

---

# Practical Issues in Market Design: Lessons from VET reform in Victoria

Paper by Deborah Cope  
Principal PIRAC Economics

# Drivers of market reform

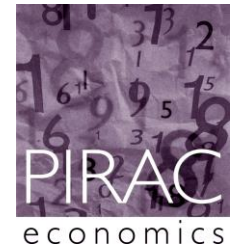
---



Past models for service delivery are perceived as:

- Standardised and unresponsive to clients needs
- Lacking innovation
- Focused more on the convenience of the service provider and funder not the client
- Being undermined by constraints on providers' funding that compromise their ability to deliver high quality effective services.

# Why the problems arise



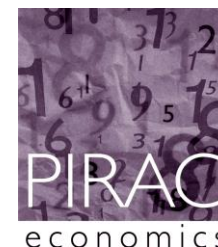
---

As a result of governments controlling all aspects of the market:

- Providers focus on their relationship with the funding body not the client or customer
- Clients have little say and many are grateful just to be in the system
- Quality regulation is ill-defined and often doesn't focus on outcomes.

# Expected benefits of market reform

---

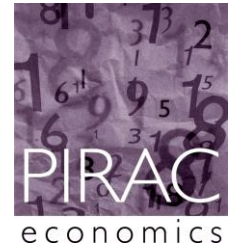


- Client focussed services that better meet clients' needs
- More choice for clients and greater recognition of their preferences
- More efficient services that cost less to deliver
- Innovation and new services.

But achieving these benefits may not be straightforward

# 2008 Victorian VET reform Objectives

---

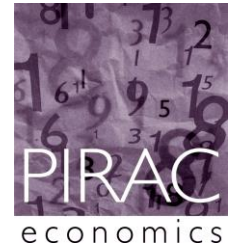


2008 Market reforms introduced to:

- Increase the number of people training in needed skills
- Engage more effectively with individuals and businesses and make the system easier to navigate
- Respond to the changing needs of Victoria's industry and workforce
- Create a culture of lifelong skills development.

The market is obviously a good mechanism for delivering a lot of these such outcomes

# 2008 Victorian VET reform Reforms



- 
- An entitlement system was introduced with broad student eligibility criteria
  - Uncapped training places for a wide range of courses for eligible students, as long as students increase their level of qualification
  - TAFE's were paid a higher rate per hour than other providers (when this was later changed and TAFE's market share fell)
  - Full contestability between public and private RTOs and greater flexibility to set course fees.

# VET FEE-HELP 2009 and 20012



---

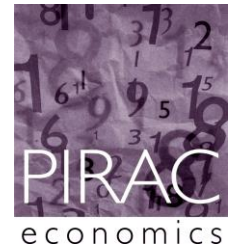
## Commonwealth student loans extended to VET 2009

- Targeted students' transition from VET into higher education for courses diploma level and above
- Because Victoria funded all registered training organisations its students were eligible.

## 2012

- The scheme expanded to other states and territories who opened up their VET training markets
- The link between VET and higher Ed was removed.

# The problems

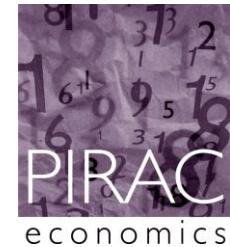


- 
- Costs increased much more than either government expected
  - The growth in cost was not matched by expected improvements in training
  - Unethical operators emerged and took advantage of students without delivering quality training
  - The consequences of poor choices for students were high and the role of TAFE's was being compromised.



# Market characteristics drive these problems

---



- Weak price signals
- Averaging of funding creates cherry picking
- Infrequent purchase of experience goods by unsophisticated consumers
- Unfunded CSOs

Market design in such markets is critical and care is needed to manage reform implementation.

*Thank you*