

29 January 2015

## **AUDITOR-GENERAL'S REPORT**

### **Vocational Education and Training (VET) Reform**

Vocational Education and Training (VET) is undergoing reform across Australia. The reforms aim to see more people trained while maximising the public value for the Government's investment.

New South Wales is the latest State to implement VET reform through its Smart and Skilled initiative which commenced on 1 January 2015 after being announced in 2012.

This audit assessed the effectiveness of the Department of Education and Communities' framework for VET reform and whether it has the potential to achieve the Government's objectives.

#### **The framework for VET Reform in New South Wales is unlikely to maximise public value**

The Department's framework for VET reform has the potential to effectively achieve the Government's immediate objectives to introduce a VET entitlement without spending more, while maintaining the viability of TAFE.

The audit found that the Government is addressing the VET reform objectives in the following order:

- no extra cost (budget neutral)
- TAFE viability
- quality VET
- access to VET for regions and equity groups
- more contestability
- student choice.

"The Government is more likely to maximise public value from its investment in VET, if it takes a more balanced approach, by putting more emphasis on increased contestability and student choice," said the Auditor-General, Grant Hehir.

In 2013-14, approximately 11 per cent of the total VET budget of nearly \$2.2 billion was contestable between private registered training organisations and TAFE. In 2014-15, approximately 19 per cent of the total VET budget of \$2.3 billion is contestable based on capacity, capability, past performance and ability to deliver particular qualifications in specific regions.

There is no price competition as the Department sets the same price and fee structure for all Smart and Skilled qualifications on the NSW skills list. In order to provide private registered training organisations and TAFE with the flexibility to compete and innovate, IPART recommended that the fees should be defined as a maximum and allow these organisations to charge up to 50 per cent less. This was not supported by the Government.

This approach is a reaction to difficulties experienced by other states that opened their training market more quickly. While this cautious approach is understandable, it is still possible to have high standards without creating a restricted market as New South Wales has done.

In 2014-15, the Government will pay a significant portion of the \$2.3 billion VET budget directly to TAFE for:

- operational base funding
- community service obligations
- purchasing some training.

“The budget for this direct funding is not subject to clear oversight,” said the Auditor-General.

“The Department needs to finalise accountability arrangements for TAFE’s direct non-contestable funding and specify what it expects each TAFE Institute to provide and report on for its direct funding,” he added.

## **The State Plan goal to increase post-school qualifications is unlikely to be met**

The Department is on track to meet its obligations under the Commonwealth’s National Partnership Agreement on Skills Reform to increase the number of people completing post-school qualifications by an average of around 16,000 (14 per cent) each year, by 30 June 2017.

However, the VET reform framework does not address the longer-term State Plan goal for a 50 per cent increase in the proportion of working-aged people with post school qualifications at Certificate III level and above.

“The VET reform’s budget neutral objective, its pricing structure and the incentives for efficiency mean that it is unlikely to generate the funds needed to meet this State Plan goal,” said the Auditor-General.

“The Department needs to establish how it will capture efficiencies and build a sustainable VET system capable of supporting the NSW goal of a more highly skilled population. It must also set targets for the number of VET enrolments and completions each year needed to support this goal,” he added.

## **Further Information**

A full copy of the report is on the Audit Office website.

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