



**MONASH UNIVERSITY - ACER
CENTRE FOR THE ECONOMICS OF EDUCATION AND TRAINING**

**Analysis of User Choice Resourcing Arrangements
in March 2004**

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ANALYSIS OF USER CHOICE RESOURCING ARRANGEMENTS IN MARCH 2004

1. Introduction

CEET was asked in February 2004 to assist the Australian National Training Authority (ANTA) concerning Recommendation 11 from the MINCO meeting in November 2003 (The Statement of User Choice Policy as agreed by MINCO at that meeting is at Attachment 1). Recommendation 11 requested ANTA to co-ordinate the development of relevant User Choice resourcing arrangements for implementation by mid-2004, “noting that in States and Territories that operate User Choice contracts on a calendar year basis, full effect will take place by the beginning of 2005, and provide advice to ANTA MINCO at its June 2004 meeting”.

CEET assisted ANTA by documenting the User Choice resourcing arrangements operating in each jurisdiction and at national level, together with relevant industry views. (Given the sensitivity of the matters CEET was asked to investigate, ANTA did not authorise publication of the material until early in 2005; and given the difficulty which was experienced in obtaining the information it was judged useful to publish it.) The stakeholders were informed by ANTA on 11 February, and requested to provide CEET with the relevant information when they were approached. The timing was tight, since ANTA asked that the CEET report be provided by the end of March 2004.

CEET Working Paper No. 57 (Selby Smith, 2005) makes the information which was obtained for ANTA more widely available; and, where appropriate, reference is also made in that Working Paper to changes in the existing resourcing arrangements and priorities which were being implemented or proposed at the time CEET conducted the investigation.

This Working Paper is complementary to the previous one; and contains three subsequent sections: the background to the (then) existing User Choice resourcing principles and their interrelationships; analysis of the existing arrangements, including their consistency with each other and with the User Choice principles agreed by Ministers; and three concluding comments.

2. Some Background to the Arrangements

User Choice was introduced nationally from January 1998 for New Apprenticeships, following pilot projects in 1996 and 1997. The Howard Government, elected in March 1996, aimed to link training more closely with employment, replacing the previous arrangements with an industry and enterprise driven training system focusing on the development of direct relationships between enterprises and individuals on the one hand and training providers on the other.

In July 1996, State, Commonwealth and Territory Ministers agreed to progressive implementation of User Choice during 1997 and to full implementation of User Choice for off-the-job training of apprentices and trainees from 1 January 1998. The objective of User Choice was endorsed by Ministers as “to increase the

responsiveness of the vocational education and training system to the needs of clients through the encouragement of a direct and market relationship between individual providers and clients” (MINCO, 1997). Ministers also endorsed nine principles to underpin the implementation of User Choice, which are set out in Table 1. They envisaged the flow of public funds to individual training providers, reflecting the choice of provider made by the client. They defined the client as the employer and the employee, acting jointly, recognising that they might agree to authorise a “broker” to act on their behalf. Employers were also able to negotiate other aspects of the training with their selected registered training organisation, including the timing, location and method of delivery.

The Ministerial Council argued that User Choice comprised three essential elements, which had to be satisfied *together* to establish a genuine market relationship between individual training providers and clients. Separately, the three elements alone would not meet the agreed objectives. The three elements were:

- significantly greater market power to individual clients to negotiate with individual registered training providers, both public and private, about the off-the-job component of new apprenticeships. The Ministers noted that negotiation could include choice of provider and choice about specific aspects of training, including location, timing and content;
- increased responsiveness on the supply side of the training market, to enhance the capacity of individual VET providers to respond to the expressed needs of clients. Training outcomes would then be able to reflect more closely clients’ views of their own needs. This increased responsiveness was expected to include greater contestability among individual providers; and
- outcomes compatible with public expenditure constraints and efficient use of resources. There could be no implication that all requests for training from clients, however specialised or expensive, would be met from public funds. At their meeting in June 2000 Ministers indicated that, in addressing inconsistencies in User Choice, States and Territories retained decision-making responsibility on resource issues.

While Ministers approved the new policy, NSW reserved its overall position and there was recognition of the complexity of the changes required. As the policy moved towards implementation “the emphasis shifted from policy development, where ANTA and the Commonwealth had the lead role, to implementation, where the States and Territories had the lead role. This decision emphasised the contested nature of VET in Australia: between levels of government, between the industry partners, and between the public and the private sectors” (Selby Smith and Ferrier, 2001, p. 2).

Table 1: The Nine User Choice Principles, 1997

1. Clients are to be able to negotiate their publicly funded training needs.
2. Clients have the right of choice of registered provider and negotiations will cover choice over specific aspects of training.
3. User Choice operates in a national training market not limited by State and Territory boundaries.
4. The provision of accurate and timely information about training options is necessary for informed choice.
5. Pricing of training programs by State/Territory Training Authorities should be based on clearly identified State/Territory unit costs benchmarks. Unit costs set for efficient provision may be increased by including a loading for access and equity reasons.
6. Training over and above that which is essential to the qualification outcome for the apprentice or trainee, and is above that which is funded publicly, can be negotiated and purchased by the client.
7. User Choice would be harnessed to improve access and equity in the VET system and be integrated with existing initiatives.
8. Regulatory frameworks and administrative arrangements relating to VET at the National, State and Territory level are to be complementary to the achievement of the objectives of User Choice.
9. Evaluation of outcomes of User Choice against objectives is an integral element of a program of continuous improvement. Innovation is required to achieve and maintain a best practice training system.

Source: MINCO, July 1997.

A number of investigations were conducted concerning the new arrangements, both at a national level (eg. KPMG Consulting, 1999) and at individual State and Territory level (eg. in Queensland by Smith, 1999; in Tasmania, 1999; and by Schofield in Queensland, Tasmania and Victoria in 1999, 1999a and 2000 respectively) The studies generally supported the change, but raised concerns in some areas and made various recommendations for change. However, a major development occurred in 2002 when the Australian Chamber of Commerce and Industry (ACCI) declared “implementation of a revised approach to User Choice” as one of its training priorities.

The results of a survey undertaken by ACCI of its members in 2001 showed very high levels of support for User Choice, but they had also indicated that User Choice was not always meeting the expectations of employers. ACCI concluded that “between the promises of the User Choice policy and the reality for many employers, there lies a credibility gap” (ACCI, 2001). ACCI argued that the failure by State and Territory training authorities to implement User Choice fully was of concern because it “will only lead to a lessening of demand [for training]. Employers may begin to withdraw from an engagement in training if their role and influence is diminished” (ACCI, p. 3).

ACCI identified five main “areas of contention” which, in its view, were adversely affecting the implementation of User Choice in the States and Territories:

- Lack of a clear agreed definition of User Choice and its purpose.
- Concerns about the impact of the introduction of User Choice on TAFE, particularly in regional areas.
- A perceived need to control training activity through central planning processes or managed competition.
- Concerns about the quality of training provided, particularly by small private training providers.
- Fundamental flaws in the pricing system of training through 'nominal hours' rather than a set fee based on outcomes.

ACCI suggested also that the State training authorities (STAs) had curtailed the effectiveness of User Choice by establishing processes that limited the opportunities for employers and restricted the desired outcomes. In addition, processes were argued to be different in each State and Territory, which presented particular difficulties for enterprises operating in more than one jurisdiction. The results of ACCI's 2001 survey were published at a time when User Choice was experiencing a "freeze" in some jurisdictions where, ACCI stated, STAs were concerned about its impact on existing public providers and 'attempted to turn back the tide of reform' (ACCI, 2001, p. 2).

ACCI proposed new arrangements for User Choice, which were framed around three elements. Each element had a different set of purposes; and they are set out in Table 2.

The three elements were underpinned by eleven principles for User Choice developed by ACCI (see Table 3). ACCI did not suggest that its eleven new principles should replace the existing nine User Choice principles agreed by Ministers in 1997. The main function of the ACCI principles was to guide the development of ACCI's new approach to User Choice by clarifying and defining the scope of the policy. However, ACCI did state that its principles "must be recognised and agreed for User Choice to operate nationally". In introducing the eleven principles, ACCI proposed that a new definition of User Choice and its scope be agreed, ie. "User Choice is a transparent process whereby employers have the ability to gain access to a preferred available training provider for their New Apprenticeships".

**Table 2: The Elements of ACCI’s New Approach to User Choice
(and their purposes)**

<i>Element</i>	<i>Purpose</i>
A new pricing and purchase policy at the state/territory level linked to each available qualification	<ul style="list-style-type: none"> ▪ To enable providers to understand and cost service ▪ To enable employers to understand the extent of public money flowing to training and to supplement public funds if they seek additional training. ▪ To provide a transparent process for States and Territories to determine priorities and price setting.
An on-line matching register	<ul style="list-style-type: none"> ▪ To allow providers to promote their ability to operate in a specific region. ▪ To allow employers to approach a range of providers able to operate in their region that can offer the type of training they seek. ▪ To allow providers to approach employers with services to complement the areas in which they are interested. ▪ To enable providers to compete for customers on the same price footing. ▪ To enable monitoring of demand for training by region and of the number of providers able to respond to that demand.
An e-business facility for User Choice	<ul style="list-style-type: none"> ▪ To improve access to User Choice options and the take-up of User Choice opportunities by more employers.

Sources: *Training and User Choice. The Employer Perspective.* ACCI, April 2002 and discussions with Mr Steve Balzary of ACCI.

While some of the ACCI concepts and ideas were similar to the nine principles agreed by Ministers in 1997, there were also some notable differences. For example, ACCI’s principles indicated that training priorities and funding levels should be set at the State or Territory level, in consultation with industry. The 1997 MINCO principles stated that pricing of programs by STAs “should be based on clearly identified State/Territory unit costs benchmarks”. Industry consultation was not mentioned. Similarly, there was no MINCO principle analogous to ACCI’s final principle. (For a more detailed discussion see Ferrier and Selby Smith, 2003.)

Table 3: ACCI's Proposed User Choice Principles

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1. An employer engagement focus.
 2. Recognition that the primary relationship in training is between the RTO and the employer.
 3. User Choice is about competition, choice, accessibility, customisation and responsiveness.
 4. User Choice requires systems to be transparent, with equal treatment of all providers.
 5. The Australian Quality Training Framework is the primary tool to regulate the quality of the training system and employers prefer quality training arrangements.
 6. Any introduction of User Choice should initially be limited to New Apprenticeships (currently 25% of VET funding).
 7. The importance of States/Territories in setting their own priorities and funding levels, in consultation with industry. It may be necessary to agree at a national level on some broad parameters for unit costs in a transition period.
 8. Any system requires employers, or organisations acting on their behalf (eg brokers), to understand their role and influence over training activity (ie employer empowerment) .
 9. The importance and availability of Training Packages in all jurisdictions.
 10. Recognition of 'nominal hours' as a flawed concept and the need to move to a set unit cost for all training.
 11. Introduction of third party access where all providers can get access to public infrastructure at reasonable rates.
-

In proposing new pricing and purchasing policies ACCI deliberately decided not to develop its proposal beyond a basic level. This was intended to ensure that discussion about the merits of its proposed approach did not become bogged down in detail and ignore what ACCI regarded as the major issue ie. the need for a policy change. However, it was envisaged that the further development of the policy, and its detailed implementation, would be guided by the new User Choice principles proposed by ACCI. In particular, it envisaged that: the process of setting the unit price per qualification, and establishing the loadings, would be transparent; the "nominal hours" concept would be abandoned; all providers would be paid the same basic unit cost plus agreed loading; industry would be consulted when the government contribution to the cost of training was being set; and the quality of the training which was purchased would be monitored. ACCI's concern that complete flexibility to set prices and loadings could result in the development of substantial differences between States and Territories led it to propose "transitional arrangements" which would contain prices within broad limits.

Table 4: ACCI's Proposed Pricing and Purchasing Policy

<i>Descriptor</i>	<i>Feature</i>
Operational level	The policy would operate at State/Territory level.
Scope	The policy would apply only to training for New Apprenticeships. It would be linked to all available qualifications, ie. no qualifications would be excluded.
Delivery of training	All qualifications would be available through Training Packages.
Basic unit costs	A unit cost would be set by the STA for all available qualifications within its jurisdiction. This amount would be paid to training providers as the government contribution to the cost of training, including to providers whose primary location is in another State or Territory.
Loadings	Loadings would be established for regional services and for disadvantaged groups. These loadings would be paid by the STA to providers on top of the agreed basic unit cost. The loadings would be based on, and recognise, the additional costs incurred by providers in delivering services in regional and remote areas and in providing extra support to enable disadvantaged people to complete their training successfully.

Sources: *Training and User Choice: The Employer Perspective*, ACCI, April 2002 and discussions with Mr. Steve Balzary, a senior representative of ACCI.

Note that, in relation to the establishment of the “on-line matching register” (which ACCI proposed so that employers or their representatives would be able to access information about providers able to deliver the training they require, within the region in which they are located), they foresaw the possibility of the register being useful in monitoring the demand for training in a particular region. This required the register to be set up in a form which would allow administrators to keep track of how many employers were seeking information, what they were seeking information about, and in which regions employers required the training. Such information about demand would be useful for STAs in setting priorities for training and when making decisions about what types of training to purchase.

In 2002 ANTA had asked CEET to seek information from all STAs about the similarities and differences between the User Choice arrangements proposed by ACCI and the existing arrangements in their State or Territory. CEET was also asked to obtain STA views on the ACCI proposals themselves (including issues and problems that might arise if a decision was made to implement the ACCI proposals). The major issues identified by STAs in their responses to ACCI's proposals are summarised in Table 5. Note that, although not all States and Territories provided either written or oral responses to all of the questions, most did provide considerable material.

Table 5: Major Issues Identified in STA Responses

<i>Risks in a further de-regulated setting</i>	<ul style="list-style-type: none"> ▪ Management - the system will be harder to manage. ▪ A potential increase in the demand for training. Who will pay for it? Who will deliver it? ▪ How to ensure that clients have real choices ▪ How to ensure that trainees and apprentices receive high quality training appropriate to the occupation. ▪ How to ensure that RTOs deliver training, and training of high quality. ▪ If problems arise (eg decline in the quality of training, failure of RTOs to deliver) there may be new pressures for regulation. ▪ How to ensure and monitor the appropriate and effective use of public funds
<i>Quality</i>	<p>If the market expands there could be a decline in the quality and appropriateness of training.</p> <p>Monitoring and maintaining the currency and quality of on-line resources and information.</p>
<i>Costs</i>	<p>There could be substantial short-term costs in implementing the proposals.</p> <p>Longer-term costs are of concern if the changes increase demand for training.</p>
<i>Local needs</i>	<p>States and Territories have different systems, issues, priorities and legislated requirements. How will these be recognised and accommodated?</p>
<i>Funding</i>	<p>Who will pay for the costs of implementing the changes? For the expansion of training that may result in the longer term? To monitor and maintain high quality on-line information and services?</p>
<i>Industry</i>	<p>The participation and role of industry in working to improve the effectiveness of User Choice has not been sufficiently considered.</p>

Overall, no State or Territory had current User Choice arrangements that exactly mirrored ACCI's proposed arrangements. However, there were many instances where existing arrangements went some way towards meeting ACCI's preferences; and changes were being made that would result in further progress towards ACCI's position. For instance, while no State or Territory currently had an 'on-line matching register' in the form that ACCI proposed, many had extensive on-line information, including searchable databases that could be used by employers, students and RTOs to gather information that would assist them in making decisions about training options and in contacting the people and organizations that could help them. Similarly, several of the States and Territories already had in place loadings on User Choice prices, as sought by ACCI, in recognition of special equity or regional needs. Also, a number had adopted already a pricing/purchasing model that was based on an identified price per qualification, as ACCI preferred, rather than one based on a rate per student contact hour (or similar measure). The stronger focus on regions that was a theme in

ACCI's proposals was already reflected in User Choice arrangements in some jurisdictions.

In general, the STA responses to ACCI's proposals were cautious. While none of the proposals were dismissed out-of-hand by all respondents, neither was any proposal readily embraced as both feasible and likely to improve the effectiveness of User Choice. Even if positive about some aspects of the proposals, most STAs had reservations about others - sometimes quite substantial reservations. Of ACCI's three proposals, the one of greatest concern to most STAs was the adoption of a new pricing and purchasing model. The others, an 'on-line matching register' and development of an 'e-business facility' were much less contentious, with STAs seeing them largely as an extension of existing electronic services and facilities.

For most STAs, the pricing and purchasing model proposed by ACCI was of concern primarily because, if adopted, STAs believed it had the potential to expand the already growing demand for training, creating further pressure on already limited funding, with possible implications for the quality of training. The STAs noted the substantial rise in demand for training that had occurred in recent years and the role that had been played in this by the existence of Commonwealth incentives in the form of subsidies for employers of apprentices and trainees. One STA in particular noted that this had led to a shift in the cost of training from employers to governments. Another pointed to the role played by some RTOs in increasing demand through 'aggressive marketing' of training to employers. If all qualifications were to be made eligible for funding under User Choice arrangements, the STAs believed that demand for training would increase further, but that this demand could not be accommodated within public funding limits.

Related to this was a common concern about the appropriate use of public funding. Many STAs argued that government funding is limited and responsible decisions have to be made about the best use of these funds. It may not be appropriate for all qualifications to be funded, at all times and in all circumstances. There are always alternative uses for funding and some of these may have a higher priority. For example, governments may want to promote a particular industry in the State or Territory and direct limited User Choice funds to apprenticeships and traineeships in these areas. Some industries may not exist, or exist on only a small scale, within the State or Territory; and STAs argued that qualifications required in these industries should be excluded from funding, or given only a small portion of the limited funding cake. Governments may want to focus on regional developments or particular types of community needs. As one STA put it, ACCI's proposals may be philosophically sound, but they are impractical. ACCI fails to recognise, they argued, the limits to government funding. Another STA argued that even if funds were unlimited, there would still be things, including some qualifications, that governments would not want to fund. (For a fuller discussion of STA views on the ACCI proposals, see Ferrier and Selby Smith, 2003, pp. 14-23.)

Further work, including consideration of employer and employee experiences, an independent risk assessment of the impact of User Choice, and consultations by ANTA with the Commonwealth, STAs and industry, resulted in proposals to enhance User Choice arrangements in October 2003, which were considered by MINCO in

November. The proposals, intended “to ensure User Choice remains a key aspect of the national VET system” involved: enhancing client information and access to New Apprenticeships; ensuring effective quality and risk management arrangements; and enabling a nationally consistent framework for the resourcing of User Choice.

These proposals should be viewed together with those developed as a result of the findings of the independent risk assessment by KPMG for the NTQC User Choice Working Group, which was keen to improve the implementation of the User Choice policy (KPMG, 2003). KPMG identified six key risk areas: structure and governance; funding arrangements; labour market demand; user awareness; quality training outcomes; and management information. Each key risk area was detailed in terms of situations that might lead to the risk arising and the potential consequences, resulting from that risk. A number of state-specific and system-wide actions were suggested. At the national level, it was recommended that ANTA, working with STAs and the Commonwealth, should: improve system monitoring and reporting; strengthen accountability for quality training and performance; review and standardise the funding principles; review the alignment of User Choice funds for consistency with Commonwealth and STA priorities; enhance user education and information access programs; and strengthen the role of New Apprenticeship Centres (which were seen as central “information hubs” in the VET system). KPMG also recommended that, at the State and Territory level, each STA should identify residual risks and develop appropriate controlling strategies and actions. They concluded that the proposed actions “should be progressed as an integrated program rather than on an individual basis”.

Specifically turning to the resourcing aspects of current developments, ANTA MINCO agreed, at its meeting in May 2002, to include in the further work on User Choice, consideration of the proposals to improve User Choice put forward by ACCI. A consultation process was subsequently undertaken by ANTA through the User Choice Reference Group. Four aspects were agreed as part of the development of enhanced arrangements for User Choice resourcing: first, a need for transparency; secondly, recognition that there are finite resources available for funding New Apprenticeships training; thirdly, that outcomes need to be prioritised; and, fourthly, that there should be a commitment to quality training outcomes.

The User Choice Reference Group identified a dilemma “related to maintaining a genuine (open) market relationship between clients and training providers and managing growth, both within tight budget constraints, and taking account of the risks which have become apparent of late and which threaten to undermine the quality and integrity of the system”. Analysis of the prevailing arrangements for User Choice in each jurisdiction had identified a range of mechanisms which could be used by States and Territories to “manage” within the allocation available and in order to restrict “unfettered” growth. These included: limiting the number of training providers available under User Choice; limiting the amount of funding provided per qualification; and limiting the level and range of qualifications available to clients.

Given the constraints on resources, the need for choice in the market and the shortcomings apparent in the application of User Choice, a clearer application of the policy was proposed. User Choice funding would be allocated by States and Territories, in consultation with industry and other key stakeholders, to enable the

delivery of outcomes more focused on agreed national and local skill needs. As the User Choice Reference Group stated: “this would require a priority setting process to be in place”. There was, however, a common understanding that an approach was required that enhanced State and Territory capacity to manage demand for User Choice funds, while meeting the User Choice policy commitments, and which aligned expenditure with skill needs and priorities, within the context of these finite budgets and resources.

It was envisaged that States and Territories would retain the responsibility for final decision-making on priority setting and the allocation of funds within their overall budgets. Identifying priority funding areas would enable each State and Territory to focus on the delivery of outcomes that could not be sustained without government intervention. It would also enable nationally consistent quality training outcomes to be delivered in agreed targeted areas. National priority areas for User Choice funding might focus, for example, on skill shortage areas or specific age cohorts, and include loadings for equity groups. “These would be added to a mix of State/regional priorities, all decided in consultation with industry and other key stakeholders as part of the normal annual VET planning process.” It was argued that such an arrangement could build on ACCI’s proposals and be incorporated into a new User Choice resourcing framework. The approach involved the establishment of a clearly defined price per qualification, but it recognised that the price could differ between States and Territories (and also that varying delivery methods, content and settings could attract different prices).

MINCO added a new Section 2.8 in November 2003 to the Statement of User Choice Policy which had originally been endorsed by Ministers in May 1997 and amended in November 2000. Section 2.5(v) was also changed. The Statement of User Choice Policy agreed by MINCO in November 2003 is set out at Attachment 1.

CEET’s consultancy for ANTA in early 2004 focused particularly on Section 2.8(a) of the Statement of User Choice Policy as revised by MINCO in November 2003. More broadly, the development and implementation of the new nationally agreed User Choice resourcing principles was intended to achieve three things: to assist in addressing industry’s concerns regarding the inconsistencies and limitations that were seen to exist; to improve the ability of States and Territories to manage issues around demand, risk and budgetary control, while also meeting User Choice commitments; and to ensure that the resourcing arrangements furthered the agreed objectives of the National VET Strategy. These broader objectives framed the specific resourcing arrangements on which the detailed study focused.

3. Analysis of Consistency

ANTA asked that the existing resourcing arrangements and priorities in place for key stakeholders (outlined in CEET Working Paper No. 57 (Selby Smith, 2005): the mapping exercise), be analysed, including in terms of their consistency, bearing in mind that MINCO, when it requested ANTA in November 2003 to co-ordinate the development of the User Choice resourcing arrangements, explicitly recognised that “this process may be part of the broader strategic planning arrangements of STAs” (new Section 2.8(a) in the Statement of User Choice Policy). Given the considered view of the Commonwealth Department of Education, Science and Training that

“User Choice resourcing arrangements are not relevant at a national level” (email from DEST on 16 February 2004), a surprising view which was nevertheless reiterated in subsequent discussion, the analysis was focused primarily at the level of States and Territories, and for the industry partners.

The outcomes of the mapping exercise were analysed (see Section 3.1) by reference to the User Choice Principles approved by ANTA-MINCO (as suggested by ANTA, ACCI and the ACTU). Consistency across States and Territories are analysed in Section 3.2. Section 3.3 analyses the consistency of the outcomes between the priority determination perspectives of employer and employee organisations. Section 3.4 analyses consistency between the perspectives of the industry and education stakeholders. Four related matters which arose during the project are considered in Section 3.5: thin markets; information for informed choice; possibilities for improved partnerships; and accumulative learning.

3.1 Consistency with the MINCO Principles

MINCO has defined User Choice as “the flow of public funds to individual training providers which reflects the choice of individual training provider made by the client.” MINCO has emphasised that “User Choice comprises three essential elements ... [and that]... All elements must be satisfied together – the separate elements alone will not meet the objective of establishing a genuine market relationship between individual training providers and clients”. These essential elements were identified by Joy Selby Smith, Chris Selby Smith and Fran Ferrier in their 1996 report to ANTA, which provided the basis for subsequent decisions by the ANTA Board and MINCO (see <http://www.education.monash.edu/centres/ceet>). The three essential elements are set out in MINCO’s November 2003 *Statement of User Choice Policy* (see Attachment 1). The challenge has always been to implement the User Choice policy in such a way that each of the essential elements is met at the same time. It should be recognised that this is not easy.

However, compared to the situation prior to the introduction of User Choice from January 1998, there has been considerable progress. For example, individual clients *do* have greater market power to negotiate with providers about their training needs; negotiations *can* include choice of provider and choice about specific aspects of training; there *is* increased responsiveness on the supply side of the market, and this applies to both public and private providers; there *is* greater contestability among individual providers; training outcomes *do* reflect clients’ views of their own training needs more closely; and there *is* a recognition that not all requests for training from clients can be met from public funds.

Some stakeholders, notably the employer organisations, argued that progress with the User Choice concept has not gone far enough: some suggested it had stalled, some that it was regressing. Other stakeholders stressed the progress which has been made. For example, one STA respondent volunteered in discussion that the State training system was now much better as a result of the introduction of User Choice, noting that there have been significant shifts in terms of delivery against client needs, a stronger focus on outcomes rather than training inputs, an erosion of entrenched monopoly positions and increased pressure on unresponsive providers. The balance between a

supply driven and a demand driven training system has moved significantly towards the latter. No STA suggested removal of User Choice, neither did the unions. However, STAs (not surprisingly) have been concerned about public expenditure constraints and the efficient use of resources; and in June 2000 MINCO indicated that, in addressing inconsistencies in User Choice, States and Territories retained the decision-making responsibility on resource issues (particularly in relation to public expenditure).

MINCO has also endorsed nine principles “which underpin the implementation of User Choice in New Apprenticeships from January 1998” (see Attachment 1, Section 2.5). There is an important difference between the nine principles and the three essential elements which were considered previously.

The essential elements are couched in relative terms, such as “significantly *greater* market power to individual clients”, “*increased* responsiveness on the supply side of the training market”, “to *enhance* the capacity of individual VET providers to respond to the expressed needs of clients” and “training outcomes will then be able to reflect *more closely* clients’ views of their own needs” (emphasis added).

However, the principles are expressed in much more categorical terms, suggesting that clients can expect to achieve certain outcomes from the adoption of the User Choice policy. For example, the principles state that “clients *are able* to negotiate their publicly funded training needs”, “clients *have the right* of choice of registered provider and negotiations *will cover* choice over specific aspects of training”, “User Choice *operates in* a national market”, “RTOs *will not be* discriminated against under User Choice on the basis of their location of primary registration”, “training over and above that which is essential to the qualification outcome... [and] above that which is funded publicly, *can be* negotiated and purchased by the client”, “regulatory arrangements and administrative arrangements... *are to be* complementary to the achievement of the objectives of User Choice”, “evaluation of outcomes of User Choice against objectives *is* an integral element of a program of continuous improvement” and “innovation *is* required” (emphasis added). Phrased in this way the principles may suggest to VET clients (or potential clients) that they are entitled to expect things which providers and those who fund and regulate them find themselves unable or unwilling to deliver.

In practice, achievement of the nine principles endorsed by MINCO tends often to be a matter of degree rather than absolute. For example, many clients are able to negotiate (aspects of) their publicly funded training needs with public or private providers, but they may well not be able to negotiate them all. The limitations are greater in some training areas, industries or regions than in others. Similarly, many clients are able to negotiate in relation to specific aspects of training. This has increased since the User Choice policy was introduced, but there are certainly cases where clients are not able to negotiate successfully in relation to all the aspects of training with which they may be concerned. The information necessary for informed choice has improved, and all stakeholders agree this is important, but there is still room for considerable further improvement, including in relation to ACCI’s proposals. In some jurisdictions, although not in all, local RTOs appear to be given some priority over interstate providers, so that User Choice does not operate wholly as

a national training market. Employer organisations argued that changes could be made, including greater transparency, which would facilitate clients negotiating and purchasing training over and above that which is essential for the qualification outcome for the apprentice or trainee. The degree to which User Choice has been “harnessed to improve access and equity” and integrated within existing initiatives remains patchy: there is certainly scope for improvement in this respect. Similarly, it is difficult to conclude that evaluation of User Choice outcomes against objectives “is an integral element” of the current arrangements. Indeed, the mapping exercise identified explicit suggestions that this matter should be given a higher priority.

There appear to be two main conclusions when considering the extent to which the current resourcing arrangements and priority determination processes for User Choice, as revealed through the mapping exercise, are consistent with the MINCO principles. First, considerable progress has been made in meeting the three essential elements since User Choice was introduced in January 1998. There has been a shift from a supply side to a more demand driven training system, there has been greater market power for individual clients, there has been increased responsiveness on the supply side and greater contestability has developed among individual providers. Secondly, to the extent that clients understand the nine principles endorsed by Ministers to mean that certain changes *will* occur, the achievements have fallen short of their expectations. It is difficult to definitively resolve the extent to which this outcome is because the expectations were too high, because the implementation of the principles was inadequate or because of other factors; but the various stakeholders tend to attach rather different weights to the constituent elements. Interestingly, the national strategy for VET 2004 to 2010 emphasises that it “aims to make vocational education and training fully client-driven”; “Industry leadership will be stronger”; “Employers and workers will be more involved in influencing policy”; and “Vocational education and training will have a client-driven culture”.

3.2 Consistency across States and Territories

The existing priority determination processes for User Choice in each State and Territory were set out in CEET Working Paper No. 57 (Selby Smith, 2005). It was clear, not surprisingly, that User Choice resourcing priority decisions cannot always be clearly separated from the overall resourcing arrangements and priority determination processes which operate in the particular State or Territory. User Choice was part of the overall training market in the jurisdiction and had relationships with other parts of the supply and demand of training there. Indeed, one of the important issues in each jurisdiction concerned the boundary between User Choice and other parts of the training market, such as the funding of TAFE or the arrangements for fee-for-service provision. MINCO explicitly noted, in its November 2003 decision, that User Choice resourcing arrangements “may be part of the broader strategic planning arrangements for STAs”. The discussion here seeks to focus on User Choice resourcing arrangements, but recognises that they cannot always be separated from other aspects of the overall determination of resource allocation priorities in the jurisdiction.

It is important also to recognise that there have long been significant differences, as well as many commonalities, between the vocational education and training systems

in the various States and Territories. While the commonalities have been tending to increase over recent years, significant differences still remain. Thus, it is not reasonable to expect complete consistency between the VET systems of different jurisdictions, whether in relation to User Choice or other aspects of the prevailing arrangements.

Nevertheless, there is a substantial measure of *consistency* between the User Choice resourcing arrangements and the User Choice priority determinations in different States and Territories. First, all jurisdictions appear to support User Choice and to believe that its introduction over recent years has led to improvements in the national training system. As one State emphasised there have been significant shifts in terms of delivery against client needs, a stronger focus on outcomes rather than on training inputs, a greater emphasis on the demand side of the training market, and greater pressure on all providers to be responsive to the needs of clients. No State or Territory appeared to be considering the abolition of User Choice arrangements.

Secondly, there were restrictions on the operation of User Choice in each jurisdiction. For example, Tasmanian government policy limited public funding to the Institute of TAFE Tasmania for a number of nominated qualifications funded under User Choice. In Victoria the Bracks Government had restricted the number of apprentices and trainees that private RTOs were able to commence. In Queensland concern with the growing demand for public funding for training under User Choice had led to restrictions, a greater stress on relative priorities and a more managed approach to the State training market. In NSW apprenticeship training under open market purchasing arrangements was limited to twelve areas of study. Also, open market apprenticeships could only be delivered in certain locations, notably Sydney, the lower Hunter and the Illawarra. In Western Australia, only fifteen apprenticeships in the Perth metropolitan area and six in the south west of the State were open to User Choice arrangements, with other apprenticeship provision reserved for TAFE providers.

Thirdly, there was a considerable measure of consistency across the States and Territories in that there was little evidence of enthusiasm for further development of User Choice arrangements. Indeed, the evidence tended to be rather for consolidation in many jurisdictions, perhaps even for decline in some. For example, in Queensland, expenditure on User Choice by the State Department, which was \$106 million in 2001-02, was \$104m. in 2002/03 and expected to be \$102.5m in 2003-04 (a little higher due to some direct grant funding of TAFE colleges being redirected to User Choice). Victoria, which had increased the places available to providers under its Apprenticeship and Traineeship Training Program by 2000 in 2004, nevertheless was concerned about what it saw as the high proportion of traineeship funding which went to over 25 year olds. It was considering whether to move towards some further restrictions on public funding for User Choice in that area. Indeed, there was a suggestion that Victoria, which had been a strong proponent of contestable funding, was considering a move to a market which was less driven by unconstrained demand and more managed by clear priority determination processes.

Fourthly, in terms of outcomes, despite some differences in emphasis, there was considerable consistency in the existing resource allocation priorities in the various States and Territories. For example, there tended to be a priority for apprenticeships

over traineeships, for certain AQF levels (especially those at AQF II and AQF III levels), for certain industries (restrictions on traineeship provision in some areas, such as retail, business or hospitality, were frequent), for entry level over existing workers, and for TAFE provision over private RTOs (at least in some cases). Each jurisdiction appeared to have concerns to maintain training without undue pressure on public funds for User Choice, to ensure that there was adequate provision of quality training across the jurisdiction (including in key industry areas and in rural and remote locations) and to ensure that privately funded training was not unreasonably transferred to the public purse. Jurisdictions were consistent in seeking to ensure that VET provided satisfactory training, first, for industry needs (including established and emerging industries and those identified as of special significance for the State: special mention was made of “skills rich areas” and “traditional trades”) and second, for individuals, including the disadvantaged. States and Territories all sought to include their User Choice resourcing arrangements and priority determination processes within the overall State and Territory arrangements for VET, including in relation to industry developments, labour market trends and skill needs ie for industry and for individuals.

Despite this considerable measure of consistency there were also important *differences*, both philosophically and operationally, in the existing resource arrangements and priorities of the different jurisdictions. Partly, of course, this reflected the traditional variations between the State and Territory VET systems, the broader differences between the States (eg. in relation to industry structure, labour markets and social attitudes), and the use of training as one instrument for the pursuit of State advantage.

Philosophically there were significant variations between the States. Traditionally, Victoria had been particularly keen on developing a demand driven training system, a contestable market among providers, and a VET training system which transcended State and public/private boundaries. Its public VET providers also tended to be more independent and autonomous than those in other States. On the one hand these factors had favoured User Choice arrangements, while on the other they tended to make the operation of a managed market for training less congenial, and perhaps more difficult than in other States, such as Queensland. Philosophically, the current User Choice arrangements in Victoria were primarily driven by demand, within the limits of public funding, whereas in Queensland there was more explicit emphasis on industry development needs, the more dispersed nature of the State, its tradition of planning and public-private partnerships, and a managed training market. NSW tended to be closer to the Queensland than to the Victorian approach, with strong emphasis on the public provider and more restrictions on User Choice than Victoria, but a less explicit approach to managing the training market than in Queensland.

These philosophical differences and varying traditions were reflected in different outcomes. In particular, the Victorian VET system had been more demand driven, whereas the Queensland training system was more of a managed market, with the State Department making the key resource allocation decisions, admittedly in an increasingly transparent manner and taking account of a wide range of data inputs and consultations. If Victoria moved to a greater role for the STA in managing the State training market it was indicated that the priorities might be determined in relation to

characteristics of individuals (such as age, gender and location) rather than by reference to industry and labour market developments, as in Queensland. Even if there was a move from demand driven to more managed training arrangements under User Choice, there was scope for – and there appeared likely to be – important continuing differences between the States and Territories.

3.3 Consistency between Employer and Employee Organisations

During the training reform agenda there had been considerable commonality between the views of employer and employee organisations. There had been extensive consultations between the industry partners, they had often tended to be of a similar view (for example, in relation to national consistency) and had jointly sought to modify the attitudes and policy positions of the State and Territory VET authorities (including in relation to user choice, flexibility of provision and greater responsiveness to the varied requirements of users). The employer organisations strongly favoured the introduction and extension of user choice; and the unions also supported it as beneficial to individuals and enterprises.

There were, of course, some differences within each set of organisations. For example, the Australian Industry Group tended to be stronger in its relative support for apprenticeships compared to traineeships, for “the traditional trades”, than the Australian Chamber of Commerce and Industry. AIG also tended to be more in favour of a managed market for training, whereas ACCI was more strongly in support of a competitive, demand driven set of arrangements. Similarly, within the union movement there were differences of emphasis. The Australian Education Union, for example, tended to be more supportive of the public provider compared to private RTOs than some other unions, such as the Australian Services Union or the Shop Distributive and Allied Employees Association, whose members had traditionally received a less significant training emphasis in TAFE. Nevertheless, over recent years, employer organisations and the union movement had broadly supported the introduction and extension of User Choice.

There was also considerable consistency between unions and employer organisations in relation to ways in which the resource allocation priorities could be improved. First, they both argued that the consultation process and the transparency of the resulting decisions should be improved. As indicated in the mapping exercise (Selby Smith, 2005) they were both concerned about the declining role of industry training bodies and expressed concern about how effective the new arrangements would be at national, State or Territory level. They sought to continue their co-operative activities through JITEC. They both sought better consultative arrangements with the STAs, including in relation to user choice resourcing priorities, while recognising that consultation does not equal decision-making and that there were likely to be some continuing differences between the parties over resource allocation priorities.

Secondly, both the unions and the employer organisations sought improved arrangements for determining resource allocation priorities at regional and local levels. Despite differences between the situation in the individual States and Territories a number of comments were made to the effect that State and Territory training priorities, including for User Choice, even if they were aligned correctly with

industry requirements, labour market needs and individual aspirations for the jurisdiction as a whole, need not be so for each region within the jurisdiction. It was argued that intelligence on regional trends and requirements could usefully be strengthened as part of the resource priority determination process in VET as a whole and for User Choice in particular. Similarly, the unions emphasised that “VET is there to provide training services to individual workers and enterprises; that the scope for training, and its benefits, have got to be visible and accessible in the workplace; and that there needs to be greater emphasis on regional variations”. The latest National Strategy emphasised VET’s contribution to the economic and social strengthening of communities and regions: it “will support regional economic, social, cultural and environmental development and sustainability”.

Thirdly, both the unions and the employer organisations expressed some ambivalence about the priority to be accorded to training for entry level workers compared to VET training for existing workers. In reality they would each wish to see adequate training for both groups, whereas in the past User Choice had focused primarily on entry level workers. Perhaps, in the future, they suggested, the emphasis might shift towards existing workers, including in relation to expanded opportunities for recognition of current competence (RCC) and recognition of prior learning (RPL). Indeed, ANTA’s latest National Strategy noted that RPL and RCC were “not well used as a pathway to a qualification and further training”. Of course, consideration of changing the emphasis raised a range of related issues, such as the pressure on overall resources, the relative contribution to be made by private sources compared to public funds, and the respective boundaries between TAFE resourcing, User Choice and fee-for-service.

However, there was some suggestion from the discussion with both unions and employer organisations that the joint support for User Choice in the past might be in some jeopardy. The employers, for example, tended to see the momentum for further User Choice implementation (which they supported) slowing and perhaps even reversing a little, raising the issue of the appropriate strategy for the future. As one respondent commented: “Is it time for us to say we haven’t achieved the User Choice objectives? Do we go in hard or do we wind these expectations back and look at another angle?” Similarly, a more tenuous commitment to user choice appeared to be developing in the union movement. Respondents commented: “The current system is not working”; and “we do not want to see User Choice opened up any more”. It was possible, especially if a significant issue arose which emphasised the differences between employee and employer organisations, that there might be less agreement in relation to User Choice resourcing priorities between the industry partners in the future than there had been in the past. Nevertheless, in relation to most other elements of the VET system in Australia and how it could be improved, there remained a very considerable degree of agreement between the industry partners.

3.4 Consistency between the Education and Industry Stakeholders

In an industry-led vocational education and training system the consistency of the views of the industry stakeholders with the views of the educational authorities is potentially significant. It is hard, for example, to consider the VET system as industry-led in reality if the views of the industry partners are consistently ignored or overridden.

The introduction of User Choice was primarily an initiative of the industry partners rather than the educational authorities, of the Commonwealth rather than the States and Territories. The responses from the STAs during this inquiry were broadly supportive of the introduction of User Choice, which they generally argued had improved the training system (although with qualifications). However, the STAs were seen by the industry partners, especially by the employer organisations, as having limited the impact of User Choice in various ways, and as not being keen on its further extension. They were seen as being, at least in some instances, overly protective of the public provider (having a conflict of interest from their multiple roles of funder, regulator and public provider); and insufficiently appreciative of the potential benefits for enterprises and individuals of a more contestable training market. They were characterised as philosophically not in sympathy with User Choice (with consequences, inter alia, for resourcing priorities) and as preferring a managed system in which the VET authorities determine priorities because, in the last resort, they know best. These views were held particularly strongly by employer organisations.

There was a common concern among the stakeholders about resources. Partly this was due to the very success of past efforts to improve the training system; the flexibility, responsiveness and contestability of the arrangements; and the culture of training in enterprises, among individuals and throughout Australian society. One (desirable) result had been an increase in the demand for training, but this could cause difficulties for the funders of training and raised fears of cost-shifting. The stakeholders all saw these developments and welcomed the increasing concern with training. However, their reactions were not uniform. For example, STAs had concerns about the increasing pressure on limited State funds; unions stressed the importance of strengthening the opportunities for individuals; and employer organisations emphasised the need for further increases in contestability and in the responsiveness of the training system to the diverse needs of enterprises. Both of the industry partners stressed the importance of considering the overall resources devoted to training (ie. from State/Territory and national governments, from enterprises and from individuals) and how they could be best deployed, rather than focusing on one aspect, say government funds, when determining resource allocation priorities (including for User Choice).

There were three areas in which there appeared to be *significant differences* between the educational authorities and the industry stakeholders. First, the latter tended to place greater emphasis on the importance for VET, and in the processes of determining resource allocation priorities (including for User Choice), of industry developments, labour market changes and (particularly for the unions) related industrial relations aspects. These were not traditionally areas of strength for education authorities in Australia. While the STAs emphasised that they sought information, analysis and advice from a range of sources, the industry partners both expressed some concern about the current arrangements and sought to strengthen the input of the industry partners. The national VET strategy for 2004 to 2010 advocated that “advice about future demand [for skills and training] will be sharper and more robust”.

Secondly, there was a difference between the STAs and the industry partners in relation to the relative emphasis to be given to existing workers compared to entry level workers when determining resource allocation priorities in VET. Both of the industry partners were sensitive to the possibility of shifts between the private and public funding of training; and they appreciated the difficulties facing STAs in this respect. Nevertheless, there was a wish to see greater attention given, within State and Territory training arrangements, to the needs of existing workers, including in relation to expanded opportunities for recognition of current competence and recognition of prior learning processes. The union views were particularly strong in this respect. Interestingly, the National Strategy argued for “a stronger focus on existing workers and on people affected by shifts in industry and occupational demand”.

Thirdly, the industry partners sought an increased involvement in the processes by which STAs determined resource allocation priorities for the training market in their jurisdiction (including for User Choice). Both the unions and the employer organisations expressed dissatisfaction with the prevailing arrangements. In 2003, for example, the ACTU Congress endorsed action by the ACTU and constituent unions to “seek agreement with ANTA-MINCO to adopt an integrated and co-ordinated approach to future labour market and skills forecasting in conjunction with industry parties which links specific training interventions within identified industries” and “work with peak employer organisations through JITEC to adopt joint union-employer proposals for specific training interventions within specific industries”. The industry partners argued that they, and other stakeholders, should have an improved opportunity to discuss priorities, possible changes and problem areas, with this being followed by targeted data collection, analysis and if necessary research in the identified areas, leading to a further, more informed discussion of priorities among the stakeholders. The industry partners emphasised that the processes in which they sought to play a larger role should be more transparent and structured, so as to encourage accumulative learning, and thus contribute to improved policy and practice over time. Both the employer organisations and the unions recognised that consultation would not necessarily equate to decision-making (and that agreement on priorities would not always be possible), but emphasised that the former had a valuable role to play in informing the latter. The industry partners both argued that the necessary data collection, research and analysis was not always done well; and that industry’s advice did not always appear to be well considered by those in the States and Territories who were determining resource allocation priorities (including for User Choice).

3.5 Four Other Matters

This section considers four related matters which arose during the project: thin markets; the importance of information for informed choice; possibilities for improved partnerships; and accumulative learning.

Thin Markets

Markets are said to be “thin” when there are insufficient demanders, and/or suppliers, to promote a degree of vigour in the training market. The employer organisations expressed considerable frustration at the widespread use of the concept by the State and Territory VET authorities. They agreed that the latter might genuinely believe it,

especially given STA concerns about the State or Territory's investment in the infrastructure and staff of the public provider, the STAs frequently confident view of their capacity to manage the training market in their State or Territory, and perhaps some doubt about TAFE's ability to retain market share in an open and freely contestable training market. The employers tended to view the STAs position as dominated by their concern for TAFE, rather than flowing from the STAs overall regulatory responsibilities for the jurisdiction's entire training market. The employers also tended to see the use of the thin markets argument by STAs as unduly limiting the delivery options open to employers and employees; and making top-up funding of training less likely to be undertaken by clients. One respondent commented that "it is an overplayed argument ... coming from a preconceived position. If you open up the market it will result in TAFE raising its quality or some shift to alternative providers (public or private) or both. People will only leave TAFE if they are getting poor quality training". Another respondent stated that the thin markets argument is used "to restrict competition and to restrict providers. It tends to lead to worse outcomes for users".

A number of observations can be made in relation to the thin markets issue. First, there can be a subjective interpretation of how "thin" a particular market actually is. For example, what constitutes "a long way" or "sufficient numbers" can vary significantly from place to place. Secondly, there can be implicit assumptions, such as that everywhere should have access to all facilities (or as many as possible), that training should be provided by a locally based institution (preferably a public provider), and that the prime responsibility of training authorities and co-ordinating bodies is the public system (in which case who looks after the wider VET system?). Thirdly, contestability was sometimes interpreted as competition between existing, actual providers in a given location. In fact, contestability exists so long as there is a credible threat of competition from potential entrants to the market, even if only one provider is currently operating there. It is also possible that the way in which User Choice is implemented exacerbates thinness on the demand side.

The industry partners, especially the employer organisations, argued that the thin market argument was overdone by STAs, that it was used to protect TAFE, and provide less satisfactory outcomes for enterprises and individuals from the resources devoted to training. To improve matters, they sought a higher priority for the expansion of third party access (or facilities management as one employer respondent called it). Indeed, introduction of third party access was one of ACCI's proposed User Choice principles (see Table 3). The purpose of User Choice, to allow enterprises and individuals to exercise more choice in relation to their training needs, is circumscribed if significant monopoly elements remain on the supply side of the training market. Third party access can contribute to the development of a more competitive and contestable training market in those parts of the market where duplication of existing (and often under-utilised) infrastructure, such as facilities and equipment, would be uneconomical, and where denial of access to those facilities unduly restricts market entry. Of course, access to publicly funded VET infrastructure *is* sometimes negotiated on a mutually acceptable basis, often at a decentralised level. However, in the absence of third party access on principle, significant market power remains with the existing provider(s). While third party access can apply to VET infrastructure whether it is publicly or privately owned, in fact most VET infrastructure is in the

public sector because of the history of government involvement in vocational education and training in Australia. Denial of access on reasonable terms and conditions can become more onerous as the training market becomes more competitive. The latest national strategy for VET stresses the intention that “training infrastructure is used collaboratively and innovatively.”

Information for Informed Choice

Information is important for the efficient operation of markets. Accurate, relevant and timely information is essential for informed choice; and choice becomes a relatively more significant determinant of training outcomes in a devolved system with a greater range of options open to users than in a more centralised and administered system. A considerable period of time, however, may be required for new information (that is, information which is new to the recipient) to be incorporated into decision-making: by employers and enterprises; employees and students; public and private providers of training; and administration and co-ordination authorities. How specific target groups learn from information is critical to the development of any strategy for preparing and disseminating information. Also, the information needs of the different parties to User Choice can vary.

MINCO recognised that, without good information, more unsatisfactory or incomplete choices are likely to be made. The fourth of the nine User Choice principles adopted by MINCO in July 1997 stated that “the provision of accurate and timely information about training options is necessary for informed choice”. Considerable progress has been made in improving the available information, but the consultations conducted as part of this project suggested that the industry partners saw a need for further developments in this area. In practice, there was considerable variability in the accessibility, consistency and accuracy of the information that could be obtained across the various jurisdictions; and complaints continued to be made by employers about the quality and consistency of the information provided on User Choice. Inadequate information, lack of knowledge about what is available, and how best to use it, tend to result in resource allocation outcomes which are sub-optimal.

ACCI’s 2001 proposals to improve User Choice emphasised the need to improve the information available for clients to make appropriate choices. In particular, they argued for the development of an on-line matching register and an e-business facility for User Choice. Three years later the industry partners, especially the employer organisations, were suggesting that insufficient progress had been made and that more needed to be done. They sought particularly an improved flow of “real and timely” information to employers, including small and medium-sized enterprises.

It is important to note that there can be conflicting roles for those who provide information to clients. For example, a training provider operating in a competitive market may tend to encourage clients to use its own training services. There can also be concerns over the extent to which the provision of information is seen as merely providing information to potential clients compared to actively promoting particular outcomes for specific industries, enterprises or individuals. The industry partners emphasised that clients should be able to turn to disinterested sources of information and advice. Governments were seen as having the responsibility to ensure that such

disinterested information and advice is quickly available, at low cost and in a user-friendly way.

Among the matters relating to information which arose during this project, employer organisations emphasised the need to market the User Choice concept, to stress the desirability of improving the responsiveness of the training system to clients (rather than competition between public and private providers) and for employer organisations which are involved in consultations with educational authorities “to have enough information prior to meetings, so that they can have gone out to constituents and obtained their views”. Better information on which enterprises, including small and medium sized enterprises (SMEs), could base their training decisions was sought: information about VET providers; the scope and terms of customisation; and transparency about the ways in which training resources were provided from public sources and could be supplemented by enterprises and individuals. Advice to potential students, employees and parents about training opportunities and the terms on which training could be accessed was also seen as important, including the need to improve career advice and counselling (on which the Federal Minister had commented recently).

Possibilities for Improved Partnerships

The discussions during the project suggested that there was considerable scope for improving the relationships between the various stakeholders in the VET system; and that this could well contribute to improved resource allocation decisions and improved outcomes for enterprises and individuals. It was frequently suggested that participants had more than one role (eg. STAs were characterised as funder, regulator and responsible for the public provider; or an employer organisation might operate at a policy level, as an RTO and as a New Apprenticeship Centre), that the roles could sometimes be in conflict, and that there could be a danger that the overall interests of the Australian community in the effective and efficient use of resources were sometimes submerged by the specific interests of the stakeholders.

The scope for improved partnerships can be approached it was suggested, in a variety of ways. First, the employer organisations emphasised their strong support for a vibrant TAFE sector, which they recognised as providing valuable services to enterprises and individuals. However, they sought a stronger partnership with STAs to rectify situations where public providers were *not* being responsive to the training needs of clients. There is considerable scope, they argued, for enhanced co-operation (as well as competition) between public and private providers.

Secondly, it was suggested that there was considerable scope for enhanced partnership between the Federal and State/Territory authorities. It was widely argued that the training market would continue to operate in a less than optimal fashion so long as a closer partnership was not developed between the national and State/Territory governments. The response from DEST to this inquiry that “User Choice resourcing arrangements are not relevant at a national level” is clearly inadequate and illustrates the problem.

Thirdly, there was scope for improved partnerships between the educational authorities and those concerned with industry developments, labour market changes

and regional aspects. The situation varied from State to State, but there appeared to be considerable possibilities for improving the partnerships at both State/Territory and Federal levels. The story from one respondent in a major State is apposite; that when they responded to invitations to meetings on related matters from DEST and DEWR they had to split their staff resources as the two Commonwealth Departments had scheduled their meetings, without reference to each other, at the same time.

Finally, there was scope for increased partnership between individual States and Territories, on a number of the aspects of determining resource allocation priorities (in VET generally and specifically for User Choice). In particular, States and Territories could benefit from the experience of their colleagues in other jurisdictions. For example, they might benefit in considering how to link their planning processes better with industry developments, the labour market and industrial relations aspects; how to effectively incorporate regional variations and the different needs of specific enterprises, including new industries and SME's into resource allocation processes and decisions; how to interact co-operatively with the Commonwealth; and how best to structure their data collection, research and analysis. More sharing of information and approaches was seen as possible – and often at relatively little cost. Improved partnerships could be initiated by individual jurisdictions and facilitated by ANTA, DEST or DEWR.

Accumulative Learning

Developing resource allocation priorities for vocational education and training, including for User Choice, involves data collection, research, analysis, policy-making, implementation and evaluation. It thus includes the relationships between research and development on the one hand and VET decision-making in policy and practice on the other. Relatedly, the last of the nine User Choice principles endorsed by MINCO in July 1997 noted that evaluation of outcomes of User Choice against objectives is an integral element of a program of continuous improvement. Similarly, the National Strategy for 2004 to 2010 noted the importance of monitoring and evaluation; and that “more effective use of research informs policy, planning and standards development”. The consultations which occurred as part of this project suggested that stakeholders, particularly the industry partners, would appreciate more being done in this respect. It should be emphasised, however, that the emphasis was on constructive suggestions for practical improvement to present arrangements, rather than destructive attempts to denigrate the performance of particular stakeholders.

There have been various inquiries into User Choice since it was introduced in 1998. Indeed, the pilot projects were being evaluated even before then (for example, see Selby Smith, Selby Smith and Ferrier, 1996a, 1996b; and Selby Smith and Selby Smith, 1997). Much of the evaluation has concerned quality. For example, in 1999 KPMG raised several concerns about quality: the quality of programs, such as teaching, learning, supervision and assessment; the quality of providers, such as registration and performance; and the effectiveness of systems and processes (KPMG, 1999). Schofield's reviews of traineeship and apprenticeship arrangements in Queensland (Schofield, 1999), Tasmania (Schofield, 1999a) and Victoria (Schofield, 2000) noted, inter alia, that adequate quality assurance mechanisms had not been built into workplace delivery and that a structured learning program had not always been followed. Recently, KPMG undertook work on risk management in VET and

suggested further action be taken at national level and in individual jurisdictions (KPMG, 2003). The Senate Skills Inquiry Report, *Bridging the Skills Divide*, made a number of valuable suggestions, and its thrust was consistent with the other suggestions being made for improvement (Senate, 2003). Also, CEET has taken a continuing interest in User Choice since its introduction. All STAs have procedures in place to ensure compliance with registration and other requirements by RTOs, including interstate providers, seeking to provide training under User Choice. They also monitor public funding and audit it. STAs seek to monitor the performance of providers (both public and private), using a variety of approaches, and attempt to ensure that appropriate remedial action is taken when performance is unsatisfactory.

Nevertheless, there was, at the time this inquiry was undertaken for ANTA, no process of ongoing evaluation at a national level of the outcomes of User Choice against the objectives which had been set for it as an integral element of a program of continuous improvement. Such a process would have needed to be a co-operative exercise, including the Commonwealth, States and Territories, labour market and industry perspectives as well as educational ones, and the industry partners. There appeared to be opportunities to learn from the rather different experiences and reviews in the various States and Territories; and as a basis for overall evaluation of the outcomes of User Choice against its objectives for Australia as a whole, consistent with the principle agreed by MINCO. One outcome would have related to making the best use of the overall resources (from all sources) devoted to training through User Choice, what alternatives for improvement existed (for enterprises, individuals and regions) and how they could be implemented.

The evidence was that research and analysis did have an impact on decision-making in VET, but not necessarily in the way many people thought. Generally, there was not an uncomplicated, linear relationship between research and decision-making. Often the research enterprise was accumulative, so that the research or study did not stand entirely on its own, but added to work which existed previously. This accumulating body of knowledge contributed in decision-making to the creation of a climate of opinion and the development of a set of ideas. Thus, at any given time, certain ideas, approaches or ways of thinking were in “good currency”, while others were not or were no longer. Thus, the way in which research and action interacted, in general and with specific reference to the processes for determining resource allocation priorities (including for User Choice), could be structured in ways which contributed more or less to accumulative learning, the maximisation of outcomes from the available resources, and the reduction of continuing mistakes.

It was not generally possible to evaluate quantitatively the extent of the influence of VET research and analysis on VET decision-making, there were many possible uses of research in decision-making, and the outputs of the research system included research skills and attitudes and trained personnel, which could contribute directly to improved decision-making or indirectly through participation in the research and development arrangements. Nevertheless, the extent to which research, data, analysis and disciplined ways of thinking could be used and have an influence on VET decision-making, including for determining resource allocation priorities in User Choice, could clearly be enhanced by the actions of the stakeholders (or conversely). For example, a weak network of linkages between research and decision-making

undermined the potential for research to be used in VET decision-making and to have influence. It limited the potential for the two-way flows of information and people, and for feedback. There was clearly scope to increase relevant linkages in relation to the area under consideration. The emphasis on linkages, rather than on narrowly defined dissemination, increased the mutual responsibilities of the parties. However, to the extent that money and power were distributed disproportionately with the decision-makers then the responsibility for creating and sustaining effective linkages lay disproportionately with them.

4. Three Concluding Comments

First, there is a considerable measure of *consistency* in the priorities by which User Choice resources were allocated by the different States and Territories in early 2004. For example, there was evidence of a priority for apprenticeships over more traineeships, for some industries over others, and for some AQF level programs over others. There was a common concern to ensure that provision was reasonable in regional and remote areas, as well as in larger centres of population and industry. There was a shared interest in ensuring that VET served the needs of both enterprises and individuals, including the disadvantaged. There was also a shared objective of integrating industry developments, labour market changes and, to a lesser extent, industrial relations considerations into the decision-making processes about resource allocation priorities.

Relatedly, there was some consistency between the States and Territories in their apparent difficulty in incorporating the Commonwealth labour and education authorities into a productive partnership. There was also some consistency between jurisdictions in the continuing tensions, including over User Choice approaches and resourcing, between the educational authorities and the industry partners.

In each jurisdiction there tended to be some concern, which was more marked in some States and Territories than others, about the increasing demands on User Choice funds from clients and providers. There was seen to be some tension between User Choice, where the demand side tended to drive the training system, and the overall management of the VET system in the State or Territory. Many of the resource priority processes and decisions tended to be seen as relating to the VET system as a whole in that jurisdiction, rather than as relating to User Choice alone.

Secondly, the mapping exercise reported in CEET Working Paper No. 57 (Selby Smith, 2005) and the analysis of that material in this Working Paper has revealed considerable *differences* between jurisdictions. There were differences in theoretical approach and in practice, in terms of how they structured the process and determined the resource allocation outcomes. For example, in Victoria the User Choice arrangements tended to be driven primarily by the demands for training from enterprises and individuals. By contrast, in Queensland the training market was more managed by the State Department. As CEET Working Paper No. 57 (Selby Smith, 2005) showed, while User Choice was circumscribed in most parts of Australia, the degree to which this occurred varied between the States and Territories. Indeed, common resourcing priorities, including for User Choice, were unlikely to be achieved if there were significant differences in the objectives being pursued by

different jurisdictions, the different levels of government or the educational authorities compared to the industry partners. Also, it should not be forgotten that there was a competitive aspect to the relationship between the States; and that training was one potential instrument to achieve competitive advantage.

There were also considerable differences between the educational authorities in the States and Territories and the industry partners. User Choice was a prime example of these differences in VET. It was introduced at the urging of industry, its expansion and development have been supported by industry, and the enthusiasm for its introduction and development among the educational authorities in the States and Territories has been noticeably less marked. To the extent that User Choice resource allocations were limited, this tended to be in response to the attitudes and practices of the educational authorities rather than those of the industry partners (although there were some suggestions that the views of employer and employee organisations might become less consistent in future than they have been in the past). The industry partners also tended to place a higher priority on the training needs of existing workers compared to those of entry level workers than the educational authorities.

Thirdly, the mapping exercise reported in CEET Working Paper No. 57 (Selby Smith, 2005) and the analyses in this Working Paper have revealed considerable *scope for improvement* in the allocation of User Choice resources. There were opportunities for improving the learning partnership between different stakeholders: for example, between States and Territories; between the educational authorities and those more concerned with industry developments, labour market changes and industrial relations aspects; between the educational authorities and the industry partners; and between researchers and decision-makers. These opportunities could be taken by the various stakeholders themselves or facilitated by ANTA and DEST. They would also be consistent with the evaluation of User Choice outcomes against objectives and the program of continuous improvement, which were determined, by MINCO in July 1997, as underlying principles of the User Choice arrangements across Australia.

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**Attachment 1: Statement of User Choice Policy
(MINCO; November 2003)**

1. The following Statement of User Choice Policy was endorsed by Ministers for vocational education and training in May 1997 and is inclusive of amendments by Ministers in November 2000.

Objective of User Choice

- 2.1 The objective of User Choice is to increase the responsiveness of the vocational education and training system to the needs of clients through the encouragement of a direct and market relationship between individual providers and clients

Defining User Choice

- 2.2 User Choice is defined as the flow of public funds to individual training providers which reflects the choice of individual training provider made by the client. User Choice comprises three essential elements:
 - (i) significantly greater market power to individual clients to negotiate with individual registered training providers, both public and private, about the off-the-job component of new apprenticeships. The negotiation can include choice of provider and choice about specific aspects of training, such as location, timing etc.
 - (ii) increased responsiveness on the supply side of the training market, to enhance the capacity of individual VET providers to respond to the expressed needs of clients. Training outcomes will then be able to reflect more closely clients' views of their own needs. This increased responsiveness will include greater contestability among individual providers.
 - (iii) User Choice outcomes are compatible with public expenditure constraints and efficient use of resources. There can be no implication that all requests for training from clients, however specialised or expensive, will be met from public funds.
- 2.3 All elements must be satisfied together – the separate elements alone will not meet the objective of establishing a genuine market relationship between individual training providers and clients.
- 2.4 The 'client' for User Choice is defined as the employer and the employee, as identified in the New Apprenticeships Training Agreement, acting jointly. They may agree to authorise a 'broker' to act on their behalf.

Principles for User Choice

2.5 The principles which underpin the implementation of User Choice in New Apprenticeships from January 1998 are:

- (i) Clients are able to negotiate their publicly funded training needs, subject to State and Territory decisions regarding the resourcing of New Apprenticeships.
- (ii) Clients have the right of choice of registered provider and negotiations will cover choice over specific aspects of training.
- (iii) User Choice operates in a national training market not limited by State and Territory boundaries. Therefore, RTOs will not be discriminated against under User Choice on the basis of their location of primary registration.
- (iv) The provision of accurate and timely information about training options is necessary for informed choice.
- (v) Pricing of qualifications by State/Territory Training Authorities should be based on the Resourcing Principles as set out in Item 2.8.
- (vi) Training over and above that which is essential to the qualification outcome for the apprentice or trainee, and is above that which is funded publicly, can be negotiated and purchased by the client.
- (vii) User Choice would be harnessed to improve access and equity in the vocational education and training system and be integrated within existing initiatives.
- (viii) Regulatory frameworks and administrative arrangements relating to vocational education and training at the National, State and Territory level are to be complementary to the achievement of the objectives of User Choice.
- (ix) Evaluation of outcomes of User Choice against objectives is an integral element of a program of continuous improvement. Innovation is required to achieve and maintain a best practice training system.

User Choice in Operation

2.6 Each State and Territory will be responsible for implementing User Choice in New Apprenticeships. Key features are:

- (i) Clients will be informed through targeted marketing campaigns about User Choice in New Apprenticeships; in particular, how it works and the opportunities for enterprises and their employees to meet their training needs.

- (ii) Providers (public, private, and industry-based) will be informed about the purposes of User Choice and how it will work.
- (iii) Clients will have access to accurate and timely information giving details about alternative VET providers, training packages, and aspects of training open to negotiation and options.
- (iv) Providers will have sufficient detailed information on training packages, customisation options, and on how funds will be transferred to enable them to participate effectively in User Choice and respond to client needs.
- (v) Providers will provide clients with information on their performance and capabilities, and on the nature and quality of their training products.
- (vi) Advice will be available to potential students/employees regarding training opportunities and how training can be accessed.
- (vii) Information will be provided in a way which caters to the needs of a diverse range of groups and individuals.
- (viii) Clients will have the right to exercise choice over which registered provider delivers their training.
 - In areas where there are low numbers of clients and in remote locations where clients have access to limited number of providers, choice may be limited. States/Territories agree to manage these cases as an exception in a way that maximises the available choice. These cases will be annually reported.
 - Choice will be exercised within prevailing State/Territory pricing arrangements.
 - Choice will be exercised within existing State/Territory administrative arrangements for managing the risks associated with purchasing and contract management. These risk management arrangements should not form additional regulatory requirements, over and above the Australian Recognition Framework.
- (ix) Clients will be able to negotiate with registered providers on specific aspects of training within the requirements of the selected Training Package. Brokers/intermediaries may act on behalf of clients in the negotiation process.

Aspects of training open for negotiation include:

- selection, content and sequencing of units of competence
- timing, location and mode of delivery
- trainer/facilitator

- who conducts the assessment
 - how the training is evaluated.
- (x) A Training Program will be signed between the client and provider to signify that the client was aware of their rights under User Choice, and was able to negotiate a suitable outcome with the chosen provider. The Training Program Outline must be attached to the Training Agreement within the probation period of the apprentice/trainee.
- (xi) Public funds will be allocated to providers based on negotiated User Choice (the mechanism and timing of the allocation of funds will be consistent with existing State/Territory processes).
- (xii) States and Territories will allocate funds to providers on the basis of State/Territory pricing arrangements.
- (xiii) Evaluative mechanisms will be established to monitor User Choice.
- (xiv) Processes will be established to settle disputes and conflict of interest issues between clients and providers.
- (xv) Accountability mechanisms will be in place to ensure that funds have been used for the agreed purposes. States and Territories will have in place an appropriate strategy to minimise risk.
- (xvi) State and Territory decisions regarding the availability of public funding for New Apprenticeships will be made transparent by:
- informing clients that these decisions reflect government priorities for the resourcing of New Apprenticeships, and
 - providing clients with the criteria used to make these decisions.
- 2.7 These key features will incorporate a recognition of, and response to, access and equity considerations.
- 2.8 Resources for User Choice will be allocated through nationally agreed Resourcing Principles which involve each State and Territory:
- a) allocating resources based on identified Commonwealth and/or State/Territory skill needs and priorities, determined in consultation with industry and other key stakeholders, recognising that this process may be part of the broader strategic planning arrangements of STAs;
 - b) providing transparency in pricing and funding arrangements, ensuring the availability of clear information to clients on the funding provided for each qualification by STAs and RTOs, including information regarding

- any additional weightings or loadings (for example, to address access and equity reasons and/or to provide weightings for different training delivery methods);
- c) regularly considering the full/current range of qualifications available as a New Apprenticeship pathway, recognising that some qualifications may not be funded and that some qualifications may attract higher levels of funding;
 - d) including a set of clear and transparent criteria to explain the rationale used for determining prices for various qualifications;
 - e) establishing and reviewing a unit price per qualification, recognising that the unit price per qualification may vary with, for example, different training delivery methods, content and locations;
 - f) reporting on planned commitment to these resourcing arrangements in the annual State and Territory VET plans, in line with the ANTA Agreement;
 - g) regularly reviewing and adjusting prices, recognising that adjusting prices may not occur on an annual basis and that adjusting prices may result in either increases, or in some instances, decreases; and
 - h) ensuring the client remains the focus, recognising that maximum choice and the responsiveness and flexibility of VET needs to be balanced with the availability of resources and the response to client demand.



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