

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

Damon Anderson

Centre for the Economics
of Education and Training,
Monash University



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The views and opinions expressed in this document are those of the author/project team and do not necessarily reflect the views of the Australian Government, state and territory governments or NCVER

Publisher's note

Additional information relating to this research is available in *Trading places: Impacts and outcomes of market reform in vocational education and training—Support document*. It can be accessed from NCVER's website <<http://www.ncver.edu.au>>.

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The author/project team was funded to undertake this research via a grant under the National Vocational Education and Training Research and Evaluation (NVETRE) Program. These grants are awarded to organisations through a competitive process, in which NCVER does not participate.

The NVETRE program is coordinated and managed by NCVER, on behalf of the Australian Government and state and territory governments, with funding provided through Department of Education, Science and Training. This program is based upon priorities approved by ministers with responsibility for vocational education and training (VET). This research aims to improve policy and practice in the VET sector. For further information about the program go to the NCVER website <<http://www.ncver.edu.au>>.

ISBN 1 921169 37 0 print edition
1 921169 43 5 web edition

TD/TNC 84.12

Published by NCVER
ABN 87 007 967 311

Level 11, 33 King William Street, Adelaide, SA 5000
PO Box 8288 Station Arcade, Adelaide SA 5000, Australia
ph +61 8 8230 8400 fax +61 8 8212 3436

email ncver@ncver.edu.au
<<http://www.ncver.edu.au>>

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Acknowledgements

I wish to thank the National Centre for Vocational Education Research (NCVER) and the National Research and Evaluation Committee for their support, patience and perseverance for what turned out to be a much larger, more complex and time-consuming undertaking than initially anticipated.

The advice, feedback and constructive criticism provided throughout the project by Professor Gerald Burke, Executive Director of the Centre for the Economics of Education and Training, Monash University, were invaluable. The following people also made significant conceptual and technical contributions at crucial stages of the project, for which I am immensely grateful:

- ✧ Mr Kim Bannikoff, then Senior Executive, Australian National Training Authority (ANTA)
- ✧ Mr Shane Finnegan, formerly a senior officer in the Office of Technical and Further Education, Victoria
- ✧ Mr Des Fooks, then consultant, previously first assistant secretary, VET, Australian Government Department of Education, Employment and Training
- ✧ Ms Jennifer Gibb, then Manager, National VET Research and Evaluation Committee, NCVER
- ✧ Dr Ben Jongbloed, then Senior Research Associate, Centre for Higher Education Policy Studies, University of Twente, The Netherlands
- ✧ Dr Phillip McKenzie, then Deputy Head, Policy Division, Australian Council for Educational Research, and Director of the Centre for the Economics of Education and Training, Monash University
- ✧ Mr Michael Long, Senior Research Fellow, Centre for the Economics of Education and Training–Australian Council for Educational Research, who deserves special recognition for sample design and providing expert statistical advice
- ✧ Dr Margaret Powles, Centre for the Study of Higher Education, University of Melbourne (retired)
- ✧ Dr Robin Ryan, Research Associate, Institute of International Education, Flinders University, South Australia.

The senior managers from registered training organisations who participated in the pilot questionnaire phase provided crucial feedback and suggestions which improved the survey design. Members of the project reference group also provided helpful advice and guidance.

The contributions of all of the senior managers from registered training organisations who devoted considerable time and effort to completing survey returns are gratefully acknowledged. Their input enriched the research immeasurably. Every effort has been made to ensure that their views and concerns are reflected accurately, effectively and as fully as possible in this report. The important insights provided by the many registered training organisation managers and other staff members who participated in interviews deserve recognition. The personnel from the

former ANTA and state/territory training authorities who were involved in consultation sessions or responded to the request for policy and other information are duly acknowledged.

I wish to acknowledge the assistance of the Centre for the Economics of Education team, ably led by Ms Amanda Crichton, Centre Manager, assisted by Ms Sally Donovan, Mr Ben Crichton, Mr David Crichton, Mr Cable Long, and especially Mr Jason Long, who applied his professional desktop publishing skills to the questionnaire's graphic design and layout to great effect.

Finally, I am indebted to Ms Jasmin Casalmer, research assistant, who processed all the data from the surveys returns, and provided me with invaluable support during the project.

Key messages

This study is an evaluation, from a national perspective, of the impact and outcomes of market reform in vocational education and training (VET), particularly competitive tendering for government funds by all VET providers and ‘user choice’, where employers and their apprentices and trainees are able to choose their training provider and course elements. The introduction of market mechanisms into VET funding from the early 1990s has triggered complex chains of interactive effects that are often difficult to interpret. Nonetheless, the research findings highlight, as at 2001, a number of general market reform outcomes.

- ✧ The study identifies several benefits and costs of market-based competition in VET. On balance, the weight of available evidence suggests that, currently, negative rather than positive outcomes predominate.
- ✧ Outcomes appear to be positive in relation to choice and diversity, responsiveness (to medium/large enterprises and fee-paying clients), flexibility, and innovation.
- ✧ 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.
- ✧ As a result of market reform, technical and further education (TAFE) institutes and non-TAFE registered training organisations are trading places with respect to income sources, whereby non-TAFE organisations are becoming more heavily dependent on government VET funds, and TAFE institutes are becoming less reliant.
- ✧ Assessments by registered training organisations of the global impact of market reform in VET are evenly divided, although a net majority of TAFE institutes and adult and community education (ACE) centres delivered a negative verdict.
- ✧ The report argues 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 public VET sector. It suggests that existing policy arrangements need review, particularly in regard to the impact of market reform on public interest objectives (including community service obligations and public accountability), thin markets (where the number of students undertaking a particular qualification only warrants funding for one or a small number of providers), and the financial viability of TAFE institutes and small registered training organisations.

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 the public VET system. By the late 1990s, however, the concept, practices and language of markets and competition were commonplace and widespread in this sector.

Market reform entails major changes in the way in which VET has traditionally been organised, financed and delivered, with significant implications for key stakeholders. It challenges long-standing assumptions about the nature and purposes of VET, and reframes the roles, responsibilities and relationships of government, providers and clients. Government has reduced 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 are able 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, as the major beneficiaries of the training, are expected to pay more for the VET programs and services, or 'VET products', 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 (Australian Committee on Technical and Further Education 1974). Above all, market reforms 'represent the dismantling of the walls of monopoly' (National Board of Employment, Education and Training 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 been previously. Instead, they are now viewed by government as one of many VET providers, alongside and in competition with schools, adult and community education (ACE) centres, industry and private providers.

The Deveson Review (1990) argued that market reform would produce a range of benefits not possible through centralised state planning and bureaucratic controls. Drawing on economic theory, but unsubstantiated by empirical evidence, this review claimed 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 (for example, ANTA 1996). On the other hand, critics of these reforms have argued that market reform will have adverse effects on the public interest in vocational education and training (also without clear evidence). See Anderson (1997) for a fuller discussion.

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 Consulting 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 (Senate Employment, Workplace Relations, Small Business and Education References Committee 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, from a national perspective, the impact and outcomes of market reform in VET, particularly competitive tendering and user choice. 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
- ✧ evaluating the outcomes, both intended and unintended, of market reform in VET.

It also attempts to identify how existing market arrangements could be improved to produce more effective outcomes.

The research for this study comprises several elements. These are:

- ✧ 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
- ✧ an evaluation of the outcomes of market reform in VET against key preconditions 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.

The most important data source was the national survey of registered training organisations. A sample of 2581 registered training organisations was undertaken, 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. These relate to cause-and-effect attribution (in this instance, some outcomes may have been incorrectly attributed to market reform by survey respondents), the lack of comparative before-and-after data, and the partial and subjective nature of senior manager perspectives.

The research finds that, from the early 1990s, a substantial amount of recurrent VET revenue, normally paid to TAFE institutes, was diverted to the new quasi-markets for VET at the same time that growth funding for VET was made available by the Commonwealth Government (that is, from 1992 through to 1997 inclusive). 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 the public VET system’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 institutes) 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. As a consequence, a considerable proportion of non-TAFE providers have become heavily reliant on government VET funds. Conversely, TAFE institutes 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 (ANTA), only a modest proportion of registered training organisations 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, to a smaller degree, in export markets. 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 registered training organisations in most industry training and qualifications markets, but especially in those of the growing services industries/occupations.

Despite efforts to place registered training organisations on an equal footing through ‘competitive neutrality’ arrangements, the ‘playing field’ is far from level. Around half of all TAFE institutes and non-TAFE registered training organisations identified at least one factor that restricts their ability to compete effectively. The most significant restriction on registered training organisations as a whole, and the second most significant restriction on TAFE institutes, is the capital cost associated with entering new markets. The main restriction on the competitiveness of TAFE institutes is industrial awards and conditions for teachers/trainers; the costs of meeting community service obligations are also significant. The main competitive restrictions on rural/regional registered training organisations 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-like mechanisms into VET resource allocation processes has triggered complex chains of interactive effects which are often difficult to interpret. Due to the broad-scale nature of this study and limitations in research methodology, the conclusions reached about the outcomes of market reform in VET are tentative. Nonetheless, the research findings do indicate the general direction and outcomes of market reform.

This study identifies several benefits and costs of markets in VET. Some of the purported benefits of market reform remain unsubstantiated, 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, at the time of this study, negative rather than positive outcomes predominate.

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. Overall, assessments by registered training organisations 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 registered training organisations.

Overall, the research suggests that, as a result of market reform, TAFE institutes and non-TAFE registered training organisations are trading places with respect to income sources and organisational identity, values and priorities, with non-TAFE organisations becoming more dependent on government VET funds and TAFE institutes less so. 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, one which serves the needs and interests of all stakeholders and preserves the distinctive character and mission of the public VET sector.

Additional material relating to this report is available in *Trading places: Impacts and outcomes of market reform in vocational education and training—Support document*, located on the National Centre for Vocational Education Research (NCVER) website <<http://www.ncver.edu.au>>.

Introduction

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 national and state/territory levels have restructured and re-oriented 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, thus increasing the productivity and international competitiveness of the Australian economy (Dawkins & Holding 1987; Deveson 1990; ANTA 1996).

For almost two decades prior to these reforms, VET programs and services had been delivered primarily through the technical and further education (TAFE) system, which was formally established following the seminal report of the Australian Committee on Technical and Further Education (1974), commonly known as the Kangan Report. This report advocated universal access to recurrent education as a social entitlement and, due to its crucial role in promoting national economic and social development, viewed TAFE provision as a key responsibility of government. 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 governments 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 institutes operating in about 1000 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 public accountability (Anderson 1996).

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: government funding, regulatory and skills recognition arrangements prevented non-government providers from encroaching on TAFE territory. In particular, TAFE colleges enjoyed almost exclusive rights for delivering 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 conducted 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'. This, argues Cantor, was due to the relatively large numbers 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 in the same year amounted to around \$1.5 billion nationally.

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 subsidies for capital and recurrent programs. 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 Commonwealth Government 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 for skills required in new and emerging service industries and occupations, which were under-supplied by TAFE (Anderson 1995, 1996).

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, or at best tolerated 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 existed in Australia and comprised 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 had been overlaid with a series of markets for VET programs and services. 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 to create a 'level playing field', designed to place 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 2500 registered non-TAFE providers (ANTA 1996)—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 relinquishing their traditional role as funders and providers and assuming more limited responsibilities for developing strategic policy, facilitating and regulating market conduct, and purchasing training places from VET providers. In place of conventional public service models of hierarchical planning, bureaucratic control and budgetary allocation, relationships between government and providers were reframed as market-based transactions managed via contracts. ‘Steering not rowing’ characterised the new public sector 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 VET marketplace. To a large extent, the VET ‘product’ was standardised to stimulate direct competition among providers on the basis of price, delivery, quality and other factors. By the late 1990s, the proliferation of accredited TAFE and non-TAFE courses and credentials had been stemmed by the imposition of a common framework of specified competency standards and nationally mandated training packages and qualifications.

While the new buzzword among VET providers was ‘competition’, according to official policy rhetoric, prospective students and employers seeking skills for their employees were being empowered to exercise ‘choice’. Individual students or learners were redefined as the ‘immediate clients of training providers’ and ‘consumers’ of VET programs and services, while industry and enterprises were viewed as ‘end-users’ and the ‘principal clients of the training market’ (ANTA 1996). 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 colleges and programs. In the new marketplace for VET, however, the potential scope for choice had been expanded well beyond the TAFE alternatives, to include the full range of 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 as a result of the removal of the legislative prohibition on tuition fees in the early 1990s and increasing commercialisation of TAFE provision.

The shift from the dual structure which prevailed throughout the 1970s and 1980s (a near-monopolistic public TAFE system and a parallel private training sector) to the more integrated framework of public VET markets of the 1990s was neither total nor clear-cut. TAFE institutes continued to receive a significant, although declining, proportion of their core VET program and capital revenues from government. But the decisions by government in the early 1990s to expand participation rates, extract greater efficiency from the public VET system, 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 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. On the other hand, 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.

Notwithstanding such continuities, VET was progressively redesigned within a market paradigm during the course of 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 prevailing during the 1980s saw the creation of a new context wherein the foundations and elements of the post-war Keynesian welfare state were replaced by a new policy model supported by certain key stakeholders in VET—government, employers and unions (Marginson 1997; Seddon & Angus 2000; Anderson, Brown & Rushbrook 2004). Suffice to say, the long-standing and taken-for-granted 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 devised in response to changing social and economic conditions. 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 re-design 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 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.

Research aims and methodology

Project aims and research questions

The principal purpose of this project was to undertake a national evaluation of the impact and outcomes of market reform in the Australian VET sector. At the time of the study, a decade had passed since steps had been taken to reconfigure the national VET sector along market lines, yet the claims of policy-makers and advocates remain largely untested, and the counterclaims of critics remain largely unsubstantiated. While the reforms to the VET sector over the decade clearly have gone well beyond the introduction of competitive tendering and user choice, it was decided that these two market mechanisms would be the major focus of this study, as they were adopted with the explicit objective of reforming the traditional model of state planning and resources allocation.

This study primarily evaluates market reform on its own terms, specifically the extent to which markets in VET have met certain preconditions for success, and whether or not the intended outcomes of market reform have eventuated. It also attempts to identify any unintended outcomes, and to establish whether any demonstrated benefits outweigh associated costs, or vice versa. 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. However, it does adopt a critical approach to the question of whether market mechanisms, such as competitive tendering and user choice, are producing the benefits claimed in official policy statements. To the extent permitted by the research findings, it also reflects on the degree to which market reforms are serving the interests of various stakeholders.

Overall, the research 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
- ✧ evaluate the outcomes, both intended and unintended, of market reform in VET.

In pursuit of these aims, 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?

Research design

The research for this study comprised several elements, as outlined below.

Review of policy and research literature

The first phase entailed a review of local and international research and policy literature relating to the development, impact and outcomes of markets for VET. In addition to searching library databases, official documents were requested from state/territory training authorities, including policy statements, research reports, program evaluations, information on contestable funding programs, and other publications. (This information is contained in the support document.)

Analysis of published statistics

National statistical data on key indicators, such as participation and finances in VET, were analysed in order to:

- ✧ assess the overall size, structure and composition of markets in VET
- ✧ 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 registered training organisations. 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, state training authorities, 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, students services staff, and students/apprentices in TAFE and non-TAFE providers.

The purpose of the consultations and interviews was 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
- ✧ 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 registered training organisations 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 registered training organisations (TAFE and non-TAFE) by questionnaire was the main research instrument developed 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
- ✧ 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 about availability of data items and data collection methods were undertaken with the following groups, most of whom were also represented on the project reference group:

- ✧ industry/business associations, including the Australian Industry Group and the Victorian Employers' Chamber of Commerce and Industry
- ✧ peak VET and TAFE provider associations, including the Australian Council for Private Education and Training, the Victorian Association of TAFE Directors, and ACE providers
- ✧ government agencies, including ANTA; 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 registered training organisation managers and a research reference group from the Centre for the Economics of Education and Training, Monash University, and subsequently reviewed by the project reference group, which included representatives of key stakeholder groups. A group of 15 senior managers from a cross-section of TAFE and non-TAFE registered training organisations pilot-tested the questionnaire, after which it underwent further revisions. The revised questionnaire was pilot-tested again with eight of the original group of senior registered training organisation managers, and refined in accordance with their feedback.

Population and sample

A large sample of registered training organisations from all states and territories was constructed for the survey. The sample was selected from ANTA's National Training Information Service, which is based on lists supplied by each state training authority. Mutual recognition arrangements, which require registered training organisations to register in only one state or territory, minimise the likelihood of duplication across states and territories within the aggregated list.

The sample was categorised 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
- ✧ university.

The National Training Information Service listed 4306 registered training organisations. The questionnaire was sent to 2581 of these. Useable responses were received from 842. 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 for return of the questionnaire; and an invitation to submit their survey return via the internet, fax or mail.

A reminder letter was sent by mail to registered training organisations which had not returned the questionnaire within four weeks. A week later a follow-up survey was 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 the Federal Government, the questionnaire was also submitted to and approved by the ABS Commonwealth Government Statistical Clearing House (Approval Number 00489-01).

Limitations

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

The snapshot approach adopted for this evaluation, while illuminating, is also restricted, since 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. Even then, 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 longer-term implications 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 registered training organisations over time. These impacts, however, would not have been evident at the point in time when this study was conducted.

A number of limitations result from the reliance of this study on input from senior managers of registered training organisations. For instance, Lundberg (1996) found that middle managers in TAFE were generally less supportive of market reforms than were senior managers. Moreover, the limited pre-market reform experience among TAFE senior management—a result of high turnover of staff, compounded by the absence of reliable baseline data and benchmarks—suggests that their assessments of the overall impact of market reform are likely to be fairly speculative. To some degree, such assessments may also be subject to *post hoc* rationalisation. Account may also be taken of the possibility that senior managers in non-TAFE registered training organisations may also be reluctant to criticise market reforms, given that they are now recipients of government funds.

Another major problem confronting any study that attempts to evaluate the impact and outcomes of public sector reform programs is that of attribution. The problem of attribution was identified by Anderson (1998b), and encountered by KPMG Consulting (1999) and Schofield (2000) in their evaluations of user choice. In such a complex, multi-faceted and rapidly changing policy and operational environment, it is frequently difficult to distinguish between the impact and direct effects of one reform from those of another. As Polidano, Hulme and Minogue 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. (Polidano, Hulme & Minogue 1998, p.281)

Findings

In essence, this study set out to reflect on the features of an effective market mechanism in the VET sector and on what the consequences of a trend towards increased choice and competition in the training market *have been*, with the advantage of considerable experience and hindsight. An evaluation framework was developed for the study and comprised three components as follows:

- ✧ *conditions for success*, comprising a set of preconditions for assessing the effectiveness of existing quasi-markets, relating mainly to market structure, information provision, and provider motivation
- ✧ *overall or global evaluation* of the impact of market reform from a provider (senior managers) point of view
- ✧ *outcomes of market reform*, corresponding with official policy objectives to evaluate the efficacy of quasi-markets in VET, and including the following criteria: choice and diversity, efficiency, responsiveness, quality, flexibility, innovation, and access and equity.

For details of the evaluation framework, refer to the supporting document to this report.

Structure, composition and dynamics of VET markets

Findings about changes in the structure and composition of VET markets are described in relation to the national training market, geographic markets, industry markets, client segments and income sources. Market dynamics as they relate to competition issues are also discussed.

National training market

Under the steerage of ANTA considerable progress has been made towards the creation of a national training market. This has occurred 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 4226 non-TAFE registered training organisations were delivering a substantial proportion of their VET programs and services within the National Training Framework. The 2001 survey found that 63% of all registered training organisations and 89% of TAFE institutes were delivering at least three-quarters of their training under 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.

Geographic markets

Despite the establishment of the National Training Framework and associated mutual recognition arrangements, a relatively modest proportion of TAFE and non-TAFE registered training organisations were found to be delivering nationally recognised training across

state/territory borders. Although registered training organisations—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 registered training organisations into rural/regional than in metropolitan markets.

International markets for VET have become a significant focus of competitive activity and source of income for TAFE institutes and some types of non-TAFE registered training organisations, particularly business colleges. Over seven in ten TAFE institutes and over one in ten non-TAFE registered training organisations are competing in on-shore export markets, which have become one of the three largest sources of income for 11% of TAFE institutes and 7% of registered training organisations as a whole. Off-shore export markets are also growing in significance, with over six in ten TAFE institutes, and almost one in ten registered training organisations as a whole, competing for business overseas. By comparison, only a small proportion of TAFE institutes 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.

Industry markets

Changing patterns of participation by registered training organisation in domestic markets during the latter half of the 1990s have altered the form and composition of markets on the supply side. TAFE institutes continue to dominate the primary and secondary industry training markets, although to a lesser extent in some sectors than was the case prior to market reform. TAFE institutes appear to face more competition from a wider range of non-TAFE providers (and other TAFE institutes) in most industry training markets, including manufacturing, and especially in training markets for service industries. Most of this competition is concentrated at Australian Qualifications Framework (AQF) levels II–IV inclusive.

Client segments

Patterns of market segmentation and competition are also changing vis-à-vis client/funding markets. Although TAFE institutes continue to service mass markets comprising government-funded students, they are increasingly moving into niche commercial markets. The majority of TAFE institutes are competing in markets for both fee-paying individual and industry/enterprise clients, although almost three times more TAFE institutes identified fee-paying industry/enterprise clients rather 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 TAFE institutes, and for rural/regional registered training organisations as a whole. User choice and competitive tendering are among the three main income sources for six and five in ten TAFE institutes respectively. By comparison, fee-paying industry/enterprise clients were identified by almost six in ten TAFE institutes among their three main income sources. Fee-paying industry/enterprise clients are also relatively more important than government funding sources for metropolitan registered training organisations.

Markets for private fee-paying clients remain the most important income sources for non-TAFE registered training organisations—around six and five in ten of all registered training organisations are competing for fee-paying individual and industry/enterprise clients respectively. Comparatively fewer registered training organisations are competing for government funds in contestable markets. About half of all registered training organisations 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, government has become a major source of revenue for many non-TAFE registered training organisations. Over half (51%) of all registered training organisations (including TAFE institutes, who comprised only 7% of the total respondent population) derived at least half of their total VET revenue in 2000–01 from government sources.

Income sources

During the period from 1997–2001, payments to post-school non-TAFE providers grew by 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 registered training organisations, 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, 1996).

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, TAFE institutes diversified further into commercial markets to seek private sources of income. By 2001, the 80 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. For the remainder of their revenue for VET delivery in 2001, 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 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 National Training Framework.

Competition

During the 1990s, competition between and among TAFE institutes 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, large proportions of TAFE and non-TAFE providers are competing for contestable government funds. Between four and five in ten registered training organisations are competing for funds/clients in competitive tendering and user choice markets. According to over a half of all TAFE institutes and over one-third of all registered training organisations, competition has increased ‘greatly’ since the introduction of contestable funding processes. The degree of competition appears to be higher in user choice than in competitive tendering markets. Reflecting the large influx of registered training organisations 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 level. Around half of all TAFE institutes and registered training organisations as a whole identified at least one factor that restricts their capacity to compete effectively. Overall, the most significant restriction on registered training organisations as a whole (42%), and the second most significant restriction on TAFE institutes (46%), is the capital cost of entering new markets. Although 17% of all registered training organisations and 7% of TAFE institutes 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 restrictions on the competitiveness of TAFE relate to industrial awards and conditions for teachers/trainers (51%); the costs of meeting community service obligations (39%) are also significant. By far the most significant restrictions on rural/regional registered training organisations are their geographical location (particularly thin markets on the demand side) (34%), and the difficulties experienced in attracting or retaining experienced or qualified teachers/trainers (27%). None of these latter restrictions is addressed in any way under 'competitive neutrality' arrangements, and all place the affected providers at a significant competitive disadvantage.

Although 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 governments to give further consideration to the different modes of production that apply in TAFE institutes 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. Continuity of supply and the viability of thin markets in rural/regional areas are also important considerations.

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 TAFE institutes and registered training organisations 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 TAFE institutes and four in ten registered training organisations as a whole experienced increases in income under user choice. A larger proportion of TAFE institutes than of all registered training organisations 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 TAFE institutes and all registered training organisations in certain key respects. As a whole, registered training organisations increased their expenditure across the board on all items. Around half of both TAFE institutes and all registered training organisations as a whole had increased their expenditure on administration (for example, planning and finances). Significantly more TAFE institutes than registered training organisations as a whole had increased their expenditure on marketing information and communication, and ancillary trading (for example, industry consultants) and had decreased their expenditure on direct delivery (that is, 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 registered training organisations have adopted revenue-generation strategies in response to increased market competition. With respect to revenue generation, all providers, but substantially more TAFE institutes than all registered training organisations, have been developing new products and services for niche markets; implementing new training delivery systems (for example, 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 TAFE institutes than registered training organisations 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 TAFE institutes 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 TAFE institutes, to a much greater extent than most registered training organisations, 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 than previously, 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 to put themselves on a more competitive footing in all market segments.

Outcomes of market reform

As the above discussion of key findings suggests, market reform has caused 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 been realised 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. Table 1 shows the policy objectives achieved and those not achieved for TAFE institutes and for all registered training organisations. However, this schematic representation is an oversimplification and needs to be read in conjunction with the accompanying text.

By and large, the conclusions reached are necessarily tentative, due to the broad-scale 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 registered training organisation 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 reforms occurring at the same time. 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 do highlight the general direction and outcomes of market reform.

Table 1: 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 outweighing 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: ^(a) The respondent population comprised TAFE institutes (7%), ACE centres (12%) and other registered training organisations (81%).

^(b) Client control over outcomes has increased under user choice, but not under competitive tendering, from a TAFE perspective.

^(c) Accountability for public VET funds has increased under user choice, but not under competitive tendering, from a TAFE perspective.

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 registered training organisations are located outside metropolitan areas. However, as previously noted, substantial numbers of registered training organisations are competing for business and delivering nationally recognised training in rural/regional markets beyond their own locality. Despite the apparent influx of registered training organisations 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 predetermined 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. However, the bulk of evidence from the survey suggests that neither crude nor productive efficiency has ensued from training market reform. A majority of both TAFE institutes and registered training organisations 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 TAFE institutes and all registered training organisations indicated that increased transaction (for example, 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 TAFE institutes. However, the evidence provided by non-TAFE registered training organisations (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 findings noted above suggest that the reformation of the public 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 reflected in the support document to this report, 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' (Allen Consulting Group 1994, 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 TAFE institutes 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 TAFE institutes 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. However, allocative efficiency was not evaluated in this study but may have improved, given the increased flexibility and responsiveness reported by survey respondents (see below).

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 under 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 1996, 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 public VET system is open to question. This report is not the place to evaluate the legitimacy of an enterprise-driven VET system. This has been critiqued elsewhere (see, for example, Anderson 1998a, 1998b, 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 small majority of registered training organisations 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 registered training organisations. 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 for individual clients, small enterprises and local/surrounding communities.

Other outcome measures also cast the greater responsiveness promoted for market reform in a more problematic light. Market reform has increased the capacity of a majority of TAFE institutes to satisfy the needs of full fee-paying clients, but not government-funded clients. The converse applies to registered training organisations as a whole. According to a majority of TAFE institutes, 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 TAFE institutes and registered training organisations as a whole said that neither market mechanism had 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 TAFE institutes and registered training organisations 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 registered training organisations, although more so under user choice than under competitive tendering arrangements.

Other circumstantial evidence pointing to a potential decline in quality includes the findings that a large proportion of TAFE institutes and all registered training organisations 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)
- ✧ giving higher priority to cost-reduction than to 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 TAFE institutes on key inputs likely to affect the quality of provision, including:

- ✧ direct delivery (teaching/training)
- ✧ infrastructure maintenance (facilities/equipment)
- ✧ curriculum development and maintenance
- ✧ student services (counselling, child care).

At the same time, the cost-reduction strategies mentioned above implemented by most TAFE institutes 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 TAFE institutes, if not non-TAFE registered training organisations, to deliver cheaper rather than high-quality programs.

Although a majority of all registered training organisations believed that skill outcomes for students and apprentices/trainees have improved in VET markets, a larger majority of TAFE institutes disagreed. A substantial majority of both TAFE institutes and non-TAFE registered training organisations 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 registered training organisations. However, persistent contractual non-compliance among private registered training organisations casts doubt on quality assurance under the Australian Quality Training Framework (Smart Consulting and Research 2003), which was in the early stages of implementation when the national survey of registered training organisations 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 TAFE institutes and registered

training organisations *as a whole* indicated that the flexibility of training delivery has increased to a greater extent under user choice than under 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 TAFE institutes than by non-TAFE registered training organisations, and by rural/regional registered training organisations than by metropolitan registered training organisations.

Other equity-related trends are a cause for further concern. A not-insignificant proportion of both TAFE institutes and all registered training organisations 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 TAFE institutes and registered training organisations are also placing higher priority on attracting full fee-paying clients than government-funded training places. A small, but again not insignificant, number of TAFE institutes and all registered training organisations have increased fees and charges for government-funded students to a ‘major’ or ‘moderate’ extent. Overall, almost six in ten TAFE institutes and four in ten registered training organisations as a whole, indicated that their VET provision is driven more 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.

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.

Overall impact of market reform

Despite improvements in choice and diversity, internal efficiency, responsiveness, flexibility and innovation, the views of senior registered training organisation 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 registered training organisations delivered a positive assessment of market reform, a net majority of both TAFE institutes (13%) and ACE centres (15%) delivered a negative verdict. A large proportion (42%) of registered training organisations as a whole indicated that, on balance, market reform has had a neutral impact on their registered training organisations, compared with 23% of TAFE institutes 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 registered training organisations identified revenue growth as one of the two main positive outcomes of contestable funding processes. Conversely, three in ten TAFE institutes nominated reduced revenue as one of the two main negative outcomes of competitive tendering. Around three in ten registered training organisations as whole, compared with around one in ten TAFE institutes only, said that their financial viability had 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, TAFE institutes 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 TAFE institutes 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 TAFE institutes.

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? TAFE institutes 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 reduce 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.

Discussion and conclusions

Market reform and its outcomes need to be put into perspective. The creation of quasi-markets in VET is a radical policy experiment for which there are few, if any, precedents. The task of redesigning long-standing 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 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 (Senate Employment, Workplace Relations, Small Business and Education References Committee 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 breakthrough. What has been revealed in evidence has in many cases been the rough edges of implementation.
(Senate Employment, Workplace Relations, Small Business and Education References Committee 2000, 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 Consulting 1999; Schofield 1999a, 1999b, 2000; Smith 1998).

However, the validity of arguing 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—the national registered training organisation survey for this research 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 United Kingdom:

The 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. (Taylor-Gooby & Lawson 1993, 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 questionable.

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 registered training organisation managers, strategies for improving the structure, operations and outcomes of VET markets are proposed in the support document to this report. 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 unsubstantiated, 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 TAFE institutes and small registered training organisations.

A comparative study of TAFE institutes 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-focused 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 'publicness'. Although the training market remained heavily segmented and bifurcated along public-private lines, the traditionally rigid boundaries separating TAFE institutes 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. (Anderson 1994, p.211)

The findings of the present study suggest that the processes of sectoral inversion and convergence between public and private providers of VET have 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 TAFE institutes and private registered training organisations. On the one hand, TAFE institutes were diversifying rapidly into new commercial domestic and export markets for VET, and delivering a significant proportion of their training outside the National Training Framework. They have undoubtedly become more entrepreneurial and businesslike, and less reliant on government funds as a consequence. On the other hand, there has been a massive increase in private registered training organisations seeking government recognition and access to contestable funding markets. A substantial number of private registered training organisations are now operating within the National Training Framework, and have become heavily reliant on public VET funds in the process. In effect, both TAFE institutes and private registered training organisations are in the business of trading places in both open and commercial markets and the newer quasi-markets for VET programs and services.

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 public VET system has been instrumental in driving this shift in the organisational values, priorities and orientations of TAFE institutes, ACE centres and their staff. Although TAFE institutes 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 registered training organisations 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 registered training organisations said that, as a result of contestable funding, their provision is driven more by market demand than by government policy and planning priorities, despite the fact that they are receiving considerable amounts of public VET funds. Only two in ten registered training organisations indicated that they were not more market-driven than before. In effect, as a consequence of market reform in VET, a large majority of both TAFE institutes and registered training organisations as a whole have become more market-driven, and less responsive to government policy and planning priorities. 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 re-orientation of the culture and motivations of private registered training organisations 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. Specifically, they raise questions about the extent to which TAFE institutes in particular, and the public VET system in general, can be used effectively as an instrument to produce public goods that are undersupplied 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 (1995) 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.255–6).

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 & Lawson 1993, p.149)

With restricted budgets and political commitments to promote both efficiency and equity through the public VET system, 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 shift in values are immeasurable, as the public VET system 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 maintaining a public 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 to enable the promotion of the public interest more effectively than current policy settings would appear to be doing. As Walsh notes:

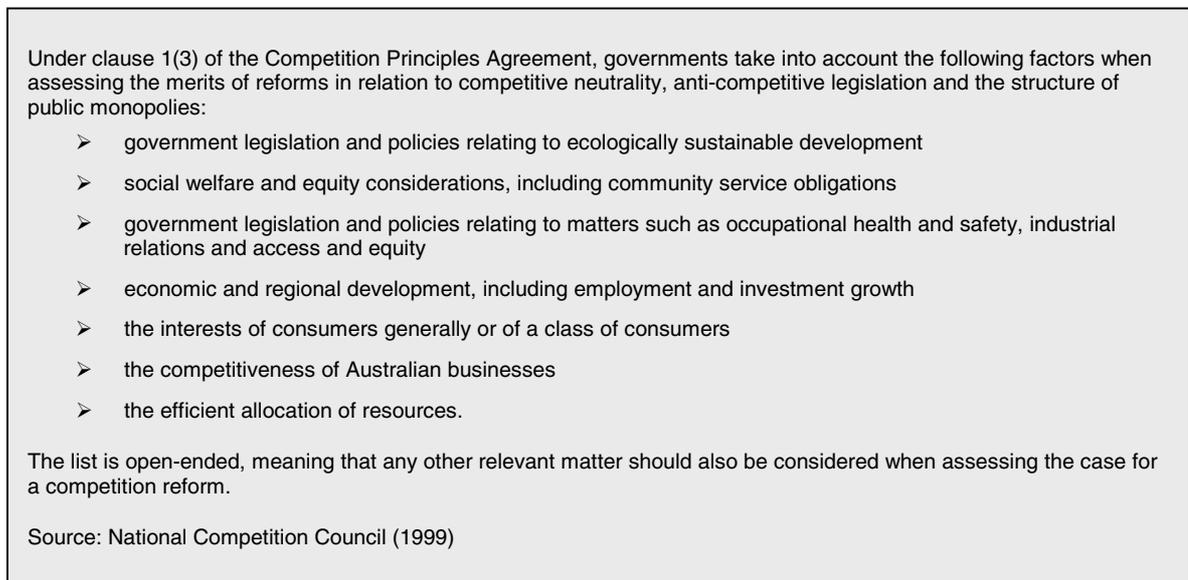
The issue is not so much whether or not we should use market mechanisms in the public realm, but how to make them work given its distinctive character ... In order to do so, we need to develop the power of judgment, which involves the ability to weigh values one against the other in order to reach acceptable 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 1995, pp.256–7)

In this regard, proposals for improving the policy, financial and regulatory framework for VET markets are included in the supporting document to this report.

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

2000). 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 1). With this approach, the trading of places in public VET system markets is more likely to serve the needs, interests and aspirations of individual learners, industry and the community at large.

Figure 1: The National Competition policy ‘public interest test’



Further research

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. In the context of further research, micro-studies of industry and geographic markets are required to determine the extent to which such markets meet the preconditions 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 and 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 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, is an important focal point for such research.

The lack of client/user and teacher/trainer perspectives limited the capacity 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 likely to be 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 have the potential to provide significant insights into the areas affected by market reform in VET. These are:

- ✧ 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
- ✧ 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, since the scope of this study was limited largely to the confines of the VET sector itself, the wider social and economic consequences of market reform in VET also require investigation. As Bartlett, Roberts and Le Grand (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, in new and emerging industries, and in rural/regional and economically depressed metropolitan areas in Australia, and in the overseas countries from which Australian registered training organisations source students and other clients.

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Appendix 1: Technical note

The method used to identify the population and construct the sample for the national survey of registered training organisations 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 comprised all registered training organisations; the study is based on a sample of these registered training organisations. The sample was selected from the National Training Information Service, a list of all registered training organisations maintained by ANTA. Editing of this 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 National Training Information Service were added.

The classification of providers employed to select the sample is based on the categories used in the National Training Information Service: ‘ACE’ includes adult education centres, adult migrant education providers and community access centres; and ‘government’ includes licensing authorities, local government and other government providers.

Table 2: Number of registered training organisations by provider type and state of registration

Provider type	ACT	NSW	NT	Qld	SA	Tas.	Vic.	WA	Total
ACE	4	133	8	57	5	12	290	8	517
Commercial	53	507	4	532	2	53	318	154	1623
Enterprise	0	113	4	145	0	11	124	10	407
Government	23	75	0	43	0	7	3	14	165
Industry & professional	6	69	4	50	4	6	225	38	402
Other	7	39	55	19	274	2	7	452	855
School	15	8	6	67	2	31	106	11	246
University	0	1	1	5	0	1	0	3	11
TAFE	1	12	3	17	10	1	20	16	80
Total	109	957	85	935	297	124	1093	706	4306

Source: ANTA National Training Information Service.

Note: The National Training Information Service included an unknown, but not insignificant, number of registered training organisations which had either ceased to exist, or had not renewed their registration, at the time the survey was conducted.

The total sample size was 2581 registered training organisations, which corresponds to an overall sampling fraction of 59.9%. The sample was stratified by state/territory of registration of registered training organisation and provider type.

Table 3 shows the number of registered training organisations 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 Australian Capital Territory, the Northern Territory and Tasmania
- ✧ 100% for schools, TAFE institutes and universities
- ✧ 75% for ACE in the five mainland states.

Table 3: Designed sample of registered training organisations by provider type and state of registration

Provider type	ACT	NSW	NT	Qld	SA	Tas.	Vic.	WA	Total
ACE	4	100	8	43	4	12	218	6	395
Commercial provider	53	254	4	266	1	53	159	77	867
Enterprise provider	0	57	4	73	0	11	62	5	212
Government	23	38	0	22	0	7	2	7	99
Industry & professional	6	35	4	25	2	6	113	19	210
Other	7	20	55	10	137	2	4	226	461
School	15	8	6	67	2	31	106	11	246
University	0	1	1	5	0	1	0	3	11
TAFE	1	12	3	17	10	1	20	16	80
Total	109	525	85	528	156	124	684	370	2581

Response rates

The questionnaire was sent to 2581 registered training organisations. Useable responses were received from 841 registered training organisations. Hence, the total estimated response rate was 32.6%. The actual response rate, however, is probably higher because the National Training Information Service included an unknown, but not insignificant, number of organisations which had ceased to trade as registered training organisations by the time of the survey.

Provider type

Table 4 shows the classification of registered training organisations used in the survey.

Table 4: National Training Information Service and survey typologies of registered training organisations

NTIS registered training organisation typology	Survey typology of registered training organisations
TAFE	TAFE or technical college (including TAFE divisions of universities)
School	Secondary school
University	University
ACE	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

Note: NTIS = National Training Information Service.

The two largest National Training Information Service 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)
- ✧ ‘industry & professional’ was subdivided into three categories: group training companies; industry skills centres; and professional or industry associations.

Table 5: Sample and respondent populations by registered training organisation type^(a)

NTIS RTO types ^(b)	Designed sample (n)	Achieved sample (n)	Response rate (%)
TAFE ^(c)	80	57	71
School	246	61	25
University	11	1	9
ACE	395	99	25
Commercial ^(d)	867	348	40
◆ Commercial subsidiary of a school, TAFE or university		4	
◆ Business college		49	
◆ Commercial training provider (other than Business College)		295	
Enterprise	212	80	38
Industry & professional ^(e)	210	101	48
◆ Group training company		27	
◆ Industry skills centre		27	
◆ Professional or industry association		47	
Other	461	77	17
Government ^(f)	99		
Subtotal of non-TAFE RTOs ^(g)	2501	767	31
Null ^(h)	N/A	17	N/A
Total	2581	841	33

- Notes:
- ^(a) The NTIS included an unknown, but not insignificant, number of registered training organisations which had ceased to exist by the time of the survey. Hence the number of these in the designed sample is an overestimate and the corresponding response rate is an underestimate.
 - ^(b) ‘NTIS RTO types’ refers to the categories of registered training organisations used in the ANTA National Training Information Service. 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 and industry skills centres, and to enhance comparability with ABS data catalogs.
 - ^(c) ‘TAFE’ includes all TAFE institutes and five TAFE-related entries listed on the NTIS.
 - ^(d) ‘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 registered training organisations as they are generally not identified as a distinct category of education and training provider in ABS surveys. Government agencies which 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 registered training organisation.

RTO = registered training organisation.

NTIS = National Training Information Service.

The distribution of respondents among provider types is shown in table 5, which also presents response rates for the National Training Information Service registered training organisation typology. Overall, 71% of TAFE institutes and 31% of non-TAFE registered training organisations responded to the survey. At least one-quarter of the following types of non-TAFE registered training organisations responded: school registered training organisations (25%); ACE registered training organisations (25%); commercial registered training organisations (40%); enterprise registered training organisations (38%); and industry & professional registered training organisations (48%). Less than one-quarter of other registered training organisations (17%) responded.

As the category of ‘government’ registered training organisations was not used for this survey, a corresponding response rate cannot be calculated. Conversely, as none of the following registered training organisation types used in this survey is listed separately on the National Training Information Service, individual response rates cannot be calculated: ‘commercial subsidiary of a school, TAFE or university’; ‘business college’; ‘commercial training provider’; ‘group training company’; ‘industry skills centre’; and ‘professional or industry association’. However, as reflected in table 5, their individual responses have been aggregated under the National Training Information Service categories of ‘commercial’ and ‘industry & professional’ for the purposes of calculating response rates in terms of the original sample frame.

Table 6: Provider type by designed and achieved samples (%)

	Designed sample	Achieved sample
TAFE or technical college (including TAFE divisions of universities)	3	7
Secondary school	10	7
University	0	0
ACE Centre	15	12
Commercial ^(a)	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
Industry and professional ^(c)	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 6. The data show that TAFE institutes 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’ registered training organisations 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 7. As the data indicate, the response rate for Victorian registered training organisations was 29%, whereas all other states/territories had response rates of 30% or higher. Although the response rate for South Australian registered training organisations was comparatively high, the overall response rates by state/territory of registration are fairly evenly spread.

Table 7: Sample and respondent populations by state/territory of registration

	ACT	NSW	NT	Qld	SA	Tas.	Vic.	WA	Not Regd	Total
Sample population (n)	109	525	85	528	156	124	684	370	N/A	2581
Respondent population (n) ^(a)	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' = not registered; N/A = not applicable.

^(a) 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 8. 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.

As shown in table 9, 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 8: Response rates by provider type and geographical location (%)

	Rural/regional	Metropolitan	% of total
Secondary school	49	51	7
TAFE or technical college (including TAFE divisions of universities)	59	41	7
University	0	100	0
Commercial subsidiary of school, TAFE or university	25	75	0
ACE centre	53	47	12
Business college	27	73	6
Commercial training provider (other than business college)	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%.

Table 9: 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: Glossary

Access and equity

A policy or set of strategies to make VET available to all members of the community, to increase participation and to improve outcomes, particularly focusing 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 VET programs, including: evening and community colleges, community-based adult education centres, neighbourhood houses, and workers' educational associations. Generally, the defining features of adult and community education are that it is learner-centred, responsive to community, accessible, diverse, and flexible.

Australian National Training Authority (ANTA)

The Australian 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 Australian Government Department of Education, Science and Training.

Australian Qualifications Framework (AQF)

A nationally consistent set of qualifications for all post-compulsory education and training in Australia.

Australian Quality Training Framework (AQTF)

Nationally agreed recognition arrangements for the VET 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

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 VET 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, 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 VET 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 vocational 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.

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; that is, more outputs per input or the same outputs for reduced inputs, which is often referred to as 'value for money'. 'Allocative efficiency', a third type of efficiency not considered in this report, is the situation whereby resources are allocated in a way that maximises the net benefit attained through their use and produces the proper quantities of the products that consumers value most.

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 VET 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)

An organisation providing advice and assistance to apprentices, trainees and employers with training arrangements and financial incentives under the New Apprenticeships system.

Non-contestable (profile) funding sector

The sector in which government funds are allocated directly to TAFE institutes via state training profiles.

Non-TAFE provider

Registered training organisations other than TAFE institutes, including: commercial providers (providing courses to industry and individuals for profit); ACE 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 (for example, 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 VET 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 (for example, 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 & 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 technical and further education 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. Registered training organisations include TAFE colleges and 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 VET 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 vocational education and training 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 vocational education and training.

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 courses and other programs (for example, 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 TAFE colleges or 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 which empowers clients to exercise greater choice in the context of the New Apprenticeships program. 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 registered training organisation), 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 organisations, and thereby drive improvements in provider efficiency, quality and responsiveness to client demand (ANTA 1996).

Support document details

Additional information relating to this research is available in *Trading places: The impact and outcomes of market reform in vocational education and training—Support document*. It can be accessed from NCVER's website <<http://www.ncver.edu.au>>. This document contains:

- ✧ Policy context
- ✧ Market mechanisms
- ✧ Review of literature
- ✧ Evaluation framework
- ✧ Markets for VET in Australia
- ✧ Participation and finances in the VET sector
- ✧ Synthesis and analysis of research findings
- ✧ Impact of market reform on providers
- ✧ Conditions for success
- ✧ Outcomes of market reform
- ✧ Policy proposals.



The National Vocational Education and Training Research and Evaluation (NVETRE) Program is coordinated and managed by the National Centre for Vocational Education Research, on behalf of the Australian Government and state and territory governments, with funding provided through the Department of Education, Science and Training.

This program is based upon priorities approved by ministers with responsibility for vocational education and training (VET). This research aims to improve policy and practice in the VET sector.

Research funding is awarded to organisations via a competitive grants process.

**National Centre for Vocational
Education Research Ltd**

Level 11, 33 King William Street
Adelaide SA 5000

PO Box 8288 Station Arcade
South Australia 5000

Phone +61 8 8230 8400

Fax +61 8 8212 3436

Email ncver@ncver.edu.au

www.ncver.edu.au