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# Structures in tertiary education and training: a kaleidoscope or merely fragments? Research readings

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**NATIONAL VOCATIONAL EDUCATION  
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RESEARCH READINGS**

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# How do providers respond to changes in structures in a period of reform?

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In this essay, I outline the ways in which contestable funding for VET has affected the behaviour of providers and examine the levers that might be employed by government to monitor outcomes arising from these changed funding models. The differences in the responses between public and private providers are investigated and the resultant changes to the system of public provision analysed.

The drivers of change in funding models in the education sector will be outlined. One of the drivers for change is the high cost of providing vocational education under a traditional government-funded model. The increasing cost burden to governments of providing education is a global issue. It strikes at the core of the underlying questions of: what are appropriate models for delivering education in an environment of rising costs/inability of government to be solely responsible for the costs of education provision; and who should share in the payment of these increasing costs.

International education models and programs are outlined and analysed for their relevance to Australia, especially with regard to the latest operating frameworks and modes that seek to create new contexts for education services.

The essay outlines policy differences in funding models and examines the impact these models have on the structure and function of education and consequent education model outcomes. Further, the levers that governments may use to monitor the implementation and change management initiatives are identified and analysed. The essay also explores the different management and institutional approaches from both a public and private sector perspective in response to user choice arrangements. The effect of changes in funding models on service delivery, public policy-making and the future of education in this sector is considered. In following sections, the concept of contestability, as it is a major reform direction in the VET sector, is defined and the implications for vocational education models and structures are examined.

## Contestability

The Hilmer Report (1993) set the agenda for contestability in Australia on the basis of a wide-scale investigation into competition policy, consequently restructuring the existing model of government monopoly in which government was the sole supplier of goods and services delivery. Hilmer (1993, p.215) referred to the strategy of the inclusion of private providers into previous government monopolies as part of 'pro-competitive' reforms. This approach was considered distinct from privatisation, whereby the prior system of government-owned entities changed ownership from the public sector to the private sector, and is aligned with what Le Grande (1991) referred to as 'quasi-markets', where government shifts from being both a funder and provider of services to a model which separates the funding of services from the provision of services. Hilmer (1993, p.1) argued that competition policy was based on the strategy to introduce innovation, value for money and productivity into industry, leading to a more adaptive, flexible and enterprising business sector.

Pro-competitive reform, which included introducing private providers into the areas of government activity, was the approach favoured by the proposed new models for education provision (Hilmer 1993). Struyven and Steurs (2004) contended that the introduction of market forces stems from the pressure to improve efficiency and responsiveness in the public sector, with the move to introduce greater competition into public provision of services a feature of change efforts. The two allied concepts of contestability and consumer choice are the cornerstones of the conventional theory of markets. The terms appear to have been used formally in the context of market theory by Baumol and colleagues from the early 1980s (Baumol 1982; Baumol, Panzar & Willig 1982, cited in Davidson 2011). A contestable market is defined as 'one into which entry is absolutely free and exit is absolutely costless' (Baumol 1982, p.3). The consequent entry of many different organisations into the market then creates many choice options for consumers.

In reality, a perfectly contestable market in which there is unfettered ease of entry and exit is not likely to exist, as there will always be costs associated with setting up and withdrawing from business. In practice, the common use of 'contestable' is less restrictive than the concept of perfect contestability. A market can be considered 'contestable' if at least one new supplier may compete for business with another, even if there are some barriers and costs to entering or exiting the market. This less restrictive meaning establishes the principle of private provider access under conditions of contestability. These twin notions of contestable markets as a vehicle for new and innovative service providers and the generation of greater consumer choice are also used extensively in the vocational education reforms.

However, ease of market entry is also characterised by volatility, as firms withdraw and new service organisations emerge. In a study of social services delivery under conditions of a 'quasi-market', Davidson (2011) concluded that a 'managed' model would create optimal conditions for a program of marketisation. A restricted cohort of providers, rather than open entry for any provider, may offer a better and more stable model for service delivery. The managed model is a hybrid solution that introduces commercial market principles into education provision so that greater efficiencies can be achieved from competition, but limits wide-scale entry by private providers to avoid business risk and failure. Public policy may also seek to ensure that those who require vocational education have equity of access, which also implies some gatekeeping or direction of investment.

It was found in a study by NCVET that most states and territories encountered challenges in determining proper funding regimes for the delivery of training in an open market and meeting ongoing commitments to fund public providers, as these organisations struggled to become more corporate in their approach (NCVER 2005). Previous research found that public providers had difficulty in competing with private providers due to additional cost burdens, including meeting required industrial award conditions for employees and larger capital infrastructure and capital maintenance costs, which are not borne to the same extent by private providers. It was concluded that these additional cost structures militate against the ability of public providers to offer competitive program offerings, by comparison with private providers, and public providers are then required to deliver a disproportionate number of programs with a higher cost, while they also have a community service obligation to provide free or low-cost courses for disadvantaged students (NCVER 2005).

From the foregoing discussion, the use of a hybrid or managed market can be positioned between the full government provision of education services (non-market) and the full market (Baumol's 1982 unfettered and cost-free entry and exit model). This development allows a more nuanced consideration of the way in which a contestable market can be introduced with a more flexible

framework for delivery of education than that of the non-market provision of education, but one that avoids the risks and uncertainty associated with the full market model.

The use of market mechanisms in the delivery of services is expected to lower costs and improve innovation capacity. It is argued that:

Competitive pressure exercises constraints on activities and drives producers to keep prices down, to organise according to the best known techniques of production and to innovate in order to avoid economic annihilation. (Webster & Harding 2000, pp.6–7)

These expectations, as set out by Webster and Harding (2000) and Struyven and Steurs (2004), are reflected in the expectations for the introduction of competitive mechanisms in the VET sector. The Australian situation is explored to elicit a deeper understanding of the different models either implemented already or under consideration. Different government approaches to VET provision and the implications for the quality of service delivery are discussed in the following section.

### Education and contestability

The Australian VET sector entered a new era in 2010 when it introduced the National Entitlement to a Quality Training Place, which gave young people guaranteed access to education, including upgrading their qualifications. This approach is argued to be an ‘entitlement-based, demand-driven structure’ and is organised according to two ‘push-pull’ elements, one from the supply side: ‘who should deliver training and how’ and the other from the demand: ‘who should buy training, and why’. Ross (2011) in an article in *The Australian* newspaper reports that the policy was given renewed impetus when the Council of Australian Governments (COAG) agreed to adopt ‘a new national framework of objectives and principles for a reformed national VET system’. It was noted that some states were adopting ‘a more flexible and demand-driven training system, seeking greater contestability of funding for public training and greater competition between providers’. This policy solution adopts market relations on the assumption that all players may have a choice about how to invest their resources within appropriate buyer–seller relationships.

The move to a more demand-driven model was brought about by the increasing cost of providing education, the ‘lack of fit’ of skills education to industry requirements and the inflexibility of the current system, especially given the programmatic aspiration of having school leavers in education rather than unemployed. The Victorian Department of Education and Early Childhood Development (2012) undertook a meta-analysis of reviews of the VET funding arrangements undertaken by the Victorian Government since 2009 and found that current funding arrangements were unsustainable and too costly to be provided by taxpayer support. A report commissioned by the Australian Education Union found that, while there was an overall decline in funding levels for public VET, government targets for increased levels of educational attainment in the population and the workforce were putting pressure on the system (Centre for the Economics of Education and Training 2010). Further exacerbating this problem of the need for greater access to VET places was increased demand for the different types of educational qualifications within the VET system. The demand for a wider variety of courses created higher costs for providing education. These challenges created difficulties for the future funding of VET (Centre for the Economics of Education and Training 2010).

Victoria in 2009 was the first state to introduce VET reforms, prior to the skills reform initiatives introduced by the federal government through the Council of Australian Governments in 2010. The Department of Education and Early Childhood Development (2012) reported that from 1 January 2013, all providers in Victoria, whether public (TAFE institutes) or private providers, would receive the same

training subsidy rates, as a way to create a 'more level playing field' in the VET sector. As part of its drive to improve the operation of the sector the Victorian Government sought to change TAFE institutes through structural reform, involving a new governance framework. The implementation of this system was argued to support the TAFE sector to be more efficient and to enable more competitive behaviours in a 'demand-driven, contestable training system' (Department of Education and Early Childhood Development 2012). South Australia, through the Skills for All, TAFE SA Bill of 2012 introduced contestability into the VET system. The TAFE institutes, along with private providers, were brought into the new system; however, unlike the current Victorian system, government providers were paid at a higher rate per student to account for the higher costs expended in delivering courses to regions, to disadvantaged students and for maintaining large-scale infrastructure (Department of Further Education, Employment, Science and Technology 2012, p.6). The quality requirements for private providers were argued to be high, and in this way, had safeguards against business risk.

The recently released interim report by the Queensland Skills and Training Taskforce in August 2012 foreshadowed a planned approach to contestability (2012, p.23). The report suggests that the first step towards contestability is to ensure a more commercial and competitive approach for TAFE Queensland. The need to be more cost-effective and flexible has resulted in a reduction in the number of TAFE campuses from 82 to 44, including, as a part of the proposed change, the closure of 32 regional TAFE facilities. With its geographically dispersed settlement pattern of coastal regional centres, this reduction appears to restrict community access to local providers.

The main changes have focused on encouraging private education providers to offer a competitive model for VET. However, the call for greater efficiencies includes changes to employment arrangements. Greater flexibility in types of employment, including greater casualisation and flexibility in the workforce, together with more flexibility in employment arrangements (including a longer span of hours and more adaptable working conditions), feature in the requirements for the new VET system (Department of Further Education, Employment, Science and Technology 2012; Queensland Skills and Training Taskforce 2012; Department of Education and Early Childhood Development 2012).

The provision of educational services to regions and to individuals in marginalised or disadvantaged groups is of high concern in the contestable models. A report by Mission Australia (Cull 2009) concluded that the Victorian VET reforms were showing an early negative impact on lower socioeconomic groups' access to vocational education. Commercial decisions relating to the expense of providing education in the regions may reduce opportunities for those living in regions or those who may not have access or opportunity for private education, to have access to VET. The overall viability of the TAFE sector is at issue as more flexible private providers move into the arena of vocational education.

### International training models and approaches

Funding models in Europe have maintained a government-provided system of vocational education but more of the costs have been shifted to those who undertake education programs. In the United States, there is a reliance on private providers, but the costs are mainly borne by employers rather than the students.

The OECD (2012, p.3) adopted the definition of the VET sector as 'a one to four year program (full-time equivalent), preparing students for direct entry into the labour market in a specific profession'. The focus is on bringing industry stakeholders into the policy and practice arena and developing closer relations with employers to ensure that skills match industry requirements. For employers, education

is important as it has a direct bearing on worker productivity. It was found that stronger interconnections and reliance between countries under a unified Europe affects VET systems. Student mobility and recognition of qualifications was an issue for this sector but more indirect issues were also issues of concern, such as foreign direct investment and international trade.

As is currently occurring in Australia, funding for education across Europe is diminishing and the shape of policy from a European perspective is also changing as the Global Financial Crisis affects more countries. Schwarzenburger (2008) suggested that the models for dealing with rapidly rising costs were also under severe strain:

Much of the ideological and political contestation is the consequence of the very high and rising costs of higher education and of issues *surrounding the sharing of these increasing cost burdens* (p.3, author's emphasis).

The cost-sharing mix relates to the relative financial contributions to vocational education made by private households and the government, with now an increasing proportion of private funding being invested in education. This model differs from the Australian situation as the decreasing funds available for education have meant that, while individuals are increasingly paying a greater share of the education costs, government provision rather than private provision of vocational education remains the main vehicle for this type of education.

The European Union is a large institutional player and has taken responsibility for funding programs when countries have been unable to fully fund their vocational education costs. Countries are not always mature enough to develop independent sectors, as demonstrated in the following case study. Corradeni et al. (2012) in their study of Bosnia-Herzegovina found that a program of VET reform had been implemented since 1998, predominantly through programs funded by the European Union, which had acted as a major donor and driver of innovation and modernisation in the sector. However, due to the complexity of the administrative structure, the implementation and management of reform encountered obstacles and delays, and the outcomes achieved failed to meet initial expectations.

A study by Tessaring and Wannan (2004) found that major challenges to the VET sector in Europe included the need to improve the image and attractiveness of VET, the inability to adapt to labour market needs, the impact of demographic change and difficulties in responding to the needs of low-skilled and disadvantaged groups. The struggle to change this sector has not included wide-scale intervention to shift to private provision, but private providers are included in the mix in different European countries.

In the United States there is a mix of private and public provision, but private provision is more prevalent. VET-equivalent options can be attained through schools and post-secondary institutions in the public and private sectors. The majority of post-secondary technical and vocational training is provided by proprietary (privately owned) career schools and a large proportion is employer-funded. Approximately 30% of all credentials in career training are provided by two-year community colleges, and these also offer courses that are transferable to four-year universities. Other programs are offered through military technical training and government-operated adult education centres (Levesque et al., 2008).

The VET sector is mainly managed through state-based education services, but there is federal oversight through the federal government under the Office of Vocational and Adult Education within the US Department of Education. Accreditation for education providers is through both federal and state departments but this administrative complexity creates difficulties for qualification recognition and transfer. Funding is also more likely to be applied in terms of grants and loans to students. In

their analysis of education providers in the VET sector, Levesque et al. (2008, p.205) found that almost 45% of VET education was provided by employers; business or industry provided 25%; and government provided 8%. The remainder was divided up among professional associations, post-secondary institutions and other providers.

A finding of a comparative study of education in Europe is the principle of 'high private returns and public benefit for human capital investment' as the basis for the mix of public and private investment in education (Schwarzenburger 2008 p.3). 'Social balance' is the term used in an international context to account for a mix of contestability options in education and relates to preserving social equity (Schwarzenburger 2008, p.1). The implications for social balance under conditions of contestability for the Australian situation are debated in the shift to allow private entrants into the VET sector. The social agenda of access to vocational education could be recognised as a part of the federal government's National Entitlement to a Quality Training Place. The articulation of training to employment also ensures a better-skilled community and links to the promotion of wellbeing and community cohesion. The basis of government provision of services in education has been to ensure that the universal right to education is extended to all types of education experiences including, as is foreshadowed in the United Nations Declaration, vocational education.

### Who pays? Finding a new model for education provision

The policy and practice for funding public and private education providers is an important consideration in a reform period (Wise 2002). While offering a safety net for education, the reform agendas of state governments for the VET sector highlight a concern with finding ways to promote a viable vocational education sector but with a major focus on greater flexibility of operation and on labour markets in the TAFE system. Public services, while capable of delivering innovative programs, may however be resistant to change (Brown & Keast 2005). Difficulties in implementing programs may drive state governments to resolve these challenges by shifting service delivery to the private sector. Various government reports into VET (Department of Education and Early Childhood Development 2012; Department of Further Education, Employment, Science and Technology 2012; Queensland Skills and Training Taskforce 2012) have highlighted public sector failure to deliver flexible and cost-effective streamlined education services and the need for more innovative arrangements with private sector providers to deliver education services. However, private sector failure may have consequences in this context.

Understanding and developing an adequate risk management strategy or framework for new initiatives or reform programs is an important element of effecting changes in the education sector. The closure of eight English language colleges due to business failure in 2010 shows that there needs to be a strong system of support for wide-scale private sector provision of vocational education (*The Economic Times* 2010). In his study of contestability in the human services sector, Davidson (2011) concludes that market efficiency may come at the cost of consumer and service choice; for example, when deregulation lowers legal barriers to entry and creates greater concentration of ownership. Large firms use their market power to reduce the ability of smaller firms to remain competitive, preventing new entrants in the market.

Other examples of this activity in which the introduction of market mechanisms and contestability in previously government-provided goods and services has resulted in a concentration of large firms rather than a broad array of competition can be found in various sectors, including the retail industry (Jacenko & Gunasekera 2005), construction industry (Furneaux, Brown & Allen 2008; Ryan et al., 2005) and the social services sector (Brown, Ryan & Parker 2000; Ryan & Brown 1998). These studies

also found that, while initial competitive pressures resulted in new entrants to the market and lower costs of services, contracting costs and market uncertainty eventually resulted in the consolidation and reduction of service providers.

In these examples, the shift to contestability has therefore created a situation in which government lost the internal expertise required to monitor service provision and became captive to a few large specialised or niche service providers. Government, rather than benefiting from increased competition and lower costs then became a 'price taker' for delivery of external specialist expertise and services that could not again be easily in-sourced because the institutional structures had been dismantled. In view of the case examples from other sectors, it can be shown that dismantling government service provision is not without problems or unforeseen effects. The use of a managed market, with restricted entry in order to meet particular sets of standards and requirements, may reduce some risk and retain quality education standards.

A market-driven VET sector is one possible response to the challenges confronting the sector, but opening up to a private system brings new issues. Carne (2007) contends that, with the payment of education through the private system, the determinants of demand include the expected return on the investment (wages paid to skilled labour; awareness of employment opportunities; and whether gaining skilled employment is likely); whether a student is focused on gaining skills for their present job or undertaking training for a future career; awareness of the availability of training opportunities; and the student's income or capacity to borrow. Accordingly, Carne (2007) argues that employers needing specific skills should pay the cost of vocational education, as employers will directly receive the benefits of the skills acquired. Generic skills taught by the VET sector is a public good, which aims to better educate members of society, and without intervention or a public model, the market will under-provide. This situation requires funding by government to promote generic skills.

Carne (2007) suggests that there is a need to differentiate between the two types of skills: general skills such as reading, maths, communication and problem-solving and specific workplace skills, as these will require different funding arrangements. It is argued that specific skills should be funded by the employer requiring the skills, while generic skills should be government-funded, as these skills provide the building blocks to broader competences but will not be offered if reliant on a market-based model. The provider model for delivering a fully integrated course is problematic using Carne's (2007) model, however.

In a study of market mechanisms to deliver public services, Blöchliger (2008, pp.19–20) suggests that governments can implement a range of policy measures to ameliorate problems of access and equity and unintended consequences. Policies include the requirement for service providers to meet prescribed standards for service delivery, non-discrimination of users for the services, the implementation of differential pricing mechanisms on the basis of need, payment of direct income support to users to enable access to services and introduction of voucher systems to promote choice and access.

A fully market-driven model for the VET sector has many challenges and risks, including problems of business failure, the inability to provide a full range of education services due to the high costs of speciality programs, and the exclusion of marginalised groups because of lack of access to education through distance, cost or opportunity. These are manifested in policy trade-offs between efficiency and equity of access to education and the challenge of providing choice. At the same time the regulatory burden is expanded to deliver that wider choice (Blöchliger 2008). The unrestrained entry of new players into the education sector may fragment a system already under pressure and challenge

the delivery of a set of almost universal rights (the right to education). However, a more limited version that introduces new private sector education providers into the sector may provide a way to achieve greater efficiencies. Restricting those new entrants to a highly regulated and supported set of well-managed operators can reduce risk and may complement the existing system in novel ways.

## Conclusion

I have outlined the drivers for change in the education sector as shrinking budgets and the greater importance of vocational education as a national strategy for delivering skills development. The chapter then proceeded to define and discuss contestability in the VET sector with particular reference to the changes in the VET sector in Victoria and South Australia and the proposed changes in Queensland. Change initiatives within these structures were analysed to determine how the government may seek to implement a program of education reform under a contestability regime. An examination of the possible consequent education structures and the management frameworks required to deliver the new agenda indicated that private education providers need to meet high-quality requirements so that the system is protected against the costs of business failure.

The Victorian approach opens the VET sector to the most competition, as it has allowed fees to be uncapped, removed the higher government funding differential between private providers and TAFE and phased out funding for meeting community service obligations (Department of Education and Early Childhood Development 2012). Both the South Australian and proposed Queensland models retain public education providers with higher subsidies and community service obligations. Employment relations are more flexible, with the Victorian model moving to individual contracts for employees. All three states highlight the need for greater flexibility in employment types and employment conditions, including span of hours and changes to overtime arrangements.

A fully contestable market-driven model may deliver greater cost savings but not necessarily deliver a more effective education system if private providers do not adhere to good business and education practices or if the business fails. Education is of itself a social good and a right for citizens under the United Nations Charter for Human rights (Article 26). In the charter, technical education is expected to be made generally available by governments. Consequently, education is not simply a good or service that can be traded in the marketplace in the same way as other types of products.

The Australian reviews of VET suggested that the mix of firm or specific technical skills may be delivered better under a market model, as it responds to those who are requiring skills or wish to be skilled. However, international studies found that it is not necessarily imperative to introduce a contestable model in order to meet employers' needs and requirements. A stakeholder engagement model can also meet employers' needs and requirements in skills and training. This approach is demonstrated in the European example and in the United States, where the employer provides a large proportion of the vocational training, offering a direct link to industry-required training.

Other countries have experimented with greater private provision of funding by requiring those who undertake VET to pay a greater portion of the costs, with state-based institutional approaches retained. The United States has adopted a model that brings the employers into the education provider arena along with other businesses, with government only a relatively small provider. Regulatory oversight through accreditation is a major role, and social benefit appears to be achieved through access to student grants and loans.

Innovation, adaptation and greater efficiencies are required in order to deliver VET in a climate of decreasing funding and greater demand, and so new ways of offering vocational education are

required. The ‘managed contestability’ model was put forward as one option to ensure that market principles delivered efficient services while social balance and equity are preserved.

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