have been comparatively larger than those from government sources. The data suggest therefore that privately-funded domestic training markets have been growing in significance as revenue sources for all RTOs, including TAFEs. Approximately one in ten RTOs as a whole, and over four in ten TAFEs, also reported having derived an increased proportion of their total training revenue from both on-shore and off-shore export markets. By implication, these findings suggest that TAFEs are diversifying their sources of income and becoming correspondingly less reliant on government revenue, thus confirming the trend identified in the earlier analysis of national VET finances. Moreover, the survey findings suggest that these changing patterns of TAFE revenue generation have occurred in large part response to the introduction of contestable funding processes.

With respect to contestable government sources, proportionally more TAFEs (73%) than all RTOs (39%) experienced increases in government revenue via User Choice. A majority of all RTOs experienced decreases in government funds via non-competitive (recurrent/profile) processes and Competitive Tendering, although significantly larger proportions of TAFEs than of all RTOs reported 'major' decreases. As reflected in the earlier analysis of national VET finances, both sources of revenue have declined as a proportion of total VET revenue during this period.

Provider expenditure

The increased contestability of government VET funds appears to have been accompanied by increases in expenditure by RTOs as a whole from on: direct delivery (i.e. teaching/training); infrastructure maintenance (facilities/equipment); delivery support (e.g. libraries, computers); curriculum development and maintenance; student services (e.g. counselling, child care); professional development for teachers/trainers; marketing information and communication; administration (e.g. planning and finances); and ancillary trading (e.g. industry consultants). In each case, the proportions of RTOs who increased expenditure on these items significantly outweighed those that decreased expenditure.

At one end of the spectrum, 49% of all RTOs (and 49% of TAFEs) had increased their expenditure on administration (e.g. planning and finances), while only 9% had decreased expenditure. At the other end of the spectrum, 14% of RTOs had increased their expenditure on student services (e.g. counselling, child care), while 8% had decreased expenditure.

The main exceptions to the general trends in expenditure were reported by TAFEs. Significantly larger proportions of TAFEs than of all RTOs had increased their expenditure on: marketing information and communication (66% TAFEs: 45% RTOs); and ancillary trading (e.g. industry consultants) (46% TAFEs: 26% RTOs). Both these items are of course directly linked to the new market-oriented environment and are directed towards improving the competitive position of providers. Significantly larger proportions of TAFEs than of all RTOs had reduced their expenditure on: infrastructure maintenance (facilities/equipment)

(43% TAFEs: 15% RTOs); student services (34% TAFEs: 8% RTOs); direct delivery (35% TAFEs: 13% RTOs); and curriculum development and maintenance (32% TAFEs: 11% RTOs). These items relate either directly or indirectly to training delivery, and have potential implications for quality and access and equity.

The above findings broadly confirm the key trends identified in the earlier analysis of national VET finances. Firstly, revenues from private sources, specifically domestic and overseas fee-paying clients, appear to be increasing as a relative proportion of TAFE providers' total VET revenue. Expenditure on student services appears to have declined, whereas expenditure on market-related activities (including ancillary trading and marketing information and communication) appears to have increased.

However the two data sets used for this study suggest contrasting trends on two key items over the same timeframe. The national VET finance data suggest that expenditure on 'property, plant and equipment services' has increased, whereas the survey data suggest a decline in TAFE expenditure on 'infrastructure maintenance (facilities/equipment)'. The national VET finance data also suggest that expenditure on 'administration and general services' has fallen, whereas the survey data show a rise in TAFE expenditure on 'administration (e.g. planning, finances)'. These discrepancies could perhaps stem from the use of different definitions for each item. However, subsequent consultations with TAFE directors in Victoria, together with evidence submitted to government reviews by TAFE Directors Australia (1999, 2000), suggest that the survey findings are probably closer to the truth.

Provider responses to increased contestability

The creation of a climate of contestability for public VET funds is viewed by government as a means by which to stimulate a number of behavioural changes in VET providers. As noted earlier, the decision to introduce contestable markets was motivated primarily by a desire to extract greater efficiency and responsiveness, among other outcomes, from the major recipients of public VET funds – TAFE institutes. This section examines how, and to what extent, TAFEs and RTOs in general have responded to the new climate of contestability against key indicators. As the provider responses discussed below also relate to the outcomes of market reform in VET, they will be revisited at a later stage of this report.

The preceding analysis highlighted the extent to which market reforms have generated a perception of intensified competition in VET markets among providers, particularly TAFE institutes. This factor, together with the decline in unit prices and the proportion of government funds allocated to TAFEs, resulted in providers taking a number of steps to improve their financial position.

The survey data show that, in response to the increased contestability of government funds, a substantial proportion of TAFEs and all RTOs had taken the following steps to a *major* or *moderate* extent over the preceding four years to maintain or improve their financial position:

- developed new training products and services for niche markets (60% RTOs: 76% TAFEs);
- implemented new training delivery systems (e.g. on-line, in workplaces) (50% RTOs: 84% TAFEs);
- increased their involvement in commercial industry/enterprise markets (47% RTOs: 79% TAFEs);
- increased the range of fee-for-service course for domestic clients (43% RTOs: 68% TAFEs); and
- increased the use of sessional teachers/trainers (36% RTOs: 57% TAFEs).

The latter finding suggests that the ‘general trend from tenured to sessional and short (less than a year) fixed-term contracts of employment’ in the Victorian TAFE teaching force during the 1990s (Shah 2000, p.24), was also occurring nationally.

Proportionally more than twice as many TAFEs than RTOs in general had adopted the following three strategies to a *major* or *moderate* extent:

- increased involvement in export markets (41% TAFEs: 10% RTOs);
- increased average class sizes (46% TAFEs: 18% RTOs); and
- reduced face-to-face Student Contact Hours (37% TAFEs: 17% RTOs).

The following proportions of all RTOs and TAFEs had *not*:

- reduced face-to-face Student Contact Hours (39% RTOs: 11% TAFEs);
- increased average class sizes (35% RTOs: 14% TAFEs);
- increased fees and charges for government-funded students (31% RTOs: 55% TAFEs);
- discontinued courses/subjects/modules with low enrolments (23% RTOs: 11% TAFEs); and
- increased their involvement in export markets (on-shore and/or off-shore) (21% RTOs: 13% TAFEs).

Higher than average proportions of primarily government-funded RTOs (i.e. TAFEs, secondary schools, ACE centres and GTCs) had: increased average class sizes; discontinued courses/subjects/modules with low enrolments; and increased their use of sessional teachers/trainers.

In summary, the introduction of contestable funding arrangements has stimulated substantial proportions of both TAFEs and RTOs in general to develop new markets, expand existing ones and implement new delivery systems. Most TAFEs, and to a lesser extent RTOs, have simultaneously initiated a range of cost reduction strategies to maintain or improve their financial positions in the face of increased competition in government-funded quasi-markets. The question arises, therefore, as to what impact course rationalisation and the increased use of sessional teachers, larger class sizes and reduced student contact hours might have had on choice, quality, and access and equity. Such issues are addressed in the next section which examines the outcomes of market reform through more direct measures of provider performance.

Conditions for success

This section examines whether existing contestable funding arrangements in VET satisfy the following pre-conditions for successful or effective quasi-markets:

- market structure; and
- motivation.

Information provision, the third main pre-condition for effective quasi-markets was addressed briefly in Part IV, and is examined in more detail in relation to choice and diversity outcomes below. Although not considered in the theoretical literature, questions concerning competitive neutrality, thin markets and continuity of supply have all been identified in policy and research literature as factors bearing on the viability of markets in the context of the Australian VET sector. Survey findings and other evidence relating to these issues and their implications for effective markets in VET are also considered below.

Market structure

Le Grand and Bartlett (1993) indicate that quasi-markets must be *competitive* if they are to be effective, which in turn requires their structure to satisfy certain pre-conditions, as follows:

- large or sufficient numbers of providers (actual or potential); and
- large or sufficient numbers of purchasers.

The extent to which existing markets in VET satisfy each of these pre-conditions is considered below.

Supply-side effectiveness

The earlier analysis of the structure and organisation of the national training market suggests that the first pre-condition has largely been satisfied, in that a large number of actual or potential providers exist. At the time of this study, there were 4,306 RTOs (including TAFEs) on the NTIS. The States and Territories with the fewest RTOs are those with the smallest populations: the Northern Territory (85), ACT (109) and Tasmania (124). The wide geographical dispersion of population centres in the Northern Territory, relative to the other two jurisdictions, suggests that the number of providers in that Territory is likely to be insufficient to ensure effective VET markets, with the possible exception of its capital city. However, modifications to contestable funding programs in Queensland suggest that it also contains a number of thin markets in remote rural and regional areas (QDETIR 1999).

As already stated, the survey findings show that despite the heavy concentration of RTOs in metropolitan markets, a significant proportion of both metropolitan and non-metropolitan providers are competing in rural/regional training markets outside their own locality. This suggests that, from a national perspective, markets in the VET sector are competitive (and therefore viable) on the supply side, and that purchasers and clients/users have access to a sufficiently large and diverse array of alternative providers. The main exceptions are markets in geographically remote areas, discussed further below.

Simple head-counts of actual and potential service providers in quasi-markets are, at best, only a rough and ready measure of the competitiveness. As Le Grand and Bartlett (1993) point out, 'The extent of actual competition will depend in part on the willingness of (purchasers and users) to use alternative, perhaps more distant providers.' (p.203) Although national VET data cannot be disaggregated by market sector, they provide some broad indication of student mobility. The data in Table 32 show that there has been no significant change in the national pattern of geographic movement by VET students from 1997 to 2001.

Table 32: Client home address and provider location, Australia 1997 and 2001 (%)

	1997		2001	
	Home address	Provider location	Home address	Provider location
Capital city	57.7	64.8	54.4	61.5
Other metropolitan	6.9	6.9	7.1	7.2
Rural	28.3	26.8	30.0	28.1
Remote	3.3	2.1	3.7	2.8
Interstate	2.7	0.3	2.5	0.5

Sources: NCVER (2001b, 1998) *Australian VET statistics: in detail*

Other NCVER data suggest that VET students are no more likely to travel long distances in 2000 than they were in 1997, as reflected in Table 33. Although differing slightly for rural and remote students, the median commuter distances in 2000 were broadly similar to those in 1997.

Table 33: Estimated one-way median commuter distances (in kilometres) for VET students, Australia 1997 and 2000

	1997	2000
Capital city	10.4	10.8
Other metropolitan	10.9	10.9
Rural	22.0	18.6
Remote	68.0	70.6
All students	11.6	11.7

Source: NCVER (2002c) *Students in vocational education and training: an overview*

In a recent study of client choice in VET, geographical proximity to a student's home or workplace was found to be the second most important reason for choosing a course/provider, after provider reputation and equal to course costs in order of significance (Anderson 2003a). The survey data in Table 34 do not shed any light on the extent to which individual VET clients are more willing to use alternative providers. However, they do suggest that individual VET students may be as willing to shop around and opt for distant providers as market reformers predicted.

It should be added that the extent of actual competition in quasi-markets also depends in part on the *ability* of clients/users to exercise their power of exit by *switching* to an alternative provider when they are dissatisfied with their initial choice (Hirschman 1970). There are two inter-related problems in this regard. Firstly, as Walsh (1995a) observes:

It is ... difficult to see how effective choices can be made in many public services, which are essentially experience goods, the value of which we can only assess in use, or even credence goods, where we must rely on trust in the producer, because any external objective evaluation is difficult or impossible. (p.254)

This observation applies to VET in all market sectors, including User Choice.

Secondly, in the context of both the direct (profile) funding sector and competitive tendering markets, dissatisfied individual clients are generally unable to 'take their business elsewhere' once they have enrolled in a particular course. Due to the annual or semester-based nature of course and module enrolments in VET, a student is unable to switch providers in mid-stream without incurring considerable costs in the form of lost tuition fees and forgone income as a result of their delayed entry to the labour market (Anderson 1997b). The lack of objective indicators of program quality in VET – in combination with information asymmetries or imbalances, and the highly restricted power of exit in VET markets – reduces competitive pressure on providers to deliver programs and services that are of high quality and responsive to the needs of individual clients/users. The general absence of 'voice' mechanisms in the VET sector, such as representative student unions and associations, compounds the relative powerlessness of individuals in VET markets (Anderson 1997b, 1999).

Table 34: Reasons for choosing course/provider (number)

	% of total
The provider has a good reputation	16
It is close to my home/workplace and easy to get to	10
It costs less than other similar courses/providers	10
It is the only provider that offers this course	9
Course can be completed faster than elsewhere	6
Course content looked more relevant than similar ones	6
The provider staff were friendly and helpful	5
It was easier to get into than University	4
It provides more credits towards a uni degree than others	4
My employer chose the provider for me	3
It was easier to get into than TAFE	3
I felt comfortable & thought I'd fit in with the other students	3
I had no other choice	3
The facilities and equipment looked modern and up-to-date	2
Other reasons	15
Total	100

Source: Anderson (2003a)

Annual fluctuations in the proportional market shares of TAFEs and non-TAFE providers between 1999 and 2001, as identified earlier, imply that government purchasers have adequate scope to choose providers and shift funds according to their changing priorities and preferences. Although at a relatively early (though vigorous) stage of market development in each State, the data in Table 35 show that substantial numbers of providers were competing for tenders in Queensland and especially Victoria in 1996-97.

Table 35: Competitive tender processing, Queensland and Victoria 1996-97

	Tenders advertised	Tenders received	Contracts let
Training Queensland	149	635	286
OTFE Victoria	1	3,700	210

Source: KPMG (1997, p.18)

The question of whether users enjoy a greater scope for choice, and are actively exercising their power to select a preferred provider under User Choice, is difficult to ascertain. In the early phase of User Choice implementation, KPMG (1999) found that only 7% of employers had switched providers. Although no subsequent surveys of actual employer behaviour under User Choice are available, other research provides some indicative evidence that employers feel able to choose (and presumably change) provider under User Choice. In a survey conducted in May 2001, 78% of all firms (76% of small enterprises, 79% of medium enterprises, and 82% of large enterprises) indicated that User Choice enables them to choose a provider. In terms of geographical location, 79% of metropolitan firms, 80% of regional firms and 67% of rural firms indicated that User Choice enables employers to choose their training provider. Of firms operating in more than one State, 85% agreed that User Choice gives them a choice of provider (Ferrier and Selby Smith 2001). Reference has already been made to the limited influence exercised by apprentices and trainees over the choice of provider (Schofield 2000).

Other research suggests, however, that the range of providers from which employers in certain industries can choose may be limited. In a survey by the Australian Chamber of Commerce and Industry, 44% of small enterprises, 60% of medium enterprises, and 45% of large enterprises said that User Choice has not improved 'the spread of training across a range of providers nationally' (Ferrier and Selby Smith 2001). In terms of geographical location, 34% of metropolitan firms, 51% of regional firms, and 44% of rural firms said that User Choice has not improved 'the spread of training across a range of providers nationally' (Ferrier and Selby Smith 2001). In a subsequent study, Ferrier and Selby Smith (2003b) reported that most firms outside metropolitan areas had only a limited choice of provider, although 'some had changed provider in previous years due to dissatisfaction.' (p.24) Although limited choice of local provider poses considerable problems for firms with specialised training needs, they 'were not averse to choosing a provider that was some distance away, if this provider could offer them quality training of the type they were seeking.' (p.24) Overall, however, this study suggests that employers consider that the scope for negotiating and customising program content and delivery under User Choice is generally adequate to offset limited provider choice.

The survey findings suggest that a diverse range of RTOs are competing for business in most industry sectors, with the exception of: mining; electricity, gas and water; finance and insurance; and wholesale trade. With the latter exceptions, the pre-condition of large or sufficient numbers of providers would appear to exist for quasi-markets to operate effectively in most industry sectors. From a national perspective at least, quasi-markets would appear to be viable in the following sectors: health and community services; property and business services education; personal and other services; retail trade; communication services; accommodation, cafes and restaurants; and to a lesser extent manufacturing. However, the survey data would require further disaggregation and analysis before any conclusions could be drawn about market viability in the aforementioned industry sectors in all State/Territory jurisdictions.

Qualifications markets at AQF levels II-IV inclusive also appear to contain sufficiently large numbers of providers to enable quasi-markets to work successfully. Less clear are whether quasi-markets are viable in qualification markets at certificate I and associate diploma/diploma levels. However the lower concentrations of providers in these markets at the time of this study may simply reflect the relative lack of government funding at these AQF levels rather than any inherent lack of viability.

Although limited, the above analysis suggests that a sufficiently large number and diverse range of providers exist in most industry and qualifications markets to satisfy the pre-condition for an effective *national* VET market. The main exceptions are remote area locations where there are insufficient numbers of providers in close geographical proximity. The potential returns on investment in such markets appear to be generally unattractive to providers based in distant rural/regional and metropolitan locations. The survey data do not allow any assessment of the extent to which particular rural/regional markets in States and Territories, especially those with geographically dispersed population centres, are viable on the supply side.

As noted earlier, the contestability (and hence viability) of certain segments of User Choice markets may be restricted. In its review of the User Choice market in Victoria, Smart Consulting & Research (2003) found that private RTO delivery is largely concentrated in the trainee (rather than apprentice) segment, and in particular AQF levels and industry sectors that are serviced to only a limited degree by TAFE institutes. As a result, 'It is clear that the markets for TAFE and private RTOs are significantly different and that while there would be competition in some areas, in others there does not appear to be direct competition.' (SCR 2003, p.11)

The SCR review also found that a small number of private RTOs are dominating the non-TAFE segments of the User Choice market: 75 RTOs with more than 250 apprentices or trainees account for less than 25% of all RTOs in the Victorian User Choice market, but have received over 80% of the funds; the 20 RTOs with the largest number of trainees and apprentices each enrolled more than 950 trainees or apprentices; six of these RTOs were dependant on fewer than six employers to deliver 50% of their enrolments, and one (Coles Supermarkets Australia Pty Ltd) enrolled all of its 1,067 trainees or apprentices on behalf of only 2 employers. These findings cast doubt on whether the pre-conditions are satisfied in all VET markets. As the data from the present survey do not allow conclusions to be drawn about particular markets by industry sector and qualifications level, micro-level studies of market viability are required.

The existence of a competitive market structure, and hence desirable levels of contestability, presumes the existence of low or no barriers to market entry and exit (Le Grand and Bartlett 1993). The above analysis, in combination with evidence of increased rates of provider registration in all States and Territories since 1994, suggests that cost-related and other potential barriers associated with the government administration of quasi-markets are sufficiently low not to deter entry by new providers. Nonetheless, faced with the possibility of losing government tenders and being forced out of the market, potential and existing entrants are unlikely to risk investing capital in, for example, expensive training facilities and equipment that could not be used for other purposes. By implication therefore, significant barriers are likely to exist in relatively small or specialised industry sectors with high infrastructure costs.

The question of whether more new providers would enter the quasi-market place were such barriers to be lowered cannot be answered by this study. Moreover, the extent to which the full implementation of the AQTF has since raised these barriers, thereby inhibiting new entrants and reducing market contestability, is yet to be investigated. As discussed further below, the main barriers impeding existing non-TAFE RTOs from entering new markets relate to the costs of capital (facilities and equipment) and labour supply in rural/regional areas.

Despite the existence of contestable quasi-markets with low entry barriers *within* individual State and Territory jurisdictions, the survey findings suggest that the same conclusion does not apply when market structure is viewed from a national perspective. In particular, the finding that relatively few RTOs are competing for business outside their own State/Territory jurisdiction suggests that the pre-conditions for a fully contestable quasi-market on a *national* scale are yet to be fully met. A number of text responses from RTOs indicated that certain State-based VET markets still maintain barriers to entry, despite the implementation of the NTF and Mutual Recognition arrangements. However, the barriers identified in these instances were not cost-related, but rather political-bureaucratic in nature. In this regard, several survey respondents suggested that some STAs have adopted purchasing priorities and processes that favour local RTOs and disadvantage new entrants from other State/Territory jurisdictions. Such factors may lie behind the finding of Ferrier and Selby Smith (2001) that 48% of firms operating in more than one State or Territory indicated that User Choice has not improved 'the spread of training across a range of providers nationally' (p.28).

Competitive neutrality

Another dimension of the supply-side effectiveness of quasi-markets relates to competitive neutrality. Le Grand and Bartlett (1993, p.24) argue that 'an important requirement for quasi-market efficiency is that the relevant providers have hard budget constraints and therefore face a real risk of losing their provider status if they exceed those constraints'. While this caveat may well apply to non-TAFE recipients of contestable funding, recent experience

suggests that it does not with respect to TAFEs. Faced with potentially serious budget deficits, several TAFE institutes were bailed out in Queensland following the Bannikoff Review (1998), and in Victoria following the election of a new State Labor government (SGV 1999). It should be noted, however, that although impecunious TAFE institutes have been bailed out by governments, they have frequently been amalgamated with other high-performing institutes and their management has been restructured and/or retrenched. In Victoria, for instance, the State Labor government intervened to remove the senior management of the large and ailing Chisholm Institute of TAFE, and an entire campus was hived off and merged with the more successful Holmesglen Institute of TAFE.

In large part, the financial problems encountered by TAFEs are directly attributable to the substantial extraction (around 21% nationally) of recurrent base revenue by governments to develop contestable funding markets, compounded by a subsequent loss of market share to non-TAFE providers. As indicated in the earlier analysis of national financial data for the VET sector, there was a twofold increase in TAFE's market-based revenue, from 18% of total revenue in 1992 to 35% in 2001. At the same time, government payments to post-school non-TAFE providers, TAFE's main competitors in quasi-markets, increased nationally by 87% from 1997-2001. By 2001, TAFE's share of contestable funding was only 56% nationally, and much lower in certain States and Territories. Hence, while TAFEs have not been strictly required to operate within hard budget constraints, they have nevertheless been forced to manage themselves out of potential financial insolvency through the claw-back of lost recurrent revenue and the pursuit of new private income sources.

The so-called 'playing field' is unlevel in other key respects. The competitiveness of TAFE and non-TAFE providers in both quasi-markets and open and commercial markets is restricted differentially by a range of factors. TAFE institutes, for instance, operate with a different set of productive techniques and non-market demands than non-TAFE providers. Contrasting proportions of TAFEs and RTOs as a whole identified the following factors as major restrictions on their competitiveness:

- industrial awards and conditions for teachers/trainers (51% TAFEs: 7% RTOs);
- costs of meeting community service obligations (39% TAFEs: 10% RTOs);
- insufficient autonomy from government planning and control (26% TAFEs: 14% RTOs); and
- inflexibility in your RTO's staff profile/skills mix (23% TAFEs: 6% RTOs).

Such factors impose higher production costs and a less flexible human resource management framework on TAFEs, thus reducing their market competitiveness accordingly. As TAFE Directors Australia (1999, p.18) argues:

TAFE institutes are not 'just another provider'. TAFE institutes are community institutes and the expectation of their local communities is that they will provide programs for disadvantaged groups and offer programs of relatively low demand. TAFE institutes face increased competition from RTOs with lower cost structures due to industrial relations arrangements and the failure of non-TAFE RTOs to provide a wide range of student support services.

Rural/regional RTOs face different restrictions from those of metropolitan RTOs, most of which relate to distance and thin markets. Over one quarter (27%) of rural/regional RTOs, compared to 19% of metropolitan RTOs, identified 'difficulties attracting and/or retaining experienced/qualified teachers/trainers' as a major restriction.

Efforts by government to level the playing field through the implementation of ‘competitive neutrality’ policies assume that only public providers enjoy unfair competitive advantages due, for example, to prior government investment in TAFE capital infrastructure. In doing so however, they ignore a number of other important factors that constrain the ability of TAFEs and other public providers – the majority of which are located in rural/regional areas – to compete on equal terms with private RTOs and metropolitan providers. In this regard, quasi-market development tends to have been approached from a narrow and partial perspective, with the result that significant non-economic factors which affect market structure and provider competitiveness tend to have been overlooked.

Demand-side effectiveness

The second main pre-condition for effective quasi-markets, namely the existence of large or sufficient numbers of *purchasers*, requires some qualification in relation to markets in VET. It could be argued that many of the problems identified in this study, particularly those relating to competitive tendering programs, stem from the monopsonistic purchasing power of STAs within their own jurisdictions. To some extent, this problem would diminish were a genuinely borderless national training market to emerge, as providers could then compete for training contracts offered by a wider range of purchasers in other State and Territory jurisdictions. Other possible policy responses are discussed later.

However, the fact that 42% of RTOs identified the ‘costs of entering new markets (e.g. facilities and equipment, advertising)’ as a major restriction on their competitiveness suggests that significant barriers to market entry would persist regardless of any increase in the number of purchasers and available funds for VET delivery. Unless governments were prepared to subsidise the capital costs of new market entrants or establish a national regime of third party access for non-TAFE providers, the likelihood of such barriers falling is slim. In view of the myriad administrative complexities and budgetary implications, the prospect of the eight State and Territory governments agreeing to create and maintain a nationally integrated grid of public and private training facilities is remote at best.

Rather than assess the viability of current quasi-market structures in VET in terms of purchasers, a more realistic approach is to examine the extent to which large or sufficient numbers of actual or potential *clients/users* exist. Based on an analysis of ANTA and ABS data, Long (2003, p.2) estimates that unmet demand for VET is in the vicinity of 7% or 8%. This factor, combined with the evidence of substantial growth in new apprenticeship and particularly traineeship commencements, suggests that there are sufficient numbers of potential clients in most market sectors. However, evidence of the persistent problems encountered by traditional trades in attracting applicants for apprenticeship places suggests that the associated User Choice markets are too thin on the demand side to be viable (Toner 2003).

The existence of thin markets on the demand side was explicitly identified as a problem by a significant number of survey respondents, the majority of whom were TAFEs located in regional/rural areas. In all, 11% and 17% of TAFEs identified thin markets among the two main problems associated with competitive tendering and User Choice respectively. This suggests that the second main pre-condition – the existence of large or sufficient numbers of clients/users – cannot be met in all markets outside heavily populated metropolitan areas, particularly those servicing remote communities.

As noted earlier, over one third (34%) of rural/regional RTOs, compared to only 9% of metropolitan RTOs, identified ‘geographical location (e.g. insufficient local demand, poor public transport access)’ as a major factor restricting their competitiveness. These data suggest that the precondition of large client numbers has not been, and cannot be, met in a

substantial proportion of rural/regional markets. Such findings confirm the conclusions reached by Noble et al (1999) and Schofield (1999a) about the non-viability of User Choice markets in remote rural areas. By implication, these findings underscore the need for ongoing and significant government subsidisation if continuity of supply (and choice) is to be guaranteed in rural/regional areas with thin markets.

Motivation

According to quasi-market theory, providers must be sufficiently motivated by financial considerations, ‘that is motivated to minimise their costs’ (Le Grand 1994, p.258), if markets are to be effective. The survey results suggest that the structure of incentives embedded in existing quasi-markets in VET has been effective in this regard. As reflected in Table 36, a net majority of both TAFEs and RTOs as a whole said that, as a direct consequence of increased contestability, their training provision is driven more than before by:

- financial/commercial imperatives than educational/skills formation objectives;
- efficiency objectives than equity goals; and
- market demand than government policy and planning priorities.

Table 36: Impact of increased contestability on provider motivation (%)

	Strongly agree	Agree	Undecided	Disagree	Strongly disagree	N/A
<i>My RTO's training provision is driven more than before by financial/commercial imperatives than by educational/skills formation objectives</i>						
TAFE	12	54	12	16	5	0
Total	9	28	11	36	10	6
<i>My RTO's training provision is driven more than before by efficiency objectives than by equity goals</i>						
TAFE	11	47	12	28	2	0
Total	8	29	14	35	9	6
<i>My RTO's training provision is driven more than before by market demand than by government policy and planning priorities</i>						
TAFE	7	37	19	32	4	2
Total	15	42	16	17	6	4

In open assessments (see Table 37), five TAFEs also nominated ‘cultural change’, specifically the development of more entrepreneurial skills, attitudes and motivations by staff, among the two main positive effects of market reform in VET.

These findings suggest that the motivational change required as a precondition for the successful operation of quasi-markets (Le Grand and Bartlett 1993), has been met. TAFEs in particular appear to have become more market-oriented and demand-driven than they were at the outset of market reform. In the process, they seem to be assuming the identity and mentality of independent business units to a greater extent, with a corresponding reduction in the scope of their responsiveness to government demand. This trend can be seen as a logical consequence of the separation of purchaser and provider roles in VET markets, the installation of contestable funding processes, and the growing reliance of TAFEs on private market-based revenue.

Changes in the motivations, values and priorities of TAFE institutes have other significant implications, which are examined below.

Outcomes of market reform

This section evaluates the extent to which market reform in VET, mainly competitive tendering and User Choice, has produced the intended outcomes with respect to:

- choice and diversity;
- efficiency;
- responsiveness;
- quality;
- flexibility;
- innovation; and
- access and equity.

The global impact of contestable funding markets from a provider perspective, in addition to their impact on providers' financial viability, public accountability, and the values, priorities and public interest objectives of providers are also examined at the end of this section.

The survey included a series of statements about the outcomes of market reform against these criteria, and providers selected response items from a five-point Likert scale. As the survey contained many such statements, the responses are too numerous to present in a single table. Consequently, they are reported below in the subsections dealing with each criterion. When the term 'agreed' is used below, it refers to the *combined* responses of providers who 'strongly agree' and 'agree' with statements about outcomes included in survey questions. The same approach applies to the term 'disagreed'.

In addition, four open-ended questions asked providers to identify the two main positive and negative effects of both competitive tendering and User Choice. The purpose of these questions was to enable providers themselves to nominate the main effects, regardless of whether they corresponded directly to the evaluation criteria. This in turn was intended to provide some measure of the relative significance of intended and unintended outcomes. Their open-ended responses were grouped into categories that broadly match the evaluation criteria so as to provide some measure of the relative significance of different outcomes. When the term 'open assessments' is used below, it refers to the latter survey data which are presented in Table 37.

It should be noted that only those providers who had participated in the competitive tendering and/or User Choice markets were asked to respond to questions concerning their impact. As stated earlier, 55% and 48% of all RTOs (including TAFEs) had competed for funds/clients in the competitive tendering and User Choice markets respectively. All other respondents were directed to more general questions about the impact and outcomes of market reform in VET.

The question of whether non-TAFE RTOs are as well placed as TAFEs to assess whether, and if so to what the extent, market reforms have produced the above outcomes should be restated at this point. As previously noted, the vast majority of non-TAFE RTOs has had little or no direct experience in the delivery of government-funded VET programs and services prior to the creation of contestable funding markets. Although this does not disqualify them from commenting on the outcomes of market reform in VET, it is necessary nonetheless to bear this consideration in mind when reading the following evaluation.

Table 37: Open assessment of main effects of contestable funding mechanisms (%)^(a)

	Positive		Negative	
	TAFE	Total	TAFE	Total
<i>Competitive tendering</i>				
Total revenue growth (b)	7	32	30	20
Choice/diversity of training products & services (c)	5	7	Nil	1
Flexibility of training delivery	7	5	Nil	Nil
Responsiveness to client needs (d)	47	20	6	8
Quality of training products and services	2	11	30	24
Innovation in product development and delivery	2	8	Nil	Nil
Efficiency/costs of delivery and transaction (e)	12	5	60	45
Administrative and planning effectiveness (f)	14	7	21	19
Community access and equity provision	Nil	5	11	4
Nil	19	18	Nil	1
<i>User Choice</i>				
Total revenue growth (b)	14	32	15	13
Choice/diversity of training products and services (c)	14	15	Nil	Nil
Flexibility of training delivery	14	14	Nil	Nil
Responsiveness to client needs (d)	72	36	Nil	1
Quality of training products and services	3	10	22	8
Innovation in product development and delivery	6	3	Nil	Nil
Efficiency/costs of delivery and transaction (e)	6	3	55	45
Administrative and planning effectiveness (f)	Nil	2	24	15
Community access and equity provision	14	3	Nil	5
Nil	11	10	Nil	3

Notes:

- Data do not sum to 100% as respondents provided up to two responses per question.
- 'Total revenue' includes: 'growth in total revenue/new or expanded markets' as a positive effect (left hand columns); and 'reduced total revenue', 'inadequate purchase price' and 'thin markets' as a combined negative effect (right hand columns).
- 'Choice/diversity of training products and services' includes: 'increased diversity of products and services' and 'increased client choice' as a combined positive effect (left hand columns).
- 'Responsiveness to client needs' includes: increased 'responsiveness' and 'client focus' and 'closer/more direct relations with clients' as a combined positive effect (left hand columns); and 'reduced responsiveness' and 'mismatch between funding priorities/supply and demand' as a combined negative effect (right hand columns).
- 'Efficiency/costs of delivery and transaction' includes: 'increased efficiency' as a positive effect (left hand columns); and 'increased costs of delivery' and 'increased costs of administration and/or compliance' as a combined negative effect (right hand columns). Data for 'increased costs of/lack of funds for infrastructure development' have not been included. Under User Choice, 'increased costs of promotion, liaison and negotiation' are also included in negative effect (right hand columns).
- 'Administrative and planning effectiveness' includes: 'improved administrative/planning systems and/or processes' as a positive effect (left hand columns); and 'uncertainty in planning and finances' and 'increased administrative complexity' as a combined negative effect (right hand columns).

It should also be reiterated that at the time the survey was administered, TAFE providers accounted for 74% of all VET students and 81% of total hours of VET delivery. Accordingly, TAFE responses should be given relatively greater weight than those of non-TAFE RTOs.

Choice and diversity

As noted earlier, increased choice and diversity has been promoted as both a means and an end of market reform in VET. The objective of increasing choice and diversity in VET has both supply-side and demand-side dimensions. From a supply-side perspective, it entails the expansion of the pool of both VET providers and the range of programs and services from which clients can choose. From a demand-side perspective, it entails an increase not only in the scope for clients/users to exercise choice, but also in their power to do so and, as a consequence, exert greater influence over VET outcomes.

With respect to the supply-side dimension, all the available evidence indicates that clients are potentially, if not actually, able to choose from a wider range of both registered VET providers and nationally recognised VET programs and services than prior to the onset of market reform. As identified at the beginning of this section, there were substantial increases in the number and diversity of non-TAFE RTOs in all States and Territories during the period up to 2001. The growth and diversification of VET providers operating within the NTF has in turn significantly expanded the pool of non-TAFE providers available to clients seeking nationally recognised VET qualifications. From a national perspective at least, a broad range of potential provider alternatives appears to be available in AQF level II-IV qualifications markets, and in most industry training markets.

Choice of provider type is relatively more restricted for clients in rural/regional areas, due to the larger concentrations of RTOs in metropolitan areas. However, the data also suggest that it may be less restricted than expected given that over one third of all RTOs are delivering nationally recognised training in regional/rural areas. In a recent study of client choice in VET, only 3% of individual VET students in rural/regional markets identified insufficient numbers of providers as a problem (Anderson 2003a). The Bannikoff Review (1998) and subsequent policy adjustments in Queensland (QDETIR 1999) suggest that the key issue in regional/rural markets is not limited choice of provider, but rather discontinuity of supply. As a larger proportion of publicly-owned RTOs, specifically TAFEs and ACE centres, are located in rural/regional areas, it can be deduced that they perform a crucial role in the ongoing provision of VET programs and services in potentially thin markets in rural/regional areas. The same conclusion was reached by the House of Representatives Standing Committee on Employment, Education and Training inquiry into the role of TAFE (HRSCEET 1998).

Table 38: Choice/diversity outcomes of contestable processes (% net majority)

	Competitive tendering		User Choice	
	TAFE	RTOs	TAFE	RTOs
Expanded the range of training options	22	5	27	25
Closer/more direct relations with clients	46	11	65	36
Increased client control over VET outcomes	- 11	- 15	15	18

It is more difficult to assess the precise extent to which available VET programs and services are more numerous and diverse in quantitative terms. The survey findings suggest that the range of VET programs and services has increased as a consequence of both competitive tendering and User Choice. In total, 58% of TAFEs and 47% of all RTOs agreed that competitive tendering has 'expanded the range of training options offered to clients by my RTO'. Conversely, 36% of TAFEs and 42% of all RTOs disagreed with the above statement. In effect, a net majority of both TAFEs (22%) and all RTOs (5%) said that competitive tendering has 'expanded the range of training options offered to clients by my

RTO'. In open assessments (see Table 37), 5% of TAFEs and 7% of RTOs nominated increased choice and diversity among the two main positive effects of competitive tendering.

The scope for clients to exercise choice has increased to a greater extent under User Choice than competitive tendering. In total, 58% of both TAFEs and all RTOs agreed that User Choice has 'expanded the range of training options offered to clients by my RTO'. Conversely, 31% of TAFEs and 33% of all RTOs disagreed with this statement. In effect, a larger net majority of both TAFEs (27%) and all RTOs (25%) agreed that User Choice has 'expanded the range of training options offered to clients by my RTO'. In open assessments, 14% of TAFEs and 15% of RTOs identified increased choice and diversity among the two main positive effects of User Choice.

Relationships between providers and clients, particularly in the TAFE sector, are also closer and more direct as a result of market reform. In total, 69% of TAFEs and 49% of all RTOs agreed that competitive tendering has 'resulted in my RTO developing closer and more direct relations with clients'. Conversely, 23% of TAFEs and 38% of all RTOs disagreed with this statement. User Choice has also 'resulted in my RTO developing closer and more direct relations with clients', according to 77% of TAFEs and 63% of all RTOs. Only 12% of TAFEs and 27% of all RTOs disagreed with this statement. These data suggest that both competitive tendering and, to an even greater extent, User Choice have increased client focus and promoted more direct interaction between providers and clients. This in turn suggests that clients are more able to communicate their preferences for VET programs and services, and providers are more attuned and receptive to demand-side signals. As a consequence, market reform in VET appears to have enhanced the potential for clients to exercise choice, and thereby exert stronger pressure on providers to respond to their demands.

Not all the evidence points to increased choice and diversity, due largely to pressures on providers to improve or maintain their financial position in a more competitive market. While the range of product and delivery options for commercial fee-paying clients may have expanded, the diversity of courses, subjects and modules available to individual students in government-subsidised places may have diminished. In this regard, 41% of TAFEs said their capacity to satisfy the needs of full fee-paying clients has improved as a result of market reform. Conversely, 44% of TAFEs said their capacity to satisfy the needs of government-funded individuals has decreased. Anderson (2003a) found that almost one in ten (9%) of all VET students, and 12% of TAFE students, had made their choice on the basis that 'It is the only provider that offers this course'. In the above regards, it is noteworthy that TAFE Directors Australia (1999) indicated in its submission to the Senate Inquiry into the Quality of VET, that a loss of funding under User Choice had forced them to reduce the choices available to individual students.

The survey data suggest that User Choice, in contrast to competitive tendering, has increased the ability of clients to exercise choice and influence training outcomes. In total, 45% of TAFEs and 50% of all RTOs agreed that User Choice has 'increased client control over training outcomes', whereas 49% of TAFEs and 48% of all RTOs disagreed that competitive tendering has achieved this outcome. In effect, while a net majority of both TAFEs (15%) and RTOs (18%) agreed that User Choice has 'given individual clients greater control over training outcomes', a net majority of both TAFEs (11%) and RTOs (15%) said that competitive tendering has not produced the same result. In other words, User Choice clients are more able to make choices that match their needs and expectations. The survey data do not permit any comparison of the degree to which employers on the one hand, and apprentices/trainees on the other hand, enjoy greater influence over training decisions under User Choice. However, KPMG (1999) and Schofield (2000) highlight the relative lack of influence exercised by apprentices/trainees under User Choice.

There is some evidence that individual VET students are actively exercising choice. Although the respondent population was relatively small, and the market location of respondents cannot be discerned, a national survey found that 43% of VET students had shopped around for their course/provider (Anderson 2003b). The survey also found that individual clients value the ability to exercise choice in VET. Choice of the following items was identified as 'very important' or 'important', in order of significance: choice of course/career (96%); choice of subjects/modules (83%); choice of mode of study (e.g. on-campus or by distance/online) (82%); choice of provider (82%); choice of attendance times (73%); choice of fee-payment mode (e.g. upfront fees or pay-as-you-earn) (61%); and choice of mode of assessment (when and how) (60%).

The bulk of individuals were able to choose their courses and providers with relative ease. Only 10% of respondents experienced difficulties when choosing their course. Two in ten (20%) of those who encountered difficulties when choosing a course indicated that the main problem was a surfeit of alternatives. This was followed by insufficient information about the job/career outcomes of courses (15%), and a lack of comparative information about courses (13%). Only 5% of individuals experienced any difficulties choosing a provider. The main problem encountered by those who experienced difficulties was insufficient alternatives (30%). This was followed by a lack of comparative information about providers (19%), and an over-abundance of alternative providers (12%). The main difficulty for those in metropolitan markets was that there were 'too many' VET courses and providers to choose from. Although fewer difficulties were reported by rural/regional respondents, the main problem they encountered was a lack of course and provider alternatives.

Overall, the above findings provide some useful insights into VET markets from a client perspective. They suggest that client choice would be enhanced if the number and diversity of VET courses and providers were increased in thin rural/regional markets, and if the scope for choice of course content and delivery mode was enlarged in all VET markets. Although the survey data highlight the need to improve information provision, they also suggest that the majority of individual VET students are satisfied with their choices and the information on which they were based. Only 13% and 7% of all respondents said they would 'probably' or 'definitely' have chosen a different course or provider respectively had they had access to better or more information. These findings call into question the earlier-quoted official rationale for restricting user choice of content and delivery modes to employer-led markets for apprenticeship/traineeship training.

In summary, while both competitive tendering and User Choice have increased provider diversity and the potential scope for choice, only User Choice has markedly improved the ability of clients to exercise choice and influence training outcomes in both the TAFE and non-TAFE sectors. Such outcomes are not surprising in view of the differential scope for choice that exists in the competitive tendering and User Choice markets. Under competitive tendering arrangements, individual clients can choose from a range of programs/services that are purchased on their behalf by government, generally in the light of industry advice. From a client perspective therefore, the scope of choice under competitive tendering arrangements is essentially no different than that which exists under non-contestable (i.e. profile) funding arrangements. As Kinsman (1998) notes, annual training profiles:

... give almost exclusive weight to the interests of organised industry particularly as represented by the Industry Training Advisory Boards (ITABs) which are largely funded through ANTA ... These interests control both the content of VET – through the setting of competency standards and as the principal source of client advice, the level and quantum of training for specific occupations and the overall balance and mix of training ... In this approach 'what' and 'how much' training remains centrally planned while the 'who provides' question is open to the market. (p.130)

Similarly, the scope for individual students to exercise choice under competitive tendering arrangements is limited to a pre-determined range of providers and programs purchased by government, with content determined by industry. This reflects the monopsonistic (single purchaser) role retained by governments in competitive tendering markets.

Table 39: Scope for client choice by market sector

Market sector	Course	Provider	Content	Delivery	Assessmt
Profile funding	✓	✓	×	×	×
Tendering market	✓	✓	×	×	×
User Choice market	✓	✓	✓	✓	✓
Open/commercial market	✓	✓	✓	✓	✓

Source: Adapted from information contained in ANTA (1996).

Under User Choice arrangements, clients/users enjoy comparatively greater scope to exercise choice. Employers and their apprentices or trainees can select their preferred provider and aspects of program/service delivery, such as location, timing, assessor and other features (ANTA 2000c). Again, however, decisions about the content of the programs/services have already been made by industry parties prior to the training market transaction between providers and clients/users (Kinsman 1998). Some scope exists for clients/users to customise units of competence in Training Packages, although the range of permissible combinations is restricted by national industry-mandated guidelines (Anderson 2000b). In these latter respects, client choice in User Choice markets is more restricted than in open and commercial markets for VET programs and services. In effect, centralised control of product specification and market entry in all government-managed VET markets, including export markets, is the major constraint on both the diversity of courses and providers, and the scope for individual clients to exercise choice. Such constraints reflect tensions between the rhetoric of market deregulation and the reality of government regulation of the conditions under which quasi-markets operate.

Efficiency

Increased efficiency is one of the major benefits that policy makers claim will result from market reform in VET. Due to the difficulty of evaluating efficiency outcomes, the issue was approached from several different angles in the survey. Providers were asked whether competitive tendering and User Choice have reduced the costs of training delivery and/or administration, and resulted in more efficient use of public training funds. It is reasonable to assume that an improvement in crude efficiency would require a reduction in delivery and/or administration costs, and that increased productive efficiency would translate into more efficient use of public training funds.

With respect to crude efficiency, 75% of TAFEs and 79% of RTOs disagreed that competitive tendering has 'reduced the costs of training delivery'. Only 20% of TAFEs and 12% of all RTOs agreed with this statement. In effect, a large net majority of both TAFEs and RTOs disagreed that competitive tendering has reduced the costs of training delivery (see Table 40). At the same time, the costs of managing competitive tendering and related processes appear to be significant. In total, 97% of TAFEs and 91% of all RTOs disagreed that the costs of administration (e.g. planning, finances) have declined under competitive tendering arrangements. A negligible proportion of both TAFEs and all RTOs said that administrative costs have decreased as a result of competitive tendering.

In relation to productive efficiency, 57% of TAFEs and 43% of RTOs disagreed that competitive tendering has ‘resulted in more efficient use of public training resources’. Only 24% of TAFEs and 31% of RTOs in general agreed with this statement. In effect, a large net majority of both TAFEs (33%) and RTOs (12%) disagreed that competitive tendering has resulted in more efficient use of public training resources. Table 40 shows the net percentage differences between providers’ positive and negative responses relating to efficiency outcomes.

Table 40: Efficiency outcomes of contestable funding processes (% net majority)

	Competitive tendering		User Choice	
	TAFE	RTOs	TAFE	RTOs
Reduced the costs of training delivery	- 55	- 65	- 62	- 64
More efficient use of public training funds	- 33	- 12	- 43	4
Reduced administrative costs	- 97	- 88	- 94	- 85
Reduced administrative complexity	- 94	- 80	- 94	- 74

In their open assessments (see Table 37), 12% of TAFEs and 5% of RTOs nominated increased efficiency among the two main positive effects of competitive tendering. Counterbalancing this finding however are other less favourable assessments of the delivery and transaction costs arising from competitive tendering, including the costs associated with tender development, marketing, and contract management and compliance. In their open assessments, 60% of TAFEs and 45% of RTOs identified increased delivery and/or transaction costs among the two main negative effects of competitive tendering.

The efficiency outcomes of User Choice are no more encouraging. In relation to crude efficiency, 74% of both TAFEs and RTOs in general disagreed that User Choice has ‘reduced the costs of training delivery’. Only 12% of TAFEs and 10% of RTOs in general agreed with this statement. In effect, a large net majority of both TAFEs (62%) and RTOs (64%) disagreed that User Choice has reduced the costs of training delivery (see Table 40). Moreover, 96% of TAFEs and 88% of all RTOs disagreed that the costs of administration (e.g. planning, finances) have declined under User Choice. A negligible proportion of both TAFEs and all RTOs said that administrative costs have decreased in User Choice markets.

In relation to productive efficiency, a total of 60% of TAFEs and 33% of RTOs disagreed that User Choice has ‘resulted in more efficient use of public training resources’. Only 17% of TAFEs and 37% of RTOs in general agreed with this statement. In effect, a large net majority of TAFEs (43%) disagreed that User Choice has resulted in more efficient use of public training resources. However, a slight majority of all RTOs (4%) said that User Choice has resulted in more efficient use of public training resources. From a TAFE perspective, therefore, User Choice appears to have both increased delivery costs and reduced the efficient use of public VET resources to a greater extent than competitive tendering arrangements.

In their open assessments (see Table 37), 6% of TAFEs and 3% of RTOs nominated increased efficiency among the two main positive effects of User Choice. Counterbalancing this finding, however, were other less favourable open assessments of the delivery and transaction costs arising from User Choice, including the costs associated with promotion, client negotiation and liaison, and contract compliance. In total, 55% of TAFEs and 45% of RTOs identified increased delivery and/or transaction costs among the two main negative effects of User Choice. As with competitive tendering therefore, the vast majority of both TAFEs and RTOs indicated that User Choice has increased administrative costs and complexity.

The increased costs of delivery may in part explain the increased expenditure by some providers on direct delivery (i.e. teaching/training) and delivery support (e.g. libraries, computers) from 1998 to 2001. As cited earlier, 31% of TAFEs and 37% of all RTOs had increased their expenditure on direct delivery to a major or minor extent; and 37% of both TAFEs and all RTOs had increased their expenditure on delivery support to a major or minor extent. Conversely, 35% of TAFEs and 13% of all RTOs had decreased their expenditure on direct delivery, and 23% of TAFEs and 11% of RTOs had decreased their expenditure on delivery support, to a major or minor extent. The high costs of market administration are likely to explain why 49% of both TAFEs and all RTOs increased expenditure on administration (e.g. planning and finances) to a major or minor extent over the same four-year period.

That such a large majority of both TAFEs and RTOs reported that total delivery costs have not decreased under competitive tendering or User Choice arrangements is puzzling. Other findings of the survey suggest that providers have generally adopted most of the main cost-reduction strategies available to them. As Burke (2002, p.8) notes, the 'main part of the reduction in cost (in TAFE) must come from reduced expenses of teachers and in other costs.' Reductions in teacher costs per SCH are achieved primarily by: reducing the salary/wage component of expenditure by replacing permanent full-time with sessional teachers/trainers; eliminating small classes; increasing class sizes; and reducing face-to-face student contact hours. As previously stated, the survey results show that a significant proportion of both TAFEs and RTOs in general have, to a major or moderate extent:

- increased the use of sessional teachers (57% TAFEs: 36% RTOs);
- discontinued courses/subjects/modules with low enrolments (36% TAFEs: 26% RTOs);
- increased average class sizes (46% TAFEs: 18% RTOs); and
- reduced face-to-face student contact hours (37% TAFEs: 17% RTOs).

Of the remaining TAFEs, between three and five in ten said they had taken the above steps to a minor extent.

Burke also notes that 'teacher and other costs (e.g. facilities and equipment) can be contained by a switch to cheaper courses.' (2002, p.9) Although this trend was less pronounced, 29% of both TAFEs and RTOs in general were found to be 'redirecting resources from high-cost to low-cost areas of training provision'. Moreover, 79% of TAFEs, and 63% of RTOs, said they are 'redirecting resources from low-demand to high-demand areas of training provision'. Such findings suggest that TAFEs in particular, but also RTOs in general, have been attempting to reduce teacher and other costs, in addition to maximising class sizes, by shifting their program profiles towards low-cost and high-demand areas of provision. The implications of the above findings for efficiency outcomes in VET markets are considered further below.

Organisational efficiency

The survey produced some evidence of internal efficiency improvements. In open assessments (see Table 37), 14% of TAFEs and 7% of all RTOs identified increased 'administrative and planning effectiveness', including better financial management and cost control, as one of the two main positive outcomes of competitive tendering. This item refers to improvements in internal administrative and planning systems and processes (i.e. organisational efficiency), which respondents viewed as a contributing factor to overall performance improvement. By comparison however, nil TAFEs and only 2% of RTOs identified increased 'administrative and planning effectiveness' as a positive outcome of User Choice in their open assessments. This suggests that providers may have already streamlined their internal management processes in response to competitive tendering programs, and

extracted most of the available efficiency gains prior to the full implementation of User Choice in 1998. Other survey evidence indicates, however, that User Choice requires more resource-intensive administration than competitive tendering programs.

The findings that providers are implementing cost-reduction strategies and enhancing their administrative and planning systems suggest that the efficiency of the production process has improved to some extent on the input side of the equation. Open assessments also suggest that TAFE and non-TAFE RTO managers are finding new ways to use and combine resource inputs (e.g. staff, facilities and equipment), reportedly with considerable success. However the extent to which such efficiency-oriented improvements can be directly attributed to the introduction of contestable funding mechanisms is unclear. This may apply more to non-TAFE RTOs, and more so under competitive tendering than User Choice. However, the apparent efficiency increases may also simply be a Hawthorne effect – that is, an improvement resulting from the process of change itself, rather than the specific form of the changes.

To the extent that internal efficiency gains have been achieved in TAFE however, they are probably attributable to a significant degree to downsizing, industrial relations reforms and the devolution of greater power to TAFE managers in some States to make human resource, capital and financial decisions. Staff redundancies accounted for just over \$191 million of national TAFE expenditure from 1997 to 2001 (see Table 56), and accounted for roughly 1% of total annual operating expenditure on average over this five-year period. Industrial relations reforms and devolution have given TAFE managers relatively greater freedom to purchase inputs in markets rather than have them administratively allocated by central government agencies. The downside is that they have also assumed responsibility for managing complex market processes and the transaction costs relating to contract management and marketing and communications, in addition to the relatively higher production costs associated with meeting community service obligations, as reported elsewhere.

It cannot necessarily be inferred that the reported efficiency increases in the internal operations of VET providers are a direct outcome of market reform. In reality, they may be a product of the pressures on VET providers to change their internal management in order to cope with the new climate of financial stringency – caused by the termination of ANTA growth funding, and the low (or below-cost) unit prices and annual ‘efficiency dividends’ imposed on VET providers in pursuit of ‘growth through efficiencies’ from 1997-2001. As Pollitt (2002, p.282) argues, ‘Instead of assuming that management reform leads to savings we might hypothesize that forced savings lead to management reform.’

On the evidence above therefore, a large proportion of TAFEs, and to a lesser extent RTOs as a whole, have been implementing a wide range of cost-reduction strategies, presumably with some resulting improvement in organisational efficiency. Yet despite their efforts to reduce the costs of delivery, providers have still been unable to increase crude or productive efficiency in the context of contestable funding markets.

Transaction costs, complexity and uncertainty

The survey findings suggest that the failure of contestable funding mechanisms to produce the intended efficiency outcomes can be traced to the high transaction costs incurred by providers operating in a quasi-market environment. Calculating the precise relativities of efficiency gains and transaction costs is a complex and problematic task, and was not attempted in this study. Instead, providers were asked to assess the relationship in the light of their experience of managing contestable funding processes. As noted earlier, the survey found that

administrative costs and complexity, and the costs of marketing and communication, have all increased in contestable funding markets.

The adverse impact of transaction costs is confirmed by the finding that 71% of TAFEs, and 48% of all RTOs, disagreed that ‘reductions in the costs of training delivery by my RTO outweigh increases in administrative and marketing costs’ (see Table 41). Only 10% of TAFEs and 22% of RTOs as a whole agreed with this statement. In effect, a sizable net majority of both TAFEs (61%) and RTOs (26%) as a whole said that reductions in delivery costs have been cancelled out by increases in transaction costs.

A perverse effect of what appear to be excessively high transaction costs in VET markets is that 52% of TAFEs, and 51% of RTOs as a whole, are redirecting resources from training delivery to administration (e.g. planning and financial management), presumably to cover the increased costs of market administration. At the same time, 48% of TAFEs and 37% of RTOs are redirecting resources from training delivery to marketing information and communication, presumably in an effort to attract more fee-paying and/or User Choice clients.

Table 41: Impact of increased contestability on costs and resource allocation (%)

	Strongly Agree	Agree	Undecided	Disagree	Strongly disagree	N/A
<i>Reductions in the costs of training delivery by my RTO outweigh increases in administrative and marketing costs</i>						
TAFE	4	6	19	52	19	2
Total	7	15	22	36	12	8
<i>My RTO is redirecting resources from training delivery to administration (e.g. planning, financial management)</i>						
TAFE	12	40	9	35	2	2
Total	14	37	10	28	7	4
<i>My RTO is redirecting resources from training delivery to marketing information and communication</i>						
TAFE	11	37	16	32	4	2
Total	8	29	15	36	7	5

Providers’ text responses suggest that the transaction costs incurred in VET markets relate primarily to: tender development under competitive tendering arrangements (especially for small RTOs); negotiation and liaison with a large number of stakeholders (including employers, brokers [NACS] and STAs) under User Choice; marketing and communication with stakeholders, especially under User Choice (due to inadequate information provision and client awareness); and contract management, compliance and reporting requirements in both markets. Small RTOs, both public and private, appear to be affected more adversely than large RTOs by the transaction costs of quasi-markets in VET.

In her review of the Tasmanian traineeship market, Schofield (1999b, p.18) reported that: ‘There is a hidden cost in training, derived from bureaucratic requirements so onerous that some claimed that up to 30% of costs were related to processing and record keeping.’ Providers do not incur the same transaction costs in the direct (profile) funding sector. Despite the use of quasi-contractual performance agreements, the latter sector operates largely as a centralised model of bureaucratic planning and resource allocation, with negotiation restricted to the margins of TAFE institute profiles.

A major contributing factor to high transaction costs is the greater complexity of providers’ operational environments as a result of market reform. From a TAFE institute perspective,

strategic planning and financial management have become far more complex and resource-intensive processes since the creation of both competitive tendering and User Choice markets, alongside the direct (profile) funding sector and open and commercial markets. In a very real sense, TAFE institutes (and more generally, publicly funded VET systems) have become highly differentiated units comprising a ‘nexus of contracts’ (Aoki et al 1990). As Walsh (1995b) states, as the use of contracting mechanisms is extended in the public sector:

... the number of contracts involved and the way that they are linked can create complex organisational patterns. In effect there is a tendency for the number of contract relationships to increase geometrically as the number of contracts increases arithmetically. (p.16)

In total, 97% of TAFEs and 86% of all RTOs disagreed that ‘competitive tendering has reduced administrative complexity’. Similarly, 96% of TAFEs and 82% of all RTOs disagreed that ‘User Choice has reduced administrative complexity’. As these survey results suggest, non-TAFE RTOs also find contestable funding processes complex to manage.

In their open assessments (see Table 37), 11% of TAFEs and 16% of all RTOs identified inefficiencies and/or inflexibility in the administrative and financial systems operated by STAs among the two main negative effects of competitive tendering. Similarly, 7% of TAFEs and 15% of RTOs identified the same negative effects under User Choice. The bureaucratic inefficiencies and inflexibilities in STAs identified by survey respondents are too numerous to list here, but cover almost every aspect of the central administration of contestable funding processes. Such evidence suggests that market reform has not been accompanied by the promised reduction in ‘red tape’ (Kemp 1996). The combination of increased administrative complexity, and bureaucratic inefficiency and inflexibility on the part of STAs, is likely to have had a significantly adverse impact on efficiency outcomes.

The negative impact of transaction costs on provider efficiency has been compounded by high levels of uncertainty in quasi-markets for VET. Many survey respondents indicated in their text responses that contestability has injected a high degree of unpredictability into their operational environment, so much so that they are effectively unable to plan ahead with any confidence. Significant numbers of survey respondents identified high levels of uncertainty as a serious problem in both competitive tendering and User Choice markets.

Much of this uncertainty stems from the ‘spot markets’ created by contestable funding allocated under short-term contracts. On this account, over half of both TAFEs (54%) and RTOs (52%) said that their program profiles are ‘becoming less coherent and consistent from one year to the next due to short-term government contracts’ (see Table 42). Small RTOs in particular, identified the uncertainty created by short-term and episodic contracts as a serious problem, due to fluctuating and unpredictable staffing and capital (facilities/equipment) requirements. In the more extreme cases, the loss of tenders had reportedly destabilised the affected RTOs to such an extent that their ongoing viability was threatened. The imposition of a freeze on contestable funding levels was also identified by 4% of RTOs (all non-TAFE providers from Victoria) as another factor contributing to greater uncertainty.

Table 42: Impact of increased contestability on program profile (%)

	Strongly agree	Agree	Undecided	Disagree	Strongly disagree	N/A
<i>My RTO's program profile is becoming less coherent and consistent from one year to the next due to short-term government contracts</i>						
TAFE	20	34	4	36	4	4
Total	21	31	10	20	4	13

In many cases, the efficiency gains achieved via improvements to providers' administrative systems and processes appear to have been discounted by greater uncertainty in their planning and financial environment, together with the increased administrative complexity associated with managing a wide range of quasi-markets processes. In their open assessments, 7% of TAFEs and 14% of RTOs nominated improvements to their administrative and planning systems/processes as a positive outcome of competitive tendering (see Table 37). Conversely, however, 27% of TAFEs and 22% of RTOs identified the combined effects of increased uncertainty/program discontinuity and administrative complexity as negative outcomes of competitive tendering. The adverse effects of uncertainty and administrative complexity are just as significant in User Choice markets, as 24% of TAFEs and 15% of RTOs nominated increased uncertainty and administrative complexity among the two main negative outcomes of User Choice.

The above survey findings suggest that the high transaction costs identified by Bannikoff (1998) in Queensland are a more general problem in VET markets. Bannikoff found that contestable funding arrangements had led to a significant diversion of resources from training delivery to administration. The 16 TAFE institutes in Queensland were reported to be spending up to \$200,000 each per annum on the administration of competitive tendering processes, suggesting that the total direct costs were in the vicinity of \$3.2 million. The high administrative overheads associated with quasi-markets had also resulted in a 37:63 ratio of expenditure on delivery and non-delivery activities, and a 46:54 ratio of teaching to non-teaching staff. Overall, such perverse effects of market reform were found to have cancelled out any efficiency gains and quality improvements that may have otherwise accompanied the introduction of contestable funding arrangements in that State.

The aforementioned survey findings suggest that quasi-markets in the VET sector have increased transaction costs and raised the level of uncertainty for providers, both TAFE and non-TAFE, to such an extent that they are producing sub-optimal outcomes. Survey responses identified a range of perverse effects arising from this situation, including the diversion of resources from training delivery to both administrative and marketing functions, as reported later, in addition to under-investment in human and physical resources and the loss of experienced staff on short-term contracts. In effect, the design of contestable funding processes in the VET sector has failed to satisfy one of the pre-conditions for successful quasi-markets, with adverse consequences for efficiency and potentially quality, as discussed later.

Overall therefore, the survey results suggest that neither competitive tendering nor User Choice have increased crude or productive efficiency. Neither market mechanism has reduced the costs of delivery or increased efficient use of public training funds. Both have increased administrative costs and complexity. In TAFE, the costs of User Choice appear to have cancelled out all the efficiencies achieved through providers' efforts to cut the costs of delivery. In this regard, TAFE Directors Australia (1999, p.18) highlighted the 'mutually contradictory' effects of the Commonwealth government's 'growth through efficiencies' and User Choice policies. On the one hand, efficiencies have been achieved by TAFEs in response to the former policy by: 'improving management systems, increasing average class sizes, reducing attrition rates, improving module completion rates and rationalising facilities' (TDA 1999, p.18). On the other hand, the resulting efficiencies appear to have been largely, if not entirely, absorbed by the costs incurred through the administration of User Choice, including: information provision to employers, 'continuous negotiation, liaison, monitoring and reporting', organising work placements and assessment, and managing the problems created by thin markets in regional areas (TDA 1999, pp.11-12).

Although not all responsibility for the increasing costs and declining efficiency can be attributed to market mechanisms, the findings that neither competitive tendering nor User

Choice have improved efficiency in the private VET sector suggest that they are largely to blame. This conclusion is corroborated by ACPET (1999, p.23), which stated in its submission to the Senate Inquiry into the quality of VET:

Attempts to garner efficiencies from ... the market through changing to competitive funding and user choice arrangements appear to have had limited success.

A range of 'inherent difficulties' in User Choice were identified, including inadequate unit prices and 'increasingly complex and costly tendering and contractual arrangements'. In turn, these had resulted in 'training funds being diverted from training delivery by compliance and marketing costs' (ACPET 1999, p.6). Given that private providers are not affected by the 'growth through efficiencies' policy, the weight of the above evidence suggests that quasi-market arrangements are the main cause of inefficiency in the VET sector.

As noted in the analysis of the policy context, ANTA (1996a) acknowledged that market reform would be accompanied by higher information and transaction costs and a more complex operating environment. However it argued that 'these costs will be of a short term nature and should not detract from the improved longer term viability of a competitive training market.' (p.1) Given that the survey was conducted five years after this prediction, it would be reasonable to expect that the initial spike of increased costs and complexity had largely subsided and that providers had devised strategies for minimising any negative effects. The unambiguous and almost unanimous assessment by RTOs as a whole, however, is that such costs have not fallen to the extent suggested by ANTA, if at all. Transaction costs have become part and parcel of the ongoing costs of managing contestable funding processes, which providers are unable to ameliorate. Moreover, from a provider perspective, any potential efficiency gains achieved through market reform have been generally cancelled out by such costs.

Consequently, the general picture that emerges from this study is that competitive tendering and User Choice, both individually and collectively, have not produced the efficiency outcomes at a provider level that would supposedly flow from market reform. As many providers commented in their text responses, the costs to government have been reduced, but not because of market reform. Rather, these cost reductions have been achieved through a combination of the 'growth through efficiencies' strategy and/or the modest (if not below-cost) unit prices paid by State/Territory governments in competitive tendering and User Choice markets.

Systemic efficiency

Whether market reform has contributed to increased efficiency at a systemic level, and if so to what extent, are important though complex questions to address. In view of the above findings, the apparent incongruity between provider assessments of contestable funding processes and official claims of substantial gains in the systemic efficiency of the VET system warrants consideration. Specifically, there appears to be a significant discrepancy between the survey findings on the one hand, which suggest that there has been no net increase in crude or productive efficiency from a provider perspective, and national aggregate performance data on the other hand, which suggest that there was a substantial improvement in efficiency at both a national and State/Territory level from 1997 to 2001.

In part at least, this discrepancy is due to the reduction in public funding per hour of publicly funded delivery that occurred at the same time as increased marketisation. As noted in the examination of the policy context, the 'growth through efficiencies' policy, in conjunction with the introduction of contestable funding processes, was used to drive efficiency improvements in the VET sector from 1997 to 2001. In an analysis of ANTA performance

data (see Table 41), Burke (2003) notes that total publicly provided hours of training increased by 22% from 1997 to 2001, and that expenditure per AHC declined by 9% in actual dollars and by 16% in 2001 prices (and by 19% using the alternative deflator). The ANTA Board cited these efficiency gains in evidence presented to the Senate Inquiry into the quality of VET (SEWRSBERC 2000).

Pollitt (2002) emphasises the problems and pitfalls in interpreting macro-economic performance indicators and cautions against attributing apparent efficiency gains to public sector reforms. Instead, he argues that attention should be focused on 'the measured savings generated by particular reform efforts', but acknowledges the difficulties involved in calculating and attributing savings with respect to broad programs of reform:

A 'saving' on one dimension may have been offset by increases in expenditure elsewhere, or by quality reductions, or by scope of service reductions, or by shifting costs elsewhere ... (p.283)

In this vein, the NSW government criticised ANTA before the Senate Inquiry into the quality of VET for adopting a 'simplistic league table approach to state and territory efficiency outcomes', which reflected crude efficiency gains but not other outcomes:

The key indicator of success under the policy is the reduction in unit costs. Other measures, such as quality, ease and cost of access, or participation by disadvantaged groups are not considered by the Commonwealth to be relevant. The policy fails to take into account a number of other significant areas of performance. (quoted in SEWRSBERC 2000, para.7.23).

Similar views were tendered by the South Australian, Victorian and Western Australian governments, in addition to the Australian Education Union. The South Australian government also noted that 'you can always make what seem to be efficiency gains by deferring expenditure' (quoted in SEWRSBERC 2000, para.7.29).

Burke (2003, p.34) suggests that efficiency gains in the VET sector from 1997 to 2001 may be due in part to 'the decline in expenditure on personnel as a share of total expenses', which was accompanied by the employment of a greater proportion of staff on casual or part-time contracts:

There is also the issue that funds obtained from fee-for-service, including international students, may have helped provide resources for Australian students for whom public funding has declined. A further factor is whether the measure of training delivered – annual hours curriculum – remains a valid measure of the effort of the VET system. With the development of training packages as the basis of training the actual hours of delivery have become less important and in the case of workplace delivery of training largely irrelevant.

On the other side of the ledger, Burke notes that several factors have added to costs, including the 'increased requirements for workplace assessment and the growing costs of compliance with regulations in VET and in business generally'. However, 'the reduction in the need to provide as many hours in the classroom may have freed resources in some instances.' (p.35)

Even if ANTA performance data are taken at face value, it cannot be assumed that the claimed efficiency gains were uniformly spread across, or extracted from, all three market sectors – the direct (profile) funding sector and competitive tendering and User Choice markets. Indeed, it is feasible that the apparent efficiency gains reflected in the ANTA data were achieved primarily, if not entirely, in the much larger direct (profile) funding sector rather than the contestable funding markets. As noted above, it is also feasible that efficiency

gains were achieved through cost-reduction strategies – such as using cheaper contract and casual labour, reducing face-to-face contact hours, and cross-subsidising public delivery with private resources – rather than through any imputed competitive efficiencies in contestable funding markets. Furthermore, the efficiency gains reflected in ANTA data and the increased delivery costs identified in the survey findings could be due respectively to:

- savings achieved through decreased, or deferred, expenditure on infrastructure maintenance (facilities/equipment), curriculum development and maintenance, and student services (e.g. counselling, child care), as reported by a net majority of TAFEs; and
- increased transaction costs, as reported by a net majority of both TAFEs and non-TAFE RTOs, and as highlighted above by TAFE Directors Australia (1999) and Burke (2003).

Declining per unit costs could also be achieved by providers switching to the provision of cheaper courses. The survey found however that only 29% of both TAFEs and RTOs in general are 'redirecting resources from high-cost to low-cost areas of training provision'.

Transaction costs incurred by government purchasing agencies are significant, and are also likely to affect systemic efficiency. In a review of competitive funding strategies in Queensland, KPMG (1997) reported that Training Queensland had allocated 33 staff members to, and expended \$2.3 million or 7.3% of the program budget on, the administration of the competitive tendering programs in 1996/97. This figure can be added to the estimate of TAFE institute expenditure on competitive tendering administration derived from Bannikoff (1998) above, as both reviews were conducted less than twelve months apart. In effect, the combined transaction costs incurred by the purchaser and TAFE providers in Queensland were in the vicinity of \$5.5 million (excluding TAFE institute staffing costs and the costs incurred by private providers operating in competitive tendering markets). Based on KPMG (1997) data, this suggests that at least 18% of the total budget for competitive tendering programs was consumed by the combined transaction costs on the purchaser and provider sides.

It should be noted that KPMG (1997) also reported that the administration of a comparable competitive tendering program in Victoria by the Office of Training and Further Education required only 8 staff members, and consumed \$0.6 million or 1.9% of the total program budget. Both KPMG estimates of the costs incurred in the central administration of contestable funding programs in Queensland and Victoria however were made just prior to the introduction of User Choice. The staffing levels and costs involved in the central administration of contestable funding arrangements as a whole are likely to have increased significantly with the inclusion of User Choice programs, as suggested by the Smith (1999) and Schofield (1999a) reviews and confirmed by the findings of the present survey. In the light of subsequent experience and reviews, the administration of contestable funding programs is likely to have improved on both the purchaser and provider side.

However, it seems equally probable that transaction costs increased significantly with the introduction of the far more administratively complex User Choice arrangements in 1998. In an investigation into the Victorian Apprenticeship/Traineeship Training Program (ATTP) for purchasing apprentice and trainee training from private RTOs, it was noted that:

The (ATTP) budget does not reflect the full cost of the program. Based on advice provided there are significant administrative costs associated with the program and these are reported separately in the (departmental) accounts. These administrative costs are considerably higher than those associated with funding TAFE institutes. (SCR 2002, p.25)

Although the survey data do not allow categorical conclusions to be drawn either way, they do suggest that the source of the efficiency gains reflected in the aggregate national performance data is unlikely to be found in contestable funding markets. Instead, it would appear that there are two different stories about efficiency outcomes at a national and provider level, each of which may be equally valid. A definitive judgment however awaits further research and analysis of the complex array of factors and trends impacting on provider efficiency in the three different market sectors. Such work should assess any changes in allocative efficiency, which was not evaluated in this study, but may have improved given the increased flexibility and responsiveness reported by survey respondents (see below).

Private provider reliance

As noted in the discussion of evaluation criteria, another factor affecting systemic efficiency following the introduction of quasi-markets in VET relates to private provider reliance on government funds. Survey data presented earlier show not only that public VET funds allocated to non-TAFE providers via contestable processes are substantial, but also that a large proportion of non-TAFE providers have increased their reliance on public VET funds. Overall, the survey found that 51% of all RTOs (including TAFEs) derived at least half of their total training revenue in 2000/2001 from government, both contestable and non-contestable. This includes 74% of GTCs, 58% of enterprise trainers, and 39% of commercial training providers. Of enterprise trainers, 46% derived at least three quarters, and 24% derived all, of their training revenue from government. Of 'other' RTOs, 37% derived at least three quarters, and 12% derived all, of their training revenue from government. Of commercial training providers, 23% derived at least three quarters of their training revenue from government.

As noted earlier, ABS (1996) data suggest that only a small proportion of commercial training providers derived income from delivering publicly funded training courses in 1993/94. Those that did receive public funds did so largely for the delivery of government labour market training programs, not accredited VET courses. Considered against these data, the findings from the present survey suggest that the creation of contestable funding markets has facilitated the emergence of a parallel (albeit much smaller) private training sector alongside the public VET sector, and that it is increasingly reliant on government for the bulk of its training revenue. As discussed in the previous part of this report, NCVER data indicate that in 2001, post-school non-TAFE providers derived a total of \$299 million from quasi-markets in the VET sector, representing about 44% of total contestable funding. In their open assessments, 32% of all RTOs (compared to only 7% of TAFEs) and 13% of all RTOs (compared to 14% of TAFEs) identified growth in their revenue base among the main positive outcomes of competitive tendering and User Choice respectively.

The review of purchasing under the Apprenticeship/Traineeship Training Program in Victoria found that the top ten private RTOs received \$289 million from the scheme in 2000-01. Traineeship Advisory Services Australia received the largest total payment (\$6.18 million), followed by Stanborough Wemyss Contracting (\$3.48 million), BAYTEC Institute (\$3.42 million) and National Workplace Training (\$3.13 million). In the light of such evidence, the author notes that:

Some RTOs are almost totally dependant on government funding. Not only does this put them at some financial risk, but it is not consistent with developing a strong and independent private sector. The dependence on government funding has reached the stage where a number of private RTOs receive a greater proportion of their total funds from government than their TAFE counterparts. (SCR 2003, p.26)

ANTA (1996a) forewarned that increasing private provider reliance on public funds is likely to result in unnecessary duplication, with adverse implications for systemic efficiency. Although there are no other available measures for determining the existence and extent of potential duplication, the above data suggest that private provider reliance on public VET funds has grown considerably since the creation of contestable funding markets. If further research confirms that contestable markets have indeed encouraged program duplication rather than differentiation, then systemic efficiency is likely to have declined as a consequence.

Overview analysis

Returning to the evaluation criteria, the above analysis suggests that market reform has not promoted crude efficiency, as both delivery and transaction costs have risen to such an extent that the *total costs* of delivery have discounted internal efficiency gains. From a TAFE perspective at least, it appears to be more expensive to deliver a training place in the context of contestable funding markets, regardless of output quality, than it is in the direct (profile) funding sector. The question of whether market reform has improved productive efficiency, or 'value for money', is more difficult to ascertain. As revealed earlier, steady reductions in unit costs and increasing levels of participation in VET suggest that the costs of delivering a given *quantity* of publicly funded training places have been reduced from pre-market levels at an overall systemic level. However the evidence cited above indicates that any such efficiency gains have been the result of factors other than market reform, and indeed such efficiency gains may be confined to the direct (profile) funding sector.

This leaves open the question of whether market reform has promoted the other aspect of productive efficiency, namely that the costs of delivering a given *quality* of training places have declined from pre-market levels. As the following analysis of the quality-related outcomes of market reform shows, views are divided roughly along sectoral lines. From a TAFE perspective, the quality of provision has not improved, and may well have declined, under both competitive tendering and User Choice. Moreover, the skill outcomes for individual students and apprentices/trainees have not improved in their estimation. However a smaller net majority of non-TAFE RTOs delivered opposite verdicts. As TAFEs are arguably best placed to assess before-and-after changes in quality and skill outcomes due to the creation of contestable funding markets, the overall weight of evidence suggests therefore that market reform has not increased the productive efficiency of VET provision, at least in the TAFE sector.

Responsiveness

Another key outcome that would purportedly flow from market reform in VET is increased responsiveness to the needs and demands of clients/users. As discussed earlier, this aspect of the evaluation aimed to determine whether market reforms have increased provider responsiveness to:

- individual students (under competitive tendering);
- apprentices/trainees (under User Choice); and
- industry/employers (under both competitive tendering and User Choice).

It also attempted to measure the extent to which increased responsiveness to these client/user groups has in turn improved access for:

- small enterprises;
- medium/large enterprises; and
- local/surrounding communities

The extent to which market reforms have led to the development of closer and more direct relations between providers and clients was included as another indicator of responsiveness.

Opinions are more or less equally divided among providers as to whether competitive tendering has increased responsiveness to individual student needs. On the one hand, 47% of TAFEs and 40% of all RTOs delivered a positive assessment. On the other hand, 40% of TAFEs and 47% of all RTOs said that competitive tendering has not increased their responsiveness to individual student needs. In contrast, competitive tendering has increased responsiveness to industry/employer demand, according to 64% of TAFEs and 50% of all RTOs. Even so, 20% of TAFEs and 35% of all RTOs indicated that their responsiveness to industry/employer demand has not increased as a consequence of competitive tendering.

By comparison, User Choice appears to have increased responsiveness to apprentice needs and, to a greater extent, employer demand. In total, 49% of TAFEs and 50% of all RTOs indicated that their responsiveness to apprentice needs has increased as a result of User Choice. However, User Choice has not increased responsiveness to apprentice needs, according to 22% of TAFEs and 29% of all RTOs. A substantial majority of providers indicated that User Choice has increased their responsiveness to employer demand. In total, 79% of TAFEs and 64% of all RTOs agreed that this was the case, compared to only 14% of TAFEs and 27% of all RTOs who disagreed.

Table 43: Responsiveness outcomes of contestable processes (% net majority)

	Competitive tendering		User Choice	
	TAFE	RTOs	TAFE	RTOs
Responsiveness to individual student needs	- 7	7	n/a	n/a
Responsiveness to apprentice/trainee needs	n/a	n/a	27	21
Responsiveness to industry/employer demand	44	15	65	37
Closer/more direct relations with clients	46	11	65	36
Access for small enterprises	- 32	- 2	- 2	28
Access for medium/large enterprises	29	30	25	33
Access for local/surrounding communities	- 25	7	- 19	16

Table 43 shows the net percentage differences between providers' positive and negative responses relating to responsiveness outcomes. It shows that large net majorities of TAFEs (45% and 65% respectively) and RTOs (15% and 37% respectively) said that their responsiveness to industry/employer demand under both competitive tendering and User Choice arrangements has increased. A small net majority of TAFEs (7%) indicated that competitive tendering has not increased their responsiveness to individual student needs, whereas a small net majority of all RTOs (7%) delivered the opposite assessment. According to significant net majority of both TAFEs (27%) and all RTOs (21%), User Choice has increased responsiveness to apprentice needs. Similar majorities of both TAFEs and RTOs indicated that both market mechanisms have also generated the development of closer and more direct relations with clients.

In their open assessments (see Table 37), both market mechanisms were given resoundingly positive ratings for increased responsiveness. A large proportion of both TAFEs (47%) and all RTOs (20%) nominated increased responsiveness and client focus/interaction among the two main positive outcomes of competitive tendering. Conversely, small proportions of TAFEs (6%) and RTOs (8%) nominated reduced responsiveness and client focus/interaction among its two main negative effects. A notably large proportion of both TAFEs (72%) and all RTOs

(36%) nominated increased responsiveness and client focus/interaction among the two main positive outcomes of User Choice. Nil TAFEs and only 1% of RTOs nominated reduced responsiveness and client focus/interaction as a negative outcome of User Choice.

These findings suggest that both market mechanisms – User Choice to a relatively greater extent than competitive tendering – have unequivocally increased responsiveness to industry/employer demand, and resulted in the development of closer and more direct provider relations with their clients. However competitive tendering has produced only a slight improvement in responsiveness to individual student needs from an RTO perspective, and has produced a negative outcome from a TAFE perspective. By comparison, User Choice has resulted in greater provider responsiveness to apprentice/trainee needs.

The extent to which market reform has increased access for designated client groups – small enterprises, medium/large enterprises, and local/surrounding communities – is another measure of responsiveness. The survey data in Table 43 show that competitive tendering has markedly improved access for medium/large enterprises, but not for small enterprises. Medium/large enterprises also enjoy substantially better access under User Choice, according to both TAFEs and RTOs. However while a significant majority (28%) of RTOs said that small enterprises enjoy greater access under User Choice, a small majority (2%) of TAFEs delivered the opposite verdict.

TAFE institutes appear to be less responsive to local/surrounding communities as a result of market reform, although RTOs in general appear to be more responsive. A significant majority (25% and 19% respectively) of TAFEs indicated that access for local/surrounding communities has not improved as a result of competitive tendering and User Choice. Conversely, a small majority of RTOs in general (7% and 16% respectively) reported that access for local/surrounding communities has improved under competitive tendering and User Choice arrangement.

Despite the generally positive outcomes of market reform in terms of provider responsiveness, some client groups have fared better than others. Overall, the data suggest that employers, rather than individual students or apprentices/trainees, are the major focus and beneficiaries of increased provider responsiveness under both competitive tendering and User Choice arrangements. However, some enterprises have fared better than others. Access for medium/large enterprises appears to have improved to a much greater degree than it has for small enterprises, at least under competitive tendering arrangements. Neither market mechanism has improved access to TAFE for local/surrounding communities, although access to some non-TAFE RTOs appears to have improved.

These conclusions are confirmed by other data from the present survey, which show that market reform has enhanced the capacity of a net majority of TAFEs (44%) and RTOs in general (19%) to satisfy the needs of medium/large enterprises. In contrast, market reform has not enhanced the capacity of providers to satisfy the needs of small enterprises according to a net majority of TAFEs (12%), although 12% of RTOs delivered the opposite assessment. Neither TAFEs in particular nor RTOs in general are more able to satisfy the needs of their local/surrounding communities as a result of market reform. As might have been expected, market reform has enhanced the capacity of a majority of TAFEs (8%) to satisfy the needs of full fee-paying clients, and the capacity of a significant majority (26%) of RTOs as a whole to satisfy the needs of government-funded clients.

It is reasonable to deduce from these findings therefore, that the two client groups whose needs are best served as a consequence of market reform in VET are medium/large enterprises and full fee-paying clients. Table 44 shows the net percentage differences between providers' positive and negative responses relating to needs-satisfaction outcomes.

Table 44: Capacity to satisfy client needs enhanced by market reforms (% net majority)

	TAFEs	Total RTOs
Government-funded clients	- 15	26
Full fee-paying clients	8	- 3
Small enterprises	- 12	12
Medium/large enterprises	44	19
Local/surrounding communities	- 30	- 2

These findings suggest that market reform has produced the main outcome sought by government, that of increasing the responsiveness of publicly-funded VET providers in general (and TAFE institutes in particular) to the needs of the 'key clients of the training market', enterprises (ANTA 1996a, p.7). However it has been comparatively less successful in terms of increasing responsiveness to the needs of individual learners, both students and apprentices/trainees, and improving access for small businesses and local/surrounding communities. Indeed, the capacity of TAFEs to satisfy the needs of medium/large enterprises and full fee-paying clients has increased almost in inverse proportion to their capacity to satisfy the needs of small enterprises, government-funded clients and their local/surrounding communities.

Skills supply to industry

Another indicator of responsiveness is whether they have resulted in a better match between supply and demand. As reflected in Table 45, the survey data show that TAFE and RTO assessments are divided on this question. A significant net majority of TAFEs, 26% and 25% respectively, indicated that neither competitive tendering nor User Choice has 'improved the supply of skilled labour to industry'. It should also be noted however, that 33% of TAFEs were 'undecided' on this question. Conversely, 12% and 17% of RTOs respectively said that both competitive tendering and User Choice have improved the supply of skilled labour to industry.

Table 45: Responsiveness outcomes of contestable funding processes (% net majority)

	Competitive tendering		User Choice	
	TAFE	RTOs	TAFE	RTOs
Improved supply of skilled labour to industry	- 26	12	- 25	27
Increased employer investment in training	- 83	- 31	- 63	- 13

The reasons for these contrasting assessments require further investigation. One possible explanation was signalled in the KPMG (1999) national evaluation of User Choice, which suggested that increasing employer control of training decisions may be promoting the acquisition of enterprise-specific competencies at the expense of generic industry-wide skills. If this trend was confirmed, it has the potential to undermine the formation of the broad-based skills required in external labour markets, and reduce the qualitative flexibility and employability of the workforce, to the detriment of industry as a whole (Anderson 1997a).

Another possible and related explanation is suggested by the survey results.. Over one half (54%) of TAFEs and 39% of RTOs said that their 'training provision is driven more than before by short-term (rather than medium or long-term) demand for skills'. If providers are becoming increasingly reactive to short-term demand for skills as a consequence of market

reform in VET, there is a potential risk that the medium to long-term skill requirements of industry will be overlooked, thereby resulting in future skill shortages.

The following evidence submitted by TAFE Directors Australia (TDA 1999, p.12) about the impact of New Apprenticeships (NA) to the Senate Inquiry into Quality in VET adds weight to the above interpretations:

TDA believes the emphasis and priority given to NA within the national VET sector is inappropriate. The emphasis on meeting immediate demands in the workplace is distorting both medium and long term training objectives in some states. Skill demands in important sectors of their economies are being ignored by NA which sits outside state and territory planning processes. Because of the employer-driven nature of NA, much of the training is narrow and enterprise-specific and the strong growth in NA is at the lower ends of the Australian Qualifications Framework.

Although attributed to New Apprenticeships, the problems of short-termism, overly specific training, and consequent unmet demand for skills are actually consequences of User Choice in tandem with enterprise-driven Training Packages.

In view of the reported sub-optimal match between skills supply and demand produced under contestable market conditions, the final verdict on whether market mechanisms have improved responsiveness to industry/enterprise needs is not altogether clear-cut. Schofield (2000, p.28) rejects the claim that skill shortages can be attributed to the failure of User Choice, arguing that they have 'been a feature of the apprenticeship system from time immemorial, long before the introduction of User Choice.' While this may be so, the above data suggest that neither market mechanism has unequivocally *improved* the supply of skilled labour to industry, despite the increase in provider responsiveness to industry/enterprise needs. Moreover, the pressures of market competition may have in fact locked VET providers into a short-term cycle of reactive skills supply. Related issues are discussed further towards the end of this section.

Investment in VET by industry/enterprises

Under the training market reform agenda, the *quid pro quo* of increased provider responsiveness to industry/enterprise needs was that employers would invest more in workforce training. Despite the realignment of publicly-funded VET provision to the needs of industry/enterprise clients under contestable funding arrangements, the survey data suggest that market reform has failed to leverage the anticipated increase in training investment by private enterprise clients. As reflected in Table 45 above, large majorities of both TAFEs (83% and 63% respectively) and all RTOs (31% and 13% respectively) said that neither competitive tendering nor User Choice has increased employer investment, despite the availability of explicit 'top-up' arrangements under User Choice for service provision over and above the publicly-funded threshold.

These findings seem surprising in view of the reported increases in income from both fee-paying individual and industry/enterprise clients. Respectively, income from each source had increased for 40% of TAFEs and 47% of all RTOs, and 58% of TAFEs and 45% of all RTOs, though only to a 'minor' extent in most cases. As providers did not identify such increases as an outcome of market reform, their precise causes require further investigation.

In an analysis of recent trends in firm-based training in Australia, Long (forthcoming, p.1) notes that:

Several (government VET) strategies could contribute to increased investment in accredited firm-based training, including the introduction of training packages, the reforms to the apprenticeship and traineeship system and other market based reforms.

Based on ABS surveys of employee participation in firm-based education and training and employer expenditure on training, Long (forthcoming) presents evidence that confirms the findings of the present study about the failure of market reform in VET to stimulate increased employer investment in training. Long found that:

- the incidence of participation in employer-supported study by persons who had been employed at any time in the twelve months preceding the survey declined from 5.6% in 1989 to 3.6% in 1997, and increased marginally to 4.5% in 2001;
- employer-supported external training (delivered by both RTOs and non-RTOs) decreased slightly from 20.7% in 1997 to 20.4% in 2001;
- mean annual hours of employer-supported training as a proportion of all employees were roughly equivalent in 1997 (4.1%) and 2001 (4.0%), although they decreased for participants in education and training from 33.3% in 1997 to 30.6% in 2001; and
- mean annual hours of participation in structured (internal and external) training as a proportion of all employees fell from 23.9% in 1997 to 19.3% in 2001, and they fell significantly as a proportion of participants in structured internal training from 50.2% in 1997 to 35.2% in 2001, and as a proportion of participants in structured external training from 55.4% in 1997 to 38.1% in 2001.

In the light of these data, Long concluded that: ‘The hours of employer-supported education and training probably changed very little between 1997 and 2001.’ (p.6); and: ‘There is little consistent evidence of increased participation in firm-based training or expenditure on firm-based training through the 1990s and early 2000s.’ (p.15)

Long found substantial unmet demand for education and training among persons who had not been studying recently (20.4%), and among those who had not participated in structured firm-based training in the preceding year (24.1%). Financial reasons were the largest barrier to participation in further study and training, cited by 4.3% of persons. Employers identified cost (8.8%) and time (6.8%) as the greatest barriers to the provision of further training, while the unavailability of suitable training (1.9%) and the inconvenience of external courses (1.9%) were by comparatively minor constraints.

The apparent failure of increased provider responsiveness to leverage reciprocal private investment poses the question of whether market reform in VET has encouraged a ‘free-rider’ mentality among industry/enterprises. The Bannikoff Review (1998) of TAFE in Queensland found evidence of cost-shifting and substitution of public for private investment in training. Specifically, the \$9 million reduction in industry-funded training at TAFE institutes in the 1997/98 financial year was attributed to decisions by enterprises to transfer existing employees into government-subsidised traineeship positions under User Choice. The possibility that cost-shifting and substitution is occurring on a national scale is suggested by the finding of the present survey that a substantial proportion of private providers now rely on government for at least three quarters of their training revenue – including 46% of enterprise trainers, 37% of ‘other’ RTOs and 23% of commercial training providers.

Long (forthcoming) finds that there has been a substantial increase in government training subsidies to employers. In firms that had apprentices or trainees, government training subsidies accounted for 15.7% of gross expenditure on training, compared with only 3.5% in firms that had no apprentices or trainees. In 2001-2002, government training subsidies were

9.1% of total gross training expenditure by firms, and had increased by 201% from 1997. Long concludes that these trends may be attributable to market reform in VET:

(T)he registration of firms as registered training organisations, the rapid expansion of New Apprenticeships (both for labour market entrants and existing workers) and the shift toward flexible workplace delivery of training (and) Government subsidies to employers for training ... may have encouraged a re-badging of what had previously been more clearly firm-based training as formal training within the workplace. (p.15)

Table 46: Incidence and mean hours of training undertaken in the last 12 months: Persons employed as wage or salary earners in the last 12 months

Categories of training	1989	1993	1997	2001
Incidence of training (%)				
<i>Study in year of survey</i>	14.7	16.2	14.4	17.9
Employer-supported	5.6	5.4	3.6	4.5
<i>Any structured training</i>	38.8	35.9	47.6	50.3
Internal training	34.9	31.3	34.2	37.5
External training	9.8	11.8	20.7	20.4
While working	9.3	10.6	17.8	17.6
Employer supported	6.4	7.3	12.2	13.2
Mean annual hours of training (all employees)				
<i>Structured training</i>	23.0	16.8	23.9	19.3
Internal training	18.4	11.9	12.4	11.5
External training	4.6	4.9	11.5	7.8
While working	3.8	3.4	7.3	6.1
Employer supported	2.3	2.2	4.1	4.0
Mean annual hours of training (participants)				
<i>Structured training</i>	59.3	46.8	50.2	35.2
Internal training	52.9	37.9	36.3	30.7
External training	46.4	41.8	55.4	38.1
While working	41.1	31.8	40.9	34.6
Employer supported	36.1	29.9	33.3	30.6

Source: Long (forthcoming, p.8)

Notes:

- Trainees* are persons in receipt of some training.
- Persons still at school are excluded from the 1997 values.
- 1997 values omit *other* unstructured training.
- Values for 1989 and 1993 for external training while working include some few training courses undertaken while employees were working in their own businesses.

According to ACPET (1999, p.13), the financial incentives available to employers of apprentices and trainees under User Choice have 'distorted' the behaviour of employers and trainees:

The use of financial incentives by government has had a deleterious effect in that it has severely reduced private markets – that is, people now expect the government to pay for training.

Although no firm conclusions can be drawn from the above survey and other data about the direct impact of market reform in VET, they suggest that market reform has not leveraged increased employer investment in either internally or externally delivered training. They also highlight the need for further research to determine the extent to which private RTO access to

public VET funds via contestable processes, in combination with financial incentives under the New Apprenticeships scheme, has resulted in cost-shifting and substitution of public for private training resources by industry/enterprises on a national scale.

Overall, however, the survey evidence highlights the extent to which market reform in VET has induced a marked increase in responsiveness to client demand, especially to the needs of fee-paying clients and medium/large enterprises. Such changes in provider behaviour are underscored by the findings that a clear majority of both TAFEs and RTOs as a whole are redirecting resources from low-demand to high-demand areas of training provision. These changes are accompanied by a stronger orientation towards market demand in general among TAFEs and, to an even greater extent, all RTOs. The latter findings and their potential implications for public interest objectives in VET are discussed in more detail below.

Quality

As noted earlier, improved quality is a major intended outcome of market reform in VET, though one that is difficult to define and measure. In addition to the main question concerning quality outcomes, a range of other indicators can be brought to bear on this complex question. In all, 38% of TAFEs delivered a negative verdict on the quality outcomes of competitive tendering, whereas 34% delivered a positive verdict. Similarly, 37% of TAFEs delivered a negative verdict on the quality outcomes of User Choice, compared to 33% who delivered a positive verdict. Table 47 shows the net percentage differences between providers' positive and negative responses relating to quality outcomes. These data indicate that for a small net majority of TAFEs (4% in both cases), neither competitive tendering nor User Choice has improved the quality of VET programs and services. However it should also be noted that 29% and 27% of TAFEs were 'undecided' about whether quality has been improved under competitive tendering and User Choice respectively.

Table 47: Quality outcomes of contestable funding processes (% net majority)

	Competitive tendering		User Choice	
	TAFE	RTOs	TAFE	RTOs
Improved quality of VET products and services	- 4	2	- 4	20
Improved skill outcomes for students/trainees	- 45	9	- 38	28

In their open assessment of outcomes, TAFEs painted a more definitively negative picture of the impact of market reform on quality. Only 2% of TAFEs nominated improved quality among the main two positive outcomes of competitive tendering, whereas 30% nominated reduced quality among the two main negative outcomes. Similarly for User Choice, only 3% of TAFEs nominated improved quality among the main two positive outcomes, whereas 22% nominated reduced quality among the two main negative outcomes. From a TAFE perspective therefore, the survey evidence suggests that market reform has reduced the quality of VET products and services.

In contrast, a majority of all RTOs rate the quality-related outcomes of market reform more positively. A net majority of RTOs, 2% and 20% respectively, said that competitive tendering and User Choice have improved the quality of VET programs and services. In their open assessment of outcomes however (see Table 37), RTO assessments vary markedly. On the one hand, 11% of RTOs nominated improved quality among the main two positive outcomes of competitive tendering, whereas 24% nominated reduced quality among the two main negative outcomes. On the other hand, 10% of RTOs nominated improved quality among the main two positive outcomes of User Choice, and 8% nominated reduced quality among its two main negative outcomes. The survey results suggest that, from a general RTO

perspective, competitive tendering has produced negative quality outcomes, whereas User Choice has produced positive quality outcomes, but only for a small majority of (mostly non-TAFE) RTOs.

The precise reasons for the generally negative quality outcomes of market reform are difficult to pin down. Evidence was cited earlier that a majority of both TAFEs and all RTOs have adopted the following cost reduction strategies in response to the increased contestability of government funding and/or reduced unit prices: increasing the use of sessional teachers; increasing average class sizes; and reducing face-to-face student contact hours. Although none of these strategies necessarily reduces quality, other sources suggest that they are likely to undermine the integrity and effectiveness of teaching and learning processes. The Bannikoff Review (1998), for instance, attributed a decline in program quality to increasing teacher casualisation in TAFE, due to the associated reduction in core staff available to maintain a quality learning environment on an ongoing basis. TAFE Directors Australia (1999, 2000) indicate that adoption of the abovementioned cost reduction strategies in response to the ‘growth through efficiencies’ policy and contestable funding processes have compromised the quality of program design and delivery.

Table 48: Impact of increased contestability on cost reduction and quality improvement (%)

	Strongly agree	Agree	Undecided	Disagree	Strongly disagree	N/A
<i>My RTO is giving higher priority to reducing costs than to improving quality due to government funding formulae/purchase prices</i>						
TAFE	23	39	4	30	5	0
Total	13	27	9	29	13	8

Many survey respondents indicated that the low (or below-cost) prices at which STAs purchase training places under competitive tendering and User Choice are another cause of declining quality. The survey found that 62% of TAFEs, and 40% of RTOs in general, are ‘giving higher priority to reducing costs than to improving quality due to government funding formulae/purchase prices’ (see Table 48). In the review of the Tasmanian traineeship system, Schofield (1999b) reported that ‘The general and universal opinion of RTOs ... was that the traineeship prices paid to providers are too low and certainly not sufficient given the new requirements for assessment and support to workplaces.’ (p.17) Additional costs arising from Training Package implementation relate to: contextualisation and customisation; small numbers of trainees; travel to and from workplaces; administration; and contract compliance and reporting. Although the impact of low (or below-cost) prices on quality cannot be directly attributed to market reform *per se*, the monopsonistic power of government-as-purchaser to set prices is part and parcel of the current quasi-market framework for VET provision. The adverse impact of government price-setting and purchasing policies on the quality of VET must be viewed as a perverse, if unintended, effect of market reform.

The climate of intensified competition and commercial rivalry among providers has also diminished forms of collaboration that may otherwise contribute to quality improvement. Due to increased market competition there has been a marked decline in the willingness of providers to share information and resources. In all, 88% of TAFEs and 68% of RTOs in general said that, as a result of the increased contestability of government VET funds, they are ‘less inclined to share information and resources with other RTOs for commercial-in-confidence reasons’.

Such forms of collaboration have traditionally been a distinctive feature of integrated TAFE systems in Australia, and have in many respects underpinned quality improvement, especially

in relation to curriculum development and delivery (Anderson 1994). The ESFC argued that ‘The need for confidentiality must be balanced against the need to encourage best practice more widely across the system.’ (1991, p.17)

Table 49: Impact of increased contestability on provider collaboration (%)

	Strongly agree	Agree	Undecided	Disagree	Strongly disagree	N/A
<i>My RTO is less inclined to share information and resources with other RTOs for commercial-in-confidence reasons</i>						
TAFE	32	56	4	7	2	0
Total	29	39	6	17	4	5

The apparent decline in provider collaboration following the introduction of contestable markets in VET reflects ‘systemic fragmentation’ in TAFE, which Smith (1998) identified as an adverse trend under User Choice in Queensland. Such trends potentially weaken the institutional capacity and motivation of VET providers as a whole to enhance the quality of their programs and services. The retreat of VET providers into competitive ‘silos’ reduces the cross-fertilisation of knowledge and skills among providers, effectively locking up and devaluing the pool of intellectual capital that has been developed through long-term public investment in curriculum, teaching resources and professional development.

Another significant trend identified by the survey, also discussed later in more detail, is that a majority of both TAFEs and RTOs as a whole reported that their program profile is becoming less coherent and consistent from one year to the next, due to short-term government contracts. In such an uncertain funding context, providers are unlikely to invest heavily in curriculum maintenance and resource development, thereby compounding the tendency for quality to decline over time. In this regard, the survey found that in the preceding four years, 32% of TAFEs had decreased expenditure on curriculum development and maintenance, and 36% had not changed their levels of expenditure on this item at all.

One further explanation for negative quality outcomes from market reform in VET, with the possible and only partial exception of User Choice, relates back to the impact of increased transaction costs. On this point, the survey findings are more explicit. As noted earlier, just over half of all TAFEs and RTOs indicated that they are diverting resources from training delivery to administration (e.g. planning and financial management) as a consequence of contestable funding processes. Moreover, almost half of all TAFEs and over one third of all RTOs are also diverting resources from training delivery to marketing information and communication.

Such effects are consistent with other findings that 66% of TAFEs, and 45% of RTOs, have increased their expenditure on marketing information and communications since 1998, and 49% of both TAFEs and RTOs have increased their expenditure on administration (e.g. planning and financial management). In contrast, a majority of TAFEs had reduced their expenditure on: direct delivery (i.e. teaching/training) (35%); infrastructure maintenance (facilities/equipment) (43%); and curriculum development and maintenance (32%). TAFE Directors Australia (1999, p.18) indicate that reduced expenditure on such items erodes the quality of provision, and is a direct consequence of price competition in VET markets:

The implementation of User Choice and competitive tendering ... has forced TAFE institutes to reduce prices in order to compete. In order to do so, TAFE institutes have found it necessary to reduce their services and rationalise their facilities.

The Smith (1998), Bannikoff (1998) and Schofield (1999a) reviews in Queensland found that the practice of shifting resources from training delivery to support provider marketing and administration of market processes has eroded the quality of delivery. The results of this survey confirm these findings and show that the adverse impact of contestable funding processes on quality is a national phenomenon.

In an in-depth study of quality in VET, Gibb (2003) notes that ‘throughout 1997-99, there had been intense activity within the (TAFE) institutes on quality management and its role in improving strategic planning, customer focus, data gathering, organisational performance and so on.’ (p.41) The pursuit of quality within a ‘business management framework’ appears to reflect the increasingly market-oriented environment in which TAFEs were operating. Teachers identified a number of factors that were adversely affecting learning quality and continuous improvement in TAFE, including:

- budget cuts and cost-cutting by management, with less resources for program delivery; inadequate, poorly maintained and out-of-date equipment; and fewer face-to-face teaching hours;
- a diversification and intensification of teachers’ work, due to a lack of educational and administrative support, including professional development;
- change fatigue and job insecurity, due to constant organisational restructuring and government reform initiatives (including User Choice);
- the ‘increasing array of clients for teachers to service – students, employers, government, the “industry”, and VET statistics collections’, coupled with ‘pressure to meet each commercial contract’;
- the implementation of Training Packages, which were said to ‘ignore and undervalue the interaction between teachers and students’; and
- the increasing use of sessional staff who lack skills, commitment and experience in teaching.

Most of these factors relate directly or indirectly to market reform. Reflecting the overall balance of the present survey findings, Gibb concludes that: ‘The driving force in the system appears to be economics rather than a concern for quality; a “get costs lower, cheaper is better” mentality.’ (p.46)

As previously indicated, the present survey was conducted during the early stages of AQTF implementation in late 2001. The more rigorous quality assurance mechanisms under the AQTF may have since enhanced the quality of VET provision, if only by eliminating substandard RTOs. However, recent evidence of high and persistent levels of non-compliance with the AQTF among private RTOs in the Victorian User Choice market raises serious concerns. Based on an analysis of data compiled by the Office of Training and Tertiary Education (OTTE), the report found that:

Large numbers of RTOs are not meeting their registration obligations under the AQTF and this seems to be a continuing issue ... Since 1/7/2001 there have been 150 AQTF audits of private RTOs. Twenty-five of those audited were found to be “high risk” leading to 20 RTOs being suspended and one cancelled and a further 110 were found to be non-compliant but “low risk”. Only 10% of those RTOs audited were assessed as fully compliant ... While it needs to be recognised that audits are targeted at RTOs that are assessed by OTTE as being of higher risk of non-compliance, these results suggest that non-compliance may be endemic in the system. (SCR 2003, p.23)

Table 50 shows non-complying audits as a ratio and percentage of total audits for 'selected critical requirements' for the years 2001 and 2002.

Table 50: Non-complying audits by total audits for selected items, Victoria 2001-02

Selected critical requirements	2001		2002	
	Ratio	%	Ratio	%
Validity of enrolments	34:122	29	18:79	23
Monthly contact for workplace based training	29:113	26	19:72	26
4 face-to-face visits per training year	31:111	28	16:71	23
Preparation of training plan	25:126	20	29:79	37
Monthly monitoring of training plan	44:124	35	22:79	28
Employer's certificate of competency	na	na	17:69	25
3 hrs/wk withdrawal from duties for AQF3+	na	na	28:62	45

Source: Smart Consulting & Research (2003, p.23)

The report also suggests that such problems are not necessarily confined to the Victorian VET system. Information provided by the Western Australian Department of Training indicates that they have experienced compliance problems ('they had to stop the delivery of security training by private RTOs'), but non-compliance is now estimated to be only 1-2%. The Queensland Department of Employment and Training is also concerned about contractual compliance, but has 'greater concerns about the quality of training actually delivered (examples of very low contact by RTO with trainee)' (p.35).

The SCR report concludes that: '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.' (p.24) In consequence, the incidence of substandard quality in the User Choice market may in fact be more widespread than the non-compliance data suggest. It also notes however that the current national *Student Outcomes Survey* includes only TAFE graduates, and cannot therefore be used to evaluate quality across the whole publicly funded VET sector: 'Private RTOs are required as part of their contractual arrangements to undertake student surveys but unlike TAFE institutes these surveys are not readily available and cannot be aggregated to form an overall view ... The limited data on client satisfaction is a real impediment to assessing the quality of the training actually delivered.' (p.24)

Skill outcomes for students and apprentices/trainees

An important quality indicator relates to the skill outcomes for individual students and apprentices/trainees in the context of VET markets. Contrasting assessments were delivered on this question by TAFEs and RTOs as a whole. In total, 60% and 57% of TAFEs said that competitive tendering and User Choice respectively have not improved skill outcomes for learners. As reflected in Table 47, a substantial net majority of TAFEs, 45% and 38% respectively, indicated that neither competitive tendering nor User Choice have improved skill outcomes for either client group. Conversely, a smaller net majority of RTOs, 9% and 28% respectively, said that competitive tendering and User Choice have produced positive skill outcomes for students and apprentices/trainees.

One related survey finding is noteworthy. Two thirds (66%) of TAFEs and 37% of RTOs said that, as a consequence of increased contestability, their 'training provision is driven more than before by financial/commercial imperatives than by educational/skills formation objectives'. This suggests that market reform has shifted the priorities of a substantial proportion of VET providers, particularly TAFEs, away from improving educational and skills formation

outcomes towards managing their business affairs. Although the degree and effects of this shift in focus are difficult to measure, and were not explicitly investigated in this survey, a diminished emphasis on educational/skills formation objectives may well explain the lack of improved skill outcomes for students and apprentices/trainees in VET markets.

Overall, the survey findings and other evidence indicate that the quality of program design and delivery has not improved, and probably declined, in TAFE as a direct consequence of market reform in VET. A majority of non-TAFE RTOs attest to improvements in the quality of training programs and services under User Choice, although their assessment of the quality effects of competitive tendering is more equivocal. Opinions are equally divided along sectoral lines over the question of whether market mechanisms have improved skill outcomes for individual learners. The main conclusion to be drawn from the above evidence, therefore, is that market mechanisms have generally produced negative quality outcomes from a TAFE perspective, but may have improved quality for a small proportion of non-TAFE RTOs.

Flexibility

Increased flexibility in training delivery arrangements is another intended outcome of market reform in VET. In part, it is also a precondition for enhanced responsiveness. As already discussed, provider responsiveness has increased in both competitive tendering and User Choice markets. Survey results also confirm that flexibility has increased as a result of market reform. In total, 60% of TAFEs and 52% of RTOs agreed that competitive tendering has ‘increased the flexibility of training delivery by my RTO’, whereas only 25% of TAFEs and 37% of all RTOs disagreed with this statement. An even larger majority of both TAFEs (79%) and all RTOs (60%) said that User Choice has increased the flexibility of their training delivery, with only 10% of TAFEs and 27% of all RTOs delivering the opposite assessment.

Table 51 shows the net percentage differences between providers’ positive and negative responses relating to flexibility outcomes. A net majority of TAFEs (35%) and RTOs (15%) indicated that competitive tendering arrangements had increased the flexibility of training delivery. User Choice has also led to increased flexibility, according to a larger net majority of both TAFEs (69%) and RTOs (33%).

Table 51: Flexibility outcomes of contestable funding processes (% net majority)

	Competitive tendering		User Choice	
	TAFE	RTOs	TAFE	RTOs
Increased the flexibility of training delivery	35	15	69	33

In the open assessments of outcomes (see Table 37), increased flexibility was identified by 7% of TAFEs and 5% of RTOs as one of the main positive outcomes of competitive tendering. Increased flexibility was also nominated by 14% of both TAFEs and RTOs among the two main positive outcomes of User Choice. Neither market mechanism has reduced the flexibility of training delivery.

At the same time however, TAFE assessments of restrictions on their competitiveness suggest that market reform has not overcome certain structural and organisational inflexibilities. Specifically, 51% of TAFEs identified ‘industrial awards and conditions for teachers/trainers’, 26% identified ‘insufficient autonomy from government planning and control’, and 23% identified ‘inflexibility in (their) staff profile/skills mix’, as restrictive factors. Conversely, 17% of RTOs in general identified ‘government training regulations (e.g. ARF/AQTF)’ as a factor restricting their competitiveness and, by implication, their organisational flexibility. Despite the latter constraints, the survey data suggest that market reform in VET has had a generally positive impact on the flexibility of training delivery.

Innovation

Increased innovation is another positive outcome of market reform in VET. A majority of both TAFEs (54%) and all RTOs (55%) agreed that competitive tendering has ‘stimulated greater innovation in product development and delivery by my RTO’, while 32% of TAFEs and 33% of RTOs in general disagreed with this statement. Similarly, a majority of both TAFEs (57%) and all RTOs (56%) agreed that User Choice has stimulated greater innovation in product development and delivery, while 30% of TAFEs and 29% of RTOs in general disagreed with this statement.

Table 52: Innovation outcomes of contestable funding processes (% net majority)

	Competitive tendering		User Choice	
	<i>TAFE</i>	<i>RTOs</i>	<i>TAFE</i>	<i>RTOs</i>
Stimulated greater innovation in product development and delivery	22	22	27	27

Table 52 shows the net percentage differences between providers’ positive and negative responses relating to innovation outcomes. A net majority of TAFEs (22%) and RTOs (22%) indicated that competitive tendering arrangements have stimulated greater innovation in product development and delivery. Similarly, User Choice has also increased innovation in product development and delivery, according to a net majority of 27% of both TAFEs and RTOs.

In the open assessments of outcomes (see Table 37), increased innovation was identified by 2% of TAFEs and 8% of RTOs among the two main positive results of competitive tendering. Increased innovation was also nominated by 6% of TAFEs and 3% of RTOs among the two main positive outcomes of User Choice. Neither market mechanism has led to any reduction in innovativeness.

Two other survey results shed some light on the types of innovation that market reform has stimulated. Just over three quarters (76%) of TAFEs, and 60% of RTOs as a whole, indicated that they have developed new training products and services for niche markets to a ‘major’ or ‘moderate’ extent in response to increased contestability. Similarly, 84% of TAFEs and 50% of RTOs have also implemented new training delivery systems (e.g. online, in workplaces) to a ‘major’ or ‘moderate’ extent.

Access and equity

The access and equity outcomes of market reforms in VET, like most other performance indicators, are difficult to measure with any precision. Improvements in access for different client groups are somewhat easier to assess than determining the extent to which market reforms have increased, or at least maintained, equity. As indicated earlier, the equity outcomes of market reform in VET were evaluated by measuring the extent to which the correspondence between VET provision and the needs of equity groups has improved.

Market reform in VET has not improved access for the following designated client groups: women; unemployed people; and disadvantaged groups (e.g. migrants, disabled). Table 53 shows the net differences between the proportions of both TAFE and all RTO respondents who delivered a positive and negative assessment of the outcomes of competitive tendering and User Choice against the specified access indicators. The data show that neither competitive tendering nor User Choice has improved access for: women; unemployed people;

and disadvantaged groups (e.g. migrants, disabled), according to a decisive majority of TAFEs and a smaller majority of RTOs in general.

Table 53: Access and equity outcomes of contestable processes (% net majority)

	Competitive tendering		User Choice	
	TAFE	RTOs	TAFE	RTOs
Access for women	- 48	- 8	- 46	- 3
Access for unemployed people (a)	- 32	- 3	n/a	n/a
Access for disadvantaged groups (e.g. migrants, disabled)	- 31	- 14	- 47	- 7

Note: The survey did not include a question about whether User Choice had improved access for the unemployed as apprentices and trainees are employed prior to the exercise of choice under the New Apprenticeship scheme. Under the New Apprenticeships Access Programme (NAAP), brokers (rather than employers and clients) select a NAAP provider from an approved list.

In open assessments (see Table 37), 11% of TAFEs nominated reduced community access and equity provision among the two main negative outcomes of competitive tendering. Although 5% of RTOs nominated improved community access and equity provision among the two main positive outcomes of competitive tendering, 4% nominated reduced community access and equity provision among the two main negative outcomes. A larger proportion of both TAFEs (11%) and RTOs (3%) nominated improved community access and equity provision among the two main positive outcomes of User Choice, while 5% of RTOs nominated reduced community access and equity provision among the two main negative outcomes. Overall the above data suggest that access for the designated equity groups has not improved under contestable funding arrangements from either a TAFE or non-TAFE perspective.

Additional survey data shed light on the equity outcomes of contestable funding processes. Table 54 shows the net percentage differences between providers' positive and negative assessments of the impact of contestable funding processes on their capacity of providers to satisfy the needs of designated client groups. The data suggest that, despite their increased responsiveness and flexibility, providers are generally no more able to satisfy the needs of women, unemployed people, disadvantaged groups or their local/surrounding communities than they were prior to market reform.

Table 54: Capacity to satisfy client needs enhanced by market reforms (% net majority)

	TAFEs	Total RTOs
Government-funded clients	- 15	26
Full fee-paying clients	8	- 3
Small enterprises	- 12	12
Medium/large enterprises	44	19
Women	- 28	- 3
Unemployed people	- 23	- 4
Disadvantaged groups (e.g. migrants, disabled)	- 20	- 10
Local/surrounding communities	- 30	- 2

In stark contrast, as previously noted, market reform has enhanced the capacity of a substantial majority of both TAFEs and RTOs as a whole to satisfy the needs of medium/large enterprises and full fee-paying clients. The finding that a majority of TAFEs are no better able to satisfy the needs of government-funded students also has potentially significant equity

implications, given that members of equity groups generally rely on such places to gain access to VET.

The reordering of organisational priorities in response to market reform accentuates concerns about the potentially adverse impact on access and equity. One result of the increased contestability of government VET funds is that 50% of TAFEs (and 45% of RTOs) are ‘placing higher priority than before on attracting full fee-paying clients than on competing for government-funded training places’ (see Table 55). Moreover, 79% of TAFEs and 47% of RTOs have increased their involvement in commercial industry/enterprise training markets to a ‘major’ or ‘moderate’ extent in response to increased contestability, and 68% of TAFEs and 43% of RTOs have expanded their range of fee-for-service courses to a ‘major’ or ‘moderate’ extent. None of these trends are likely to enhance access and equity.

Table 55: Impact of increased contestability on business focus (%)

	Strongly agree	Agree	Undecided	Disagree	Strongly disagree	N/A
<i>My RTO is placing higher priority than before on attracting full fee-paying clients than on competing for government-funded training places</i>						
TAFE	11	40	4	38	0	7
Total	19	26	8	26	6	14

The above findings suggest that market reform has instigated a shift in the focus and priorities of VET providers (TAFEs in particular) away from the general public interest towards sectional private interests. If this is so, then market reform is likely to have significant negative implications for access and equity over the longer term. As Golding and Volkoff (1998) conclude from an extensive qualitative study of barriers to participation in the VET sector, market-based provision of VET favours the relatively advantaged and attenuates equitable access and participation for disadvantaged groups and of those who fall outside the designated categories:

While some user groups are in a position to make market choices, many others have no real choices, particularly because of their inability to pay. Those in the most disadvantaged groups have the fewest choices. (p.18)

To the extent that TAFE and other public VET providers concentrate on providing commercial fee-for-service programs rather than government-funded places, equitable access for women, the unemployed and disadvantaged groups is likely to diminish.

One partially redeeming feature of the survey findings from an access and equity perspective is that relatively few providers have increased fees and charges for government-funded students. Only 16% of TAFEs and 15% of RTOs reported having done so to a ‘major’ or ‘moderate’ extent in the preceding four years. In view of the major barriers to access created by upfront fees (Barnett 1994, Powles 1990), the finding that relatively few providers have taken this step is encouraging. However, substantial fee increases in NSW and Victoria in 2003 may have socially regressive consequences. Although the recent fee increases are accompanied by concessions and exemptions for some designated ‘equity groups’, Powles (1990) criticises the practice of targeting equity measures on ‘the oft-repeated litany of disadvantaged groups’. The main problem with such an approach is that individuals in need of special assistance are not necessarily covered by such checklists and ‘fall through the cracks’ as a result:

It is important ... that the notion of equity is not reduced to a checklist for determining whether needs are real or not ... What is essential, if the notion of equity

is to have any standing ... and if TAFE is to maintain its credibility within 'all groups of the community' in terms of access to training, is consideration of *which* needs would be unfairly undermined by fees policies ... More needs to be known about TAFE students – about their attitudes to training, their aspirations, their employment patterns, their disposable income levels, and far more about socio-economic variations between (AQF levels/fields of study) over time and differences by state. Hasty implementation is likely to have unforeseen effects that will be detected at too late a stage to arrest. (p.121)

Until knowledge of such factors has improved, it will be essential to closely monitor the impact of the new fee policies on the rates and patterns of access and participation in VET markets by designated equity groups.

Another partially redeeming finding is that equity, at least against one measure used in the present survey, may have improved to some degree in some rural/regional markets. Over one third (35%) of rural/regional RTOs, compared to only 28% of metropolitan RTOs, said their capacity to satisfy the needs of their local/surrounding communities has improved under contestable funding arrangements. This finding is somewhat surprising given that thin markets were identified as a serious issue by many rural/regional RTOs (mainly TAFEs). Such improvements however appear to be very uneven in their distribution, as 36% of rural/regional RTOs, and 28% of metropolitan RTOs, said that their capacity to satisfy the needs of local/surrounding communities has not improved. Moreover, 44% of rural/regional RTOs said that their capacity to satisfy the needs of unemployed people and disadvantaged groups has not improved under contestable funding arrangements.

Overall therefore, the introduction of contestable funding processes appears to have had a less positive impact on equity outcomes in rural/regional than metropolitan markets. Such a finding is consistent with the claim by TAFE Directors Australia (1999, p.18) that TAFEs in regional areas are 'experiencing serious equity issues' as a result of general funding cuts linked to the twin policies of 'growth through efficiencies' and User Choice.

Cream-skimming

As noted earlier, one potential cause of adverse access and equity outcomes in quasi-markets is the practice of 'cream-skimming' (for a definition, refer to Evaluation Framework). On this question, 14% of TAFEs and 25% of RTOs said they are 'more inclined to select students who can afford to pay fees and/or are more likely to complete their training with minimum support' (see Table 56). Although this finding does not constitute unequivocal evidence of cream-skimming, it does suggest that competitive pressures may be forcing a significant proportion of RTOs to engage in this practice to a greater extent than was the case prior to market reform. The survey finding that 34% of TAFEs have decreased expenditure on student services since 1998 suggests that the level of support available to disadvantaged students is also likely to have declined. Nonetheless, the extent and impact of cream-skimming and reductions in student services expenditure on access and equity require further investigation.

The increased propensity of VET providers to engage in cream-skimming is not in itself evidence of adverse access and equity outcomes. However it does reflect a significant reordering of organisational priorities that is likely to influence the targeting of client groups and patterns of student selection and access to VET to some degree. It also reflects the powerful, if largely hidden, effects of market reform on the cultural values and norms of VET providers. Although a survey of the kind conducted for this study is a clumsy instrument for investigating relatively intangible phenomena such as cultural change, it does provide some insight into the profound reorientation of organisational norms and values that has occurred as a consequence of market reform. Due to the climate of increased contestability in VET, 58%

of TAFEs and 37% of all RTOs agreed that their ‘training provision is driven more than before by efficiency objectives than by equity goals’. Whether this shift in provider focus and priorities translates into more inequitable patterns of access and participation remains to be seen. But the reported realignment of organisational goals and objectives is of such a large order as to signal the need for vigilance about its potential implications for access and equity.

Table 56: Impact of increased contestability on student selection (%)

	Strongly agree	Agree	Undecided	Disagree	Strongly disagree	N/A
<i>My RTO is more inclined to select students who can afford to pay fees and/or are more likely to complete their training with minimum support</i>						
TAFE	5	9	9	51	16	11
Total	10	15	8	37	16	14

It is still too early to determine the extent to which market reform may be exacerbating existing, or producing new, inequities in social access and outcomes in VET. Neither the survey nor other available sources provide ‘hard’ data on trends in access, participation and outcomes in the wake of training market reform, the direction and implications of which are only likely to become more evident over time. Nevertheless the above survey data reveal certain negative tendencies triggered by market reform that, unless checked, bode ill for access and equity in VET.

At the very least, the above survey findings add weight to the contention of Golding and Volkoff (1998, p.111) that ‘it is unlikely that competition will improve access, participation and outcomes for current (equity) target groups’. The reorientation of VET providers towards the needs of, and business opportunities offered by, medium/large enterprises and full fee-paying clients suggests that access to VET could become increasingly privatised over time, thereby further marginalising equity target groups. If the apparent tendency of some TAFE and non-TAFE providers to engage in cream-skimming is confirmed by subsequent research, and certainly if the practice becomes more widespread, it is likely to hasten the emergence of a two-tiered VET system that is not only segmented along public/private lines, but also within the public TAFE sector itself. Such warning signals highlight the need to monitor the access and equity impacts and outcomes of market reform closely over time and more systematically than is presently the case.

Global impact

The foregoing discussion examines the outcomes of market reform against individual criteria. In order to gain some insight into the global impact of market reform, survey participants were asked to indicate whether the increased contestability of government VET funds has had a positive or negative impact on their RTOs. Provider assessments are almost evenly balanced. As reflected in Table 57, 30% of all RTOs said the impact of increased contestability has been ‘very positive’ or ‘positive’, 42% said it has been ‘neutral’, and 28% said it has been ‘negative’ or ‘very negative’. It should be noted that all survey respondents were asked to answer this question regardless of whether they had participated in competitive tendering or User Choice processes. The reason for this is that other sources of information suggest that the construction of quasi-markets in the government-funded VET sector have in some cases had flow-on effects in privately-funded VET markets (e.g. ACPET 1999; Anderson 2000b).

The large proportion of RTOs that recorded a ‘neutral’ impact may reflect the equally large proportion of respondents who had not participated in government-funded VET markets. In total, 45% and 52% of all RTOs had not competed for funds/clients in the competitive

tendering and User Choice markets respectively. At the same time however, a number of non-TAFE respondents indicated in their text responses that the creation of contestable funding markets by government, particularly under User Choice, had encroached on niche markets that were previously fully commercial, with adverse consequences for their business.

Non-TAFE providers who delivered the most positive assessments of contestable funding processes were: Industry Skills Centres (43%); GTCs (37%); commercial training providers (37%); and enterprise trainers (30%). Contestable funding processes have had a ‘neutral’ impact on at least half all secondary schools (76%), professional or industry associations (58%), business colleges (57%), and ‘other’ RTOs (50%). On balance, a net majority of 15% ACE centres assessed the impact to have been negative, as did slim majorities of secondary schools and ‘other’ RTOs. A significant proportion (20%) of business colleges said the impact of contestable funding processes has been ‘very negative’.

Table 57: Provider type by global impact of contestability (%)

	Very positive	Positive	Neutral	Negative	Very negative
Secondary school	0	11	76	13	0
TAFE	0	32	23	40	5
ACE centre	5	19	37	31	8
Business College	7	16	57	0	20
Commercial training provider	13	24	35	18	10
Enterprise trainer	10	20	54	17	0
GTC	13	26	39	22	0
Industry Skills Centre	19	24	38	14	5
Professional or industry association	4	18	58	13	7
Other	2	21	50	21	5
TOTAL	8	22	42	20	8

Note: Due to rounding, percentages in this table may not always total 100%.

By comparison, 32% of TAFEs said the impact of the increased contestability of government VET funds has been ‘positive’, 23% said it has been ‘neutral’, and 45% said it has been ‘negative’ or ‘very negative’. Nil TAFEs delivered a ‘very positive’ verdict. Thus, while the positive and negative assessments of RTOs as a whole are almost evenly balanced, TAFEs that recorded a negative impact outweighed those that recorded a positive impact by almost 3:2. Only 5% of TAFEs said that the impact of increased contestability has been ‘very negative’. Also noteworthy is the finding that contestable funding processes have had a ‘neutral’ impact on almost one quarter (23%) of TAFEs, all of whom participate in both competitive tendering and User Choice processes.

Table 58: Geographical location by global impact of contestability (%)

Location	Very positive	Positive	Neutral	Negative	Very negative	Total
Rural/regional	6	25	33	28	8	100
Metropolitan	9	21	46	16	8	100
Total	8	22	42	20	8	100

Note: Due to rounding, percentages in this table may not always total 100%.

From a geographical perspective, a 5% net majority of rural/regional RTOs said the impact of increased contestability of government VET funds has been negative. Over one in ten (12%)

more rural/regional than metropolitan RTOs said the impact has been ‘negative’. Conversely, a 6% net majority of metropolitan RTOs said the impact of increased contestability has been positive. Also, 13% more metropolitan than rural/regional RTOs said the impact of increased contestability has been ‘neutral’.

On balance therefore, the increased contestability of government VET funds has been positive for a significant majority of industry, enterprise and commercial RTOs, but negative for an equally significant majority of TAFEs and ACE centres. In terms of geographical location, the increased contestability of government VET funds has been positive for a majority of metropolitan RTOs, and negative for a majority of rural/regional RTOs.

Financial viability

Market reform was supposed to increase both provider efficiency and private investment in VET. Such outcomes were expected to lead to some improvement in the financial position of VET providers (including TAFEs), except for a minority of under-performers (Deveson 1990; ESFC 1991). The survey findings suggest that contestable funding arrangements have not improved the financial position of the majority of TAFEs or a significant proportion of non-TAFE providers, all of whom had competed for government contracts via competitive tendering and/or User Choice. According to 69% of TAFEs and 53% of RTOs, their financial viability has not improved under competitive tendering arrangements. Similarly, the financial viability of 70% of TAFEs and 48% of RTOs has not improved under User Choice. Yet other survey findings show that, in the period since 1998, 27% of TAFEs and 17% of RTOs experienced (mostly minor) increases in revenue from competitive tendering programs, and 73% of TAFEs and 39% of RTOs experienced (again mostly minor) increases in revenue from User Choice.

Although there were no significant differences in RTO responses by geographical location, ‘cherry-picking’ was a significant problem identified by TAFE institutes located in thin rural/regional markets. ‘Cherry-picking’ refers to the practice whereby externally-located RTOs enter a particular geographical or industry training market with the sole intention of competing for the most lucrative contracts, and with little or no prior investment in market research and development and generally no intention to pursue contracts in other low-return segments of the market in question. When cherry-pickers win the ripest contracts, local RTOs are left with slim pickings and reduced financial viability as a consequence.

Table 59: Financial viability outcomes of contestable funding processes (% net majority)

	Competitive tendering		User Choice	
	TAFE	RTOs	TAFE	RTOs
Improved financial viability	- 53	- 22	- 58	- 14

The reported increases in revenue from contestable funding markets are most likely due to the substantial increase in the quantum of government funding allocated via market mechanisms, especially User Choice, during the period in question. The reduced financial viability of TAFEs started with the sudden and substantial diversion of recurrent base revenue to the newly created quasi-markets, which coincided with significant growth in enrolments. The impact of this upfront loss has since been compounded by low, if not inadequate, unit prices for delivering government-funded training places and high transaction costs in contestable funding markets. In a 2000 report to the Victorian Minister for Post-compulsory Education and Training and Employment, the financial problems of TAFEs were attributed mainly to government efficiency drives from the mid-1990s that had led to declining unit prices:

It should be noted ... that for TAFE Institutes as a whole, apprentices and trainees comprise a relatively small proportion of all government-funded training places, and that TAFE Institutes have maintained their share of traditional apprentices. Whilst private providers have won a large share of traineeship delivery, this has not cut into the traditional markets of the TAFE Institutes.

It appears far more likely that pricing arrangements have been the major reason for financial difficulties experienced by some TAFE Institutes in recent years. The growth in the system has taken place in the context of reduced rather than additional funds, resulting in the average price per student contact hour paid to Victorian Institutes declining from \$9.26 in 1994 to \$8.59 in 2000. This decline reflects a number of factors:

- the ongoing impact of the 1.5% State productivity dividend, which has seen \$57 million removed from the VET delivery budget since 1993/94;
- the impact of the Commonwealth's Growth through Efficiencies policy; and
- the impact of the Commonwealth efficiency dividend of \$4.9 million in 1998. (STBV 2000, pp.8-9)

The Victorian TAFE institutes were arguably the most under-funded in Australia up to 2000, after which the State Labor government increased the unit price by 8% to \$10.75 in 2001 (see Table 41). However, it should be noted that the financial constraints under which TAFE institutes in other States and Territories were operating are comparable, if not greater in relative terms. For instance, the unit price paid to TAFE institutes in the Northern Territory fell to \$19.73 in 2001, which represents a decline of 35% since 1997 and is about 59% higher than the national average. Yet, as Burke (2003a, p.34) notes, 'The Grants Commission estimates that the Northern Territory requires twice the Australian average to provide a similar level of service per hour of training.'

It is difficult to ascertain why non-TAFE RTOs are less financially viable as a result of the introduction of contestable funding markets, as they have been significant beneficiaries of government funding. However, evidence from the survey and elsewhere (ACPET 1999; Anderson 2000b) suggests that a range of factors has impacted on their financial viability, including: the rapid increase in the number of non-TAFE RTOs competing for contestable government funds during this period; the possible loss of existing commercial markets due to employer substitution of publicly for privately funded training and the introduction of Training Packages that encroach on private fee-for-service markets; and the burden of increased transaction costs and complexity, especially for small RTOs.

By definition, there will always be winners and losers in contestable funding markets. The finding that the financial viability of a substantial proportion of TAFEs and all RTOs has not improved, despite reported increases in revenue from contestable funding sources, raises questions about the longer term viability and sustainability of quasi-markets in VET. Were the exit rate from quasi-markets to increase in coming years – due to poor returns on investment and/or excessive transaction costs, complexity and uncertainty – continuity of supply could also be adversely affected, especially in thin markets in regional/rural areas. Such a development would not only compromise the efficiency and effectiveness of quasi-markets, but would also have potentially negative implications for the industries and communities served by the exiting providers.

Accountability

Ensuring that providers are accountable for their use of public VET funds is a major public interest objective, but one that was only touched upon in this study. Although highly

subjective and general in nature, the survey findings suggest that accountability has improved under User Choice, but not under competitive tendering, according to a net majority of 10% and 6% respectively of TAFEs. Accountability has improved under both competitive tendering and User Choice, according to a larger net majority of 30% and 35% respectively of RTOs as a whole.

Table 60: Accountability outcomes of contestable funding processes (% net majority)

	Competitive tendering		User Choice	
	TAFE	RTOs	TAFE	RTOs
Increased accountability for use of public funds	- 6	30	10	35

Viewed from another perspective however, the findings suggest that there is room for improvement. According to 48% of TAFEs, and 27% of all RTOs, accountability for the use of public training funds has not improved under competitive tendering arrangements. Nor has it improved under User Choice according to 40% of TAFEs and 23% of all RTOs. The recent review of contestable funding allocations to private RTOs in Victoria (SCR 2003), which found high levels of contractual non-compliance, raises further questions about the efficacy of accountability mechanisms in VET.

The survey data show that public VET funds allocated to non-TAFE providers via contestable processes are substantial. Competitive tendering was the largest source of income for 24% of 'other' RTOs, and the second largest source for 30% of GTCs and 25% of Industry Skills Centres. Public VET funds allocated via User Choice were the largest source of income for 63% of GTCs, 42% of Industry Skills Centres, 32% of enterprise trainers, and 24% of commercial training providers.

In effect, while significant proportions of non-TAFE providers, including private for-profit organisations, are receiving large amounts of public VET funds via contestable processes, it is not altogether clear that they being held to account effectively for the expenditure of such funds. Although anecdotal in nature, several text responses in survey returns identified instances of dishonest, unethical and substandard training practices in the context of contestable funding markets. In a couple of instances, such practices were said to be widespread in particular industry sectors. As only TAFEs are subject to full public accounts audits, the above findings suggest the need for an independent review of whether accountability for public VET funds allocated to non-TAFE providers via contestable processes is as rigorous and effective as the public interest dictates (ANTA 1996a).

Values, priorities and public interest objectives

In contrast to the private for-profit sector, the public realm 'is one where values must be balanced one against the other' (Walsh 1995a, p.256). Reform of the public sector is neither neutral nor value-free as it involves weighing up the relative importance of conflicting values, and making 'choices over values to be maximised' (Taylor-Gooby and Lawson 1993, p.23). Such choices and decisions carry significant implications for public interest objectives, in that 'The reaching of decisions through balanced judgments is the determination of what is the public interest.' (Walsh 1995a, p.256) Despite their potential ramifications for public interest outcomes, the impact of public sector reforms (including the introduction of market mechanisms) on values is under-researched (Pollitt 1995). In light of these observations, the question of whether, and if so how, market reform in VET is changing the values, orientations and priorities of publicly funded VET providers is examined in broad terms below. Potential implications for the achievement of public interest objectives are also discussed.

As noted earlier, the insertion of market-like incentives into the provision of VET has altered the motivational context and orientation of VET providers. Specifically, the survey found that two thirds (66%) of TAFEs are driven more by financial/commercial imperatives than by educational/skills formation objectives than they were prior to market reform. Moreover, as noted earlier, an equally large proportion (58%) of TAFEs said they are 'driven more than before by efficiency objectives than by equity goals', as a direct consequence of the increased contestability of government VET funds. While this reorientation satisfies one of the technical pre-conditions for effective quasi-markets in VET, and is essential to the survival of TAFE institutes in a competitive market environment, it has other flow-on effects and implications for the role and public interest objectives of the publicly-funded VET system. As the Deveson Review (1990) stated:

An increased commitment by TAFE systems to commercial activity should not distort or divert TAFE's overall mission. A part of that mission is the development of its core activities to provide broad and accessible training to individuals seeking vocational skills. (p.58)

The reprioritisation of efficiency and financial/commercial objectives over equity and educational/skill formation outcomes in TAFE has also been accompanied by the earlier noted overshadowing of quality improvement by cost-reduction strategies. The new order of priorities influencing the internal policy and resource allocation decisions of TAFE institute management may help to explain why: on the one hand, expenditure by a significant proportion of TAFEs on direct delivery, curriculum development and maintenance, and student services declined over the four years prior to the survey; while on the other hand, their expenditure on marketing information and communication, and ancillary trading increased.

It appears therefore that the intended quality and equity-related outcomes of market reform are being compromised by the stronger focus on, and priority given to, efficiency and financial/commercial objectives by TAFEs. As TAFE Directors Australia (2000, p.1) indicates, operating in a quasi-market context often involves making trade-offs between one and another policy objective:

While user choice has provided additional options to employers and New Apprentices, the emphasis on the bottom line and efficiency has resulted in a loss of quality.

Moreover, the apparent trading of traditional public service values for new market-oriented values in TAFE lends some weight to speculation that, in the wake of market reform, 'the old values that underpinned public management may count for little, while those of efficiency, cost reductions and markets may serve the greater politics of self-interest that the new climate has fostered.' (Gray and Jenkins 1993, pp.21-22) The apparent decline of collaborative relations between providers – as reflected in their increased unwillingness to share information and resources with each other (due to commercial confidentiality considerations) – is one indicator that 'old' liberal democratic values are being replaced by 'new' economic instrumentalist values oriented towards survival in a competitive marketplace. Such trends, if confirmed by further research, suggest that the ascendancy in TAFEs of the goal of profit-maximisation in their fully commercial operations, and surplus-maximisation in the context of quasi-markets, may put important public policy objectives at risk.

To some extent, the likelihood of these outcomes eventuating hinges on the question of whether the financial incentives and regulatory frameworks established by government are sufficient to ensure that quality and access and equity objectives remain important, if not uppermost (Deveson 1990; ACG 1994a,b). As Bartlett et al (1994, p.279) note, 'The introduction of quasi-markets means funding mechanisms are the principal means by which governments can secure national policy objectives, including efficiency, performance and

equity goals.’ The above-mentioned evidence suggests that the associated incentives structures may not always be adequate to secure such outcomes. Survey results concerning community service obligations and accountability arrangements for contestable funding are another source of concern. The fact that almost four in ten (39%) TAFEs identified the costs of community service obligations as a restriction on their competitiveness suggests that unit prices and equity loadings do not cover the additional costs incurred, or income forgone due to fee concessions and exemptions by TAFEs, particularly in thin markets.

ANTA (1996a, p.22) argues that a continued commitment to the public interest objectives of VET, including quality and access and equity, does not imply a need to quarantine and direct funding to TAFE institutes for such purposes:

As in most areas of service delivery ... government seeks to address a number of community service obligations through public funding of vocational education and training ... Intuitively, there is no reason why all providers, both public and private, cannot deliver training associated with specific policy obligations. In order to do so, however, clear objectives, specified outputs and transparent costing are required so that the appropriate funds can be allocated and that the provider can be held fully accountable for the result. (p.20)

In this regard, it is noteworthy that over one third (37%) of all RTOs said they are driven more by both efficiency and financial/commercial objectives than by equity and educational/skill formation outcomes as a direct consequence of contestable funding arrangements. Almost six in ten (57%) of all RTOs said their ‘provision is driven more than before by market demand than by government policy and planning priorities’. Only 23% disagreed with this statement. One quarter (25%) also said that they are placing higher priority on attracting full fee-paying clients than competing for government-funded training places. Such findings suggest that non-TAFE RTOs are not necessarily motivated by the public interest objectives that are supposed to be pursued through public funding allocations.

Nor does it appear that RTOs are held accountable for public interest outcomes in all cases. As indicated in the ANTA statement above, the purchase of places for priority industry and equity groups is the means by which government aims to fulfil its community service obligations. If accountability arrangements for the use of public VET funds are as ineffective as a significant proportion of survey responses suggest may be the case, it raises the question of whether non-TAFE providers in receipt of public funds are meeting their quality assurance and access and equity obligations.

It is possible that the relevant findings primarily relate to flaws in financial accountability under contractual arrangements with STAs. If so, however, accountability for other non-financial outcomes could be equally inadequate. In this regard, ACPET (1999, p.37) criticised accountability arrangements in VET: ‘There are no audits of educational outcomes, only of bureaucratic inputs.’ This problem, and the failure of governments to monitor quality effectively, was highlighted by Schofield (1999a,b, 2000) in three different State jurisdictions. The high and persistent incidence of contractual non-compliance among private RTOs in Victoria under the more robust AQTF casts serious doubt over the capacity of government to protect the public interest through regulation of a market-based VET system (SCR 2003).

The above findings also point to the imperfect nature of contracts as a means by which to ensure that public policy objectives are met in quasi-markets. Underlying market reform in VET is the assumption that government can ‘steer at a distance’ by replacing bureaucratic accountability mechanisms with quasi-market contractual relationships with service providers that specify performance outcomes, for which they will ultimately be held to account. As Walsh (1995a) points out, the development of meaningful contractual specifications for complex services (like VET) is problematic as quality standards and outcomes are difficult to

state in objective terms. Consequently, ‘Trust is as necessary to the development and maintenance of contractual relationships in the market as it is to authority-based relationships’ (p.51). If however, after several years of trial and error, trust between purchasers and providers remains low, risk is high, and contractual specifications and government monitoring of provider compliance are as deficient as the survey findings and other studies suggest, then the appropriateness of contracts and quasi-markets in VET from a public interest perspective must be called into question.

Overall the survey findings add weight to the conclusion reached by the Bannikoff Review (1998) of TAFE in Queensland, that contestable funding markets have encouraged a ‘misguided focus on “business” and the pursuit of profit at the expense of the public interest component of TAFE activity. This shift in values and motives was also found to have undermined access and equity policy and obligations, government policy objectives and priorities, and employment outcomes for students. Moreover, as a consequence of treating TAFE as ‘just another provider’ in the marketplace, Bannikoff found that the scope for government to implement its social and economic policies had been significantly diminished. Other dimensions of the process of institutional redesign, and the accompanying values-shift, in the TAFE sector are examined in Anderson (1998e) and Angus and Seddon (2000).

Table 61: Impact of increased contestability on provider orientation (%)

	Strongly agree	Agree	Undecided	Disagree	Strongly disagree	N/A
<i>My RTO is redirecting resources from low-demand to high-demand areas of training provision</i>						
TAFE	9	70	7	12	2	0
Total	12	51	9	16	3	9

In these regards, the use of contracts and quasi-markets in VET constitute a double jeopardy for government. Not only could government’s reliance on imperfect contractual and ineffective regulatory frameworks undermine its capacity to steer from a distance effectively, but its use of contestable funding mechanisms may also simultaneously erode the traditional cultural allegiance of TAFE providers to public policy agenda and the associated ethos of community service. The finding that 44% of TAFEs are ‘driven more than before by market demand than by government policy and planning priorities’ suggests that institutes are loosening their ties with, and becoming less responsiveness to, government (see Table 36).

Table 62: Impact of increased contestability on focus and timeframe of provision (%)

	Strongly agree	Agree	Undecided	Disagree	Strongly disagree	N/A
<i>My RTO is redirecting resources from high-cost to low-cost areas of training provision</i>						
TAFE	4	25	12	54	5	0
Total	6	23	13	41	6	11
<i>My RTO’s training provision is driven more than before by short-term (rather than medium or long-term) demand for skills</i>						
TAFE	12	42	14	28	2	2
Total	10	29	10	34	7	9

Another important public interest objective guiding the public funding of VET is ‘to ensure stability in the provision of training given the cyclical nature of industry commitment to training.’ (ANTA 1996b, p.22) Reflecting increased provider responsiveness to market demand, 79% of TAFEs (and 63% of all RTOs) said they are redirecting resources from low-

demand to high-demand areas of training provision (see Table 62). While this was an intended outcome of market reform in VET, it poses potential problems for small, but economically important, industries and occupations that are thin on the demand side.

As Noble et al (1999) found, the risk of relying on User Choice arrangements in thin rural and regional markets is that local industries and occupations may suffer from discontinuous and/or under-supply of essential workforce skills, with adverse social and economic effects on surrounding communities. Such a trend could be exacerbated by the increased tendency of VET providers in a market-driven environment to favour low-cost training provision, due to the generally higher costs associated with training supply for industries and occupations in rural and regional areas. The survey found that 29% of both TAFEs and RTOs as a whole are redirecting resources from high-cost to low-cost areas of training provision.

Such trends could also potentially affect a wider range of industries in which demand for skilled workers is influenced by cyclical economic fluctuations. Over one half (54%) of TAFEs (and 39% of all RTOs) said that, as a result of market reform, their training provision is driven more by short-term (rather than medium or long-term) demand for skills. If demand for skilled workers in certain industry sectors remains low for some time, prompting market-driven VET providers to reduce supply, there is a risk that the training system will be ill-prepared to respond to any unexpected upturn in demand. In such circumstances, major skills gaps may result as considerable period of time is required to correct skills imbalances:

The rate at which the (skills) gaps are bridged depends on the training system in place. If employers rely on the public training system to finance and bridge the gap, then the adjustment process will be longer because of the bureaucratic necessities and the time it takes a third party to gear up with new curriculum and delivery strategies. (Shah and Burke 2003, p.39)

If providers have committed resources to high-demand and low-cost areas of provision, they may not have sufficient resources at their disposal to cater for a sudden increase in demand in other more expensive areas of provision. In such cases, government intervention may be required, although ‘the time lag from when an imbalance is observed to the impact of a policy makes effective intervention difficult in practice.’ (Shah and Burke 2003, p.39)

Whether, as a consequence of market reform, VET providers are sufficiently flexible and able to respond rapidly to unanticipated surges in industry demand for skills is unclear. A recent inquiry into future skill needs in South Australia found no significant evidence to suggest that skill shortages are due to deficiencies in the training system (Schofield 2003). However, the period of time since the onset of market reform in VET may not be sufficient to allow an accurate appraisal of their impact on skills supply. Further research is required to determine whether the priority on servicing high-demand and low-cost areas of provision – in tandem with increased responsiveness to short-term skills demand – has reduced the capacity of providers to address cyclical skills gaps and shortages, particularly in high-cost areas of provision.

A general commitment by TAFE institutes to public interest objectives was taken for granted prior to market reform, if only because government could direct TAFE provision to these ends through bureaucratic methods of control. The apparent change in the institutional identity, values and orientations of TAFE institutes is amplified by the finding that over half (51%) are placing higher priority on attracting the custom of full fee-paying clients than on competing for government-funded training places. This reordering of priorities in TAFE institutes suggests that they may have become correspondingly less committed to achieving public policy objectives as an integral part of their organisational mission and culture, regardless of the availability of designated government funds. The potentially lucrative returns on participation in commercial markets may well overshadow the modest or low returns

available in government-funded quasi-markets. While over one third (36%) of TAFEs said that they are not driven more by market demand than by government policy and planning priorities as a result of market reform, 44% agreed that they are more market-driven than prior to market reform. It would appear, therefore, that the balance between government and market drivers of TAFE provision is shifting in the latter direction.

Under such conditions, the provision of high quality and socially equitable programs and services in TAFE can no longer be guaranteed to the extent that was possible prior to market reform. As Walsh (1995a, pp.253-254) argues:

The specific nature of the public realm requires a balance between the anonymous mechanisms of the market, and political decision between contrasting values and between coordinated and uncoordinated action. The issue is how we accommodate the use of market mechanisms within the management of the public service, without undermining what is specific to it.

The survey evidence suggests that the desired balance between market and government, and between potentially conflicting values such as efficiency and equity, may not have been achieved in the context of quasi-markets for VET. If so, the public interest is unlikely to be served well.

Part VI Policy proposals

Overview

This section outlines some proposals for improving the policy, financial and regulatory framework for VET markets. The proposals are presented in two sections. The first section addresses issues and problems identified by this study that require remedial attention. The accompanying proposals for change are based primarily on the literature dealing with quasi-market theory and research. The second section collates and presents the proposals made by senior RTO managers to the following open-ended survey question:

What changes to government policy, if any, would improve the outcomes of Competitive Tendering and/or User Choice in particular, and/or training markets in general? (*You may also nominate recent policy changes in your State/Territory that have led to marked improvements*)

Suggestions for further research and evaluation are made in Part VII.

Proposals from quasi-market theory and research

As indicated in the review of literature, the theory of quasi-markets dates only from the early 1990s and is continuing to evolve in the light of government reviews and academic evaluations of market performance and efficacy. As such, there are few proven formulae for correcting problems that arise in the development and operation of quasi-markets. The proposals outlined in the following section are informed by prior research, and aim to address some of the identified flaws and shortcomings in Australian VET markets. As Bartlett et al (1998, p.288) argue, 'Quasi-markets need management that is responsive – adjusting to correct anomalies', including those relating to the management of contracts and market structures so as 'to ensure effectiveness and equity of services that are also comprehensive and offer choice.' The strategies proposed below are a step in this direction, but need to be interpreted and applied thoughtfully, and with reference to the specific conditions that exist in the various State/Territory, regional and industry training markets. As they will interact with other elements of VET markets, possibly with unanticipated effects, their implementation should be carefully monitored.

After addressing the issue of policy directions, the next sections identify measures to achieve a closer correspondence between VET markets and the conditions for effective quasi-markets, specifically in relation to: market structure; information; and motivation. The subsequent sections discuss proposals for improving the operation and outcomes of VET markets.

Training market policy

At a general strategic level, there is a need for complementary national and State/Territory government statements on the future directions of training market policy. Not only are the rationale and policy objectives of market reform somewhat unclear, but there is also considerable confusion among RTOs about the medium to long-term strategic priorities and intentions of government with respect to contestable markets. Recent revisions to training market policy in various State jurisdictions have also injected a high degree of uncertainty into the operational environment of RTOs. While such revisions may well be necessary and desirable, RTOs are unclear about their longer term implications for doing business in the VET sector. This uncertainty also appears to be having a negative impact on the ability of RTOs to develop their own strategic and business plans, and on their willingness to invest in capital infrastructure, and curriculum/program and human resources development. A clearer

statement of future policy directions, together with a commitment to medium-term stability in market arrangements, would help to alleviate the concerns of providers and reduce the likelihood of sub-optimal investment decisions.

Within this broader policy framework, a more comprehensive vision for the future role and responsibilities of both TAFE institutes and publicly funded RTOs is essential. Issues relating to the mix and balance of: market and non-market funding, competition and collaboration, and market and public interest values and objectives, require clarification. The relationships between TAFE institutes and stakeholders – including individual students (local and overseas, government-subsidised and fee-paying), industry/enterprises, and the wider community – need to be reviewed and refocused, as do TAFE's priorities with respect to competing client needs and interests. In particular, clearer commitments are needed on the extent to which government is prepared to maintain public investment in the TAFE network, its infrastructure, and ongoing development, especially in rural/regional areas.

Market structure

Bartlett et al (1998) note that 'If markets are used it is important that they are least competitive.' (p.276) While further investigation at a micro level is required, the findings of this study suggest that thin markets in remote and rural/regional areas, and in certain industry sectors, are farthest from meeting this precondition. As discussed earlier, the main barriers impeding existing non-TAFE RTOs from entering new markets relate to the costs of capital (facilities and equipment) and the unreliable labour supply in rural/regional areas. SCR (2003) also suggests that there may be insufficient numbers of providers competing in some User Choice markets in Victoria, particularly non-TAFE RTOs in traditional apprenticeship markets. This problem, if it exists more widely, is likely to reflect the high start-up costs in such markets. The extent to which the full implementation of the AQTF has erected new barriers, thereby inhibiting new entrants and reducing market contestability, also requires investigation. Such barriers may be necessary from a quality assurance perspective, but should not be unnecessarily bureaucratic in nature.

Possible policy responses to lower the abovementioned barriers and stimulate further competition include: the payment of government subsidies or loans to cover providers' start-up costs in new markets; establishment of 'incubator' schemes to allow for the managed birth of new providers; and the introduction of an incentives scheme to attract and retain teachers/trainers in remote and rural/regional areas. The attendant risks of such initiatives would need to be assessed and managed carefully. In the interests of improving continuity of supply and minimising the practice of 'cherry-picking' by outsiders, consideration should also be given to contracting only with preferred suppliers in thin markets – RTOs with proven track records and who are either locally based or can demonstrate a commitment to delivering training in the same (or adjacent) region or industry. Longer term contracts, as proposed below, may also provide incentives for new providers to compete in thin markets.

On the demand side, competitive tendering markets lack sufficient numbers of purchasers. STAs currently exercise monopsonistic power in their various jurisdictions, and quasi-market theory suggests that this is likely to produce sub-optimal outcomes for clients/users. Devolution of the purchasing power of STAs to a larger number of smaller bodies, possibly industry and/or regionally based, would help to overcome this problem. Although this step may reduce economies of scale and systemic planning capacity, 'a multitude of decisions made closer to users is more likely to reflect accurately their wants and needs than some overall view' determined by central purchasing agencies (Le Grand and Bartlett 1993, p.206). Theoretically, State/Territory industry training advisory boards or other regionally-based bodies, such as the Local Learning and Employment Networks in Victoria, could fulfil such a role.

An alternative approach, and one that potentially enhances the 'voice' of clients/users, would be to allocate purchasing power to elected (as distinct from government-appointed) VET bodies, which would plan, manage and evaluate services on a regional basis, in conjunction with educational workers and representatives of local clients/users (students and industry) and the wider local community:

Where ... decentralisation (of the purchasing function) is not possible, it will be important to have user participation on the relevant purchaser boards so as to ensure a better convergence between agents' motivations and user preferences. Such participation would need to be properly funded so as to allow the participation of disadvantaged users ... and to cover the opportunity cost of time. (Le Grand and Bartlett 1993, p.214)

The Regional Councils of Adult, Community and Further Education in Victoria provide a working model for such bodies, which could be modified to reflect needs and stakeholder interests in the VET sector. Such bodies would also require access to accurate, up-to-date and comprehensive information about costs, quality, access and equity, and levels of supply and demand in their market jurisdictions.

Information

The provision of information in VET markets requires substantial improvement. As Le Grand and Bartlett (1993, p.207) note, 'Purchasers must have accurate and independent information about the quantity and particularly the quality of the service being provided, so as to prevent opportunistic behaviour (moral hazard and adverse selection) by providers.' Individual clients/users also need more and better information about the quality and outcomes of VET programs (Anderson 2003a). Text responses suggest that information provision in User Choice markets is inefficient and confusing for users and that conflicts of interest exist potentially, if not actually, where information providers are also RTOs (for example, some GTCs).

As there is a strong case for establishing more efficient, effective and independent mechanisms for providing information, or at least brokering and regulating its provision, STAs could assume a larger role as information clearing houses for use by purchasers and users. The information brokerage role of both GTCs and NACs in User Choice markets should be reviewed with a view to ensuring greater impartiality. More specific proposals for improving information provision are reported in Anderson (2003a).

Increased access to information via new information and communications technology (ICT) may address existing information imperfections (Bartlett et al 1998). The apparent increased reliance by individual clients on ICT-mediated information in the context of the Australian VET sector suggests the need for government to encourage and coordinate steps in this direction (Anderson 2003a,b). However, improvements in information provision have further implications: 'having provided people with information it is necessary to ensure opportunities are available for them to exercise choice' (Bartlett et al 1998, p.280), and that access to new ICT is equitable (Anderson 2003a,b).

Motivation

The issue of motivation in markets for public services, such as VET, is both complex and poorly understood. Some theoretical research has been undertaken recently (Le Grand 1997, 2003), but there are no ready prescriptions or guidelines for achieving an optimal balance between purchaser priorities and user preferences, and between provider self-interest and

altruism, in quasi-markets. Due to their potentially adverse implications for the achievement of public interest objectives through VET, the findings of this study suggest that greater attention should be paid to existing imbalances in provider motivations, particularly TAFE institutes.

Devolution of purchasing power in competitive tendering markets, as suggested above, would ensure closer correspondence between purchaser priorities and user preferences. On the supply side, it has been suggested that: 'Quasi-markets may operate best where they are structured to capture the positive effect of both private and altruistic motivations of ... service providers.' (Bartlett et al 1998, p.4) In part, readjustment of the incentives structure, as discussed below, should help to rebalance the relationship between market-oriented and public service values and priorities. With respect to TAFE institutes, a clarification of their role and responsibilities in serving public interest objectives would help to reinforce the effect of such incentives. As Walsh (1995b, p.18) observes, the 'development of market-based management (of professional services) creates the need for clarity about the links between the public and the market ethic, and the extent to which the two can effectively be combined.'

In the light of empirical evidence about the impact of market reform, Bartlett et al (1998) state that: 'Management must address the complex aspects of the motivation of those working in the welfare sector, recognising that value systems of professionals can foster altruistic behaviour while also being aware that altruism may be tempered by self-interest.' (p.288) In turn, they highlight the need for an appropriate balance in quasi-markets between 'internal' horizontal controls among professionals on the one hand, and 'external' vertical regulation on the other. In their estimation, an over-emphasis on the latter may increase moral hazard and opportunism, reduce altruistic behaviour, and 'crowd out' productive work effort.

This suggests the need to develop a greater reliance on, and strategies to foster, professional judgment, peer review and quality improvement in the VET workforce, particularly by teachers/trainers. Such strategies could include the establishment of systems for teacher/trainer registration, improved professional development for teachers/trainers, cross-regional and industry-based curriculum networks, and teacher/trainer moderation of Training Package delivery and assessment. Such strategies are likely to be more effective when underpinned by more secure and longer term employment contracts, and a reduced reliance on contract and casual staff (Anderson 1997b). A more stable and secure workforce 'may also mean a workforce committed to values of disinterested public service and which shares a public service orientation.' (Kirkpatrick 1999, p.12)

Efficiency

High transaction costs appear to be the single greatest obstacle to improved efficiency in VET markets. A concerted effort is required to minimise both *ex ante* and *ex post* transaction costs, with special attention to the situation of small RTOs. The provision of expert skills and advice on contracting to RTOs, particularly small ones, would reduce *ex ante* transaction costs through the dissemination of good practice. A greater reliance on decentralised purchasers, may also reduce *ex post* transaction costs, 'since decentralised purchasers are in closer touch with their clients ... and are therefore better placed to monitor contract compliance'. (Le Grand and Bartlett 1993, p.211) The assumption of a stronger information coordination and facilitation role by government, as proposed above, could also reduce the transaction costs associated with marketing and communication.

It would be desirable to minimise, if not eliminate, any unnecessary bureaucratic rigidities and inefficiencies in central market administration (including shorter tender turnaround times, increased scope for contractual renegotiation in response to changing demand, and less inter-STA duplication of regulatory and administrative processes). Increased sharing of

information, ideas and approaches to market management among STAs and other purchasing agencies would enhance the quality and consistency of existing market arrangements.

Longer term contracts would undoubtedly help to reduce the transaction costs that arise from spot markets and inter-provider rivalry. A move away from competitive one-year contracts towards collaborative three-year service agreements, for instance, would not only reduce transaction costs considerably (on both the provider and purchaser sides), but it would also be likely to build trust and discourage opportunistic behaviour, reduce complexity and uncertainty, improve continuity of supply in thin markets, and refocus providers on public interest objectives and long-term capacity-building and development.

There is a risk that extended contractual arrangements could become quasi-hierarchies over time. However, in circumstances where contracting processes are difficult or complicated, 'hierarchical organisations may be more efficient than market processes ... whether markets or hierarchies are more efficient will depend upon a number of factors: uncertainty and bounded rationality, complexity, opportunism and asset specificity.' (Walsh 1995a, pp.33-34) Put simply, hierarchies are a means by which the costs and risks of contracting can be internalised to the organisation and contained through bureaucratic controls.

There is already some evidence of a move away from quasi-markets comprising competitive providers towards more collaborative networks of diverse organisations facilitated via relational or trust-based contracts and agreements. The Local Learning and Employment Networks in Victoria aim to foster cooperative relations among VET providers (schools, TAFEs and private RTOs) and local industry, government and community groups on a regional basis. Similar trends towards network-based arrangements for public services provision are also afoot in the UK.

Networks are not without potential problems, including: the difficulties involved in building trust-based relations from scratch; the long-term instability of inter-organisational networks; increased potential for corruption, fraud and bid rigging; and 'over-embeddedness' resulting in resistance to innovation and protection for under-performing partners. 'Under these conditions, the purchaser gains neither the cost advantages and flexibility of short-term contracts in a spot market, nor the ability to directly control services, as would be the case in a vertically integrated hierarchy.' (Kirkpatrick 1999, p.11)

SCR (2003) has suggested that in order to reduce private provider reliance on public VET funds:

Consideration could be given to limiting government funding to less than (say) 50% of total income. This could forestall the development of a quasi-government training sector. (p.26)

Such a policy could be difficult to implement, given commercial confidentiality and the lack of transparency in private RTOs' accounts. Alternatively, consideration could be given to awarding contracts to individual private RTOs, the total value of which should be no more than the current State average level of such allocations.

In order to reduce actual or potential duplication between public and private RTOs, tender guidelines could encourage the formation of collaborative partnerships for program delivery and resource sharing among both public and private RTOs. This strategy may have other potentially beneficial side-effects, in terms of encouraging increased information sharing and cross-provider innovation, increased diversity and choice, and reduced administration and marketing costs through economies of scale and scope.

Further research is required to determine the extent to which cost-shifting and substitution of public for private training resources is a problem. If found to be so, enterprise and other RTOs providing apprenticeship/traineeship training could be required to submit statutory declarations from their client-enterprises (including where they are one and the same, or sub-agencies thereof), which attest that they have not previously been funding such training on a private basis. Exclusions from such requirements should be granted only where independent evidence of demonstrated under-supply of appropriately skilled workers can be provided.

Responsiveness

Other than in User Choice markets, individual VET clients/users are unable to exert competitive pressure on providers to improve the type or quality of service provision by shopping around and switching between providers – the ‘exit’ mechanism, which is ‘an essential part of the incentive mechanism of quasi-markets’ (Bartlett et al 1994, p.275). Responsiveness to the needs of small enterprises and local communities is also limited. Responsiveness to all these client groups would potentially be improved by adopting the earlier proposal involving the devolution of purchasing power to regionally-based and elected bodies. Otherwise, there are two additional alternatives for addressing these major shortcomings, the first of which aims to increase the power of ‘exit’ and the second of which aims to promote the power of ‘voice’. Either or both mechanisms would result in greater responsiveness to the needs of individual VET students and, indirectly, small enterprises and local communities.

Firstly, consideration should be given to establishing pilot voucher schemes for individual students (other than apprentices and trainees who are covered, albeit imperfectly, by User Choice arrangements) and employees of small enterprises. If such schemes prove to be effective, they should be progressively expanded. However, client access to reliable information would first need to be improved, appropriate equity loadings would be required to dissuade providers from cream-skimming, and provider payments should be periodic and primarily outcomes-based so as to enhance productive efficiency and educational effectiveness. Such schemes would undoubtedly be complex to design and difficult to implement in the first instance, but enhanced ICT-based student and financial administration systems would help to overcome such obstacles. The impact and effects of such schemes would also need to be rigorously and independently evaluated as there are potentially adverse implications for systemic efficiency, provider viability, continuity of supply, and skills supply to industry, among other things.

The second, and relatively less complex option, entails placing greater reliance on ‘voice’ mechanisms as a means to empower individual VET clients/users, and thereby ensuring that providers become more responsive to their needs. As Bartlett et al (1994) state:

Voice can either be expressed individually, through complaints procedures for example, or ... through collective entities such as pressure groups, consultative councils or executive authorities (elected or non-elected) ... (V)oice mechanisms are crucial for those who cannot ‘exit’ or who face very high costs of doing so ... They (also) allow for the interests of non-users of services to be taken into account; and ... the very act of engaging in user participation can yield benefits in and of itself. (pp.274-275)

In the context of VET, the most effective voice mechanisms are, from an individual perspective, open and transparent complaints mechanisms and procedures, and student ‘mentors’ or consumer advocates (Coopers and Lybrand 1994); and from a collective perspective, representative, properly resourced and independent student associations and unions, student forums and consultative bodies (MWPS 1987). While the establishment and

maintenance of viable student associations and unions pose some challenges in the VET sector, due mainly to the part-time and short-term nature of student enrolments, they are not insurmountable. A developmental approach can include the appointment of student liaison officers, accountable to a student representative association, to facilitate the progressive growth of more stable and durable student representation, as has occurred in some TAFE institutes in Victoria (Anderson 1999).

More strategies to promote an industry training culture and investment in workforce development, such as an industry training levy and increased incentives to train and employ apprentices and trainees on an ongoing basis, including in the public sector. Increasing employer involvement in, and responsibility, for the planning and provision of workforce training is the best strategy for preventing skills imbalances (Schofield 2003; Shah and Burke 2003). Given the current lack of a strong industry training culture in Australia, it would be prudent for government to ensure that publicly funded VET providers are provided with adequate and more reliable information about changing skills demand, and encouraged to develop partnerships with employers and unions, and incorporate sufficient underpinning knowledge and generic skills into Training Package-based qualifications, so as to shorten response times to skills gaps and shortages (Shah and Burke 2003).

Quality

Increased unit prices would partly reverse the negative quality outcomes in VET markets, as low (or below-cost) prices appear to be negating some of the potential quality improvements that increased client choice may otherwise produce. Unit prices need to take account of not only direct delivery costs, but also those relating to: delivery support; professional development; student services; thin markets; community service obligations; administration; and marketing and communication. Greater weight should also be given to quality criteria for awarding and monitoring training contracts in competitive tendering markets.

The current lack of client/user feedback seriously limits the scope for evaluating provider responsiveness and quality. Current client/user surveys have shortcomings, some of which are identified in the next section. In terms of assessing and comparing quality at a provider level, a wider range of quality-related outcomes indicators is required. Client/user surveys should be conducted independently (possibly online) and confidentially, to ensure that current students do not suffer retribution for criticism.

As SCR (2003, p.24) notes in its review of contestable funding for private RTOs in Victoria, 'The limited data on client satisfaction is a real impediment to assessing the quality of the training actually delivered'. Consequently, it is necessary to ensure that all RTOs undertake student satisfaction surveys as part of their contractual arrangements, as is the case in TAFE, and to ensure that the results are publicly accessible. Also, 'there is a need for effective and independent satisfaction surveys of employers and apprentices and trainees to be run from time to time to assess the performance of RTOs and influence funding decisions.' (p.25)

If VET audits were a more open and regular procedure, this would also provide a useful source of information for purchasers about the quality of provision. However, the secretive nature of VET audits means that little information has emerged for monitoring the quality and integrity of providers in the training market.

Although RTOs are required by the AQTF to have internal policies and procedures for dealing with client complaints in a constructive and timely manner, there is a need for an external and independent umpire or complaints mechanism in the VET sector to ensure that consumer rights are adequately protected (Anderson 1997a,b). This need has largely been met with the recent endorsement by MINCO of the *National Complaints Code: National Code of*

Good Practice for Responding to Complaints about Vocational Education and Training Quality (DEST 2004), and the establishment of the National Training Complaints Hotline.

While this is a significant improvement to the quality assurance framework for VET markets, clients also need a supporting statement that identifies the nature and scope of consumer rights in VET, particularly in relation to fees and charges, program and service quality, and access and equity. The New Zealand Tertiary Education Commission (TEC) has developed such a statement that sets out the rights of learners in TEC-funded programs, including those delivered by polytechnics and private training establishments (NZTEC 2004). There is also a need to publicise the new national complaints code and the toll-free hotline widely to current and future VET clients, including via prominent postings and hotlinks on ANTA/NTIS and STA websites, and other information resources for clients (e.g. course guides).

Access and equity

The existing structure of financial and other incentives in VET markets needs to be strengthened to dissuade RTOs from engaging in cream-skimming, and to encourage and support RTOs to improve access and equity outcomes. As indicated above, unit prices need to include an extra loading for delivery, support services and facilities/equipment for disadvantaged learners and under-represented groups, such as women, and for professional development for teachers/trainers. Similarly, community service obligations need to be fully and transparently costed, funded and monitored to ensure that RTOs are able to deliver, and be held accountable for, the desired outcomes.

Three issues will need to be addressed in the process of redesigning the incentives structure. As Powles (1990) shows, a reliance on the standard 'equity group' categories, and the use of identifiers such as health care cards, is a flawed approach from an equity perspective. Instead, it will be necessary to devise alternative methods for identifying learners most in need, which are simple, equitable, effective and non-intrusive. Secondly, it will be necessary to determine financial loadings that are sufficient to cover the additional costs involved in training delivery and support for disadvantaged students, but which do not penalise less expensive clients. Thirdly, appropriate access and equity performance measures will need to be incorporated into contracts, with outcomes reported, monitored and evaluated rigorously. The development of such methods, financial formulae and performance indicators will require detailed costing studies and experimentation.

In order to promote greater access and equity in User Choice markets, the New Apprenticeship Access Programme, which fell outside the scope of this study, should be independently reviewed with a view to enhancing its accessibility and outcomes.

Accountability

Accountability for the use of public VET funds should be reviewed and improved. The focus of VET audits should shift from technical to substantive accountability, with a strengthening of financial accountability and greater emphasis on educational and skill outcomes.

Appropriate outcomes indicators will have to be developed. More and more rigorous spot audits would be desirable, as would better training and clearer specifications for auditors (Anderson 1997b). The findings of the SCR (2003) review in Victoria also underscore the need for non-compliant RTOs to receive harsher penalties.

Private RTOs in receipt of public VET funds should be subject to public sector audits, and Commonwealth and State freedom of information legislation should be reframed to cover private companies that deliver services under government contracts. As Ernst (1999) argues in relation to new and more robust disclosure requirements in the UK:

While the defence of commercial confidentiality continues to exist, there is now greater onus on organisations claiming this defence to argue the case for why this should prevent the release of information in the public interest. Similar proposals for inverting the onus of proof for commercial confidentiality rulings in the case of public contracts have been made in Australia, by the Commonwealth Ombudsman and the National Audit Office. (p.9)

As suggested above, publication of the outcomes of VET audits would also help to strengthen public accountability.

Proposals of survey respondents

Survey respondents were asked to identify what changes to government policy, if any, would improve the outcomes of competitive tendering and/or User Choice in particular, and training markets in general. In total, 419 RTOs responded to the question, with some suggesting more than one change.

At a general level, several respondents questioned the appropriateness of a market-based approach to the funding and providing VET. A similar number of respondents however felt that existing market arrangements were too limited, and argued for an expansion of competition and contestable funding processes. Aside from these two broad perspectives, other main broad themes of revolved around the need for:

- attenuation of contestable markets policy and increased cooperation
- stabilisation of policy and financial arrangements;
- expansion of contestable funding processes;
- national consistency among VET market frameworks;
- equality of treatment and competitive neutrality;
- review of purchasing and funding arrangements;
- special policy and funding arrangements for thin markets;
- access and equity strategies;
- improved quality assurance and accountability arrangements;
- reform of administrative processes and procedures;
- improved information provision and communication; and
- other proposed changes.

Redesign of contestable markets policy

Numerous RTOs criticised the market paradigm of existing VET policy and argued for a realignment of policy objectives so as to give greater emphasis to social goals and outcomes that address a broader range of community needs and interests. Such views were expressed mainly, but not only, by TAFE institutes:

Driven too much by an economic rationalist approach rather than integration with social policy issues e.g. employment policy, welfare policy etc. Needs to be more inclusive of whole population, especially youth at risk, unemployed, disadvantaged. (Metropolitan - TAFE)

Not treat them as a market. Vocational education is not a commodity that should be traded. It should produce social collateral from which economic positives will flow. (Metropolitan - Commercial training provider)

VET as a personal/community development product rather than input based KPIs (Key Performance Indicators). (Rural/regional - TAFE)

To support community educational program for life skills without competitive tendering factors ... (Rural/regional - ACE centre)

Greater investment in programs that build social capital, more training opportunities for the unemployed and less emphasis on the needs of industry. (Metropolitan - ACE centre)

A focus on industry needs and how they are best met, rather than on meeting needs of RTOs. Competition in education does not always result in better services to industry. Often the focus becomes, for RTOs, how do I bring in more income? (Metropolitan - Commercial training provider)

Both (competitive tendering and User Choice) need to be understood as components of a comprehensive strategic renewal and repositioning strategy that is driven by a vision for the social and economic role of vocational education and training. There is a need to switch young people and their parents on to the potential for meaningful and rewarding vocational career pathways. The visibility and esteem of these pathways has suffered through the period of market reforms in VET. Current reforms to post compulsory pathway mechanisms in Victoria are indicative of an appropriate policy response. (Metropolitan - TAFE)

Concern was expressed about the impact of market reform on the role and financial viability of TAFE institutes, often as a precursor to proposing that government undertake a review of current policy and financial settings with respect to TAFE:

Review role and function of TAFE in light of contribution to social not just economic goals. Review allocation of resources accordingly. (Metropolitan - Professional or industry association)

Competitive tendering of government training funds should cease until government providers are financially stable. (Rural/regional - TAFE)

Stabilisation of public funding (Victoria). Realistic review of public investment levels. Courageous government. A real hard look at what we as a community want/expect from VET – the UNESCO Third Way perhaps. (Rural/regional - TAFE)

In place of competition among VET providers, collaborative networks were proposed as a means to produce more positive outcomes:

Introduction of Local Learning and Employment Networks in Victoria should see the positive change from competition and buck passing to collaboration and working together. (Rural/regional - ACE centre)

Allowing the TAFE network to operate as cooperative rather than competitive institutions. (Rural/regional - TAFE)

One RTO advocated the abolition of competitive tendering and increased funding to enhance the quality of VET delivery:

Eliminate CT (competitive tendering) altogether and fund courses on a realistic basis to ensure quality delivery. Quality delivery also encompasses the ability to employ and retain appropriate teachers. (Metropolitan - Professional or industry association)

Stabilisation of policy and financial arrangements

A common criticism in RTO responses was that government policy and financial arrangements relating to VET markets had undergone too many changes and should be stabilised. A typical response was that ‘constant change ... is very disruptive and time consuming’ (Metropolitan - Commercial training provider). A metropolitan school RTO indicated that changes to VET curricula had been too frequent and costly for providers:

Modules/training packages – curricula – change far too often (nearly every year ...).
Curriculum development and evolution is just plain silly – and very expensive.

A metropolitan commercial training provider suggested that: ‘Radical changes in policy directions (should be) introduced gradually and not within normal funding year.’

Expansion of contestable funding processes

An expansion of competition and market mechanisms was proposed by some non-TAFE RTOs, such as an enterprise RTO which argued for:

More emphasis on competition – a move away from recurrent funding in areas where competition will produce a better result e.g. technologically progressive industries, jobs that require some workplace skill development as the minimum entry point.
(Metropolitan - Enterprise RTO)

A number of non-TAFE RTOs, primarily for-profit providers, proposed that contestable funding processes be expanded in various ways, for example by: allocating 80% of total VET funds via contestable mechanisms; and extending User Choice funding to all industry sectors, especially those in which small businesses predominate.

Wider application of a student-driven funding model was proposed in a couple of instances, for example by introducing ‘user choice into the tendering process’ (Rural/regional - Business College). Similarly, a metropolitan commercial training provider stated that:

... User Choice is an excellent program. I think we need a more compatible program for CP (Client Purchasing – i.e. competitive tendering) – allowing participants to decide where they want to train – instead of just having to determine who has won the CP tender. (Metropolitan - Commercial training provider)

Another commercial training provider in a rural/regional area argued for a voucher-like approach to funding VET: ‘The funding should be directed to where the benefit is intended – i.e. the trainee! This would level the playing field and ensure the most cost-effective outcomes.’

A free market approach was advocated by a rural/regional Business College, which suggested that ‘government (should) get out of training’. Similarly, a metropolitan commercial training provider suggested that:

TAFE should provide only those services where private industry does not.
Government funding should be directed only to shortfalls in service areas. Industry should pay for what it needs, not the taxpayer. (Metropolitan - Commercial training provider)

National consistency among VET market frameworks

The need to enhance national consistency in various ways was identified by around eight RTOs:

The whole system needs to be *national* with all States agreeing to have the *same* policies, procedures, systems of claiming etc. If you are an RTO that operates in *all* States it is sometimes not worth it. (Metropolitan - Commercial training provider)

Standardisation of the following items across all States and Territories was proposed: policy and administrative arrangements; funding levels; User Choice contracts; course duration/nominal delivery hours; and standards and procedures for provider registration, contract compliance and auditing; and policies on User Choice access for existing workers.

Equality of treatment and competitive neutrality

Many suggestions were made about the need to ensure that all types of RTOs enjoy equal treatment and access to contestable funding. The three main categories of comments relate to TAFE and non-TAFE RTOs, small and large RTOs, and New Apprenticeship Centres and Group Training Companies.

TAFE and non-TAFE RTOs

Several respondents, primarily non-TAFE RTOs, suggested that greater attention should be given to ensuring that competitive neutrality prevails among TAFE and non-TAFE RTOs. However, perceptions of the problem and associated solutions varied according to the sectoral location of respondents. For example, one TAFE argued that:

Non-TAFE providers should meet more stringent quality assurance standards, be more financially accountable and pay award rates to increase the quality of training by attracting better qualified staff. (Metropolitan - TAFE)

Conversely, non-TAFE RTOs made the following suggestions to remove perceived unfair competitive advantages enjoyed by TAFEs:

... make Government institutions tender with staff wages inclusive, not as is the current situation of an unlevel playing field where they don't include it. (Rural/regional - Commercial training provider)

Competition policy re unfair tendering by Government funded bodies enforced. (Rural/regional - Commercial training provider)

Remove TAFE from Competitive Tendering – they can use their profile funding to meet market demand. List of approved providers in the market place. (Metropolitan - Industry Skills Centre)

Make TAFE much more accountable for ASCH cost. In private training organisations the tendered ASCH cost needs to reflect all costs (inc. administration and equipment) whereas in TAFE, costs such as admin, equipment, rent and capital costs are hidden and not included in the ASCH cost that they tender for. (Rural/regional - Commercial training provider)

Greater percentage of funding made available to private and non-government colleges (i.e. not TAFE). (Metropolitan - Commercial training provider)

The allowance of private sector RTOs to access taxpayer funded resources for training (i.e. this equipment is at a minimum available for 10 weeks every year). (Metropolitan - Commercial training provider)

For government funded institutions, especially TAFE but including universities, to stick more to vocational areas that do not readily attract private providers instead of competing head to head in vocations already well-served by the private sector. (Metropolitan - Business College)

A metropolitan ACE centre suggested that the number of contracts awarded to any one RTO should be limited so as to 'encourage a greater range of RTOs being given contracts'.

The imposition of the cap on User Choice funding allocations in Victoria was criticised by several non-TAFE RTOs who argued for 'fair and equal treatment across all providers (capping lift).' (Rural/regional - Group Training Company).

Small providers

A number of proposals were made to address the perceived disadvantages of small RTOs. A comment made by a commercial training provider in a rural/regional area typifies the position of many small RTOs:

Support for advertising and increased funding to truly cover costs may assist smaller training providers who are trying to compete with larger RTOs who can pool resources and monopolise on funding resources as they can more readily absorb costs ... (Rural/regional - Commercial training provider)

The main tenor of such proposals was to increase financial support for and/or cut the costs incurred by small RTOs by:

- restricting some competitive tendering funds to small RTOs (Rural/regional - Commercial training provider);
- providing regional assistance for submission writing/financial workers/marketing/funds for infrastructure (Rural/regional - ACE centre);
- allocating more resources for training materials and professional development (Metropolitan - ACE centre); and
- scaling registration/compliance costs to the number of registered students on an annual basis (Rural/regional - Commercial training provider).

New Apprenticeship Centres and Group Training Companies

The perceived conflict of interest for New Apprenticeship Centres (NACs) and Group Training Companies (GTCs) who are also RTOs was identified as a source of considerable concern, as was the perceived tendency of some NACs to refer clients to selected RTOs on a regular basis:

RTOs with employment contracts need restrictions placed on their unfair advantage in marketing traineeships (User Choice) (Rural/regional - Other RTO)

A commercial training provider argued for 'more equal promotion of User Choice providers to employers' and other RTOs made the following suggestions to overcome anti-competitive practices:

Either award NAC tenders to non-training providers where they would not be in competition with my RTO or give each training provider of User Choice the option to do their own NAC services. (Metropolitan - Commercial training provider)

Eliminate NAC as a middle role – RTOs could easily perform the NAC functions thus reducing confusion and duplication of paperwork. (Rural/regional - ACE centre)

One stop shops were also proposed as a substitute for NACs.

Review of purchasing and funding arrangements

Changes to existing purchasing and funding arrangements figured most frequently among respondents' proposals for improving the operation and outcomes of quasi-markets in VET. As outlined below, the reasons for, and nature of, the proposed changes differ.

Some RTOs suggested that better outcomes would be achieved by shifting purchasing power from STAs to alternative bodies, including ANTA, Industry Training Advisory Boards, and industry clients (under competitive tendering arrangements). For example:

Guessing the client demand, guessing the nominal hours needed, guessing the postcodes for delivery – submitting/responding to CPP offer. If you receive a contract you then have to sell the hours - this is government driven (with supposed ITAB input). We need to be more client focused – client within targeted industry identifies need, approaches RTO who accesses funds and delivers what industry needs – flexibly – where and when industry needs it (i.e. the old Client Purchase Arrangement). (Metropolitan - Commercial training provider)

The most frequent proposal was to introduce longer term funding arrangements in the interests of enhancing the continuity of supply to industry and the planning capacity, curriculum development, human and physical infrastructure, and financial viability of RTOs. Triennial funding cycles or longer contracts up to five years in duration were often suggested as follows:

A 3-year funding cycle, which would give a degree of consistency in training delivery to industry, allow the RTO to plan appropriately for delivery and factor in training development and improvement in response to industry needs. (Rural/regional - Other RTO)

If RTOs could have some idea whether \$100,000 or \$200,000 worth of courses would be purchased over a given period (say 5 years), the actual courses would be subject to current training strategies/requirements from industry. (Rural/regional - Commercial training provider)

With more long term funding to RTOs and employers (rather than only annual or bi-annual) funding allocation, there would be more security for all concerned. This would then lead to greater commitment to training by all concerned (ongoing, sustainable, dedicated training). (Metropolitan - Commercial training provider)

One of the major concerns for a college like this one is the lack of continuity of funding. There is no local pool of skilled trainers – they have to be imported from other areas. Lack of continuity of funding means the college has to use time and resources to recruit new people for new contracts or find alternative sources of funding to continue to employ staff. (Rural/regional - Other RTO)

Increased efficiency, flexibility and responsiveness to learner needs were also identified as beneficial outcomes of longer term funding arrangements:

Fund for 2 years not one – efficiencies in recruitment and allows more flexibility (self paced etc.). (Metropolitan - Other RTO)

Extend the life of a contract so that it is for the time of student's course. (Metropolitan - Enterprise RTO)

Longer contracts – i.e. 3 yrs – this in itself would yield some financial gain to the government. (Metropolitan - Other RTO)

Grant applications and bulk funding of apprenticeship training, based on an initial payment of 75% of the previous year's effort, were other approaches that RTOs felt would enhance efficiency and provider stability.

Many RTOs highlighted the need to review the pricing structure to ensure that the funding allocated per SCH reflects the true costs of delivery, Consumer Price Index (CPI) increases, and is sufficient to ensure that course delivery remains viable and responsive to client needs:

Review the costing structure – not to raise prices but to ensure that there is viability in those areas where the price has been driven below reasonable (break-even) levels. This has meant products that do not suit the client group. (Rural/regional - TAFE)

Realignment of User Choice unit price appropriate to training costs, then alignment with CPI. (Metropolitan - Industry Skills Centre)

Stability of funding matched with increased funding for Student Contact Hours matched to CPI or something similar. (Metropolitan - ACE centre)

Respondents indicated that a 'fair and equitable pricing structure' and/or additional funding are required to cover the costs to RTOs of: infrastructure maintenance and development; professional development for teachers; learning resources development; administrative overheads; quality assurance and reporting; and partnerships and market development. One TAFE in a rural/regional area also argued that pricing structures require 'urgent review to account for a range of matters, including the costs of IT and other "new" cost drivers.'

Several respondents were critical of the perceived emphasis on price competition and suggested the need for STAs to use a more diverse range of selection criteria in contestable funding processes, including client satisfaction, value-for-money and performance/outcomes:

Increasing their indicators for selection to represent a rich mix which includes *value* for money rather than simply price, reward for performance, responsiveness to client needs etc. (Rural/regional - Commercial training provider)

There is far too much emphasis on the price. There needs to be a way of factoring in value added services or specialist services that recognises the overall value of organisations building and developing a lasting and beneficial community infrastructure. (Rural/regional - ACE centre)

Change funding allocations to reflect institute performance and management rather than on competitive pricing by institutes and give the money to institutes which provide training to many and the market demand in the area. (Metropolitan - TAFE)

... have more emphasis on prior training completed and standards attained/learning outcomes achieved. (Metropolitan - Commercial training provider)

Historical data on RTO considered in the tender process (i.e. past success with courses/outcomes and clients, ability to manage the process/reporting etc.). Why continue to contract providers with little or no experience in any particular industry area or geographical location simply based on their cost to the government. (Metropolitan - Business College)

Several respondents suggested that tenders should be limited to preferred providers, based on prior performance:

I would like to see points awarded to RTOs based on successful outcomes of training on real results as opposed to on paper results. Preferential tendering for results oriented RTOs could be of benefit. (Rural/regional - Professional or industry association)

At least 3 year funding commitments. Confer preferred provider status on RTOs identified by independent auditors (remove annual end-year pressure). (Metropolitan - ACE centre)

More acknowledgement of high quality results from proven Colleges resulting in preferred status for funding. (Metropolitan - Commercial training provider)

Some providers suggested that contracts should be more flexible to enable them to adapt to changing client/market demand with respect to the type, level and timing of delivery:

Tender process is inflexible – often too late to meet demand. (Rural/regional - TAFE)

Purchase schedule flexibility, that is, opportunity to nominate training that relates to enterprise needs that may not be in purchase schedule. (Rural/regional - Commercial training provider)

Somewhere introduce a review at the half way point and adjust the new year's program if required. (Rural/regional - Commercial training provider)

A number of respondents suggested that training contracts should be awarded about six months in advance, as this would assist them to plan and market their programs more effectively. One respondent suggested that there should be several funding rounds each year to enable providers to meet changing demand.

Other funding-related proposals included:

- increasing the amount of contestable funding available in high demand areas;
- restricting the amount of government funding allocated to enterprise RTOs;
- extending the timeframe for funding submissions; and
- deregulating fee-charging on government-funded places.

Special policy and funding arrangements for thin markets

The viability of VET markets, particularly those located in rural/regional, remote and economically disadvantaged areas, was questioned by several respondents. Proposed responses included establishing separate policies for thin markets, limiting contestable

funding processes to markets in which there were large numbers of potential clients, and increasing the level of funding for VET delivery in thin markets, as follows:

Policies for thin markets and economically disadvantaged areas. (Rural/regional - TAFE)

Limit user choice and tendering to large markets and provide adequate funds for delivery in remote areas. (Rural/regional - TAFE)

An acknowledgement of the need to support and fund activity in thin markets to maintain essential infrastructure/delivery capacities. (Metropolitan - TAFE)

Resource allocation decisions based on user choice need to be tempered in thin markets for optimal community benefit. (Rural/regional - TAFE)

The problem of servicing thin markets in specialised industry sectors was also raised for consideration:

Establish national networks to support single teacher sections in key industry areas with less than a critical mass of expertise in each RTO. (Rural/regional - TAFE)

Other proposals for dealing with problems encountered in thin markets included: increasing SCH funding to cover the additional costs of small class sizes and travel; restricting access to some tenders in thin markets; providing longer term funding; and engaging in longer term planning with local communities.

Four RTOs suggested that over-supply or crowded markets is a problem requiring attention, as follows:

There are too many RTOs in general competing in thin markets. (Rural/regional - Commercial training provider)

Reduce number of RTOs to increase viability (giving RTOs option to run loss leaders that serve community but don't create surpluses necessarily). (Metropolitan - TAFE)

Perhaps setting a limit on numbers of RTOs based on available market. (Metropolitan - Other RTO)

Have tenders for regional areas only in some cases. (Rural/regional - Commercial training provider)

One respondent also proposed that the practice of subcontracting should be disallowed where local providers are available (Rural/regional - Other RTO).

Access and equity strategies

Several strategies were advanced for improving access and equity under contestable funding arrangements, including:

- increased funding for disadvantaged groups (e.g. health card holders);
- reducing costs ('excessive fees') to disadvantaged students, especially at AQF level 4 and below; and
- supporting RTOs who specialise in access and equity provision.

The groups most frequently identified as being in need of greater assistance were:

- people with disabilities;
- unemployed people;
- prisoners;
- people with low English language, literacy and numeracy skills; and
- existing workers with low or no qualifications (e.g. women in the retail industry).

One 'other' RTO in a metropolitan area identified the need for: 'More support and appropriate course availability for participants who have severe and multiple complex needs'. A metropolitan commercial training provider argued that students with disabilities should be allocated 'double funding' to enable them to complete one-year traineeships over a period of two years.

Improved quality assurance and accountability arrangements

Many respondents identified aspects of the quality assurance framework that require improvement. The AQTF had not been fully implemented at the time the survey was conducted, so it is unclear whether individual comments relate to the AQTF or, more probably, the preceding system of quality assurance. However the general view of respondents was expressed by a commercial training provider in a metropolitan area, which stated that:

The introduction of AQTF will do much to allow RTOs to align across the country. Changes in the way audits are carried out and the concept of continuous improvement should make a positive difference. (Metropolitan - Commercial training provider)

Improvements to the quality of delivery were often linked to increased funding levels:

Setting a realistic base bid to prevent underbidding and long term erosion of quality, service provision and unquantifiable benefits that individuals gain from education and training (self esteem, sense of achievement, ability to self pace their learning etc). (Metropolitan - Commercial training provider)

Overall, respondents felt that greater consistency, in addition to higher standards, should be promoted in relation to:

- initial provider registration;
- fully on-the-job delivery (i.e. the number and duration of visits);
- assessment/outcomes under training packages (e.g. moderation processes); and
- auditing of RTOs.

A shift in the focus of quality assurance from inputs to outcomes was a regular theme, as was the need to promote continuous improvement:

Less compliance and more education, not training and assessment. (Metropolitan - Commercial training provider)

Much closer attention needs to be paid to quality of training and outcomes. There is an increasing trend towards qualifications being awarded following shorter and shorter training time, which devalues the qualification. If our Certificate IV in Workplace Training and Assessment takes 12 days on an 8-day equivalent course, it cannot be of equal quality. (Metropolitan - Commercial training provider)

Increase audit processes to focus on helping RTOs with continuous improvement and innovation in delivery and decrease administrative processes. (Metropolitan - TAFE)

One way to strengthen the emphasis on outcomes would be to undertake client evaluations:

Auditing should be on a non-desktop basis, and should not rely on the RTO to provide information regarding quality and service delivery – but more emphasis on contacting trainees and determining the accurate picture. Perhaps required on-site visits coupled with an extensive evaluation from trainees and participants rather than believing the words contained in the paperwork. (Rural/regional - Commercial training provider)

A common proposal was to conduct more rigorous audits and reviews of provider performance on a regular basis:

Greater auditing with teeth and conviction, not empty threats. (Metropolitan - Commercial training provider)

Regular audit and review of RTO delivery or maybe some 3-year benchmark of standards that must be met. (Metropolitan - Commercial training provider)

Have more rigour in terms of ousting RTOs who are not delivering quality training. Have a ‘3 strikes’ rule or similar where if you have things wrong in 3 audits you are out. Firm up the requirements for delivery on-the-job in terms of time/number of visits. (Metropolitan - Professional or industry association)

Some respondents suggested the need for audits to be conducted independently, rather than by government personnel.

Other proposals for improving the quality of delivery involve the:

- raising of teaching standards (especially teacher qualifications);
- payment of award rates to non-TAFE trainers;
- review of the nominal hours policies to ensure adequate minima;
- introduction of national licensing standards;
- development of assessment templates by industry training advisory boards; and
- testing of training outcomes by industry bodies.

An Industry Skills Centre in a metropolitan area proposed that there should be: ‘Greater access to intervention for enterprises in breach of COT (perhaps via ARC, NAC or establishment of Training Ombudsman)’.

Reform of administrative processes and procedures

The costs and complexity of quasi-market transactions was a topic of considerable comment. A general view was that there should be:

Less red tape (administrative requirements) and more emphasis on the outcome (skills for trainees). (Metropolitan - Commercial training provider)

Another respondent suggested that quality assurance requirements should be evaluated ‘against costs/benefits due to massive administrative impost’ (Metropolitan - Industry or professional association).

According to respondents, aspects of market administration that require simplification and streamlining include the:

- application, reporting and reconciliation procedures in general; and
- sign-up and payment procedures under User Choice (e.g. simpler agreement and assessment forms).

Delays in contractual payments are also a source of considerable concern, and in some cases considerable financial hardship, especially for smaller RTOs. One suggested solution was to introduce monthly payments under User Choice purchase agreements.

Suggestions for improving tendering processes included:

- simplifying tendering procedures;
- adopting more transparent selection criteria;
- developing clearer specifications, particularly in relation to funding levels and expected outcomes;
- providing more detailed and earlier feedback to unsuccessful bidders; and
- offering more training in tender development.

Improved information provision and communication

The need to improve information and communication among market participants was a common theme. RTOs suggested that more information should be provided about:

- current and long-term policy/delivery priorities and changes;
- tendering programs and processes, especially to new RTOs;
- skill shortages and market demand for training, particularly at a local level; and
- networking among providers.

More information days for RTOs and businesses were proposed, although one commercial training provider in a metropolitan area stated that: ‘We need help on hotlines not at long-winded seminars’. Another respondent suggested that websites should be used to a greater extent to convey information about available and awarded tenders.

Many comments were made about the need to improve the quality of information provided by STAs, with respect to its accuracy, timeliness, accessibility (‘less jargon’), and consistency (including departmental interpretations of policy and funding guidelines). The need for more advance notice of changes in policy and funding arrangements, for example in relation to User Choice, was also highlighted. Such information would assist RTO planning processes.

Other proposed changes

A number of other changes to existing policy settings were suggested, including:

- greater involvement of regional industry groups in training market decisions, so as to counter the predominance of metropolitan interests;
- increased consultation by government agencies with non-TAFE RTOs;
- reintroduction of a training guarantee levy on industry;
- more government incentives for business to train their employees, including existing workers; and
- more flexibility in Training Packages to enable trainees to gain two or more certificates simultaneously, and to recognise vendor certificates.

Part VII Summary and conclusions

Reprise

In 1990, the Deveson Review pronounced the arrival of ‘markets for training’ and chose to ‘reflect on the features of an effective market mechanism and on what the consequences of a trend towards increased choice and competition in the training market may be’. In the course of these reflections, it suggested that: ‘When markets work well, the processes offer a number of important benefits.’ (p.9) Uppermost among the identified benefits were increased choice, efficiency, responsiveness, and quality. The Deveson Review also noted that ‘there need be no conflict between (the desire to bring about fairer and more equitable access to training) and increased reliance on a market approach.’ (1990, p.10) No evidence was tendered to support the asserted benefits, all of which were based on deductions from economic theory.

Two years later, national and State/Territory governments adopted the goal of creating a competitive training market and began progressively redesigning their policy, funding and regulatory frameworks along market lines. The near monopoly of public funding and recognition held by the state-owned and controlled TAFE system was progressively dismantled to a significant degree. It was replaced with a competitive market comprising a diverse array of public and private VET providers, in which TAFE was regarded as ‘just another provider’ competing for public VET funds. Simultaneously, TAFE institutes were encouraged to become more business-like, entrepreneurial and reliant on private income from commercial training markets. Although they continued to receive the bulk of public VET funds, they did so mostly within a new framework of quasi-contractual performance agreements with STAs.

Quasi-markets, based on the organising principles of choice and competition, were established through the separation of the purchaser and provider roles of government, and the use of market mechanisms to allocate funds for VET delivery on a contestable basis. Government assumed the role of a monopsonistic purchaser of training places under competitive tendering arrangements, although purchasing decisions are influenced by demand-side advice provided by industry training advisory boards. Such an approach was adopted by all State and Territory governments from 1995 onwards. By 1999, competitive tendering was being used to allocate about 5% of national recurrent funds for VET delivery, although this proportion declined slightly thereafter. An additional 3% of total VET revenue was derived from contestable fee-for-service provision funded by government agencies other than STAs.

From 1996/97 onwards, the pace of market reform in VET accelerated and government turned its attention to reforming the demand side in an effort to empower clients to exercise greater choice and influence over providers. The mechanism adopted for this purpose was User Choice, a quasi-voucher scheme that enables employers with their apprentice or trainee to choose their preferred provider and aspects of training content and delivery. Implemented nationally from 1998 onwards, User Choice was used to allocate up to 18% of national recurrent VET funds in 2001. It should be noted, however, that not all the funds for User Choice were open to competition among TAFE and non-TAFE providers, due to the introduction of caps on private RTO apprentice/trainee numbers in Queensland, Tasmania and Victoria at the end of the 1990s.

In effect, government embarked in the early 1990s on an unprecedented policy experiment that has substantially altered the structure, composition and dynamics of the VET sector. Government moved decisively away from the traditional model of state planning – which aimed to avoid market failure and protect the public interest – to a mixed model comprising a reformed direct (profile) funding sector, quasi-markets, and private or open and commercial

markets. By 2001, government revenue allocated via non-competitive processes accounted for only 65% of TAFE's total VET revenue, down from about 82% in 1992. Revenue from quasi and commercial markets accounted collectively for 30% of total VET revenue in 2001, almost double what it had been at the outset of market reform. The remaining 5% was derived from student fees and charges.

The significant growth in 'soft' market revenue can be attributed to the progressive diversion of a growing proportion of TAFE's recurrent base revenue from the early 1990s onwards to the newly created quasi-markets. By 2001, quasi-market and commercial market revenue respectively accounted for 13% (including fee-for-service revenue from government agencies other than STAs) and 16% of total revenue for VET delivery. As noted earlier, government's decision to create quasi-markets for VET was an attempt to overcome the perceived failure of centralised state planning models, despite the absence of any empirical evidence that the putative benefits of market reform would eventuate.

Over a decade has now lapsed since the concept of a competitive training market was unilaterally adopted by governments in Australia, and with the bipartisan support of both major political parties. As the process of market reform is well-advanced in all jurisdictions, it is an appropriate time to revisit the question posed by the Deveson Review (1990). In essence, this study set out to 'reflect on the features of an effective market mechanism and on what the consequences of a trend towards increased choice and competition in the training market' (p.9) *have been*, with the advantage of considerable experience and hindsight. As previously noted, the need for a broad-scope evaluation of market reform is widely acknowledged.

This study used a framework comprising several key criteria, corresponding with official policy objectives, to evaluate the efficacy of quasi-markets in VET, as follows: choice and diversity; equity; responsiveness, quality, flexibility; innovation; and access and equity. It also comprised a set of pre-conditions for assessing the effectiveness of existing quasi-markets, relating mainly to market structure, information provision, and provider motivation.

The section below summarises the key findings and resulting conclusions about the extent to which market reform in VET has produced the intended outcomes and putative benefits of market reform, and the extent to which the basic pre-conditions for effective quasi-markets have been met. Issues requiring further research are also outlined. Before reviewing the study's findings about market reform, it is necessary to briefly recapitulate some of the key features of the structure, composition and dynamics of markets in VET, and to highlight some of the main impacts of, and provider reactions to, market reform.

Structure, composition and dynamics of VET markets

Considerable progress has been made, under the steerage of ANTA, towards the creation of a national training market since the collective agreement of national and State/Territory VET ministers in 1992 to pursue this goal. Following the establishment of a national framework for the recognition of non-TAFE providers and VET qualifications in the early 1990s, the supply side of the training market has grown rapidly. By 2001, a sizable majority of the 4,226 non-TAFE RTOs were delivering a substantial proportion of their VET programs and services within the National Training Framework. As suggested above, the vast bulk of new providers entered the government-regulated VET market following the implementation of contestable funding processes.

During the period from 1997-2001, payments to post-school non-TAFE providers grew by a remarkable 87% nationally. In 2001, post-school non-TAFE providers won 44% nationally of contestable VET funds, equivalent to almost 8% of total recurrent revenue for VET delivery. One consequence is that a considerable proportion of non-TAFE providers, including

industry, enterprise and commercial RTOs, have become heavily reliant on government VET funds. In effect, the construction of contestable funding markets has accelerated the emergence of a parallel private training sector alongside the public TAFE sector, a trend foreshadowed in the early phases of market reform (Anderson 1994, 1996a).

Conversely, TAFE institutes began trading places to an increasing degree with non-TAFE providers. In response to an overall 2.4% decline in total government funding from 1997-2001, the diversion of recurrent base revenue to quasi-markets, and the subsequent loss of market share to non-TAFE provider, TAFEs diversified further into commercial markets to seek private sources of income. By 2001, the eighty TAFE institutes in Australia could rely on receiving less than two thirds on average of their total revenue for VET delivery from government on a non-contestable basis. This was supplemented by student fees and charges, which accounted for 5% of total TAFE revenue in 2001. For the remainder of their revenue for VET delivery, TAFE institutes relied on 'soft' market-based income, 13% of which was derived from contestable markets funded by government and 16% from open and commercial markets in 2001. In the same year, TAFE institutes accounted for 81% of total hours of VET delivery, while community education and 'other' registered providers accounted for the remaining 19%. However, a significant proportion of TAFE delivery was also now occurring outside the NTF.

This study has shed new light on the structure, composition and dynamics of markets in VET. Despite the establishment of the NTF and associated Mutual Recognition arrangements, a relatively modest proportion of TAFE and non-TAFE RTOs were found to be delivering nationally recognised training across State/Territory borders. Although RTOs, two thirds of whom are based in metropolitan areas, continue to deliver training in their local markets, a substantial number are competing for business in other markets in their own State/Territory of Registration. Surprisingly, however, there appears to be a larger influx of RTOs into rural/regional than metropolitan markets.

International markets for VET have become a significant focus of competitive activity and source of income for TAFEs and some types of non-TAFE RTOs, particularly business colleges. Over seven in ten TAFEs and over one in ten non-TAFE RTOs are competing in on-shore export markets, which have become one of the three largest sources of income for 11% of TAFEs and 7% of RTOs as a whole. Off-shore export markets are also growing in significance, with over six in ten TAFEs, and almost one in ten RTOs as a whole, competing for business overseas. In comparison, only a small proportion of TAFEs and non-TAFE providers derive significant income from off-shore export markets. Nonetheless, the survey findings and other research suggest that export markets for VET rival the national training market in commercial significance for a growing number of Australian VET providers, especially business colleges.

Changing patterns of RTO participation in domestic markets during the latter half of the 1990s have altered the form and composition of markets on the supply side. TAFEs continue to dominate the primary and secondary industry training markets, although to a lesser extent in some industry sectors than was the case prior to market reform. TAFEs appear to face more competition from a wider range of non-TAFE providers (and other TAFEs) in most industry training markets, including manufacturing, and especially in training markets for service industries. Most of this competition is concentrated at AQF levels II-IV inclusive.

Patterns of market segmentation and competition are also changing with respect to client/funding markets. Although TAFEs continue to service mass markets comprising government-funded students, they are increasingly moving into niche commercial markets. The majority of TAFEs are competing in markets for both fee-paying individual and industry/enterprise clients, although almost three times more TAFEs identified fee-paying industry/enterprise clients than fee-paying individuals among their three main sources of VET

revenue. Government funding allocated via non-competitive (profile) processes remains the largest source of income for TAFEs, and for rural/regional RTOs as a whole. User Choice and competitive tendering are among the three main income sources for six and five in ten TAFEs respectively. By comparison, fee-paying industry/enterprise clients were identified by almost six in ten TAFEs among their three main income sources. Fee-paying industry/enterprise clients are also relatively more important than government funding sources for metropolitan RTOs.

Markets for private fee-paying clients remain the most important income sources for non-TAFE RTOs – around six and five in ten of all RTOs are competing for fee-paying individual and industry/enterprise clients respectively. Comparatively fewer RTOs are competing for government funds in contestable markets. About half of all RTOs identified fee-paying individual and industry/enterprise clients among their three main sources of income, and between three and four in ten identified government-funded contestable markets among their main income sources. In effect, since the establishment of contestable funding markets in the mid-1990s, therefore, government has become such a major source of revenue many for non-TAFE RTOs. Over half (51%) of all RTOs (including TAFEs, who comprised only 7% of the total respondent population) derived at least half of their total VET revenue in 2000/2001 from government sources.

During the 1990s, competition between and among TAFEs and non-TAFE providers appears to have increased in both quasi-markets and open and commercial markets for VET. Although the survey data suggest that the degree of competition is greater in commercial markets for VET, there are large proportions of TAFE and non-TAFE providers competing for contestable government funds. Between four and five in ten RTOs are competing for funds/clients in competitive tendering and User Choice markets. Competition has increased ‘greatly’ since the introduction of contestable funding processes, according to over a half of all TAFEs and over one third of all RTOs. The degree of competition appears to be higher in User Choice than competitive tendering markets. Reflecting the large influx of RTOs into rural/regional markets, competition therein has increased to a greater extent than in metropolitan markets.

Despite efforts by government to place public and private VET providers on an equal footing through ‘competitive neutrality’ arrangements, this study found that the ‘playing field’ is far from being level. Around half of all TAFEs and RTOs as a whole identified at least one factor that restricts their capacity to compete effectively. Overall, the most significant restriction on RTOs as a whole (42%), and the second most significant restriction on TAFEs (46%), is the capital costs of entering new markets. Although 17% of all RTOs, and 7% of TAFEs, identified government training regulations as a restrictive factor, this proportion is lower than expected in the light of prior research. This suggests that government reforms during the later 1990s have succeeded to some extent in reducing regulatory and bureaucratic constraints on provider competition.

The main restriction on TAFE’s competitiveness is industrial awards and conditions for teachers/trainers (51%), and the costs of meeting community service obligations (39%) are also significant. By far the most significant restrictions on rural/regional RTOs are their geographical location (particularly thin markets on the demand side) (34%), while the difficulties experienced in attracting or retaining experienced or qualified teachers/trainers (27%). None of these latter restrictions are addressed in any way under ‘competitive neutrality’ arrangements, and all place the affected providers at a significant competitive disadvantage.

As each of these restrictions was inherited from the pre-market era, as a whole they serve to highlight the fact that the construction of quasi-markets has not occurred on a blank slate. Each factor increases the direct costs and/or uncertainty of operating in a market-driven

environment, and highlights the need for government to give further consideration to the differential modes of production that apply in TAFEs and rural/regional providers. In the absence of compensatory action, key policy objectives are likely to be compromised, including efficiency, quality, flexibility, and access and equity, in addition to continuity of supply and the viability of thin markets in rural/regional areas.

Provider responses to market reform

This study investigated some of the ways in which VET providers are being affected by, and responding to, the new contestable funding environment. A majority of both TAFEs and RTOs as a whole reported that revenue had increased during the period from 1998-2001, although mostly to a minor degree. Private rather than government sources contributed to these increases to a slightly larger degree, although seven in ten TAFEs and four in ten RTOs as a whole experienced increases in income under User Choice. A larger proportion of TAFEs than of all RTOs reported decreases in income from government via non-competitive and also competitive tendering processes.

Patterns of expenditure during the same period from 1998-2001 were found to vary between TAFEs and all RTOs in certain key respects. As a whole, RTOs increased their expenditure across-the-board on all items. Around half of both TAFEs and all RTOs had increased their expenditure on administration (e.g. planning and finances). Significantly more TAFEs than RTOs as a whole had increased their expenditure on marketing information and communication, and ancillary trading (e.g. industry consultants); and had decreased their expenditure on: direct delivery (i.e. teaching/training); curriculum development and maintenance; infrastructure maintenance (facilities/equipment); and student services.

Considerable variance was found to exist between the extent to which TAFE and RTOs have adopted revenue-generation strategies in response to increased market competition. With respect to revenue generation, all providers, but substantially more TAFEs than all RTOs, have been: developing new products and services for niche markets; implementing new training delivery systems (e.g. online and in workplaces); increasing their involvement in commercial industry/enterprise markets; increasing the range of fee-for-service courses for domestic fee-paying individuals; and increasing their involvement in export markets (on-shore and/or off-shore).

With respect to cost-reduction strategies, considerably more TAFEs than RTOs as a whole have been: increasing average class sizes; reducing face-to-face student contact hours; discontinuing courses/subjects/modules with low enrolments; and increasing the use of sessional teachers/trainers. A large majority of TAFEs were also found to be redirecting resources from low to high-demand areas of training provision, and placing higher priority on attracting full fee-paying clients than government-funded training places.

Overall, these findings suggest that TAFEs, to a much greater extent than most RTOs, have been engaged in a process of organisational restructuring to enable them to respond effectively to the demands of a more competitive and unpredictable market environment. In a context where TAFE institutes are guaranteed considerably less government funding on a recurrent basis, a more market-oriented system has necessitated greater responsiveness and flexibility in organisational strategy and infrastructure, especially in relation to human but also physical resources. At the same time, they have been refocusing their program profiles on commercial training markets, and vigorously pursuing a range of cost-reduction strategies in an effort to both manage the impact of declining government funds, and put themselves on a more competitive footing in all market segments.

Main outcomes of market reform

As the above discussion of key findings suggests, market reform has instigated a number of fundamental changes in the form and character of VET provision. But what have been the main outcomes and consequences of market reform in VET? To what extent have the key policy objectives and putative benefits ensued to date? In addressing these questions, the research findings about the key evaluation criteria are summarised briefly below.

Overall, the research for this study suggests that market reform in VET has produced a range of positive and negative outcomes as reflected in Table 63. However, this schematic representation is an oversimplification and needs to be read in conjunction with the accompanying text.

By and large, the conclusions reached below are necessarily tentative, due to the broad-scope nature of this study and the limitations of the research methodology (particularly the problem of attribution, the lack of baseline data, and the partial and subjective nature of the survey responses of senior RTO managers). The introduction of market mechanisms has triggered a complex chain of interactive effects that are often difficult to disentangle from one another and from other concurrent reforms. Considerable care must therefore be exercised when interpreting the results, some of which may be subject to differing interpretations. Nonetheless, this study has yielded results that shed light on a number of key trends and outcomes of market reform. Although not definitive, the survey findings and other evidence are akin to a weather vane pointing in the general direction of market reform outcomes.

Choice and diversity

Choice and diversity have increased in the VET sector as a result of market reform, although not to the same degree in all market sectors or for all VET clients. On the supply side, the number and range of providers has expanded, thereby giving purchasers and clients/users access to a potentially wider range of choices. Choice is relatively more restricted in rural/regional areas, as only one third of all RTOs are located outside metropolitan areas. However, as previously noted, substantial numbers of RTOs are competing for business and delivering nationally recognised training in rural/regional markets beyond their own locality. Despite the apparent influx of RTOs into rural/regional areas, the existence of thin markets on the supply side is an ongoing problem, especially in remote areas. As a consequence, competition and choice are highly restricted, and in some cases non-existent. This, together with other adverse effects, suggests that quasi-markets in VET are generally unviable in remote areas and many rural/regional areas.

The extent to which market reform has improved the range and diversity of VET programs and services is less clear-cut. Overall, the survey found that the range of 'training options' has increased under competitive tendering, and to a greater extent under User Choice. However, the evidence also suggests that full fee-paying clients may enjoy a wider range of training options and scope for choice than government-funded students. In the drive for efficiency in the face of low (or below-cost) unit prices and high transaction costs, it appears that the choice of whole courses and within-course training options for government-funded students may have diminished in TAFE. Training options appear to be relatively more numerous for clients under User Choice than in programs funded through both profile and competitive tendering arrangements.

The research suggests that the market power of clients to exercise choice, and thereby influence training decisions and outcomes, has increased under User Choice, but not under competitive tendering. However, two qualifications are required. Firstly, the content-related choices open to User Choice clients are restricted to a pre-determined range of industry-

mandated competency standards and packaging specifications in Training Packages. Secondly, other research suggests that the employer alone, rather than in conjunction with the apprentice or trainee, exercises choice-making power (Schofield 2000).

Efficiency

Efficiency is one of the more difficult outcomes of market reform to measure. The survey produced some evidence of efficiency gains from market reform, but these appear to be predominantly internal to providers, and generally confined to specific administrative and financial processes. The bulk of evidence from the survey however suggests that neither crude nor productive efficiency has ensued from training market reform. A majority of both TAFEs and RTOs indicated that the costs of training delivery have not declined, and that public VET funds are not used more efficiently, under either competitive tendering or User Choice arrangements. Despite the fact that providers have been rationalising and streamlining internal administrative and planning systems and processes – in addition to implementing a wide range of cost-reduction strategies – high transaction costs, and greater complexity and uncertainty in quasi-markets, appear to have discounted or cancelled out any efficiency gains.

As a consequence, a substantial majority of both TAFEs and all RTOs indicated that increased transaction (e.g. administrative and marketing) costs outweigh reductions in training delivery costs under contestable funding arrangements. Government efficiency drives – such as the Commonwealth ‘growth through efficiencies’ policy and State/Territory government efficiency dividends – have also undoubtedly taken their toll on TAFEs. However, the evidence provided by non-TAFE RTOs (who are not directly subject to such policies) suggests that the negative efficiency outcomes can be largely attributed to unintended effects of market reform, in particular high transaction costs. The accumulation of such effects appears to have eroded potential efficiency gains from VET markets at a systemic level.

Contrary to policy makers’ claims, the above findings suggest that the reformation of the publicly funded VET system along market lines involves ongoing costs that appear to be having counter-productive effects on efficiency, quality, and access and equity outcomes. As noted in the earlier examination of efficiency outcomes, high transaction costs are incurred on both the provider and purchaser sides of contestable funding markets. Such findings lend weight to the observation that the level of transaction costs associated with contestable funding processes ‘may be the most important reason for maintaining an area of non-market (public service) provision.’ (ACG 1994b, p.210)

Evidence that the quality of provision may have declined in TAFE under contestable funding arrangements suggests that productive efficiency, or ‘value for money’, has not been achieved, even though TAFEs are delivering a larger quantity of training per unit cost. The research data are insufficient to enable an assessment of the extent to which gains in productive efficiency have been achieved in the non-TAFE sector. Even if they have been, the fact that TAFEs continue to deliver the lion’s share of publicly funded VET suggests that any efficiency gains in the non-TAFE sector are likely to have had only a marginal impact at a systemic level. Moreover, the increasing reliance of a large proportion of private providers on government funding suggests that contestable funding processes may have resulted in unnecessary duplication between public and private VET providers, with potentially adverse implications for systemic efficiency.

Responsiveness

Provider responsiveness to client needs has almost universally increased as a direct consequence of market reform in VET. In general, responsiveness to client needs has

increased to a greater extent under User Choice than competitive tendering. Closer and more direct relations between providers and clients have also been achieved under both market mechanisms. However, the survey findings show that some client groups have fared better than others. Specifically, the data suggest that employers, rather than individual students or apprentices/trainees, are the major beneficiaries of increased provider responsiveness under competitive tendering and User Choice. To the extent that enterprises are defined as the 'key clients of the training market' (ANTA 1996a, p.7), the survey findings suggest that market reform has produced the main outcome sought by government. As with any government policy in a democratic political system, the decision to prioritise enterprise needs over others in the publicly-funded VET system is open to question. This report is not the place to evaluate the legitimacy of an enterprise-driven VET system, which has been critiqued elsewhere (see, for example, Anderson 1998a,b, 1999; Billett 2004; Gonczi 1998).

On closer examination, the survey findings show that the needs of some enterprises have been better satisfied than others. Access for medium/large enterprises appears to have improved to a greater degree than it has for small enterprises, although a smaller majority of RTOs indicated that access for small enterprises has improved under User Choice. Neither market mechanism has improved access to TAFE for local/surrounding communities, although they appear to enjoy better access in some cases to non-TAFE RTOs. In effect, market reform in VET has been comparatively more successful in terms of increasing responsiveness to the needs of medium/large enterprises than it has been with respect to individual clients, small enterprises and local/surrounding communities.

Other outcome measures also cast the greater responsiveness promoted by market reform in a more problematic light. Market reform has increased the capacity of a majority of TAFEs to satisfy the needs of full fee-paying clients, but not government-funded clients. The converse applies to RTOs as a whole. According to a majority of TAFEs, neither market mechanism has improved the supply of skilled labour to industry, suggesting that the potential for skills shortages may increase over the medium to long term. Finally, a large majority of both TAFEs and RTOs as a whole said that neither market mechanism has increased employer investment in VET, despite this having been identified in official policy as a consequential outcome of increased provider responsiveness to industry needs. The survey data also suggest the need for an examination of the extent to which market reform may have encouraged cost-shifting by enterprises and substitution of public for private training resources.

Quality

The survey findings are somewhat equivocal on the question of whether the intended quality outcomes of market reform have eventuated. From a TAFE perspective, quality has not improved, and appears to have declined under both competitive tendering and User Choice. After increased transaction costs, a decline in the quality of VET provision was identified by both TAFEs and RTOs as a whole as one of the main negative outcomes of market reform. Although not conclusive, the survey data suggest that quality may have improved for a small proportion of non-TAFE RTOs, although more so under User Choice than competitive tendering arrangements.

Other circumstantial evidence pointing to a potential decline in quality includes the findings that a large proportion of TAFEs and all RTOs are: less inclined to share information and resources (due to commercial confidentiality considerations); diverting resources from training delivery to both administration and marketing (as a consequence high transaction costs); and giving higher priority to cost-reduction than quality improvement. Although a direct causal relationship cannot be established, the survey found that market reform has also been accompanied by reductions in expenditure by a significant proportion of TAFEs on key inputs that are likely to affect the quality of provision, including: direct delivery (i.e.

teaching/training); infrastructure maintenance (facilities/equipment); curriculum development and maintenance; and student services (e.g. counselling, child care). At the same time, the aforementioned cost-reduction strategies implemented by most TAFEs may well have eroded the basis for quality provision. These trends suggest that, in the absence of any effective monitoring of educational outcomes, the net effect of market reform in VET may be to force TAFEs, if not non-TAFE RTOs, to deliver cheaper rather than higher quality training.

Although a majority of all RTOs felt that skill outcomes for students and apprentices/trainees have improved in VET markets, a larger majority of TAFEs disagreed. A substantial majority of both TAFEs and non-TAFE RTOs also indicated that, as a consequence of increased contestability, their training provision is driven more by financial/commercial imperatives than by educational/skills formation objectives. Overall, the balance of evidence suggests that market reform has not improved quality in TAFE, but may have done so for some non-TAFE RTOs. However, persistent contractual non-compliance among private RTOs casts doubt on quality assurance under the AQTF (SCR 2003), which was in the early stages of implementation when the national survey of RTOs for this study was administered.

Flexibility and innovation

Market reform appears to have achieved consistently positive outcomes against two key policy objectives: flexibility and innovation. A sizable majority of both TAFEs and RTOs as a whole indicated that the flexibility of training delivery has increased, to a greater extent under User Choice than competitive tendering. Similarly significant majorities of both provider types indicated that product development and delivery is also more innovative as a result of market competition. Examples of such outcomes include the development of new products and services for niche markets, and the implementation of more flexible delivery systems.

Access and equity

The access and equity outcomes of market reform in VET appear to be generally negative. The survey findings suggest that access for women, unemployed people and disadvantaged groups has not improved under contestable funding arrangements from either a TAFE or non-TAFE perspective. Moreover, despite their increased responsiveness and flexibility, providers are generally no more able, or motivated, to satisfy the needs of designated equity groups or their local/surrounding communities than they were prior to market reform. The lack of improved correspondence between provider programs and services on the one hand, and the needs of the designated client groups on the other, suggests that quasi-markets have produced negative equity outcomes. Relatively more negative access and equity outcomes were reported by TAFEs than by non-TAFE RTOs, and by rural/regional RTOs than by metropolitan RTOs.

Other equity-related trends are a cause for further concern. A not insignificant proportion of both TAFEs and all RTOs indicated that they are more inclined to engage in the practice of 'cream-skimming' or adverse selection as a result of increased contestability. About half of all TAFEs and RTOs are also placing higher priority on attracting full fee-paying clients than government-funded training places. A small, but again not insignificant, number of TAFEs and all RTOs have increased fees and charges for government-funded students to a 'major' or 'moderate' extent. Overall, almost six in ten TAFEs, and four in ten RTOs as a whole, indicated that their VET provision is driven by efficiency objectives than by equity goals to a greater extent than prior to market reform. None of these trends is likely to enhance access and equity, and in combination may well have adverse consequences.

Table 63: Scorecard of the intended outcomes of market reform in VET (a)

	TAFE	All RTOs
Increased choice and diversity		
Increased diversity of providers	✓	✓
Increased diversity of training options	✓	✓
Increased client control over outcomes (b)	x✓	x✓
Increased efficiency		
Reduced costs of training delivery	x	x
More efficient use of public VET funds	x	x
Reduced costs of administration	x	x
Reduced complexity of administration	x	x
Reduced delivery costs outweigh increased transaction costs	x	x
Increased responsiveness		
Closer/more direct relations with clients	✓	✓
Increased responsiveness to individual student needs	x	✓
Increased responsiveness to apprentice/trainee needs	✓	✓
Increased responsiveness to industry/employer demand	✓	✓
Improved skills supply to industry	x	✓
Increased investment by industry/enterprises	x	x
Improved quality		
Improved quality of VET programs and services	x	✓
Improved skill outcomes for students/apprentices	x	✓
Increased flexibility		
Increased innovation		
Increased access and equity		
Improved access for small enterprises	x	✓
Improved access for medium/large enterprises	✓	✓
Improved access for local/surrounding communities	x	✓
Improved access and equity for women	x	x
Improved access and equity for unemployed people	x	x
Improved access and equity for disadvantaged groups (e.g. migrants, disabled)	x	x
Improved accountability for use of public VET funds (c)		
	x✓	✓

Notes:

- The respondent population comprised TAFE institutes (7%), ACE centres (12%), and other registered training organisations (81%).
- Client control over outcomes has increased under User Choice, but not under competitive tendering, from a TAFE perspective.
- Accountability for public VET funds has increased under User Choice, but not under competitive tendering, from a TAFE perspective.

It is still too early to reach any definitive conclusions about the access and equity outcomes of market reform in VET. More quantitative data are required about the access, participation and completion rates of disadvantaged and under-represented groups over time. Nonetheless, should the incremental tendencies revealed in this study remain unchecked, there is a risk that publicly-funded VET markets will become increasingly inaccessible and inequitable for women and disadvantaged groups, with adverse ramifications for labour market participation and social inclusion.

Global impact of market reform

Despite improvements in choice and diversity, internal efficiency, responsiveness, flexibility and innovation, the views of senior RTO managers are evenly divided over the question of whether market reform in VET has been a positive or negative development. From a sectoral perspective, the impact of market reform appears to have been more uneven. While a small net majority of private RTOs delivered a positive assessment of market reform, a net majority of both TAFEs (13%) and ACE centres (15%) delivered a negative verdict. A large proportion (42%) of RTOs as a whole indicated that, on balance, market reform has had a neutral impact on their RTOs, compared to 23% of TAFEs and 37% of ACE centres. Overall, therefore, market reform in VET appears to have affected a larger proportion of public than private VET providers, and with generally more negative results.

To some extent, these global assessments may have been influenced by the impact of contestable funding processes on the financial viability of VET providers. Just under one third of all RTOs identified revenue growth as one of the two main positive outcomes of contestable funding processes. Conversely, three in ten TAFEs nominated reduced revenue as one of the two main negative outcomes of competitive tendering. Around three in ten RTOs as whole, compared to around one in ten TAFEs only, said that their financial viability has improved in the context of contestable funding markets.

Market reform also appears to be changing the values, priorities and motivations of VET providers in significant ways, with potentially adverse consequences for the public interest. As a result of market reform, TAFEs are driven more by efficiency and financial/commercial objectives than by equity and educational/skills formation objectives. Such findings confirm the observation by TAFE Directors Australia (1999, p.18) that: 'The emphasis in TAFE is now on "the bottom line" and "efficiency" – not quality delivery'. Attracting full fee-paying clients and responding to short-term market demand have become relatively more important for TAFEs than competing for government-funded training places and responding to medium or long-term demand for skills. Overall, the imperatives of market competition appear to be overshadowing government policy and planning priorities as drivers of TAFE provision. In effect, doing business and remaining financially viable, if not profitable, seem to be incrementally supplanting the public interest role and responsibilities of TAFEs.

Efficiency gains may have been achieved as a result of market reform, at least internally to VET providers, but at what cost over the longer term? TAFEs have reduced production costs by retrenching ongoing teaching staff, switching to cheaper labour, increasing class sizes and reducing student contact hours. But such strategies are likely to diminish the depth and breadth of curriculum and teaching expertise in TAFE and decrease individualised attention for learners, thereby eroding the basis for high-quality program design and delivery and effective learning. The long-term implications of reduced or deferred expenditure on curriculum development and maintenance, capital infrastructure, and student services in TAFE are as yet unknown. Collectively, they are likely to contribute to a progressive 'hollowing out' of TAFE institutes as educational and community resources.

Such developments have potentially serious implications not only for the quality, responsiveness, flexibility and accessibility of VET programs and services, but also for the industries and communities that rely on TAFE institutes to underpin their economic and social capital through the provision of skilled workers and active citizens. The danger is that if such valuable resources reach a serious state of decay over time, only a massive injection of government funds could restore the public VET system to a standard required in a modern industrialised economy. In the wake of neo-liberal market reform and the consequential diminution of taxpayer support for 'big government', such a step may not be financially viable or politically feasible.

Further research and evaluation

Clearly, there is considerable scope for further research into the structure, composition and dynamics of VET markets, and a strong warrant to conduct follow-up evaluations of the impact and outcomes of market reform over the mid to long-term. With respect to further research, micro-studies of industry and geographic markets are required to determine the extent to which such markets meet the pre-conditions for success. More needs to be known about the competitive structure of such markets, and the impact of contestable funding processes on continuity of supply and the longer term viability and sustainability of quasi-markets, particularly in rural/regional areas.

Ideally, future evaluations of market reform in VET at a systemic level would be more detailed, comprehensive and based, where possible, on harder quantitative data about outcomes. More detailed evaluations of the outcomes of market reform against the following indicators are essential: efficiency (including transaction costs on both the purchaser and provider sides), quality, and access and equity. More comprehensive evaluations of market reform should measure outcomes against criteria that were only briefly touched upon in this study. The impact of market reform in VET on public accountability and provider values, priorities and motivations, together with their implications for trust, honesty and public interest objectives, are important focal points for such research.

The lack of client/user and teacher/trainer perspectives limited the ability of this study to evaluate the educational impact and skills formation outcomes of market reform to any great extent. Evaluations of individual student, apprentice/trainee and employer perceptions of the impact of market reform on provider responsiveness, program quality, and access and equity would be invaluable. Such studies would shed more light on a key question largely unaddressed by this evaluation: has market reform actually 'added value' to the quality and effectiveness of learning experiences and work-related outcomes from VET from a client/user perspective? Although difficult to organise, it would be desirable to construct sample populations comprising 'repeat customers', so as to illuminate changes in the nature of VET provision over time. In this way, it may be possible to determine whether or not markets in VET have achieved tangible and durable improvements from a client/user perspective.

Evaluations of teacher/trainer experiences and perceptions would provide significant insights into the ways that market reform in VET has affected: the quality, coherence and integrity of program design and delivery; the focus and emphasis of curriculum and learning materials, with respect to the balance between vocational and non-vocational content, and between generic and specific skills; the nature and spread of teachers' workloads between teaching and non-teaching duties, and implications for professionalism and morale in the VET workforce; learning and skill outcomes for students and apprentices/trainees; and the educational culture and priorities of providers. In combination with the findings of the present study and client/user evaluations, the perspectives of teachers would provide a more comprehensive and authoritative picture of market reform and its impact and outcomes from all angles.

Finally, the wider social and economic consequences of market reform in VET also require investigation, as the scope of this study was limited largely to the confines of the VET sector itself. As Bartlett et al (1998, p.280) argue, even when service providers in quasi-markets are efficient, they ‘may still be inefficient social organisations unless those negotiating contracts take steps to internalise (negative) external effects and manage any public good aspects of services’, including those that may occur in the longer term. Matters of particular concern relate to the impact of market mechanisms on: skills supply and labour market efficiency, participation and equity; small enterprises; cost-shifting and industry investment in workforce training; and skills and employment in specialised occupations, new and emerging industries, and rural/regional and economically depressed metropolitan areas in Australia, and the overseas countries from which Australian RTOs source students and other clients.

Closing reflections and future directions

Market reform and its outcomes need to be put into perspective. As noted at the outset of this report, the creation of quasi-markets in VET is a radical policy experiment for which there are few, if any, precedents. The task of redesigning longstanding hierarchical and bureaucratic institutions along market lines, based only on models derived from economic theory, was inevitably going to be a complex and problematic undertaking. Mistakes and modifications to the institutional framework for VET markets, in the light of experience, were to be expected. As Le Grand and Bartlett (1993, p.212) observe, ‘the issue of appropriate institutional design ... will undoubtedly require a long period of experimentation and disruption in the evolving quasi-market system.’ Market reform in VET has also been a learning experience and it was inevitable that costs would be incurred along the way.

In their minority report to the Senate Inquiry into the quality of VET (SEWRSBERC 2000), federal Coalition government senators noted that the anomalies and shortcomings of the VET reform process were ‘the inevitable consequence of any large-scale policy and administrative change’ (para.1.1). In their opinion, the final report of the full Senate committee of inquiry was best viewed:

... as a description of a training system in the process of transition. Any policy implementation as radical as this inevitably shows the marks of a break-through. What has been revealed in evidence has in many cases been the rough edges of implementation. (para.1.28)

This may well have been true at that time and throughout the process of transition. Similar arguments have been mounted in reviews of market mechanisms in VET, particularly User Choice (KPMG 1999; Schofield 1999a,b, 2000; Smith 1998).

However, the validity of arguments that the costs and failures of market reform in VET are short-term in nature and attributable to flawed implementation or management diminishes with time. At some stage, quasi-markets must emerge from the mists of transition to become, more or less, fully-fledged institutions. At such time, they must be evaluated on the relative strength or weakness of the outcomes they produce and be judged accordingly. Whether VET markets had reached maturity by the time of this study – for which the national RTO survey was conducted almost two years after evidence was tendered to the Senate inquiry – is a moot point. Even if VET markets were ripe for evaluation, it must be conceded that some long-run trends and consequences may not have become evident by the time of the present study.

The strength of the ‘poor management’ explanation for sub-optimal outcomes from market reform is questionable on other grounds. As Schofield (1999b) notes in her review of the Tasmanian traineeship system, the market for traineeships is, by definition, ‘a *managed* market’ (p.16, emphasis added). The policy, financial and regulatory arrangements through

which governments manage such markets are an integral part of, and indeed collectively constitute, the institutional framework of quasi-markets in VET. Put simply, were there no federal government policy or funding for User Choice, there would be no User Choice market. For the same reason, the caps on User Choice numbers in various State/Territory jurisdictions are as much a part of the architecture of VET markets as the foundation policy itself. As Taylor-Gooby and Lawson (1993) note with respect to public sector markets in the UK:

(T)he detail of implementation in terms of spending levels, monitoring apparatus, measures of the standard of provision and the responsibilities laid on providers and the political choices which shape the freedom of the operation of markets and the actions of managers are of fundamental importance. (p.141)

To argue then that government management of the market is in some way separate from the market itself, and responsible for any sub-optimal outcomes, is misconceived. Indeed, it could be argued with equal validity that imperfect management was the cause of inefficiencies under the bureaucratic structures that preceded quasi-markets in VET, rather than any inherent flaws in centralised state planning. If so, then the rationale for creating quasi-markets in the first place is problematic.

Nonetheless, markets for VET are in a constant state of evolution and their structure, composition and dynamics will change as a result of both government intervention and other external and internal factors. Based on quasi-market theory and research, in addition to suggestions by senior RTO managers, strategies for improving the structure, operations and outcomes of VET markets are proposed in this report (see Part VI). Whether such changes produce the desired effects, and how these in turn interact with other elements of the policy, financial and regulatory architecture of VET markets, will need to be carefully monitored and evaluated.

This research has identified several beneficial and detrimental effects of contestable markets in VET. Some of the purported benefits of market reform in VET remain unproven, even if not entirely disproved. Additional data are required before clear-cut conclusions can be reached. On balance, however, the weight of available evidence suggests that if current trends continue, negative outcomes are likely to increasingly outweigh positive outcomes. The outcomes of market reform in VET appear to be positive in relation to: choice and diversity; responsiveness (to medium/large enterprises and fee-paying clients); flexibility; and innovation. Conversely, the outcomes of market reform in VET appear to be generally negative in relation to: efficiency (due largely to high transaction costs and complexity); responsiveness (to small enterprises, local/surrounding communities, and government-subsidised students); quality; and access and equity. The research also raises questions about the impact of market reform on public interest objectives (including community service obligations and public accountability), thin markets, and the financial viability of providers, particularly TAFEs and small RTOs.

A comparative study of TAFEs and private providers during the early phase of market development in 1992 to 1993 found that a process of public-private inversion had been set in train by government policies to create a competitive training market (Anderson 1994). On the one hand, private for-profit providers were found to be operating increasingly within government frameworks for training recognition, funding and regulation. As a result, they were assuming certain characteristics normally associated with public providers, and losing an element of their 'privateness' in the process. On the other hand, public TAFE providers were becoming more market-oriented, client-focussed and entrepreneurial in their approach to training. In the process, they were progressively shedding some aspects of their public sector culture and adopting characteristics and behaviours redolent of private sector colleges, with a corresponding dilution of their 'public-ness'. Although the training market remained heavily

segmented and bifurcated along public/private lines, the traditionally rigid boundaries separating TAFEs from their private sector counterparts were found to be blurring:

Basic differences persist between commercial and TAFE colleges, particularly in relation to their respective sources of finance, which serve to differentiate them clearly from each other in terms of constituting 'private' and 'public' sectors of training. Nevertheless, the 'blurring of the boundaries' between 'public' and 'private' currently underway in the 'open training market' is inexorably altering the face of training in profound and unexpected ways. In a sense, public and private sector providers are trading places in the context of an increasingly fluid and dynamic training market. (p.211)

The findings of the present study suggest that the processes of sectoral inversion and convergence between public and private providers of VET continued unabated throughout the 1990s and after. By the early 2000s, it had become more difficult to discern clear organisational distinctions and sectoral boundaries between TAFEs and private RTOs. On the one hand, TAFEs were diversifying rapidly into new commercial domestic and export markets for VET, and delivering a significant proportion of their training outside NTF. They have undoubtedly become more entrepreneurial and business-like, and less reliant on government funds as a consequence. On the other hand, there has been a massive increase in private RTOs seeking government recognition and access to contestable funding markets. A substantial number of private RTOs are now operating within the NTF, and have become heavily reliant on public VET funds in the process. In effect, both TAFEs and private RTOs are now in the business of trading places in both open and commercial markets and the newer quasi-markets for VET programs and services – wherein private customers and governments purchase training places in accordance with their individual preferences and policy priorities or user choices respectively.

The findings of the present study suggest that public and private providers are also trading places in another important respect, although in this instance the process is more uni-directional. The survey responses of many senior TAFE and ACE managers indicate that their organisations have undergone a profound process of cultural change, with provider personnel developing the skills, attitudes and motivations typically associated with entrepreneurialism and private enterprise. In part, this has been a survival strategy necessitated by the increasingly competitive nature of the VET sector. The survey evidence suggests that the insertion of market mechanisms into the publicly funded VET sector has been instrumental in driving this shift in the organisational values, priorities and orientations of TAFEs, ACE centres and their staff. Although TAFEs and ACE centres remain committed (or at least obligated) to honour community service obligations, and dedicated to the pursuit of access and equity goals for women, disadvantaged groups and their local communities, these objectives are being increasingly subordinated to efficiency and financial/commercial imperatives and the demands of large industry and employers.

Conversely, although private RTOs are delivering a significant proportion of publicly funded training places, they do not appear to be adopting organisational values and objectives aligned to the public interest. Almost six in ten RTOs said their provision is driven more by market demand than by government policy and planning priorities, as a result of contestable funding, despite the fact that they are receiving considerable amounts of public VET funds. Only two in ten RTOs indicated that they were not more market-driven than before. In effect, a large majority of both TAFEs and RTOs as a whole have become more market-driven, and less responsive to government policy and planning priorities, as a consequence of market reform in VET. This suggests that the apparent trading of traditional public service values for new market-oriented values in TAFE is not being matched by a corresponding reorientation of the culture and motivations of private RTOs towards public interest objectives.

Such trends have potentially significant implications not only for provider diversity and client choice, but also for the ability of government to 'steer from a distance' through arm's length contractual relations and purchasing agreements with service providers. In particular, they raise questions about the extent to which TAFE institutes in particular, and the publicly funded VET system in general, can be used effectively as an instrument to produce public goods that are under-supplied by the market. Drawing on European experience of diversified public welfare sectors in a context of weak central government control, Taylor-Gooby and Lawson (1993) conclude that 'the success of the centre in imposing its objectives on a plural system is not a foregone conclusion' (p.149). Similarly, Walsh (1995a) contends that as a result of the separation of strategy and practice: 'There is a danger that the introduction of market mechanisms for the management of the public service will make it difficult to adjust to changed circumstances and make policy change.' (pp.255-256)

The recent changes to User Choice and training market policy in various jurisdictions suggest that State/Territory governments are coming to the realisation that:

The real question is whether central government, having unleashed both providers and service consumers from the restrictions of a bureaucratic state, will succeed in using the new managerial techniques (including the use of market mechanisms) to contain demands on the system. (Taylor-Gooby and Lawson 1993, p.149, parenthetic phrase added)

With restricted budgets and political commitments to promote both efficiency and equity through publicly funded VET, it would appear that government is starting to recognise the limits of markets, particularly their inability to contain demand and ration supply in accordance with public interest objectives.

In the light of these considerations, the apparent trading of old for new values in TAFE is a cause for considerable concern. The potential implications of this values-shift are immeasurable, as the institution of publicly funded VET ultimately draws its primary *raison d'être* and *modus operandi* from its contribution to the common weal. Should the balance of values and priorities in TAFE shift too far away from the public interest, then the legitimacy of policies to maintain a publicly funded VET system could be seriously compromised, if not irrevocably undermined.

In broad terms, the findings of this study suggest the need to address actual or potential flaws in current market arrangements in VET, particularly those relating to transaction costs and uncertainty, thin markets in remote and rural/regional areas, the quality of provision and skill/educational outcomes, and access and equity. In doing so, it will be necessary to strike a better balance between market and state, and one which goes beyond the constraints imposed by the false dichotomy of 'either-state/or-market' alternatives. The real challenge is to find a middle path involving a more creative and judicious mix of market and non-market elements so as to promote the public interest more effectively than current policy settings would appear to be doing:

The issue is not so much whether or not we should use market mechanisms in the public realm, but how to make them work given its distinctive character ... In order to do so, we need to develop the power of judgment, which involves the ability to weigh values one against the other in order to reach acceptable conclusions (in the public interest) ... The introduction of market mechanisms has highlighted our limited understanding of the nature of government, and how market processes might contribute to it. The next stage of development of the organisation of public services needs to create an approach that recognises the limits both of markets and bureaucracy, and the need for government as well as management. (Walsh 1995a, pp.256-257, parenthetic phrase added)

In redesigning the current mix of state and market mechanisms, however, it would be desirable to first define and test the ‘public interest’ in VET against a range of social, economic and educational criteria, and to involve the full range of key stakeholders in the process (Anderson 1998a,b, 2000c; Billett 2004). The evaluation framework devised by the National Competition Council (1999) for conducting Public Interest Tests prior to the application of national competition principles in a particular jurisdiction could be adapted for this purpose (see Figure 7). With this approach, the trading of places in publicly funded VET markets is more likely to serve the needs, interests and aspirations of individual learners, industry and the community at large.

Figure 7: The National Competition Policy Public Interest Test

Under clause 1(3) of the Competition Principles Agreement, governments take into account the following factors when assessing the merits of reforms in relation to competitive neutrality, anti-competitive legislation and the structure of public monopolies:

- government legislation and policies relating to ecologically sustainable development
- social welfare and equity considerations, including community service obligations;
- government legislation and policies relating to matters such as occupational health and safety, industrial relations and access and equity;
- economic and regional development, including employment and investment growth;
- the interests of consumers generally or of a class of consumers;
- the competitiveness of Australian businesses; and
- the efficient allocation of resources.

The list is open-ended, meaning that any other relevant matter should also be considered when assessing the case for a competition reform.

Source: National Competition Council (1999)

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Access and equity

A policy or set of strategies to make vocational education and training available to all members of the community, to increase participation and to improve outcomes, particularly focussing on those groups that have been traditionally under-represented, especially women, indigenous Australians, people with a disability, people from a non-English-speaking background, and people from rural and remote areas.

Adult and Community Education (ACE)

Organisations and providers that deliver adult and community education programs, and in many instances vocational education and training programs, including: evening and community colleges, community-based adult education centres, neighbourhood houses, and Workers Educational Associations. Generally, defining features of ACE are that it is learner-centred, responsive to community, accessible, diverse, and flexible.

Australian National Training Authority (ANTA)

The Commonwealth Government statutory authority with responsibility from 1993 to July 2005 for: the development of national policy, goals and objectives for the VET sector; the development, management and promotion of the National Training Framework; the administration and funding of national programs; and the collection and analysis of national statistical data on the VET system. In July 2005, responsibility for these functions was transferred to the Commonwealth Department of Education, Science and Training.

Australian Qualifications Framework (AQF)

A nationally consistent set of qualifications for all post-compulsory education and training.

Australian Quality Training Framework (AQTF)

Nationally agreed recognition arrangements for the vocational education and training sector. The Australian Quality Training Framework is based on a quality-assured approach to the registration of organisations seeking to deliver training, assess competency outcomes, and issue Australian Qualifications Framework qualifications and / or Statements of Attainment. It ensures recognition of training providers and qualifications and statements of attainment across Australia. Introduced in 2001, the Australian Quality Training Framework superseded the Australian Recognition Framework, which applied at the time of this study.

Australian Recognition Framework (ARF)

See Australian Quality Training Framework

Community service obligations

Socially valuable, but commercially unprofitable, activities which are likely to be under-produced in a fully competitive market context.

Competitive neutrality

The situation where no provider, public or private, has a competitive advantage or disadvantage as a result of government policy regulations. The underlying aim is to create a 'level playing field' on which providers compete on an equal footing.

Competitive tendering

The practice of public and/or private providers bidding against each other for government contracts (and hence public funds) to deliver vocational education and training programs and services, generally in the form of training places. A 'monopsony' (single buyer) generally exists within competitive tendering markets, with state training authorities purchasing training places on behalf of individual clients within their own market jurisdictions.

Contestability

The situation in which firms enjoy relative ease of market access and exit, thereby increasing the level of potential competition. In a contestable market, the threat of new entrants causes incumbent firms to operate at levels approaching those expected in a competitive market. In the Australian vocational education and training sector, public funding is allocated on a contestable basis in competitive tendering and user choice markets.

Cream-skimming

Otherwise referred to as 'adverse selection', cream-skimming denotes the practice whereby providers or purchasers discriminate between users in favour of those who are least expensive. In the context of VET markets, cream-skimming occurs when providers select government-subsidised clients who are less likely to be eligible for fee concessions and/or who are more likely to complete their training with minimal levels of support.

Deregulation

The removal of regulations that control or restrict the operations of an industry or enterprise.

Direct (profile) funding sector

The sector in which government funds are allocated directly to TAFE institutes, via state training profiles, on a non-contestable basis.

Efficiency

In general terms, efficiency refers to the situation in which a producer maximises the output of a particular product with given inputs and production processes. In this report, two types of efficiency are considered. 'Crude efficiency' refers to a reduction in the total costs of service delivery, regardless of whether the quality or quantity of output is maintained. 'Productive efficiency' refers to a minimisation of the costs of delivering a given quality or quantity of a service - i.e. more outputs per input or the same outputs for reduced inputs - which is often referred to as 'value for money'. 'Allocative efficiency' is another form of efficiency, wherein resources are allocated in a way that maximises the net benefit attained through their use, and produces proper quantities of the products that consumers value most. However, it is not considered in this report due to its absence in quasi-market theory and policy literature.

Fee-for-service training

Training for which most or all of the cost is borne by the individual student, or a person or organisation on behalf of the student.

Group training company (GTC)

An organisation which employs apprentices and trainees, and places them with one or more host employers who are usually small to medium-sized businesses. The host employers provide on-the-job training and experience, while the group training company organises off-the-job training, and handles recruitment, rotation and payroll. Group training companies can also become registered training organisations in order to deliver training to their apprentices and trainees, and may in some cases deliver fee-for-service training.

National Training Framework (NTF)

A set of common rules and standards for market conduct and performance that apply nationally to the government-funded vocational education and training sector. The four main inter-related elements of the National Training Framework are the: Australian Qualifications Framework; Australian Recognition Framework/Australian Quality Training Framework; New Apprenticeships; and Training Packages.

New Apprenticeships

An umbrella term for the new national apprenticeship and traineeship arrangements which came into effect on 1 January 1998. The main characteristics of New Apprenticeships include a contract of training between employer and apprentice or trainee, public funding and support for employers, choice of training provider, a wider range of occupations and industries than previously, competency-based training using national training packages, apprenticeships in schools, and a continued role for group training companies.

New Apprenticeships Centre (NAC)

Federally funded agencies that provide advice and assistance to employers and apprentices with training agreements and financial incentives under the New Apprenticeships scheme.

Non-TAFE provider

Registered training organisations other than TAFE institutes, including commercial providers (providing courses to industry and individuals for profit); adult and community education centres (non-profit organisations, funded by government or community sponsors); enterprise providers (private companies or other organisations providing training mainly for their own employees); group training companies; government organisations (providing courses for their own employees); industry and professional associations (organisations providing training to members across an industry); secondary schools; universities; and other organisations providing training (e.g. non-profit agencies, such as indigenous community organisations or trade unions providing training for their employees and/or constituents).

Open and commercial markets

Markets are those in which vocational education and training providers compete to deliver fee-for-service programs and services to private fee-paying clients, both in Australia and overseas. They include domestic markets for fee-paying industry/enterprise and individual clients, and export markets for on-shore overseas students and off-shore fee-paying clients. Open and commercial markets are genuine free markets in the conventional economic sense.

Private provider

A non-government or independent training organisation, including commercial providers (providing courses to industry and individuals for profit), including business colleges; enterprise providers (private companies or other organisations providing training mainly for their own employees); and industry and professional associations (organisations providing training to enterprises across an industry).

Quasi-market

Quasi-markets operate according to the principles of choice and competition, and replace monopolistic state providers with competitive independent ones. They are 'quasi' because they differ from conventional free markets in key ways: providers compete for public contracts, rather than private fee-paying clients; consumer purchasing power is either centralised in a single purchasing agency (as in the competitive tendering market) or allocated to users in the form of vouchers rather than cash (as in the user choice market); and, in some cases, consumers are represented by agents (e.g. New Apprenticeship Centres) instead of operating by themselves. By subjecting the financing and provision of public services to competition, quasi-markets are intended to overcome the perceived defects of traditional public service approaches to resources allocation. Theoretically, quasi-markets offer the possibility of promoting 'increased efficiency, responsiveness and choice, without adverse consequences in terms of increased inequity' (Le Grand and Bartlett 1993, p.19).

In recent years, the Australian VET sector has been reformed along the lines of the 'quasi-market' model. This represents a radical departure from the preceding approach, which was characterised by centralised planning, hierarchical authority, bureaucratic control, and the delivery of services through state-owned and operated TAFE providers.

Registered training organisation (RTO)

An organisation registered by a State or Territory recognition authority to deliver training and/or conduct assessments and issue nationally recognised qualifications in accordance with the Australian Quality Training Framework. RTOs include TAFE institutes, adult and community education centres, commercial training providers (including business colleges), enterprise training providers, government enterprises, industry and professional associations, schools, universities, and other organisations meeting the registration requirements.

State training authority (STA)

The body in each State or Territory responsible for the operation of the vocational education and training system within that jurisdiction. Each State or Territory training authority participates in the formulation of national policy, planning and objectives, and promotes and implements the agreed policies and priorities within the state or territory.

State training profile

A report which outlines the planned or actual provision of publicly-funded VET in a State or Territory, as negotiated between state training authorities and TAFE institutes. At the time of this study, plans were also sent to the Australian National Training Authority and were used in determining Commonwealth funding to States and Territories for VET provision.

Student contact hours

The total nominal hours (supervised) for the modules of training undertaken.

Technical and Further Education (TAFE)

A publicly funded, post-secondary organisation which provides a range of technical and vocational education and training courses and other programs (e.g. entry and bridging courses, language and literacy courses, adult basic education courses, Senior Secondary Certificate of Education courses, personal enrichment courses, and small business courses). Each State and Territory has its own TAFE system, which comprises a number of institutes.

Training Package

An integrated set of nationally endorsed standards, guidelines and qualifications for training, assessing and recognising people's skills, developed by industry to meet the training needs of an industry or group of industries. Training Packages consist of core endorsed components of competency standards, assessment guidelines and qualifications, and optional non-endorsed components of support materials, such as learning strategies, assessment resources and professional development materials.

Transaction costs

The costs involved in making exchanges in a market context. Transaction costs can be transitional or ongoing in nature, and take the form of *ex ante* (before) and *ex post* (after) costs. Such costs may arise from the introduction of new organisational and managerial systems, including new information, marketing/communications, planning and financial management systems; contract preparation, development and letting; contract monitoring and compliance; and performance reporting and auditing. Complexity and uncertainty in markets generally increase transaction costs.

User Choice

A quasi-voucher scheme that empowers clients to exercise greater choice in the context of the New Apprenticeship scheme. In the User Choice market, employers in conjunction with their employees (apprentices and trainees), or their agents, choose their preferred provider (a TAFE or non-TAFE RTO), with whom they negotiate a customised training plan. Government funds for VET delivery are then directed to the chosen provider. By empowering clients in this way, user choice aims to stimulate greater competition among registered training organisation, and thereby drive improvements in provider efficiency, quality and responsiveness to client demand (ANTA 1996).

Appendices

Appendix 1: Technical note

The method used to identify the population and construct the sample for the national survey of Registered Training Organisations (RTOs) is explained below. The resulting response rate is also analysed by provider type, State/Territory of registration, and geographical location.

The population and sample

The population for the survey was all RTOs, and the study is based on a sample of these RTOs. The sample was selected from the National Training Information System (NTIS), a list of all RTOs maintained by the Australian National Training Authority (ANTA). Editing of the NTIS list was required to remove inconsistencies. TAFE institutes were selected from a separate list supplied by TAFE Directors Australia. Five TAFE-related entities listed separately on the NTIS were added.

The classification of providers employed to select the sample is based on the categories used in the NTIS: *Adult and Community Education* includes Adult Education Centres, Adult Migrant Education Providers and Community Access Centres; and *Government* includes Licensing Authorities, Local Government and other government providers.

Table A1: Number of RTOs by provider type and State of registration

<i>Provider type</i>	<i>ACT</i>	<i>NSW</i>	<i>NT</i>	<i>QLD</i>	<i>SA</i>	<i>TAS</i>	<i>VIC</i>	<i>WA</i>	<i>Total</i>
<i>Adult & Community Edn</i>	4	133	8	57	5	12	290	8	517
<i>Commercial</i>	53	507	4	532	2	53	318	154	1623
<i>Enterprise</i>	0	113	4	145	0	11	124	10	407
<i>Government</i>	23	75	0	43	0	7	3	14	165
<i>Industry & Professional</i>	6	69	4	50	4	6	225	38	402
<i>Other</i>	7	39	55	19	274	2	7	452	855
<i>School</i>	15	8	6	67	2	31	106	11	246
<i>University</i>	0	1	1	5	0	1	0	3	11
<i>TAFE</i>	1	12	3	17	10	1	20	16	80
<i>Total</i>	109	957	85	935	297	124	1093	706	4306

Source: ANTA National Training Information System (NTIS).

Note: The NTIS included an unknown, but not insignificant, number of RTOs that had either ceased to exist, or had not renewed their registration, at the time the survey was conducted.

The total sample size was 2,581 RTOs, which corresponds to an overall sampling fraction of 59.9%. The sample was stratified by: State/Territory of registration of RTO; and provider type.

Table A2 shows the number of RTOs that were included in the sample from each stratum. Higher sampling fractions were used for strata that were more important from a public policy perspective or where the small cell size was likely to yield too few responses. The higher sampling fractions were:

- 100% for the ACT, the Northern Territory and Tasmania;
- 100% for schools, TAFEs and universities; and
- 75% for Adult and Community Education in the five mainland States.

Table A2: Designed sample of RTOs by provider type and State of registration

<i>Provider Type</i>	<i>ACT</i>	<i>NSW</i>	<i>NT</i>	<i>QLD</i>	<i>SA</i>	<i>TAS</i>	<i>VIC</i>	<i>WA</i>	<i>Total</i>
<i>Adult & Community Edn</i>	4	100	8	43	4	12	218	6	395
<i>Commercial Provider</i>	53	254	4	266	1	53	159	77	867
<i>Enterprise Provider</i>	0	57	4	73	0	11	62	5	212
<i>Government</i>	23	38	0	22	0	7	2	7	99
<i>Industry & Professional</i>	6	35	4	25	2	6	113	19	210
<i>Other</i>	7	20	55	10	137	2	4	226	461
<i>School</i>	15	8	6	67	2	31	106	11	246
<i>University</i>	0	1	1	5	0	1	0	3	11
<i>TAFE</i>	1	12	3	17	10	1	20	16	80
<i>Total</i>	109	525	85	528	156	124	684	370	2581

Response rates

The questionnaire was sent to 2,581 RTOs. Useable responses were received from 841 RTOs. Hence, the total estimated response rate was 32.6%. The actual response rate, however, is probably higher because the NTIS included an unknown, but not insignificant, number of organisations that had ceased to trade as RTOs by the time of the survey.

Provider type

Table A3 shows the classification of RTOs used in the survey.

Table A3: NTIS and survey typologies of RTOs

<i>NTIS RTO typology</i>	<i>Survey typology of RTOs</i>
TAFE	TAFE or technical college (including TAFE divisions of universities)
SCHOOL	Secondary school
UNIVERSITY	University
ADULT & COMMUNITY EDN	Adult or Community Education Centre
COMMERCIAL	Business College Commercial training provider (other than Business College) Commercial subsidiary of a school, TAFE or university
ENTERPRISE	Enterprise trainer (i.e. training own firm's employees only)
INDUSTRY & PROFESSIONAL	Professional or industry association Group Training Company Industry Skills Centre
OTHER	Other
GOVERNMENT	Not applicable

The two largest NTIS categories were subdivided into secondary categories to permit closer and more detailed analysis of the survey results for distinct provider types, and to enhance comparability with ABS data collections, as follows:

- ‘Commercial’ was subdivided into three categories: commercial subsidiary of a school, TAFE or university; Business College; and commercial training provider (other than Business Colleges); and
- ‘Industry & Professional’ was subdivided into three categories: Group Training Companies (GTCs); Industry Skills Centres (ISCs); and Professional or Industry associations.

The distribution of respondents among provider types is shown in Table A4, which also presents response rates for the NTIS RTO typology. Overall, 71% of TAFEs and 31% of non-TAFE RTOs responded to the survey. At least one quarter of the following types of non-TAFE RTOs responded: School RTOs (25%); Adult and Community Education RTOs (25%); Commercial RTOs (40%); Enterprise RTOs (38%); and Industry & Professional RTOs (48%). Less than one quarter of Other RTOs (17%) responded.

Table A4: Sample and respondent populations by RTO type (a)

<i>NTIS RTO TYPES (b)</i>	<i>Designed sample (n)</i>	<i>Achieved sample (n)</i>	<i>Response rate (%)</i>
<i>TAFE (c)</i>	80	57	71
<i>SCHOOL</i>	246	61	25
<i>UNIVERSITY</i>	11	1	9
<i>ADULT & COMMUNITY EDN</i>	395	99	25
<i>COMMERCIAL (d)</i>	867	348	40
Commercial subsidiary of a school, TAFE or university		4	
Business College		49	
Commercial training provider (other than Business College)		295	
<i>ENTERPRISE</i>	212	80	38
<i>INDUSTRY & PROFESSIONAL (e)</i>	210	101	48
Group Training Company		27	
Industry Skills Centre		27	
Professional or industry association		47	
<i>OTHER</i>	461	77	17
<i>GOVERNMENT (f)</i>	99		
Subtotal of non-TAFE RTOs (g)	2501	767	31
Null (h)	N/A	17	N/A
TOTAL	2581	841	33

Notes:

- The NTIS included an unknown, but not insignificant, number of RTOs that had ceased to exist by the time of the survey. Hence the number of RTOs in the designed sample is an over-estimate and the corresponding response rate is an underestimate.
- ‘NTIS RTO Types’ refers to the categories of RTOs used in the ANTA National Training Information System (NTIS), and are shown in bold, capitalised italics. Two NTIS categories (‘Commercial’ and ‘Industry & Professional’) were subdivided into secondary categories for the survey to enable closer and more detailed analysis of the survey results for distinct provider types, such as Group Training Companies (GTCs) and Industry Skills Centres (ISCs), and to enhance comparability with ABS data catalogues. These sub-categories are shown in normal lettering under relevant NTIS categories.
- ‘TAFE’ includes all TAFE institutes and five TAFE-related entries listed on the NTIS.
- ‘Commercial’ includes: commercial subsidiaries of a school, TAFE or university; Business Colleges; and commercial training providers (other than Business College).

- e) 'Industry & Professional' includes: Group Training Companies; Industry Skills Centres; and Professional or Industry associations.
- f) 'Government' refers to government agencies listed as RTOs on the NTIS. The survey did not include a separate provider type for such RTOs as they are generally not identified as a distinct category of education and training provider in ABS surveys. Government agencies that responded to this survey were required therefore to self-select an appropriate provider type from the categories listed in the questionnaire.
- g) 'Non-TAFE RTOs' includes all provider types, excluding 'TAFE or technical colleges (including TAFE divisions of universities)'.
- h) 'Null' refers to providers who were no longer registered at the time of the survey and others that did not nominate a provider type for their RTO.

As the NTIS category of 'Government' RTOs was not used for this survey, a corresponding response rate cannot be calculated. Conversely, as none of the following RTO types used in this survey is listed separately on the NTIS, individual response rates cannot be calculated: 'commercial subsidiary of a school, TAFE or university'; 'Business College'; 'commercial training provider'; 'Group Training Company (GTC)'; 'Industry Skills Centre (ISC)'; and 'Professional or Industry association'. However, as shown in Table A4, their individual responses have been aggregated under the NTIS categories of 'Commercial' and 'Industry & Professional' for the purposes of calculating response rates against the original sample frame.

Table A5: Provider type by designed and achieved samples (%)

	<i>Designed sample</i>	<i>Achieved sample</i>
TAFE or technical college (including TAFE divisions of universities)	3	7
Secondary school	10	7
University	0	0
Adult or Community Education Centre	15	12
<i>Commercial (a)</i>	34	42
Business College		6
Commercial training provider (other than Business College)		36
Commercial subsidiary of a school, TAFE or university		0
Enterprise trainer (i.e. training own firm's employees only) (b)	12	10
<i>Industry and Professional (c)</i>	8	12
Professional or industry association		6
Group Training Company		3
Industry Skills Centre		3
Other	18	9
TOTAL (d)	100	100

Notes:

- a) 'Commercial' includes: commercial subsidiaries of a school, TAFE or university; Business Colleges; and commercial training providers (other than Business College).
- b) 'Enterprise trainer' includes the two NTIS categories of "Enterprise" and 'Government'
- c) 'Industry & Professional' includes: Group Training Companies; Industry Skills Centres; and Professional or industry associations.
- d) Due to rounding, percentages in this table may not total 100%.

The designed and achieved samples for the provider types used in the survey are shown in Table A5. The data show that TAFEs accounted for 7% of the total achieved sample. Commercial training providers comprised the largest group of respondents, accounting for 36% of the total achieved sample. ACE centres accounted for 12% of the total achieved sample. Enterprise trainers accounted for 10%, 'other' RTOs accounted for 9%, secondary schools accounted for 7%, and both Business Colleges and professional or industry associations accounted for 6%.

States and Territories

The distribution of respondents by State/Territory of registration is shown in Table A6. As the data indicate, the response rate for Victorian RTOs was 29%, whereas all other States/Territories had response rates of 30% or higher. Although the response rate for South Australian RTOs was comparatively high, the overall response rates by State/Territory of registration are fairly evenly spread.

Table A6: Sample and respondent populations by State/Territory of registration

	ACT	NSW	NT	QLD	SA	TAS	VIC	WA	Not Regd (a)	Total
Sample population (n)	109	525	85	528	156	124	684	370	N/A	2581
Respondent population (n) (b)	38	158	35	163	88	44	199	111	11	841
Response rate (%)	35	30	41	31	56	35	29	30	N/A	33

Notes:

- 'Not Regd' denotes Not Registered.
- Respondent populations for QLD, VIC and WA include 'Null responses', which denotes respondents who identified their State/Territory in which they are located (as they were requested to do), but did not to nominate a provider type.

Geographical location

Response rates by provider type and geographical location are shown in Table A7. As the data show, 64% of respondents were located in metropolitan areas and 36% were located in rural/regional areas. Unlike other provider types, a majority of TAFE institutes and ACE centres are located in rural/regional areas.

Table A7: Response rates by provider type and geographical location (%)

	Rural/regional	Metropolitan	% of total
Secondary school	49	51	7
TAFE or tech. college (incl. TAFE divisions of unis)	59	41	7
University	0	100	0
Commercial subsidiary of school, TAFE or uni	25	75	0
Adult or Community Education centre	53	47	12
Business College	27	73	6
Commercial training provider (other than Bus. Coll.)	29	71	36
Enterprise trainer (trains own firm's employees only)	28	72	10
Group Training Company	41	59	3
Industry Skills Centre	33	67	3
Professional or industry association	13	87	6
Other	37	63	9
Total	36	64	100

Note: Due to rounding, percentages in this table do not total 100%.

As shown in Table A8, respondents from rural/regional areas were located primarily in Queensland (27%), Victoria (24%), and New South Wales (23%). Respondents from metropolitan areas were spread more evenly across States/Territories, and were located primarily in Victoria (23%), New South Wales (17%), Queensland (15%), South Australia (15%), and Western Australia (14%).

Table A8: State/Territory of registration by geographical location (%)

	Rural/regional	Metropolitan	Total
ACT	2	6	5
NSW	23	17	19
NT	5	4	4
QLD	27	15	19
SA	3	15	10
TAS	5	5	5
VIC	24	23	24
WA	11	14	13
Not Registered	0	0	1
Total	100	100	100

Note: Due to rounding, percentages in this table may not always total 100%.

Appendix 2: User Choice policy

The following Statement of User Choice Policy (originally contained in the *Report to MINCO on implementation of user choice, May 1997*) was endorsed by Ministers for Vocational Education and Training in May 1997 and amended by Ministers in November 2000. A summary of these amendments is also attached.

STATEMENT OF USER CHOICE POLICY

Objective of User Choice

- 2.1 The objective of User Choice is to increase the responsiveness of the vocational education and training system to the needs of clients through the encouragement of a direct and market relationship between individual providers and clients.

Defining User Choice

- 2.2 User Choice is defined as the flow of public funds to individual training providers which reflects the choice of individual training provider made by the client. User Choice comprises three essential elements:
- (i) significantly greater market power to individual clients to negotiate with individual registered training providers, both public and private, about the off-the-job component of new apprenticeships. The negotiation can include choice of provider and choice about specific aspects of training, such as location, timing etc.
 - (ii) increased responsiveness on the supply side of the training market, to enhance the capacity of individual VET providers to respond to the expressed needs of clients. Training outcomes will then be able to reflect more closely clients' views of their own needs. This increased responsiveness will include greater contestability among individual providers.
 - (iii) User Choice outcomes are compatible with public expenditure constraints and efficient use of resources. There can be no implication that all requests for training from clients, however specialised or expensive, will be met from public funds.
- 2.3 All elements must be satisfied **together** - the separate elements alone will not meet the objective of establishing a genuine market relationship between individual training providers and clients.
- 2.4 The 'client' for User Choice is defined as the employer and the employee, as identified in the New Apprenticeships Training Agreement, acting jointly. They may agree to authorise a 'broker' to act on their behalf.

Principles for User Choice

- 2.5 The principles which underpin the implementation of User Choice in New Apprenticeships from January 1998 are:
- (i) Clients are able to negotiate their publicly funded training needs, subject to State and Territory decisions regarding the resourcing of New Apprenticeships.

- (ii) Clients have the right of choice of registered provider and negotiations will cover choice over specific aspects of training.
- (iii) User Choice operates in a national training market not limited by State and Territory boundaries. Therefore, RTOs will not be discriminated against under User Choice on the basis of their location of primary registration.
- (iv) The provision of accurate and timely information about training options is necessary for informed choice.
- (v) Pricing of training programs by State/Territory Training Authorities should be based on clearly identified State/Territory unit costs benchmarks. Unit costs set for efficient provision may be increased by including a loading for access and equity reasons.
- (vi) Training over and above that which is essential to the qualification outcome for the apprentice or trainee, and is above that which is funded publicly, can be negotiated and purchased by the client.
- (vii) User Choice would be harnessed to improve access and equity in the vocational education and training system and be integrated within existing initiatives.
- (viii) Regulatory frameworks and administrative arrangements relating to vocational education and training at the National, State and Territory level are to be complementary to the achievement of the objectives of User Choice.
- (ix) Evaluation of outcomes of User Choice against objectives is an integral element of a program of continuous improvement. Innovation is required to achieve and maintain a best practice training system.

User Choice in Operation

- 2.6 Each State and Territory will be responsible for implementing User Choice in New Apprenticeships. Key features are:
- (i) Clients will be informed through targeted marketing campaigns about User Choice in New Apprenticeships; in particular, how it works and the opportunities for enterprises and their employees to meet their training needs.
 - (ii) Providers (public, private, and industry-based) will be informed about the purposes of User Choice and how it will work.
 - (iii) Clients will have access to accurate and timely information giving details about alternative VET providers, training packages, and aspects of training open to negotiation and options.
 - (iv) Providers will have sufficient detailed information on training packages, customisation options, and on how funds will be transferred to enable them to participate effectively in User Choice and respond to client needs.
 - (v) Providers will provide clients with information on their performance and capabilities, and on the nature and quality of their training products.

- (vi) Advice will be available to potential students/ employees regarding training opportunities and how training can be accessed.
- (vii) Information will be provided in a way which caters to the needs of a diverse range of groups and individuals.
- (viii) Clients will have the right to exercise choice over which registered provider delivers their training.
 - In areas where there are low numbers of clients and in remote locations where clients have access to limited number of providers, choice may be limited. States/Territories agree to manage these cases as an exception in a way that maximises the available choice. These cases will be annually reported.
 - Choice will be exercised within prevailing State/Territory pricing arrangements.
 - Choice will be exercised within existing State/Territory administrative arrangements for managing the risks associated with purchasing and contract management. These risk management arrangements should not form an additional regulatory requirement, over and above the Australian Quality Training Framework.
- (ix) Clients will be able to negotiate with registered providers on specific aspects of training within the requirements of the selected Training Package. Brokers/intermediaries may act on behalf of clients in the negotiation process. Aspects of training open for negotiation include:
 - selection, content and sequencing of units of competence
 - timing, location and mode of delivery
 - trainer/facilitator
 - who conducts the assessment
 - how the training is evaluated
- (x) A Training Program will be signed between the client and provider to signify that the client was aware of their rights under User Choice, and was able to negotiate a suitable outcome with the chosen provider. The Training Program Outline must be attached to the Training Agreement within the probation period of the apprentice/trainee.
- (xi) Public funds will be allocated to providers based on negotiated User Choice (the mechanism and timing of the allocation of funds will be consistent with existing State/Territory processes).
- (xii) States and Territories will allocate funds to providers on the basis of State/Territory pricing arrangements.
- (xiii) Evaluative mechanisms will be established to monitor User Choice.
- (xiv) Processes will be established to settle disputes and conflict of interest issues between clients and providers.
- (xv) Accountability mechanisms will be in place to ensure that funds have been used for the agreed purposes. State and Territories will have in place an appropriate strategy to minimise risk.

- (xvi) State and Territory decisions regarding the availability of public funding for New Apprenticeships will be made transparent by:
- informing clients that these decisions reflect government priorities for the resourcing of New Apprenticeships, and
 - providing clients with the criteria used to make these decisions.
- 2.7 These key features will incorporate a recognition of, and response to, access and equity considerations.

Attachment

Amendments to the May 1997 Statement of User Choice Policy agreed by Ministers for vocational education and training in November 2000

In November 2000, Ministers for vocational education and training agreed that the following amendments be made to the User Choice policy and principles (amendments in italics):

- (a) Section 2.5, principle (i) be amended to read:
‘Clients are able to negotiate their publicly funded training needs, subject to State and Territory decisions regarding the resourcing of New Apprenticeships;
- (b) Section 2.5, principle (iii) be amended to read:
‘User Choice operates in a national training market not limited by State and Territory boundaries. Therefore, RTOs will not be discriminated against under User Choice on the basis of their location of primary registration’;
- (c) The following statement be added to Section 2.6:
State and Territory decisions regarding the availability of public funding for New Apprenticeships will be made transparent by:
- *informing clients that these decisions reflect government priorities for the resourcing of New Apprenticeships, and*
 - *providing clients with the criteria used to make these decisions;*
- (d) Section 2.6 (viii) be amended to read:
‘Choice will be exercised within existing State/Territory administrative arrangements for managing the risks associated with purchasing and contract management. These risk management arrangements should not form an additional regulatory requirement, over and above the Australian Quality Training Framework’.