

Employers and Access to Publicly funded Training

Richard Curtain
Curtain Consulting , Melbourne

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The Australian Government's National Training Reform Agenda has been criticised for failing to respond adequately to the demand side of the labour market and the needs of employers in particular (Sweet 1993, Curtain 1994). A major review of the implementation of the reforms over the last five years was commissioned by the Australian National Training Authority (ANTA) and was carried out by the Allen Consulting Group in 1994. The resulting report recommended that a 'User Buys' strategy be implemented as a key element in the reform program.

The report argued that a training market could only be fostered if employers, as the major clients of public vocational education and training system, are given government funding to purchase themselves the type of training they require. It was suggested that the user buys strategy be phased in by handing the government funding for the off-the-job training component of apprenticeship and traineeship arrangements directly to enterprises. Thus, employers and employees are to decide jointly how the funds are to be spent. It was envisaged that a group training scheme or equivalent intermediary could act formally for the enterprise if it was small or otherwise lacked the resources to make informed decisions.

The purpose of this article is to examine the response of ANTA to this proposal in the context of alternative ways of making the supply side more responsive to the demand side of the training market. A conclusion drawn is that the training market will only function more effectively if more attention is given to constraints individual employers faced in identifying and responding to their training requirements.

Options for fostering a more responsive training market

Five approaches to improving the efficiency and effectiveness of the delivery of training services funded by Government can be identified. These models, based on recent reforms instituted in the United Kingdom, Sweden and New Zealand, represent different options in moving to a purely market-based approach.¹ These are:

- the allocation of funds by Government to semi-autonomous agencies within the public

¹ The following information on the different models of funding allocation is based on the author's work for the report to the Victorian Office of Training and Further Education by the Allen Consulting Group entitled **Establishing an Effective Training Market: Final Report**. An abridged version of this paper has been published in The Australian Economic Review 2 '95.

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sector through regular performance agreements based on specified goals and targets to be achieved;

- the allocation of funds by Government through competitive tendering under specified conditions from both public and private sector service providers:
- franchising by Government of intermediary bodies to act as purchasers of services from service providers.
- intermediary bodies with independent funding able to purchase services on behalf of their members and
- direct purchase of services by the client/consumer.

The first three approaches focus on improving the efficiency/effectiveness of the institutions supplying training services by injecting a greater degree of accountability through a purchaser/provider split in the provision of services by government. The latter two approaches shift to the demand side of the market for services and give direct purchasing power to the consumers or their representatives.

Model 1: Funds allocation per performance agreement.

The allocation of funds through performance agreements embodies a purchaser provider split with the central government as allocator of public monies establishing an arm's length, quasi-contractual relationship with semi-autonomous public sector agencies. Examples are funding arrangements for Further Education colleges in the UK and TAFE colleges in Victoria, WA and Queensland. The emphasis in these arrangements is often how to maintain or expand public service provision while achieving lower average unit operating costs.

The recent UK reforms to the funding process for some 500 Further Education Colleges have shifted the allocation of funds from Local Education Authorities to a central body called the Further Education Funding Council. The previous method of funding was largely based on "target enrolments" of students that colleges planned to recruit and was decided at the local level. The new funding allocation process is based on internal performance criteria such as the numbers of continuing students and numbers successfully completing courses.

The Further Education Funding Council is to enter a funding agreement each year with each college specifying the minimum volume of provision expected by the Council. Each college's performance against its funding agreement will be monitored and funding reduced if it falls short of its agreement. The criterion for funding has shifted from "bums on seats" to the ability of a college to encourage students to continue with and to complete a course. This requires that colleges give attention to initial assessment and guidance for the student and provide a monitoring mechanism to ensure that students experiencing difficulties are helped.

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The emphasis on outcome measures further reinforces the signals to teaching staff that their funding base depends on achieving certain standards of service. Examples are course completions, qualifications obtained, job placements rather than merely numbers enrolled.

In Australia, annual profile funding is used in to allocate public monies to TAFE colleges in some states. For example, the performance criteria used by WA are quite extensive, including a range of effectiveness measures for each program and for some programs an efficiency measure. The measures are audited. Unfortunately, because the data are presented only at program level, they are of limited use to clients of the system, who need information at the level of the institution and training program.

The profile funding method for publicly funded vocational education and training can be criticised for its lack of responsiveness to the end user of the system. The narrow emphasis placed on achieving cost efficiencies through funding based on average or benchmark costs is also seen as another shortcoming. There is also limited incentive to pay attention to quality issues unless the client has some power to influence decisions about how funds are allocated.

In an attempt to respond to this deficiency, the UK Further Education Funding Council requires colleges to provide it with data to permit publication of *comparative* performance tables on student achievement including students' intended and actual career destinations. Similar data are to be collected at a State level in Australia through the National Centre for Vocational Education and Research and State TAFE systems, but it is understood that they are not to be disaggregated to the college level. In addition, the UK Further Education Funding Council requires each college to produce a college charter to commit itself to the delivery of services to certain specified levels of timeliness and quality.

Funding allocation on the basis on cost considerations needs to be supported by a system of clearly specified quality standards to ensure that cost reduction is not achieved at the expense of service quality (unless some limited, and favourable, trade-off is intended). There is a danger, however, that the system of monitoring quality standards may become divorced from the process of allocating funds in this model. The quality assurance process in Australian TAFE systems is gathering considerable momentum but there is a risk that it may be divorced from the end user. Quality assurance accreditation is concerned with establishing and complying at the individual college level with written procedures to ensure set outcomes. These procedures may become an end in themselves, without reference to whether the needs of the consumer of the services are being met, unless that consumer is "in the loop."

Within the logic of the funding allocation model through performance agreements, the UK approach compared with Australia offers some ideas on how to achieve its full potential. These are:

- performance goals and targets embodied in individual agreements should be made
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public through TAFE college annual reports;

- quality standards should be integrated into these performance goals and targets;
- comparative performance data on a college by college basis should be compiled and made public, including output and outcome measures related to student success rates in completing courses, pass rates, taking out qualifications, and obtaining employment in an industry related to the qualification; but
- unit cost data, however, may need to remain confidential if competitive tendering is used to allocate growth or other funds.

The weakness in the funding allocation approach based on performance goals and targets is the continued heavily centralised nature of decision making about future demand for courses, utilising limited knowledge of actual client needs. Also, the responsiveness of individual service providers to the requirement for greater accountability to the client may be limited by a focus on measures to reduce costs while maintaining or expanding services.

Model 2: Competitive Tendering

Competitive tendering refers to the process by which public funds for particular services are allocated on the basis of the successful bidder meeting certain criteria including low cost and minimum standards of service delivery and outcomes. The competitive tendering process is usually limited to annual growth funds (or part thereof) to protect public investment in infrastructure and human resources within the public sector. However, a major issue is whether the public sector agency competes in the tendering process based on marginal costs or on the basis of full capital costs.

The UK, Sweden and New Zealand have moved to open tendering for the provision of labour market training and off-the-job training for entry-level qualifications. Both Sweden and New Zealand, however, have had difficulties in working out appropriate costs and therefore prices for the services of its publicly funded training providers. The issues in New Zealand relate to establishing cost structures that relate to particular courses and not to an average figure (Allen Consulting Group 1994:162). In the UK, it has been claimed that the open tendering process for labour market programs has led to a concentration on low cost, low quality courses with only some scope for high quality courses where costs are low (Bennett *et al.* 1993).

Model 3: Use of Government established and funded intermediaries

The use of government established intermediaries to purchase services on its behalf has been described as similar to franchising. Government provides the framework, guidelines, accounting procedures and a range of support services as well as the bulk of the funds to a body separately incorporated, controlled and managed. This is the approach the UK

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Government has taken with its establishment of Training and Enterprise Councils (TECs). TECs have been established as local-level incorporated bodies with the requirement for two-thirds of the board to be from business. The functions of TECs are to dispense funding to training providers for labour market training programs and to promote workforce skills upgrading through enterprise-level training.

A recent extensive evaluation of TECs by Bennett and colleagues from the London School of Economics (Bennett *et al.* 1993) has strongly criticised the franchising approach as embodied in TECs. The main criticism is the failure of the responsible Government departments to deliver the promised autonomy to the new agencies to act as genuine intermediaries for enterprises in the marketplace on training matters. According to Bennett *et al.* (1993), TECs have been largely successful as purchasers of training services for the unemployed but at the cost of addressing market failures in the enterprise provision of training more generally.

TECs, despite Government rhetoric, have been unable to develop a strong local network to respond to the needs of businesses on a range of issues. They are often seen as merely another arm of government. The tight financial controls have been imposed by the Department of Employment and the UK Treasury to minimise the risks associated with the "private management of public monies." This, however, has stunted the initial promise of the emergence of an autonomous intermediary better able to respond to market failures in training more generally. Another deficiency in the way TECs have operated in practice is the focus on the needs of special groups without explicit allowance for this in funding allocations. Also funding has been subject to the political process so that there is often considerable uncertainty generated by short-term budget cycles.

The UK experience with this top-down delegation of purchasing authority to an intermediary shows that there is a strong tendency by Government to maintain strict controls through detailed performance targets and earmarking funds for specific purposes. These controls reflect several factors that may have implications for the operation of similar arrangements in Australia. The short-term preoccupation of the political process with the problem of unemployment has overridden the more general goal of TECs to upgrade the skills of the workforce as a whole. Most Government funds have been made available to TECs on the basis that they help the unemployed.

TECs have been unable to establish themselves as genuine brokers in the training market because they have remained divorced from the broad range of employers, offering a narrow range of services associated with training for the unemployed and heavily dependent on government for funds and direction in how they should operate. TECs, according to the LSE evaluation, do not have the power nor expertise to adapt government program funding to meet market demand.

Model 4: Intermediaries with independent sources of funding able to purchase services on behalf of their members

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There is an alternative to the top-down delegation of purchasing authority to an intermediary operating within detailed guidelines. This involves the allocation of funds to an intermediary that is not subject to the same constraints imposed by central authorities. In this way, the local level body is able to play better the role of broker or facilitator of local initiatives such as encouraging enterprises to form consortia to pool their resources and maximise their purchasing power. Public law or compulsory chambers of commerce in many European countries (most notably France and Germany) are able to promote training activities among enterprises because of their broad membership coverage and independent funding base.

The focus of a local training market intermediary needs to be on activities that meet the needs of enterprises that would otherwise not be met in any other way by the market. To do this effectively, an intermediary should be owned and controlled by business so it is clearly able to act in the collective interests of business and is seen as doing so. A broker or facilitator to be truly representative of business needs to have a broad base or constituency that covers most or all of business in a particular industry sector or region. Most employer, trade or industry associations in Australia, as in the UK, have a coverage of only a small minority of eligible members.

It has been proposed by the British peak body for local Chambers of Commerce that a system of business registration be promoted by peak employer, trade and industry associations as a means of reducing red tape by enabling industry to regulate more its own activities. Local employer associations would be delegated by government the function of managing the register and advising businesses on regulatory controls (Bennett *et al.* 1993: 312). A registration scheme based on the incentive of self regulation is one way that a local employer association can achieve the representativeness and authority to speak for employers.

The main purpose of a registration system would be to identify clients as a basis for developing liaison activities and directing government funds for entry-level training, for example, to particular groups. A second benefit would be the opportunity to levy a small fee for registration that would then be available to the local employer association as a "subscription" for the provision of specified core services. This fee should be graduated by size of company and could be zero for the self-employed and micro-businesses. The local employer association could subcontract with other service providers to provide a variety of services. The approach, similar to the role performed by German Chamber of Commerce, is that of "business self-administration" (Bennett *et al.* 1993). Business self-administration in the German case means that the Government can contract to the chambers a variety of business-related services and to hand over regulatory issues. This enables the local chambers to develop leverage on businesses to ensure compliance as well as offering a means of directly stimulating business innovation and economic growth (Bennett *et al.* 1993, p 312).

A limitation of Chambers of Commerce in Britain and public law chambers in Europe, however, is their capture by committees that are poor mechanisms for responding to the

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market. The starting point for an intermediary in the training market must be meeting the needs of business, as distinct from government priorities or the interests/concerns of particular departmental bureaucracies. To do this, intermediaries need to develop a means of market testing the need for a range of local business services and the power to adapt government program funding to meet those needs.

For a representative and capable intermediary body, the role of government can be limited to broad accountability for funds allocated in place of detailed audit trails. The capacity of an intermediary body to raise its own funds for training through, for example, an industry levy would express in a concrete way its independence from Government and reinforce its own responsibility to account for how the funds are spent. The intermediary has to be accorded greater levels of autonomy over time in how it manages public funds if it is to have the credibility with local business and capability to show that it can be sufficiently flexible to meet the needs of enterprises where they are unable, individually, to do so.

Model 5: Direct purchase of services

The most market-oriented approach to the provision of training services is their direct purchase by the end users. Britain and New Zealand have different versions of this model. Britain is planning to give this entitlement in 1996 to the individual 16 year old school leaver, while New Zealand is enabling employers to purchase entry-level, off-the-job training through Industry Training Organisations.

In the UK, Training Credits or vouchers, worth between £500 and £5,000, will be paid to school leavers through a Training and Enterprise Council to ensure coordination and competition between training providers. The value of the vouchers, however, is likely to vary between individuals according to their skill levels, with the largest amounts going to those with least skills. To help individuals to choose an appropriate course, additional resources are being directed to providing better career counselling services.

The New Zealand government, on the other hand, has given the power to purchase entry-level training to employers provided it is coordinated through an Industry Training Organisation (ITO). ITOs are formed on the initiative of individual employers and they may represent as small a group as two enterprises. In practice, however, ITOs are required by government to be more representative with the onus on the employer to take the initiative to join with other employers where they have a common interest in training. There were in mid 1994, 39 ITOs and a further eight applications being processed.

Several "teething" problems have been identified in New Zealand with the direct purchase of training services. These include: how to cost the value of individual courses where they are more expensive than the average, covering the cost of being in training for normal working hours as distinct from a 22 hour teaching week, the issue of what constitutes entry-level training and whose responsibility it is (government, employers or individuals) to fund what

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aspects of entry-level training.

Limitations of the ANTA response

The response of ANTA to the proposal to introduce a strongly market oriented strategy of "user buys" has been to change the concept into "user choice" and to pilot the strategy in a minor way in each state and territory. After consideration of the advice provided by the Allen Consulting Group, the Australian National Training Authority recommended to the Ministerial Council a variation to the concept of "user buys" labelled "user choice." The significant difference between the Allen Consulting Group and ANTA proposals lies in the placement of resources. "User buys" puts the funding and the choice into the hands of the enterprise, while "user choice" leaves the choice with the enterprise but the funds continue to be allocated by a central authority. The reason behind this difference is expressed by the ANTA submission in the following terms: "It is not necessary for the funds to flow to a business to itself purchase the training for the choice to be exercised. To do so may involve the business in unnecessary contractual and audit requirements" (ANTA 1994:31)

A series of "user choice" pilots in which firms - or Group Training Companies on behalf of firms - choose the provider of the off-the-job training for apprentices and trainees are to be undertaken in all States and Territories and across industry sectors in 1995. The choice of provider is to be made in consultation with employees.

"User choice" is aimed to build on the existing strengths of the vocational education and training system through encouraging the partnerships between training providers, employers and employees. The pilot program also aims to disseminate examples of good and innovative practices to provide employers and employees with the opportunity to exercise meaningful choices over training arrangements.

A key principle of "user choice" is to strengthen links and improve responsibilities between providers and clients at the local level. Because of this, it is also important that it should be managed at the local level, as far as is consistent with different State and territory arrangements. The role of State Training Authorities should be to co-ordinate processes, foster innovation and ensure information flow.

"User choice" pilots should primarily be directed to enhancing client focussed arrangements between providers, employers and employees/students. This may include improved integration of on and off-the-job training, "customisation" of entry-level training to enterprise needs, negotiation of delivery arrangements better suited to enterprise requirements and sharing of technology between enterprises and providers (ANTA 1994b:4).

The problems facing the shift to a direct role for enterprises in the allocation of resources for

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publicly funded training are several. Two issues are the availability of information on course outcomes at the college level and the limited range of training providers available in particular industries and geographical areas. Also there is the question of whether individual employers have the resources and capacity to make worthwhile choices. Small employers (often with fewer than five employees) make up the majority of employers of apprentices and trainees (Curtain 1993:42). Many of these small employers may be unable to negotiate appropriate training. It is envisaged that "intermediaries providing brokerage services, such as Group Training Companies, may be necessary for effective and meaningful participation in that they can provide a "critical mass" of influence (ANTA 1994b:8).

The major flaws in the "user choice" approach adopted by ANTA are several. They include first, the absence of good information at the college level about basic performance outcome measures to enable enterprises to make informed choices. Such measures at the college level, following UK practice, should relate to student success rates in completing courses, pass rates, taking out qualifications and obtaining employment in an industry related to the qualification.

Second, there is little recognition of the need to provide independent brokerage functions other than through Group Training companies which only serve less than 10 per cent of apprentices and their employers. The absence of an understanding by policy makers of the determinants of the decision to train and the constraints faced at the enterprise level is noticeable in the limited nature of the response proposed by ANTA. The German and French experience in the collective provision of training for small enterprises and the emphasis by the federal Department of Industry, Science and Technology on the value of networking among small enterprises through its Business Networks Program have not informed the policy response of ANTA. The result is a narrow and highly marginal effort to encourage greater demand side input into the training market.

The third and most significant deficiency in the ANTA response is the continuation of the allocation of funds by an all powerful central authority in the name of outdated model of planned resource allocation. The basis for deciding the unit cost of training is to be determined by state training authorities so there is no scope for reducing the cost of training. Choice for the enterprise will be limited to customising course curricula and the more flexible provision of training in terms of the timing and integration with on-the-job training. The opportunity to follow the New Zealand example of establishing a contestable fund for all off-the-job entry level training to be used by employer-initiated associations of common interest has been bypassed.

Conclusion

The effective operation of a training market requires the widespread involvement of enterprises in the decisions about how public funds are allocated. Retention of this function with state bureaucracies and now an overarching national authority will continue to

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undermine employer involvement in and commitment to providing collective training arrangements such as the apprenticeship system.

Australia has a large and cumbersome publicly-funded vocational education and training sector. Much of the Government's training reform agenda has been directed at improving its efficiency and effectiveness. However, there has been little effort to harness the direct input of employers. Industry training advisory bodies are seen by many employers as another arm of government and often lack a broader representative or regional basis. Direct enterprise involvement either individually or collectively through intermediaries in the allocation of public funds for training is required. This enables the onus of responsibility to shift dramatically to employers for ensuring appropriate training arrangements are in place to meet the demands of operating in an exposed international economy.

For references, see article in the Australian Economic Review 2 '95
