

# Marketisation of VET: The New South Wales response 1990s–2017

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## Abstract

For most of the period under review, New South Wales (NSW) was a comparatively resistant adopter of national VET market policy, particularly reforms instigated through intergovernmental funding agreements. For this resistance NSW drew criticism, largely due to perceived inefficiency, limited programs and funds open to competition, and the ongoing dominance of the public provider, TAFE NSW. This hesitance began to shift around 2005, with a series of state-initiated reviews pushing for changes in funding market arrangements and TAFE NSW governance. The year 2012 was significant, with the new Coalition Government introducing what was arguably the state's most detailed and sophisticated VET marketisation platform to that point, Smart and Skilled. The policy was implemented in 2015, and was accompanied by significant structural changes in TAFE NSW, with the 'OneTAFE' policy delivering anticipated amalgamations, staff cuts and savings, but contradicting earlier policy directions towards increased devolution of authority to local institutes. The story of the development of the training market in NSW is also a narrative of TAFE NSW and the tensions of redistributing reduced state funding among a broader range of providers. What has been clear over the period is the difficulty that successive state governments have had in letting go of the public provider as a flagship of their social justice commitment, but more pragmatically as their mechanism for timely regional funding injections and political influence.

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## Cautious and reserved to maintain state control

### Overview

The NSW response to VET marketisation, indeed to national reforms generally from the 1990s, can be characterised as often cautious and reserved, with the overriding concern of sequential state politicians to remain in control of their own state system. As early as 1987 the then NSW Education Minister, Rodney Cavalier, refused to sign off on new TAFE funding arrangements being promoted by the Commonwealth Minister, John Dawkins (Goozee, 1995, p. 109). In 1997 NSW reserved its position on 'user choice' for modern apprenticeships, one of the strategies of the Australian National Training Authority (ANTA) to increase competition within the VET sector (Selby Smith, 1998).

It is fair to say that until around 2005 NSW was a resistant adopter of the fully developed and comprehensive approach to the marketisation of training over the preceding ten years, advocated through national funding agreements. For a large part of that period NSW policy change could be seen as defensive of the position of the public provider, as the state adopted what was argued to be 'selective' and 'constructive' competition (Goozee, 2013, p. 411),<sup>2</sup> confined to robust markets, avoiding the risk of perceived market failure, especially in thin regional, industry or occupational markets.

Tensions existed within NSW between state government bodies sympathetic to marketisation and TAFE NSW, especially during episodes of significant bureaucratic restructures both internal to TAFE and in the larger 'parent' departments. In negotiation with Commonwealth agencies these differences were, however, minimised. Criticism of TAFE NSW was largely rejected as were the

<sup>2</sup> Goozee notes that the State Training Authority, BVET and TAFE NSW jointly produced a statement of principles for development of the NSW training market. It proposed that competition should be 'strategic' and that TAFE NSW would be supported as a leading provider in the NSW training system. See Goozee, 2013, Appendix 17, p. 466.

more severe aspects of training market policy. There was a shared resistance bordering on recalcitrance by both purchaser and provider towards external – particularly Australian government – censure of NSW and its position on market reform.

This began to change around 2005-2006 due to both state and national policy shifts. The NSW Independent Pricing and Regulatory Tribunal (IPART) report made recommendations on the state training market, investment in skills and necessary changes to TAFE NSW, while TAFE NSW became convinced that it would need to drive and deliver internal change in maintain control of its governance and budget.

At the national level, VET funding agreements were transferred from the siloed confines of the ANTA agreement framework into the more muscular apparatus of inter-governmental Council of Australian Governments (COAG) agreements, upping the ante on marketisation. In 2009 the Commonwealth negotiated new federal financial arrangements with the states, rolling several agreements into Specific Purpose Payments (SPPs), including those for VET. This came with the more direct engagement of central agencies such as the Premier and Cabinet and Treasury departments and the specialist oversight of the COAG Reform Council. These central agency bureaucrats exerted scrutiny and accountability that hitherto had been handled on more familiar terms between education and training department specialists.

Sequential national funding agreements over the period emphasised the introduction of a VET training entitlement and gradually extended income contingent loans to VET students undertaking higher qualifications. The policy intention was to put VET on a similar footing with higher education, shifting the purchasing power to consumers by creating a more demand-driven system in contrast to the institutionally oriented supply focus which had dominated the system for most of the previous decade. These policy decisions had a tsunami of unintended consequences including intensive competition among many rent-seeking private RTOs, huge loss of enrolments across TAFE systems nationally, widespread RTO quality concerns – amounting to fraud in a number of high-profile instances, the trashing of VET reputation and spiralling government budgets.

Under these turbulent conditions, the NSW government attempted to hold a steady rein. From 2009, the NSW government continued to drag its feet and was the slowest state to implement the national training entitlement outlined in the National Agreements on Skills and Workforce Development and Skills Reform. Slower adoption of market policy meant that it could look to the good and bad examples of what was occurring elsewhere – especially Victoria – and travel a safer middle path – aware of the pitfalls of budget blow-outs around entitlement places, quality concerns and proliferation of qualifications in occupations with little market demand.

In 2011, following the election of the Coalition Government in NSW under the premiership of Barry

O'Farrell, and with Adrian Piccoli, a National Party MP, as Minister for Education, NSW issued a consultation paper, *Smart and Skilled*, mapping out questions and possible approaches to market reform around entitlement funding of training places and the place of TAFE NSW in this new landscape. *Smart and Skilled* was implemented in 2015 and paved the way to a more transparent and evidence-based pricing and purchasing market model. In the context of these developments, TAFE NSW has undergone tumultuous change, albeit in unexpected directions in the past two years, contradicting almost two decades of national and state policy reviews urging greater devolution and increased authority for local institutes.

## **Early reform years – local restructures**

Though its approach to VET was often shaped by and linked to national events, NSW also instigated its own VET reforms and restructures during this period. TAFE NSW was shifted between different portfolios and agencies within the NSW government, leaving it with varying degrees of autonomy and independence. This was disruptive, distracting and costly. TAFE NSW began the 1980s as a separate, conventional (inner sector) government department having separated from the department that ran public schools in 1949. The department ran over 100 colleges of greatly varying sizes and a state-wide faculty system of over twenty teaching schools. Following the management review of 1990 chaired by Brian Scott (Management Review, 1990), it was set up as a commission. Two years later operational management was devolved to eleven TAFE institutes. In 1995 the TAFE Commission became a controlled entity of the Department of Training and Education Coordination (DTEC) until another change in the machinery of government in 1998 saw it subsumed under the umbrella of the Department of Education and Training – reversing the separation of 1949 (Goozee, 2013). It ended up in 2016 still a Commission operating as a centralised bureaucracy, branded 'OneTAFE' (TAFE NSW, 2016), without institutes, within the broader ambit of the Department of Industry, having severed its ties between 2014 and 2017 with the Department of Education and Training. In every case these machinery of government changes were justified in terms of eliminating duplication and allocating more resources to the front line of students, teachers and courses.

The autonomy of both TAFE NSW and its constituent institutes was fiercely contested throughout this period. While the economic rationalists of the NSW central agencies like Premier's and Treasury and national bodies such as ANTA often wanted eleven autonomous institutes competing with one another as in Victoria, NSW government ministers were reluctant to let go. TAFE NSW executives and TAFE unions wanted to maintain TAFE as a collaborative network rather than promote competition between its institutes. This was not a popular view with national ministers and officials in the 1990s. It was seen as a limiting factor in the establishment of a national training market (Allen Consulting Group, 1994).

## Reasons for this response

There are several explanations for this resistance by New South Wales. Certainly states' rights was an issue. To an extent, NSW was prepared to go along with marketisation as a means of accessing Commonwealth (growth) funding. It was less prepared to commit state funds. Thus, in the 1990s user choice for traineeships was not contested as they were Commonwealth-funded labour market programs. Apprenticeships were a different matter. The off-the-job training component had traditionally been part of the state's core funding of TAFE. It would take an external report from Charles Sturt University and an internal report from DTEC and TAFE NSW into 'thin markets' to shift to even a limited implementation of user choice for traditional apprenticeships (Goozee, 2013).

Culturally, NSW had come to embrace the 1974 Kangan Report on TAFE with its emphasis on education in developing the whole individual, on access and equity and on lifelong learning (ACOTAFE, 1974). Until 1995, with one short interlude, senior TAFE NSW managers were largely educationalists. One captain of industry had been tried as a managing director for barely a year in 1989-1990 but had not been as successful in terms of change management as the state government had hoped. A competitive training market was seen as incompatible with the more collaborative Kangan vision. Another plank of the reforms, competency-based training (CBT), if delivered without an underpinning of theoretical knowledge, was viewed sceptically in the early 1990s by TAFE NSW executives with an educational background (Allen Consulting Group, 1994). Indeed, some saw it as a Tayloristic dystopia incompatible with an institution that saw itself as being about education as much as training. Gregor Ramsey, managing director of TAFE NSW from 1991 to 1995, once said he wanted TAFE NSW certificated plumbers to be fully literate, numerate and understand the concept of gravity as well as being competent in pipe fitting. In the early 1990s the Liberal State Education Minister was Virginia Chadwick, herself a former teacher. When the ALP won in 1995 she was replaced by another teacher, who had also worked part time in TAFE, John Aquilina. Both these ministers shared some of the educational concerns of TAFE NSW staff, though among their other concerns was constraining budgets.

This resistance to national VET reforms diminished but did not disappear after Ramsey was sacked in 1995, when TAFE became part of a new Department of Training and Education Coordination (DTEC) after a bureaucratic 'putsch' provoked by a change of government. Reluctance fully to embrace the marketisation of funding continued, partly to preserve a large TAFE system, especially one that reached 'thin markets' in the constituencies of National Party MPs in rural NSW, and partly because central agencies thought it might end up more expensive for the state with extensive duplication. Most importantly state government ministers wanted to remain in control. Though the Scott Review in 1990 recommended that the TAFE Commission be directed by a decision-making board so that it could act more independently and more

commercially, this was never implemented. To this day the TAFE Commission Board remains simply advisory to the relevant minister.

## Role of the NSW Teachers' Federation

The NSW TAFE teacher unions vehemently opposed marketisation, corporatisation and any change to a state-wide employer (Kronemann, 2001). They did this partly on ideological grounds, as they were firmly committed to public provision and the Kangan educational vision. But they also did it as a tactic to help preserve NSW TAFE teachers' contractual conditions. Having eleven autonomous institutes as employers would have been a greater negotiating challenge than dealing with one employer from whom they could quickly escalate the argument to the political arena.

The incorporation of the English Further Education Colleges which led to the end of national pay negotiations through the Burnham Committee process in the 1990s was a set-back for the teacher unions as it resulted in increased teaching contact loads and pay scales that varied between colleges. Over this period there were many attempts to increase the teaching load of NSW TAFE teachers. Only marginal changes were ever achieved by management. On many occasions ministers baulked, fearing the political consequences of a protracted industrial dispute with a union that also represented school teachers – a group posing a higher risk of negative publicity.

The failure to shift from a total of around 720 teaching contact hours per year with eleven weeks leave or agreed non-attendance for base grade TAFE teachers has had significant consequences. ANTA and bodies such as the Productivity Commission consistently pointed out that TAFE NSW's unit costs were higher than most other TAFE systems and private providers (Productivity Commission, 2011). ANTA viewed TAFE NSW's costs negatively when compared to the highly contestable Victorian TAFE system with its more autonomous institutes. Management in NSW responded tactically by employing cheaper casual staff rather than permanent teaching staff. The teacher unions have argued that this impaired sustainability and quality.

Over the long haul, the failure of industrial relations reform in TAFE NSW has been a significant factor in national and state governments' perceptions of the efficiency of TAFE NSW, thus encouraging them to increase competition and diversity among VET providers. It could also be argued that the lack of industrial reform deepened a reluctance by governments of all political persuasions to invest in TAFE and VET generally.

## Educationalists and generic managers

From the late 1980s onwards, national bodies seemed determined that it should not be as Kangan had envisaged a TAFE sector, but rather a VET sector where TAFE was just a provider (albeit the main public provider) within that sector. The VET sector would be industry led to meet the needs of the economy. The power and control of

'educationalists' would be diminished. Accordingly the formerly highly influential Australian Conference of TAFE Directors was abolished in 1990. It was replaced by a weaker National TAFE Chief Executives Committee which was a subcommittee of the Vocational Education Employment and Training Advisory Committee. With the formation of ANTA in 1992 TAFE chief executives lost most of their national influence as there were no providers on the ANTA Board. In NSW after Ramsey most managing directors of TAFE NSW were career bureaucrats rather than long-term educational leaders. An exception in one sense, though his background was in schools and teacher training, was Dr Ken Boston, who added the title of Managing Director of TAFE NSW to that of Director-General of Education and Training when in 1998 TAFE NSW became a controlled entity of his education department. It would be another decade before someone else with a teaching background, Pam Christie, was 'promoted' to be Managing Director of TAFE NSW, having previously been Deputy Director-General (TAFE) within the wider Department of Education and Training. Other Deputy Directors General (TAFE) with an educational background like Robin Shreeve and Marie Persson served under managing directors who were career 'generalist' bureaucrats such as Andrew Cappie-Wood and Michael Coutts-Trotter.

## Kangan Report

The 1974 report of the committee to consider the future development of technical and further education, chaired by the public servant, educationist and Jewish community leader Myer Kangan, was a seminal moment in the history of vocational and post-compulsory education in Australia (ACOTAFE, 1974). Twenty years after the publication of the Kangan Report, Prime Minister Paul Keating wrote:

It will become increasingly difficult for TAFE students in the 1990s and beyond to imagine how bad things often were before Kangan ... The achievement of the Kangan Report was to present the Commonwealth Government with a series of principles and strategies to transform the system. (Kearns & Hall, 1994, Foreword)

These principles were an emphasis on life-long learning, on education of the whole individual and on access and equity for all. Also, and contrary to claims by critics, the Kangan report did not minimise the contribution TAFE could play in providing a skilled workforce for industry.

Kangan ushered in what is often seen in retrospect as a golden age for TAFE, with new buildings, better staff development opportunities and better student support facilities in terms of libraries, child care centres and student counsellors, all leading to increased enrolments in a wide variety of course areas. It established TAFE as a sector in its own right. Kangan was enthusiastically embraced in New South Wales. New teachers were recruited with university degrees more often than in the past. A major building program resulted in spectacular

new campuses such as the specialist Hospitality and Horticulture College at Ryde.

## Impact of Hawke and Keating governments on skills development system

The 1980s saw major concern in Australia about the country's economic performance and future. The Hawke and Keating governments from 1983 embarked on a program of economic and industrial reform. By the end of the decade, under Education and Employment Minister John Dawkins, skills and vocational education had become a focus of this process. Linking the education and employment portfolios was significant: education was to be the servant of industry and support the process of award restructuring. The trade unions were to become integral to this process under ACTU leaders Bill Kelty and Laurie Carmichael, and it is significant that one of the catalysts of VET reform was the 1986 report *Australia reconstructed: ACTU/TDC Mission to Western Europe* (ACTU, 1986).

The 1990 report of the Training Costs Review Committee, chaired by Ivan Deveson, on the training costs of award restructuring, was in many senses as significant as Kangan (Deveson, 1990). It certainly marked a change of direction to an overtly industry-led system. While supporting a massive expansion in the publicly and privately funded skills training effort it recommended an end to the existing TAFE near monopoly on both accredited training and public funding. While the report did not specifically recommend an open training market for public funds, it cleared the way for that development. Significantly the chair of the committee was the CEO of a car manufacturer, Nissan Australia, and Lord Mayor of Melbourne, unlike the ascetic public servant Myer Kangan.

## Australian National Training Authority established

An abortive attempt by the Keating government to take full financial control of VET led to the establishment in 1992 of a tripartite body of the Commonwealth, states and industry named the Australian National Training Authority (ANTA). ANTA's role was to lead development of the national VET system and allocate Commonwealth growth funds. Under its CEO Terry Moran, later to become head of the Department of Prime Minister and Cabinet, ANTA led what became known as the National Training Reform Agenda. An open training market was a major objective. All the elements of this agenda were neatly summarised in a 1994 report by the Allen Consulting Group (Allen, 1994, pp. 18–19) as:

- competency-based training
- competency standards
- national recognition of training
- curriculum, delivery and assessment
- entry-level training
- training market
- access and equity and



- funding for training.

As part of the ANTA agreement, NSW was required to establish a State Training Authority to manage VET funds and establish training priorities through a training profile. It duly introduced the Board of Vocational Education and Training (BVET). Parallel to BVET was a Vocational Education and Training Accreditation Board (VETAB) to accredit publicly and privately delivered VET programs. Both these small agencies, though reporting to independent boards, were administered by the Department of Industrial Relations, Employment, Training and Further Education.

## End of TAFE NSW monopoly on public funding and accredited courses

Though TAFE NSW remained by far the largest VET provider in the state, its monopoly on accredited training and public funds was now ended. The policy architecture for the eventual split between the government funder and the government provider was in place.

BVET began contestable funding in 1994, starting with a small Contracted Training Program, in which private providers could bid for public funds to run VET courses (Goozee, 1994). As the program was about funding providers rather than students or employers, it was sometimes characterised as a 'funding market' rather than a true training market.

This distinction was picked up by the Allen Consulting Group's report on the implementation of the national VET reform agenda (Allen, 1994). Allen argued that the major concern was the lack of buy-in to the reforms by industry itself. The reform process was, according to Allen, being driven more by bureaucrats and trade unions than industry. Their solution was a greater emphasis on the demand side, with industry allocating public funds directly to individual public and private providers through a system they called 'user buys'. This was in effect a voucher system. It would be enthusiastically adopted by ANTA, initially only for apprentices and trainees, but named 'user choice' rather than 'user buys'. In terms of marketisation, the rest of the decade would be dominated by attempts to implement user choice nationally along with the continuing 'funding market' outsourcing of VET courses to private providers.

### Scott Review and its impact on TAFE NSW

While this was going on nationally the NSW system was subject to major reform. The Liberal Party Premier Nick Greiner came into office in 1988 and appointed the controversial Dr Terry Metherell as his Education Minister. The government moved swiftly to appoint Dr Brian Scott to review the operations of the entire education portfolio including TAFE. Scott produced two reports on TAFE NSW, the initial *TAFE Restructuring* and the final more detailed *TAFE's Commission for the 1990s*

(Management Review, 1990). Scott was highly critical. He characterised TAFE NSW as a slow, inflexible and unresponsive centralised bureaucracy. The Kangan vision, Scott argued, had meant TAFE becoming "all things to all people" rather than concentrating on skills training for industry and the community. The large head office for centralised decision-making had made the system inefficient. Though not advocating the tendering out of public funds, Scott did talk about the inability of the publicly subsidised TAFE NSW to compete in the training market even when its competitors charged commercial fees.

Scott's solutions were to reduce dramatically the size of head office and devolve operational decision-making to twenty-four networks of TAFE colleges each headed up by a network manager to whom college principals would report. Industry training divisions would develop curriculum but not have any line management responsibilities for TAFE teachers, unlike the teaching schools (state-wide faculties) they would replace. TAFE NSW should become a commission with its own board rather than continue as a government department, so it could act more commercially. There would be far greater effort on marketing, business development and connections with industry. Initially Scott suggested that commercial activities could be undertaken by a subsidiary body to be known as TAFECorp as opposed to its parent TAFECOM but this was never implemented.

Scott proposed that the NSW TAFE Commission should become fifty per cent self-funding by the end of the decade. TAFE NSW's educationalists saw this as the most significant and disturbing step towards the corporatisation and possibly eventual privatisation of TAFE. The initial report gave no details of how this self-funding income should be achieved. This led to speculation about a massive increase in 'fee for service' activity or that TAFE NSW could achieve the fifty per cent more easily by shrinking in size. The final Scott report said (foreword, p. xiv) that the self-funding would consist of three elements: efficiency gains from the proposed reforms, increased fee for service activities including educational exports and, finally, rather undefined industry contributions – with a notion of more 'user pays' on the part of industry.

The Scott reforms were formally adopted but within two years had been sufficiently modified for Dr Scott to wash his hands of what had actually been implemented. Dr Metherell was removed as Education Minister – the process by which this was done eventually bringing down Premier Greiner. For a short time TAFE became part of the Industry and Industrial Relations Minister, John Fahey's, portfolio. When Fahey replaced Greiner as Premier, TAFE returned to Education with Virginia Chadwick as Minister. Chadwick somewhat controversially appointed Dr Gregor Ramsey, the Chair of the National Board of Employment, Education and Training, as Managing Director of TAFE NSW.

## Gregor Ramsey and the institute structure

Ramsey supported devolution and an expansion of commercial activities. He was less than impressed with what he thought was an expensive and confused network structure, so he abolished them and created eleven institutes. Institutes were designed to be largely autonomous educational institutions but would operate in a state-wide collaborative framework. Eight institutes in regional NSW and suburban Sydney would be known as institutes of TAFE, characterised by a 'federated college structure'. Three in central Sydney, Newcastle and Wollongong would become institutes of technology and organised on a faculty basis. The three institutes of technology were to be sufficiently specialised that they might eventually offer programs at 'masters diploma' level, along the lines of the German Meister program.

The Institute structure would last twenty-five years. Eventually all the institutes would become institutes of TAFE and would be organised on a faculty basis. Southern Sydney Institute would merge with Sydney and South Western Sydney institutes and the Open Training Education Network (OTEN) would become part of Western Sydney Institute, though OTEN retained its separate RTO status. The ongoing debate would be about how autonomous institutes should be. Training divisions had a far shorter life-span. Shrinking in numbers, they were merged into Educational Service Consortia in 1996 then Curriculum Centres in 2004 until finally disappearing due to budget restraints. Phoenix-like they re-appeared as Skills Points in the OneTAFE structure of 2016-2017, though the new management of TAFE has played down any heritage of previous curriculum and learning resource development structures.

## Expansion of contestable funding

Nationally the expansion of a contestable training market was reinforced at ministerial councils, in ANTA strategic plans (ANTA, 1994) and in two national reviews of ANTA and the reform agenda by firstly Vince Fitzgerald and the Allen Consulting Group (Allen, 1994) and then one for ministers, chaired by Rae Taylor, looking at the operation of the ANTA agreement (Taylor, 1996).

The training market continued to develop in NSW for the next decade. In 1996 the BVET and TAFE Commission embarked upon a consultation on *The development of the Vocational Education and Training (VET) Sector in NSW and the role of TAFE within a competitive framework*. The principles that emerged were endorsed by both boards and the Minister for Education. These stated that competition was not an end in itself but a strategy to drive efficiency, innovation and responsiveness.

Collaboration between providers, both public and private, should also be encouraged. Most important, they set out a role for TAFE and thus protected it from some of the more aggressive marketisation policies playing out in Victoria and Queensland. In NSW it was still the *via media* (Goozee, 2013, p.466).

## Outsourcing course funding and user choice

So outsourcing of course delivery continued, with private providers tendering for a growing pool of Contracted Training Program funds from the Commonwealth Growth allocation. User choice for apprenticeships was however considered problematic in NSW. NSW participated in the early user choice pilots with BVET in 1994, commissioning a review of the principles by Wilkie and Gray, which comprehensively canvassed all the issues, highlighting the need to define the role of TAFE in this training market (Wilkie & Gray, 1995). NSW was prepared to apply user choice principles to Commonwealth-funded traineeships but not to extend it to the training component of state-funded, more traditional apprenticeships. The election of the Howard Government in 1996 gave new impetus to the extension of user choice, with Commonwealth Minister Kemp making it a centrepiece of his Modern Apprenticeship And Traineeship System (MAATs). At a VET Ministerial Council meeting in 1997, NSW Minister John Aquilina reserved his state's position on user choice for apprentices, citing concerns about thin or non-viable markets and provision of apprentice training in rural NSW. NSW had instigated two reports on user choice by Charles Sturt University looking at 'markets at risk' and a joint study by the Department of Training and Education Coordination and TAFE NSW on thin markets (Goozee, 2013). Eventually a limited apprenticeship user choice program was started but with restrictions on certain trades and on its implementation in non-metropolitan locations.

## Quality reviews of traineeship programs

Around 1999 the quality of traineeship programs operating under the user choice model nationally was causing concern. A number of states including Tasmania, Victoria and Queensland, but not NSW, engaged the universally respected VET expert Kaye Schofield to review the operation of their traineeship and, in some cases, apprenticeship programs (Schofield, 1999). Her findings were disturbing, especially on the quality and training outcomes achieved by wholly on-the-job traineeships. Her conclusions for Queensland were:

Notwithstanding some strengths and some quality characteristics, the investigation has concluded that, on the whole, Queensland's traineeship system is only partly effective, is not fit for its purpose, is inefficient and its accountability framework is not as strong as it needs to be. In short, it cannot reasonably be described as a quality system. (Schofield, p. ii)

Regulations were tightened in all states she reported on. In 2004 BVET engaged Peter Noonan to review the traineeship system in NSW, ostensibly because of the huge growth in traineeship numbers (Noonan, 2004). Noonan also questioned the quality of wholly on-the-job traineeships, especially where existing workers rather than new entrants were being trained. He made the

observation that rather than being driven by the demands of employers for training, the system was actually driven by RTOs selling wage subsidies to employers with little training involved. It is a pity these lessons were not learnt so as to avoid the VET FEE-HELP scandals ten years later. There an ostensibly demand-driven, user choice system was corrupted by rogue RTOs selling training, offering computers and sometimes cash incentives to uninformed consumers. Governments have failed with market design in VET more than once. BVET did tighten up traineeship regulations and contracts, but still put untested faith in accreditation and quality bodies.

In NSW the exit in 2002 of Dr Ken Boston as Director-General of Education and Managing Director of TAFE NSW robbed TAFE of a leader who believed in it strongly. Boston was replaced by one of his deputies, Jan McClelland, whose background was in corporate services. She wanted greater integration between the school regions and TAFE NSW management structures. TAFE fiercely resisted this. The matter was resolved when a new minister, Dr Andrew Refshauge, replaced McClelland with the career bureaucrat Andrew Cappie-Wood. TAFE institutes remained and were notionally still on a path to greater autonomy.

## **Abolition of ANTA**

The year 2005 brought a significant change to the national VET framework. After the re-election of the Howard Coalition Government came a surprise announcement in late 2004: the functions of ANTA were to be transferred to the Department of Education, Science and Training (DEST) with effect from 1 July 2005 – ostensibly to reduce bureaucracy.

Since ANTA's creation in 1992 it had been responsible for leading the foundation and construction of the various pillars of the national training system. These included shared national objectives, plans and priorities for funding; competency-based training and a national skills, recognition and quality assurance framework; avenues for clearer connections between industry and business leaders, and trainers at the national and enterprise level; and – by encouraging competitive funding – the idea of a more responsive system, linked to labour market and consumer needs.

In hindsight, it could be argued that ANTA brokered change to a more mature and unified national system. Further developments were to follow, but it was no small feat to herd the often-truculent agendas of jurisdictions of varied political stripes in a single national direction.

The press release announcing ANTA's demise also announced the creation of a ministerial portfolio responsible for vocational and technical education. Though this marked the end of a federalist experiment, it did not signal a change to the philosophy of greater marketisation and competition. For NSW the end of the ANTA era also meant more head-on collisions with the Commonwealth minister, the rather pugnacious Gary Hardgrave, particularly over his proposal to direct capital funds to establish Australian Technical Colleges – a class

of senior secondary school – which was perceived as an intervention in the state's school sector.

Commonwealth bureaucrats recognised the demise of ANTA as an opportunity to reinforce the Commonwealth's position and drive a harder bargain with states in funding negotiations, and to manage and monitor the sector more closely. Quin (2008) noted that the new arrangements allowed the Australian Government to make more effective use of its funding lever in enforcing change in VET. A senior federal bureaucrat she interviewed observed that it no longer had to pursue its aims through a third party:

It is a better process to extract trade from our state and territory colleagues, to keep them in the tent. We give them one third of their recurrent budget and two thirds of the capital budget for VET. By the end, ANTA was seen as an impediment to rapid change. (Quin, 2008, p. 6)

## **NSW reviews its position**

In 2005 the competition and regulatory body, the NSW Independent Pricing and Regulatory Tribunal (IPART) undertook extensive public consultation and review of the NSW VET sector and made its final report in late 2006. This also signalled a change in NSW VET policy at the state level. IPART was a new player in the VET policy scene. The report's drafting and recommendations were firmly under the direction and control of the chairman, economist and former top Commonwealth bureaucrat, Dr Michael Keating AC, whose personal interest in the linkage of training, skills growth and increasing labour market participation were evident in the report's focus and findings. A foundation of the report was Access Economics forecasting to scope the higher skill levels and demand for training in NSW. This identified the need for increased Commonwealth and state investment of an additional 2.5 per cent per annum for twenty years, with a focus on workforce re-entrant training. The Rudd Government in 2007 made an additional commitment to this through the Productivity Places Program, but states did not follow. IPART noted that:

Less than 10 per cent of total public funding for VET services in NSW is allocated on a competitive basis. Over half of this proportion is provided through the User Choice program; DET also purchases a small amount of VET services through competitive tendering (typically to address skill priority areas). In 2005, DET spent \$28.5 million on purchasing VET services through the Strategic Skills Training program on a competitive basis. In 2003 and 2004, it spent around \$7 million on tenders for pre-vocational training. In 2004, 4.6 per cent of recurrent government expenditure on VET services was

allocated to non-TAFE providers. This is considerably less than the expenditure allocated to non-TAFE providers in Queensland (10.2 per cent) and Victoria (8.4 per cent). (IPART, 2006, p. 96)

While some in the public training sector had feared that IPART, as the NSW Government's competition authority, would recommend a wholesale opening of the NSW training market, the report actually took a more moderate approach. It did recommend allocation of more public funding for VET on a competitive basis, but also greater operational flexibility for TAFE NSW – especially in industrial relations negotiations – and greater autonomy for TAFE institute directors, “to develop the entrepreneurial culture and innovation and collaboration capabilities they need ... Sheltering TAFE institutes from competition will not help them to develop such a culture.” (IPART, 2006, p. 99) TAFE NSW welcomed these recommendations as grounds to free itself from the constraints of the parent department.

The backdrop to this period is the Howard Government's *Commonwealth-State Agreement for Skilling Australia's Workforce* (SAW) 2006-2008, the new national funding framework established after the abolition of ANTA. Persistent intergovernmental tensions underlaid the new arrangement. States claimed that funding shortfalls were an ongoing obstacle to meeting skill demands. The Australian Government's focus on the other hand was removal of systemic and structural jurisdictional impediments to achieving skill needs. Not surprisingly, features of this agreement included “develop(ing) the training market by enhancing competition through user choice targets, making TAFEs more commercial, levelling the playing field by making public infrastructure available to private providers and changing industrial relations and management practices in the TAFE sector” (Parliament of Australia, 2005, p. 5). The intrusion into jurisdictions' management of their TAFE sectors was patent.

NSW was obliged under the 2006-2008 SAW agreement to increase the user choice budget (and expenditure) by at least five per cent a year over the life of the agreement and progressively to extend user choice to more apprenticeship trades. While NSW was meeting the five per cent requirement, the Australian Government criticised the limited extent of its application of user choice to apprenticeships: at that point user choice covered fourteen NSW apprenticeship areas and NSW still restricted it to robust markets. With an eye to the renegotiation of the next national agreement, the NSW Board of Vocational Education and Training (BVET) undertook consultations to review the principles of its policy, which had been in place since 1998 (NSW Department of Education and Training, 2007).

In this context, NSW came under fire in the Boston Consulting Group's (BCG) mid-term review of the agreement, commissioned by the Department of Education, Science and Training (DEST) in preparation for developing the next (2009-2012) funding agreement. BCG reviewed jurisdictions on their performance against the

SAW market reform obligations, which included increased level of trainee and employer choice, competition among providers, autonomy, workforce flexibility and commercial management of publicly owned providers, and third party access to public infrastructure. Overall the review found that while the efficiency of the sector had improved, the “VET market remains largely non-competitive and State based”. In the case of NSW the report found that:

While competition for available contestable funds appears relatively open, the scope of NSW user choice and contestable funding is lower than many jurisdictions. NSW public provider models for Institutes exhibit somewhat less autonomy, workforce flexibility and commercial freedoms than many of their interstate counterparts have or ... are planned to have. (Boston Consulting Group, 2007, p. 51)

The report recommended that “to provide the basis for genuinely competitive purchasing arrangements, the State/Territories should clearly separate their roles as purchasers of VET and owners of VET providers and provide for more arms-length governance arrangement for owned providers”. (Boston Consulting Group, 2007, p.6)

Joss Ross reported that reactions in ‘fortress NSW’ to the BCG report were vitriolic. John Della Bosca, then minister, said the report should be “junked” and that “[a] free market will not deliver the training needs of NSW” (*Campus Review*, 22 April 2008). Verity Firth, the next Labor Minister, remarked: “The state government has no intentions to privatise TAFE”.

NSW user choice policy was loosened from 2009, but not fully: it was extended to 24 apprenticeship occupations in the ‘open competition regions’, and pricing incentives were applied to new entrant traineeships in an attempt to match funding more closely to delivery costs and also to skill demand areas (BVET, 2009, p. 18).

For TAFE NSW at this period, changes of Minister, Director-General (also Managing Director TAFE NSW) and Deputy Director-General (DDG) TAFE and Community Education produced a change in chemistry within the department. In 2007 the DDG of TAFE implemented purchasing and performance agreements with institutes to buy training effort (Department of Education and Training, 2007, p. 38). Tactically this move was an attempt on TAFE's part to take some control of the agenda around purchaser/provider separation being urged nationally and also within the state and to implement change on TAFE's terms. This involved a shift from block funding to institutes and clearer business rules for planning, funding, required performance outcomes. It introduced incentives for increased commercial revenue and stakeholder satisfaction outcomes. The aim of the new internal purchasing mechanism was to implement purchaser/provider separation through a more arm's length arrangement between the government as funder,



DDG TAFE as purchaser and institute directors as individual providers.

Over the period 2007-2008, TAFE NSW also ran a comprehensive internal review under the title *Exploring a new vision for TAFE for the 21<sup>st</sup> Century* (TAFE NSW, 2007). The series of discussion papers, consultations and review reports were an attempt to start an internal as well as a public dialogue about the need for change, particularly around take up of business opportunities, red tape reduction, devolution of authority, speed to market and responsiveness. At the time the TAFE NSW executive believed it needed to demonstrate the capacity for self-critique and modernisation or risk other agents taking charge and driving the TAFE reform agenda. However, there was little traction with or buy-in from government/central agencies for a reform that was seen to be self-led by TAFE. Among other things the review led to a restructure in 2008-2009 that abolished centralised product development in an effort to speed up responsiveness. But this wasn't the sort of change that governments at state and national levels were looking for.

### **Shift of gear – a new national financial framework builds marketisation impetus**

In 2009 the new *National Agreement for Skills and Workforce Development* commenced. Unlike predecessor agreements that were negotiated under the auspices of ministerial councils and signed by state and territory ministers responsible for VET, the new agreement was a product of the Council of Australian Governments and subject to the provisions of the Intergovernmental Agreement (IGA) on Federal Financial Relations introduced by the Rudd Labor Government. Performance against the targets and proposed outcomes of the IGA and related agreements was monitored annually by the COAG Reform Council, a body independent of federal and state governments and which reported to COAG.

Unlike the previous national agreement, the IGA did not prescribe system reforms within jurisdictions, such as competition or commercialisation of public providers, but allowed greater flexibility to states in achieving targets. There was an expectation nonetheless that the market reform agenda would proceed, and the Australian Government did not disguise its interest in the far-reaching market reforms that were under way in the Victorian system with the introduction of the Victorian Training Guarantee (Leung et al., 2014). A comparative international study of VET undertaken by the OECD, *Learning for Jobs*, made a series of recommendations, predictable at the time, that were to become the core platform of the Federal Government's next wave of VET market reforms (Hoeckl et al, 2008). Policy discussions about market design in vocational education reached fever pitch in Julia Gillard's time as education minister and prime minister (Uren, 2010). Competition in the training market also became a research priority for the National Centre for Vocational Education Research (NCVER), and Karmel noted that "'Competition' and

'contestability' are now part of the vocational education and training lexicon" (Karmel, 2009, p. 3).

Nationally driven policy proposals for a student entitlement to subsidised places and income-contingent loans for VET study, incrementally agreed to by states and eventually NSW, would prove to have far-reaching consequences. Policy debate was intensified by the Bradley review's recommendation of a student entitlement for both higher education and VET. In 2011 COAG adopted a new framework of objectives and principles for a reformed national VET system, ultimately embodied in the 2012 National Partnership Agreement on Skills Reform. At the heart of these reforms was commitment by governments to a national training entitlement, greater contestability of funding and a more open and competitive training market.

## **NSW Coalition Government introduces comprehensive market reform agenda**

In this context, in 2011, the newly elected NSW Coalition Government, recognising the national momentum for contestability, began public consultations on the future direction and development of the NSW training market. The resulting policy, *Smart and Skilled (2012)*, marked the state's most significant and comprehensive policy statement on the NSW VET market since the early 1990s. It introduced a subsidised training entitlement, a significant shift from the position of previous NSW governments towards those of Victoria and South Australia. Remarkably, it offered greater independence and commercial authority for the public provider, separating purchaser and provider by carving off the role of the Managing Director TAFE NSW (at that time held by Pam Christie) from the functions of the Director-General of the Department of Education and Communities. The policy established a distinct budget for TAFE NSW and proposed giving TAFE institutes greater autonomy with capacity to manage revenues, expenditure and assets, and to retain and reinvest earnings. It endorsed workforce reform under the framework of enterprise bargaining, based on the legislative amendment to the *TAFE Act* in late 2011, which meant that TAFE NSW was once again the employer of its own staff and, as a corporation, operated under the provisions of the *Fair Work Act 2009*. This would allow TAFE NSW to push for workforce productivity and efficiencies more suited to the nature of its increasingly commercial orientation.

The findings of the NSW Commission of Audit report (known as the Schott report) also increased momentum for greater TAFE NSW independence. A key theme of the report was devolution of accountability and authority, noting that "experience of front line public servants needs to inform the development and delivery of government policy". In relation to TAFE NSW, the report noted that "there is simply not enough flexibility for the institute and too much central control to allow ... opportunities to be pursued easily or in a timely manner" (Commission of

Audit, 2012, p. 76). Schott recommended legal autonomy for the TAFE NSW Commission; for TAFE institutes to be established as separate corporate entities, reporting to the Commission; greater autonomy for institute directors in managing institutes, including financial and staff management and remuneration.

These recommendations were not a bolt out of the blue. Various internal reviews of TAFE NSW had investigated alternative models for TAFE governance, considering legal and/or legislative changes to achieve greater separation from government, so that TAFE might operate either as a state-owned corporation or as a general government business. This potential was suggested in the first *Statement of Owner Expectations for TAFE NSW* issued by Minister Piccoli in 2013. The *Statement* went as far as saying that “The NSW Government has agreed that TAFE NSW Institutes are to be established as separate entities, wholly owned and controlled by TAFE NSW.” (Piccoli, 2013, p. 5) Down the track, however, the NSW Government, while hungry for efficiencies and greater productivity in its public provider, would never have the appetite for legislative or related change to give TAFE distance from government oversight, even though this had been recommended by multiple international, national and state-level reviews.

While separation from the department structurally guaranteed administrative independence and purchaser/provider separation, TAFE NSW had actually been moving incrementally to less reliance on government funding and a greater proportion of commercial revenue. The Schott report noted that in real terms, government investment in TAFE NSW had been declining, and at the time represented about sixty-five per cent of revenue. The 2010–2011 allocation to TAFE NSW, \$1.1 billion, was \$141 million less in real terms than that in 1996–1997 (Commission of Audit, 2012, p. 75). TAFE fee for service revenues had grown from \$198 million to \$305 million, by fifty-four per cent, over the period 2005 to 2009 (based on NCVER, 2010, p. 9). This success meant TAFE NSW had been an ongoing source of cross-subsidy to departmental budgets, a situation that was accentuated in 2013 with the NSW Government budget of that year requiring a four year ‘efficiency dividend’ of 1.5 per cent per annum from TAFE, while exempting schools. This would result in multiple reviews of institutes and central support functions in TAFE, leading to cuts of around 800 positions over the following four years (*Australian Financial Review*, 29 April 2013).

The NSW IPART again played an influential role in VET Smart and Skilled policy refinement with its extensive and sophisticated work on the pricing and fee-setting model adopted for government-subsidised VET and student contributions (IPART, 2013). In particular it dissected the ‘efficient cost’ of delivering a VET enrolment. This excluded costs that would not be incurred by a non-public sector RTO in a competitive environment, and which TAFE incurs “as a result of the competitive disadvantage it faces due to its public ownership”, which would “in future be funded through its operational base

funding”. IPART’s work comprised base prices, loadings for higher cost learners (location-based and needs-based) and community service obligation funding for TAFE and community education sector providers.

Interrelated work undertaken on the VET Funding and Budget Model managed through the NSW Treasury gave further detailed scrutiny to TAFE’s costs. It identified the additional costs incurred by TAFE to be funded through operational base funding, specifying workforce costs due to public sector industrial agreements, the costs of compliance with public sector reporting and the costs of maintaining heritage assets (IPART, 2013, p. 58).

The *Statement of Owner Expectations for TAFE NSW* reflected IPART’s and Treasury’s analyses and flagged new arrangements for TAFE’s budget, carving funding from government into various segments including operational base funding to offset the additional costs incurred as the public provider, community service obligation funding to support disadvantaged students and thin markets, and a direct allocation to deliver certificate IV and higher qualifications. To date there is still no transparency regarding the quantum of the components of TAFE’s direct funding, a point noted in the 2015 Legislative Council review of VET and there has been much speculation about the efficiencies expected from TAFE NSW in its use of operational base funding, with the expectation that TAFE would reduce dependency on this source of funding over time - especially its workforce costs. Enterprise bargaining within the constraints of NSW Government’s public sector wages policy (NSW Treasury, 2011) which caps public sector wage increases to 2.5 per cent a year unless offset by employee-related savings, restricts TAFE’s capacity to achieve substantial role innovation or productivity trade-offs in order to achieve negotiated savings.

A further structural change in the NSW sector was the demise of the Board of Vocational Education and Training after nearly twenty years, and the establishment of the NSW Skills Board – a fresh look to match the roll-out of the new Smart and Skilled policy, but with functions not unlike those of its predecessor. Under the chairmanship of Philip Clark, the board was charged with overseeing VET system reform including the move to greater contestability. As well as endorsing the NSW Skills List, which specifies the qualifications eligible for government subsidies under Smart and Skilled, the board reviewed pricing methodology developed by IPART. It recommended a staged transition to IPART’s recommended student fees, with lower fees in 2015.

Actual implementation of the Smart and Skilled policy did not occur as planned in 2014 and was held off until January 2015. This was largely due to the delays in resolving funding and governance arrangements in the new purchaser-provider framework (NSW Auditor General, 2015, p. 14). It also related to capability issues associated with the NSW Government’s \$750 million investment in the Learning Management and Business Reform (LMBR), a project commenced in 2006 to replace legacy finance, HR and IT systems. The LMBR system

experienced significant problems with the integration of both Smart and Skilled and TAFE NSW enrolment systems (IT News, 2016).

July 1, 2014 was a landmark for TAFE NSW as it once again resumed its status as a separate government agency, after nineteen years of mergers with various iterations of parent departments and alignments with school education. The purchaser-provider split was finally achieved but only temporarily. Machinery of government changes after the 2015 state elections were to bring TAFE NSW into the newly created portfolio cluster of Industry, Skills and Regional Development from 1 July of that year under the National Party minister John Barilaro. It was together once again with State Training Services, the unit responsible for administration of purchasing under the Smart and Skilled policy.

## Implementation of Smart and Skilled

The NSW VET landscape has looked significantly different since 2015. The roll-out of Smart and Skilled from that year has had teething problems and critics, and changes for TAFE NSW have been tumultuous, both in relation to the policy and more broadly.

Smart and Skilled included a government-subsidised entitlement to qualifications up to certificate III level to help people gain skills for employment, career advancement or further study. Subsidised qualifications were limited to those identified on the NSW Skills List as eligible and in demand. For other or higher VET qualifications students had the option of taking out a Commonwealth-funded loan. State Training Services managed the portion of the VET budget dedicated to contestable entitlement training and to targeted subsidies for higher level training in priority areas. A fixed price was paid for qualifications on the NSW Skills List, and TAFE NSW along with private and community training providers competed to attract students to this subsidised training. Students paid the same fee for government-subsidised training regardless of whether they studied at TAFE NSW or another approved provider. Providers approved to deliver under Smart and Skilled had to meet the new and stricter requirements of the Smart and Skilled NSW Quality Framework, over and above ASQA national regulatory requirements.<sup>3</sup>

It seemed, however, that NSW was still treading the cautious path in terms of the quantum of investment in VET as well as proportion of funds going to non-TAFE providers. The NSW Auditor General noted that, unlike Victoria's, the NSW policy was to be 'budget neutral' and, to ensure this objective of the Smart and Skilled reforms, the contestable portion of the state's vocational education and training budget was funded by reallocating some of TAFE's direct funding (NSW Auditor General, 2015, p. 17).

From 2015 to 2016, NSW payments to non-TAFE providers increased from \$96.3 to \$175.5 million, but this was still considerably lower than was paid to non-TAFE providers in 2016 by both Victoria (\$554.3 million, down from over \$800 million in 2012) and Queensland (\$376.3 million, up from approximately \$200 million in 2012). Increased payments to non-TAFE providers occurred in the context of a reduction in VET operating revenue from NSW government sources over the period 2012 to 2016. This funding fell substantially, from \$1.165 billion to \$877 million (NCVER, 2017 pp. 14-15).

The roll-out of Smart and Skilled was problematic for the NSW Government on multiple fronts. Principally, course price increases were the focus of a barrage of political attacks as well as criticism from continuing and intending students and industry. Declining enrolments in TAFE NSW were reported, as well as the slow uptake of entitlement places across the board (Swinton, 2015; Needham, 2015; Becker, 2015). The 2015 state budget attempted remedies including \$48 million over four years for fee-free scholarships for 200,000 fifteen to thirty-year-olds, to overcome some of the disincentive of elevated course prices, as well as free places for people in social housing.

For TAFE NSW the start of Smart and Skilled was disastrous as it coincided with the roll-out of the new Student Administration and Learning Management system (SALM) – an offshoot of the costly and ill-fated LMBR inherited from the Department of Education and Communities – as well as the start of the new fee structure. The TAFE NSW Managing Director was forced to issue a public apology for prolonged delays and uncertainty about enrolments being registered or fees paid. Staff had to undertake onerous manual work-arounds. This system failure led to the NSW Audit Office finding in the 2014–2015 annual audit report that “serious system limitations prevented TAFE NSW from providing sufficient and appropriate evidence to support recorded student revenue of \$477 million, student receivables and accrued income of \$47.6 million and unearned revenue of \$398 million”. Following an extensive remediation and data cleansing exercise costing over \$10 million, the audit qualification was lifted in the 2015-2016 annual financial report (TAFE NSW, 2016), although the Audit Office reported continued costs to TAFE to produce reliable financial information due to deficiencies in its student administration system (Patty, 2016). TAFE NSW subsequently announced it would replace the problem-plagued system.

In a remarkable move at a time when TAFE NSW's revenue recognition systems were in disarray, Treasury undertook to apply its cash management policy for government agencies by clawing back over \$200 million from the Commission, removing its capacity to operate outside the Treasury banking system and retain cash (NSW Treasury, 2015; McNally, 2016). TAFE NSW was

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<sup>3</sup> Smart and Skilled NSW Quality Framework: [https://www.training.nsw.gov.au/forms\\_documents/smartandskilled/quality\\_framework/quality\\_framework.pdf](https://www.training.nsw.gov.au/forms_documents/smartandskilled/quality_framework/quality_framework.pdf)

excluded from special consideration – surprisingly, given the expectation of TAFE’s progressive shift from operating as a budget-dependent entity in the general government sector, to a more commercial footing as a government business. The 2013 *Statement of Owner Expectations* had allowed greater business flexibility to TAFE including “being enabled to retain surpluses and reinvest earnings ... to decrease reliance on NSW Government Funding and invest in capability building”. This was not to be.

The Smart and Skilled era in NSW has proved to be a policy juggling act, reversing earlier moves for VET market reform and to apply competition policy to the public provider. On the one hand it embraced contestability among providers, yet on the other it apparently rejected TAFE separation and independence from government. One thing was clear: government appeared to want to hold TAFE close, driving efficiencies, exercising authority over its funding and determining its reach into regions – an obvious continuing interest of National Party ministers.

## Issues with stability of the new market framework in NSW

One year down the track of Smart and Skilled implementation, an independent review was commissioned by the NSW Skills board from the Nous Group. The review focused on two aspects of the Smart and Skilled start-up: the effectiveness of selecting appropriate RTOs to be eligible providers, and the impact of the policy on the VET market. This review coincided with an Inquiry into VET by the NSW Legislative Council. The majority parliamentary report identified numerous problems in the way Smart and Skilled had been implemented, including inadequate pricing and high student fees. In an echo of earlier NSW training market policy restricting competition to robust markets, the inquiry concluded that the contestable training market was problematic in rural and regional areas and that this approach “wasn’t working in thin markets”. The report called on government:

to modify the funding arrangements under Smart and Skilled to limit contestability for regional, rural and remote areas. This could be done by placing a cap on the level of contestable funding available in areas deemed to be thin markets, and by allocating the relevant TAFE institutes additional direct funding. Nothing less than the long-term sustainability of regional, rural and remote communities is at stake. (NSW Legislative Council, 2015, p. xii)

The report recommended a constrained approach to marketisation. It found that:

there should be no ceiling or cap on the overall level of government funding that is contestable; rather, the level of contestability should be determined gradually over time, as TAFE becomes a seasoned competitor in the market. In considering increasing the level of

contestability in the future, the government should exercise caution and restraint to avoid the mistakes of other jurisdictions. (NSW Legislative Council, 2015, p. xi)

The Nous Group reports to the NSW Skills Board noted the difficulty of isolating the effects of Smart and Skilled policy, which accounts for roughly one third of the public funding in the NSW training market, the rest being NSW direct funding to TAFE NSW and Commonwealth funding arrangements – which included the highly disruptive effect of the VET FEE-HELP loans to students. The reports indicated that objectives of the policy were partly met, but identified a significant underspend and a decline in training activity, rather than the increase envisaged by the policy. The reviewers’ explanations of this were related to the tight reins or ‘over-regulation’ of the policy to avoid the negative or unintended consequences experienced though market design elsewhere. No region achieved the targeted enrolments and in all regions the allocations were not fully spent. Strict financial capping of providers meant that thirty-two per cent of funding for full courses and eighty-seven per cent of targeted priorities had not been spent (Nous Group, 2016, Stage 1, p. 21).

The outcomes of these investigations led to both a *Statement of Expectations for Smart and Skilled Providers*, designed to assist the integrity of the NSW training system and deal with the ‘dodgy provider’ issues highlighted in the Legislative Council report, and publication of the July 2016 *Directions Statement for VET*, which set out refinements to the Smart and Skilled framework including simplifications, smoother student application processes, pricing reviews and stronger controls over subcontractors and brokers.

## TAFE NSW developments since Smart and Skilled

TAFE NSW could see the effect Smart and Skilled would have on the organisation. At the TAFE Directors Australian Conference at the end of 2014, the then managing director said:

In TAFE NSW we’re realistic about the impact of ... Smart and Skilled ... and recognise that without transformational change, we won’t survive – or at least not thrive and survive in the future. (Christie, in Wilkinson, 2014. p. 21)

Before and in the period since 2015, TAFE NSW’s funding, finances, assets, commerce and structures were the subject of intense internal examination, external review by independent consultants and by Treasury, Parliamentary Estimates Committees and Cabinet. Of significance was TAFE NSW’s commissioning, and ultimate release in a modified version in 2016, of the study by Boston Consulting Group (BCG). Despite some clumsy and embarrassing comparisons with failed RTOs, the BCG report reinforced the view that TAFE NSW would have difficulty surviving financially without fundamental



changes to its business model and governance structures. The BCG report proposed a reduction in the number of institutes but increased business authority and a greater degree of autonomy for their future operation.

The year 2015 was a watershed for TAFE NSW in more ways than the start of Smart and Skilled. Significant changes in the executive structure started with government's appointment of a new TAFE Commission board chairman, Terry Charlton, in June 2015. This was coupled with the departure of Managing Director Pam Christie and the appointment of Jon Black to this position from December 2015 (Ross, 2015). New NSW TAFE Commission board appointments also followed in early 2016. Heralding a shake-up, the new board chairman levelled a scathing public critique at TAFE NSW, claiming the organisation was struggling under "bloated management structures" and was "traditionally intimidated by change" (Ross, 2016).

Chairman Charlton signalled that the 'inefficiency subsidy', as he labelled TAFE NSW operational base funding (OBF), could be progressively removed by government and channelled into other activities, such as community service obligations. He also flagged a program of asset sales and recycling, centralisation of administrative services and amalgamations.

These comments reflected government's desire to shift OBF savings into contestable funds. Once again, the state appeared to be exercising its budget-neutral approach to marketisation, in this case shifting funds from TAFE NSW into contestable programs (Needham, 2015).

Despite wage restraint and several rounds of enterprise bargaining since 2012, TAFE NSW executives had been unable to win staff agreement to workforce reform and the potential life-raft of significant productivity or efficiency improvements. New, more versatile paraprofessional roles had been introduced, but savings from such roles were still to be realised. Teaching staff stubbornly guarded their generous working conditions of extensive leave, limited face-to-face hours and non-teaching weeks.

The new *Vision for TAFE NSW* – the 'OneTAFE' model – was announced in July 2016 by the TAFE Commission board, entailing amalgamation of institutes and centralisation of functions. TAFE NSW is in the process of transitioning from ten institutes to one. The 'vision' arguably returns to an older version of TAFE NSW critiqued in the Scott report in the late 1980s. With the removal of institutes, increased central functions and reporting lines, including the return to a single registered training organisation status and one point of product development, rather than the dispersed institute model, it is a notable divergence from previous proposed directions, such as the *Statement of Owner Expectations* with its intention of a more devolved structure and more independent institutes that could better position themselves for Smart and Skilled. It also contradicted recommendations made in NSW reviews such as those of IPART (2006) and the NSW Commission of Audit (2012).

NSW 2016 data indicated some reversal of the notable 2015 downturn in government-subsidised student enrolments (NCVER, 2017). This change in direction however would not prove to be a consistent trend, with 2017 data showing that NSW experienced a decline in student numbers, falling from 454 000 students in 2016 to 423 100 students in 2017 — a decline of 30 900 students or 6.8% (NCVER, 2018).

NSW enrolment data overall mirror the national downward trends since 2012 in students, hours of delivery and full year training equivalents, as discussed by Burke in this publication.

The jury is still out as to whether marketisation of VET and the OneTAFE model will deliver both the enrolments and other policy outcomes designed through Smart and Skilled and TAFE NSW system changes, as well as the longer term solutions for NSW skill needs.

## Conclusions and looking ahead

By 1990 the idealistic optimism of the Kangan era reforms that in 1974 had established TAFE as an educational sector in its own right committed to maximising the potential of the whole person, was being replaced with a narrower and more instrumental world view. Over the following twenty-five years this would see TAFE NSW cast as just one provider in a VET sector whose main purpose was to compete for a role in skilling the workforce. Politicians and bureaucrats in NSW took such a cautious approach to these nationally driven reforms that they were often accused of recalcitrance and protectionism of the public provider. This response to national policy initiatives did not stop the state of NSW, however, from regularly reforming TAFE's internal management structure and shifting it via a number of "machinery of government" changes around different State Government departments. The times were turbulent for TAFE NSW staff.

Why was NSW so cautious in its response to both competency-based training and what was originally called "user choice" and the establishment of a competitive training market for such a long time? Part of it was "state rights" and a desire for the State Government to remain in control especially of the budget and where the money was allocated. Contestability was tactically embraced as a means of accessing Commonwealth funding. State funding would be controlled by the state. Politicians on the left supported the "access and equity" approach of Kangan while politicians on the right saw the impact as well as political value TAFE's role in rural and remote communities. They were not going to pass control of a system that was important locally to national agencies.

The NSW Teachers' Federation continued to be a powerful factor in this tussle. The Federation was ideologically opposed to marketisation and fiercely resisted any attempts to change comparatively generous leave conditions and face to face teaching hours. TAFE NSW management failed in its attempts to persuade

governments to force change. The result was even more pressure by Commonwealth bodies to shift provision to a cheaper private sector and the replacement of full time teachers in TAFE NSW with part time casuals. Yet, even when late in the first decade of the 2000s NSW finally signed on to the national agreement for a student entitlement to training, the Minister responsible, Adrian Piccoli, remained a strident defender of TAFE NSW. He wanted to ensure his Smart and Skilled policies were implemented cautiously avoiding some of the disasters for TAFE emerging in other states. More public provision remained in NSW with TAFE NSW than in any other jurisdiction.

If the response to national initiatives was restrained, this did not stop both Coalition and Labor governments – outward defenders of the public provider – from changing management structures in TAFE NSW. In nearly all cases the stated rationale was the same – to reduce management costs, shift resources to the teaching front line and reduce reliance on public funding. NSW would have change on its own terms. Central agencies like the NSW Treasury and department of Premier and Cabinet were often the unseen guiding hands behind these initiatives, especially following the 2012 COAG agreement, when their intervention in TAFE NSW and the VET sector intensified. For most of the period these agencies had a focus on reducing public expenditure and increasing efficiency. They were classically neo-liberal in outlook and thus generally believed in competition as a means of improving efficiency.

Reviews headed up by luminaries such as Brian Scott, Michael Keating and Kerry Schott all recommended devolution of responsibility away from head office. Keating and Schott recommended greater autonomy for TAFE NSW institutes, especially in relation to industrial relations and by implication reform of teachers' employment conditions. There was a sudden reversal of this position, unsupported by earlier research and public reviews, when in 2016 the Minister responsible for TAFE NSW, John Barilaro, announced TAFE was abolishing its institutes and recentralising under a strategy known as 'OneTAFE'. Economies of scale now trumped competition as a means of improving efficiency, flexibility and responsiveness. Once again part of these reforms would be financed by TAFE delivering more training on a "fee for service" basis to enterprises and governments but with no real analysis of how big this market was and whether TAFE had the capability and capacity to service it.

It will be interesting to see how effective the NSW OneTAFE structural reforms turn out to be.

So where to from now? Regulation is being tightened (some say over tightened) in response to the VET Fee Help scandals. Publicly funded TAFE enrolments continue to fall and NSW is part of that trend. This is ascribed to falling government, particularly state, VET funding in contrast to generous, "demand led" public funding to the university sector in Australia. The labour market is changing with increased demand for many university trained occupations and less demand for VET trained ones,

although some VET proponents challenge this. They admit that a lot of this is to do with the image of TAFE and VET which is not seen as sufficiently aspirational, especially for some who seek resilient career opportunities in the digital economy.

Many insiders feel VET and TAFE need better public funding and a period of organisational stability. Competency based training is increasingly being seen as a product of the 1990s, unsuitable for the highly dynamic labour market of this century where many future jobs do not currently exist. Wheelahan and others have argued for it to be replaced by a more flexible notion of vocational streams or pathways (Wheelahan, Buchanan & Yu, 2015).

In response to these challenges some TAFE experts like Bruce McKenzie and Ruth Schubert have argued for further structural change and a transformation of VET institutions into polytechnics or "applied universities". These would be part of an integrated tertiary system with common funding and regulatory arrangements with the university sector. They would offer a comprehensive range of programs from foundation to applied degree levels. Another alternative is for TAFE to concentrate on its long established core business – foundation programs and applied training principally at the Certificate 3 and 4 levels. Currently TAFE's growth areas in NSW in industry terms are construction, care and health. This is entirely in line with growth areas in the state's economy.

Contestability and marketisation of VET also are being questioned as a dominant ideology that may have run its course in the sector's development. Terry Moran, inaugural CEO of ANTA and former head of the Prime Minister and Cabinet department, has reflected on an "unhealthy reliance on *neoliberal* microeconomic reform" smothering creative public policy development (Moran, 2017). Future governments might not so slavishly pursue this policy in the VET sector as they have in the past.

To resolve these issues and the conflict between States and Australian Government agencies over TAFE and VET policy, TAFE needs a national review as far-reaching as the one led by Myer Kangan in the early 1970s. That heralded a golden age not just for TAFE and but also for the individuals, enterprises and the communities TAFE served.

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