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Choice, diversity and competition – a new opportunity for VET providers

The move to enhance student choice in tertiary education – both VET and higher education – provides great opportunity for providers to innovate and win new customers, and for students to gain access to the programs that motivate them and provide valuable job-skills. It is a market-like system, seeking to exploit the positives that choice and competition can give – diversity, innovation.

It is not a free market though (few markets are). Government involvement is needed. It is a “framed” or “designed” market, to use the current jargon. Having set the policy ball rolling, the challenge for governments is to provide the necessary public investment, regulation, planning and information to allow such a market-like system to work.

Governments that are successful in this will place their VET systems (especially their TAFE systems) in an enviable position to win business and provide skills to people and businesses as we emerge from tough economic times. Quality VET providers could do well.

A model of VET funding

Figure 1 depicts the possible approaches that could be taken to resource allocation in the emerging VET system (indeed this would be relevant in a broader tertiary system where there is less distinction between sector of providers).

The diagram shows the main ways by which VET providers link to clients and gain their revenue – through student entitlements (under the system emerging in Victoria), through contractual funding with State or Territory government, through winning public tenders and through fee-paying clients of various kinds. Students supported by an entitlement (as in Victoria) may be eligible for an income contingent loan (ICL - like HECs) if studying a higher level VET program. In a “pure” model all funding would flow from clients via entitlements, fees and fee-for service. A diversity of providers of all shapes and sizes would compete for custom. Sectors would not be defined by type of provider – but by programs or, in the current VET jargon, products. In States or Territories other than Victoria most government funding will come through contractual, profile like funding and increasingly through competitive tendering arrangements (purchaser-provider arrangements). The extent to which public sector TAFE and private providers compete for funds varies by jurisdiction, as does the level of competition from outside the State or Territory. The diagram shows the Commonwealth as potentially a purchaser of places – something not happening at the moment under the current inter-governmental agreement, but a reality in the past and a prospect in the future.

Figure 2 shows revenue sources from the point of view of a provider, probably a TAFE. For governments interested in transitioning to an entitlement model over time, one way to do this would be to progressively reduce provider reliance on contractual funding (either profile-type funding or competitive tender) while increasing provider exposure to choice-related (both entitlement and fee) funding.

Choice and diversity – not central planning

How is the new approach different? Simply, it seeks to emphasise genuine demand – that is diverse student and enterprise-level demand. And it seeks to let that demand get through to free, flexible and agile providers providing personalised or customised services to win business.

This is different from the simple supply-side obsession with promoting private providers above all (a speciality of the last Commonwealth Government). Private providers earn their place by providing attractive, quality programs with no special status. It is also different from the older-style supply side concern to give TAFE by monopoly or near-monopoly protection.

But in emphasising demand the entitlement approach is not following the rhetoric of “industry-driven” demand or the purchaser-provider model of the now old “new public management”. These were reform directions in the 1990s but not now. The emphasis is on demand from real people and real businesses not demand forecasts (however well analysed) from committees or experts. This is not to say by the way, that economic or labour market analysis is useless. It can provide valuable information to consumers to assist choice and to providers to assist their investment and provision decisions. Planning should be about strategy, direction and shaping the terms for choice and provision – not about detailed purchase of places. Trusting clients – students and employers – will get better results.

Enabling it to work

This new way of doing things should not involve less government activity, or even less regulation – just less government direction of providers, less centralised direction of funding and a different kind of (more demanding) regulation. It goes without saying that high quality VET and tertiary education more broadly is an essential part of strong and a productive community – it is a public interest matter and needs the authority and investment of Government to flourish. Government must be involved to:

- Invest – in adequate funding for places, in infrastructure and in support services for student participation (including but not only income support);

- Regulate – to establish and protect the "currency" of qualifications and programs, set demanding market entry standards for providers (far more demanding than has been the case so far) and set the rules for public and private involvement and investment;
- Provide – through building, investing in and supporting the public provider (TAFE, public universities, schools and adult education providers) as a high quality option for all;
- Plan for provision – to ensure accessible and diverse provision for citizens and businesses, including in areas of "thin markets" and possibly manage issues of monopoly (that is be a market manager like public authorities in a range of other areas of service provision); and
- Collect, analyse and disseminate information – to enable choices and investment to be made.

A perfect storm?

Now for the downside. As always investment matters most at the end of the day and this is where I am most worried. It is reasonable to think that governments will lift their game on regulation (hopefully to establish the national regulator proposed in the Bradley Review), planning and information provision.

It is not unreasonable however to fear a "perfect storm" combining:

- Constrained public funding;
- A downturn in the full-fee market, both international and national (but especially international);
- Caps on student fees;
- In the higher education area, the abolition of domestic full-fees; and
- Committed pursuit of demanding growth targets.

Unless one or several of these areas finds a release, quality providers will be under extreme pressure. Low cost (and often poor quality) providers that have slipped under the regulatory bar will again benefit. Students and businesses will be the losers.

There appear to be five possible "solutions". The best is to increase public investment to better reflect the cost of quality provision (when combined with reasonable student fees). A second option is to allow providers to charge more on top of the public subsidy or entitlement – that is to increase fees (with students supported by ICLs). A third is to drive down costs through innovation and

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competition – a valuable approach but risky and one that can only get some of the way. A fourth is to restrict the number of subsidised places available (effectively turning an entitlement into a scholarship) and accept rationing of places. A fifth is to keep the public subsidy low and pursue growth, accepting the risk to quality of low-cost provision. My preferred approach is a mix of options one, two and three. What is yours?

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Figure 1 - Elements of a VET funding model

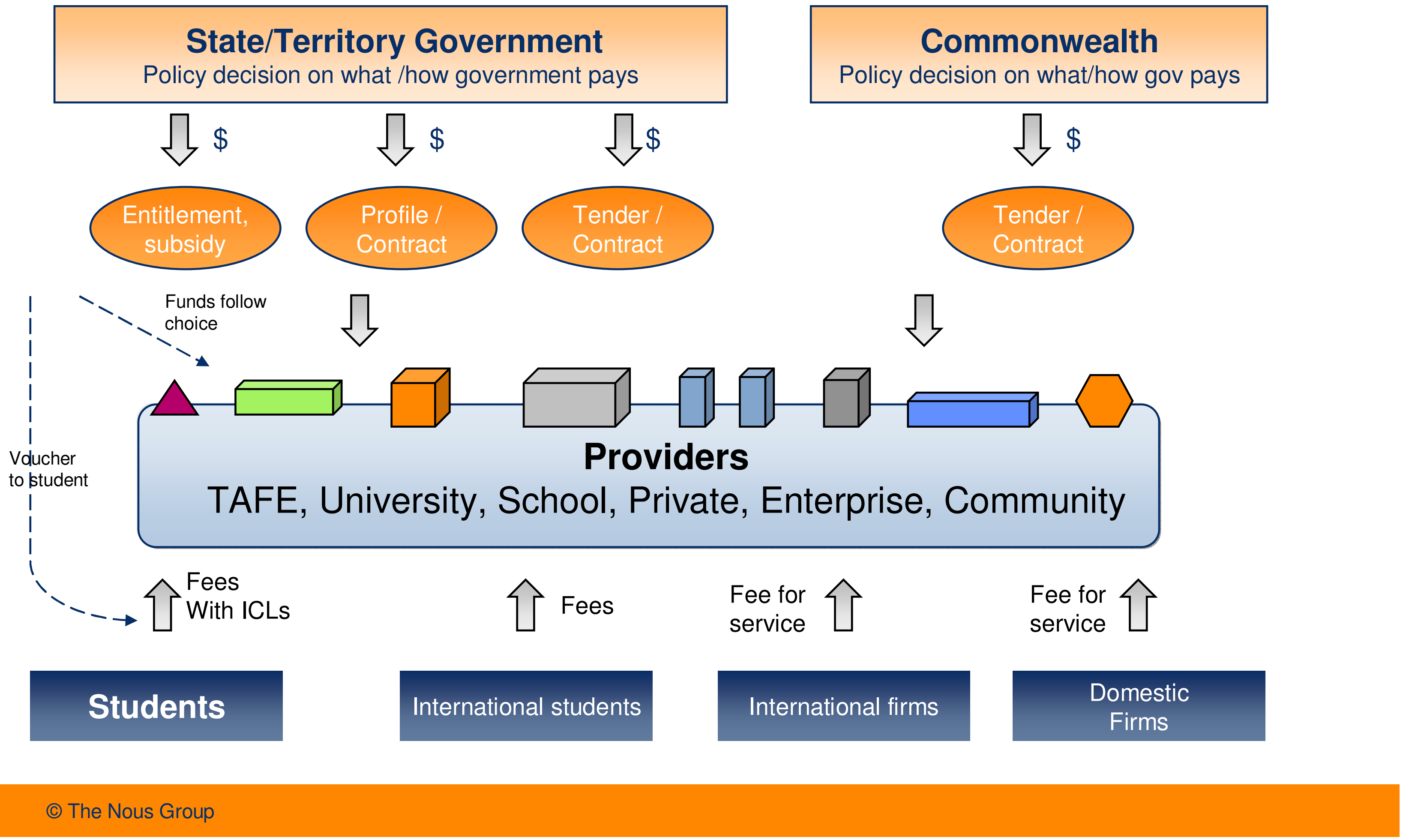
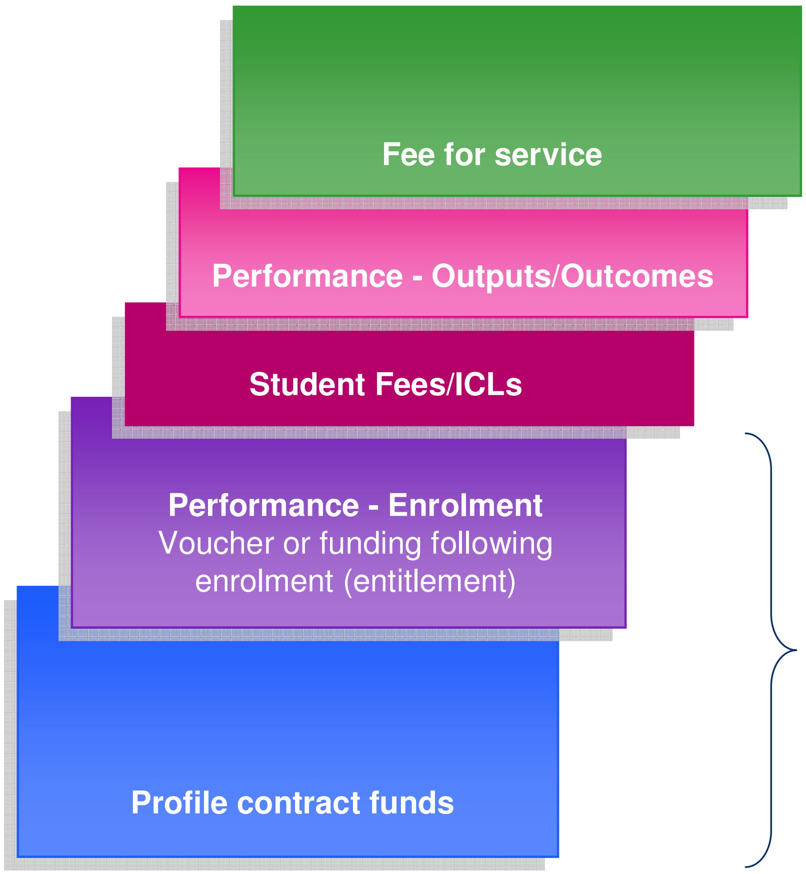


Figure 2 - Funding envelopes

Sources of VET provider revenue



Profile plus enrolment funds equal agreed government contribution, equivalent to entitlement, voucher, or scholarship. Over time the ratio of profile to performance funds decreases.

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