Up-skilling NSW
How vocational education and training can help overcome skill shortages, improve labour market outcomes and raise economic growth

Other Industries - Final Report
December 2006
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How vocational education and training can help overcome skill shortages, improve labour market outcomes and raise economic growth

Other Industries - Final Report
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EXECUTIVE SUMMARY

Skills are critical to our future. People’s job prospects and incomes are closely linked to their personal and professional skills. Firms’ productivity, competitiveness and profitability are shaped by their ability to develop and effectively deploy a skilled workforce. And our state’s skill base is a major determinant of our economic growth, future living standards and fiscal capacity.

Recently, public attention has focused on concerns that NSW, along with the rest of Australia, is facing an immediate skill shortage that is restraining our economic growth. If we look further into the future, the situation appears even more worrying. Over the next four decades, changes in the nature of work and the ageing of our population could lead to widespread labour and skill shortages and a 6 per cent fall in the labour force participation rate in NSW. Unless we take effective action now, this decline – and the closely related increase in aged-dependency – will retard economic growth and create increasing budgetary difficulties for both the Australian and NSW Governments.

To assist the NSW Government in forming an effective response to this predicament, the Independent Pricing and Regulatory Tribunal of NSW (the Tribunal) has reviewed the state’s skill base and identified the future challenges for our vocational education and training (VET) system over the next 20 years. This review focused on publicly funded VET programs provided by registered training organisations, including the primary provider TAFE NSW.

Overall, the Tribunal’s findings are that increased levels of vocational education and training should be a key element in a ‘whole of government’ strategy designed to increase the supply of skilled labour, improve labour market outcomes and, ultimately, raise economic growth. While increased training will not be sufficient on its own, the Tribunal believes that if accompanied by supporting policies, it can succeed in lifting labour force participation in NSW to achieve sufficient economic growth to offset the consequences of the ageing population.

To position the state’s VET system for this important role, the NSW Government needs to recognise TAFE NSW as a key partner in the state’s economic development. At the same time, TAFE NSW needs to:

- shift its focus from vocational education and training to the broader concept of ‘workforce development’, so that it also helps to ensure that the skills it provides are used and applied in the workforce
- seek opportunities to work with industry to affect change in how labour is used and to foster career development and lifelong learning
- develop a system-wide entrepreneurial culture within its Institutes, and

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1 Productivity Commission, Economic Impact of an Ageing Australia, April 2005, p 23.
2 Aged-dependency is the ratio of the population over 65 to the traditional labour force age (15-64).
4 Vocational and Education Training (VET) is the post-compulsory education and practical training that equips people with skills that enhance their job prospects and assist them in entering or re-entering the workforce, or in re-training or upgrading their existing skills. It does not cover the degree and higher level professional programs which are delivered by universities and other higher education institutions.
be able to meet the needs of individual learners, particularly those who are disengaged from work and education.

In addition, the Australian and NSW Governments need to work together to enable improved outcomes for users of the VET system and remove barriers to greater participation in VET programs.

Of course, as with all public policy, there will be some risks involved in this approach – we cannot be certain that an increased level of VET will lead to increased labour force participation and economic growth. However, the risks of doing nothing – and allowing the levels of VET and labour force participation to continue in line with current trends and forecasts – are very much higher. In addition, there is a reasonable prospect that the increased VET the Tribunal proposes will pay for itself over time, and will make an important contribution to avoiding the problems that would otherwise result from an ageing population.

The following sections summarise the Tribunal’s findings and recommendations in more detail. A number of the recommendations relate specifically to TAFE, as it is the primary provider of publicly funded VET and the NSW Government is directly responsible for TAFE (see Section 6.1).

**Understanding the nature of the challenge and the role of education and training**

For more than a decade, the NSW labour market has experienced sustained economic growth, and the official unemployment rate has fallen to around 5 per cent. But this has masked a serious structural mismatch in the labour market. Employers report that they cannot find workers with the skills they need. At the same time, employment outcomes for some groups and occupations indicate that many people of working age are not in the labour force, cannot find work, cannot find enough work, or are working in jobs for which they are over qualified.

To prevent a significant reduction in the labour force participation rate and an increase in aged-dependency as our population ages, we need to lift labour force participation by tapping into this sizable pool of unemployed and underemployed people, to increase the effective labour supply in NSW. We also need to ensure that these and other workers have and use the skills that are in demand in a high-wage, high-productivity economy, and can upgrade or expand their skills in response to continual changes in the economy’s structure, and in technology and the pattern of demand.

A ‘whole of government’ response is required to tackle the multiple causes of falling employment participation: the NSW and Australian Governments will need to work closely in a concerted effort to improve the long-term future economic and social outlook. However, education and training can and must play a critical role, and the NSW Government has primary responsibility for this task.

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There is ample evidence that increasing the labour force’s skills through education and training lifts labour force participation, reduces unemployment, and contributes to productivity. The Tribunal believes that, compared to alternative strategies such as reducing minimum wages and/or income support, providing additional training is the most efficient and equitable way to assist individuals back into employment. In addition, there is strong evidence that lower education attainment constrains workers’ ability to adapt to changes in technology and employer demand. For example, the decline in employment participation by mature-aged males is largely associated with a decline in traditional blue collar jobs over the last few decades, which has severely limited the job opportunities for males who did not complete high school and who have no further qualifications.

The nature and source of the challenges we face mean that, although schools and universities are key parts of any ‘training solution’, we particularly need strategies for training and retraining adult or mature labour. The VET system will bear the main responsibility for meeting this challenge, and we must ensure it has the capabilities and flexibility to respond to the special training needs of adult labour. It will also be important to ensure that it can adequately equip younger people to readily adapt and learn new skills throughout their working lives, as technology and patterns of demand continue to change more rapidly than they have in the past.

Identifying what VET will be needed

On present trends and policies, demographic changes and slower employment growth mean that the demand for VET places in NSW is expected to rise by only 1 per cent per annum over the next two decades. However, if we are to raise labour force participation and avoid the consequences of an ageing population, we need to increase the demand for and provision of vocational education and training by an average of around 2.5 per cent per annum over this period, and re-focus its provision on:

- **re-entrant** training that targets people who are currently unemployed or not in the labour force, and is designed to update and improve their vocational and employability skills, to enable them to become competitive in the labour market again
- **continuing** training that targets people who are already employed, to enable them to maintain and upgrade their skills so they continue to be competitive in the labour market
- **refresher** training that targets people who are underemployed, to enable them to maintain their skills and move towards fully utilising their qualifications.

For the 10 years to 2015, this additional VET should be predominately re-entrant training and the average increase in student places and hours\(^6\) will need to be around 3 per cent per annum (though it may be less than this in the initial years as new programs are being brought on stream). Re-entrant training is required to help kick-start the targeted changes in labour force participation. Given that the target group for this training includes people who have been disengaged from work for some time, it is likely that intensive and reasonably long training programs will be necessary to meet this goal.

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\(^6\) The estimate of hours of VET required reflects a maximum amount of training delivered institutionally. Where a combination of institutional and work-based training is adopted, the total number of hours could be greater. This is because, in terms of skills development, work-based training would be less intensive than institutional training and it is therefore expected that there would be (comparatively) more of it.
In addition to job specific skills, this group also need help to improve their self-confidence and acquire more general employability skills - such as communication, literacy, numeracy, teamwork and computing skills. The best approach to this training will be a mix of institutional and work-based training, with the balance dependent on the needs of the individual. The work-based training should produce a set of agreed competencies: that is, it should be formally assessed, accredited training.

In the 10 years from 2015 to 2025, the additional VET should be mainly continuing training, and the average increase will need to be around 1.5 per cent per annum. Continuing training will become an increasingly important tool for up-skilling the labour force to meet the challenges posed by future technological and other changes.

Both the Australian and NSW Governments will benefit if the additional training leads to higher employment participation - through reduced income support payments and increased taxation receipts. Therefore, it is reasonable that both governments share the public funding costs of this training, commensurate with their respective fiscal benefits. The Tribunal envisages that employers will continue to contribute to the skill development of their existing staff, and that their total contribution is also likely to grow.

Currently, concerns about skill shortages are focused primarily on the traditional trades areas. However, in most cases, the demand for these trades is no higher than it was 20 years ago, and the so-called skill crisis is a very recent phenomenon. In addition, unless the economy grows at a much faster rate than currently projected, it seems likely that the number of VET students that will need to be trained in these trades will decline over the next 20 years and possibly beyond. It is important that we do not over-react to what may prove to be a temporary skill shortfall in these areas, as this will serve to distract attention from other more significant changes that are occurring in the labour market.

To help ensure that the additional VET recommended by the Tribunal succeeds in lifting labour force participation in NSW, and thus achieves sufficient economic growth to offset the consequences of the ageing population, it must be seen as a key element of a ‘whole of government’ solution to this complex problem. This means it must be accompanied by other supporting policies. In particular, the Tribunal considers that the NSW Government should seek a compact with the Australian Government to ensure that the training opportunities it will provide to people who are unemployed or not in the labour force are taken up. Such a compact would need to provide for closer integration between these VET programs and the Australian Government’s existing labour market programs and recent reforms designed to encourage social security recipients to re-enter the workforce.

**Identifying the key changes required in the VET system**

Positioning the VET system – and particularly TAFE NSW – to assist the state to maintain and further develop a highly skilled workforce and thus achieve better economic outcomes, will require a broader, more sophisticated response than traditional approaches to skills creation. It will require both public and private providers to broaden their role beyond the provision of skills, so that they also help to ensure that the skills they provide are applied and *used* in the real world of work. This will require a shift in the focus from vocational education and training to the newer concept of ‘workforce development’.
Workforce development means increasing the capacity of individuals to participate effectively in the workforce throughout their whole working life, and increasing the capacity of firms to adopt high-performance practices that utilise and support the further development of their employees' skills and value. Thus it involves much more than providing training courses that equip individuals to meet employers' current needs for specific skills. Workforce development involves the VET system working closely with individual firms, clusters of firms and other partners, to facilitate the adoption of high-performance practices, the pursuit of high-value-added and innovative product and service strategies, and the development of new approaches to employee relations, job design and career development.

TAFE NSW, as the major provider of publicly funded VET in NSW, will need to take a leadership role in re-focusing on workforce development. This will require it to become a recognised partner in the state's economic development, seek opportunities to work with industry to affect a change in how labour is used, develop a system-wide entrepreneurial culture within its Institutes, and have the flexibility to meet the individual needs of its highly and increasingly diverse clients. Private providers will also need to play a role in workforce development.

The Tribunal recognises that TAFE NSW has undergone significant reform over the last 15 years, and has become much more responsive to industry needs. However, further reform is needed to enable it to meet the future challenges. While fundamental changes to the existing governance arrangements are not required, the following changes should be made:

• adjusting funding arrangements, to enable TAFE Institutes to implement strategies for meeting the long-term skill needs of the state and to allow and encourage the development of an entrepreneurial culture

• providing Institute Directors with more operational flexibility, to ensure TAFE Institutes can remain competitive in the future and to realise the potential for higher levels of productivity, innovation and responsiveness to evolving needs

• refining planning arrangements, to provide for a single state plan that is linked to the state’s regional and economic policies

• using performance measurement to drive improved efficiency and effectiveness and increase accountability for publicly funded VET.

**Maintain the existing governance arrangements**

Governance arrangements have a bearing on the capacity of TAFE NSW to develop an entrepreneurial culture and respond to future needs. The level of centralisation and decentralisation of decision-making has an impact on TAFE’s flexibility, and thus on its capacity to respond to demands.

The Tribunal explicitly considered whether more devolved governance arrangements are necessary to allow and encourage TAFE NSW to develop the entrepreneurial culture it needs to effectively act as a catalyst for workforce development. The Tribunal concluded that TAFE Institutes do not need to be provided with statutory institutional autonomy, as has been done in Victoria. Rather, significant progress towards developing an entrepreneurial culture can be made within the current arrangements, by adjusting the funding arrangements for TAFE Institutes and providing Institute Directors with more operational flexibility (discussed below). In addition, this greater operational flexibility should be
balanced by appropriate accountability and performance measures, with the Minister retaining responsibility for setting strategic directions and reinforcing the Institutes’ accountability for achieving the outcomes that have been agreed.

**Adjust funding arrangements**

To allow TAFE Institutes to implement strategies related to planning for the long term, and encourage them to develop an entrepreneurial culture, the Tribunal believes funding arrangements for TAFE Institutes should be based on:

- three-year rolling funding agreements, but with some prescribed scope to vary the agreements each year to reflect emerging priorities
- the purchase of outcomes or outputs (such as competencies/qualifications) rather than the purchase of annual student hours (ASH), and the delivery of other performance outcomes
- a requirement that, over time, the unit costs of these competencies/qualifications move towards those of the most cost-effective provider(s); reflect their relative costs; and allow an appropriate adjustment for genuine cost disadvantages of producing these competencies in thin markets
- the removal of constraints on commercial revenue retention.

In addition, separate funding should be provided for TAFE Institutes to enhance TAFE staff skills and develop a system-wide culture characterised by entrepreneurship and innovation. This funding should be used to facilitate partnerships and other innovations, as well as the development of new staff capabilities.

Further, to encourage and maximise the level of industry and employer funding of VET, the funding arrangements for TAFE Institutes should allow it to focus even more on seeking involvement and funding from employers, and actively engaging and collaborating with industry on a continuing basis. In particular, these arrangements should enable the Institutes to use public funding to leverage additional industry funding.

**Provide Institute Directors with more operational flexibility**

To ensure TAFE NSW remains competitive in the future and develops an entrepreneurial culture, Institute Directors need the flexibility to manage their relatively high staff costs, and provide incentives for staff to improve their productivity, innovate, and be responsive to evolving needs.

The Tribunal believes that future industrial agreements should provide Institute Directors with more operational flexibility and should link changes in pay and conditions to productivity improvements. These productivity improvements may require a centralised agreement on a framework that provides Institute Directors with more flexibility to vary how services are provided. The Tribunal also considers that there should be further development of a broadly focused performance management scheme, and the recognition of the future diversity of staff roles. Institute Directors should have access to funds to assist them in attracting and retaining key staff within this more flexible system.
Refine planning arrangements
Currently, the state’s VET planning frameworks appear to have several layers and, in some cases, overlapping priorities. The Tribunal believes there is scope to simplify and refine the planning arrangements. In particular, the NSW Board of Vocational Education and Training should be given responsibility for developing a single state training plan that:

- focuses on the strategic direction of the sector
- incorporates Commonwealth funding and accountabilities, and
- is linked to the state’s regional and economic development policies, particularly those set out in the State Plan.

Use performance measurement to drive improved performance
The Tribunal believes that the increased operational flexibility proposed above should be accompanied by increased accountability. To achieve this, and to drive improved efficiency and effectiveness, the Tribunal believes TAFE Institutes should publicly report on performance information each year. This information should include:

- costs of service delivery and measures of efficiency and productivity
- output measures, including employment outcomes achieved
- client satisfaction rates for students and employers
- completion rates, including time taken for course completion (particularly apprenticeships) and course completion rates.

Identifying changes to improve outcomes for users and remove barriers to participation
In addition to the changes outlined above, the Tribunal believes a range of supporting changes is needed to improve outcomes for users of the VET system and remove barriers to participation in VET programs. For example, to better meet employers’ needs for generic employability skills, the creation of these skills should be embedded within the delivery of VET programs, and be separately assessed and reported on. To encourage more mature-aged workers to gain formal and higher qualifications, more resources should be allocated to the recognition of prior learning (RPL) to ensure that RPL arrangements are user-friendly and flexible enough to cater for individuals’ experiences. To be consistent with TAFE NSW seeking a greater share of the private training market and partnerships with private employers, the allocation of (public) VET funding on a competitive basis should be progressively increased.

To reduce the barriers to individuals’ participation in VET programs and meet employers’ demand for VET, a range of actions should be taken, including:

- seeking a compact between the NSW and Australian Governments, so that income support arrangements, labour market programs and the VET system work together to ensure that those who are unemployed or outside the labour force take up the training opportunities available to them
- reviewing the New Apprenticeships Incentives Scheme to ensure that this scheme appropriately targets priority skill areas
• reviewing awards to consider whether apprentice and trainee pay rates are sufficient to attract and retain high-quality applicants, including those who are older and more qualified than ‘traditional’ apprentices, and remove impediments to progression based on competency

• reviewing the current apprenticeship model with a view to shortening the expected time to complete apprenticeships.

Understanding the benefits and financing the costs of the proposed reforms

The Tribunal is convinced that its proposed suite of reforms will make a critical contribution to the ‘whole of government’ response required to offset the impact of the ageing population. The most significant economic benefit of these reforms is that they will increase employment participation. This higher employment participation will increase the effective labour supply, and thus allow faster economic growth. The reforms will also increase the skill levels in the labour force, which should help to increase productivity levels. In turn, higher productivity should contribute to higher rates of economic growth.

The Tribunal’s analysis suggests that together, these benefits will result in a significant increase in Gross State Product (GSP). Specifically, its economic projections indicate that:

• If present trends and policies continue with no particular initiatives to manage the impact of the ageing population, real GSP in NSW will grow by an annual average of around 2.5 per cent over the next 20 years. This will lead to a forecast GSP of $526 billion (real 2006 $) in 2025.

• However, if governments introduce effective policies that increase and maintain the labour force participation rate in NSW at the national level, real GSP will grow by an annual average of around 3.0 per cent. This will lead to a forecast GSP of $605 billion (real 2006 $) in 2025.

Therefore, the potential value of the benefits that will result from adopting and effectively implementing the Tribunal’s proposed reforms could be around 14.9 per cent of GSP – or $78 billion (real 2006 $) – by the year 2025.7

But what will this investment in a better future cost? Based on the estimated total costs of VET in NSW with and without the Tribunal’s recommended additional training, the indicative gross cost of this additional training will be around $0.8 billion per annum in 2025 in today’s dollars, (or an additional 0.1 per cent of GSP).

As the increase in GSP expected to result from the reforms will more than cover this gross cost, the reforms will pay for themselves in the longer term. However, there will be a need for additional upfront financing, particularly in the next 10 years, to meet the costs of developing and delivering the additional re-entrant training programs targeted at assisting those who are unemployed or not in the labour force to move back into employment. There will also be a need for some additional upfront capital expenditure, to enable VET providers to gear up for the increased demand for VET services in the future.

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7 Figures obtained from Access Economics’ model.
The Tribunal believes that because the reforms will benefit both the Australian and NSW Governments, both these governments should share the public funding costs of training. In addition, the Tribunal believes that as a general principle, the funding share of each government should be based on the fiscal benefits that will accrue to each. For example, under this approach it is likely that the Australian Government would fund a significant portion of re-entrant training. This training is expected to directly benefit this government, as most of those who receive it will be on unemployment or other social security benefits, and the training should enable many of these people to move from these benefits into paid employment, thus reducing the Australian Government’s income support bill.

Importantly, both governments need to contribute additional funding to VET now, to ensure that the target scenario is realised in the future. In particular, governments must provide the funding to enable VET providers to develop and provide carefully tailored, intensive training to those who are unemployed or not in the labour force, to kick-start the targeted changes in labour force participation.

As discussed above, people who have been disengaged from work for a long time will require intensive training to get them back into employment. The Tribunal welcomes the recent recognition by the Australian Government that these people will require training, and that Government’s decision to offer Work Skill Vouchers worth up to $3,000 (or approximately 200 hours of training) will be offered to up to 30,000 workers and jobless people. However, the Tribunal believes that more intensive training is needed to get the number of trainees it has targeted back into jobs and enable them to establish sustainable, long-term careers. The Tribunal considers that an average of $9,000 per trainee is needed. This amount should be used to fund a package of work-based and institutional training that is tailored to the individual skill needs of the trainee. Where necessary, it should also be used to cover the additional costs of employers and Registered Training Organisations (RTOs). It is important to note that this $9,000 per re-entrant trainee represents training costs – it does not provide income support for the trainee.

The increased continuing training should enable those already in employment to maintain and upgrade their skills so they continue to be competitive in the labour market. As this training will benefit employers and individuals as well as governments, the Tribunal believes that employers and to some extent individuals should contribute to its costs in the future, with government.

**Recommendations**

Given the findings outlined above, the Tribunal’s recommendations are as follows:

**Recommendations on how much VET will be needed**

1. As a key element in a ‘whole of government’ strategy for increasing the labour force participation rate and avoiding the economic consequences of the ageing population, that the demand for and provision of VET training should be increased by an average of around 2.5 per cent per annum over the next 20 years, and that its provision should be refocused on:

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8 The Tribunal assumes that these vouchers will be in addition to current funding for VET and labour market programs, and that they will be implemented in a way that does not lead to cost shifting (that is, that RTOs will be free to levy standard fees and charges to students in receipt of a voucher).
- re-entrant training that targets people who are currently unemployed or not in the labour force, and is designed to update and improve their vocational and employability skills, to enable them to become competitive in the labour market
- continuing training that targets people who are already employed, to enable them to maintain and upgrade their skills so they continue to be competitive in the labour market
- refresher training that targets people who are underemployed, to enable them to maintain their skills and move towards fully utilising their qualifications.

For the 10 years to 2015, the additional training should predominately be re-entrant training, and the average increase in student places and hours should be in the order of 3 per cent per annum (although it may be less than this in the initial years as new programs are being brought on stream). In the 10 years to 2025, the additional training should be predominantly continuing training, and the average increase in student places and hours should be in the order of 1.5 per cent per annum.

2. To increase the effectiveness of re-entrant training, that this training:
   - involve a mix of work-based and institutional training, with the balance dependent on the individual skill needs and circumstances of the trainee
   - be accredited training that is designed to achieve specific outcomes, including an agreed set of competencies
   - offer trainees substantial, intensive assistance
   - be delivered through a co-ordinated, cooperative approach between training providers, employers, trainees and other agencies as appropriate.
   - provide appropriate incentives for employers and trainees to participate

Over the first few years, training providers should evaluate ‘what works’ to gain a better understanding of the right mix of work-based and institutional training, and adjust this balance accordingly.

3. That public funding of the additional training recommended by the Tribunal be shared between the Australian and NSW Governments (as both governments will benefit from the improved employment outcomes through reduced income support payments and increased taxation receipts) and that each government’s respective contribution be based on the respective fiscal benefits accruing to each.

4. That the NSW Government seek a compact with the Australian Government, to ensure the increased training opportunities that are provided to people who are unemployed or not in the labour force over the coming decades are appropriately funded and taken up.

Recommendations on setting a new vision for VET

5. That the NSW Government adopt workforce development as a whole of government policy framework for promoting collaboration between agencies, businesses and training providers to increase the use of skilled labour and the adoption of high-performance work practices in NSW enterprises.
6. To fulfil its responsibility for workforce development and in recognition of its role as primary provider of publicly funded VET in NSW, that TAFE NSW:
   • become a recognised partner in the state’s economic development
   • seek opportunities to work with industry so that workforce development is fostered through career development and lifelong learning
   • foster an entrepreneurial culture within its Institutes
   • be able to better meet the needs of individual learners.

7. That TAFE NSW adopt as its new mission “to increase the capacity of individuals to participate effectively in the workforce throughout their whole working life, and to work with firms to increase their capacity to adopt high-performance practices that support their employees in developing their potential skills and value”.

Recommendations for achieving the mission for TAFE NSW

8. To allow TAFE Institutes to implement strategies related to planning for the long term and develop a culture based on entrepreneurship and innovation, that funding arrangements for TAFE Institutes be based on:
   • three-year rolling funding agreements, with some prescribed scope to vary the agreements each year to reflect emerging priorities
   • the purchase of outcomes or outputs, (such as qualifications/competencies), rather than the purchase of annual student hours, and the delivery of other performance outcomes
   • a requirement that, over time, the unit costs of these qualifications/competencies move towards those of the most cost-effective provider(s); reflect their relative costs, and allow an appropriate adjustment for genuine cost disadvantages of producing these competencies in thin markets
   • the removal of constraints on commercial revenue retention.

9. That funding should be separately identified for TAFE Institutes to enhance TAFE staff skills and develop a system-wide culture characterised by entrepreneurship and innovation. This funding should be used to facilitate partnerships and other innovations, as well as the development of new staff capabilities.

10. To maximise the level of industry and employer funding of VET, that funding arrangements for TAFE Institutes allow them to use public funding to seek and operate partnerships, where both the Institute and their partner(s) contribute to the costs involved.

11. To encourage better use of assets and the formation of partnerships and alliances, that TAFE Institutes be:
   • allowed to sub-lease real estate and any equipment thereon to third parties and retain the proceeds
   • charged market based rent on their real estate and funded accordingly
   • allowed to purchase from any retained earnings their own capital equipment and real estate.
12. To allow and encourage TAFE Institutes to develop a culture characterised by entrepreneurship, innovation and responsiveness by TAFE staff, that:

- in negotiating future industrial agreements any change in pay and conditions be linked to productivity improvements
- future industrial agreements provide Institute Directors with additional operational flexibility including a greater ability to attract and retain key staff
- the future diversity of staff roles be recognised, as staff will increasingly be required to become workplace assessors, consultants, intermediaries working across agencies, mentors and entrepreneurs
- teachers have the option of taking a sabbatical to work within a relevant industry, as part of their professional development, with the right to return to TAFE within a specified period (e.g., one year).

13. That planning arrangements be refined, so that the NSW Board of Vocational Education and Training is responsible for a single state training plan (in place of the current suite of existing plans) that:

- focuses on the strategic direction of the sector
- incorporates Commonwealth and state funding and accountabilities
- links with the state’s regional and economic development policies, and
- incorporates the targets in the recently released State Plan.

14. To drive improved performance and increase provider accountability, that all Registered Training Organisations be required, as a condition of re-registration and/or receipt of public funding, to provide performance information publicly, annually and on a provider basis. This information should include:

- costs of service delivery and measures of efficiency and productivity (for non-contestable, publicly funded VET delivery by TAFE)
- output measures, including employment outcomes achieved
- client satisfaction rates for students and employers
- completion rates, including time taken for course completion (particularly apprenticeships) and course completion rates.

15. That existing reporting requirements for Registered Training Organisations be reviewed to identify and remove those that are not well focused, as a quid pro quo for the new reporting requirements proposed in Recommendation 14.

16. To ensure users of the VET system are well informed, that the NSW Department of Education and Training provide better information in relation to publicly funded VET, including information on how to access the VET system, the alternative providers and courses available, funding arrangements and costs.

17. To allow stakeholders to assess the efficiency and cost effectiveness of TAFE Institutes, that TAFE NSW be required to publicly report, on an individual Institute basis, on performance against the targets that are currently in the VET Plan and the Results and Services plan (and which may eventually be in the single state training plan, per
recommendation 13 above), as well as against financial and budget targets currently being used to assess performance.

18. To support increased flexibility in the delivery of training, that NSW TAFE and other publicly funded VET providers be required to measure and report on the proportion of training delivered through e-learning, at the workplace and outside ‘normal’ working hours.

**Recommendations for improving outcomes for users of the VET system**

19. To meet employers’ needs for generic employability skills, that the creation of these skills be embedded in the delivery of VET but be assessed and reported on separately (rather than as part of the assessment and reporting on vocational competencies).

20. That current arrangements for the Recognition of Prior Learning in NSW be better funded and revised to make this process more client-focused and ensure that it is well known and understood by VET students and potential students.

21. That incentive payments for traineeships and apprenticeships offered by the government be contingent on upfront Recognition of Prior Learning (RPL).

22. To support increased flexibility in the delivery of training, that the formation of partnerships and alliances, both among providers and between providers and enterprises/industry, be encouraged.

23. That the promotion of training for those who are disengaged from work and education be supported through:
   - the publication of information on job opportunities and available training
   - the funding of targeted programs that could be delivered by a range of providers (eg, public, private, enterprise-based or community-based).

24. Consistent with TAFE NSW seeking a greater share of the private training market and partnerships with private employers, that the NSW Government progressively increase the allocation of (public) VET funding on a competitive basis.

25. To increase the efficiency and effectiveness of registration, accreditation and auditing arrangements, that:
   - the Vocational Education and Training Accreditation Board be reformed to ensure appropriate resourcing by charging users of its services fees that recover the efficient costs of service provision
   - the implementation of a system of Training Recognition Consultants be considered to improve the efficiency of accreditation and auditing processes.

26. That alternative models for auditing be examined (eg, risk-based auditing or exceptions reporting), with a view to increasing the efficiency and effectiveness of auditing arrangements.
Recommendations for removing barriers to participation in VET programs

27. That the compact between the NSW and Australian Governments ensure that people who are unemployed or not in the labour force:
   • have their training needs identified as quickly as possible, and are required to undertake this training, and
   • receive income support assistance if they are undertaking re-entrant training which will genuinely improve their chances of getting a job.

28. That the Commonwealth Department of Education, Science and Training review the structure of incentives provided under the Australian Apprenticeship Incentives Program, to ensure that they appropriately target skill priority areas and determine whether the distribution of incentives between employers and trainees is appropriate.

29. That the Australian Government consider the merits of extending the Trade Learning Scholarship program to target trainees and apprentices in a broader range of skill priority areas, not just the traditional trades.

30. That the industrial parties review their awards to consider whether pay rates for apprentices in the traditional trades are sufficient to attract and retain high-quality applicants.

31. That NSW review, in consultation with relevant stakeholders, the appropriate time taken to complete apprenticeships. The Tribunal expects that such a review would shorten this time for most apprenticeships.

32. That the NSW Government increase its funding of pre-vocational and pre-apprenticeship training.

33. That students who have completed a pre-apprenticeship or pre-vocational course, VET in school and school-based apprenticeship or traineeship have their competencies recognised by shortening the expected time required to complete an apprenticeship or traineeship.

34. That the industrial parties review awards to promote more flexible approaches to work design such as part time and casual work, and identify how these approaches can be combined with better training opportunities.

Recommendations on funding the Tribunal’s reforms

35. Given that the benefits from increasing employment rates flow to both the NSW and Australian Governments, that these governments jointly fund the additional forecast increase in re-entrant training and that the respective contribution of each government take into account the respective fiscal benefits that will accrue to each.

36. Given that the benefits from increasing ongoing training flow to employers, individuals and governments, that employers, individuals and the NSW and Australian Governments fund the forecast increase in continuing and refresher training with the respective contributions having regard to the respective benefits accruing to each.
1 INTRODUCTION

Skills are critical to our future. Peoples’ job prospects and incomes are closely linked to their own personal and professional skills. Firms’ productivity, competitiveness and profitability are largely shaped by their ability to develop and effectively deploy a skilled workforce. And our state’s skill base is a major determinant of our economic growth, future living standards and fiscal capacity.

Recently, public attention has focused on concerns that NSW, along with the rest of Australia, is facing an immediate skill shortage that is restraining economic growth. Indeed, a recent survey found that Australian companies believe the inability to secure skilled staff is the most important barrier to their success in the next three years.9

If we look further into the future, the situation looks even more worrying. Over the next four decades, changes in the nature of work and the ageing of our population could lead to widespread labour and skill shortages and an estimated 6 percentage point fall in the labour force participation rate in NSW (and a 7 percentage point fall in Australia as a whole).10 Unless we take effective action now, this decline – and the closely related increase in aged-dependency11 – will retard economic growth and create increasing budgetary difficulties for both the Australian and NSW Governments, making it very difficult to fund the range and quality of health, education and other services we have come to expect.12 Given the lead-time required for reforms to have effect, actions need to be taken now to secure NSW’s future in the long term.

To help it form an effective response to this predicament, the NSW Government asked the Independent Pricing and Regulatory Tribunal of NSW (the Tribunal) to review the skill base in this state, and identify the future challenges for our vocational education and training (VET) system over the next 20 years.13 As the Tribunal understood it, this review’s aim was to determine what the future demand for skills will be in NSW if we are to achieve high levels of labour force participation and productivity, and to identify what action is required to ensure our VET system is best placed to help meet this future demand.

1.1 Review process

As part of its review, the Tribunal undertook extensive consultation and conducted its own research and analysis. It released issues and discussion papers, considered 50 public submissions, hosted a roundtable discussion with stakeholders, and held face-to-face meetings with many stakeholders. It also worked closely with the NSW Department of Education and Training (DET), met with representatives of the Victorian and Queensland VET sectors, and visited several TAFE Institutes and on-site training at various companies.

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9 Australian Industry Group, World class skills for world class industries, Employer’s perspective on skilling Australia, May 2006.
10 Productivity Commission, Economic Impact of an Ageing Australia, April 2005, p 84.
11 Aged-dependency is the proportion of the population over 65 to people of the traditional labour force age of 15 - 64.
13 Vocational and Education Training (VET) is the post-compulsory education and practical training that equips people with skills that enhance their job prospects and assist them in entering or re-entering the workforce, or in re-training or upgrading their existing skills. It does not cover the degree and higher level professional programs that are delivered by universities and other higher education institutions.
In addition, the Tribunal engaged Access Economics to provide it with expert advice on the future demand for VET, and commissioned the National Centre for Vocational Education Research (NCVER)\(^{14}\) and the National Institute of Labour Studies (NILS)\(^{15}\) to provide it with advice on the match between qualifications and employment. (These organisations’ reports are available on the IPART website.)

The Tribunal released a draft report in September 2006, and invited further submissions in response to this report. It then considered these submissions, and undertook further consultation with a variety of stakeholders. In addition, it considered:

- The Australian Government’s *Skills for the Future* package, which was released in October 2006 and focuses on lifting the skills of Australia’s adult workforce.
- The Australian Industry Group’s Skills Fund Initiative, which supports workforce development with a greater focus on up-skilling and re-skilling.
- The report of the TAFE Futures Inquiry,\(^{16}\) which was released in October 2006. The Inquiry was established by the Australian Education Union to determine how TAFE can best operate in the future to ensure it is meeting the skill and education needs of its students, employers and local communities.
- The TAFE Directors Australia paper on a new national skills strategy.
- The NSW Government’s State Plan, released in November 2006.

### 1.2 Report structure

The Tribunal has now completed its review: this report presents its findings and recommendations to the NSW Government. It is structured as follows:

- Chapter 2 examines the structural mismatch in our current labour market, and identifies the issues related to the supply of and demand for labour that need to be addressed
- Chapter 3 explains why a greater emphasis on vocational education and training is needed to increase the labour force and employment participation rates, and outlines the broad actions that need to be taken as part of this approach
- Chapter 4 explores how much and what type of training will be required if we are to succeed in increasing the labour force participation rate sufficiently to offset the impact of the ageing population
- Chapter 5 establishes the aspirations for the VET system of tomorrow, and sets out a new vision and mission for TAFE NSW
- Chapter 6 takes stock of the VET system today, including its size and structure, recent reforms and trends, and current levels of efficiency and effectiveness
- Chapter 7 looks at the action that will be required to enable and encourage TAFE NSW to achieve the new vision and mission


\(^{15}\) National Institute of Labour Studies, *Reasons why persons with VET Qualifications are employed in lower skilled occupations*, Flinders University, report for IPART, 2006.

\(^{16}\) www.tafefutures.org.au.
• Chapter 8 discusses the complementary actions required to improve outcomes for users of the VET system
• Chapter 9 focuses on the actions required to remove barriers to participation in the VET system and so lift the rate of participation
• Chapter 10 discusses the benefits and costs of the Tribunal’s proposed suite of reforms, and how these costs should be financed.

Please note that this review has been undertaken under section 9 of the IPART Act, so the Tribunal’s recommendations are not binding on the Government. The Tribunal would like to thank the many people who participated in this review and contributed to its thinking. It would particularly like to thank DET for its co-operation and assistance.

The Tribunal members for this review are Michael Keating AC, Chairman, James Cox, Full Time Member, and Sibylle Krieger, Part Time Member.
2 UNDERSTANDING THE STRUCTURAL MISMATCH IN TODAY’S LABOUR MARKET

For more than a decade, the NSW labour market has experienced sustained economic growth, and the official unemployment rate has fallen to around 5 per cent. But this good news has masked the development of a serious structural mismatch in the labour market. On the one hand, employers have begun to report that they cannot find workers with the skills they need. That is, the demand for workers for particular occupations is currently greater than the supply of workers who are qualified, available, and willing to work under existing market conditions.

On the other hand, employment outcomes for some groups and occupations suggest that many people of working age are not in the labour market, cannot find work, cannot find enough work, or are working in jobs for which they are over qualified:

- For men aged between 35 and 59, full time employment and labour force participation has fallen by around 8 percentage points over the last 30 years in NSW and Australia. For the individuals and families involved, this has led to social and economic disadvantage. For the economy, it represents a substantial loss in potential economic output.

- This fall in male employment participation is closely associated with a decline in the number of traditional ‘blue collar’ jobs, which has severely limited the employment opportunities for men who have lower levels of educational attainment and skills. As a result, the fall in labour force participation among men aged 35 to 59 in both NSW and Australia mostly affects those who left school early and/or have no post-school qualifications.

- For women, the labour force participation rate has increased over the last 20 years in NSW and Australia. But it is still well below the participation rate for men. Australia’s female participation rates are also low compared to those in other industrialised countries.

- For young people, the level of educational attainment has improved. But around 15 per cent of young people in Australia are still neither studying nor employed, and this percentage has not significantly changed since the 1990s.

- Between 15 and 20 per cent of people with VET qualifications in Australia are either employed in jobs that do not require their qualifications, unemployed, or not in the labour force. This portion is even higher for women.

- Close to 22 per cent of people who work in part time or casual positions in NSW and Australian would like to work more hours, which represents significant underemployment. This proportion is even higher for males.

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17 ABS, catalogue number 6202.0 Labour Force, Australia, September 2005.
19 ABS, catalogue number 6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery, LM8.
21 ABS, catalogue number 6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery, LM8 and International Labour Organisation, Laborstat Database.
22 Dusseldorp Skills Forum, How young people are faring, key indicators, 2005.
23 ABS catalogue number 6265.0, Underemployed workers, September 2005.
If no action is taken, this mismatch in the labour market is likely to worsen in the future, due to the ageing of our population. The immediate impact of this ageing will be a reduction in the overall rate of labour force participation – simply because the proportion of older people in the population will increase, and people tend to work less as they get older. As labour supply shortages worsen and the proportion of the population that is in the workforce shrinks, the labour market is likely to respond. That is, people who are unemployed are more likely to get jobs, and those who are outside the labour force are more likely to re-enter. But over time, this will not be sufficient to prevent a significant reduction in labour force participation, major labour and skill shortages, and an increase in aged-dependency – leading to serious economic and social consequences.

To help understand what can be done to prevent these consequences, the Tribunal examined the current labour market, and identified the supply and demand issues that need to be addressed to increase workforce participation rates and ease skill shortages in the future. These issues are discussed below.

**2.1 Supply side issues**

Over the past few decades, there have been major changes in the characteristics of the labour supply in NSW and Australia. Three changes are particularly relevant to this review, because they help to identify potential sources of additional labour, and suggest the kinds of education and training that might be needed to ensure these potential workers can be productively employed at current rates of pay and conditions – that is, how we can translate this potential labour supply into an increase in the effective labour supply in NSW. These changes include:

- the decrease in male labour force participation rates, and increase in female labour force participation rates
- the strong increase in part time and casual employment
- the decline in traditional blue collar occupations and increase in managerial and professional occupations for both males and females.

Each of these changes, and their implications for increasing the effective labour supply are explored below.

**2.1.1 Decrease in male and increase in female labour force participation rates**

Labour force participation rates for males and females in NSW have moved in opposite directions. The overall rate of male labour force participation has fallen from 84 per cent in 1966, to 70 per cent in 2005. Over the same period, the female participation rate has grown significantly. The net effect of this is that total labour force participation has increased by 3 percentage points (Table 2.1). However, if we allow for the increase in the proportion of those in the labour force who are looking for work over this period (that is, the unemployment rate), there has been no change in employment participation. In addition, the relative increase in part time work (discussed below) means that overall employment participation measured in hours has substantially declined.
Understanding the structural mismatch in today’s labour market

Table 2.1  Labour force participation rate for NSW (%)

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</thead>
<tbody>
<tr>
<td>Male</td>
<td>84</td>
<td>79</td>
<td>75</td>
<td>73</td>
<td>70</td>
</tr>
<tr>
<td>Female</td>
<td>37</td>
<td>42</td>
<td>47</td>
<td>52</td>
<td>55</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>60</td>
<td>61</td>
<td>62</td>
<td>63</td>
</tr>
</tbody>
</table>


If we look at labour force participation rates by age, we see that between 1966 and 2005, female labour force participation rates in NSW increased for all ages, although these rates are still well below those for males. In addition, the total female participation rate in both NSW and Australia in 2005 - 55 per cent - is substantially lower than female labour force participation rates in other industrialised countries. For example, in Norway, the overall female participation rate is 64 per cent, and in the USA it is 59 per cent.24

Over the same period, male participation rates decreased across all age groups, with a more rapid decrease beginning from around age 35. The total loss of potential employment is especially significant for men aged 35 to 55, because these men are in their most productive years and there are a much larger number of them (Figure 2.1).

Figure 2.1  Labour force participation rates by age and gender for NSW (%)


24 International Labour Organisation, LABORSTA Database. These female participation rates are for 2004.
2.1.2 **Strong increase in part time and casual employment**

Employment can be split into three broad categories – full time, part time, and casual employment. All three categories of employment have grown over the last decade, but the strongest growth has been in casual and part time employment (Table 2.2).

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full time</td>
<td>0.6</td>
<td>1.6</td>
<td>0.9</td>
</tr>
<tr>
<td>Part time</td>
<td>3.3</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Casual</td>
<td>5.5</td>
<td>2.1</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1.3</td>
<td>2.1</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Source: ABS publication 6105.0 Australian Labour Market Statistics.

As a result of this strong growth, casual and part time jobs now represent a larger proportion of total employment than they have in the past (Table 2.3). Although many people like the greater flexibility that casual and part time employment provides, others would like to work more hours and/or experience greater job security. Also, because there is less incentive for employers to provide training for casual employees, these workers face greater difficulty in maintaining their skills.

<table>
<thead>
<tr>
<th></th>
<th>1992</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male Full time</td>
<td>85.9</td>
<td>78.8</td>
</tr>
<tr>
<td>Part time</td>
<td>4.7</td>
<td>5.9</td>
</tr>
<tr>
<td>Casual</td>
<td>9.5</td>
<td>15.3</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1992</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female Full time</td>
<td>54.3</td>
<td>51.0</td>
</tr>
<tr>
<td>Part time</td>
<td>20.7</td>
<td>24.1</td>
</tr>
<tr>
<td>Casual</td>
<td>25.1</td>
<td>24.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: ABS publication 6105.0 Australian Labour Market Statistics.

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25 In this report, we follow the Australian Bureau of Statistics’ classifications. Casual employees are people who are not entitled to paid leave. Part time employees usually work less than 35 hours a week and full time employees usually work 35 or more hours a week.
2.1.3 Decline in traditional blue collar and increase in managerial and professional occupations

Over the last two decades, traditional blue collar occupations have declined while managerial and professional occupations have increased as a share of total employment for both males and females (Table 2.4). The decline in the blue collar occupations is very likely associated with the decline in male labour force participation, and most affects men who lack post-school qualifications.

<table>
<thead>
<tr>
<th>Table 2.4 Changing structure of employment in NSW (%)^26</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of employment</td>
</tr>
<tr>
<td>Managers &amp; professional</td>
</tr>
<tr>
<td>Clerks &amp; services</td>
</tr>
<tr>
<td>Blue collar group</td>
</tr>
<tr>
<td>Males 1986</td>
</tr>
<tr>
<td>33</td>
</tr>
<tr>
<td>15</td>
</tr>
<tr>
<td>52</td>
</tr>
<tr>
<td>1995</td>
</tr>
<tr>
<td>33</td>
</tr>
<tr>
<td>18</td>
</tr>
<tr>
<td>49</td>
</tr>
<tr>
<td>2005</td>
</tr>
<tr>
<td>42</td>
</tr>
<tr>
<td>16</td>
</tr>
<tr>
<td>42</td>
</tr>
<tr>
<td>Females 1986</td>
</tr>
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<td>25</td>
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<td>55</td>
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<td>19</td>
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<td>17</td>
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<td>41</td>
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<tr>
<td>48</td>
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<tr>
<td>11</td>
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</tbody>
</table>


Different industries and occupations have different work patterns, which affect the nature of employment and the skills required in those industries and occupations. In the past few decades, technological advances and other developments have led to changes in the way we work, the introduction of new industries and occupations, and even the replacement of existing industries and occupations. Given the changes that have occurred and can be expected to continue to occur, the types of skills in demand will also change in the future. This means that the availability of and access to suitable training and re-skilling is vital to ensure that people can transition between occupations and industries with minimal barriers throughout their lifetimes. Otherwise, as we have already observed over the last few decades, people are more likely to leave the labour force as their skills become outdated, further reducing participation rates and the labour supply.

2.1.4 Implications for increasing the effective labour supply

One of the results of the above changes is that the effective labour supply in NSW – that is, the population of working age that could be productively employed at prevailing rates of pay and conditions – is substantially less than the potential labour supply. The past trends towards lower employment participation and increased part time work suggest that there are currently many workers who could or would work more without adding to inflationary pressures, given the opportunity or sufficient inducement. These include those who are

^26 Data for this table was derived from ABS data catalogues 6291.0.55.001 August 2005 and 6291.0.55.001 August 1986. A change in occupation classification occurred between the two data sources and thus the sub-categories of occupations are not directly comparable. The data has been aggregated into the 3 major groups of Managers & Professional, Clerks & Services and Blue Collar Group and is considered to present a reasonable indication of the changing structure of employment over this period.
currently unemployed, those who are employed part time but are able to work longer hours, and those who are marginally attached to the workforce and who would like to work.\textsuperscript{27}

Based on responses to ABS Labour Force Surveys, the Tribunal estimates that as many as 600,000 people in NSW of working age could readily be induced to work more if their services were demanded. This represents a potential increase in total employment of 19 per cent. If we exclude those people who are already employed, although underemployed, the number of extra people who could be employed is just over 400,000. This represents an increase in total employment of 14 per cent. However, the additional hours that would be worked by most of these people who want more employment is likely to be less than a full-time working week. Thus, the potential addition to the labour supply measured in terms of hours worked is likely to be in the order of 12 per cent.\textsuperscript{28}

The ABS reports that most of those workers who are currently unemployed believe that the main reason they cannot achieve their employment objectives is that they lack the necessary skills, or there are fewer job opportunities available in their respective occupations or industries.\textsuperscript{29} Similarly, those workers who are currently working part time but want additional work believe the main reasons for this are that they lack the necessary skills, there are no vacancies in their line of work, or there are no vacancies at all.\textsuperscript{30} Those workers not in the labour force believe their main reasons for leaving the labour force were health issues, retirement or family reasons.\textsuperscript{31} However, it may well be that lack of skills and/or opportunity played some role in decisions to take up early retirement and/or a disability support pension.

The large number of people who could work more and their reasons for not doing so suggest that there are sufficient people who would like to work more, if they were given the opportunity. The challenge is to identify how best to provide these people with that opportunity. This would not only solve many personal and family problems, but also remove a major source of future fiscal stress that has implications for our whole society.

### 2.2 Demand side issues

On the demand side, there is evidence of skill shortages in a range of occupations. The Commonwealth Department of Employment and Workplace Relations (DEWR) collects labour market data and produces a ‘Skills in Demand List’. This list provides detailed information on occupations that are currently in demand in each state, covering professions, trades and information and communication technology. For NSW, this list indicates that there are state-wide shortages in a range of occupations, including:

- engineering
- electrical

\textsuperscript{27} The ABS define marginal attachment to the labour force as people actively looking for work, who were not available to start work in the reference week, but were available to start work within four weeks, and discouraged job seekers who are people who want to work and are available to start work within 4 weeks and whose main reason for not looking for work was that they believed that they would not find a job for reasons associated with the labour market (for example, skills and experience).


\textsuperscript{29} ABS Year Book Australia 2005.

\textsuperscript{30} ABS catalogue number 6265.0, \textit{Underemployed Workers}, September 2004.

• construction
• food trades
• other trades including cabinet making, hairdressing, furniture upholstering and boat building and repair.

As part of this review, the Tribunal received submissions from stakeholders that indicated skill shortages in an additional range of occupations. For example:

• The Australian Industry Group (AIG) reported a specific shortage of metal fabricators and refrigeration and air-conditioning mechanics, and general skill shortages of qualified mechanical and electrical trades people.

• The Aged and Community Services Association of NSW and ACT identified an acute skill shortage in the community and aged care sector, due to the industry’s own ageing workforce and the impact of increasing demand for its services because of the ageing of the general population.

• Sydney South-West Area Health Service, NSW Community Services, and the Health Industry Training Advisory Board reported skill shortages across most categories of the community and health professions in NSW.

• NSW Rural and Related Industries Skills Advisory Committee noted that rural industries are facing skill shortages, particularly a significant shortage of trained agricultural and horticultural staff for farms.

In February 2005, the Council of Australian Governments (COAG) reached agreement on a package of measures aimed at promoting a new national approach to apprenticeships, training and skills recognition to alleviate skill shortages.

Though it is important to address areas of current skill shortages, an over-emphasis on these areas poses a risk of neglecting emerging areas where skill shortages may develop in future if actions are not taken now. Structural changes in the economy have led to changes in the skills demanded and will continue to do so. Hence, it is important that policy makers ensure that attention and resources are appropriately balanced between current and potential skill shortages in specific occupational areas.

There are numerous possible causes for skill shortages. In a paper titled *What is a Skill Shortage?* Richardson suggests that the concept of a skill shortage is fairly elastic and depends on a range of supply and demand factors. Submissions and comments from stakeholders further support this notion. For example, some people with qualifications that are in demand choose not to work in that occupation for reason of location, working conditions and other personal factors. In addition, employers now want more than appropriate technical or job-specific skills – they also seek out personal attributes and broad underpinning skills like self-management, initiative and enterprise, and the capacity to learn new things. For the future, training needs to achieve a better match between peoples’ skills and those that employers demand, and should place greater emphasis on ‘soft’ or generic ‘employability’ skills.

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Richardson also highlights that qualifications are not necessarily the same as ‘skills’, since how skilful a qualified person is at doing their job varies, especially when employability skills are not incorporated into the qualifications. Thus, an employee with a certified qualification to do the job may still be considered unsuitable and/or to lack the necessary skills if they do not have the required employability skills and personal attributes. The failure to recognise this in past approaches to training has led the Ministerial Council to adopt an Employability Skills Framework that splits up desirable characteristics into personal attributes and key employability skills. This framework, shown in Table 2.5, presents training providers with the challenge of delivering both job-specific and general training to develop all-round skills and competencies.

<table>
<thead>
<tr>
<th>Key employability skills</th>
<th>Personal attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication</td>
<td>Loyalty</td>
</tr>
<tr>
<td>Team work</td>
<td>Commitment</td>
</tr>
<tr>
<td>Problem-solving</td>
<td>Honesty and integrity</td>
</tr>
<tr>
<td>Initiative and enterprise</td>
<td>Enthusiasm</td>
</tr>
<tr>
<td>Self-management</td>
<td>Reliability</td>
</tr>
<tr>
<td>Learning</td>
<td>Personal presentation</td>
</tr>
<tr>
<td>Technology</td>
<td>Commonsense</td>
</tr>
<tr>
<td></td>
<td>Positive self-esteem</td>
</tr>
<tr>
<td></td>
<td>Sense of humour</td>
</tr>
<tr>
<td></td>
<td>Balanced attitude to work and home life</td>
</tr>
<tr>
<td></td>
<td>Ability to deal with pressure</td>
</tr>
<tr>
<td></td>
<td>Motivation</td>
</tr>
<tr>
<td></td>
<td>Adaptability</td>
</tr>
</tbody>
</table>

Source: http://www.training.com.au/portal/site/public/menuitem.6ef4bdef8aa3ac80f9fa5a1017a62dbc/
As Chapter 2 discussed, there is currently a pool of people who would like to work but are either unemployed or only marginally attached to the labour force, or who are employed in part time or casual jobs and would like to work more hours. Potentially, these people represent a substantial addition to the labour supply. The key to preventing a significant reduction in the labour force participation rate in the future, as our population ages and the ratio of aged to working-age people increases, is to tap into this sizable pool of unemployed and underemployed people and get them back into the labour force, and enable them to work the hours they would like – thus increasing the effective labour supply in NSW. We also need to prevent other people who could continue to work from dropping out of the labour force.

To do this, the Tribunal believes we need to use vocational education and training (VET) to up-skill those who are unemployed or outside the labour force – so they have the skills that are in demand in a high-wage, high-productivity economy – and to ensure that those who already have jobs can upgrade or expand their skills in response to structural changes in the economy and continual changes in technology and demand. This approach, which has not been given a lot of emphasis in recent years, can be a powerful lever for increasing the supply of skilled labour, improving labour market outcomes and, ultimately, raising potential economic growth.

Of course, other supporting policy changes will also be needed, as many factors affect the incentives and disincentives for people to work. These factors include income support arrangements, retirement income and pension policies, taxation and family benefits arrangements, and the availability of childcare to name a few. But the Tribunal believes that there can be no effective response to the problems posed by the ageing population, and no increase in employment participation, without an increase in VET. The key will be achieving the right balance of creating incentives and removing disincentives for moving from welfare to work, and providing effective training and other support that will make it possible for people to succeed in finding and keeping productive work.

Not all the areas that require reform are the responsibility of the NSW Government. For example, policies on taxation, social welfare payments and childcare are under the control of the Australian Government. As the benefits of higher employment participation in NSW will benefit both these governments, both need to take action now to avoid the poor long-term economic outlook projected in the Australian Government’s Intergenerational Report and the recent NSW Budget Papers.33

The sections below discuss why the Tribunal believes a greater emphasis on VET is critical for increasing labour force and employment participation, and set out the broad actions that need to be taken as part of this approach.

33 NSW Government, NSW Long-Term Fiscal Pressures Report, 2006-07 Budget Papers, Budget Paper No. 6, NSW Treasury.
3.1 Why greater emphasis on VET is critical

Vocational education and training is one of several approaches that could be used to increase labour force and employment participation. The Tribunal believes a greater emphasis on this approach is critical for two reasons. First, a significant body of evidence suggests that increasing skill levels in the potential labour supply through education and training lifts labour force participation, reduces unemployment, and increases productivity.

Second, encouraging people to enter or re-enter employment by providing them with the skills required for success in today’s labour market has significant advantages over alternative policy approaches, such as changing income support arrangements or changing the structure of relative wage rates. In particular, the Tribunal believes the increase in labour force and employment participation that can be achieved through these alternative approaches is limited by the constraints and disadvantages associated with them. In addition, these approaches will not necessarily lead to the higher economic growth required to offset the fiscal pressures on governments that the ageing population will create.

3.1.1 Evidence that education and training increases employment participation and productivity

In Australia, census data clearly show that for all age groups, labour force participation rates increase as the level of education increases (Figure 3.1). These data also show that labour force status improves as educational attainment increases: between the 1981 and 2001 censuses, the share of employment fell for men of all educational levels, but those with the highest qualifications (degree or higher) were the least affected, and those with the least qualifications (no post school) were the most affected. Similarly, the share of employment grew for all women, but this growth was substantially faster for those with post-school qualifications than for those without (Table 3.1).

Figure 3.1 Labour force participation rates by age and educational attainment, NSW

![Figure 3.1 Labour force participation rates by age and educational attainment, NSW](image)
Table 3.1 Change in the share of labour force status by educational attainment, NSW (%)

<table>
<thead>
<tr>
<th></th>
<th>Degree or higher</th>
<th>Non-degree post school</th>
<th>No post school</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Males</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed</td>
<td>-5.2</td>
<td>-9.5</td>
<td>-13.1</td>
</tr>
<tr>
<td>Unemployed</td>
<td>1.5</td>
<td>1.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Not in the labour force</td>
<td>3.7</td>
<td>7.7</td>
<td>11.1</td>
</tr>
<tr>
<td><strong>Females</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed</td>
<td>5.1</td>
<td>4.9</td>
<td>3.2</td>
</tr>
<tr>
<td>Unemployed</td>
<td>-0.2</td>
<td>1.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Not in the labour force</td>
<td>-4.9</td>
<td>-6.2</td>
<td>-3.9</td>
</tr>
</tbody>
</table>


There is also evidence that higher levels of education and training have a particularly positive effect on the employment participation of older people in the Australian labour market. For example, Karmel and Woods found that, in the decade from 1993, the male employment participation rate increased by 5.6 percentage points from the depths of a recession. While much of this increase was a natural part of recovery from recession, 1.4 percentage points can be attributed to an increase in skill qualifications. For women, the employment participation rate increased by 13.1 percentage points, of which 5.5 percentage points can be attributed to an increase in skill qualifications. However, for men aged 40 to 60 years, the proportion of the increase attributable to an increase in skill qualifications was higher than that for all men. This effect was even more significant among women in this older age group. Karmel and Woods also found that recently obtained qualifications are more likely to increase the employment participation of older people than those gained when they were young. This is especially true of higher level qualifications, such as the Certificate III or IV level or above.34

Worldwide, research by the OECD shows there is a clear link between education and training and a country’s labour market performance. In its 2004 Employment Outlook,35 the OECD found that at the aggregate level, there is a strong cross-country correlation between employment performance and both initial education and adult training. After controlling for the effects of education, GDP growth and institutions, it still found a significant relationship between employee training and aggregate employment. The OECD suggested that this relationship is essentially due to the correlation between adult training and labour force participation.36 At the individual level, it found a strong association between people’s training histories and their employment outcomes (which the above evidence for Australia confirms). In addition, training appeared to have a stronger impact on both subjective and objective measures of employment security than it did on wage growth, for both older and low-educated workers.

36 Ibid. p 190. According to the OECD “Between 42 per cent and 46 per cent of the residual cross-country variance of labour force participation rates is statistically explained by the variance of training participation rates.”
The OECD also found substantial correspondence between results at the aggregate and individual levels for employment and labour participation, although this is not the case for the impact of training on unemployment. While the OECD suggested that this may be due to the displacement of individuals who do not receive education and training by those who do (‘crowding-out’), the evidence indicates that, within each specific labour market group, crowding-out effects, if any, are not large. The OECD concluded that:

… the fact that there is no evidence of large intra-group displacement effects of training lends strong support to the idea that appropriate policies can improve the labour market position of specific targeted groups.

It is important to note that no economy has a fixed stock of jobs. If this were the case, training or qualifications could be considered a way of allocating that fixed stock of jobs, and extra training for some people would mean that other people have to move to lower skilled jobs (or lose their jobs) as they become the least skilled or qualified. Instead, if people’s capabilities are increased, and they desire or are made to work, then the economy can expand faster and create more jobs without risking higher inflation, while broadly maintaining the existing relative wage structure.

Because higher skill levels allow people to earn higher wages, education and training also create stronger incentives for them to remain in the labour force, and to find work if they do become unemployed. The OECD found that in the last 30 years, unskilled workers have experienced an adverse demand shift, “compressing their labour market earnings (and therefore their incentive to participate) and/or worsening their unemployment prospects, to the extent that the wage structure cannot fully adapt.” In contrast, workers who receive continuing vocational training have encountered higher wage growth. According to the OECD:

... a significant part of this association reflects the causal impact of training on productivity and wages. Trained workers also benefit from more secure employment prospects: although there is considerable variation across countries, on average, a 10% increase in the time spent by an adult on education or training is estimated to be associated with: (i) an increase in the probability of being active [in the labour market] of about 0.3 percentage point; and (ii) a fall in the probability of being unemployed of almost 0.2 percentage point.

Thus the more educated and skilled workers are, the more productive they can be. Research has attempted to measure the effect of education on productivity in two broad ways. The first looks at relative wages across skill levels, and attempts to estimate the ‘private return on education’, or the increased wages received by workers who have done an extra year of education (see Appendix 6 for details). The second looks at levels of education and income

37 Ibid. p 185.
38 Ibid.
39 Ibid p 187. For example, the OECD cites Nickell and Bell’s 1996 finding that, even under the most conservative estimates, 10-30 per cent of the increase in the unemployment rate of the G7 countries examined between 1970 and 1990 is attributable to a skill-biased demand shift.
41 Ibid.
Increasing labour force and employment participation across countries. The findings from this research indicate that additional years of schooling do yield increased wages (Figure 3.2) and also add to GDP.

Figure 3.2  Index of relative earnings for workers by educational levels

3.1.2 Constraints and disadvantages of alternative approaches to increasing employment participation

As noted above, in addition to education and training, several other approaches can be used to increase labour force and employment participation:

- One is to change the income support arrangements for working-age people who are not employed – for example, by reducing the level of benefits, adjusting the means tests, or tightening eligibility requirements – so that there is a greater incentive (or pressure) for them to move from welfare to work.

- Another is to change the structure of relative wage rates, so that industry is able to employ more workers for less cost (and thus potentially compete with developing country producers).

As with all cross-country studies, the strength of any conclusions is limited by the availability of comparable data.

Aschenfelter O. and Krueger A., (1993) undertook a study of wage data for a sample of twins in the US. They found that an additional year of schooling resulted in increased wages of between 12 per cent and 16 per cent. An Australian study (Miller P., Mulvey C., Martin, N.G, (1995) using similar twins data collected in the 1980s) found an extra year of schooling led to a wages increment of around 7.5 per cent. This ignores the effects of schooling on wages within occupations, instead focusing on the effect of education on wages through the impact on the occupation of the individual. Research by Bassanini A., Hemmings P. and Scarpetta S., (2001) of the OECD indicates that an extra year of schooling eventually raises GDP by around 6 per cent. This approach has not (as yet) incorporated the further refinement of adjusting for cross-country differences in educational quality. Note that this figure combines the productivity and participation channels of higher education levels.
To some extent, the Australian Government has already begun to use these approaches, and it is likely that they will lead to some increase in labour force and employment participation. However, the Tribunal considers that this increase will be limited by the constraints and disadvantages associated with these approaches, and will not necessarily lead to the higher economic growth required to offset the fiscal pressures on governments as a result of the ageing population. In contrast, using education and training to encourage people into employment does not suffer from these constraints and disadvantages, and is also likely to enhance the effectiveness of the alternative strategies already in place.

The sections below provide a brief assessment of the alternative approaches, taking into account their likely effectiveness and consequences for economic efficiency and equity.

**Changes to income support arrangements**

Recent changes to the Australian Government’s income support programs to encourage labour force participation have included changes to payments to some groups, stronger work incentives, new requirements to look for work and an increased emphasis on the provision of employment-related services. Tighter eligibility requirements have been introduced for new applicants for Disability Support Pensions and parenting payments. New Disability Support Pensioners who have the capacity to work more than 15 hours a week will be required to look for work or engage in an activity that will increase their chances of finding work. New recipients of parenting payments who are the principal carers in families where the youngest child is aged over six will be required to look for work or undertake a similar activity.

These measures are likely to be effective in encouraging some people to find work, especially if the labour market remains buoyant. But it is skilled labour that is in short supply, not unskilled. And many of the people who are being pressed to move from welfare to work currently lack the skills to be competitive, and are facing a shortage of (unskilled) job opportunities. This suggests that without the provision of effective VET programs, and new requirements to participate in these programs, the effectiveness of these income support measures will be limited.

In addition, concerns about the consequences for equity limit the extent to which benefits can be restricted or reduced. For example, those who are no longer eligible to receive the Disability Support Pension or parenting payments will still qualify for unemployment benefits if they are unable to find work, so long as they are looking for work. The new eligibility requirements simply introduce conditions for receipt of Disability Support Pensions and parenting payments that are similar to those that already apply for unemployment benefits. The unemployment benefit itself has not been reduced, nor has it been made generally less available.

Given the growth of incomes in the community generally, it seems unlikely that unemployment benefits will become less generous in the near future. This limits the extent to which changes to income support payments can be made to encourage employment participation. As a consequence, it also limits the likely increase in employment participation that will be achieved through this approach on its own.
Changes to the structure of relative wage rates

An alternative policy approach is to allow inequalities in relative wage rates to increase. The underlying argument for this approach is that recent changes in technology (such as the much increased use of computers) and in demand (such as increased emphasis on business and personal services) have made certain skills much less valuable to the market than they used to be. Therefore, it can be argued that the wages paid to people possessing those skills need to fall, to increase employers’ demand for their labour.

The Australian Government has paid particular attention to establishing new arrangements for setting minimum wages, which particularly affects the employment of unskilled workers. A new body, the Australian Fair Pay Commission, is responsible for varying the national minimum wage, all other wages specified in awards and casual pay loadings. The Commission recently increased minimum wages in line with the increase in other wages.\textsuperscript{44} This means it chose not to reduce the minimum wage relative to other wage rates.

In practice, as the Fair Pay Commission recognised, the effectiveness of reducing minimum wages as a policy for increasing employment participation is constrained by two factors. First, the level of social welfare payments (pensions and benefits) effectively sets a floor to the minimum wage. To preserve incentives for people on low wages to work, there needs to be a gap between these payments and the level of minimum wage.

Second, only a small proportion of employees earn a wage at or around the minimum wage, and the available evidence suggests that there is only a low elasticity of employment demand to a reduction in wages. The Fair Pay Commission reports that estimates of this elasticity range from -0.2 to -0.8.\textsuperscript{45} Using the upper end of this range, the Tribunal estimates that a 5 per cent decline in the minimum wage relative to the average wage could create employment for roughly another 30,000 people. These 30,000 people would enjoy a small increase in income, after allowing for taxes and loss of benefits, but the wages of some 1.25 million existing employees on the minimum wage would fall by this same 5 per cent.

Increased vocational education and training

The Tribunal believes that increasing vocational education and training is a more attractive strategy for increasing labour force and employment participation than the alternatives discussed above, because it is not subject to the constraints and disadvantages of these alternatives. It is therefore likely to be more effective and more equitable than these alternatives.

Moreover, the Tribunal believes that a balanced reading of the evidence available to it suggests that the most effective way to increase employment participation is a three-pronged approach that involves:

- a flexible labour market
- the principle of mutual obligation in relation to social welfare benefits for those who are unemployed
- well-designed active labour market programs that include training.

\textsuperscript{44} In October 2006 the Fair Pay Commission announced an increase of $27.36 per week for minimum wage rates up to $700 per week and $22.04 per week for minimum wage rates $700 per week and above.

For example, countries that have achieved very high rates of employment participation – such as Denmark, the Netherlands, Sweden, Norway and Switzerland - typically also make relatively large investments in active labour market programs (ALMPs) that involve a combination of training and employment experience. These countries have also been able to achieve relatively high levels of income equality – they rank lowest amongst OECD countries in terms of income inequality, as measured by the Gini coefficient of income concentration.46

In addition, in countries that have achieved a significant reduction in equilibrium unemployment – such as the United Kingdom and the Netherlands – increasing the flexibility of their labour market, combined with restructuring of their benefit systems, and providing ALMPs targeted at the long-term unemployed appear to have been instrumental. (Box 3.1 provides a more detailed overview of this evidence).

Interestingly, overall employment participation in Australia is reasonably high compared to many other developed countries, despite relatively low expenditure on active labour market programs. The Tribunal believes, however, that Australia’s relatively satisfactory rate of employment participation most likely reflects other compensating factors, and that any increase in employment participation will be most effectively achieved by increasing training in line with the best performing countries.

The Tribunal considers that Australia is already moving towards a flexible labour market: as the world economy has become more competitive, and the rate of female employment participation has increased, our labour market has inevitably had to respond flexibly to the needs of enterprises and their employees. We also seem to have accepted the general principle of mutual obligation: government provides a safety net for people who are unemployed or outside the labour force, and in many cases these people are obliged to look for work and may be obligated to participate in either an employment or community activity (such as the Work for the Dole scheme or Community Work) or undertake training (including approved language, literacy and numeracy training or part time study in an approved education or training course).

What is missing is the provision of well-designed active labour market programs that target those who are unemployed, not in the labour force or marginally attached to the labour force. The Tribunal notes that delivery of labour market programs to assist these re-entrants has been the responsibility of the Australian Government. It believes that government obligations towards the unemployed and those not in the labour force should be extended to include providing them with opportunities to undertake the training they need to acquire skills that are in demand by employers. In return, people on benefits should be obligated to take up these opportunities, or risk losing some or all of their benefit (unless there are medical reasons for their not doing so).

The Tribunal’s views on what constitutes well-designed training, and the likelihood that its recommended increase in training will succeed in lifting employment participation and economic growth, are discussed in section 4.4.

Box 3.1 Effective approaches to increasing employment participation in other countries

OECD research suggests that countries with high employment participation rates typically also spend heavily on active labour market programs (ALMPs involving a mix of training and employment experience). For instance, in 2004 Denmark’s employment participation rate (measured as labour force participation minus the unemployment rate) was second highest amongst OECD countries at 74.5 per cent, and its expenditure on ALMPs was the highest, representing 1.8 per cent of its GDP (Figure 3.3.). Other countries that invested heavily in ALMPs and achieved relatively high employment participation rates include Sweden (72.1 per cent), Switzerland (76.4 per cent), Norway (74.2 per cent) and the Netherlands (70.8 per cent). In comparison, the USA and Australia spent relatively little on ALMPs, and employment participation is lower in both countries.

Both the UK and the Netherlands have experienced a significant reduction in equilibrium unemployment since the 1980s. The factors that appear to have been instrumental in this are the introduction of wage-bargaining systems; the gradual restructuring of their benefit systems (to reduce benefits and increase pressure to take jobs); and the provision of active labour market programs targeted at the long-term unemployed.

A report prepared for the UK’s Department for Work and Pensions concluded that while the duration and levels of benefits influence unemployment, more important factors were the help that unemployed people get in finding work, and the conditions that apply to the receipt of benefits. That is, these two factors – active labour market policy and benefit conditionality – work best in conjunction with each other. For the employment of older workers, the report concluded that what matters is:

- reduced subsidies to inactivity, used if necessary to finance employment subsidies
- lifelong learning
- an older retirement age, where appropriate, and
- anti-discrimination legislation.

What this evidence seems to suggest is that although training is not the only driver of employment participation, it is a key driver. Other important elements appear to be a flexible labour market and conditions attached to benefits. Of course, it is possible to combine all of these factors. Indeed, the experience of Denmark suggests that it is easier to introduce labour market flexibility, which includes the risk of less job security, if that flexibility is accompanied by ALMPs designed to help those who do lose their jobs to get back into work faster.

Figure 3.3 International comparison of expenditure on active labour market programs


47 OECD, Employment Outlook 2006, Statistical Annex, Table B.
49 Ibid.
3.2 Broad actions required under a VET approach

The Australian and NSW Governments need to use the VET system to ‘up-skill’ the potential labour supply, so that the structure of the labour market and the skills on offer better match those that will be in demand in a high-wage, high-productivity economy. The specific actions involved in this approach are discussed in the following chapters; however, broadly speaking, it will require a range of actions designed to:

- provide the necessary skills to those who are unemployed or not in the labour force to re-enter employment
- arrest the decline in male labour force participation
- maintain and increase female labour force participation
- improve the match between demand and supply of labour in certain locations, and
- encourage people to work in the areas in which they are skilled/qualified.

3.2.1 Providing the necessary skills to those who are unemployed or not in the labour force

People who have been disengaged from work for a long time, including the unemployed, will need more intensive assistance than job search training to get back into work. The training will need to be designed to update and improve their vocational skills, to enable them to become active in the labour market again. Most likely, it will also need to help them improve their self-confidence and acquire more general employability skills, such as communication, literacy, numeracy, teamwork and computing skills. Case Study 3.1 below, which outlines the MASTERS program provided by TAFE NSW South Western Institute, provides an example of the sort of programs that will be required.

Case Study 3.1: TAFE NSW South Western Sydney Institute
Mature Age Skills Training and Education Recruitment Strategy (MASTERS) program

MASTERS is an accelerated adult apprenticeship program offering trade qualifications in the manufacturing and engineering industry to experienced, mature-aged workers. The aim of the project is to address the shortage of qualified tradespeople in this industry. The project was proposed by the Australian Industry Group and funded jointly by the Commonwealth Department of Education Science and Training, the Commonwealth Department of Employment and Workplace Relations and the NSW Department of Education and Training.

In 2005, the program targeted participants aged more than 25 years with at least three years industry experience, as part of the TradeStart@TAFE program. Twenty participants joined the program. All these participants were unemployed, and 12 were aged over 40. Their current skill levels were assessed in relation to that of a first year apprentice to identify skill deficiencies, and their existing skills and experience were taken into account through the Recognition of Prior Learning. The participants were then up-skilled to minimum competency standards for a trade qualification and placed into jobs in the manufacturing and engineering sector. The success rate of the program was high, with 80 per cent (16) of participants gaining employment in the industry.
3.2.2  Arresting the decline in male labour force participation

As Chapter 2 discussed, the labour force participation rate for males in NSW has fallen significantly over the last few decades. While this decline has affected men across all education levels, the group it has hit the hardest is those in their late 40s and 50s who have no post-school qualifications (Figure 3.4).

![Figure 3.4 Change in male labour force participation by age and education from 1981 to 2001 for NSW](image)

This is consistent with Kennedy and Hedley’s research on the link between education and labour force participation in Australia, which showed that:

- people who didn’t finish year 12 schooling have noticeably lower labour force participation rates than those who did, and
- the decline in labour force participation over the last two decades for males aged less than 55 was almost entirely confined to males who did not complete secondary school and who obtained no further qualifications.\(^{50}\)

Together, these findings strongly suggest that further education and training is required to help mature-aged men re-enter the labour force.

The design of training programs and other policies aimed at helping people who have been disengaged from work, especially mature-aged men, to re-enter the labour force will need to take account of the personal circumstances of people in this group. In particular, they will need to consider their:

- **Financial needs.** Mature-aged workers are more likely to have the responsibility of supporting a family and the burden of a mortgage. Thus, training programs for them cannot take three or four years to complete, as many traditional courses do, as this would discourage the uptake of these programs. In addition, most trainees in this

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group will be part time, and their ability to access training will depend on when and where it is provided. The social welfare system should continue to monitor and review the adequacy of the financial support available to mature-aged workers seeking full-time training.

- **Qualifications and skills.** Mature-aged people who have worked in the past come with past experience, knowledge, skills and habits. Training programs for this group may need to help them identify the best way to build on this existing experience and knowledge, and update their skills and competencies, so they can become competitive in the current labour market as quickly as possible.

### 3.2.3 Maintaining and increasing female labour force participation

The labour force participation rates for women in all working age and education groups have generally increased over the past decades. Although this is a promising sign, the experience in other countries suggests that these rates could be higher. To help more women make the transition to work or back into work, policy makers need to consider a range of issues:

- **For women without post school qualifications,** further education and training will be essential. However, just as for mature-aged men, the design of training programs targeted at this group will need to take into account their financial needs, qualifications and skills (as discussed above).

- **For women with young children,** access to affordable childcare is critical if they are to enter or re-enter the labour force. In addition, as some of these women will have been out of the labour force for several years, refresher training may be needed to enable them to update their skills.

- **For women with other family commitments,** more flexible work arrangements would also help make the move back to work much more easy. For example, women who are responsible for caring for children or ageing parents may not be able to work long hours or full time. More flexible working arrangements could also benefit males with family commitments.

### 3.2.4 Matching demand and supply in certain locations

Mismatches between the demand for and supply of skills within certain geographical areas can also contribute to skill shortages. The economy of any region depends on the particular business investment and population characteristics of that region.

To some extent, regional skill shortages can be addressed by importing labour with the necessary skills from other areas, or even other countries. But encouraging people to move large distances for work is not always feasible or efficient. In addition, migrants with the right job-specific skills and qualifications may still need general training, such as literacy programs, to help them to become productive workers in Australia.

The most effective strategy for addressing regional skill shortages is to provide people who already live in the area with access to quality training programs, so they can develop the skills that are in demand in their community. Although providing extensive access to a variety of training programs in rural and regional areas can present resourcing problems, with innovative approaches these problems are not insurmountable. For example, the NSW
TAFE Western Institute has a range of mobile workshops and resources that service remote and small communities. Riverina Institute works collaboratively with other education providers and businesses in the area to provide training more efficiently.

### 3.2.5 Encouraging people to work in the areas in which they are skilled or qualified

Both the NCVER and NILS reports the Tribunal commissioned for this review found that a sizable proportion of skilled and qualified people either work in areas that do not require their skills, or are unemployed or out of the labour force. Data from the ABS Education and Work Survey shows that around 20 per cent of people holding VET qualifications are working as intermediate production and transport workers, elementary clerical, sales and service workers and labourers (Table 3.2). None of these occupations are considered to require VET qualifications. These data are consistent with the findings in the NILS report (for details see Section 3 of the NILS report).

<table>
<thead>
<tr>
<th>Table 3.2 Numbers of VET qualified people by occupation in Australia (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Occupation</strong></td>
</tr>
<tr>
<td>Managers and administrators</td>
</tr>
<tr>
<td>Professionals</td>
</tr>
<tr>
<td>Associate professionals</td>
</tr>
<tr>
<td>Tradespersons and related workers</td>
</tr>
<tr>
<td>Advanced clerical and service workers</td>
</tr>
<tr>
<td>Intermediate clerical, sales and service workers</td>
</tr>
<tr>
<td>Intermediate production and transport workers</td>
</tr>
<tr>
<td>Elementary clerical, sales and service workers</td>
</tr>
<tr>
<td>Labourers</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>


In a dynamic labour market, with around 3 million Australians changing their job each year, it is not reasonable to expect an exact match between the available stock of skills and those in demand. Nevertheless, the large number of people working in jobs for which they appear to be ‘over-qualified’ raises the question of whether we might already be over-training, and whether more training will be the best way to overcome present skill shortages and lift employment participation in the longer term.

There are several possible explanations for the high number of workers with vocational skills and qualifications who are either working in occupations with a lower skill requirement, or are unemployed or not in the labour force. Research by NILS shows that for all occupational levels, the number of people holding formal qualifications has increased since 1997.

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effect, whereby higher educated workers are taking the jobs that used to be held by lower educated workers. The NILS report also suggested that the trend among employers to demand higher employability skills for all types of jobs has also contributed to this effect.

Another explanation is that some people choose not to work in the area in which they are qualified because they can obtain higher wages and/or better conditions outside this area (for more details see Chapter 5 and the NILS report). During the Tribunal’s consultations, several stakeholders suggested that in many occupational areas – particularly the skilled trade areas – the range of work has narrowed, and the scope for workers to use their own initiative and pursue a worthwhile career path has diminished. For example, in the building and construction trades, employers are increasingly using independent contractors and casual employees rather than taking on full-time workers. The absence of a career path and job security for contractors and casual workers may discourage skilled people from working within these trades.

The Tribunal considers that each of these explanations is likely to be true to some extent. What is clear is that while some people may choose not to work in the occupations for which they hold qualifications, in other cases, this decision is driven by labour market conditions – and this represents an unfortunate waste of resources. If we want to make full use of the state’s skill base, we need to take a range of actions to encourage skilled workers to re-enter the occupations for which they are qualified.

Education and training will have some role to play here. For example, people who have not worked in an occupation that requires their skills and qualifications for some time may need refresher training to enable them to update their skills. However, changes in work conditions and benefits are likely to be more important factors affecting this group (see Chapters 5 and 9 for more detail).
4  FORECASTING THE FUTURE DEMAND FOR VET

As Chapter 3 discussed, there is ample evidence that increasing the skill levels in the potential labour supply through education and training lifts labour force participation, reduces unemployment, and increases productivity. But how much training will we need to ensure that we have sufficiently high levels of labour force participation and productivity to avoid the economic and social consequences of our ageing population? And what type of training will be needed?

To help explore these critical issues, the Tribunal engaged Access Economics to forecast the extent and nature of employer demand for VET over the next 20 years. Access Economics’ report is available at www.ipart.nsw.gov.au. Its key findings, and the Tribunal’s analysis of how government investments in additional training should be delivered and the likelihood that these investments will succeed in lifting employment participation and increasing economic growth, are discussed in the sections below.

4.1  How much training will be needed?

In 2005, more than 120 million hours of VET training were provided to over 562,000 students in NSW.\textsuperscript{52} To forecast the likely demand for training in the future, Access Economics developed projections for two scenarios:

1. A baseline Intergenerational Report (IGR) scenario that assumes that present trends and policies continue, with no particular initiatives to manage the impact of the ageing population. Under this scenario, the overall rate of labour force participation declines and skill shortages restrict economic growth, consistent with the projections in the Australian Government’s Intergenerational Report.

2. A target scenario that assumes that government policies succeed in increasing the labour force participation rate in NSW to the national level, then maintaining it, using training as an important lever. Under this scenario, labour productivity increases, and economic growth is sufficient to service the state’s ageing population.

If we take no action to increase labour force and employment participation – the IGR scenario – Access Economics projects that, due to the forecast changes in the state’s population and economic growth, VET hours and student numbers will grow by an annual average of around 1.0 per cent over the next 20 years.

However, if we effectively use education and training as a lever to increase this participation and avoid the economic problems associated with an ageing population – the target scenario – Access Economics projects that VET student numbers and hours\textsuperscript{53} will need to grow by an annual average of around 2.5 per cent over the next 20 years. Importantly, more growth in training will be required in the next 10 years – an annual average of around 3 per cent – to help kick-start the targeted changes in labour force participation. In the subsequent 10-year period, annual average growth of around 1.5 per cent will be sufficient.

\textsuperscript{52} NCVER, \textit{Australian vocational education and training statistics: Students and courses 2005}, July 2006.

\textsuperscript{53} The estimate of hours of VET required reflects a maximum amount of training delivered institutionally. Where a combination of institutional and work-based training is adopted, the total number of hours could be greater (as set out in section 4.3). This is because, in terms of skills development, work-based training would be less intensive than institutional training and it is therefore expected that there would be (comparatively) more of it.
Although this level of growth is more than double the growth expected to occur if no action is taken to increase labour force participation, historical experience suggests that it isn’t particularly high. For example, between 1981 and 2005, the average annual growth in VET student numbers was around 3.0 per cent. During the 1990s, this growth was more than 7.0 per cent.

In addition, the level of growth under the target scenario is broadly consistent with the NSW State Plan, which identifies vocational education as a priority area of focus to provide students with more pathways to fulfil their potential and to encourage the population to learn throughout their lives (see Box 4.1). Adopting the Tribunal’s recommendations should ensure delivery of the vocational education targets within the State Plan.

An overview of the approach Access Economics used to develop these projections is provided in Appendix 2.

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**Box 4.1 The State Plan**

The State Plan sets a goal to achieve a VET participation rate of 16 per cent by 2016. This means that by 2016, 16 per cent of the population aged between 15-64 years old – or some 780,000 people – will be VET students. By comparison under the Tribunal’s target scenario, the projected number of VET students in 2016 is 760,000 which is not significantly different over a ten year projection.

The State Plan also targets more specific areas for vocational education, namely by 2016:
- 90 per cent of students will complete year 12 or a recognised vocational training program, and
- 300,000 people in regional areas would participate in VET.

To achieve these goals, the State Plan recognises that there will need to be a collaborative effort between the NSW and Australian governments, industries and individuals. This is consistent with the Tribunal’s views (for example, see section 3.1.2 and 4.4.3).

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**4.2 What type of training will be needed?**

The Tribunal considers that to increase labour force and employment participation, the training effort will need to achieve two major goals. The first is to arrest the current decline in labour force participation by re-skilling and up-skilling those who are unemployed, have dropped out of the labour force, or are at risk of dropping out. The second is to improve labour force participation rates over time, by increasing the overall level of education and training and ensuring that workers can readily adapt and learn new skills throughout their working lives as technology and patterns of demand continue to change more rapidly than they have in the past.
To achieve these goals, government initiatives need to focus on providing increased levels of three types of training:

- **Re-entrant training** that targets people who are currently unemployed or not in the labour force. This training should be designed to update and improve the vocational and employability skills of participants, to enable them to become active in the labour market again. The training and support provided needs to be well targeted, and longer and/or more intensive than typical VET programs.

- **Continuing training** that targets people who are already employed, to enable them to maintain and upgrade their skills so they continue to be competitive in the labour market. This type of training is based on the concept of ‘lifelong learning’ (see Box 4.2). It would seek to prevent a reoccurrence of the experience of the last two decades, where male labour force participation dropped as blue collar workers were forced into premature retirement or onto the disability support pension as the demand for their skills decreased. It would also serve to offset the reduction in the levels of employer-provided training that have accompanied the increase in part time and casual employment.54

- **Refresher training (a type of continuing training)** that targets people who are underemployed, to enable them to maintain their skills and move towards fully utilising their qualifications. These training programs will also serve as a preventative measure to ensure that people who are currently underemployed do not find that their skills become outdated.

Access Economics projected the demand for each of these types of training over the next 20 years, as a proportion of total VET hours provided. It found that re-entrant training is likely to represent an increasing proportion to 2015, then a decreasing proportion to 2025. This reflects the fact that this type of training is designed to kick-start the increase in labour force participation by getting people who are unemployed or have left the labour force back into work – and that it may require reasonably long programs to achieve this goal, given the nature of the target group. Given the ageing of the population, continuing training is likely to continue to increase as a proportion of VET hours over the whole 20-year period. Continuing training should become an increasingly important tool for up-skilling the labour force to meet the challenges posed by future changes in technology and other developments.

There will still be a need for new apprenticeships for new entrants to the workforce. However, the demand for this type of training, as a share of total training, is expected to decline significantly over the next 10 years, and then continue to decline moderately to 2025.

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Box 4.2 Lifelong learning

Lifelong learning can be defined as:

all learning activity undertaken throughout life, with the aim of improving knowledge, skills, and competences within a personal, civic, social and/or employment-related perspective. 55

The Scandinavian countries’ high rates of labour force participation (and VET participation) for both males and females is often related to their commitment to lifelong learning. These countries aim to ensure that all adults have access to learning opportunities throughout their lives. Learning is seen as important from an economic perspective (because it leads to increased productivity) and also for personal and social reasons.

In Australia, the concept of lifelong learning is currently poorly understood. But with the rate of change in technology, and the associated changes in the organisation of work and labour market, lifelong learning is becoming essential.

Under the target scenario, the growth in VET demand over the next 20 years will be driven by the change in the composition of the type of training required. As the population ages, it can be expected that the share of training for new labour market entrants will decline while training for re-entrants and continuing training will become more and more vital.

Increases in the share of continuing and re-entrant training, under both the IGR and target scenarios, can be expected to increase the average age of VET students. In fact, this increase has already begun to happen in recent years. NCVER information on VET student enrolments shows that around 40 per cent of students are aged over 35. 56 Access Economics’ projects that over the next 20 years, the proportion of VET students aged 25 and over is likely to increase if present policies are continued, while the share of those aged under 24 is likely to decline slightly. These trends are likely to be more marked under the target scenario (Table 4.1).

<table>
<thead>
<tr>
<th>Share of VET students by age</th>
<th>2005</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>IGR</td>
</tr>
<tr>
<td>19&amp; under</td>
<td>%</td>
<td>24.7</td>
</tr>
<tr>
<td>20-24</td>
<td>%</td>
<td>18.3</td>
</tr>
<tr>
<td>25-29</td>
<td>%</td>
<td>10.5</td>
</tr>
<tr>
<td>30-39</td>
<td>%</td>
<td>18.3</td>
</tr>
<tr>
<td>40-49</td>
<td>%</td>
<td>16.0</td>
</tr>
<tr>
<td>50-59</td>
<td>%</td>
<td>9.1</td>
</tr>
<tr>
<td>60+</td>
<td>%</td>
<td>3.2</td>
</tr>
<tr>
<td>Total number of students</td>
<td>,000</td>
<td>539</td>
</tr>
</tbody>
</table>

Source: Access Economics modelling outcomes.


56 NCVER, National VET Provider Collection, July 2005, Table 3.
Access Economics also considered how much of the future demand for VET will need to be driven by government initiatives, and the level of demand within different occupational areas. Its findings on each of these issues are discussed below.

### 4.2.1 How much of the future demand for VET will be driven by government initiatives?

Access Economics distinguished between employment-driven demand and exogenous demand for training. Employment-driven training demand is the increase in training demand that occurs as a natural response by employers to increases in employment in their enterprises. Exogenous training demand is the increase in demand that results from other factors – in this case, government initiatives to provide increased levels of VET to lift labour force participation.

The Access Economics’ projections for the target scenario assumed that until 2015 most of the growth in demand for VET will be driven by government training initiatives associated with getting the unemployed and those not in the labour force back into work. However, after 2015, most of the further growth in this demand will be driven by the higher level of continuing training and by the growth in employment that these government initiatives have enabled.

Figure 4.1 shows the estimated effect of the various types of training proposed on the projected number of VET students. It indicates that re-entrant training targeted at people who are unemployed or not in the labour force and refresher training will be especially important in the next 10 years, and that continuing training will be increasingly important over the next 20 years.

**Figure 4.1  Effect of exogenous training assumptions on number of VET students for NSW, target Scenario**

![Figure 4.1](image-url)
4.2.2 What will be the demand in different occupational areas?

Detailed skills projections for individual occupations are of little use in VET planning, because the demand for specific skills within an economy depends on many uncertain factors. Indeed, past attempts at this kind of ‘manpower planning’ have generally done more harm than good, as the projections have almost always proved to be wrong and efforts to implement initiatives based on these projections have distracted attention and prevented more timely and flexible responses.

However, the Tribunal recognises that because training takes time, the ability to respond to skill demands may be lagged and some forward thinking could speed responses and help avert skill shortages. Therefore, despite the shortcomings of manpower planning, it has provided broad rather than detailed occupational forecasts as a source of information for employers and potential employees about future labour market conditions (Figure 4.2). These broad occupational projections may also help the government and education providers in planning to prepare for these future possibilities.

Currently, the traditional trades are the focus of concerns about skill shortages. However, in most cases, the demand for these trades is no higher than it was 20 years ago, and the so-called skills crisis is a very recent phenomenon. Between 1986 and 2001, there was no real growth in the number of people employed in trades, even though overall employment increased. It is only after 2001 that growth in trade jobs has resumed.

In its report to the Tribunal, NILS argued that the problem of skill shortages in the trades is more likely to be due to poor retention rates than the quantity of new entrants and levels of training. It noted that “people with trade qualifications stand out as beginning to leave trades jobs in the first period after they qualify, with a continuing outflow at every age from then on.”57 NILS suggested that the reasons for this probably include the decline in aggregate employment in the trades, relatively low pay and little pay progression with more experience (see section 3 of the NILS report).

The Tribunal is concerned that there may be an over-reaction to what may prove to be a temporary shortfall in skills in the traditional trades, which will serve to distract attention from other more significant changes that are occurring in the labour market. Unless the economy grows at a very much faster rate than projected, it seems likely that the number of VET students that will need to be trained in these trades will decline over the next two decades and possibly beyond (Figure 4.2).

The Tribunal notes that employment is projected to grow strongly in property and business services, community services and recreational services. This suggests that the number of students who will need VET training for occupational areas such as heath care, business services and hospitality can be expected to grow. The government should prioritise public funding between current areas of skill shortages and potential areas of future skill shortages.

57 National Institute of Labour Studies, Reasons why persons with VET qualifications are employed in lower skilled occupations and industries, Flinders University, Report for IPART, 2006, p 17.
Figure 4.2 Average annual growth in VET demand by occupation over the next 20 years in NSW

Source: Access Economics modelling outcomes.

### 4.3 How should re-entrant training be delivered?

Where the Australian Government has implemented active labour market programs in the past, these programs have generally involved providing unemployed people with 'work experience'. However, in the Tribunal’s view, re-entrant training should be delivered through a combination of work-based (on-the-job) training and institutional training. Both these types of training should be assessed and accredited, so that quality of the training is assured. And the precise balance between the types should depend on the individual skill needs and personal circumstances of the trainee.

The Tribunal considers that programs designed to develop employability and job-specific skills through both institutional and work-based training will lead to better outcomes for those who have been disengaged from the workforce for some time. Evidence from the United States and Europe suggests that such a ‘mixed’ approach is particularly effective for improving the employment participation of this target group (see Box 4.3). The Tribunal believes that this approach could also apply to continuing and refresher training.

While the Tribunal does not advocate a ‘return to school’ approach, it believes institutional training is a necessary component of any program aimed at getting people back into employment. People who have been unemployed for some time will need some basic training to help prepare them for on-the-job training. They may also need some general education – for example, to improve their basic numeracy and literacy. This training is best provided institutionally and up-front, and should be recognised in an assessment of competencies on starting work-based training. However, wherever possible, experiential learning approaches should be emphasised.
The work-based component of the re-entrant training should be designed to lead to an agreed set of competencies that can be formally assessed and accredited. It also needs to be properly supervised, and delivered according to a training plan designed for the individual trainee. The Tribunal favours this kind of work-based training over work experience for a number of reasons:

- First, work experience is effectively subsidised employment, and such subsidisation has a strong worker displacement effect – i.e., it can lead to high rates of churn among employees. It is also susceptible to fraud.
- Second, many of those who participate in work experience schemes are placed in unskilled or low-skilled jobs, which do not provide them with opportunities to obtain new skills. Thus, although work experience might lead to short-term employment, it does not provide the basis for a sustainable career and leaves the ‘trainee’ exposed to the risk of future unemployment as the number of unskilled jobs declines.

The Tribunal believes that work-based training can provide all the benefits of work experience (such as, exposure to work environments, and the discipline of work routines) while also genuinely increasing the skill levels of trainees and providing them with accredited qualifications.

To help ensure that the re-entrant training is focused on meeting the individual skill needs of trainees, the balance between institutional and work-based training should be based on an assessment of these individual needs. However, during the first few years that this training is offered, it will be important to collect information that will enable an evaluation of ‘what works’, and gain a better understanding of the right mix of work-based and institutional training.58 It may be necessary to alter the balance between the two modes of delivery, in line with the results of such an evaluation. This will require flexibility within the VET system and the ability to optimise and improve on current performance.

It will also be important to ensure that the re-entrant training offers trainees substantial, intensive assistance. As noted in section 4.2, for this training to be effective in getting people who are unemployed or have left the labour force back into work, it will need to be reasonably long and intensive. In its modelling, the Tribunal assumed that, on average, re-entrant training would involve the equivalent of 650 hours of institutional training, which is similar to a traineeship (i.e., a Certificate III or IV course). The average cost of this training would be just under $9,000 per trainee in today’s prices (see Chapter 10). While the Tribunal hasn’t tried to estimate the average cost of a mix of work-based and institutional training, it considers that this cost would also be in the vicinity of $9,000 per trainee. The cost-per-hour of the work-based component is likely to be less than that of institutional training, but because work-based training is less intensive, there is likely to be (comparatively) more hours of it.

The Tribunal notes that the Australian Government recently announced in its Skills for the Future package that Work Skills Vouchers worth up to $3,000 will be offered to up to 30,000 workers and jobless people with less than Year 12 qualifications, to improve their literacy and basic education and to secure vocational qualifications. The Government has suggested that these vouchers could be used to purchase Certificate II courses. While the Tribunal supports the introduction of Work Skills Vouchers to up-skill those people who are

58 For example, account must be taken of the balance between the expected emphasis on specific skills under work-based training and the potential to enhance generic skill development through institutional training.
Forecasting the future demand for VET

disengaged from the work force and get them back into employment, it believes that more co-ordinated, targeted and intensive assistance will be necessary. In particular, these vouchers are significantly less than the Tribunal’s above-mentioned estimate of $9,000 per trainee, and they are targeted at developing relatively low skill levels: the Australian Government has suggested that these vouchers could be used to purchase Certificate II courses, whereas the Tribunal believes that, to be effective, re-entrant training should be the equivalent of a Certificate III or IV course.

In addition, for a ‘mixed’ approach to re-entrant training to succeed, a coordinated, co-operative approach to delivery will be required. This approach will need to involve training providers, employers, trainees, and other agencies as appropriate.

Finally, it will be important for governments to ensure the effort and focus on re-entrant training continues over the next 10 to 15 years. There will need to be appropriate incentives for employers to be involved in providing the work-based component of the training, and for trainees to participate in both the institutional and work-based training. These incentives will comprise a mixture of training wages and income support, and such training should become a requirement for eligibility for income support (see Chapter 9).

Box 4.3: New approaches to Active Labour Market Programs

Internationally, there has been an increased focus on ‘mixed’ approaches to employment policy. These approaches combine on-the-job training with more formal skills development, as a tool for improving the employment participation of disadvantaged job seekers. They mean that training is less likely to be provided in isolation, and more likely to form part of a broader program of labour market assistance that involves work-based training, institutional training and work experience.

Evidence suggests that such mixed approaches to up-skilling are more effective than relying solely on institutional training or job search assistance. For example, an evaluation of welfare to work programs in the US found that programs focused on either job search or education and training were not as effective as programs that used mixed strategies. In Europe, the most effective programs have been found to be those that offer “more substantial training than a few weeks or months” and “training linked to employment experience, and tailored to the needs of both employees and prospective employees”. In its Employment Outlook for 2005, the OECD concluded that the largest impact from labour market programs comes from mixed strategies that offer a combination of job search support and participation in training or other active labour market programs. Such a mixed approach allows case managers to offer individuals training or similar options, along with possible opportunities for employment, and select the most effective instruments for each person.


60 OECD, OECD Employment Outlook, 2005, Chapter 4.
4.4 What is the likelihood that increased training will succeed in lifting labour force participation and economic growth?

The Tribunal has considered how likely it is that increasing the provision of re-entrant, continuing and refresher training as discussed in the sections above will succeed in lifting labour force and employment participation in NSW, and thus achieve sufficient economic growth to offset the consequences of the ageing population. If governments are to invest in additional training and supporting initiatives, there must be a reasonable chance of success.

In particular, the Tribunal has considered whether additional skills would be used by employers, whether enough people would opt to take advantage of the training places, and whether the proposed training would be effective. Based on its analysis of these issues, the Tribunal believes that realising the benefits of increased training – in terms of increased employment participation and economic growth – requires a ‘whole of government’ response by both the State and Australian Governments.

4.4.1 Will employers use additional skills?

One of the key factors that will influence success is whether the investment in the provision of additional VET is matched by an equivalent increase in employers’ demand for trained staff. In other words, will the investment in increasing the supply of skills lead to the productive use of these skills within the economy, and thus realise its full potential return? One view is that the Australian economy is now sufficiently flexible that macro economic policy can ensure that demand for skills will rise fast enough to ensure the economy makes full use of its ‘supply-side’ endowments, including its endowment of available skills. As noted in Chapter 3, the stock of jobs is not fixed. If people’s skills are increased, and they want or are made to work, then the economy can expand faster and more jobs can be created. As Michael Porter observed, “the potential rate of upgrading in an economy is set by the rate at which the quantity and especially the quality of factors improve.”

Another view is that increasing the supply of skills does not necessarily ensure that those skills will always be used to their optimum extent. In the UK, analysts have suggested that the UK economy is trapped in a low-skill equilibrium, where “a self-reinforcing network of societal and state institutions interact to stifle the demand for improvement in skill levels,” and instead there is a focus on the production of low-quality goods and services. Most recently, the Performance and Innovation Unit (PIU) in the UK Cabinet Office has argued that the relatively low productivity of the UK economy, compared to other western European nations, reflects a vicious circle where employers in substantial sectors of the economy have opted for low-value products and low-skilled methods of production. This has led to a low demand for skills, so that workers perceive little value in maintaining or upgrading their skills. In response, the UK government has concluded that it is no longer sufficient to focus only on the supply of skills, and that it must try to stimulate employer demand for skilled labour by helping employers to rethink their business and organisational strategies around more ambitious goals.

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64 Ibid.
In Australia, a somewhat similar line of argument is that where firms base their industrial strategies on cost-cutting rather than on the pursuit of opportunities for value adding, the higher level of skills provided through additional training may not be fully used, and instead may tend to ‘crowd out’ people with lesser skills. Under this scenario, full employment can be achieved by adjusting relative wage rates and creating an excessive number of unskilled jobs relative to the skill mix available.

Whether or not such a low-skill equilibrium scenario is likely in Australia is debatable. Its realisation does seem to depend on a combination of institutions and inherited culture that influence firms’ production strategies so that they do not take full advantage of the available supply of skills. In addition, these sub-optimal business strategies would then need to be maintained in the face of increasing market pressures to change if the supply of skills was increased. However, whatever the case, the Tribunal is concerned by the evidence that some people are not able to fully use their skills, and instead are employed in lower skilled jobs than their training has equipped them for (see Chapter 3). It has therefore identified a range of changes in the way skills are provided by the VET system, and particularly by TAFE NSW, to maximise the chances that these skills will subsequently be used in the economy. These changes are discussed in Chapter 5.

4.4.2 Will people undertake training and will the training be effective?

Other key factors that will influence success are whether people who are currently unemployed, but who could be employed if they had the necessary skills, will in fact come forward and take up the additional training discussed above, and whether this training will then result in the projected improvement in their employment outcomes. The Tribunal is reasonably confident that this additional training will be taken up and lead to successful outcomes for several reasons:

- First, we know that there is a substantial pool of people in NSW (around 600,000) who would like to work or work more if they could (discussed in Chapter 2).
- Second, the strong evidence of the link between employment participation and education and training (discussed in Chapter 3) suggests that the main reason why these people are currently unable to find the work that they want is that they lack the skills they need to be competitive in today’s labour market.
- Third, the Tribunal has carefully evaluated the available evidence of the impact of training programs on employment. On balance, this evidence (which is discussed in Chapter 3 and below) suggests that active labour market programs that include well designed education and training can be instrumental in reducing unemployment.

In general, active labour market policies (ALMPs) are policies that aim to influence labour market outcomes, such as employment prospects, the level of earnings, human capital formation and the re-allocation of skills.\(^{65}\) Such policies often target unemployed people and/or those people with lower skills or limited work experience. Most often, the resultant programs are designed to benefit individuals who had low levels of initial education at the time they entered the labour market.

\(^{65}\) The main distinction between “active” and “passive” labour policies is that active policies should, in principle, reduce the persistence of unemployment, whereas “passive” policies (essentially providing unemployment insurance) allow for income support without modifying the probability of employment.
The Tribunal understands that in Australia, labour market programs in general, and training programs in particular, have not always been successful in the past. However, the government funding of training programs has generally been spread too thinly to be effective, and has overly focused on getting people back into what are often temporary jobs, without providing them with the skills to attain and keep skilled jobs. For example, it has focused on providing job search assistance which may help some unemployed people find a job, but does not provide a long-term solution for those who have not gained the skills they need to attain and maintain employment through the existing system.

In other countries, ALMPs have had success. In its 2006 Employment Outlook, the OECD reported that “most macro-econometric studies that have examined the impact of ALMP spending on aggregate unemployment have found that there is a significant favourable effect.”66 Studies using micro data (that is, program-specific data) demonstrate that returns to different programs can vary widely. This implies that effective program design is a key to success. According to the OECD:

... It is clear that well-designed programs can have a positive impact on employment outcomes for participants, which are large enough to justify program costs, but that many existing programs have failed to do so. ... (and) selective referrals to long-term training programs are found to have the largest impact.67

The OECD concluded that, while evaluation results for a wide range of ALMPs are mixed, there have been enough successful programs to verify that a suitable mix of well-designed ALMPs can reduce unemployment “by improving the efficiency of the job-matching process and by enhancing the work experience and the skills of those who take part in them.”68

The Tribunal has taken a conservative approach in estimating the impact of training on the future employment prospects of the people to be assisted. In calculating the impact of the additional training on labour force participation and economic growth (see Chapter 10), it has assumed that only 50 per cent of those who participate in this training will go on to find work. This assumption is consistent with past experience, and was adopted after considering the impact of existing and previous training programs to help the unemployed and long-term unemployed re-enter work (including the Outreach Australians Working Together Program, the TAFE Get Skilled Program, the Priority Places Programs, Language and Literacy Programs, and the TAFE Masters Program), as well as general VET student outcomes data from NCVER. (See Appendix 7 for more information.)

However, as the Tribunal has proposed the provision of more intensive (and more expensive) re-entrant training than has normally been provided in the past, it is reasonable to assume that this training will achieve a higher success rate than has been achieved in the past.

67 Ibid. p 72.
68 Ibid. p 74.
4.4.3 A whole of government response

To enhance the likelihood that the additional training initiatives will succeed in lifting labour force and employment participation and improving economic growth, the Tribunal believes that they must be seen as a key element of what needs to be a ‘whole of government’ solution to a complex problem. In other words, these training initiatives must be accompanied by other supporting policies, including policies related to income support payments.

As set out in Chapter 10, the cost of providing the additional training being recommended by the Tribunal for NSW will be around an extra $0.8 billion a year (real 2006 $ at today’s unit prices) by 2025 compared to a continuation of present policies. However, as the Tribunal’s proposed reforms are expected to lead to higher rates of economic growth, the proposed reforms can be expected to pay for themselves in the longer term. Both the Australian and NSW Governments will benefit if the additional training succeeds in increasing labour force participation (through reduced income support payments and increased taxation receipts). Therefore, it is reasonable that both governments fund this training. The Tribunal envisages that employers will continue to contribute to the skill development of their existing staff, and that their total contribution is also likely to grow.

In order to establish these funding arrangements, the Tribunal considers that the NSW Government should seek a compact with the Australian Government. The aim of this compact would be to ensure that the training opportunities to be provided to the unemployed and those not in the labour force are appropriately funded and taken up. Such a compact would provide a closer integration between the additional VET to be provided by the NSW Government and the labour market programs and social security reforms being introduced by the Australian Government to encourage (and require) people to move from welfare to work.

The Tribunal envisages that under such a compact, NSW will provide a specific number of training places for designated groups of people, and the Australian Government will use its best endeavours to ensure that these places are taken up by those it is targeting to return to work, and provide these people with financial support while they are undertaking the training. (See Chapter 9 for a more detailed discussion of the proposed compact.)

As with all public policy, there is some uncertainty regarding the outcomes. Therefore, there are some risks in undertaking the proposed additional investment in VET over the next 20 years. However, the risks that would result from doing nothing and maintaining the status quo are very much higher. Indeed, there is a reasonable prospect that the additional training proposed will pay for itself over time, and will be essential to avoiding the problems that would otherwise result from an ageing population.

Recommendation 1

As a key element in a ‘whole of government’ strategy for increasing the labour force participation rate and avoiding the economic consequences of the ageing population, that the demand for and provision of VET training should be increased by an average of around 2.5 per cent per annum over the next 20 years, and that its provision should be refocused on:

- re-entrant training that targets people who are currently unemployed or not in the labour force, and is designed to update and improve their vocational and employability skills, to enable them to become competitive in the labour market
continuing training that targets people who are already employed, to enable them to maintain and upgrade their skills so they continue to be competitive in the labour market

• refresher training that targets people who are underemployed, to enable them to maintain their skills and move towards fully utilising their qualifications.

For the 10 years to 2015, the additional training should predominately be re-entrant training, and the average increase in student places and hours should be in the order of 3 per cent per annum (although it may be less than this in the initial years as new programs are being brought on stream). In the 10 years to 2025, the additional training should be predominantly continuing training, and the average increase in student places and hours should be in the order of 1.5 per cent per annum.

Recommendation 2

To increase the effectiveness of re-entrant training, that this training:

• involve a mix of work-based and institutional training, with the balance dependent on the individual skill needs and circumstances of the trainee

• be accredited training that is designed to achieve specific outcomes, including an agreed set of competencies

• offer trainees substantial, intensive assistance

• be delivered through a co-ordinated, cooperative approach between training providers, employers, trainees and other agencies as appropriate

• provide appropriate incentives for employers and trainees to participate.

Over the first few years, training providers should evaluate ‘what works’ to gain a better understanding of the right mix of work-based and institutional training, and adjust this balance accordingly.

Recommendation 3

That public funding of the additional training recommended by the Tribunal be shared between the Australian and NSW Governments (as both governments will benefit from the improved employment outcomes through reduced income support payments and increased taxation receipts) and that each government’s respective contribution be based on the respective fiscal benefits accruing to each.

69 The estimate of hours of VET required reflects a maximum amount of training delivered institutionally. Where a combination of institutional and work-based training is adopted, the total number of hours could be greater (as set out in section 4.3). This is because, in terms of skills development, work-based training would be less intensive than institutional training and it is therefore expected that there would be (comparatively) more of it.
Recommendation 4

That the NSW Government seek a compact with the Australian Government, to ensure the increased training opportunities that are provided to people who are unemployed or not in the labour force over the coming decades are appropriately funded and taken up.
5 SETTING A NEW VISION FOR THE VET SYSTEM AND TAFE NSW

What action is required to best position the VET system to help NSW increase its supply of skilled labour, improve its labour market outcomes and, ultimately, raise its potential economic growth? As Chapter 4 discussed, the VET system needs to provide training to re-skill and up-skill those who have dropped out of the labour force or are at risk of dropping out, and ensure that all workers can readily adapt and learn new skills throughout their working lives as technology and patterns of demand continue to change. However, if this training is to be successful in increasing labour force participation and economic growth, the VET system also needs to help ensure that the skills it provides are used and applied in the real world of work.

In submissions and consultations to this review, stakeholders argued that publicly funded skills creation programs must be part of any response to the economic problems associated with our ageing population – noting that employment participation will not increase without these programs. However, stakeholders also recognised that increasing the supply of skills will not be sufficient on its own. It is also important to take into account the critical role that firms play in creating the demand for high-level skills. In addition, some noted that many people who have been unemployed or outside the labour force for an extended period are likely to need much more than job-specific skills creation programs to get them back into work – for example, they are likely to require highly individualised programs that also encompass generic employability skills, and personal development and support.

One way to take account of employer demand is to tailor the supply of VET to detailed forecasts of employer demand for job-specific skills. However, as Chapter 4 discussed, the Tribunal believes that such detailed ‘manpower planning’ is not particularly reliable. Instead, it believes a better way to take account of employer demand is for the VET sector to focus on ensuring that skills can be used productively once a trainee starts in the workplace. This may mean less focus on technical, job-specific skills and more focus on generic skills that can be readily transferred across different workplaces, occupations and industries. But more importantly, it also means that, as a recent review of research for the NSW Board of Vocational Education and Training (BVET) concluded, VET policy should “encourage investment not in skills alone but in bundles of innovative practices that help develop, utilise, and retain a skilled workforce, rewarding jobs and help businesses compete”.70

Thus, a broader, more sophisticated response is required than the traditional approach to skills creation – one that emphasises the integration of skills policies with government strategies for long-term economic development, and the development of high performance work cultures within firms. This response should also emphasise the need to meet a diverse range of individual needs, particularly those of trainees who have been disengaged from training and work.

This shift in emphasis is already occurring in other jurisdictions. For example, in the United Kingdom, South Australia and Queensland, governments have begun to integrate skills policies with mutually reinforcing policies and strategies on business investment, the adoption of new technology, changes to product markets, work organisation, job design,
wage structures, and firms’ capacity to integrate on-the-job training. This approach is known as ‘workforce development’.

The Tribunal believes that NSW also needs to embrace the concept of workforce development, and involve and challenge firms to examine work organisation, work design and adopt high skills work practices. It also needs to develop strategies to meet the diverse individual needs of those who have been disengaged from work. As part of this change, the NSW Government will need to recognise the VET system (particularly TAFE NSW) as a key partner in the state’s economic development, and integrate the formulation of policies on skill and economic development across government portfolios. The VET system will need to evolve the current concept of ‘industry-led’ training (which is largely about facilitating high-level industry input on training content), by seeking to develop partnerships with industries or firms, through which it can influence the capacity of firms to adopt high-performance work practices and cultures. TAFE NSW, as the major provider of publicly funded VET programs in the state, will need to adopt a new mission to reflect the new emphasis on workforce development and meeting individual needs.

The sections below discuss the Tribunal’s views on the new vision for the VET system in detail, including:

- what workforce development means
- the new approaches to skills policy based on this concept being applied in other jurisdictions and NSW case-studies
- the need for the VET system to be able to meet individual skill needs, especially those of people who have been disengaged from work
- what VET should look like in the future, and
- the new mission for TAFE NSW.

5.1 What is workforce development?

Traditionally, skills creation programs have focused purely on the supply of skills, on the assumption that if employers had access to a supply of higher skilled labour they would then use that supply productively. However, a 2001 report to the UK Cabinet Office signalled a break from this position, arguing that skill creation must be grounded in business need, and be led by employer demand for higher level skills. Workforce development policy envisages that such demand will be stimulated in firms, by encouraging them to be more ambitious in planning, adopt best practices, and pursue high-value-added and innovative product and service strategies that require skilled staff to deliver.

This work was backed up by a 2003 report on the competitiveness of UK industry by Harvard academics, Porter and Ketels. The authors identified a significant productivity gap between the UK and its major competitors including the US, France, Germany and Japan. They concluded that, to close the gap, the UK must become a high-value, high-innovation economy:

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We find that the competitiveness agenda facing UK leaders in government and business reflects the challenges of moving from a location competing on relatively low costs of doing business to a location competing on unique value and innovation.

The Business Council of Australia suggests that this finding applies equally to Australia. It argues that innovation “is the foundation stone of continuing productivity growth, competitiveness and prosperity” and that:

... businesses in Australia will tend to innovate in ways other than through traditional R&D, and that innovation does not necessarily occur in business research units, but it extends across all parts of business. The ongoing success of business is achieved through continually enhancing the value of products and services to customers. Often this has more to do with applying and managing the skills of people in the workplace than it does with technology or product invention.73

The 2003 South Australian Ministerial Inquiry on Skills identified a need to “break with past patterns of thinking” and advocated workforce development as the overarching framework to move skills policy from an inward-looking mindset to being a more widely focused policy, with links to state development, industry policy, innovation, employment and social policy. This inquiry defined workforce development as “those activities which increase the capacity of individuals to participate effectively in the workforce throughout their whole working life and which increase the capacity of firms to adopt high performance work practices that support their employees to develop the full range of their potential skills and value”.74

As this definition indicates, the concept of workforce development is clearly focused on the individual and how each person can realise their potential through their working life by embracing lifelong learning. But workforce development is also focused on the broader context in which skills are utilised. Thus, it recognises that there are a range of parties who affect and are affected by skill-related matters, and reaches beyond the confines of formal training institutions.75 In effect, workforce development extends beyond the development of workers through training, to the development of the jobs in which workers are employed.76 This necessarily involves changing the organisation of work, so that people have better career paths, more discretion, more variety of tasks, and generally better opportunities to use the skills that they have obtained.

Governments cannot affect change in firms’ work practices and cultures on their own – ultimately, firms need to choose to change, by taking more risks, embracing learning, innovating and deploying high-level skills in their business. Therefore, a collaborative approach between government, employers and training organisations is needed, to achieve viable long-term participation of individuals in the labour market, and sustainable productivity and economic growth. The state will need to expand its role from being a provider of funds and training to also being an enabler whose function is to help, encourage and support its partners to play a greater role in future workforce development. But the state, and more particularly its agents, can and should be pro-active in seeking out opportunities to work with businesses to develop their use of skilled labour.

5.2 New approaches to skills policy based on the concept of workforce development

In South Australia, the government has adopted the recommendations of its 2003 skills inquiry, and its skills policy notes that training is just one of a range of focus areas to fulfil its vision of South Australia having “an efficient, highly skilled workforce that supports a globally competitive economy and a socially inclusive community”.77 The South Australian policy on workforce development values skills along with innovation, new types of work organisation and high-performance work practices, increased investment, entrepreneurship and the commercialisation of new ideas. Partnerships between government, industry, firms and learning organisations are a feature of the policy.

In Queensland, there is a long-term, whole-of-government policy objective to badge the state the ‘Smart State’. To help meet this objective, it is implementing a three-year SmartVET and Skills Formation program to support industries essential to Queensland’s growth in upgrading skills and taking advantage of technological improvements and emerging development opportunities. The strategies are being developed in partnership with industry, government, union and regional and community leaders to identify how employment conditions, industrial relations, remuneration and industry attractiveness influence skills supply and utilisation.

There are also examples of approaches based on workforce development in NSW. For instance, in recent years, DET has been trialling a methodology for implementing an integrated approach to employment and learning at the firm level through the ‘Skill Ecosystem National Projects’. Common features of these projects are the engagement of a range of partners from a network or cluster of businesses and other organisations within a ‘skill ecosystem’ to tackle challenges such as business strategy and performance, new business objectives, work organisation and job design, and employee relations. Several of these projects have had breakthroughs in combining new personnel practices, and more flexible industrial arrangements and training approaches (including better recruitment approaches, anti-discrimination principles, induction training, career development, multi-skilling and workplace mentoring).78 Projects of this sort demonstrate that VET providers and industry can move beyond the typical transactional relationship where business wants a niche skill filled and trainers provide a particular course. For example, in the water management services industry in South Australia:

There’s now a sustainable network fuelled by mutual trust and a spirit of innovation. It has opened the eyes of industry to the connection between skill, para-professional capacity and faster take-up of new technologies. TAFE for its part has expanded its horizons to a developmental role, becoming as cluey about the industry, its technologies, regulation, trade prospects and organisation as they are about the Training Package competencies or teaching and learning.79

79 Ibid.
The work being done by TAFE NSW’s North Coast Institute in partnership with Norco provides another example of workforce development in NSW (see Case Study 5.1).

**Case Study 5.1: TAFE NSW North Coast Institute  Norco partnership**

TAFE NSW North Coast Institute and a major regional employer Norco Co-operative Ltd signed a Learning Partnership that formalised the association between the two organisations to provide training that supports the strategic direction of the co-operative. Norco had identified the need for a more highly skilled workforce for its Lismore ice cream factory to improve efficiency, assure product quality and introduce new product lines in the context of an extremely competitive market and new food manufacturing standards.

The Institute was contracted to undertake a skills audit and training needs analysis for Norco and to develop Norco’s standard operating procedures and associated training programs. Most of the training and recognition of competencies has been conducted on the job, with minimum disruption to normal operations. More than 100 Norco staff have undertaken courses in areas such as retail management, frontline management and food processing. Fifty-six Norco staff are currently half way through the Certificate III in Food Processing, and others have completed or are completing language, literacy and numeracy (LLN) and communication programs. In addition, 11 Norco engineering trades staff are undertaking multi-skilling training to ensure all are proficient in refrigeration. The training programs have been coordinated and delivered on the job by TAFE teachers, one of whom is currently based at Norco for two days per week. TAFE has also provided a funding brokerage service to source LLN and skills gap funding available from the Australian and NSW Governments.

Norco staff report that the outcome to date has been more capable, flexible and loyal staff who have the breadth of knowledge and skills they need to adapt to different production areas to meet changing priorities. As the improved competitiveness of a large regional employer like Norco is vital to the economic and social success of the surrounding region, the Norco/North Coast Institute partnership creates benefits that go beyond the enterprise and its staff.

There has also been a recent surge of interest around Australia in using workforce development within regions and communities to transform their economies. Victoria, Tasmania and particularly South Australia have recently incorporated multi-agency strategies for education, skill and workforce development, working within local government areas or economic clusters. These approaches reflect the view that if workforce development is to achieve its policy objectives, it needs to be based on an appreciation of the dynamics of skill formation drawn from the idea of skill ecosystems and “the importance of establishing and cultivating regionally based networks and partnerships”.

Billett, Clemans and Seddon also emphasise the important role VET can play as part of social partnerships formed by education providers, community organisations and government agencies. Such partnerships enhance the capacity of regions and localities to address some of the difficult and often intractable problems they face, such as unemployment, economic decline, community breakdown, or social exclusion. By addressing these issues in ways

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80 South Australia’s ‘Works in the Regions’ strategy has established 17 regional employment and skills networks. The Victorian Growing Victoria Together includes a Learning Towns initiative funded through ACFE (Adult, Community and Further Education). Tasmania’s A State of Learning, a 10-year framework for post compulsory education, incorporates a ‘building learning communities’ strategy.


sensitive to local concerns and environments, VET providers can help generate targeted or integrated solutions more in line with local needs and more acceptable to local interests. Such a focus on community capacity building is often needed to lay the groundwork for effective workforce development.

Partnership approaches involve complex work: they require cooperation and shared objectives and approaches to the utilisation of resources, as well as sophisticated analytical skills, and skills in networking, group dynamics and interpersonal communication. The Gwydir Learning Region in western NSW is an example of VET providers’ involvement in such a partnership to promote community revitalisation and economic development within a region (Case Study 5.2).

Case Study 5.2: The Gwydir Learning Region (GLR)  

Like a number of partnership projects underway in Australia and overseas, the GLR is multi-sectoral and has wide-ranging objectives. Established in 2000, it initially involved three shire councils (Bingara, Yallaroi and Barraba, which have subsequently merged to form the Gwydir Shire Council), the Warialda and Bingara High Schools and the New England TAFE Institute. The partnership has since been extended to include the local Adult and Community Education (ACE) Colleges of Bingara, Barraba, and Gravesend. At various times, the GLR has also engaged with the University of New England, Southern Cross University and Hunter New England Area Health, and has collaborated with local employers.

Compared with the rest of NSW, the Gwydir region has lower levels of post-school qualifications, lower incomes, and lower levels of internet usage. The GLR aims to address these and other issues, by increasing residents’ work and life skills, assisting people who are isolated, providing for economic regeneration and community capacity building, and providing individual fulfilment. Gwydir Shire Council has encapsulated these goals in the following objective within its management plan: “that the Gwyndir Shire Council is recognised as a community that encourages lifelong learning and this will lead to a sustainable community”.

VET providers’ involvement in the GLR’s very broad community agenda has taken them beyond VET’s usual role. Some of the outcomes they have been instrumental in achieving include:

- cross-generational delivery of Certificate III Aged Care Work training by ACE to school and mature-aged community students at the local high school
- an increased range and number of traineeships for senior high schools students, supported by local businesses and Council
- sessional placement of doctoral level University of New England psychology students in Bingara and Warialda
- the restoration of the Roxy Theatre in Bingara with the involvement of TAFE Construction students
- the establishment of the Northwest Theatre Company.

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The Allen Consulting Group provides a number of case-studies where TAFE NSW has provided tailored training and education options to meet the needs of local industry (particularly in regional areas) as a means of supporting continuation of these local firms and enhancing community development and welfare.\textsuperscript{84} It notes that TAFE NSW's regional structure, and the 137 campuses that it operates state-wide, reinforces the importance of a local community focus in skills development.

The Allen Consulting Group also reports on findings of a range of studies showing the important role of VET in building community capacity and enhancing economic development and welfare.\textsuperscript{85} For instance, studies in Europe and the United Kingdom consistently show a relationship between the level and appropriateness of qualifications of the labour force and the rate of new firm establishment in regions.\textsuperscript{86} Policies linking training to the needs of firms, especially small and medium-sized firms, have been found to be a feature of growing regional economies.\textsuperscript{87} This suggests that a regional or local approach is required to match training with regional or local needs.\textsuperscript{88}

5.3 The need for VET to meet individual needs of diverse clients

For people who are currently unemployed or outside the labour force, the first step towards increasing their capacity to participate in employment throughout their working life is to get them back into the labour force and into jobs. A relatively high proportion of NSW's working-age population lacks basic and intermediate skills, including generic employability skills. Unless they acquire these skills, they cannot begin to develop a sustainable, lifelong career. Therefore, it is critical that that the VET system is able to meet the individual skill needs of these people, and help them become re-engaged with work. This will require a carefully tailored approach for each segment of the population that involves cooperative partnerships between the VET sector, government, community groups and the private sector.

The individuals who are most at risk of not participating in the labour market or being unemployed are those with low educational attainment – especially those without post-school qualifications – and those who do not maintain the currency of their skills. In general, this group is not easy to engage in training. They often have low motivation or poor self-esteem, and therefore require a supportive, individualised program that encompasses personal development, communication and teamwork skills, and work habits and customs, as well as job-specific skills. Successful programs for this group may need to include:

- pre-employment training designed to assist their transition to work
- intensive personal support
- work experience
- traineeships

\textsuperscript{85} Ibid.
\textsuperscript{87} Hugonnier B, ‘Regional development tendencies in OECD countries’, \textit{Keynote presentation to Regional Australia Summit}, 27-29 October, Parliament House, Canberra, Department of Transport and Regional Services, 1999.
• skill gap training
• post-employment support.

Trainees will need time to learn new skills and habits, build their confidence, deal with personal problems and adjust to new or changing work environments. A patient, supportive approach that is linked to specific employment will be required to achieve long-term successful outcomes.89

To achieve such outcomes, VET providers will need to adopt strategies that establish strong community alliances through effective networks and collaborations with Job Network providers, non-government organisations, recruitment agencies, and community service organisations, and that build on their links with local industries and firms.

5.4 What should VET look like in the future?

What should we expect of vocational education and training in the future? The VET system cannot change the labour market on its own. Moreover, unlike some other countries, our cultural tradition is that managers are the best judges of what is in their firms’ interests, not experts from governments. Nevertheless, as the work of Michael Porter has emphasised, governments can influence the business environment, and thus create a competitive advantage for their economies.90 In particular, Porter has argued that:

... The potential rate of upgrading in an economy is set by the rate at which the quantity and especially the quality of factors improve. To achieve high productivity, firms must have access to an improving pool of advanced and specialized human resources, scientific knowledge, economic information, infrastructure and other factors of production. Factor conditions must also encourage firms to upgrade their competitive advantages over time. Government policy has a role to play in each of these areas.91

Thus, there are a series of factors – education and training, science and technology, infrastructure, capital and information - that government has a role in creating and upgrading. According to Porter, “education and training constitute perhaps the single greatest long-term leverage point available to all levels of government in upgrading industry.”92 In this context, the VET system can act as a catalyst for workforce development, delivering programs in a way that influences workplace cultures to ensure that the skills it provides are actually used.

This new role will require all VET providers to work more closely with industry, especially with small and medium sized firms, to complement new work practices or organisational and technological innovations. Teaching alone will not be sufficient. VET providers must seek to develop partnerships with firms (or clusters of firms) that enable them to encourage these firms to provide higher skilled jobs, clearer career paths and more training.

89 Ziguras S. and Kleidon J., Innovative community responses in overcoming barriers to employment, Brotherhood of St Laurence, Department of Victorian Communities, 2005.
91 Ibid. p 626.
92 Ibid. p 628.
A critical challenge will be to gain the acceptance of industry for this new role by VET providers. Industry will not be dictated to. The new types of relational contracts that are becoming more common between firms provide a possible model. For example, successful firms providing ICT and logistic services proactively approach selected clients and outline how they can work together to increase profits by re-engineering the client’s production processes to make the best use of the service provider’s expertise in ICT or supply-chain management. This can involve the customer agreeing to establish a relational contract that allows the service provider and the customer to jointly design the new processes, often with a degree of firm-specific customisation, but taking full advantage of the service provider’s expertise and products and services.

In the Tribunal’s view, VET providers can and should aim to develop a similar approach by proactively seeking out new business and developing relations with clients. Initially this will necessarily involve targeting those firms that present the best opportunities. These firms are frequently those that are facing a business challenge that requires them to reconsider their business strategies. The expertise that VET providers should be able to bring relates to managing the firm’s human resources better so as to realise the firm’s new corporate strategy. The firm and the VET provider will need to jointly consider the firm’s future skill needs and training requirements, how the work will be structured and organised, and what that means for career paths and the attraction and retention of skilled labour in the future. As noted above, there are already some promising examples of TAFE Institutes acting in this way. The next step is to generalise this approach across the VET system so that it becomes the rule, rather than just providing some exciting exceptions.

There will be a growing role for registered training organisations (RTOs) and trainers to work as intermediaries. Trainers will need to become consultants to firms, designing training solutions for different working contexts, as well as acting as career advisors/counsellors to learners in the workplace and facilitators of learning. The workplace will increasingly become the site of learning, while classroom-based learning will change as technology-based learning options are blended with face-to-face delivery. Public funding arrangements for VET also need to change, to reflect the new focus on outcomes in addition to qualifications and competencies, and to allow public funds to be used to leverage industry investment in training. Case Study 5.3 provides an example of a VET provider and industry working in partnership to foster workforce development in this way.

The shift towards delivering training in the workplace will help to forge a closer relationship between RTOs and firms, and thus enhance the scope for RTOs to contribute to workforce development. The emphasis employers already place on generic employability skills and behaviours suggests that they want to make the best use of their employees’ capabilities by equipping them to take more responsibility and to use their initiative more. Thus the climate is propitious for a closer relationship between employers and RTOs. Further, we might expect that as employees become better skilled in managing their work, the desired changes in workplace cultures that follow will facilitate further workforce development.
Case Study 5.3: TAFE NSW Riverina Institute
Huhtamaki, Albury

In 2004 Huhtamaki, one of the world’s largest packaging fabrication companies, operating in 36 countries, with six sites across Australia, identified that its training in its Albury facility was ad hoc, site-specific and lacking in structure. Staff turnover was high and quality problems were apparent. The company considers that international competitive advantage is linked to a higher-skilled workforce and continuous process improvement through the up-skilling of all employees across production lines. It designed Project Upskill in partnership with TAFE NSW Riverina Institute to increase company profitability, workforce retention and global competitiveness.

Riverina Institute’s role was to set up a training system and culture that includes literacy, language, numeracy and communication. It also involved the development of standard operating procedures (SOPs), training and assessment tools, and learning materials to support a more multiskilled flexible workforce, thereby enhancing quality of the company’s product and the career paths of its employees, and achieving more consistent and reliable production practices.

This training has had a direct influence on morale, self-esteem and motivation of the employees and has been taken up at the five other Huhtamaki operations in NSW, Victoria and Queensland. Six Riverina Institute staff are located at these Huhtamaki work sites. Their role is to implement a training system based around workplace communications and existing worker trainees. The Institute has worked in partnership with other agencies to maximise the sources of funding for the program. The training has included the delivery of Certificate II and III in plastics and pulp and paper to 94 trainees. The Institute sees its longer term objective as increasing the capacity of the company to sustain ongoing training, with the assistance of external validation from the Institute.

Huhtamaki has expressed interest in extending the program into South East Asia and the Pacific.

As discussed in section 5.3, RTOs will need to be able to respond to increasingly diverse individual needs. They will also need to deal with higher expectations, as more informed consumers require greater choice of teaching and learning alternatives, and to integrate training with the workplace. Sharply focused programs that are short in duration and delivered at a time that suits participants or their employers will be important.

Training providers will have to be creative and entrepreneurial in the ways they work at the local level with businesses, regional development bodies, peak industry groups, local government and community bodies. They will have to establish a grounded and informed understanding of the underlying structural, organisational and cultural barriers to workforce development. Thus they will need to be able to establish and cultivate regionally based networks and partnerships organised around the principle of community capacity building, as the groundwork for sustainable workforce development. It is clear that the work of VET providers will need to encompass not only singular solutions for particular firms or groups of firms, but also holistic and collaborative approaches that are tailored to local communities and their specific needs.

The approach taken will need to be sensitive and responsive to the particular requirements of each firm, industry and community. Thus, a more decentralised approach will be required, where individual RTOs have the necessary authority to work with individual firms or clusters of firms within a skills ecosystem to foster workforce development. There will be a shift away from VET that is a narrowly conceived, standardised, institutional service to one that supports diversity, shared problem recognition and problem solving.
5.5 A new mission for TAFE NSW

As the major provider of skills in this state, TAFE NSW will need to take a leadership role in adapting its services to suit the new emphasis on workforce development. Indeed, the Tribunal believes that TAFE NSW should adopt a new mission that reflects the concept of workforce development. That is, TAFE NSW’s mission should be to increase the capacity of individuals to participate effectively in the workforce throughout their whole working life, and to work with firms to increase their capacity to adopt high performance practices that support their employees in developing their potential skills and value.

The Tribunal acknowledges that there are examples within TAFE NSW where this is already occurring (as the case studies in this chapter illustrate). However, the Tribunal believes that the emphasis on workforce development is not widespread, and that the current system relies too heavily on some exceptional individuals’ enthusiasm for such initiatives to occur. To fulfil its extended responsibility for workforce development, TAFE NSW will need to:

- become a recognised partner in the state’s economic development
- seek opportunities to work with industry so that workforce development is fostered through career development and lifelong learning
- foster an entrepreneurial culture within its Institutes
- be able to meet the needs of individual learners.

5.5.1 Become a recognised partner in the state’s economic development

To be effective in promoting workforce development, TAFE NSW needs to reposition itself so that it is not seen simply as a provider of training programs, but is recognised as a key partner in the state’s economic development. For example, TAFE NSW needs to be recognised by firms as a key source of new skills, and be able to facilitate innovation by disseminating information about new technologies and what they mean for firms’ own workforce development.
The Forest Industry Training Centre was established in 1996 under a Memorandum of Understanding (MOU) between the Tumut Campus of TAFE NSW Riverina Institute and the Forestry Industry Council Southern NSW Inc. (FIC). Prior to the centre’s inception, the forestry industry was not serviced by Registered Training Organisations and training programs were conducted either internally by individual enterprises or through assessors employed by FIC. A review of the forestry industry’s training functions identified a need for a more effective and holistic training approach and the need to align training to national standards.

As a partner in the Centre, the Riverina Institute is actively involved in organising the deployment of staff and defining their jobs and positions, as well as evaluating and implementing the training required. The flexibility of the Training Centre’s response and close integration with the forest industry has resulted in significant change in the level of training and approach to training for FIC members. There has been an increased focus on the needs and operational conditions of the clients. A number of techniques have been used to improve customer access, including:

- work-based delivery, where trainers travel to the workplace or forest site to deliver training on the job
- recognition of prior learning, where employees have been assessed using previous training (such as in-house courses) or experience, to gain competence
- assessment-only pathways, where students have been able to perform a challenge test when they believe they do not require any training
- flexible delivery for off-the-job training courses to meet needs of shift workers and others by scheduling delivery around mill shut downs, rostered days off and shift patterns.

The Forest Industry Training Centre is regarded as a success by all stakeholders and is a good example of TAFE NSW adopting a workforce development role.

Thus TAFE NSW should be able to provide information and approaches to help firms improve their business – by increasing their workforce’s skills and abilities so that they can enhance the value of their products and services, adapt to technological and other changes, and increase productivity. In effect, TAFE NSW needs to be recognised, particularly by small to medium sized firms, as an effective consultant on workforce development.

In addition, TAFE NSW needs to be recognised by the NSW Government as a key contributor to a ‘whole of government’ approach to state development. TAFE NSW should not develop its policies on workforce development in isolation. Rather, these policies should be part of a wider policy response that goes beyond education and training, to encompass other policies that impact on state development, including industry policy, innovation policy, the provision of infrastructure, employment policy and social policy. As some of these policies are primarily the responsibility of the Australian Government, this will necessarily require NSW to work closely with the Australian Government and seek changes in that government’s policies where necessary.
5.5.2 Seek opportunities to work with industry to affect a change in how labour is used

TAFE NSW needs to seek opportunities to build partnerships with industry that enable it to encourage the development of high-performance workplace cultures, disseminate new work practices and organisational approaches that support workforce development, and form networks to share these new practices and approaches. In this way, TAFE NSW can act as an agent for change.

To perform this role, TAFE NSW will need to build its institutional capacities to broker new partnerships for workforce development. It must forge new models of collaboration with business to better integrate training to suit workplace developments. This will enable TAFE NSW to use its expertise to act as a consultant to industry, develop new products and services, and deliver them to business.

As part of this role, TAFE NSW will need to build bridges and interpret the workplace learning needs of firms within the context of regional economic, environmental and social developments, to ensure that skills are used. Its role in community development and capacity building will continue, and should be integrated with its focus on workforce development.

5.5.3 Foster an entrepreneurial culture within its Institutes

While teaching skills will continue to be important, TAFE NSW will also need to foster an entrepreneurial culture within its Institutes. It will need to build its capacity for innovation, networking, and marketing new approaches that respond to client demands and also proactively help create and shape those demands. TAFE NSW may also need to change the way it does business, to better reflect economic and social needs. In particular, it may need to provide training at times and locations that better suit industry needs. While there are examples within TAFE NSW where this is occurring (see Case Studies 5.3 and 5.4 above), it needs to become endemic throughout the whole TAFE system.

In an increasingly competitive training market, TAFE NSW should also aim to win a greater share of the significant funds that industry already spends on staff training (such as non-accredited training and development courses run by private companies). To assist it in this, TAFE NSW should seek and enter into partnerships with industry, and use some public VET funding to leverage private funding. Over time, it might be expected that the need to use public funds for this purpose will diminish, and targets for increasing TAFE NSW’s commercial revenue could provide a surrogate measure of its success in engaging with industry.

5.5.4 Be able to meet the needs of individual skill needs of trainees

TAFE NSW will need to be flexible and innovative to meet the needs of its highly and increasingly diverse clients. As discussed in section 5.3 above, TAFE Institutes will need to be able to develop and deliver supportive, individualised re-entrant training programs for people who are disengaged from work. Such programs will need to encompass a broad range of elements, such as personal development, communication and teamwork skills, work habits and customs, as well as job-specific skills. TAFE Institutes will also need to develop innovative approaches to engage and encourage this challenging group of learners, and link them with work experience and then jobs.
In addition, TAFE Institutes will need to develop and deliver continuing training programs, to assist people to maintain employment and enjoy sustainable careers. This means it will need to widen its appeal to those who need to enhance and refresh the currency of their technical and professional skills. This will involve customising content and packaging delivery in ways to suit individuals. It will also involve increasing the emphasis on the conceptual, analytical, problem-solving and interpersonal communication skills that workers will need to engage in ongoing workplace change and deal with the introduction of new products, processes and services.

The specific government and other actions required to enable TAFE NSW to achieve its new mission, to improve outcomes for users of the publicly funded VET system, and to remove barriers to participation in VET are discussed in the following chapters.

**Recommendation 5**

*That the NSW Government adopt workforce development as a whole of government policy framework for promoting collaboration between agencies, businesses and training providers to increase the use of skilled labour and the adoption of high-performance work practices in NSW enterprises.*

**Recommendation 6**

*To fulfil its responsibility for workforce development and in recognition of its role as primary provider of publicly funded VET in NSW, that TAFE NSW:*

- become a recognised partner in the state’s economic development
- seek opportunities to work with industry so that workforce development is fostered through career development and lifelong learning
- foster an entrepreneurial culture within its Institutes
- be able to better meet the needs of individual learners.

**Recommendation 7**

*That TAFE NSW adopt as its new mission “to increase the capacity of individuals to participate effectively in the workforce throughout their whole working life, and to work with firms to increase their capacity to adopt high performance practices that support their employees in developing their potential skills and value”.*
6 TAKING STOCK OF THE PUBLIC VET SYSTEM TODAY

Before considering what action is required to position the state’s public VET system – particularly the main provider of publicly funded VET programs, TAFE NSW – to meet the new vision discussed in Chapter 5, the Tribunal examined how the system is positioned today. It found that the overall training market in NSW – that is, the market for formal, accredited publicly and privately funded VET programs and informal training courses – is substantial. Employers continue to support a significant amount of training for their employees.

In addition, the last 15 years have been a time of unprecedented change for publicly funded VET, particularly for TAFE NSW. The Tribunal recognises that TAFE NSW has made significant progress, and that the provision of training is now better attuned to industry demands. However, the Tribunal considers that the links with industry need to be stronger, and TAFE NSW needs to use its substantial leverage to further engage with industry in the process of workforce development.

Further, the Tribunal considers that the achievements of the past – including the growth of the sector, improved system efficiencies, changes in products and services, and shifts in the style of delivery – will not provide a sufficient platform for meeting the challenges of future demographic, workplace and economic change. Indeed, the existing performance measures are in a number of respects inadequate to gauge the changes required. The Tribunal also considers that a more decentralised approach within a new accountability framework will be required, where individual TAFE Institutes have the necessary authority to work with individual firms or clusters of firms within a skills ecosystem to foster workforce development.

The following sections provide an overview of the public VET system today – including its size and structure, recent national reforms, comparative levels of effectiveness and efficiency in relation to other states, and performance against employment outcomes. Appendix 3 provides historical information and comparative data on the performance of publicly funded VET in Australia. Recent reforms and trends in NSW’s major public provider – TAFE NSW – are discussed in Appendix 4. Chapter 7 discusses the specific reforms the Tribunal believes are needed to enable TAFE NSW to meet the challenges of the future.

6.1 Size and structure

The public VET system includes all recognised publicly funded VET programs undertaken through a RTO. In 2005, around one in 12 people in NSW were enrolled in a publicly funded VET program.93 Around half these students were aged between 15 and 29 years, 27 per cent were between 30 and 44 years, and 22 per cent were 45 or older.94

Most of these students were enrolled in a TAFE Institute. Across Australia, nearly 80 per cent of students undertaking a publicly funded VET program are enrolled at a TAFE Institute. As a percentage of annual hours studied, TAFE’s share of the market is nearly 90 per cent (Table 6.1).

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Table 6.1 Providers of VET Australia wide 2000-2004 (,000), by number of students and annual hours

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Students</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAFE and other government providers</td>
<td>1,316</td>
<td>1,290</td>
<td>1,316</td>
<td>1,299</td>
<td>1,261</td>
<td>79</td>
</tr>
<tr>
<td>Community education providers</td>
<td>228</td>
<td>230</td>
<td>209</td>
<td>244</td>
<td>171</td>
<td>11</td>
</tr>
<tr>
<td>Other registered providers</td>
<td>165</td>
<td>160</td>
<td>158</td>
<td>168</td>
<td>157</td>
<td>10</td>
</tr>
<tr>
<td>Students using more than one provider</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>7</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total students</strong></td>
<td>1,708</td>
<td>1,679</td>
<td>1,683</td>
<td>1,718</td>
<td>1,595</td>
<td>100</td>
</tr>
</tbody>
</table>

| **Annual hours**     |        |        |        |        |        |            |
| TAFE and other government providers | 268,157 | 293,980 | 301,437 | 304,727 | 297,843 | 87         |
| Community education providers | 12,402 | 12,689 | 12,548 | 14,210 | 12,441 | 4          |
| Other registered providers | 30,782 | 33,738 | 31,081 | 32,777 | 32,113 | 9          |
| **Total annual hours** | 311,341 | 340,406 | 345,066 | 351,715 | 342,397 | 100        |

Source: NCVER, National VET provider collection 2005, Australia, Table 4; any differences due to rounding.

However, private training organisations and adult community education organisations are becoming increasingly important (see Box 6.1). Some enterprises, schools and universities also provide VET programs.95

Box 6.1 Private providers of VET96

The Australian Council for Private Education and Training (ACPET) argues that the contribution of private Registered Training Organisation’s (RTOs) to NSW’s training needs, and the economy in general, is significant and often understated. It notes that private RTOs open up the education and training sector to greater competition, diversity and innovation; help equate training supply with demand; and are a valuable source of export dollars.

Private providers offer VET courses in a range of areas, including business administration, IT, design, tourism and hospitality, health and beauty, and horticulture. Private providers are predominately small to medium sized business. According to ACPET, they tend to focus on providing customised training to meet the needs of students and markets, and are “characterised mainly by flexible management structures, responsive and cost effective operations and innovative curriculum processes.”97

Private RTOs are subject to the same quality assurance regimes and processes as their publicly funded counterparts (ie, RTO accreditation and the standards and requirements outlined within the Australian Quality Training Framework).

ACPET estimates that private RTOs:

- train approximately 70,000 students in NSW each year
- represent over 70 per cent of RTOs operating in NSW
- account for 72 per cent of the international student market in NSW VET, which contributes over $400 million to the NSW economy per annum.98

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96 ACPET, The importance of private providers of post-compulsory education to the NSW economy and to meeting the state’s skills training needs, Australian Council for Private Education and Training, December 2004.
97 Ibid, pp 4-5.
98 Ibid, p 3.
In addition, the private sector spends considerable amounts on training. Although this expenditure is not included in national VET statistical collections, ABS data on employer training expenditure show that Australian employers spent a total of around $3,650 million on training in 2001/02, or $458 per employee.\textsuperscript{99} In comparison, recurrent expenditure by the Australian Government and all state governments on publicly funded VET in 2002 totalled some $3,900 million, or approximately $3,300 per student.\textsuperscript{100}

The NCVER’s survey of employers’ use of and views on the VET system provides another indication of how much training is provided by Australian employers. This survey found that:\textsuperscript{101}

- 57 per cent of employers were involved with the VET system in the previous 12 months
- 53 per cent of employers provided formal structured training that is not part of the VET system
- 79 per cent of employers provided informal training
- only 11 per cent of employers provided no training to staff.

Some stakeholders have suggested that employer-funded training has declined since the 1990s.\textsuperscript{102} This argument is difficult to assess, but the Tribunal believes that the overall training market – that is, the market for both formal publicly and privately funded VET and informal training – remains substantial. The Tribunal also believes that employers continue to support a substantial amount of training for their employees. The fact that many employers choose to provide training that is accredited but provided outside the publicly funded VET system, or is informal and unaccredited, may have led to the perception that employers’ provision of training has declined.

The challenge for the NSW VET system as a whole, both private providers and for NSW TAFE Institutes in particular, is to encourage employers to invest more in training, particularly more formal, accredited training, that will lead to a more sustainable skill base in the longer term and create more substantial pathways to higher level skills.

### 6.2 Recent reforms in VET

During the period from 1990 to 2006, training systems across Australia underwent significant reform, primarily to more closely align them with governments’ economic, employment and social policies. This major policy change occurred to create a nationally consistent system, facilitate greater industry input, and introduce competition and user choice. Training providers responded to these changes by developing new products and services, new teaching and delivery approaches, and a more collaborative training culture.


\textsuperscript{101} National Centre for Vocational Education Research, \textit{Employer’s use and views of the VET system 2005}, 2006.

6.2.1 Creating a nationally consistent training system, increasing industry input and introducing competition

Prior to 1990, the Australian VET sector consisted of a series of separate state-based TAFE systems that provided technical and further education with a monopoly of public funding. However, in 1992, the Australian and state and territory governments signed the Australian National Training Authority Agreement, which aimed to grow and create a consistent national VET system that was led by industry.

A series of nationally consistent policy frameworks were rolled out in all states, covering national recognition of qualifications, quality assurance, teaching and learning, funding, statistical systems and performance measurement. Nationally consistent frameworks and operational mechanisms were also established to facilitate greater input from industry. State and territory governments introduced legislation to create industry-led State Training Authorities. In NSW, the Board of Vocational Education and Training (BVET) was established in 1994, as the State Training Authority. BVET’s role includes advising the Minister on NSW priorities for VET and the allocation of Commonwealth training funds.

Under the ANTA Agreement, around 90 new competency-based national Training Packages have progressively replaced existing curricula since 1997. These Training Packages were developed with industry input, and are owned, managed and reviewed by Industry Skills Councils. Over the last 10 years, the number of participants in training across the nation has increased from approximately 1 million per annum to 1.7 million per annum.

As part of these changes, the concept of ‘technical and further education’ was broadened to one of ‘vocational education and training’. And in 1998, the national ‘User Choice’ policy was introduced, opening the VET market to competition. States and territories also introduced other contestable funding programs to broaden and encourage a training market. As discussed above, TAFE Institutes have remained the predominant providers of VET programs in NSW. However, a wide range of RTOs are now involved in providing publicly funded VET programs. Thus in 2006, there were 450 RTOs on the NSW Approved Providers List, competing to deliver publicly funded VET in an open training market.

A recent report for the NVCER noted that these changes to the VET system have influenced the expansion and diversification of the roles of both public and private trainers, particularly in terms of interactions with industry and enterprises, the implementation of competency-based training and assessment and flexible delivery.104

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103 Around three quarters of these RTOs were registered in NSW; the remainder were registered in other states.

6.2.2 TAFE NSW: Developing new products and services, new teaching and delivery approaches, and a more collaborative training culture

TAFE NSW Institutes deliver the major share of publicly funded training in NSW. Since the mid 1990s, TAFE NSW enrolments have grown from approximately 400,000 to over 510,000, with a commensurate increase in the total number of training hours delivered. TAFE NSW has absorbed the various changes discussed above and is notable for the breadth and diversity of delivery across Training Packages. It is also notable for its unique value to the state in terms of its extensive training capability, network of campuses, and contribution to communities and the economy. Like public schools, TAFE Institutes function within a broader social policy framework of economic and community capacity building, especially in regional and remote areas in their work with indigenous communities.105

From the early 1990s, TAFE NSW underwent a series of changes to its governance arrangements, leading to a more decentralised governance structure. From being a department in its own right, its operational responsibilities were devolved through the establishment of regionally focused TAFE Institutes. The TAFE Commission Board was also established under legislation passed in 1990. This decentralised structure was consolidated through further restructuring, including the absorption of TAFE into the then Department of Training and Education Coordination (now the Department of Education and Training, or DET) in 1995, and the devolution of responsibility for corporate services in schools and TAFE to Institute Directors in 2004. Institutes operate as a system within a model of ‘collaborative independence’.

The role of TAFE teachers has started to broaden, as some teachers have begun to collaborate with clients in industry partnerships and delivery programs at the workplace. In addition, there has been a shift to learner-centred delivery approaches, and an increase in the range of learning options available to include online, CD, and DVD options, as well as simulated workplaces, self-paced learning and a blend of online and classroom delivery.

TAFE NSW has also developed a number of specialist courses for which it is the sole or almost sole provider in NSW. It has a product development capacity that enables it to develop customised services to meet industry requirements where Training Packages are not available, or do not fully meet industry or enterprise needs. In 2004, the TAFE NSW Accreditation Council accredited 53 courses.

In addition, a new training approach has started to develop within parts of TAFE NSW, as relationships with industry have been initiated through employer involvement with TAFE teachers in course customisation and product development, and through industry participation in Institute Advisory Councils and Institute links with Regional Development Councils, Chambers of Commerce, local government and local enterprises. There has also been an increased emphasis on short, modular courses for adult learners and course articulation.

105 The Allen Consulting Group reports on findings showing the important role of TAFE NSW in building community capacity, contributing to economic development and enhancing welfare. It notes that TAFE’s impact is particularly significant in regional areas, and that its contribution to social capital is particularly true for areas that are ‘thin markets’, or have low population density, where resources are scarce. It also estimates that the total direct net benefit of TAFE NSW is $241.3 billion in present value terms over the next 20 years, taking into account benefits to the community (via social capital), firms and individuals. (The Allen Consulting Group, The Complete Package – The Value of TAFE NSW, May 2006, pp 44, 47, 53 & 55).
Further, TAFE NSW has reduced its dependence on government grants, as the training market has become more competitive and as TAFE has expanded its product diversity and increased its marketing focus and expertise. In 1996/97, 86.3 per cent of its funding came from grants from the Australian and NSW Governments. By 2004, this had reduced to 79.6 per cent. One of the ways TAFE NSW achieved this reduction is by increasing its international student business, which increased from $4.5 million to $24 million over this period. In 2005, TAFE NSW’s total non-grant revenue comprised approximately 20 per cent of its total funds.

A number of submissions questioned the degree to which the intent of the national training reforms had been realised in NSW. Stakeholders expressed divergent views on the level of responsiveness and flexibility in the delivery of training and the degree to which public funds are available within a free and open market. Numerous submissions highlighted areas where improved performance was needed, including:

- moving further away from institutional models of delivery
- improving the suitability of training services for mature-aged learners, particularly to recognise their existing skills and experience
- increasing the capacity of the system to deal with emerging technology, changing work practices and greater diversity in participation
- increasing the flexibility of TAFE NSW Institutes to utilise human and physical resources to best meet local needs
- increasing the capacity of the regulatory system to deal with quality assurance in the NSW training market
- strengthening the linkage between delivery and economic and labour market intelligence and workplace needs
- increasing the level of funding available for and removing restrictions on private provider access to public funding.

Overall, the Tribunal considers that there are some good examples of innovative partnerships between TAFE Institutes and industry and of flexibility and responsiveness to customer needs. However, the current system does not adequately support or encourage such initiatives – it needs to be much easier for the individuals within TAFE NSW to innovate and be entrepreneurial.

### 6.3 Performance against measures of effectiveness

Measures to assess the effectiveness of the publicly funded VET system include participation rates, completion rates, student outcomes sought, and student satisfaction. However, it is difficult to precisely calculate the completion rates for VET students. Unlike university students (whose objective is usually to complete a course of study to attain a degree or diploma), the objectives of VET students vary, which makes it difficult to measure success. While some study to attain a formal qualification, others only attempt to complete modules aimed at attaining specific skills.
Taking stock of the public VET system today

NCVER research on course completion rates highlights the difficulties in assessing the effectiveness of public VET though completions.\textsuperscript{106} This research developed and applied a methodology to analyse the flow of students through TAFE courses based on national VET data collected for the period 1994 to 1996, and found that full-course completions in TAFE were approximately 27 per cent of enrolments and partial-course completions were 49 per cent. However, the report acknowledged that not all those who enrol in a course intend to complete it, and some who fail to complete may recommence their studies later. Overall, it found that most students leave with a positive outcome.

The authors concluded that partial completion of courses is significant and illustrates the flexibility of the TAFE system to accommodate the needs of those who wish to acquire skills and competencies rather than qualifications. This suggests that a concentration on qualifications alone may seriously underestimate the skill base of the Australian workforce.

The NCVER 2005 report on the training outcomes for students who completed publicly funded VET programs in 2004 also indicated that VET provides students with good employment outcomes.\textsuperscript{107} It found that 75 per cent of graduates and 73 per cent of module completers in NSW were employed within six months of completing their training, and that these proportions were likely to increase further over time.

The NCVER report also showed that the vast majority of students were satisfied with the quality of VET they received and that it provided them with personal benefits. In NSW, 87 per cent of graduates and 85 per cent of module completers were satisfied with the training they received. While across Australia, 74 per cent of graduates and 62 per cent of module completers considered that the training they received was highly or somewhat relevant to their current job, and 77 per cent of graduates and 62 per cent of module completers received at least one job-related benefit from their training.

\subsection*{6.4 Performance against measures of efficiency}

The key indicator used to compare the efficiency of the VET systems in each jurisdiction is government recurrent expenditure per publicly funded curriculum hour.\textsuperscript{108} Table 6.2 lists expenditure per hour for each jurisdiction in Australia between 2000 and 2004. It shows that NSW improved its performance against this measure: expenditure per hour decreased by 10 per cent over this period, and is now just below the national average.\textsuperscript{109}

\begin{footnotesize}
\begin{enumerate}
\item The \textit{Annual National Report of the Australian Vocational Education and Training System}, published by the Commonwealth Department of Education, Science and Training, provides information on the efficiency of publicly funded VET systems across the nation. See also the Productivity Commission in its \textit{Report on Government Services}.
\item Note that this measure of efficiency is across publicly funded VET in NSW; the performance of the individual providers (including individual TAFE Institutes) would be expected to vary.
\end{enumerate}
\end{footnotesize}
### Table 6.2 Government recurrent expenditure per publicly funded curriculum hour*

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenditure Per Hour ($/Hour 2004 Prices) (National average)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14.20</td>
<td>13.49</td>
<td>13.91</td>
<td>14.27</td>
<td>14.09</td>
<td></td>
</tr>
<tr>
<td><strong>Annual Change (%)</strong></td>
<td>-5.1</td>
<td>3.1</td>
<td>2.6</td>
<td>-1.3</td>
<td></td>
</tr>
<tr>
<td><strong>Change Since 2000 (%)</strong></td>
<td>-5.1</td>
<td>-2.1</td>
<td>0.5</td>
<td>-0.8</td>
<td></td>
</tr>
</tbody>
</table>

**Expenditure Per Hour By State/Territory ($/Hour 2004 Prices)**

<table>
<thead>
<tr>
<th>State/Territory</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>15.58</td>
<td>14.21</td>
<td>14.45</td>
<td>15.17</td>
<td>14.03</td>
</tr>
<tr>
<td>Victoria</td>
<td>10.83</td>
<td>11.73</td>
<td>11.88</td>
<td>12.23</td>
<td>12.15</td>
</tr>
<tr>
<td>Queensland</td>
<td>15.91</td>
<td>13.78</td>
<td>14.24</td>
<td>14.66</td>
<td>15.25</td>
</tr>
<tr>
<td>South Australia</td>
<td>13.88</td>
<td>12.39</td>
<td>14.78</td>
<td>15.90</td>
<td>15.59</td>
</tr>
<tr>
<td>Western Australia</td>
<td>14.61</td>
<td>14.98</td>
<td>15.21</td>
<td>14.18</td>
<td>15.68</td>
</tr>
<tr>
<td>Tasmania</td>
<td>17.35</td>
<td>15.62</td>
<td>14.90</td>
<td>13.83</td>
<td>13.15</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>23.52</td>
<td>20.33</td>
<td>24.03</td>
<td>23.05</td>
<td>22.70</td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>14.91</td>
<td>13.06</td>
<td>14.00</td>
<td>13.25</td>
<td>15.20</td>
</tr>
</tbody>
</table>

**Annual Change (%)**

<table>
<thead>
<tr>
<th>State/Territory</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>-8.8</td>
<td>1.7</td>
<td>5.0</td>
<td>-7.5</td>
<td></td>
</tr>
<tr>
<td>Victoria</td>
<td>8.2</td>
<td>1.3</td>
<td>3.0</td>
<td>-0.7</td>
<td></td>
</tr>
<tr>
<td>Queensland</td>
<td>-13.4</td>
<td>3.3</td>
<td>2.9</td>
<td>4.1</td>
<td></td>
</tr>
<tr>
<td>South Australia</td>
<td>-10.7</td>
<td>19.3</td>
<td>7.6</td>
<td>-2.0</td>
<td></td>
</tr>
<tr>
<td>Western Australia</td>
<td>2.5</td>
<td>1.6</td>
<td>-6.8</td>
<td>10.6</td>
<td></td>
</tr>
<tr>
<td>Tasmania</td>
<td>-10.0</td>
<td>-4.6</td>
<td>-7.2</td>
<td>-5.0</td>
<td></td>
</tr>
<tr>
<td>Northern Territory</td>
<td>-13.6</td>
<td>18.2</td>
<td>-4.1</td>
<td>-1.5</td>
<td></td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>-12.4</td>
<td>7.2</td>
<td>-5.4</td>
<td>14.8</td>
<td></td>
</tr>
</tbody>
</table>


* This measure is the cost to government of delivering VET services per unit of output – one curriculum hour. This measure is adjusted for the course mix across jurisdictions.

The Productivity Commission uses real government recurrent expenditure per publicly funded load pass as a measure of efficiency (this is the cost to government of each successfully completed VET module or unit of competency). Again, NSW improved its performance against this measure between 2000 and 2004, and government recurrent funding per hour in NSW is now lower than all other jurisdictions except Victoria (see Appendix 3).
The Annual National Report provides other information that helps to compare publicly funded VET systems across Australia. As shown in Table 6.3, NSW spent more on employee-related operating expenses than Victoria in 2004. While this partly reflects the larger size of the NSW sector,\textsuperscript{110} it also reflects the comparatively higher salaries paid to TAFE NSW teachers. A TAFE NSW teacher’s starting salary is $59,888 per year (as at January 2006), and reaches a maximum of $69,334, with an annual effective teaching load of 684 hours per year. In Victoria, the figures are $41,093 (as at 1 September 2005), $60,960 and 800 hours per year respectively.\textsuperscript{111}

<table>
<thead>
<tr>
<th>State/Territory</th>
<th>Salaries, Wages, Overtime and Allowances</th>
<th>Superannuation</th>
<th>Payroll Tax</th>
<th>Other Salary &amp; Wage Related Costs</th>
<th>Total Employee Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>910,193</td>
<td>97,035</td>
<td>57,664</td>
<td>10,565</td>
<td>1,075,457</td>
</tr>
<tr>
<td>Vic</td>
<td>645,056</td>
<td>58,318</td>
<td>34,321</td>
<td>11,183</td>
<td>748,878</td>
</tr>
<tr>
<td>Qld</td>
<td>359,552</td>
<td>33,792</td>
<td>17,971</td>
<td>6,269</td>
<td>417,584</td>
</tr>
<tr>
<td>SA</td>
<td>180,690</td>
<td>18,745</td>
<td>11,576</td>
<td>6,302</td>
<td>217,313</td>
</tr>
<tr>
<td>WA</td>
<td>241,645</td>
<td>24,578</td>
<td>13,837</td>
<td>7,706</td>
<td>287,766</td>
</tr>
<tr>
<td>Tas</td>
<td>57,150</td>
<td>5,982</td>
<td>3,850</td>
<td>1,204</td>
<td>68,186</td>
</tr>
<tr>
<td>NT</td>
<td>38,434</td>
<td>5,078</td>
<td>2,826</td>
<td>3,247</td>
<td>49,585</td>
</tr>
<tr>
<td>ACT</td>
<td>51,294</td>
<td>6,500</td>
<td>0</td>
<td>594</td>
<td>58,388</td>
</tr>
<tr>
<td>National</td>
<td>8,465</td>
<td>1,042</td>
<td>0</td>
<td>426</td>
<td>9,933</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2,492,479</strong></td>
<td><strong>251,070</strong></td>
<td><strong>142,045</strong></td>
<td><strong>47,496</strong></td>
<td><strong>2,933,090</strong></td>
</tr>
</tbody>
</table>

Source: DEST, 2004 Annual national report of Australian vocational education and training system, 2005, Table 3.3.

With regards to other operating expenses (that is, not related to employees), the amount spent by NSW was less than Victoria in 2004, which reflects the higher level of payments to non-TAFE providers for VET delivery in Victoria.

In terms of source of operating revenues, the amount of revenue NSW received from fee for service in 2004 was around half that received by Victoria - $127 million compared to $266 million. Further breakdown of fee for service revenue shows that total overseas student fees in Victoria are nearly three times those in NSW, with revenue from both government and non-government clients around twice as high in Victoria compared to NSW (see Appendix 3, section A3.7).

\textsuperscript{110} 95.1 million adjusted nominal hours in 2004 in NSW and 75.7 million in Victoria.
\textsuperscript{111} Source information provided by DET and from Australian Education Union website (http://www.aeufederal.org.au/Industrial/Salaries/TAFEMar06.pdf).
6.5 Performance in relation to employment outcomes

In its report to the Tribunal, the NCVER found that 70 per cent of VET graduates in NSW in 2005 experienced a ‘good’ outcome. The NCVER defined a good outcome as:

… one where an individual is either:
• employed post-training in their intended occupation;
• employed post-training at the same or a higher skill level than their intended occupation; or,
• enrolled in study towards a qualification at a higher level than the original study.\(^{112}\)

In terms of employment outcomes, the NCVER found that over the short term, the lower the level of training, the higher the probability of a student being unemployed after completing this training (Table 6.4). However, over the medium to long term, individuals who have participated in VET are more likely to be engaged in full-time study or full-time employment (and be earning a higher wage) than those who left school without going on to any further study, although the magnitude of this gain narrows over time.

<table>
<thead>
<tr>
<th>Employment status before training</th>
<th>Employed FT</th>
<th>Employed PT</th>
<th>Employed hrs unknown</th>
<th>Unemployed</th>
<th>Not in Labour force</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graduates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed – FT</td>
<td>77.2</td>
<td>8.0</td>
<td>8.4</td>
<td>3.0</td>
<td>3.0</td>
<td>100</td>
</tr>
<tr>
<td>Employed – PT</td>
<td>29.0</td>
<td>52.2</td>
<td>5.5</td>
<td>8.3</td>
<td>4.0</td>
<td>100</td>
</tr>
<tr>
<td>Unemployed</td>
<td>23.7</td>
<td>19.0</td>
<td>4.5</td>
<td>44.1</td>
<td>8.1</td>
<td>100</td>
</tr>
<tr>
<td>Not in labour force</td>
<td>16.5</td>
<td>16.8</td>
<td>2.5</td>
<td>15.2</td>
<td>48.5</td>
<td>100</td>
</tr>
<tr>
<td>Module completers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed – FT</td>
<td>79.7</td>
<td>4.6</td>
<td>9.7</td>
<td>3.5</td>
<td>2.5</td>
<td>100</td>
</tr>
<tr>
<td>Employed – PT</td>
<td>14.4</td>
<td>62.0</td>
<td>8.8</td>
<td>8.1</td>
<td>5.8</td>
<td>100</td>
</tr>
<tr>
<td>Unemployed</td>
<td>12.9</td>
<td>22.9</td>
<td>3.6</td>
<td>49.1</td>
<td>10.3</td>
<td>100</td>
</tr>
<tr>
<td>Not in labour force</td>
<td>6.1</td>
<td>14.1</td>
<td>2.8</td>
<td>10.3</td>
<td>66.2</td>
<td>100</td>
</tr>
</tbody>
</table>


The NCVER suggested that:

… the safest conclusion to draw from this section is that completing a vocational education and training qualification provides an initial fillip to many young people that facilitates their transition into employment, but over time it is the skills and experience acquired while in work that are much stronger determinants of people’s employment status and skill level in employment.¹¹³

The NCVER also noted that between 2001 and 2004, VET graduates in NSW who were not employed prior to commencing training, and who enrolled in training for vocational purposes, consistently obtained the least employment gain from training of graduates from all states and territories (over 2001 – 2004). For example, in 2004, 40 per cent of these NSW VET graduates found employment, compared to 47 per cent nationally.

In addition, the NCVER suggested that there is a relatively low match between the intended occupation associated with training and where the person is subsequently employed. The Tribunal understands the employment outcomes of graduates of VET courses are subject to a range of factors not necessarily in the control of training providers. Nonetheless, the better utilisation of skills and matching of training to workplace requirements is an issue that needs to be addressed to ensure the more effective allocation of public funding.

ACHIEVING THE MISSION FOR TAFE NSW

The Tribunal has considered what action is required to enable and encourage TAFE NSW to refocus on workforce development, and meet the new mission outlined in Chapter 5. As the previous chapter discussed, the Tribunal recognises that TAFE NSW has undergone significant change during the last decade, and improvements in its responsiveness and efficiency have been achieved. There are many good examples of innovative partnerships between TAFE Institutes and industry, and of flexibility and responsive to customer needs.

However, the Tribunal believes that TAFE NSW’s current systems rely heavily on individuals’ initiative to achieve such innovation and responsiveness. It also considers that current funding and operational arrangements can constrain Institute Directors’ ability to innovate. Further changes are required to build on and generalise the good examples of innovation and responsiveness. This will require management systems that enhance TAFE NSW’s capacity to be an effective partner in the state’s economic development, seek opportunities to work with industry to promote and support workforce development, develop a system-wide culture characterised by innovation and entrepreneurship, and meet the needs of diverse individual learners.

The Tribunal explicitly considered whether the existing governance arrangements need to change to enable TAFE Institutes to achieve these goals. It concluded that significant advances can be made without the legislation of a new governance model. Rather, it believes that the required changes to TAFE’s culture and focus can be achieved by:

- adjusting funding mechanisms to enable effective planning for the long-term skill needs of the state, and create a more entrepreneurial environment
- providing more operational flexibility and performance management
- improving planning arrangements, and making the Board of Vocational Education and Training (BVET) responsible for developing a single state training plan
- using performance measurement to drive improved efficiency and effectiveness and increase accountability for publicly funded VET.

The Tribunal’s considerations in relation to governance arrangements, and its recommendations on funding mechanisms, operational flexibility, planning and performance measurement are discussed below.

Maintain existing governance arrangements

The governance arrangements for TAFE NSW have a major influence on its capacity to develop an entrepreneurial culture that can anticipate the changing needs of its customers. In particular, the extent to which decision-making is centralised or decentralised affects individual TAFE Institutes’ flexibility and capacity to respond to the demands of employers within the region they serve.

The Tribunal considered whether, to enable TAFE NSW to achieve its new mission, it is necessary to further decentralise decision-making and provide individual TAFE Institutes with more autonomy. In considering this issue, the Tribunal took account of stakeholder views. It also compared the governance arrangements in NSW with those in Victoria, which
is considered to have the most decentralised governance model in Australia, and considered recent reforms to governance arrangements in Queensland.

The Tribunal concluded that significant gains can be made in fostering a more entrepreneurial culture within TAFE NSW without providing TAFE Institutes with statutory institutional autonomy, as has been done in Victoria. Rather, the Tribunal believes that these gains can be achieved by giving Institute Directors more flexibility in managing their businesses - through the changes to funding mechanisms and increased operational flexibility discussed below. However, the NSW Government (through DET and TAFE NSW) should continue to set the strategic directions for VET in NSW, and ensure that the Institutes’ plans are consistent with the training priorities of NSW.

An overview of stakeholder views on governance and the Tribunal’s considerations in relation to the Victorian and Queensland models is provided below.

### 7.1.1 Stakeholder views on governance

Submissions to the review expressed overwhelming stakeholder support for a decentralised system, where TAFE Institutes and other providers respond to regional industry needs. In addition, many stakeholders put the view that TAFE Institutes are already responsive to these needs. Nevertheless, some suggested that a more devolved governance structure would increase flexibility and allow for greater innovation and responsiveness.

DET argued strongly that TAFE NSW Institute Directors already have the independence to manage their global budgets; develop business opportunities locally, nationally or internationally; develop innovative product lines and responses; conduct marketing campaigns inside or beyond their regions; hire staff; redesign and develop infrastructure; and adjust or realign program offerings. DET also pointed out that each Institute’s performance is evaluated against targets and accountabilities in Service Delivery Strategies, and Institute Directors and other TAFE executives are party to performance agreements. Institutes also have wide-ranging latitude in business and financial management and in setting the direction of Institute affairs.

### 7.1.2 Comparing the Victorian and NSW governance models

As noted above, Victoria is considered to have the most decentralised governance model for TAFE in Australia. Under this model, the *Vocational Education and Training Act 1990* establishes the Victorian Learning and Employment Skills Commission (VLESC), and provides for the establishment of Victorian TAFE Institutes as self-governing institutions, managed through TAFE Institute Councils. The VLESC is the State Training Authority, and thus serves as the authority for the whole of the VET sector in Victoria. As part of this role, the VLESC sets the policy and purchasing parameters for VET public funding for both private and public providers. It is responsible for purchasing training via performance agreements with TAFE Institutes (using both Commonwealth and state funds). However, the management of this function is delegated to the Office of Training and Tertiary Education (OTTE).
Achieving the mission for TAFE NSW

TAFE NSW operations are framed by the \textit{Technical and Further Education Commission Act 1990}, which establishes the NSW TAFE Commission Board as a statutory authority and reporting entity. This Board’s functions are to review policy, planning and strategy for the future direction and development of TAFE NSW, and to make recommendations to the Minister – including advice and recommendations on the efficiency and effectiveness of operations, and priorities for commercial activities.

BVET is the State Training Authority. BVET performs a similar role to VLESC; however, it does not have a purchasing or performance agreement relationship with TAFE Institutes or other providers. The management of purchasing (for competitively funded training) is delegated to the DET through the DET State Training Services portfolio. BVET’s recommendations for purchasing VET relate to Commonwealth funds under the \textit{Commonwealth-State Agreement} implemented through the \textit{Skilling Australia’s Workforce Act 2005}, and are confined to the Apprenticeship and Traineeship Training Program and the Strategic Skills Program.

Despite their different legislative framework, the Tribunal considers that both the Victorian and NSW TAFE systems operate under decentralised management arrangements. As mentioned above, Victorian TAFE Institutes are legislatively autonomous institutions governed by separate Institute Councils. NSW TAFE Institutes operate within a system approach of ‘collaborative independence’, with line management through to the Deputy Director General (TAFE & Community Education), and are part of DET. Institute Directors are given considerable authority and capacity to respond to local needs. At the same time, TAFE NSW operates as a system, providing cost efficiencies for shared services and resources, while allowing for flexibility within the competitive market.

In addition, while the legislative framework for the VET sector in the two jurisdictions is different, the way TAFE Institutes in NSW are allocated funding within specified targets is similar to how the OTTE purchases training from TAFE institutes in Victoria. Competitive purchasing arrangements are also similar.

\textbf{Funding arrangements}

In NSW, each TAFE Institute has Service Delivery Strategy (SDS) that outlines the annual student hours (ASH) targets and other targets to be achieved, and defines the resource parameters within which each Institute delivers service on an annual basis. The SDS is the key component of an Institute Director’s performance agreement with the Deputy Director-General and performance reviews are conducted twice annually. The SDS takes into account core and non-core (ie, non-grant) resourcing. However, it is not a true purchasing agreement as TAFE NSW’s service delivery operates on a whole-of-system basis, which allows the transfer of funds between Institutes to meet immediate training needs. In this sense, the SDS does not directly ‘buy’ outcomes, as there are no sanction arrangements or penalties imposed by DET on individual Institutes for non-delivery against targets.

Victorian Institutes enter into three-year rolling performance agreements with the VLESC, administered via OTTE. These agreements commit them to achieving targets, delivering specific programs, and complying with system-wide policies and priorities set by the Victorian Government.
**Competitive purchasing arrangements**

In both NSW and Victoria, TAFE Institutes use an ‘approved’ or ‘selected’ provider list to purchase the delivery of the:

- the Apprenticeship and Traineeship Training program
- the Strategic Skills program (in NSW) and the Priority Education and Training Program (in Victoria).

Both states also conduct annual tenders to include eligible RTOs on their approved provider lists. RTOs can tender to deliver apprenticeship and traineeship training, or other training in nominated priority or skill shortage areas as determined by their State Training Authority planning processes. The main distinction between the states is that the Training Market Program in NSW is open to competition between TAFE Institutes and private providers. In Victoria, the Government Funded Training Program is available only to private providers. The proportion of funds allocated to non-TAFE providers for VET delivery in 2004 was higher in Victoria (8.4 per cent as a proportion of total recurrent expenditure) than in NSW (4.6 per cent).\(^\text{114}\)

### 7.1.3 Recent reforms in Queensland

In Queensland, a more commercial governance model for TAFE Institutes is being developed to encourage the Institutes to manage themselves on a commercial basis, engage with industry as a customer, and develop the ability to adapt rapidly to changing government, community, industry and student requirements.

TAFE Institutes will be established under new enabling legislation, with statutory responsibilities entrusted to new Institute Boards. Institute Directors will report to the Boards, which in turn will report to the Minister. TAFE staff will be employed by individual Institutes, but be subject to public sector conditions.

The Queensland Department of Employment and Training will establish purchasing arrangements, and define state training priorities with advice from Regional Advisory Councils and Industry Training Advisory Boards. As part of its purchasing role, the Department will negotiate arms-length performance agreements with the Institutes, who will be held accountable for training delivery. On behalf of the Minister (as owner/shareholder), it will monitor Institute performance, report on financial viability, and manage shared services. The Minister retains the right to appoint half the board of each Institute and the ability to step in as administrator if necessary.

The new arrangements are expected to create commercially oriented TAFE Institutes complemented by a ‘centre’ that focuses on high-level policy outputs. The benefits of this more commercial governance model are expected to include the following:

- TAFE Institutes will be more responsive to clients, and quickly be able to enter into flexible competitive commercial arrangements
- Institutes will place a higher value on clients, including government, as purchaser
- Institutes will have greater opportunity to be flexible and responsive

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• Institutes will establish their own balance between economic operations and educational philosophy
• TAFE products will be market-focused and competitively priced
• TAFE Institutes will adopt an entrepreneurial approach in identifying opportunities to deliver new forms of training.

The Queensland model seeks maximum commerciality and autonomy, but maintains a level of Ministerial control. The Tribunal considers that this is a pragmatic approach to governance reform. While the proposed governance arrangements in Queensland are similar to those applying to TAFE NSW, they have influenced the Tribunal’s thinking about the appropriate balance between devolved operational management and centralised determination of strategic policy directions.

7.2 Adjust funding mechanisms

The Tribunal believes a range of changes need to be made to the current funding arrangements, to improve TAFE Institutes’ ability to effectively plan for the state’s long-term skill needs, and increase their incentives for and ability to develop a system-wide culture characterised by entrepreneurship, innovation and collaboration with industry and other partners. These changes include extending their budgeting horizon and establishing a more entrepreneurial environment, allocating specific funds for the pursuit of innovative service delivery and staff development, and encouraging and facilitating collaboration with industry.

7.2.1 Extend budgeting horizon and establish a more entrepreneurial environment

TAFE Institutes currently manage their budgets on an annual basis. Submissions to the review argued that this budgeting horizon is too short to allow TAFE Institutes to effectively manage their workforce and plan for the medium term. For example, in its submission to the review DET argued that longer term funding arrangements could improve TAFE NSW’s capacity to enter into longer term partnerships with industry, and to invest in new products and markets.

The Tribunal agrees with DET’s view, and also considers that longer term funding arrangements would enable and encourage Institute Directors to implement investment strategies that relate to longer term needs, without needing these investments to deliver a return within the same year. Indeed, the Tribunal considers that longer term funding arrangements, and the investment that they will allow, are a vital pre-condition for meeting the state’s long-term training needs. The Tribunal notes similar restrictions on Commonwealth departments and agencies were removed almost 20 years ago, without any loss of overall budget control or sound financial management. Funds under the Commonwealth-State Agreement are provided to NSW on a three-year basis. In line with this arrangement, the Tribunal considers that three-year rolling funding agreements are appropriate for TAFE Institutes. It also considers that there should be some prescribed scope to vary the agreements each year to reflect emerging priorities (for example, by 3 per cent).
The Tribunal also notes that there are currently restrictions on TAFE Institutes’ ability to retain the revenue they generate from commercial activities. The Tribunal believes these restrictions limit incentives for Institute Directors to innovate, be responsive and undertake commercial fee-for-service programs. TAFE Institutes in both Victoria and Queensland face no restrictions on retaining commercial revenue. The Tribunal believes NSW TAFE Institutes should be able to retain their commercial revenues, to encourage the development of a culture based on entrepreneurship and innovation. This measure, combined with the introduction of medium-term budgeting, will also allow Institute Directors to implement strategies that relate to and support planning for the long-term skill needs of the state and the implications of an ageing population.

In addition, the Tribunal notes that under the current funding model, TAFE NSW and the individual Institutes can compare the efficiency of each Institute through the resource allocation model (RAM). RAM provides the cost of delivering ASH across each of the RAM categories for every Institute. The finance unit of DET uses the information provided by RAM when reviewing the budget performance of each Institute. The Deputy Director General TAFE NSW also uses the information when setting draft notional ASH and efficiency targets for each Institute.

The current funding model is driven by the Australian Government’s requirement for TAFE Institutes to meet ASH targets, which are input measures. The Tribunal recognises that competency-based and other output-focused funding models are under consideration and development by the National Training Reform Taskforce (a group of officials that has been meeting to progress COAG VET reforms). The Tribunal supports moves to make funding more focused on outcomes, as it believes that this would increase the commercial focus of TAFE Institutes and encourage operating efficiency. Over time, the unit costs of qualifications/competencies should move towards those of the most cost-effective Institutes, reflect their relative costs, and allow an appropriate adjustment for any genuine cost disadvantage faced by an Institute through providing these competencies in thin markets.

Recommendation 8

To allow TAFE Institutes to implement strategies related to planning for the long term and develop a culture based on entrepreneurship and innovation, that funding arrangements for TAFE Institutes be based on:

- three-year rolling funding agreements, with some prescribed scope to vary the agreements each year to reflect emerging priorities
- the purchase of outcomes or outputs (such as qualifications/competencies), rather than the purchase of annual student hours, and the delivery of other performance outcomes
- a requirement that, over time, the unit costs of these qualifications/competencies move towards those of the most cost-effective provider(s); reflect their relative costs, and

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115 Under NSW Treasury rules, TAFE Institutes have access to retained earnings for only one year (ie, they are cash flow businesses). Treasury’s ruling is that only off-budget organisations can retain earnings.

116 DET, through TAFE NSW, has imposed ongoing efficiency savings on the Institutes in recent years as a result of NSW Treasury requiring DET (along with other government agencies) to achieve efficiency savings. These efficiency savings are set by Treasury through the Results and Services Plan with DET, who then allocates targets to each of its portfolios. It is then the Deputy Director General TAFE who in negotiating with each of the Institutes sets a budget and targets which reflect any efficiency gains expected.
Achieving the mission for TAFE NSW

allow an appropriate adjustment for genuine cost disadvantages of producing these competencies in thin markets

- the removal of constraints on commercial revenue retention.

TAFE Institutes should be able to shift resources between different qualifications/competencies. But where unit costs vary, there needs to be a reconciliation and possible return of funds at the end of the accounting period (if there were excess funds left over because resources were shifted to cheaper courses). Equally, the total budget should not be exceeded over time, although arrangements for borrowing from next year or carrying funds over to the next year would provide desirable extra flexibility to Institute Directors.

A key issue will be the level of detail in such arrangements, as a balance needs to be struck in achieving any form of reconciliation. The Tribunal expects that Institute Directors will have more flexibility to manage in future, as they are best placed to respond innovatively to new opportunities. At the same time, DET must continue to ensure the cost-effectiveness of the funds provided and that the Government’s strategic priorities are being met.

7.2.2 Allocate separate funds for the pursuit of innovative service delivery and staff development

Under the current funding arrangements, a TAFE Institute’s budget is allocated to meeting ASH targets. The DET submission and evidence to the Tribunal from Victoria and Queensland consultations suggest that TAFE Institutes would be better placed to support innovation and work with emerging industries and skill needs if a portion of their funds were freed from ASH. The Western Institute Advisory Council’s submission also argued that the Australian Government targets (ie, ASH targets) restrict the capacity of TAFE to respond to local needs. The Tribunal agrees that there is merit in examining the scope to ‘free up’ funding for the pursuit of more innovative service delivery and to promote the professional development of staff in line with new roles anticipated for TAFE teachers (as set out below in section 7.3.2) while ASH targets are being met. Where this option is not available from within current ASH funding, funds for this purpose should be sourced from government.

Recommendation 9

That funding should be separately identified for TAFE Institutes to enhance TAFE staff skills and develop a system-wide culture characterised by entrepreneurship and innovation. This funding should be used to facilitate partnerships and other innovations, as well as the development of new staff capabilities.

7.2.3 Encourage and facilitate collaboration with industry

As the largest public provider of VET, TAFE NSW is in a position to strategically influence the ability of NSW to meet its future skill needs. However, meeting this challenge will require more than supply-side changes on TAFE’s part. It will also require increased investment in skills formation across the state and indeed the country, including a commitment by business and employers, in partnership with TAFE NSW, to this long-term objective. To help it encourage such commitment, TAFE NSW needs funding arrangements
that allow it to focus even more on seeking the involvement and funding from employers, and actively engaging and collaborating with industry on a continuing basis.

For example, to maximise the outcomes of public funding for VET, TAFE NSW should be able to use this funding to leverage additional industry funding. The Tribunal believes there is potential for a much greater employer contribution to accredited training. As mentioned previously, data from the Australian Bureau of Statistics suggests that employers are already investing large sums in structured training. The onus is on TAFE Institutes to demonstrate to employers that they can establish joint ventures that represent better value for money than employers are currently receiving. Not only will this increase TAFE’s share of the training market and reduce the draw on public funds, it will also increase the market for the delivery of accredited training overall.

The Queensland Skills Plan envisages a model of industry engagement whereby TAFE Institutes will be allowed to use public funding to offer training that is jointly funded by industry and government. In this instance, Institutes may apply ‘price leveraging’ to training programs, in order to meet the needs of industry, or to make training programs available to a greater range and number of people, by combining government Direct Grant funds with fee-for-service funding (or charges) for the purpose of providing more training. This model aims to increase the contribution of industry, using part government funding as an inducement. It is based on an assessment of Victoria’s model, which indicated that much of that state’s success in raising commercial revenue is due to its culture of combining government and industry funding in this way.

**Recommendation 10**

*To maximise the level of industry and employer funding of VET, that funding arrangements for TAFE Institutes allow them to use public funding to seek and operate partnerships, where both the Institute and their partner(s) contribute to the costs involved.*

Under the bilateral agreement with the Commonwealth, NSW has agreed to provide third party access to TAFE NSW infrastructure. Under third party access, private RTOs could make use of TAFE facilities without the risk of stranded assets, particularly in thin markets. The Tribunal believes that this could have dual benefits, if third party access is used to both increase the efficient utilisation of TAFE NSW assets and establish joint ventures between TAFE Institutes and industry, private RTOs and other partners. Accordingly, TAFE Institutes should be permitted to charge third parties on a cost-reflective basis for the use of their facilities, and retain the proceeds. The Tribunal notes the transparent and entrepreneurial approach being applied to this activity by Queensland’s Southbank Institute.

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119 In Victoria, a policy aim of Office of Training and Tertiary Education is for Institutes to use government funding to leverage additional contributions from industry, ie, use public funds as an initial incentive.
120 Southbank Institute offers a number of facilities across three campuses for hire by internal or external parties. The facilities include: general purpose rooms, computer classrooms, conference and function areas, auditoriums, specialist training rooms, a sports hall, an outdoor function area, and an e-Learn centre. See [http://www.southbank.tafe.net/site/services/conference/index.asp](http://www.southbank.tafe.net/site/services/conference/index.asp).
In addition, to further develop the entrepreneurial framework that TAFE NSW needs to operate in, Institutes should be charged market-based rent on their real estate. This rental obligation would need to be funded, but Institute Directors would then be able to consider whether they could deploy those funds more cost-effectively by varying their accommodation and service delivery strategies. Provided Institutes are given sufficient operational and commercial flexibility to respond accordingly (per the Tribunal’s package of recommendations below), this should provide a spur to Institutes to be more commercially oriented and responsive to market opportunities and conditions.

To further encourage the development of relationships and partnerships (including joint ventures) with industry and employers, the Tribunal believes that Institutes Directors should also be free to make decisions regarding the purchase of capital equipment and real estate from retained earnings.

The Tribunal recognises the important community development and capacity building role that TAFE Institutes can play in local communities (including promoting social equity and supporting social infrastructure), particularly in regional or rural areas. To maintain this role, while also enabling Institutes to be more entrepreneurial and commercially focused, the Tribunal believes that the Government should explicitly cost and fund TAFE NSW’s community service obligations (CSOs). This should not necessarily change the total amount of funding currently received by TAFE Institutes for a given level of CSO provision, but merely ensure that their CSO roles are clearly identified and costed, separate from their commercial activities.

If the above reforms are to achieve their intended outcomes – that is, the efficient use of TAFE NSW resources and a framework for Institutes to be more entrepreneurial - they need to be introduced as a package. That is, if an Institute is to be charged market-based rent, it should also be able to operate as a commercial entity in terms of being able to sub-lease its facilities to third parties on a cost-reflective basis and retain the proceeds; and be able to buy and sell capital equipment and real estate from its retained earnings.

**Recommendation 11**

To encourage better use of assets and the formation of partnerships and alliances, that TAFE Institutes be:

- allowed to sub-lease real estate and any equipment thereon to third parties and retain the proceeds
- charged market-based rent on their real estate and funded accordingly
- allowed to purchase from any retained earnings their own capital equipment and real estate.
7.3 Provide Institute Directors with more operational flexibility

TAFE Institute Directors have the ability to hire staff, and are responsible for managing staff resources within their budget. The termination of permanent staff members’ employment is governed by the industrial relations system for public servants in NSW. Over recent years, the flexibility of staffing arrangements within Institutes has increased, with more staff being appointed on a part time or contract basis. However, Institute Directors do not have sufficient flexibility to vary remuneration to reflect the increasing diversity of tasks and work value of different staff in future. Current arrangements also prescribe the number of part time and casual teachers that can be employed. In addition, while NSW has committed to developing a fair and transparent performance management scheme for TAFE Institutes, no such scheme is currently in place for most staff.

The Tribunal has considered the impact of the current industrial relations and staffing arrangements within TAFE NSW on the Institutes’ culture. It had regard to the North Coast Institute Advisory Council’s argument that Institutes need more local operational flexibility so they can utilise their staff and resources in a way that best meets local needs, and that this could be achieved through having more flexibility in managing employment arrangements. It also had regard to the current pay and conditions within TAFE NSW, and took into account that TAFE Institutes will be operating in an increasingly competitive market in the future.

The Tribunal believes that TAFE NSW can remain competitive in the future if it compensates its relatively high staff costs with high productivity. Institute Directors should be given more operational flexibility, to encourage the development of a more entrepreneurial culture and to help them attract and retain the high-quality staff they will need if TAFE Institutes are to remain competitive in the future. It also considers that future industrial agreements, including salary structures, should recognise the future diversity of staff roles.

7.3.1 More flexibility in relation to how work is organised

TAFE NSW will be operating in an increasingly competitive market in the future. Even in the absence of a specific government policy to open the VET sector to more competition, competitive pressure will be exerted on TAFE NSW as it seeks to establish joint ventures and other partnerships and competes for commercial programs. The TAFE systems from other states are also starting to compete for business in the NSW training market. This means that it will be increasingly important that TAFE NSW Institutes are able to attract and retain high-quality staff.

At present, teachers and related employees’ pay and conditions are determined by the Crown Employees (Teachers in TAFE and Related Employees) Salaries and Conditions Enterprise Agreement 2006. TAFE NSW teachers are the highest paid TAFE teachers in Australia (along with those in Western Australia). The starting salary for a teacher in NSW is $60,000, compared to $50,000 in the ACT, $47,000 in Queensland and $41,000 in Victoria. The highest salary point in NSW is $69,000, compared to $67,000 in the ACT and $61,000 in Queensland and Victoria, so that the salary range is much more compressed in NSW.

TAFE NSW teachers have four classification levels while in other states there are eight or more levels. TAFE NSW teachers also have access to additional salary points through appointment to head teacher positions.
TAFE NSW Institutes pay their casual teachers an hourly rate of $60 compared to $61 in Queensland and $50 in Victoria. For manager positions, there is a large difference between the salaries paid in NSW and other states. Managers in NSW receive between $95,000 and $122,000, compared with $64,000 to $71,000 in Queensland and $64,000 to $69,000 in Victoria. In terms of conditions, TAFE NSW teachers have the least number of teaching weeks per year (36 weeks compared to 39 in Queensland and 42 in Victoria) and least number of teaching hours per week (30 hours compared to 32 in Queensland and 38 in Victoria).

In principle, high pay rates are to be welcomed; however, they must be matched by high productivity and staff performance. Accordingly, the Tribunal considers that TAFE NSW’s relatively high staff costs compared to other jurisdictions should not affect its future competitiveness, provided that the better pay and conditions associated with these costs help TAFE Institutes to attract and retain the best quality staff, and Institute Directors have the necessary operational flexibility to deploy their staff in the most effective way. The Tribunal anticipates that pay and salary structures for TAFE NSW staff will continue to be determined centrally. However, it considers that under future industrial negotiations, salary increases should be tied to the achievement of improvements in productivity.

The Tribunal also considers that productivity improvements are most likely to be realised if Institute Directors have more operational flexibility in determining how work is organised. For example, future industrial negotiations may involve a centrally determined framework within which Institute Directors have additional flexibility to vary how the work is organised – such as in terms of when services are delivered, where they are delivered, and the use of part-time and other contract staff.

In some circumstances – for example, where there is a genuine competitive threat – Institute Directors should be able to negotiate industrial arrangements covering particular groups of staff. This was the case when the Riverina Institute successfully recontested a large defence training contract in 2002. For the staff employed as part of that contract, a unique industrial agreement was negotiated with the NSW Teacher’s Federation, which agreed to vary the existing arrangements in terms of hours of work and payment for duties (see Case Study 7.1).

Institute Directors have indicated that being able to hire part time casual teachers is crucial, as it gives them the flexibility to deploy staff to meet demands as they arise. Hiring part-time teachers who are working in industry can also assist TAFE to forge links with and develop closer ties to industry and employers. At present there are limits on the number of part-time teachers in TAFE NSW (55 per cent of teachers to be employed full time by June 2006). For the purpose of enhancing flexibility and links with industry, the Tribunal believes that limits on part-time teachers (casual and permanent) should not be tightened, and ideally should be removed. This should not be seen as part of a cost-cutting strategy, but as a necessary part of a strategy to make TAFE responsive to the emerging needs of industry and the latest technologies being used in workplaces.

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121 The remuneration package of TAFE NSW managers is an inclusive arrangement covering all conditions of employment. In other states (for instance Victoria and Queensland) the remuneration package excludes conditions. For example, in Victoria managers are entitled to penalty rates and in Queensland managers may be entitled to motor vehicles in addition to the remuneration stated above.

122 Although Institute Directors acknowledge that having a core of permanent teachers has advantages in ensuring education standards are maintained.
Case Study 7.1: TAFE NSW Riverina Institute
National Aerospace Training Centre of Excellence (NATCOE)

Since October 1994, the Riverina Institute has been providing Aviation Technical Training for the Australian Defence Force through NATCOE and under contract with the Australian Government (the RAAF Contract). This contract is the largest Technical Training contract in Australia and was successfully recontested in 2002 to operate until 2009.

The 145 NATCOE instructors are a mix of TAFE NSW staff and military personnel, and all instructors work side by side. The Riverina Institute has been given genuine autonomy from TAFE NSW to manage the RAAF contract, which has allowed for the development of a close and mutually supportive partnership with the Australian Defence Force, Qantas and Boeing. NATCOE has committed to operating whenever it suits its customers (including 24 hours a day) and seeks to adapt to constantly varying Defence Force training programs.

The success of this contract has largely depended on Riverina Institute’s ability to negotiate a unique enterprise agreement with the NSW Teachers Federation, which provides for variations to the award in terms of hours of work and pay rates. The specific aim of the enterprise agreement is to “ensure the commercial viability of NATCOE and the long term employment of its educational [TAFE] staff”. Unlike the award, the enterprise agreement does not have a salary scale, and increases salaries and hourly rates by the ABS Wage Cost Index. The agreement also provides for flexible working arrangements, so that NATCOE can deliver the requirements of the RAAF contract.

In addition, the Tribunal believes Institute Directors need more flexibility to negotiate the pay rates of part time casual teachers within a centrally determined band. Currently, all TAFE NSW part time casual teachers are paid a flat rate ($59.68 per hour for teaching duties, $56.11 per hour for coordination/consultancy duties and $47.12 per hour for duties other than teaching). Given the importance of part time casual teachers to the TAFE Institutes, and the likely increase in their importance in meeting the future challenges identified for the VET system and TAFE in particular, there should be scope for flexibility in how they are remunerated.

7.3.2 Recognise the changing role of TAFE teachers

To ensure the future competitiveness of TAFE NSW and assist staff in realising their full potential, future industrial agreements should recognise that the role of TAFE teachers will move even further away from classroom teaching and include broader responsibilities for those who are able and willing to assume roles as workplace assessors, consultants, intermediaries working across agencies, mentors, and business developers or entrepreneurs (eg, contributors to the development of innovative products or services).

There is growing recognition that the role of VET practitioners is evolving, and that a new set of VET practitioner skills are required (and are emerging) to satisfy the expectations of industry and individuals. In contrast to the supply-driven and classroom-based traditional practitioner, the new VET practitioner needs to be outward looking, demand driven, innovative, and responsive to the needs of enterprises and individuals.¹²³ In turn, this requires that practitioners engage with industry and the community, regularly update their technical skills and industry-specific knowledge, and understand the different ways and

different settings in which adults can learn. Box 7.1 lists some of the skills and attributes required of VET practitioners, as identified by researchers.  

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**Box 7.1: New VET practitioner skills and attributes**

**Features of the ‘new VET practitioner’**

- Views individual students as lifelong learners on career pathways
- Respects the business risks and pressures of enterprise clients
- Appreciates that enterprises need skills to achieve business outcomes
- Understands links between training and workforce development
- Functions effectively within supply chains and skill ecosystems
- Develops and sustains long-term relationships with clients
- Participates within a team to access colleagues’ specialist skills
- Taps into wider networks for information and resources
- Understands the value of accessing and applying industry research
- Contributes to the development of innovative products and services
- Improves the tools and frameworks of professional practice
- Updates technical skills and industry-specific knowledge

**Requirements of VET professionals 2006-2010 (Department of Education and Training, WA)**

- Teaching, learning and assessment: an understanding of learning theories (including how learners learn); flexible approaches to teaching, learning and assessment; ability to foster the development of generic skills and learning strategies (including ability to innovate).
- Program and resource development: ability to customise existing learning programs to meet particular needs; and ability to design and develop new learning programs and assessment resources.
- Strategic inquiry: able to undertake research to better understand key issues and priorities and examine new approaches to learning based on clients’ needs; review and evaluate teaching, learning and assessment processes.
- Technology: effectively use technologies in teaching and communicating with students.
- Business and client focus: understand and respond to the needs of business and employers; adopt an entrepreneurial approach; establish and sustain relationships with other providers and enterprises; understand the links between training and workforce development; adopt learning and teaching strategies to suit individual client organisations.
- Vocational expertise and industry currency: maintain and update industry skills and knowledge; develop and maintain appropriate industry contacts; access and apply industry research and new technologies.
- VET system knowledge: understanding of the VET system and its context, and an understanding of a practitioner’s own organisation (including its strategy, structure, processes and systems).
- Personal skills and attributes: communication (written and spoken, through technologies); critical thinking, analysis and evaluation; innovation; working collaboratively and in teams, within business units and cross-sector networks; and flexibility.
- Leadership and management: maintain a strategic focus; encourage innovation; establish productive relationships with external parties; develop and manage infrastructure and resources; manage projects and contracts.

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124 The Tribunal notes that further work is currently being undertaken on examining the characteristics and features of ‘the new VET practitioner’ as part of the research program Supporting vocational education and training providers in building capability for the future, which is being run by a consortium of Australian researchers and funded by the National Centre for Vocational Education Research. This research program is aimed at “providing the evidence on which to base decisions for the future of the VET workforce and which will support workforce change.” (See: www.consortiumresearchprogram.net.au/html/, accessed 7 November, 2006)


Of course, not every VET practitioner or manager needs a high degree of expertise in all of these areas. Rather, Institutes need a suitable mix of professionals and skills.\textsuperscript{127} However, the Tribunal considers that the changing role of TAFE staff may necessitate revising pay and classification structures to recognise the different roles amongst staff and to provide appropriate incentives and career paths. For instance, there may need to be a distinction in classification and remuneration arrangements between TAFE staff in terms of those that occupy more traditional teaching roles and those that take on more of a business development or entrepreneurial role. In its submission to the Tribunal, the TAFE Teachers Association noted that it has already approached TAFE to discuss the future diversity of roles for TAFE teachers, including those of intermediaries and brokers, and that it wants to progress these discussions so that the work TAFE teachers and educationalists do is properly recognised.\textsuperscript{128}

To ensure TAFE teachers receive the training and support they need in assuming the new roles anticipated for them, the Tribunal believes that funding should be separately identified for TAFE Institutes to enhance TAFE staff skills (see section 7.2.2.). This funding should be used to develop new staff capabilities, as well as facilitate partnerships and other innovations.

The Tribunal also believes that TAFE teachers should have the option of a sabbatical to work within a relevant industry, with the right to return to TAFE within a specified period (eg, 1 year), as part of their professional development. Such a stint would enhance links between TAFE and industry, and would further help to ensure that TAFE teacher skills are kept relevant and responsive to the needs of the market.

The Tribunal recognises that NSW, as part of its bilateral funding agreement with the Australian Government, has committed to implementing a fair and transparent performance management scheme in TAFE institutions. The Tribunal believes that the NSW Government should make the development of this scheme a high priority. A wide-ranging and well-functioning performance management scheme can assist the ongoing development capacity of both staff and Institutes.

**Recommendation 12**

*To allow and encourage TAFE Institutes to develop a culture characterised by entrepreneurship, innovation and responsiveness by TAFE staff, that:*

- in negotiating future industrial agreements any change in pay and conditions be linked to productivity improvements
- future industrial agreements provide Institute Directors with additional operational flexibility including a greater ability to attract and retain key staff
- the future diversity of staff roles be recognised, as staff will increasingly be required to become workplace assessors, consultants, intermediaries working across agencies, mentors and entrepreneurs
- teachers have the option of taking a sabbatical to work within a relevant industry, as part of their professional development, with the right to return to TAFE within a specified period (eg, one year).

\textsuperscript{127} Ibid, p 43.
\textsuperscript{128} Technical and Further Education Teachers Association of NSW submission, November 2006, p 1.
7.4 Improve planning

There are a number of planning documents that contribute to the planning of VET in NSW. The key documents are summarised in Table 7.1.

<table>
<thead>
<tr>
<th>Document</th>
<th>Purpose</th>
<th>Required by</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>VET Plan</td>
<td>Sets out the state’s intended vocational education and training commitments and targets. Is prepared in accordance with the Skilling Australia’s Workforce Agreement</td>
<td>Australian Government</td>
<td>Agreement between NSW and Australian Governments</td>
</tr>
<tr>
<td>Bilateral Agreement</td>
<td>The triennial agreement between the NSW and Australian Governments that establishes the terms and conditions of payment of financial assistance to the state for vocational education and training. It is closely linked to the State VET Plan</td>
<td>Australian Government</td>
<td>Agreement between NSW and Australian Governments</td>
</tr>
<tr>
<td>State Plan</td>
<td>Sets out explicit goals and targets for a wide range of government services including the following targets:</td>
<td>NSW Government</td>
<td>State level</td>
</tr>
<tr>
<td></td>
<td>• Increase the proportion of students completing year 12 or recognised vocational training from 82.7% in 2005 to 90% by 2016 (priority s5);</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Increase the proportion of population aged 15-64 participating in VET from 11.7% in 2005 to 16% in 2016 (priority p4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Increase to 250,000 the number of people in regional areas participating in VET by 2012, with an aim of 300,000 by 2016 (priority p7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Results and Services Plan</td>
<td>A results-focused agreement between DET and NSW Treasury. The aim of this plan is to improve resource allocation and management by linking DET’s desired results with services provided to achieve them, within existing funding levels</td>
<td>NSW Government</td>
<td>Departmental</td>
</tr>
<tr>
<td>NSW BVET Strategic Plan for VET 2005 - 2008</td>
<td>Outlines the strategic directions and priorities for vocational education and training arising from existing Australian and NSW Government plans and commitments. Used to guide state funding decisions for VET programs</td>
<td>BVET Act 1994</td>
<td>State level</td>
</tr>
<tr>
<td>Corporate Plan</td>
<td>Sets out service delivery planning, financial and asset planning components of DET</td>
<td>NSW Government</td>
<td>Departmental</td>
</tr>
<tr>
<td>Portfolio Plan</td>
<td>A three-year strategic plan that aligns to the DET Corporate Plan and Results and Services Plan, Commonwealth priorities and additional priorities as provided by Institutes</td>
<td>DET</td>
<td>TAFE NSW</td>
</tr>
<tr>
<td>Service Delivery Strategy</td>
<td>Institute-level plans that detail how each Institute will manage its resources and meet educational objectives within its budget. Aligned to the Portfolio Plan</td>
<td>TAFE NSW</td>
<td>Institute</td>
</tr>
</tbody>
</table>
There are also numerous bodies and organisations involved in VET planning:

- BVET provides the NSW Government and the Minister for Education and Training with strategic advice about the NSW VET system. It also oversees policy and planning initiatives and fosters partnerships between key stakeholders in the NSW training system, and is a key source of advice to the Minister on state and national vocational education and training priorities.

- The TAFE Commission Board is responsible for advice and recommendations to the Minister on TAFE NSW policy and planning, the efficiency and effectiveness of operations and management and prioritisation of commercial activities.

- The NSW Board of Adult and Community Education (BACE) supports the provision of adult and community education, and advises the Minister for Education and Training on the allocation of grants to 63 community-owned and managed organisations.

The Tribunal believes there is scope to improve the existing governance framework by reviewing and streamlining the current state VET planning frameworks, to remove some of the layers and in some cases what appear to be overlapping priorities. In particular, the existing BVET Strategic Plan for VET, and the provision for state VET planning within the BVET legislation, provide a basis for a more coordinated and less onerous approach to VET strategic planning. To provide greater clarity to stakeholders, an adequately resourced BVET should be responsible for a single state training plan that replaces the current set of plans, and:

- focuses on the strategic direction of the VET sector
- incorporates Australian and NSW Government funding and accountabilities,
- is linked to the state’s regional and economic development, and
- incorporates the targets in the recently released State Plan

The TAFE Commission Board should also be used to provide a better avenue for specific industry expertise and advice (through representation of peak industry groups). In addition, Institute Advisory Councils should be staffed and used to build strong and dynamic regional and local alliances and partnerships so that TAFE NSW is well positioned to play a lead role in state economic development.

**Recommendation 13**

*That planning arrangements be refined, so that the NSW Board of Vocational Education and Training is responsible for a single state training plan (in place of the current suite of existing plans) that:*

- focuses on the strategic direction of the sector
- incorporates Commonwealth and state funding and accountabilities
- links with the state’s regional and economic development policies, and
- incorporates the targets in the recently released State Plan.*
7.5 Use performance measurement to drive improved performance and increase accountability

As Chapter 6 discussed, the Tribunal assessed the current measures of efficiency and effectiveness in the delivery of publicly funded VET. It found that while a range of aggregate measure is reported on, little comparative information on the performance of individual providers within the VET system is publicly available. The Tribunal believes making such information available would help to drive improved performance and increase accountability across all providers. It would also help to enhance competition, by enabling potential students and employers to make informed choices about the best providers and courses for them.

In addition, the Tribunal believes that the increased flexibility over budgets and staffing arrangements discussed above should be accompanied by increased accountability for TAFE Institutes. This should be achieved by requiring TAFE NSW to report publicly on the performance of individual TAFE Institutes against the targets in the VET Plan and the Results and Services Plan (as well as against the financial and budget targets currently used to measure performance.) In addition, TAFE NSW should be required to publicly report on its Institutes’ performance against other measures related to the flexibility of training delivery, and the development of a more entrepreneurial culture.

7.5.1 Use comparative information to drive improved performance and increase accountability in the NSW VET sector

The Tribunal believes that increasing the availability of comparative information on the performance of individual providers within the VET system will help drive improved performance (noting that what gets measured influences what gets done) and improve accountability across all providers. This is particularly important as the VET market is becoming more competitive.

In its submission to the review, DET argued that provision of information on matters such as RTO capacity and performance and student outcomes would enable students to make informed choices about which providers they choose and which courses they undertake. DET also noted that provision of consumer information is becoming a requirement for receipt of public funds under the Commonwealth-State VET funding agreement.

The Tribunal agrees that the provision of information to employers, students and VET providers is essential to a well-functioning VET market. If the process for accessing information is costly, or relevant information is simply unavailable, this is likely to present a substantial barrier to market participation and innovation. In contrast, publicly available information on the efficiency and effectiveness of VET providers is likely to support market participation and innovation.

The Tribunal acknowledges TAFE’s particular role in the delivery of community service obligations, and recognises that these need to be taken into account in the publication of performance data. It is important that appropriate indicators of community outcomes be developed to cover such work so that these important contributions do not continue to be overlooked.
The Tribunal also believes that performance information should, where possible, cover the costs of service delivery, and measures of efficiency and productivity (e.g., costs per student, and per hour of training delivered). However, the Tribunal recognises that there is justification for some data to be kept confidential (i.e., ‘commercial-in-confidence’ data) and therefore to be kept separate from performance data. For instance, the Tribunal envisages that cost of service data would only be published for non-contestable, publicly funded VET delivery by TAFE.

Performance information should also cover output measures, including student employment outcomes achieved. This information could be supplemented by separate recognition of places provided to disadvantaged people for whom the achievement of successful employment outcomes may be more difficult. While the Tribunal appreciates that student employment outcomes are subject to a number of other influences, and not just RTO performance, it notes that private providers of training generally use employment outcomes to advertise their services.

In its report for the Tribunal, NCVER suggested that a good outcome is defined as one where an individual is either:

- employed post-training in their intended occupation
- employed post-training at the same or a higher skill level than their intended occupation, or
- enrolled in study towards a qualification at a higher level than the original study.  

Further, NCVER defined a poor outcome as one where an individual is:

- employed post-training at a lower skill level than their intended occupation or is unemployed, and
- not undertaking further study, or undertaking further study but not at a higher level than the original study.

The Tribunal considers that these definitions should form the basis of reporting on student employment outcomes. The satisfaction rates of students should also be collected and reported through course evaluation and NCVER student satisfaction surveys. In addition, employer satisfaction should be reported, although the Tribunal notes that employer surveys would be undertaken at the provider level, which may result in issues about consistency and comparability.

Notwithstanding the difficulties of measuring course completion rates (discussed in Chapter 6) the Tribunal believes a regular indicator of course completions (either graduations or dropout rates) would be of value, as would information on the time taken to complete courses (especially apprenticeships).

Information should be reported publicly, annually and on a provider basis (i.e., each TAFE Institute would report performance separately). In addition, the provision of this information should be a requirement for re-registration and/or receipt of public funding.

129 National Centre for Vocational Education Research, Matching skill development to employment opportunities in New South Wales, report for IPART, 2006.
The Tribunal recognises that before performance reporting can be tied to re-registration and/or receipt of public funding, work will be needed to determine appropriate performance measures and establish systems to collect the necessary data. However, it notes that RTOs will commence collecting performance data from 1 July 2007 as a condition of registration.  

Recommendation 14

To drive improved performance and increase provider accountability, that all Registered Training Organisations be required, as a condition for re-registration and/or receipt of public funding, to provide performance information publicly, annually and on a provider basis. This information should include:

- costs of service delivery and measures of efficiency and productivity (for non-contestable, publicly funded VET delivery by TAFE)
- output measures, including employment outcomes achieved
- client satisfaction rates for students and employers
- completion rates, including time taken for course completion (particularly apprenticeships) and course completion rates.

Any increase in the reporting burden on providers should be accompanied by a review of reporting requirements. This review should assess the scope to rationalise these requirements, to form a more meaningful set of performance indicators. The Tribunal expects that its proposed reporting requirements will not be too onerous for the VET system as a whole. However, their impact on smaller private providers should be considered, to determine whether this impact warrants exceptions from some elements of the performance measurement framework.

Recommendation 15

That existing reporting requirements forRegistered Training Organisations be reviewed to identify and remove those that are not well focused as a quid pro quo for the new reporting requirements proposed in Recommendation 14.

Given the amount of publicly funded VET courses and modules on offer, and the number of VET providers in NSW, there is also a need for a central source of information on publicly funded VET for employers and trainees. The Tribunal acknowledges that some information is already available, such as that provided through the National Training Information Service and DET and DEST portals. However, there is still a need for a central source that caters specifically for employers and trainees.

Recommendation 16

To ensure users of the VET system are well informed, that the NSW Department of Education and Training provide better information in relation to publicly funded VET, including information on how to access the VET system, the alternative providers and courses available, funding arrangements and costs.

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130 NSW Board of Vocational Education and Training submission, October 2006, p 2.
7.5.2 Require TAFE NSW to report on the performance of individual Institutes against a wider range of measures

In line with the principles of good corporate governance, the proposed increase in the flexibility of TAFE NSW discussed in the sections above should be supplemented by increased accountability. The Tribunal believes that reporting against appropriate performance measures on an individual Institute basis will help drive efficiency improvements within TAFE NSW.

The Tribunal recognises that some important functions and particular attributes of TAFE NSW (eg, its contribution to economic development in NSW and its role in addressing skill shortages) are very difficult to quantify and thus measure. In this instance, performance needs to be assessed using surrogate measures and through a qualitative assessment of what makes a ‘good’ Institute. Such an assessment would be a joint exercise between the relevant Institute Director and the Department.

Institute Directors should be accountable to DET and the Minister for the performance of their Institute. Subject to satisfactory performance, including financial performance, Institute Directors should have operational autonomy and flexibility. Where an Institute’s performance is sub-standard, the Institute Director should be required to advise DET on how this will be remedied. If its performance is unacceptable, DET could intervene and act as administrator.

Performance assessment should also be used to drive desirable organisational behaviour. In the context of TAFE NSW, this behaviour includes the development of a more entrepreneurial workplace culture, and continually seeking to further improve efficiency and effectiveness.

TAFE NSW and DET have advised that TAFE Institutes currently report performance against the measures outlined in Table 7.2.

**Table 7.2 Current performance measures for TAFE Institutes**

<table>
<thead>
<tr>
<th>Performance assessment</th>
<th>1. Annual Student Hours (ASH)</th>
<th>2. Age targets</th>
<th>3. Equity targets</th>
<th>4. Skill shortage targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>VET plan (measured against targets)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Results and Service Plan (measured against targets)</td>
<td>Module completions</td>
<td>Enrolments at Cert III and above</td>
<td>Equity groups</td>
<td></td>
</tr>
<tr>
<td>Finances (measured against best practice except for 1. which is measured against targets)</td>
<td>Financial/budget target</td>
<td>Dollars per ASH costs by RAM category (field of study)</td>
<td>Percentage of commercial revenue and net profit on commercial activities</td>
<td>Increase in net revenue from large corporations/clients</td>
</tr>
<tr>
<td>Other (measured against best practice)</td>
<td>Invalid enrolments rates</td>
<td>Completion of demographic statistics on the enrolment form</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Further, the Tribunal understands that reporting against the following two measures is also being considered:

- flexible delivery including e-learning and workplace delivery
- percentage of e-business (ie, online access by students and employers for enrolments, results, etc).

In line with its recommendation that VET providers report cost of service delivery and measures of efficiency and productivity, the Tribunal believes NSW TAFE should be required to publicly report on the performance of individual Institutes against the targets currently in the VET Plan and the Results and Services Plan (and which may eventually be in the single state training plan, per Recommendation 13 and Section 7.4 above); as well as performance against financial and budget targets (which should involve at least the balance of expenditure and revenue on an accrual basis). This information will allow stakeholders to assess the efficiency and cost effectiveness of these VET providers. Institutes should also be required to report on a weighted cost per module, where the weights are the same as those used in the RAM for setting ASH targets.

**Recommendation 17**

To allow stakeholders to assess the efficiency and cost effectiveness of TAFE Institutes, that TAFE NSW be required to publicly report, on an individual Institute basis, on performance against the targets that are currently in the VET Plan and the Results and Services Plan (and which may eventually be in the single state training plan, per Recommendation 13 above), as well as against financial and budget targets currently being used to assess performance.

The Tribunal supports the work currently underway to develop meaningful performance measures around the flexibility of training delivery. The changing nature of work, including the need for a continuing updating and diversification of skills, suggests that flexibility in structured training delivery will become increasingly important. The Tribunal believes reporting against flexible delivery will help drive cultural change, as well as changes in the way VET is delivered. Therefore, it believes TAFE Institutes should be required to measure and report what proportion of training is delivered:

- through e-learning and workplace delivery
- outside ‘normal’ working hours.

These performance indicators should reflect the desirability of ‘blended’ or mixed-mode delivery, which recognises the need for interaction and the advantages of programs that involve, for example, a combination of off-the-job or institutional delivery and workplace delivery.

**Recommendation 18**

To support increased flexibility in the delivery of training, that NSW TAFE and other publicly-funded VET providers are required to measure and report on the proportion of training delivered through e-learning, at the workplace and outside ‘normal’ working hours.
In its submission to the review, DET suggested that performance and accountability parameters for TAFE NSW should reflect the more complex business environment faced by Institutes, and incorporate a focus on responsiveness, innovation, product development and outcomes beyond numbers of enrolments and course completions. The Tribunal agrees with this position and notes that Queensland has revised its performance assessment framework for TAFE Institutes to focus less on input-related indicators and more on outcomes and outputs, albeit with some efficiency measures related to system improvements the Department of Employment and Training is seeking.

The Tribunal believes TAFE NSW should be required to publicly report, on an individual Institute basis, on its performance against an appropriate suite of additional performance measures to more appropriately capture the activities of TAFE Institutes. Such measures may include:

- measures of effective delivery, such as percentage of contracts fulfilled and competencies delivered relative to strategic priorities
- an assessment of rewards and recognition that have contributed to staff development
- the amount of commercial revenue, with some dissection to distinguish overseas students, student fees, contestable government funding from all sources (including a measure of market share), and private industry funding, including joint ventures
- other measures designed to capture a shift in business culture, such as instances of:
  - multi-party engagement by providers and the provision of local and customised training solutions for businesses
  - evidence of consultation
  - the building of business capacity and innovative responses
  - investment in emerging technology.

Some of these measures could be tested by providers giving evidence of industry engagement or ‘buy in’ as part of bids for competitive funding.
8 IMPROVING OUTCOMES FOR USERS OF THE SYSTEM

To complement the action it has recommended to encourage TAFE NSW to develop an entrepreneurial culture and improve accountability for publicly funded VET (see Chapter 7), the Tribunal has considered how better outcomes can be achieved for users of the VET system. The Tribunal sought stakeholder views on the current effectiveness of the system in terms of the outcomes achieved, the introduction of competition through User Choice and contestable funding, and issues associated with ensuring the quality of training delivered through accreditation and audit arrangements. Based on these views, and its own assessment, the Tribunal believes that the following actions need to be taken to improve outcomes for employers, trainees and RTOs:

- embedding generic skills creation within the delivery of VET programs
- allocating more resources to the Recognition of Prior Learning
- increasing flexibility and responsiveness in the delivery of VET programs
- allocating more public funding for VET on a competitive basis
- increasing the efficiency and effectiveness of registration, accreditation and auditing arrangements
- considering the potential to use alternative auditing models, such as risk-based auditing, and to reduce the duplication of effort in auditing and accreditation.

8.1 Embed generic skills creation in the delivery of VET programs

In general, employees need to be able to adapt to changing demands in the workplace, driven by changes in technology and new expectations for customer service. Thus, in addition to customised, job-specific skills creation programs, employers value programs that enhance the generic employability skills of their employees (or potential employees). Although generic skills may be best absorbed in the process of job-specific training, there should be a specific focus on this skill area to ensure that trainees are job-ready, and can stay job-ready by being able to adapt to change throughout their working lives. The Tribunal examined how well generic skills (in particular, problem-solving and interpersonal skills) are embedded in the current system of competencies, whether this system could be improved, and whether these skills should be provided through off-the-job or on-the-job training.

In its submission to the review, DET argued that the shift to a services-dominated economy has led to an increased emphasis on generic skills (especially behavioural and cognitive skills), while the growing use of information and communication technologies has led to greater need for general computer skills. Industry and organisational restructuring and technological change, and the growth in non-standard employment, have also increased the need for adaptable, self-managing employees.
Some TAFE advisory councils maintained that foundation skills such as problem-solving and communication skills are already provided by TAFE. However, submissions from some industry groups and the TAFE Teachers Association argued that these generic skills are still to be embedded within VET programs. Institute Directors in Victoria put the view that employability skills are not well embedded in the Training Packages. For example, while the nature of the course determines whether employability skills are taught, in general these skills are neither assessed nor reported on. The Victorian Institute Directors believe employability skills could be assessed, but are opposed to such an assessment being centralised, as they view work experience as the key to realising these skills. The Tribunal is sympathetic to this viewpoint.

In 2004, ANTA undertook a high-level review of the Training Packages.131 This review recommended the incorporation of generic skills into these packages, and the development of agreed mechanisms for their delivery, assessment and recording. In May 2005, the National Training Quality Council132 ratified the advice in relation to incorporating generic skills, and agreed to replace the existing Mayer Key Competencies with the Employability Skills Framework. This framework covers a number of personal attributes that contribute to overall employability, as well as key skills in the areas of communication, teamwork, problem-solving, initiative and enterprise, planning and organising, self-management, learning and technology skills.

However, there has been considerable debate about whether employability skills should be separately assessed and reported on. State and territory representatives in the National Training Quality Council have strongly opposed separate assessment of employability skills, largely on the basis of cost. A number of stakeholders, including industry representatives, have raised concerns about the assessment of employability skills outside of a specific context. However, there has been support for a model that allows RTOs to make ‘explicit statements’ about employability skills that have been assessed as part of the Training Package assessment.

The Tribunal recognises national developments in this area, and in particular the work being funded by the Commonwealth Department of Education, Science and Training (DEST). This work involves the 10 national Industry Skills Councils reviewing and mapping their Training Packages, and modifying these packages to incorporate employability skills to replace key competencies. The Tribunal believes the key to satisfying employers’ requirements for employability skills is to recognise and assess these skills within training package competencies, and endorses the DEST-funded program.

**Recommendation 19**

*To meet employers’ needs for generic employability skills, that the creation of these skills be embedded in the delivery of VET but be assessed and reported on separately (rather than as part of the assessment and reporting on vocational competencies).*

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132 A Committee of the VET Ministerial Council, responsible for endorsing Training Packages.
8.2 Allocate more resources to Recognition of Prior Learning

Recognition of Prior Learning (RPL) is the process whereby people can have the skills and knowledge they have developed outside the formal education system assessed and valued against a qualifications framework. The changing nature of work, including the need for a continual updating and diversification of skills and the increasing participation of mature-aged workers, implies that the role of and demand for RPL will increase in the future.

Several stakeholders highlighted the importance of RPL, and generally argued that more resources should be devoted to this area, and that RPL arrangements should be flexible enough to cater to individuals’ experiences, rather than rely on a ‘check list’ approach. They likened the current process to an inquisition or investigation, which can be difficult for students/trainees to prepare for.

Moving towards a more client-centred approach to RPL will provide a platform to encourage VET providers to develop individualised gap training plans based on the additional skills an individual requires, given his or her previous experience and capabilities. This will encourage more mature-aged workers to gain formal and higher qualifications, resulting in benefits to both the individual and the economy.

To increase the assistance offered through RPL and make arrangements more user-friendly, more resources need to be allocated to it. To encourage its wider use, government incentive payments for existing worker traineeships and apprenticeships should be contingent on upfront RPL. That is, these payments should be dependent on trainees and apprentices having the skills they have developed outside the formal education system assessed and valued (by the VET provider) against the qualifications framework in which they are enrolling. This will ensure that employers and individuals seeking to undertake training consider RPL in formulating their training plan. In addition, individuals should be made aware of and understand the process for RPL, and publicly funded VET providers should be required to measure and report on the proportion of training they deliver through RPL.

Currently, RPL is based partly on documentation and partly on value judgement. It is mandated in the Australian Quality Training Framework (AQTF), and compliance with this framework is a requirement for RTOs to maintain registration. In recognition that RPL is in itself a learning process, and is as intensive as institutional training, it is now funded in the same way as other training and assessment pathways. However, RPL’s role in providing training outcomes in Australia is still very small – in 2004, it accounted for just under 4 per cent of subject enrolments.

The NCVER has identified several factors affecting implementation and use of RPL, including an overall lack of awareness of the availability and nature of the recognition process. The NCVER believes that the promotion of RPL needs to address its benefits and issues relating to eligibility in a way that can be easily understood by potential applicants.

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134 Ibid.
In Queensland, the ‘Skilling Solutions Queensland’ initiative has a strong focus on RPL as fundamental to service provision, and contracts RTOs to undertake RPL for its clients. In addition, to overcome the low take-up of RPL, and low industry and individual client satisfaction with it, the arrangements for skills assessment in Queensland are to be streamlined to ensure that this assessment is practical, efficient and relevant. Depending on the skills and knowledge required of a qualification, students are able to provide evidence for RPL through the following:135

- work samples
- practical demonstrations in the workplace
- assessment interviews
- references and support from supervisors or others in the community
- a variety of materials, including training certificates, photos of work examples, resumes and performance reviews.

Students are encouraged to apply for RPL to avoid duplication of training, gain credit for previous work experience as an apprentice or trainee, apply for further study, and provide a pathway to higher qualifications for those who may not have access to further training. The Tribunal believes the Queensland model goes a long way towards making arrangements for RPL more client-focused.

**Recommendation 20**

*That current arrangements for the Recognition of Prior Learning in NSW be better funded and revised to make this process more client-focused and ensure that it is well known and understood by VET students and potential students.*

**Recommendation 21**

*That incentive payments for traineeships and apprenticeships offered by the government be contingent on upfront Recognition of Prior Learning (RPL).*

### 8.3 Increase flexibility and responsiveness in the delivery of VET programs

Submissions to the review reflect a view that while VET course content is now more responsive to industry, improvements in the location and timing of training delivery need to be made to improve outcomes for employers.136 Australian Business Limited (ABL)137 has also argued that the low levels of public funding restricts the tailoring of training to workplace needs. In addition, the need for individuals to continually update and diversify their skills suggests that flexibility in training delivery will also become increasingly important for trainees in the future. VET providers need to be more open to varying the timing of training provision and the method of learning – for example, through e-learning.

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and workplace delivery. However, there is a tension between flexibility and responsiveness, involving a highly customised service, and cost efficiency in the provision of VET.

As discussed in Chapter 7, the Tribunal recommends that TAFE NSW and other providers of publicly funded VET be required to report publicly against a range of measures to drive improved performance, including the proportion of training delivered through e-learning, at the workplace and outside ‘normal working hours’. However, given the diversity among employers and trainees, it is likely that further flexibility in the delivery of training is desirable.

To support this increased flexibility, the Tribunal believes VET providers – including TAFE Institutes, schools, universities, the Adult and Community Education (ACE) sector and private RTOs – should be encouraged to form partnerships that aim to develop alternative learning pathways and accreditation arrangements. Such partnerships may be between providers, or between providers and employers and industry.

**Recommendation 22**

*To support increased flexibility in the delivery of training, that the formation of partnerships and alliances, both among providers and between providers and enterprises/industry, be encouraged.*

As Chapter 5 discussed, one of the key challenges for the VET sector in the next 10 years is to make VET appealing to those people who are disengaged from work and education, by providing carefully tailored and supportive programs. In the first instance, this would be assisted by the dissemination of information on job opportunities and available training. It would be further supported by the provision of funding for targeted programs that could be delivered by a range of providers – public, private, enterprise-based or community-based.

The critical concept here is to ensure a range of entry points for training, to suit the diverse backgrounds of individual students. VET providers need to organise themselves so that the characteristics of training delivery are tailored to meet the needs of all students and potential students. For example, those who are disengaged from work and education are more likely to be attracted to a program that is informal and delivered in familiar or comfortable surroundings.

Case Study 3.1, which outlines the MASTERS program at TAFE NSW South Western Sydney Institute, is an example of a successful training initiative that incorporates both RPL and flexible delivery (see Chapter 3). The Tribunal believes that programs like this one should be encouraged, and can be supported through information dissemination and targeted funding.

**Recommendation 23**

*That the promotion of training for those who are disengaged from work and education be supported through:*

- the publication of information on job opportunities and available training
- the funding of targeted programs that could be delivered by a range of providers (eg, public, private, enterprise based or community based).
8.4 Allocate more public funding for VET on a competitive basis

Competition within the publicly funded VET system has increased steadily over the last decade. There has always been some form of competition between private and public providers of some courses for employers’ training expenditure. However, the level of competition has increased with private providers now being able to access public funds for VET, and TAFE Institutes increasingly competing against private providers for commercial revenue. In addition, TAFE Institutes from other states are starting to offer courses to NSW residents.

This increased competition has benefited TAFE NSW by reducing the costs of delivering VET, and encouraging TAFE Institutes to become more commercially focused. It has benefited other VET providers by allowing them to access the market for publicly funded VET. It has also provided benefits for users of the VET system, by allowing apprentices, trainees and their employers to choose the provider of their VET services who best meets their personal needs.

In NSW, competition for public funding occurs through two main mechanisms: User Choice arrangements, and DET’s purchase of specific VET services through the Strategic Skills Training and pre-vocational training programs. The Australian Government introduced User Choice in 1998 to allow employers and apprentices/trainees to select the provider of their training services. All new entrant traineeships and 14 apprenticeships are available under User Choice in NSW. This covers around 50 per cent of apprenticeship commencements and 83 per cent of all new entrant traineeship and apprenticeship commencements.

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).

It is difficult to assess the impact of the introduction of competition in the publicly funded VET market, as it has been carefully managed by respective state governments and most public funds across Australia are still provided to public providers. In addition, it is difficult to separate the impacts of User Choice from the effects of other changes introduced in the late 1990s, such as the introduction of Training Packages and incentives under New Apprenticeships.

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139 The apprenticeships are only available under User Choice in the more populated areas of Sydney, the Illawarra and the Hunter.
140 Based on information provided by DET, which indicated that the NSW Government’s recurrent expenditure on VET totals more than $1 billion but only $80 million is planned to be purchased through competitive arrangements in 2006.
141 Total operating revenues for publicly funded VET in NSW were $1,536 million in 2004.
In submissions to the review, stakeholders expressed polarised views on the existing competitive funding arrangements. DET and some of the TAFE Institute Advisory Councils strongly supported the current arrangements in NSW, and noted that competition needed to be introduced in a way that ensured that thin markets in regional areas were not disadvantaged. However, other stakeholders were critical of these arrangements:

- Australian Industry Group (AIG) argued that the introduction of User Choice has had limited impact in the manufacturing and engineering sectors, as most of the training for these sectors continues to occur through TAFE
- the Australian Council for Private Education and Training (ACPET) put the view that funding could be more effectively distributed
- the Automotive Training Board (ATB) of NSW claimed that for the most part, User Choice was not available to the automotive industry in NSW
- the Housing Industry Association (HIA) noted the low level of publicly funded training provided on a competitive basis, and argued that this reflects an institutional bias in favour of state government owned TAFE Institutes
- the Masters Plumber Association (MPA) of NSW put the view that the current governance arrangements are biased in favour of TAFE NSW
- ABL’s ongoing strategic policy views User Choice as a key element in getting more employers to engage in training. It argues that there needs to be a progression towards full implementation of User Choice to ensure employers can access the most appropriate training provider to deliver workplace specific outcomes.143

The Tribunal agrees with stakeholders that restrictions placed on User Choice are limiting employer and apprentice flexibility.

NCVER has examined the impact and outcomes of market reforms from a national perspective.144 This research identified that these reforms have provided a range of positive and negative outcomes, but concluded that their overall impact has been negative. On the positive side, the reforms had enhanced choice and diversity, responsiveness to medium to large enterprises and fee-paying clients, flexibility, and innovation. On the negative side, they had reduced efficiency (due to high transactions costs and complexity), responsiveness to small enterprises, local communities and government-subsidised students, quality, access and equity. However, NCVER’s report noted that the conclusions of this research must be treated with caution, given the limitations of the research methodology (for example, the partial and subjective nature of survey responses).

Two papers from the Centre for the Economics of Education and Training (CEET) have also assessed the User Choice funding arrangements. The first assessed the argument that the limited nature of these arrangements is necessary to protect thin markets in regional areas, as put forward in DET’s submission.145 This paper noted that the definition of thin markets is subjective, and the argument may be based on assumptions that are not necessarily true (for example, that everyone should have access to all facilities, and that training needs to be

provided by local institutions). The way User Choice is implemented may actually exacerbate thinness on the demand side.

The second paper noted that some jurisdictions have sought to impose limits on User Choice to shield public providers, at least partially, from private competition. It made several recommendations to improve User Choice arrangements, including that improved access to training choices is provided to firms, particularly those located in regional areas.146

The Tribunal appreciates that NSW may want to be cautious about the way it introduces competition, given the ‘public good’ nature of VET provision, particularly in rural and regional areas that may be less likely to be serviced by commercial providers. Nevertheless, it considers that more competition can be introduced progressively into the publicly funded VET system without comprising the viability of the TAFE system.

Under the current arrangements, NSW still directs an overwhelming majority of its public expenditure on VET to the public provider, TAFE NSW. The Tribunal considers that the community and the Government can be most confident that this money is being spent in the most efficient way if this outcome is the result of competitive market tendering. Thus it believes DET should ensure that the governance arrangements for TAFE NSW, under which DET is the purchaser of VET services as well as the owner of the largest provider of these services, do not override its other obligations to NSW tax payers to purchase VET services in the most efficient and effective way.

In addition, the Tribunal believes that competition for public funding should be progressively increased for all providers of VET – regardless of whether they are publicly or privately owned. This would help create a competitively neutral environment in which all providers in the VET market (ie, both the publicly and privately funded sectors) follow the same rules and are given equal ability to compete, with no advantage shown to a particular provider.147 Increased competition would also encourage the development of entrepreneurial cultures and innovation within TAFE Institutes. The counterpart, as Chapter 7 discussed, is that the Tribunal also recommends that TAFE Institutes pursue additional industry (or employer) funding and increase their share of the privately funded training market.

In the absence of competitive neutrality, allowing public providers to compete for private funding could ‘crowd out’ private providers from the VET market.148 However, with a level playing field, there should be no concern about possible crowding out, as the only providers who would lose market share are those who are the least cost-effective – ie, those that offer the least value for money.

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147 Competitive neutrality exists where government-owned businesses do not enjoy net competitive advantage over private sector providers (or potential providers) simply by virtue of their public sector ownership. Similarly, private sector providers (or potential providers) would not be unduly favoured, so as to encourage their participation (or entry into) the industry or specific parts of the industry.
148 For example if public providers were able to take advantage of some aspect of being publicly owned to win VET opportunities that are privately funded, which private providers would not be able to do.
Recommendation 24

Consistent with TAFE NSW seeking a greater share of the private training market and partnerships with private employers, that the NSW Government progressively increase the allocation of (public) VET funding on a competitive basis.

The Tribunal acknowledges that an increase in the proportion of public funding for VET services allocated on a competitive basis will have an impact on TAFE NSW. However, the reforms recommended in this report are aimed at encouraging and enabling the VET system, and TAFE Institutes in particular, to extend their focus to encompass workforce development and to develop the entrepreneurial culture and innovation and collaboration capabilities they need to do this effectively. Sheltering TAFE Institutes from competition will not help them to develop such a culture.

The Tribunal also notes that progressively increasing competition for public funding is consistent with other reforms the Tribunal has recommended (such as facilitating third party access to TAFE infrastructure, as discussed in section 7.2.3) as a means of increasing the responsiveness of TAFE and encouraging collaboration between TAFE Institutes, private RTOs and industry.

8.5 Increase efficiency and effectiveness of registration, accreditation and auditing arrangements

The Tribunal recognises that increasing competition in the VET sector poses a risk to the quality of VET programs, and that arrangements for the registration, accreditation and auditing of RTOs need to manage this risk. However, this concern must be balanced against the need for more innovation and responsiveness by VET providers, and for new entrants to be able to participate in the VET market. The obligations placed on training providers should strike the right balance between potential risks to the quality and consistency of training, and the administrative burden placed on RTOs and regulatory bodies. Best-practice training delivery should be supported by best-practice approaches to regulation that support flexibility and improvement.

Currently in NSW, VETAB is responsible for:

- registering and monitoring all training organisations (including TAFE Institutes) that issue Australian Qualifications Framework (AQF) qualifications and statements of attainment
- formally recognising VET courses through accreditation in accordance with the Australian Quality Training Framework (AQTF)
- approving the delivery of VET to overseas students in Australia by NSW training providers.

In fulfilling these responsibilities, VETAB audits training providers:

- when they first apply to become a registered provider or an approved provider
- when they apply to renew their registration or approval (VETAB grants registration to RTOs for a period of up to five years)
- after a complaint to VETAB about a provider, or
In this context, an audit is defined as a “systematic, independent and documented process for obtaining evidence to determine whether the activities and related outcomes of a training organisation comply, or continue to comply with the Standards for Registered Training Organisations” issued under the AQTF.

The Tribunal notes that VETAB is currently pursuing a proposal to achieve full cost recovery of the services it provides by 2011.

The Tribunal has considered the current regulatory and quality assurance arrangements for the VET system, to determine whether the arrangements for registration, accreditation and auditing best support future skill requirements. In submissions to the review, RTOs argued that these arrangements are costly to comply with, and that there is a lack of consistency in audit outcomes because, in general, auditors do not understand the training market. ACPET argues that VETAB fees and charges for registration and accreditation are generally more than double that of other jurisdictions within Australia. However, the Tribunal notes that in looking at registration and accreditation costs across Australia, it is important to ensure that ‘like’ is compared to ‘like’. For example, although ACPET reports that NSW’s registration and accreditation fees are significantly higher than those in Victoria, the Tribunal notes that RTO’s in Victoria also have to pay fees to Training Recognition Consultants (TRCs), which would need to be factored into any cost comparison. Some stakeholders also alleged that interstate providers find it more difficult to achieve accreditation in NSW – although, as discussed below, national consistency in the application of standards and audits is currently being pursued at the COAG and Ministerial Council level.

ACPET suggested that the Victorian system of Training Recognition Consultants could be introduced to overcome concerns regarding the consistency of rules applied by VETAB auditors. This system uses a group of endorsed experts in the field of government-funded training program verifications, and training and assessment qualifications, known as Training Recognition Consultants (TRCs). The TRC’s role is to assist prospective providers and/or providers who encounter compliance problems to develop the systems they need to meet the compliance requirements of the Australian Quality Training Framework. The registration of RTOs is administered by OTTE under delegation from the Victorian Qualifications Authority. OTTE, which is part of the Department of Education and Training, requires training organisations seeking registration to submit their application through TRCs. TRCs charge RTOs a fee for conducting a pre-registration audit, helping them meet the standards required, and lodging the application form with OTTE. OTTE maintains a list of approved TRCs on its website (there are currently 23 approved TRCs).

The Tribunal believes there would be some advantages in adopting a similar approach in NSW. In particular, it considers that requiring a training provider who seeks registration to obtain expert advice in preparing its application should enhance the standard of

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149 This auditing frequency is similar to Victoria, where audits of RTOs are normally conducted: during the first 12 months of registration; on a risk-assessed basis during the five-year registration period; and during the last year of registration where an RTO is renewing registration (www.otte.vic.gov.au/togaudit.asp, accessed 21 November 2006).

150 See www.vetab.nsw.gov.au

151 Board of Vocational Education and Training submission, Review of the Skills Base in NSW and Future Challenges for Vocational Education and Training, October 2006.

Improving outcomes for users of the system

applications. This should reduce the time VETAB needs to assess the application, and reduce the likelihood that it will need to seek further information from the applicant. The Tribunal notes that VETAB currently engages auditors to provide it with advice on RTO applications. Only using auditors who are experts in the training system (such as TRCs) should further increase the efficiency, timeliness and consistency of its registration, accreditation and audit processes.

However, there are also likely to be some disadvantages in adopting a TRC approach in NSW. For example, there is potential for conflicts of interest to develop among the consultants, if they both prepare applications for RTOs and provide recommendations to VETAB on these applications. However, this could be overcome by requiring that a TRC notify VETAB of any potential conflicts of interest, and ensuring that a TRC engaged to assist VETAB in assessing an application does not have a conflict of interest (ie, checking that it was not involved in preparing that application or had a recent commercial relationship with the applicant).

The Tribunal notes that Victoria has recently reviewed its TRC system and identified the need to manage conflicts of interest and ensure the independence of recommendations on an RTO's compliance. While the TRC system will continue to be used in Victoria, changes will be made so that a recommendation on compliance cannot be made by a TRC assisting the RTO in question. If a TRC system is implemented in NSW, the experience and reforms of the Victorian system would need to be taken into account.

The Tribunal also notes national developments that have the potential to increase the efficiency of VETAB operations. In February 2006, COAG agreed to review the AQTF standards and to shift emphasis of the VET regulatory system to a greater focus on outcomes rather than the current compliance auditing model. In November, the Ministerial Council of State, Territory and Australian governments agreed to implement a new set of standards, AQTF 2007, from July 2007 and also agreed to measures to streamline the national regulatory system.

The new standards framework comprises a suite of essential registration requirements for RTOs (a reduction from 12 to 3 standards) and a voluntary excellence level that recognises higher or outstanding RTO performance against certain criteria. Auditing would be against the essential standards. Ministers also agreed to introduce a single audit regime that encompasses delivery to domestic and international students, both on-shore and offshore, and also co-ordinates with auditing of those providers in receipt of user choice or other contestable funding. Further changes include the option for state registering authorities to delegate registration and audit functions to a national Ministerial Company. Likewise, RTOs operating in multiple jurisdictions may elect to have their registration and audit business managed nationally by the Ministerial Company.

The Tribunal understands that these developments provide the opportunity to achieve enhancements in NSW regulatory processes and greater efficiency and confidence in the delivery of regulatory services by VETAB.

Recommendation 25

To increase the efficiency and effectiveness of registration, accreditation and auditing arrangements, that:

- the Vocational Education and Training Accreditation Board be reformed to ensure appropriate resourcing by charging users of its services fees that recover the efficient costs of service provision
- the implementation of a system of Training Recognition Consultants be considered to improve the efficiency of accreditation and auditing processes.

8.6 Consider potential to use alternative audit models

Along with many stakeholders to the review, the Tribunal endorses the agreement by COAG to pursue outcome-based auditing procedures to provide the basis for a more streamlined and effective system of quality control. Where possible, such an approach should be based on physical observation of how the training is delivered, as opposed to the current ‘tick the box’ approach.

Stakeholders contend that the current auditing approach has produced a set of onerous arrangements that are costly to comply with and are not as effective as they could be. In its submission, DET suggested that a review of auditing processes could examine the potential to increase the use of a risk management approach, which might involve delegation or self-regulation.

Under a more targeted, risk management approach, high-risk courses or areas of an RTO’s operations could be subject to regular and comprehensive audit, with lower risk or less critical areas monitored through self-reporting. It may be, for instance, that the first audit of an RTO (when it first applies to become a registered or approved provider) would need to be comprehensive, covering all aspects of its operations. The frequency and scope of subsequent audits could then be determined based on the outcomes of this initial comprehensive audit.

A more targeted and flexible approach to auditing could allow RTOs that have previously demonstrated their compliance to VETAB to self-manage their regulatory arrangements, as in other educational sectors. It could also be expected to increase the efficiency of the auditing process and reduce the associated costs.

The Tribunal believes that the adoption of alternative auditing models such as risk-based auditing and exception-based reporting should be considered. In addition, it considers that the public reporting of any audit non-compliance by publicly funded VET providers would further strengthen the auditing arrangements.

Recommendation 26

That alternative models for auditing be examined (eg, risk-based auditing or exceptions reporting), with a view to increasing the efficiency and effectiveness of auditing arrangements.
9 REMOVING BARRIERS TO PARTICIPATION IN VET

In addition to positioning the VET system to meet the state’s long-term skill requirements, it is important to encourage employers and individuals to participate in VET. Ultimately, an increase in the supply and quality of VET programs can only lift labour force participation and productivity if it is matched by an increase in the take-up of these programs.

The Tribunal examined the factors that currently impact on employers’ demand for VET, including the costs of and financial incentives for training, and the returns that training generates for employers. It also examined the factors that impact on individuals’ demand, including the returns on and costs of training, government incentives and payments, apprentice and trainee wages and conditions, the time required to complete an apprenticeship/traineeship, and the potential income foregone.

Based on this analysis, the Tribunal believes the following actions are required to remove current barriers to participation in VET and lift this participation rate:

- seek a compact between the NSW Government and the Australian Government, to ensure the increased training opportunities provided to people who are unemployed or not in the labour force over the coming decades are appropriately funded and taken up
- review the Australian Apprenticeships Incentives Program to ensure that this scheme appropriately targets priority skill areas
- consider the merits of extending the Trade Learning Scholarship to more Australian Apprenticeships in priority skill areas
- review awards to consider whether apprentice and trainee pay rates are sufficient to attract and retain high-quality applicants, including those who are older and more qualified than ‘traditional’ apprentices
- remove impediments in awards to progression based on competency
- review the current apprenticeship model with a view to shortening the expected time to complete apprenticeships
- provide separate funding for pre-apprenticeship and pre-vocational training
- recognise the skills and competencies of those who have completed pre-apprenticeship, pre-vocational courses, VET in school, and school-based apprenticeship and traineeship programs
- continue the current approach to providing VET within schools, including school-based apprenticeships and traineeships
- review awards to promote more flexible approaches to work design
- monitor the adequacy of government assistance to individuals undertaking training, particularly mature-aged trainees
- continue to establish and enhance links between VET, schools and universities
- encourage firms above a certain size to support and provide retraining packages for staff facing retrenchment due to organisation restructuring.
Each of these actions is discussed below. The Tribunal notes that implementing these actions will involve both the Australian and NSW Governments. Currently, the Australian Government has primary responsibility for providing income support to individuals while they are studying or unemployed and looking for work. It also has primary responsibility for the Australian Apprenticeships Incentives Program, which aims to encourage the employment and training of apprentices. The NSW Government is the primary provider of training through the publicly funded VET system (although the Australian Government’s funding contribution is also significant).

While both governments currently work together to ensure training expenditure is appropriately targeted, the challenge for the future will be to ensure that a ‘whole of government’ approach is taken to lift training participation, particularly for the unemployed and those outside the labour market. This will require the integration of VET, income support payments and labour market programs. Specifically, the increased supply of VET places by NSW could be tied to Commonwealth arrangements for income support, which require people to look for work and/or undertake training, while ensuring adequate income support during the duration of the training.

9.1 Seek compact between the Australian and NSW Governments to ensure training is taken up

The Tribunal has assessed how the current labour market programs and income support payments operate, in light of the need for additional re-entrant training over the next 10 to 15 years (see Chapter 4). The Tribunal considers that these programs and payments could be improved, by ensuring more people who are unemployed or not in the labour market undertake the training they need to compete in this market.

The current labour market programs provided by the Australian Government aim to get unemployed people back into work by placing an obligation on those who receive income support payments to actively look for work. Centrelink specifies what requirements individuals must meet in order to satisfactorily show they are seeking work, and these requirements increase as their period of unemployment increases. However, it is largely up to individuals to choose what activities they undertake to meet Centrelink’s requirements. Training may be identified and recommended as one of the ways they can meet these requirements, but jobseekers are not required to undertake this training.

Jobseekers also receive non-financial assistance, which initially focuses on job search training. The level and type of assistance increases in intensity as the duration of unemployment increases. Typically, after a person has been unemployed for more than six months, Centrelink, the Job Network Agency and others provide guidance on training options. However, there is no obligation on the individual to take-up the options identified.

Similarly, those who are not in the labour force and receive income support payments are not required to undertake training to assist them back into the labour force and eventually into jobs. While the Australian Government has introduced new obligations for those receiving payments such as the Disability Support Pension and parenting payments to encourage labour market participation, these obligations do not require individuals to take advantage of specific training opportunities.

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Australian Apprenticeships is the new name given to the scheme formerly known as New Apprenticeships by the Australian Government.
The Tribunal believes the current labour market programs need to focus more on identifying the skill needs of those who are unemployed or disengaged from work, and assisting them to undertake the appropriate training. While job search assistance has a role to play in getting people back into employment, it is of limited help to those who do not possess the skills in demand by employers. If NSW – and indeed Australia – is to further reduce unemployment rates and lift labour force participation in the future, more must be done to assist long-term unemployed people and those who are not in the labour force to undertake the targeted training they need to get them back into work.

For many disadvantaged people without adequate and current skills, a more interventionist approach via active labour market programs and mutual obligation requirements needs to be introduced. This will necessarily involve providing them with structured and intensive training, and obliging them to undertake this training. In addition, it is important that the skill and training needs of those who are unemployed are identified as soon as possible, to help prevent them from becoming unemployed for an extended time. This is because once people are unemployed for a long time, there is increasing risk that they will become discouraged and drop out of the labour force.

The Tribunal notes that the recent changes to the eligibility requirements for social security payments could provide the starting point for placing obligations to undertake appropriate training on those not in the labour force. Further, the Tribunal considers that if people within this target group are to be under more pressure to find work, it is only appropriate that the Australian Government ensures they have access to training that will provide them with the skills they need to obtain that work.

Given all of the above, the Tribunal considers that the Australian and NSW Governments should ensure that there is a close link between labour market programs, mutual obligation requirements and additional VET programs targeted at people who are unemployed or not in the labour force. To achieve this objective, the NSW Government should seek a compact with the Australian Government. As outlined in Chapter 4, the Tribunal envisages that such a compact would specify that NSW will provide a specific number of appropriate training places for those who are unemployed or not in the labour force, and that the Australian Government will use its best endeavours to ensure that these places are taken up through the obligations it places on those it provides with income support.

In addition, the Tribunal considers that this compact should address two specific labour market program issues. First, as noted above, most people who are unemployed do not receive help in identifying their training needs until they have been unemployed for six months. For many unemployed people, the chances of getting sustainable employment within six months are unlikely to be good if they lack the skills that are in demand by employers. The compact should provide for them to receive assistance in identifying their training needs as quickly as possible, so they can undertake this training and begin to compete for jobs.
Second, in order to qualify for the unemployment allowance (the Newstart Allowance) from Centrelink while undertaking training, the training must be approved. In general, this means that it must be for a certain number of hours per week, lead to a qualification, and be less than 12 months in duration. If an unemployed person elects to study full time for 12 months or more, they must switch to the lower Austudy payment, which can decrease their entitlement by up to $100 per week (see Table 9.1). While many courses provided for the unemployed or those not in the labour force will be less than 12 months in duration, some may be longer. Therefore, the difference between Newstart and Austudy payments may deter some people on assistance from undertaking the training they need to re-enter the workforce. The Tribunal recognises that prior to any change in income support arrangements, it is important to consider issues such as the cost and cost-effectiveness of modifications to assistance payments (particularly relative to other options to increase VET), the incentives they provide (positive and negative), and the value of full time re-entrant training beyond 12 months. Nevertheless, it believes that the compact between the NSW and Australian Governments should aim to minimise any biases the income support system has against training; and ensure that those people who are unemployed or not in the labour force receive income support assistance if they are undertaking re-entrant training that will genuinely improve their chances of getting a job.

**Table 9.1 Loss of income support for people who study full time for 12 months or more (October 2006)**

<table>
<thead>
<tr>
<th>Income on Newstart Allowance 155 ($ per week)</th>
<th>Income on Austudy Payment 156 ($ per week)</th>
<th>Lost income ($ per week)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single adult with disabilities, no children 157</td>
<td>$267</td>
<td>$167</td>
</tr>
<tr>
<td>Single adult without disabilities, no children</td>
<td>$262</td>
<td>$167</td>
</tr>
<tr>
<td>Single parent, 2 children (6-12 years)</td>
<td>$476 plus $25 from JET child care assistance</td>
<td>$463</td>
</tr>
</tbody>
</table>

Source: Data supplied by ACOSS.
*This table does not account for the direct costs of study.

**Recommendation 27**

*That the compact between the NSW and Australian Governments ensure that people who are unemployed or not in the labour force:*

- have their training needs identified as quickly as possible, and are required to undertake this training, and
- receive income support assistance if they are undertaking re-entrant training which will genuinely improve their chances of getting a job.

155 Including Rent Assistance, and Pharmaceutical and Telephone Allowance, where applicable.
156 Including Rent Assistance, and Pharmaceutical and Telephone Allowance, where applicable.
157 Assessed as having a 'partial capacity to work' and therefore entitled to PES (Pensioner Education Supplement) and pensioner concessions.
9.2 Review Australian Apprenticeship Incentives Program to ensure it appropriately targets priority skill areas

The 2004 DEST review of the New Apprenticeships program found that, overall, this scheme has been very successful in increasing participation in structured training.\textsuperscript{158} However, several stakeholders have criticised the structure of the financial incentives provided under this program. In particular, they argued that:

- The incentives offered to employers are small and do not come close to covering the costs associated with employing apprentices, particularly the considerable workers compensation costs.
- Apprentices should be paid for completing their training, to increase their incentive to complete their apprenticeship.
- The current approach of paying employers on commencement and completion is leading to perverse outcomes – for example, it creates an incentive for employers to poach apprentices near completion to get the completion payment and avoid incurring most of the costs of training.
- More frequent payments should be made to employers to offset the costs of employing an apprentice.
- Limited public funds should be redirected from traineeships to apprenticeships.
- The current incentives system may be biased towards short-term traineeships rather than traditional apprenticeships. By classifying payments using the Australian Qualifications Framework (AQF), the current financial incentives do not recognise the additional time and cost of employing and training a traditional apprentice compared to most trainees.
- The current incentives do not target and overcome the skill shortages currently being experienced by some employers and industries.

In addition, AIG argued that financial incentives should be based on skill intensity not AQF levels.\textsuperscript{159} The Australian Chamber of Commerce and Industry (ACCI) opposed any restrictions on incentives that result in them only applying to the training of traditional apprentices.\textsuperscript{160}


\textsuperscript{159} Australian Industry Group – comments at roundtable, 10 May 2006.

\textsuperscript{160} Australia Chamber of Commerce and Industry, \textit{Incentives for New Apprentices need to be broad-based}, ACCI media release, 15 August 2005.
The Tribunal assessed the current incentives provided by the Australian and NSW Governments, having regard to the criticisms listed above. It acknowledges stakeholder views that the current arrangements favour employers of trainees over apprentices. At face value, the argument that paying employers on commencement and completion potentially creates a bias towards short-term traineeships and against traditional apprenticeships seems reasonable. It also follows that classifying payments using the AQF does not recognise the fact that the longer term of apprenticeships increases the costs of training, and that this reduces the effectiveness of the incentives provided.

The Tribunal notes that some stakeholders suggested that this issue could be addressed by making more frequent, smaller payments to employers, rather than a substantial completion payment. Indeed, prior to 1 July 2003, the Australian Government incentives were structured to provide this kind of progression payment. However, the progression payment was removed after a review of incentives found little support for its continuation, and the savings were distributed to employers through increased commencement and completion payments.

In relation to the suggestion that financial incentives should be based on skill intensity, not on the AQF, the Tribunal notes that changing to this approach is likely to be highly controversial. It would involve comparing and assessing the skill intensity of individual jobs and their requisite training qualifications. This would be difficult to do in an objective fashion, given the nature of work in some occupations, particularly in the services industry.

Overall, the Tribunal considers that the New Apprenticeships program has delivered some positive outcomes, probably the most important of which is the considerable growth in training in industries without a strong training tradition. However, it shares stakeholder concerns that the Australian Apprenticeship Incentives Program is not sufficiently targeted at providing incentives for training in skill priority areas (that is, areas where skill shortages currently exist or are expected to exist in the future). The Tribunal notes that the Australian Government has acknowledged this and that DEST has indicated that it will review how incentives should be structured in the future to address this issue.

The Tribunal also considers that there is no case for an increase in the level of incentives provided to employers. The take-up of New Apprenticeships since the introduction of the New Apprenticeship Incentive Scheme suggests that the current incentives are doing a good job in stimulating employer demand for training. On the other hand, employers are suggesting that it is the lack of suitable applicants which is constraining business opportunities. Therefore, the Tribunal believes that any additional Australian Government incentives to address skill shortages may be better targeted at stimulating the supply of skilled applicants rather than demand from employers. This shortage of suitable applicants is likely to increase in the future with the ageing of the population, unless steps are taken to boost the effective labour supply.

While the Tribunal recognises that the incentives provided by the Australian Government are a matter for its consideration, it suggests that DEST consider the distribution of incentives between employers and individuals in the future. As the population ages, the demand for skills in some areas is likely to outstrip the supply and incentives may need to address this. In addition, the Australian Government may wish to consider whether the

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existing incentives favour employers of trainees, and whether it would be appropriate to base incentive payments on the skill intensity of occupations and training rather than the AQF.

Recommendation 28

That the Commonwealth Department of Education, Science and Training review the structure of incentives provided under the Australian Apprenticeship Incentives Program, to ensure that they appropriately target skill priority areas and determine whether the distribution of incentives between employers and trainees is appropriate.

However, the Tribunal urges caution in responding to perceived skill shortages. As Chapter 4 discussed, it is concerned that the current emphasis on skill shortages in the traditional trades and the Australian Government’s attempts to increase the supply of skilled tradespeople may prove to be an over-reaction to a short-term shortage, and that it will lead to an oversupply and disappointed expectations within the next few years.

A more detailed overview of the factors that influence employers’ preparedness to provide VET for their staff is provided in Appendix 5.

9.3 Consider extending the Trade Learning Scholarship to more Australian Apprenticeships

Currently, people undertaking an Australian Apprenticeship in a trade that is experiencing a skill shortage are paid two $500 tax-exempt payments under the Trade Learning Scholarship program. The Tribunal recognises the merit of this program, as it may encourage more people to enter an apprenticeship in skill shortage areas. However, it questions why the program focuses only on skill shortages in the trades.

The Tribunal understands that many occupations and industries are experiencing skill shortages that are just as or more acute as those in the traditional trade areas. Therefore, to address a broader range of skill shortages both now and in the future, it believes the Trade Learning Scholarship should be broadened so that it applies to more Australian Apprenticeships in other skill shortage areas.

Recommendation 29

That the Australian Government consider the merits of extending the Trade Learning Scholarship program to target trainees and apprentices in a broader range of skill priority areas, not just the traditional trades.
9.4 **Review awards to consider whether apprentice and trainee pay rates are sufficient to attract and retain high-quality applicants**

In the past, employers and industry have argued that apprentices’ wages are too high, particularly in their first year, which discourages employer demand for apprentices. However, while employers still maintain that the cost of taking on apprentices is high, particularly in the traditional trades, much of the recent debate on apprentice and trainee wages has centred on whether wages are sufficient to attract and retain apprentices and trainees. In light of the shortage of skilled tradespeople and the difficulty of attracting apprentices, most employers and industry associations now recognise that a reduction in apprentice wages is not feasible and will only exacerbate these problems.

In addition, submissions to the review argued that pay rates for apprenticeships and traineeships may need to increase, to encourage participation in these forms of VET. For example, some stakeholders claimed that low rates of pay discourage individuals from starting and completing traineeships and apprenticeships. Others noted that many existing industrial awards prescribe rates of pays for apprentices that are based on the assumption they are still 15 year-old school leavers. They argued that these rates of pay are no longer appropriate given the number of apprentices who are over 18 and have completed the Higher School Certificate.

Stakeholders also argued that poor conditions of work are another barrier to apprenticeships, particularly in the traditional trades. They noted that pay, conditions, the narrow and specialised nature of the work, and the lack of career paths may also explain why there are many people with VET qualifications who are not employed in jobs that require those qualifications.

The Tribunal notes that research based on a survey of apprentices supports the view that low wages act as a deterrent to the completion of apprenticeships. This research found that half of all apprentices who decided to quit training say the main reason for this decision is that they were being treated as cheap labour.

In addition, a recent survey by ACCI found that around 50 per cent of employers already pay their apprentices above-award wages. The tendency to pay above-award rates increased as the term of the apprenticeship increased. Overall, the median increase above the award rates was around 20 per cent. This evidence suggests that many employers have the capacity to pay above-award rates to apprentices if they see fit, and that many employers are doing this.

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In relation to the rates of pay for older, more experienced apprentices, the Tribunal notes that many industrial awards do not provide for a higher rate of pay for these apprentices. However, the National and NSW Training Wage Award prescribe varying rates of pay for trainees depending on their age and school completion level. In addition, the recently revised Metal Industries Award contains new pay levels for adult apprentices. (Tables 9.2 and 9.3 provide examples of the pay rates for apprentices and trainees in different National and NSW awards.)

### Table 9.2 Apprentice wage rates ($) (NSW Award provisions)

<table>
<thead>
<tr>
<th>Industry</th>
<th>1st year</th>
<th>2nd year</th>
<th>3rd year</th>
<th>4th year</th>
<th>Qualified employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restaurants/Hospitality</td>
<td>270</td>
<td>316</td>
<td>393</td>
<td>469</td>
<td>491-648</td>
</tr>
<tr>
<td>Electricians (apprentice)</td>
<td>209</td>
<td>283</td>
<td>409</td>
<td>470</td>
<td>582-678</td>
</tr>
<tr>
<td>Metals (junior)</td>
<td>242</td>
<td>318</td>
<td>433</td>
<td>508</td>
<td>484-1031</td>
</tr>
<tr>
<td>Metals (adult)</td>
<td>406</td>
<td>484</td>
<td>501</td>
<td>523</td>
<td>484-1031</td>
</tr>
</tbody>
</table>

Source: Restaurants, &c., Employees (State) Award, Electricians, &c. (State) Award, Metal, Engineering and Associated Industries (State) Award.

### Table 9.3 Full time traineeships wage rates ($) (National Training Wage Award)*

<table>
<thead>
<tr>
<th>Highest level of schooling</th>
<th>Year 10</th>
<th>Year 11</th>
<th>Year 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>School leaver</td>
<td>Year 10</td>
<td>Year 11</td>
<td>Year 12</td>
</tr>
<tr>
<td>173 (50%)**</td>
<td>216 (33%)**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>202 (33%)**</td>
<td>243 (25%)**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>221</td>
<td>243</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plus 1 year out of school</td>
<td>243</td>
<td>293</td>
<td>293</td>
</tr>
<tr>
<td>Plus 2 years</td>
<td>293</td>
<td>340</td>
<td>340</td>
</tr>
<tr>
<td>Plus 3 years</td>
<td>340</td>
<td>396</td>
<td>396</td>
</tr>
<tr>
<td>Plus 4 years</td>
<td>396</td>
<td>453</td>
<td>453</td>
</tr>
<tr>
<td>Plus 5 or more years</td>
<td>453</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: National Training Wage Award 2000.

* Where the accredited training course and work performed are for the purpose of generating skills which have defined for work at Wage Level A.

** Figures in brackets indicate the average proportion of time spent in approved training to which the associated wage rate is applicable. Where not specifically indicated, the average proportion of time spent in structured training that has been taken into account in setting the rate is 20 per cent.

The Tribunal believes the industrial parties should review the pay rates for apprentices to provide greater recognition of the age and education levels of different apprentices, and ensure that these rates are sufficient to attract and retain mature-aged apprentices. It considers that low wages could act as a substantial barrier for mature-aged apprentices. For a person who has financial commitments such as a family and mortgage, a wage of less than $300 a week is clearly insufficient. In the future, employers will increasingly need to attract and retain mature labour as the pool of skilled labour reduces along with the working-age population.
The Tribunal also considers that the low wages paid to first-year apprentices at least partly explain the difficulty that employers in some of the traditional trades are having in attracting quality applicants. If the industrial parties are committed to attracting and retaining better quality applicants to apprenticeships, the Tribunal believes they should review the current pay rates to ensure they are competitive with other opportunities available to today’s school leavers. Such a review would need to take into account the potential impact of increasing pay rates on employer demand for apprentices, and assess and compare the productivity of older, better educated apprentices with that of ‘traditional’ apprentices (ie, early school leavers) and that of qualified tradespeople.

Overall, the Tribunal endorses the approach taken in the Metals Industries Award, which varies the rates of pay for apprentices to reflect age and education levels. The Tribunal considers that other industries may need to adopt such an approach to attract and retain apprentices. However, even the revised rates of pay provided in the Metal Industries Award may be insufficient for some mature-aged apprentices and trainees with financial commitments. On the other hand, increasing apprentice wages rates could have a negative impact on the demand for apprentices from employers. Therefore, the Tribunal considers that the industrial parties need to consider issues beyond wages levels. Reducing the time taken to complete an apprenticeship and Government income support payments are also important factors that influence whether a mature-aged person takes up an apprenticeship. These issues are discussed in the following sections.

**Recommendation 30**

*That the industrial parties review their awards to consider whether pay rates for apprentices in the traditional trades are sufficient to attract and retain high-quality applicants.*

### 9.5 Remove impediments in awards to progression based on competency

Some stakeholders argued that the time required to complete some VET qualifications limits individuals’ willingness to undertake this training. For example, they argued that in the traditional trades, reducing the time required to complete an apprenticeship would probably make training more attractive to many potential apprentices, especially those who are mature aged. The length of the training period is more of a problem for the traditional trades than traineeships. Indeed, one of the positives of traineeships, which may have contributed to their take-up, is their shorter duration.

The traditional apprenticeship model is built on a training system developed over many centuries. In the past, apprentices were generally young men who left school prior to completing their School Certificate. Many would have completed their training before they turned 20. This model assumed that in the first years of their apprenticeship, apprentices were unproductive and required high levels of instruction from experienced tradespeople. Therefore, apprentices were only paid a percentage of the qualified tradesperson’s wage, with this percentage increasing with each year of the apprenticeship.
As discussed above, many of the industrial awards wage provisions for apprentices still reflect this traditional view of apprentices and their productivity. However, today, many apprentices start their apprenticeship when they are more than 18 years old and have completed their Higher School Certificate. Therefore, they are better educated and more experienced, and so presumably possess more productive capacity from the first day of their employment.

In recognition of the changing profile of apprentices, competency-based progression was introduced in the early 1990s to replace time-based progression. The belief was that if apprentices were better educated and more productive during their apprenticeship, they would be progressed and complete their apprenticeship faster than the nominal four-year term. However, the proportion of apprentices in NSW completing their apprenticeship in less than four years remains low (around 12 per cent).\textsuperscript{167} This is despite the universal endorsement of competency-based progression by the various industrial parties.\textsuperscript{168}

Stakeholders offered two explanations for why competency-based progression is still to be implemented:

- some industrial awards still specify time-based pay and progression
- some employers are not supporting competency-based progression for a variety of reasons, including that:
  - industries are used to the time-based approach
  - many employers and unions consider that apprentices still require four years to be competent, and are reluctant to move to a model which would have apprentices complete their training faster than is the norm for that industry
  - there is still a sense among employers that they lose money in the first two years of an apprenticeship so they need the last two years to recoup their investment.

The Tribunal notes that the removal of impediments to competency-based progression is being advanced through COAG. COAG has agreed to remove any references to fixed duration from awards and legislation in all jurisdictions where such awards prevent early sign off of an apprentice. The Tribunal endorses this work.

The Tribunal also acknowledges that attitudes to competency-based progression are changing, as demonstrated by the examples in Box 9.1 below. It believes that, with encouragement, these changes can be expected to spread.

\textsuperscript{167} Department of Education and Training submission, March 2006, p viii.
\textsuperscript{168} Automotive Training Board submission, March 2006, Australian Industry Group submission, March 2006 and Housing Industry Association submission, March 2006.
Independent Pricing and Regulatory Tribunal

Box 9.1 Examples of competency-based progression

Accelerated adult apprenticeships have been available in mechanical and fabrication engineering since 2004. Applicants can get a two-year credit towards the nominal term of an apprenticeship if they can demonstrate that they have three or more years experience in a related field of work and meet a minimum level of competence (specified in the relevant engineering training package). Assessment of an applicant can be carried out by either a registered assessor or an RTO with the relevant qualification within its scope of registration.

In August 2005, the automotive, building and construction, electrotechnology, engineering, food, furniture, hairdressing and hospitality industries recognised the competencies attained in specified TAFE NSW Trade Start courses. Having these competencies can provide the apprentice with credits ranging from 4 to 12 months towards their apprenticeship.

In early 2006, the Metal, Engineering and Associated Industries Award 1998 was amended to allow apprentices to complete their apprenticeship on achievement of competencies rather than at the completion of each 12-month period. The progression and completion of an apprenticeship is determined by agreement between the RTO, employer and the apprentice.

The Manufacturing and Engineering Skills Advisory Board (MESAB) industry position paper on Competency Based Progression and Completion - Engineering Apprenticeships outlines an approach for the practical implementation of progression and completion of apprenticeships based on achievement of competencies. This position paper is supported by various industry groups, including AIG, the Australian Workers’ Union, and the Manufacturing Workers’ Union.

The Tribunal endorses the COAG agreement to remove any award impediments to progression based on competency by 31 December 2006.

9.6 Review current apprenticeship model with a view to shortening the time required to complete apprenticeships

Although the Tribunal believes award impediments to competency-based progressions should be removed, it is not convinced that these impediments fully explain the low levels of early completion of apprenticeships. In particular, it notes that the NSW Apprenticeship and Traineeship Act 2001 explicitly provides for competency-based progression and this Act overrides the award impediments.

In addition, while some employers may be reluctant to support competency-based progression, labour market evidence indicates that this progression may be happening by default through the payment of above-award wages to apprentices. For example, as discussed above, a recent ACCI survey indicates that many employers are paying above award rates to apprentices, to improve retention rates. This survey found that 56 per cent of fourth year apprentices are being paid around 20 per cent above the award wage (median increase).169

Given the above, the Tribunal believes more significant reforms of apprenticeships need to be undertaken if competency-based progression is to be fully implemented. The expected terms for apprenticeships in NSW should be reviewed in light of the age, education and experience of apprentices starting apprenticeships today. The Tribunal expects that such a

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review is likely to recommend the shortening of the expected time taken to complete some apprenticeships.

Queensland has already completed a similar review, as part of the Queensland Skills Plan. This review resulted in an agreement between the relevant stakeholders on new expected durations for all apprenticeships. These expected durations complement the existing nominal terms for apprenticeships but provide a benchmark timeframe to be used to develop training plans and establish expected progression points. For most apprenticeships, the new expected duration is shorter than the nominal duration. However, should an individual’s personal characteristics require a delay beyond the expected term, the period between the expected and nominal terms can be used to extend the apprenticeship without additional administrative approval processes.

Recommendation 31

That NSW review, in consultation with relevant stakeholders, the appropriate time taken to complete apprenticeships. The Tribunal expects that such a review would shorten the expected duration for most apprenticeships.

The Tribunal also notes that the Queensland Skills Plan proposes to modify the traditional apprenticeship model by including more intensive upfront training followed by a shorter period of work experience. Under these arrangements, an initial institutional component of training would be required before students are placed in the workplace. This reflects the view that people generally learn best though a mix of institutional learning, reinforcement on the job, and relearning.

In addition, the Tribunal notes that RPL processes can play an important role in reducing the time taken to complete an apprenticeship, particularly for mature-aged workers who seek formal qualifications when they already have extensive job experience (such as those who have been working in a trade without having formal qualifications). Chapter 8 contains specific recommendations on approaches to increase and improve RPL arrangements.

9.7 Provide separate funding for pre-apprenticeship and pre-vocational training

The availability of pre-apprenticeship and pre-vocational courses, VET in schools and school-based apprenticeships and traineeships are important ways to lift the take up of VET. These courses provide individuals with an opportunity to attain up-front training and skills that increase their chances of attaining an apprenticeship, traineeship or employment after completion. They also provide prospective apprentices and trainees with an opportunity to ‘trial’ their chosen career without committing to the full training term. This enables them to make more informed career choices, and helps to reduce the dropout rates for apprenticeship and traineeship courses.

The Tribunal is concerned about evidence provided to it by the NCVER and NILS that shows that a substantial number of people with qualifications are working in lower skilled occupations. It is particularly concerned that qualified tradespeople tend to leave their trade in the early stages of their career, especially given the fact that the traditional trades are experiencing skill shortages. While it is not reasonable to expect a perfect match between

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qualifications and employment outcomes, the Tribunal considers that efforts must be made to reduce this skill wastage. Pre-apprenticeships and pre-vocational courses, VET in schools and school-based apprenticeship may be of some assistance here because, as noted above, they allow potential apprentices to trial their chosen trade, and thus help reduce dropout rates in the future.

Pre-apprenticeship and pre-vocational courses, VET in schools and school-based apprenticeships and traineeships also benefit employers. Individuals who have completed these courses offer employers increased skills and competencies. For example, a person who has completed a pre-apprenticeship and pre-vocational course and then moves onto a full apprenticeship or traineeship will clearly have more skills than someone without such training and so will be more productive during the first year of their apprenticeship or traineeship. A person who has completed a VET in schools subject or school-based apprenticeship or traineeship would also offer employers more job-specific vocational skills than other school leavers (for example, see Case Study 9.1 below).

The NSW Government already funds a variety of pre-apprenticeship and pre-vocational courses, VET in schools and school-based apprenticeships and traineeships. It has spent more than $7 million on pre-apprenticeship courses since 2003. The NSW Government also committed $2 million to the Trade Start program in 2005. This program is a 12-month pilot scheme that will allow more than 450 apprentices to do their first year of TAFE training in 16 weeks prior to starting work. The Tribunal understands that the Trade Start program has been very successful and is well supported by participants and employers. Therefore, it believes the NSW Government should expand its funding of pre-apprenticeship and pre-vocational programs such as Trade Start by providing more places across a range of apprenticeships and traineeships.

**Recommendation 32**

*That the NSW Government increase its funding of pre-vocational and pre-apprenticeship training.*
Removing barriers to participation in VET

Case Study 9.1: TAFE NSW Illawarra Institute
Building Barn construction of transportable homes by pre-vocational students

The building barn pre-vocational course is an example of the type of course the Tribunal believes would benefit more school leavers by giving them a taste of a trade and enhancing their chances of attaining an apprenticeship.

The Illawarra Institute was looking to find a cost-effective, safe and manageable way to provide school leavers and others wishing to start a career in the building and construction industry with the necessary industry experience, skills and practice to enable them to move easily from TAFE to full-time employment as an apprentice. Past examples of this had involved site work for the Department of Housing and community projects. Another approach had been placing students with host employers for the industrial experience components of the course.

However, the Illawarra Institute formed a partnership with local councils to construct a number of transportable homes per year. These homes are placed in local council caravan parks for holiday letting and the Illawarra Institute completes these projects under a contract. The transportable homes are sold at competitive market price and the Building Barn facility has grown commercial revenue for the Institute from approximately $100,000 to $275,000 over 2001 – 2005.

The Building Barn is now in its sixth year as a commercial operation. The projects have provided ‘real world’ industry experience, skills and practice on full-size construction in a controlled workshop in a cost-effective way. Since 2003, approximately 80 students have completed the course, with completion rates of over 90 per cent, well above the state average VET completion rates. With approximately two thirds of students going on to get employment as apprentices on completion of the course, the Building Barn program illustrates how successful pre-apprenticeship courses can be.

9.8 Recognise skills and competencies gained through pre-apprenticeship and pre-vocational courses, VET in school, and school-based apprentice programs

As discussed above, the time required to complete some apprenticeships and traineeships can discourage people from starting and completing this form of VET. Successful completion of pre-apprenticeship and pre-vocational courses, VET in schools and school-based apprenticeships and traineeships can reduce this time, provided that the skills and competencies gained through these courses are recognised. In submissions to the review, some stakeholders pointed out that some employers do not recognise these skills and competencies, and require individuals who have completed a pre-apprenticeship course to start as a first-year apprentice. The Tribunal believes this practice is likely to discourage people from entering the trades, and exacerbate existing difficulties in attracting and retaining high-quality apprentices.

The Tribunal believes individuals who have completed a pre-apprenticeship or pre-vocational course, VET in schools and school-based apprenticeship or traineeship should have their skills and competencies recognised by employers. If these individuals go on to start an apprenticeship or traineeship, the term of their training should be shortened by an appropriate amount of time. The recognition of these skills and competencies should form part of the initial training plan and competency progression points drawn up with their employer. In addition, the Tribunal believes that the review of the time required to complete an apprenticeship, discussed in section 9.6, should include consideration of the arrangements recognising prior competencies in apprenticeship and traineeship terms.
Recommendation 33

That students who have completed a pre-apprenticeship or pre-vocational course, VET in school and school-based apprenticeship or traineeship have their competencies recognised by shortening the expected time required to complete an apprenticeship or traineeship.

9.9 Continue current approach to providing VET within schools, including school-based apprenticeships and traineeships

VET in schools courses have been popular with NSW Higher School Certificate students. More than 50,000 students undertook at least one VET course as part of their HSC in 2004. The Tribunal considers that VET in schools courses provide valuable vocational skills that benefit students, regardless of whether they continue with VET or move to higher education. They also benefit employers by lifting the vocational skills of school completers.

The Tribunal endorses the NSW Government approach to VET in schools.

The NSW Government has recently released its school-based apprenticeship policy, providing $18 million to establish 10 dedicated trade schools over the next 12 months. The Tribunal considers that this is a useful initiative, which will provide students with another education pathway and allow them to trial an apprenticeship while undertaking their Higher School Certificate. The NSW model for school-based traineeships has been in place for some time.

The Tribunal endorses the NSW Government approach to school-based apprenticeships and traineeships.

Given the benefits of the policies outlined above, the Tribunal considers any industrial, regulatory or legislative barriers to policies like school-based apprenticeships should be removed. Again, COAG has agreed to remove all legislative, regulatory and industrial barriers to school-based apprenticeships in key industries by 31 December 2006. The Tribunal endorses this work.

The Tribunal endorses the COAG agreement to remove any legislative, regulatory and industrial barriers to school-based apprenticeships in key industries by 31 December 2006.
9.10 Review awards to promote more flexible approaches to work design

As Chapter 4 discussed, the Tribunal believes the provision of continuing and refresher training to people who are already employed will be increasingly important in the future – to enable them to maintain and upgrade their skills, so they remain competitive in the labour market and make best use of their skills and abilities. Therefore, it is important that there are minimal barriers for people who are in jobs to participate in this training.

A potential barrier facing existing workers who want to undertake continuing training is the inflexibility in some awards regarding part time and casual work. The Tribunal believes the industrial parties should review awards with a view to introducing part time and casual work, and other measures to promote more flexible work design. Such measures would help encourage more women and older workers to enter or re-enter some industries and occupations. It may also enable some workers who possess considerable experience but no formal qualifications to gain such qualifications by combining part time work and study.

Recommendation 34

That the industrial parties review awards to promote more flexible approaches to work design such as part time and casual work, and identify how these approaches can be combined with better training opportunities.

The Tribunal notes that its recommendations for increasing flexibility and responsiveness in the delivery of VET – for example, through e-learning, workplace delivery, delivery outside ‘normal working hours’ and the development of multiple pathways for the delivery of VET (discussed in Chapter 8) – will also help to remove barriers for trainees who are also employed. Its recommendation for allocating more resources to RPL (also discussed in Chapter 8) may help encourage more mature-aged people to undertake formal training or retraining, as it will help them have their existing skills and experience recognised, and provide a mechanism for reducing the time required for them to complete this training.

9.11 Monitor adequacy of government assistance to trainees

The Tribunal considered whether current levels of government assistance to both young and mature-aged people undertaking training provides adequate financial support. For people under 25, it found that the financial assistance available to those undertaking full-time training is less than the average wage of people the same age who are working full time. However, these younger trainees have the ability to earn additional income from part time work, which would offset the difference in income. In addition, the returns from undertaking training mean that any income foregone during training can be offset by additional income in the future if the training leads to a higher skilled and better paid job.

For mature-aged trainees, the level of assistance available is likely to be a more significant barrier to undertaking training, as these trainees are more likely than younger people to have financial commitments and responsibilities (such as a family and mortgage). The level of financial assistance available to these trainees is similar to that available to those under 25. (See Appendix 6 for more information on the financial assistance available to those undertaking training.)
To enable it to gain a better understanding of the level of assistance provided to a mature-aged trainee, the Tribunal developed a number of stylised examples to compare the disposable income of a family under a number of work/study scenarios (see Appendix 6, section A6.3). Given its recommendation for increasing the levels of continuing and refreshing training in NSW, the Tribunal was particularly interested in the scenario where a person with dependents on a modest income chooses to leave full time work and undertake full time training. If such a person was eligible to receive the Austudy allowance, the Tribunal’s findings indicate that the disposable income available to his or her family would be reduced by around $280 a week (or less if the income earner took up some part time work). So while Austudy would offset some of the foregone wage income, the likely decrease in disposable income could make it unrealistic for the main income earner to leave work and study full time unless the family had substantial personal savings to draw on (and this would probably make them ineligible for Austudy).

Given this finding, the Tribunal considers that most mature-aged trainees with financial commitments are likely to undertake part time study and continue to work full time. While the current levels of financial assistance may be a barrier to full time training for these individuals, they do not necessarily act as a barrier to part time training. Indeed, the increasing numbers of older VET students suggests that many matured-aged trainees are currently successfully combining full time work and part time study. This suggests that VET providers need to ensure that the provision of training suits the demands of part time trainees. The Tribunal’s recommendations for increasing the flexibility of VET delivery are discussed in Chapter 8.

The Tribunal also considers that it is unlikely that many mature-aged workers, particularly those with substantial financial commitments, will take up an apprenticeship or traineeship, as this would involve a reduction in disposable income. However, RPL and shortening the time required to complete apprenticeships can reduce any such loss of income, and are therefore important issues that must be addressed if more mature aged apprentices are to be encouraged in the future.

The Tribunal has also assessed the government assistance available to a person on a Disability Support Pension or parenting payment who undertakes training. Provided that the training is approved by Centrelink, undertaking training would not affect such a person’s eligibility for ongoing financial assistance, although it may have an impact on the level of financial assistance they can access.

The recent Australian Government’s Skills for the Future package offers additional assistance to mature-aged people through an apprentice support payment valued at $13,000 over 2 years. The Tribunal supports this initiative as it goes some way to offsetting the negative financial impact of taking up an apprenticeship in mid-career. However, for some people that are already employed, the $13,000 incentive may not be sufficient to offset the reduction in income resulting from taking up an apprenticeship (see Box 9.2). The Tribunal notes that the apprentice support payment can be paid to either the employer or the apprentice, depending on the circumstances. It considers it important that this payment, either in total or in part, does flow through to the apprentice.

172 For example, under scenario 1 in Appendix 6.3, disposable income is reduced by about $50 per week.
The Australian Government should continue to monitor and review the level of assistance provided to matured-aged trainees over the next 20 years, taking into account the incentives that this assistance provides and the benefits and costs of any changes to the levels of this assistance. As discussed in Chapter 4, if greater numbers of older workers are to remain in the workforce, there will be a need for additional continuing training. Therefore, the financial assistance available to this group in particular will need to ensure they have the means to take up the training opportunities available.

To facilitate appropriate levels of re-entrant training (see Chapter 4), the Tribunal also believes that the Australian Government should continue to monitor and review the level of assistance provided to the unemployed who undertake training. The Australian Council of Social Service (ACOSS) raises the issue of needing to make the decision to study or train cost neutral for the unemployed.\footnote{173 For example, see: ACOSS, Submission to the Senate Community Affairs Committee Inquiry into the Employment and Workplace Relations (Welfare to Work) Bill 2005, 2005, pp 23-24.} It argues that “an effective Welfare to Work policy should adopt a neutral stance towards choices of recipients to seek work immediately or pursue further education and training to improve their prospects of better and more stable employment in the future.”\footnote{174 Ibid, p 23.} ACOSS also highlights some shortcomings of the current income support system, which introduce a financial bias against some unemployed who want to undertake training or study.\footnote{175 Ibid.} For instance, income support payments for the unemployed can decrease by up to $100 per week if they undertake full time training for more than a year and therefore have to transfer from the Newstart Allowance to the lower Austudy payment (see section 9.1). This suggests that it is important to monitor the adequacy of government assistance payments to the unemployed who undertake training, with a view to minimising any biases the income support system may have against training that genuinely improves employment prospects.
Box 9.2 How much does the $13,000 apprentice support payment contribute to the incentive to take up an apprenticeship by mature-aged workers?

The $13,000 apprentice support payment in the Skills for the Future package targets mature-aged workers, and is intended to encourage more of these workers to take up apprenticeships. The Tribunal considered two stylised scenarios of the impact of these payments on individuals, and found that the $13,000 payment may or may not be sufficient to induce them to take up an apprenticeship, depending on their starting employment position.

Under both scenarios, the comparison assumes the mature-aged person takes up an apprenticeship in the metals trades. This would provide them with the following income:

- **1st year adult apprenticeship wage** = $406/week
- **Apprenticeship support payment** = $150/week
- **Gross income** = $556/week
- **Net income after tax** = $480/week

Thus, any mature-aged person taking up an apprenticeship in the metals trades can expect to receive $480 each week to spend as they choose.

In the first scenario, the individual is a mature-aged person who does not work and receives a Disability Support Pension of $256 per week. Assuming this person is able to take up the apprenticeship, there is a strong financial incentive for them to do so. On a weekly basis, their disposable income would almost double.

In the second scenario, the individual is a mature-aged person who is employed and earns a weekly income of $700, which is around two-thirds of the average weekly earnings as reported by the ABS. Their income after tax is $579 per week. In this case, taking up the apprenticeship would result in a reduction in their disposable income of just under $100 per week. Thus, the apprenticeship support payment is insufficient to provide a financial incentive for them to do so.

This is a very simple comparison, based on the impact on an individual. It is likely that a mature-aged person would have family commitments and changes to their income would need to be considered in the context of the family unit (see Appendix 6).

9.12 Continue to establish and enhance links between VET, schools and universities

As Chapter 8 discussed, the Tribunal believes the various providers of education, including TAFE Institutes, schools, universities and the ACE sector, should be encouraged to form partnerships to support and encourage greater flexibility in the delivery of VET, and the development of multiple pathways for education.

The Tribunal also believes stronger links between these education sectors will help remove barriers to participation in VET. For school students, stronger links between their schools, TAFE Institutes and universities will help make them aware of the multiple education pathways available to them, and encourage them to continue in education and training. For mature-aged people, stronger links between the ACE sector and VET providers are important. Many older learners’ first education experience after a period of absence is the ACE sector, so stronger links between this sector and VET providers will help encourage more mature-aged learners to move from adult education courses into the formal VET sector and attain accredited training and qualifications.
Ideally, the various education providers that offer a variety of services that are overlapping should formally develop an integrated approach to education and training that provides integrated pathways to students. The Tribunal considers that schools and the VET sector are developing such an integrated approach, with the introduction of VET in schools and school-based apprenticeships.

However, the links between universities and VET providers could be enhanced, particularly for higher level VET qualifications such as diplomas. These links will become increasingly important over time, as existing workers seek to formalise qualifications, or retrain and attain higher level qualifications to meet labour market changes. The VET and university sectors will need to form closer partnerships to cater for the demand from these existing workers, who may start at the VET level then move on to higher level qualifications at the university level.

9.13 Encourage firms above a certain size to provide retraining packages for staff facing retrenchment

As Chapter 4 and 5 noted, the investment involved in training or retraining people who are unemployed or not in the labour force is substantial, and requires an integrated approach to skill and workforce development. It is a more efficient use of resources to encourage people who are facing retrenchment to retrain while they are still employed, rather than allowing them to become redundant and then remain unemployed for an extended period or exit the labour market.

Staff facing retrenchment are often in need of retraining, and this often involves consideration of an alternative skill set and career path. Firms above a certain size that are restructuring should consider and be encouraged to develop cooperative arrangements with VET providers and others for retraining their staff as part of redundancy packages (or as part of an approach to redundancy), to enable them to either continue with their current occupations or acquire the skills they need to gain employment in another occupation or industry.

Such retraining could occur, for instance, throughout the restructure or wind-down phase (after notice of retrenchment has been given), at the workplace or a nearby location, and during quieter periods (of the day or week) of a firm’s operations. While enhancing the re-employment prospects of redundant workers, such an approach could also benefit firms by helping to maintain productivity levels and ensure an orderly restructure or wind-down of operations.
10 UNDERSTANDING THE BENEFITS AND FINANCING THE COSTS OF THE PROPOSED REFORMS

As both the NSW and Australian Governments recognise, the ageing of our population poses a major risk to the economy, and to the living standards of all Australians. As the ratio of aged to working-age population increases over the next decades, the labour force participation rate is expected to fall. This will slow economic growth and create serious budgetary difficulties for all governments. For example, NSW Treasury has estimated that by 2044, the state will face a fiscal shortfall of 3.4 per cent of Gross State Product (GSP) – or some $23 billion in today’s dollars – due to the impact of the ageing population.176

The Tribunal is convinced that the reforms it proposes to the VET system will make a critical contribution to the ‘whole of government’ response that will be necessary to avoid the realisation of this worrying scenario. The VET system is one of the major determinants of the state’s skills base, and thus a major determinant of its economic future. The changes to this system (and supporting arrangements) that the Tribunal proposes should enable NSW to achieve significant improvements in labour force participation, productivity and economic growth – despite the ageing of the population.

While the benefits of the Tribunal’s proposed reforms are substantial, they will also involve costs. However, the Tribunal’s analysis indicates that the increase in economic growth that will result from the reforms will largely cover these costs. Nevertheless, there will be a need for an upfront investment in VET before this economic growth is realised. The following sections look more closely at the expected benefits of the proposed reforms, the estimated costs of these reforms, and how these upfront costs should be financed.

10.1 Benefits

The Tribunal expects that its proposed package of reforms will deliver a range of economic and social benefits to the community and individuals, and will improve the fiscal positions of the NSW and Australian Governments. As the previous chapters in this report have discussed, the proposed changes include:

- an average increase in the provision of VET in NSW of around 2.5 per cent per year over the next 20 years, with a strong emphasis on providing additional re-entrant training over the next 10 years to assist the significant pool of people who are unemployed or not in the labour force to get back into work, and an increasing emphasis on providing continuing and refresher training to assist those who are employed or underemployed to maintain and improve their skills and qualifications so that they continue to be competitive in the labour market and achieve their full potential

- a shift in the focus of the VET sector, particularly TAFE NSW, to workplace development that will see this sector increasingly developing partnerships with business that encourage the adoption of high-performance work practices and the provision of higher skilled jobs, clearer career paths and more training

- a range of changes designed to enable and encourage the VET sector to effectively pursue workforce development and improve its efficiency and effectiveness, and to

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improve outcomes for users of the VET system and increase participation in VET programs.

The most significant economic benefit of these reforms is that they will increase the labour force and employment participation rate. As Chapter 3 discussed, there is substantial evidence to show that increasing education and training increases employment participation, and thus allows faster economic growth. The reforms will also increase the skill levels in the labour force, which should help to increase productivity levels. In turn, higher productivity should contribute to higher rates of economic growth.

The Tribunal’s analysis suggests that together, these benefits will result in a significant increase in GSP that recovers the investment in the reforms and, most importantly, also offsets the impact of the ageing population on the state’s public finances in the coming decades. Specifically, the economic projections undertaken by Access Economics indicate that:

- If present trends and policies continue with no particular initiatives to manage the impact of the ageing population (the IGR scenario), real GSP in NSW will grow by an annual average of around 2.5 per cent over the next 20 years. This will lead to a forecast GSP of $526 billion (real 2006 $) in 2025.
- However, if governments introduce effective policies that increase and maintain the labour force participation rate in NSW at the national level (the target scenario), real GSP will grow by an annual average of around 3.0 per cent. This will lead to a forecast GSP of $605 billion (real 2006 $) in 2025.

Therefore, the potential value of the benefits that will result from adopting and effectively implementing the Tribunal’s proposed reforms could be around 14.9 per cent of GSP – or $78 billion (real 2006 $) – by the year 2025.\(^\text{177}\) This represents substantially higher economic growth than would otherwise be realised, and without any increase in taxes, it should lead to substantially higher government revenue receipts that will be sufficient to offset the presently projected $23 billion State fiscal deficit from the ageing population.

The social benefits of the Tribunal’s proposed reforms include a reduction in unemployment, an increase in employment participation, and an improvement in labour market outcomes. There may be many reasons why a person cannot find and keep a job, cannot find the type or number of hours of work they want, or decides to withdraw from the labour force. However, the lack of skills that are in demand by employers is certainly one of the most significant factors.

As Chapter 2 discussed, there is a pool of people who would like to work if they could, but presently lack the necessary skills. Providing people with the opportunity to attain these skills will enable many of those who are currently financially and socially disadvantaged because of their employment status to achieve better labour market outcomes – such as finding a job, finding a higher skilled and better paid job, or working the number of hours per week that they want. This will be of direct benefit to these individuals and their families. It will also contribute to a more equitable and cohesive society and reduce welfare costs, which will benefit the whole community.

\(^{177}\) Figures obtained from Access Economics’ model.
The economic and social impacts described above will also benefit both the Australian and NSW Governments. The increase in employment participation and reduction in unemployment will directly benefit the Australian Government - by reducing its expenditure on income support payments and increasing its taxation revenue, as more people move into paid employment and start paying income tax. The NSW Government will benefit as these people start spending their new incomes, increasing economic activity in the state, and thus increasing state tax revenue and reducing government outlays.

In addition, the increase in the NSW labour force’s skill levels will make the state a more attractive place to invest and live in. For business, the increasing supply of labour with current skills and the capacity to adapt to new skill requirements should make NSW a more attractive place for investment. And increased business investment should lead to more employment growth, which in turn will assist NSW to attract and retain skilled labour into the future.

10.2 Costs

The investment in training required to lift labour force participation will be considerable and, like other infrastructure investments, the benefits will only be realised over the long term. However, it is critical that governments make this investment now. If they do not, the outcomes of underinvestment in human capital are likely to be in line with the projections in the Australian Government’s Intergenerational Report - slowing employment growth, declining labour force participation and a growing fiscal gap as the population ages.

But what will this investment in a better future cost? The Tribunal asked Access Economics, as part of its work on the future demand for VET, to estimate the indicative cost of the additional re-entrant, continuing and refresher training required over the next 20 years (discussed in Chapter 4). Given the uncertainties about the cost of these different types of VET, a detailed calculation of the future cost of funding this training using a bottom-up approach was not feasible. Instead, Access Economics calculated an indicative estimate by projecting the current unit cost of VET delivery forward, and applying it to the forecast VET hours under both the IGR and target scenarios.178

Under the IGR scenario, which projects a continuation of present policies, the cost of VET in NSW is expected to increase slightly from the current level of $1.7 billion per annum (real 2006 $) to $1.8 billion (real 2006 $) in 2010. Under the target scenario, with the shift to a higher level of VET training, the cost of VET is estimated to be $2.2 billion (real 2006 $) per annum by 2010. That is, implementing the target scenario will require a modest increase in funding per annum (see Table 10.1 below). The total cost of VET in 2025 is estimated to be around $2.1 billion (real 2006 $) under the IGR scenario, which equates to around 0.5 per cent of GSP. This expenditure on VET as a share of GSP is the same as it is today. In contrast, the estimated total cost of VET in 2025 under the target scenario is expected to be around $2.9 billion (real 2006 $), or some 0.6 per cent of GSP.179

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178 This estimate took into account the stronger focus on re-entrant training the Tribunal proposes for the next 10 years, and the fact that this training is likely to be more intensive and longer than typical VET course.

179 In developing these estimates, Access Economics assumed that the additional training provided under the target scenario would be successful in preventing the decline in labour force participation and raising employment growth to around 1.0 per cent per annum over the next 20 years. At this higher level of labour force participation and employment, the unemployment rate is projected to gradually decline to around 3 per cent by 2020 and labour productivity growth is likely to reach 2 per cent per annum. The estimates of training expenditures as a percentage of GSP are based on nominal prices and allow for the cost of training to increase faster than the overall rate of inflation.
Table 10.1  Estimated cost of VET in NSW (real 2006 $ billion)

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<tr>
<td><strong>Target scenario</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Re-entrant training</td>
<td>0.7</td>
<td>0.8</td>
<td>0.8</td>
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</tr>
<tr>
<td>Other training*</td>
<td>1.5</td>
<td>1.8</td>
<td>1.9</td>
<td>2.1</td>
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<tr>
<td>Total cost of VET</td>
<td>2.2</td>
<td>2.6</td>
<td>2.7</td>
<td>2.9</td>
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<tr>
<td><strong>Difference (target less IGR)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Re-entrant training</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Other training*</td>
<td>0.2</td>
<td>0.4</td>
<td>0.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Total cost of VET</td>
<td>0.4</td>
<td>0.7</td>
<td>0.7</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: Access Economics’ modelling outcomes.
* ‘Other training’ includes continuing, refresher and apprenticeship training.
Note totals may not add up due to rounding.

Given that the Tribunal’s proposed reforms are expected to lead to higher rates of growth in GSP, these reforms will largely pay for themselves in the longer term. However, there will be a need for additional upfront financing, particularly in the next 10 years, to meet the costs of developing and delivering the additional re-entrant training programs targeted at assisting those who are unemployed or not in the labour force to move back into employment. The Tribunal also believes there will be a need for some additional upfront capital expenditure, to enable VET providers to gear up for the increased demand for VET services in the future. In particular, the capacity to provide the additional continuing training required under the target scenario may entail additional capital expenditure and specialist labour resources.

In addition, some of the Tribunal’s recommendations for enabling and encouraging the VET sector to effectively pursue workforce development, for improving outcomes for users of the VET system and increasing participation in VET programs will require financing. However, the Tribunal considers that the total amount required to fund these measures is minor. These measures include:

- adequate funding for innovation and staff development within TAFE NSW
- better funding for the Recognition of Prior Learning (RPL), so that the process is more client-focused and is well known and understood by VET students and potential students
- additional NSW funding for pre-vocational and pre-apprenticeship training.
As Chapter 4 noted, there are risks in making this proposed significant investment in human capital - especially given this investment is deliberately targeted at a group that includes many people who are themselves at risk. However, the Tribunal considers that the probability that this investment will generate returns is high - and much higher than the probability of returns from the much larger sums of money the Australian Government has already spent in seeking to increase incentives for people to enter or re-enter the labour force (see Box 10.1 below).

**Box 10.1 The Australian Government’s recent budget proposals**

In the recent Budget, the Australian Government introduced a range of incentives to increase labour force and employment participation. These incentives include changes to superannuation, income tax rates, family tax benefits, and pension and benefit withdrawal rates. The cost of these changes runs into billions of dollars, while their effectiveness in increasing labour force participation, and more importantly employment, is by no means certain.

For example, the superannuation changes are intended to encourage older workers to postpone their retirement. However, for many people, early retirement is forced; where this is the case, the changes will have no impact. For many other people, their retirement date depends on them achieving a target retirement income; where this is the case, the changes may allow them to retire earlier.

Similarly, the Melbourne Institute of Applied Economic and Social Research analysed the changes to family tax benefit and income tax rates that came into effect on 1 July 2006, including the Government’s ‘welfare to work package’ announced in the previous Budget. The Melbourne Institute found that these measures would increase labour force participation, but not necessarily employment, by almost 50,000 people (or less than half a per cent). An analysis of the Budget papers indicates that the cost achieving this relatively small increase in labour force participation will be around $11.4 billion dollars per annum (full year cost). This is in line with historical experience, which suggests that the actual impact of superannuation and tax changes on employment participation is minimal, while the costs are very high.

In comparison, the costs of implementing the Tribunal’s recommendations for providing additional VET in line with the target scenario in NSW are expected to be an additional $0.4 billion in 2010 and $0.8 billion in 2025 (relative to the costs of VET under the IGR scenario). This investment is expected to increase employment in the state by some 60,000 people in 2010 and 360,000 in 2025 (relative to the IGR scenario). If the Tribunal’s recommended approach was implemented nationwide, the costs would be in the vicinity of an extra $1 billion in 2010 and $2.5 billion in 2025 (relative to the costs under the IGR scenario) and would increase total employment in Australia by an extra 90,000 people in 2010 and 860,000 people in 2025 (relative to the IGR scenario) (see Table 10.2 below).

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181 The $11.4 billion estimate was based on an analysis of the Budget papers looking at the cost of the measures listed by the Melbourne Institute using the information provided for the second year when they would have fully taken effect.
Table 10.2  Projected employment for NSW and Australia

<table>
<thead>
<tr>
<th>Values in 00,000s unless otherwise stated</th>
<th>2005</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
</tr>
</thead>
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<tr>
<td>NSW</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>IGR scenario</td>
<td>32.4</td>
<td>34.1</td>
<td>35.4</td>
<td>36.3</td>
<td>36.9</td>
</tr>
<tr>
<td>target scenario</td>
<td>32.4</td>
<td>34.7</td>
<td>36.8</td>
<td>38.9</td>
<td>40.5</td>
</tr>
<tr>
<td>Difference (target less IGR)</td>
<td>0.0</td>
<td>0.6</td>
<td>1.5</td>
<td>2.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Additional cost (2006 $ billion)*</td>
<td>0.4</td>
<td>0.7</td>
<td>0.7</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IGR scenario</td>
<td>100.1</td>
<td>106.7</td>
<td>111.8</td>
<td>115.8</td>
<td>119.0</td>
</tr>
<tr>
<td>target scenario</td>
<td>100.1</td>
<td>107.6</td>
<td>114.7</td>
<td>121.3</td>
<td>127.6</td>
</tr>
<tr>
<td>Difference (target less IGR)</td>
<td>0.0</td>
<td>0.9</td>
<td>2.9</td>
<td>5.5</td>
<td>8.6</td>
</tr>
<tr>
<td>Additional cost (2006 $ billion)*</td>
<td>1.0</td>
<td>1.9</td>
<td>1.8</td>
<td>2.5</td>
<td></td>
</tr>
</tbody>
</table>

Source: ABS publication 6202.0 Labour Force and Access Economics modelling outcomes.
*Additional cost is the difference between the Target scenario and IGR scenario VET cost estimates.

10.3  Who should pay?

Currently, the funds required to provide VET services in NSW come from three main sources:

- individuals, through the fees paid by domestic and international students
- business and industry, through the fees paid for VET services for employees
- the Australian and NSW Governments, through government funding.

NSW TAFE Institutes receive around 80 per cent of their funding from government, with the remainder coming from commercial revenue from business and student fees. While still small, the proportion of funding from commercial revenue and international student fees has grown strongly over the last decade. Private VET providers gain most of their funding from commercial revenue and student fees. However, they also compete with TAFE Institutes to win a small proportion of total government funding VET services.

The Tribunal considers that the expenditure required to provide the additional training it has recommended for the next 20 years can potentially come from these same three sources: individuals, business and government. Who should finance this additional expenditure will depend on the nature of the training provided.

10.3.1  Individuals

As noted above, the fees paid by students for VET courses contribute to the costs of providing these courses. These fees do not cover the full costs of the courses, and are subsidised by government funding. However, the Tribunal considers that this subsidy is justified due to the broad social benefits of providing training to enable people to attain better labour market outcomes and lift economic growth. In addition, the returns on
individuals’ investments in VET qualifications are not as substantial to those from investments in university degrees. Indeed, for certificate levels III and IV qualifications, the returns may be similar to those earned through completing the Higher School Certificate, while for certificate levels I and II the returns may be less (see Appendix 6 for more detail).

On balance, given the above, the Tribunal perceives difficulties in increasing the fees paid by domestic students in NSW for lower level courses, and considers that these fees should continue to be set by the Minister. For higher level VET courses and international students, the Tribunal believes that providers of VET should continue to set fees that are consistent with costs of providing the course and student demand.

10.3.2 Business

Employers currently provide a substantial amount of training to their staff (see Appendix 5 for more details). Not all of this training is for formal, accredited VET. Nevertheless it benefits employees, firms and the economy as a whole. While the Tribunal considers there may be a case for employers to contribute to the additional costs of VET in the future, compelling an additional contribution from employers would be very difficult.

However, the Tribunal has recommended a number of reforms to the VET system that should encourage employers to contribute more resources to training. These reforms include making the system (particularly TAFE Institutes) more flexible, responsive and efficient. The Tribunal has also recommended reforms to encourage greater cooperation between VET providers and business, which should provide firms with training solutions that contribute to improved business performance. The recommended shift in the focus of the VET sector to workplace development is particularly relevant, as it aims to encourage and support changes in workplace cultures and to place skill development and use at the forefront of business strategies. The recommendation to allow TAFE Institutes to use public resources to leverage additional employer contributions to VET and grow the training market is also relevant.

As a result of these reforms, the Tribunal envisages that employers will continue to contribute to the skill development of their existing staff, and their total contribution is likely to grow. Thus, employers will contribute to the additional VET required under the target scenario, particularly the continuing training.

10.3.3 The Australian and NSW Governments

The Tribunal believes that much of cost of financing of the additional VET expenditure it has recommended must and should come from the Australian and NSW Governments. Both the Australian and NSW Governments will benefit if the additional re-entrant training targeted at people who are unemployed or outside the labour force succeeds in increasing employment participation, as this will reduce income support payments, and increase taxation receipts. Therefore, it is reasonable that both governments fund this training. Furthermore, the Tribunal considers that governments have a social responsibility to fund training for these disadvantaged people – particularly the Australian Government, which is placing these people under increased pressure to re-enter the labour force.
Therefore as a general principle, the funding share of each government should be based on the fiscal benefits that will accrue to each. For example, under this approach, it is likely that a significant portion of re-entrant training would be funded by the Australian Government. This is because this training is expected to directly benefit this government. As most of those who receive this training will be on unemployment or other social security benefits, and the training should enable many of them to move from these benefits into paid employment, thus reducing the Australian Government’s income support bill.

Importantly, both governments need to contribute additional funding to VET now, to ensure that the target scenario is realised in the future. In particular, governments must provide the funding to enable VET providers to develop and provide carefully tailored, intensive training to those who are unemployed or not in the labour force, to kick-start the targeted changes in labour force participation.

**Funding for re-entrant training**

As discussed in Chapter 4, people who have been disengaged from work for a long time will require intensive training to get them back into employment. While the Tribunal welcomes the recent announcements by the Australian Government that Work Skill Vouchers worth up to $3,000 (or approx 200 hours of training) will be offered to up to 30,000 workers and jobless people,\(^{182}\) it believes that more intensive training is needed to get these targeted trainees back into jobs and enable them to establish sustainable, long-term careers. The Tribunal believes that an average of $9,000 per trainee is needed. This amount should be used to fund a package of work-based and institutional training that is tailored to the individual skill needs of the trainee. Where necessary, it should also be used to cover the additional costs of employers and RTOs.

It is important to note that this $9,000 per re-entrant trainee represents training costs – it does not provide income support for the trainee. Most re-entrant trainees will currently be receiving income support from the Australian Government. If they move to full-time institutional training (and receive no employment income), they should continue to obtain income support. Alternatively, if re-entrant trainees move to a mix of institutional and work-based training, the Tribunal anticipates that these re-entrants would receive a training wage while at work. However, if additional income support is needed to prevent any income loss, the Australian Government might make up the difference as is effectively envisaged by its recently announced $13,000 apprentice support payment. More broadly, as Chapter 9 discussed, the Tribunal believes that the Australian Government should continue to monitor and review the level of assistance provided to trainees, to ensure that the decision to undertake training (or re-training) is financially feasible, and that the relative level of other benefits do not act as a disincentive for training.

**Recommendation 35**

*Given that the benefits from increasing employment rates flow to both the NSW and Australian Governments, that these governments jointly fund the additional forecast increase in re-entrant training and that the respective contribution of each government take into account the respective fiscal benefits that will accrue to each.*

\(^{182}\) The Tribunal assumes that these vouchers will be in addition to current funding for VET and labour market programs, and that they will be implemented in a way that does not lead to cost shifting (that is, that RTOs will be free to levy standard fees and charges to students in receipt of a voucher).
Recommendation 36

Given that the benefits from increasing ongoing training flow to employers, individuals and governments, that employers, individuals and the NSW and Australian Governments fund the forecast increase in continuing and refresher training with the respective contributions having regard to the respective benefits accruing to each.

As Chapter 4 discussed, the Tribunal has considered the likelihood that its proposed increases in the provision of re-entrant, continuing and refresher training will succeed in lifting labour force participation in NSW, and offsetting the economic consequences of the ageing population. It identified several risks to success, such as employer demand for higher level skills and individual demand for training not matching the levels of demand forecast under the target scenario. The Tribunal has made several recommendations that aim to manage these risks (see Chapters 4 and 9).

The Tribunal has also identified a further risk, which is that the increased levels of public funding for the provision of VET recommended above will ‘crowd out’ private expenditure, by individuals, firms and industry groups. However, it believes that this risk is limited.

In the short term, much of the growth in VET expenditure recommended by the Tribunal will be on government-funded re-entrant training for people who are unemployed or not in the labour force. Given the nature of this target group, it is also unlikely that this training will be funded by employers or individuals. Overall, the Tribunal considers that the additional publicly funded re-entrant training is unlikely to displace private expenditure on training.

Over the medium to long term, the growth in VET expenditure recommended by the Tribunal aims to lift the rate of continuing training. This training is more likely to be funded by employers (as it may form part of an employment contract) or by individuals who want to invest in their career. In this instance, it is possible that employers or trainees who would have opted for a privately funded training course might instead choose to take a publicly funded course.

However, the Tribunal notes that other parts of its reform package are designed to increase the contribution of employers towards continuing training. These measures, which include enabling TAFE to use public funding to leverage additional business funding and thus grow the training market, should limit the risk that increased publicly funded accredited VET will simply displace private expenditure on informal, unaccredited training. In addition, much of the informal training that is currently provided is job-specific or firm-specific, and this training will still be needed irrespective of any increase in publicly funded, accredited VET.

Overall, the Tribunal believes the potential benefits of effectively implementing its recommended package of reforms to increase labour force participation, boost productivity and achieve higher economic growth – and the risks of doing nothing to offset the economic impact of the ageing population – far exceed the risks associated with its reforms.
## ACRONYMS USED

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCI</td>
<td>Australian Chamber of Commerce and Industry</td>
</tr>
<tr>
<td>ACPET</td>
<td>Australian Council for Private Education and Training</td>
</tr>
<tr>
<td>AIG</td>
<td>Australian Industry Group</td>
</tr>
<tr>
<td>ANTA</td>
<td>Australian National Training Authority</td>
</tr>
<tr>
<td>AQF</td>
<td>Australian Qualifications Framework</td>
</tr>
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<td>ASH</td>
<td>Annual student hours</td>
</tr>
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<td>ATB</td>
<td>Automotive Training Board</td>
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<td>BACE</td>
<td>NSW Board of Adult and Community Education</td>
</tr>
<tr>
<td>BVET</td>
<td>NSW Board of Vocational Education and Training</td>
</tr>
<tr>
<td>CEET</td>
<td>Centre for the Economics of Education and Training</td>
</tr>
<tr>
<td>COAG</td>
<td>Council of Australian Governments</td>
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<td>DET</td>
<td>Department of Education and Training</td>
</tr>
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<td>DTEC</td>
<td>Department of Training and Education Co-ordination</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GSP</td>
<td>Gross State Product</td>
</tr>
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<td>HIA</td>
<td>Housing Industry Association</td>
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<td>IGR</td>
<td>Intergenerational Report</td>
</tr>
<tr>
<td>JET</td>
<td>Jobs, Education and Training</td>
</tr>
<tr>
<td>LAFH</td>
<td>Living Away From Home Allowance</td>
</tr>
<tr>
<td>LMP</td>
<td>Labour Market Program</td>
</tr>
<tr>
<td>MASTERS</td>
<td>Mature Age Skill Training and Education Recruitment Strategy</td>
</tr>
<tr>
<td>MPA</td>
<td>Masters Plumber Association</td>
</tr>
<tr>
<td>NAAP</td>
<td>New Apprenticeship Access Program</td>
</tr>
<tr>
<td>NCVER</td>
<td>National Centre for Vocational Education Research</td>
</tr>
<tr>
<td>NILS</td>
<td>National Institute of Labour Studies</td>
</tr>
<tr>
<td>OTTE</td>
<td>Office of Training and Tertiary Education</td>
</tr>
<tr>
<td>PES</td>
<td>Pensioner Education Supplement</td>
</tr>
<tr>
<td>PIU</td>
<td>Performance and innovation Unit</td>
</tr>
<tr>
<td>RAM</td>
<td>Resource allocation model</td>
</tr>
<tr>
<td>RPL</td>
<td>Recognition of Prior Learning</td>
</tr>
<tr>
<td>RTOs</td>
<td>Registered training organisations</td>
</tr>
<tr>
<td>SDS</td>
<td>Service Delivery Strategy</td>
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<td>Training Recognition Consultant</td>
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<td>Vocational Education and Training</td>
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<td>VETAB</td>
<td>Vocational Education and Training Accreditation Board</td>
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<td>VLESC</td>
<td>Victorian Learning and Employment Skills Commission</td>
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<td>WELL</td>
<td>Workplace English Language and Literacy</td>
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APPENDIX 1    TERMS OF REFERENCE

The Tribunal is to consider and report on:

• The future demand for skills in NSW over the next 20 years.

• The probable future sources of supply of skilled labour for NSW, including the possible supply from retrained ‘mature’ labour.

• The consequent demands for the further education and training system in NSW and the implications for TAFE in particular.

• The economic and social implications of meeting this increased demand for further education and training in NSW.

• The capacity of the further education and training system to accommodate these demands for skilled labour.

• Changes that should be made to the State-regulated system to assist in meeting future demands, including the State’s regulatory framework and governance structures. Commonwealth-State agreements that have implications for any recommendations should also be considered.
APPENDIX 2 ACCESS ECONOMICS FORECASTING

Access Economics was asked to project VET demand for two scenarios:

1. A baseline scenario indicating the likely demand for VET if economic assumptions consistent with the Australian Government’s Intergenerational Report are adopted. This is considered to be the status quo scenario where present trends and policies are maintained. The consequences of this scenario are that as the population ages, labour force participation declines and skills shortages contribute to restricted economic growth. For the NSW Government, this translates into increasing fiscal pressure on the budget. This scenario is referred to as the IGR scenario.

2. A target scenario that assumes government policies succeed in raising labour force participation, using training as an important lever. With a better educated population, labour force participation and labour productivity increases, steering the economy into a stronger position. This larger and stronger economy would be sufficient to avoid the fiscal pressures of the ageing population.

A2.1 How did Access Economics come up with its projections?

The Access Economics model derived the projections of the employer demand for training using a top-down model, where employer demand is derived from the rate of economic growth. The major factors driving the projections of employer demand for VET include population, employment, labour force participation, unemployment and labour productivity. Table A2.1 lists the major assumptions adopted under the IGR and Target scenarios for both Australia and NSW.183

<table>
<thead>
<tr>
<th>Table A2.1 Major assumptions for VET demand modelling (per cent per annum)</th>
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<tr>
<td>20 year average, 2005 - 2025</td>
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<tr>
<td>Population growth</td>
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<tr>
<td>0.8</td>
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<td>Employment growth</td>
</tr>
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<td>0.6</td>
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<tr>
<td>Employment growth ratio</td>
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<td>57.9</td>
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<tr>
<td>Average labour force participation</td>
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<td>61.0</td>
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<tr>
<td>Unemployment rate</td>
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<td>5.1</td>
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<td>Labour productivity</td>
</tr>
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<td>1.75</td>
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</table>

Source: Access Economics Draft Report, Table 1, piii.

183 For detailed explanation on the methodology, please refer to the Access Economics Report.
Scenario methodology

The model Access Economics used to derive the projections of the employer demand for training is essentially a top-down model. This model reflects a neo-classical approach to projecting economic growth where output in the long-run is determined by the supply of factor endowments, as reflected in this case by the projected increase in labour force participation, unemployment and productivity. These three variables are constrained by the specification in each scenario, and distinguish one scenario from the other.

The pattern of final demand consistent with the projected total output in each scenario is then used to obtain projections of VET demand, by tracing the links between final demand to industry employment and then to employment by occupation. Projections are obtained both for the level of employment in an occupation and the number of people entering an occupation.

Four types of VET activity are distinguished (namely continuing training, re-entrant training, new apprenticeships for new entrants, and new apprenticeships for existing workers). Each is related either to the number of entrants to an occupation or the number of people in the occupation. VET penetration ratios are calculated by dividing each type of training by the relevant workforce variable. Projections of VET activity are derived by holding penetration levels at their average values over the past three years. However, the most recent value is used where there seems to have been a significant change in VET penetration. Allowance is then made for a continuing trend towards part time work, casual employment and a longer working life, and how that affects the demand for VET.

Finally, the projections for the various components of VET are combined to provide a total. This total can be thought of as representing the optimal number of VET places, and their type, that would be necessary to generate the desired amount of employment projected in each scenario.

Basing the projections of longer-term VET demand on a neo-classical supply-based model of economic growth in this way is consistent with the standard practice in all major countries, and it has considerable support in the theoretical and empirical literature. While most such models acknowledge that there can be short-term departures from the economy’s long-run growth potential – hence the need for macro-economic demand management policy in the short-term – it is generally accepted by most macro-economists that an economy’s long-run growth path will be supply determined as projected in these two scenarios.

IGR scenario

Australia’s economic performance has been strong over the past decade, and NSW has experienced broadly similar success. This performance has been fuelled in part by the commodity boom and the boom in housing and business investment. However, the ageing of the population and a forecast cyclical downturn is expected to slow down employment growth considerably over the next few decades if present policies are maintained.

To better focus on these medium and longer term prospects, the Australian Government released its Intergenerational Report in 2002. The report provides a basis for considering the issues associated with an ageing population. In particular, it shows that if present policies are maintained, aged-dependency will increase, economic growth will decelerate, and a substantial gap between government expenditure and revenue can be expected to emerge.
over the longer term. This projection of Australia’s long-term demographics and economic prospects has been used as a basis for the underlying assumptions in the IGR scenario.

The assumptions and outcomes on future demographics and labour market trends in this scenario are generally consistent with that published in the recent NSW Budget papers. Indeed, NSW Treasury’s modelling also drew on the Productivity Commission and the Commonwealth Treasury’s work in this area.

Table A2.2 IGR forecast demand of VET hours for NSW

<table>
<thead>
<tr>
<th></th>
<th>units</th>
<th>2005</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
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<tr>
<td>Total VET hours</td>
<td>millions</td>
<td>117.8</td>
<td>121.7</td>
<td>130.4</td>
<td>138.3</td>
<td>146.1</td>
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<tr>
<td>Share of training</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Continuing training</td>
<td>%</td>
<td>51.6</td>
<td>53.9</td>
<td>54.0</td>
<td>54.2</td>
<td>54.4</td>
</tr>
<tr>
<td>Re-entrants training</td>
<td>%</td>
<td>30.0</td>
<td>32.2</td>
<td>32.7</td>
<td>33.1</td>
<td>33.3</td>
</tr>
<tr>
<td>New apprenticeships - existing workers</td>
<td>%</td>
<td>2.2</td>
<td>2.3</td>
<td>2.3</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>New apprenticeships - new entrants</td>
<td>%</td>
<td>16.2</td>
<td>11.6</td>
<td>10.9</td>
<td>10.4</td>
<td>10.1</td>
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</tbody>
</table>

| Total VET students | 000s   | 539.1  | 552.3  | 589.2  | 621.6  | 655.4  |
| Share of training |        |        |        |        |        |        |
| Continuing training | %       | 55.0   | 57.5   | 57.6   | 57.8   | 57.9   |
| Re-entrants training | %       | 22.4   | 24.1   | 24.5   | 24.8   | 24.9   |
| New apprenticeships - existing workers | %       | 3.0    | 3.4    | 3.4    | 3.3    | 3.3    |
| New apprenticeships - new entrants | %       | 19.6   | 15.0   | 14.5   | 14.0   | 13.9   |

Source: Access Economics modelling outcomes.
Note that at the time of modelling, 2005 figures had to be estimated as official values were not available.

Increases in the share of continuing and re-entrant training reflect the expected increase in the average age of VET students. In fact, this increase in age has already begun to happen in recent years. NCVER VET student enrolment information shows that around 40 per cent of students are aged over 35. Over the next 20 years, the proportion of VET students aged 25 and over is generally expected to increase if present policies are continued, while the share of those aged under 24 is expected to decline slightly (Table A2.3).

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184 The estimate of hours of VET required reflects a maximum amount of training delivered institutionally. Where a combination of institutional and work-based training is adopted, the total number of hours could be greater (as set out in section 4.3). This is because, in terms of skills development, work-based training would be less intensive than institutional training and it is therefore expected that there would be (comparatively) more of it.

185 NCVER National VET Provider Collection, July 2005, Table 3.
Table A2.3  Forecast VET students by age - IGR

<table>
<thead>
<tr>
<th>IGR</th>
<th>Males</th>
<th>Females</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>units</td>
<td>2005</td>
<td>2025</td>
</tr>
<tr>
<td>19&amp; under</td>
<td>%</td>
<td>27.0</td>
<td>24.5</td>
</tr>
<tr>
<td>20-24</td>
<td>%</td>
<td>20.2</td>
<td>19.1</td>
</tr>
<tr>
<td>25-29</td>
<td>%</td>
<td>10.6</td>
<td>11.3</td>
</tr>
<tr>
<td>30-39</td>
<td>%</td>
<td>17.4</td>
<td>18.4</td>
</tr>
<tr>
<td>40-49</td>
<td>%</td>
<td>13.3</td>
<td>12.6</td>
</tr>
<tr>
<td>50-59</td>
<td>%</td>
<td>8.2</td>
<td>9.1</td>
</tr>
<tr>
<td>60+</td>
<td>%</td>
<td>3.2</td>
<td>5.0</td>
</tr>
<tr>
<td>Total number of students</td>
<td>000s</td>
<td>279.2</td>
<td>332.4</td>
</tr>
</tbody>
</table>

Source: Access Economics modelling outcomes.

Target scenario

The target scenario reflects a target outcome of economic success. However, this scenario is more than just an aspiration, and it draws attention to what will be necessary to realise that success. In particular, the scenario is based on a set of government policies that increase training effort now and into the future, thereby gradually improving the general level of skill and education of the population. With a better educated population, labour force participation and labour productivity is expected to be higher, which steers the economy into a stronger position where unemployment is lower.

The main specification in the target scenario is that the NSW employment to population ratio, for people aged 15 years and over, gradually moves up to the current national level. This ratio reflects the proportion of the working age population that is actively contributing to the economy’s production, which in turn supports the whole population. At present, the Australian employed to population ratio is around 61.2 per cent, while NSW is lagging at 59.5 per cent. Figure A2.1 compares the projected path of the employment to population ratio for NSW under the two scenarios. Under the IGR scenario, because older age groups have lower participation rates, this average ratio would deteriorate over time as the population ages, leading to a decline in labour force participation and slow employment growth. The target scenario is based on a set of policies that are considered to be consistent with this ratio gradually moving up to 61.2 per cent and maintaining that level after 2020.
To achieve the target scenario, employment growth would have to increase significantly compared to the IGR scenario. This higher level of employment would be reflected in lower unemployment and higher labour force participation. If the target scenario is achieved, employment in 20 years time would be 10 per cent higher than under the IGR scenario (Figure A2.2). Higher employment also translates to a larger economy and a better fiscal position.

Based on the assumptions under the target scenario – higher employment, increased labour force participation, greater rates of training, improved labour productivity and reducing unemployment – the projected growth in demand for VET is forecast to be more than double that under the IGR scenario.
Table A2.4 Forecast demand of VET hours for NSW – Target scenario186

<table>
<thead>
<tr>
<th></th>
<th>units</th>
<th>2005</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total VET hours</td>
<td>millions</td>
<td>117.8</td>
<td>147.9</td>
<td>176.6</td>
<td>188.8</td>
<td>198.9</td>
</tr>
<tr>
<td>Share of training</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continuing training</td>
<td>%</td>
<td>51.6</td>
<td>54.5</td>
<td>56.6</td>
<td>58.5</td>
<td>59.9</td>
</tr>
<tr>
<td>Re-entrants training</td>
<td>%</td>
<td>30.0</td>
<td>34.1</td>
<td>33.4</td>
<td>31.9</td>
<td>30.6</td>
</tr>
<tr>
<td>New apprenticeships - existing workers</td>
<td>%</td>
<td>2.2</td>
<td>1.9</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>New apprenticeships - new entrants</td>
<td>%</td>
<td>16.2</td>
<td>9.5</td>
<td>8.2</td>
<td>7.8</td>
<td>7.8</td>
</tr>
<tr>
<td>Total VET students</td>
<td>000s</td>
<td>539.1</td>
<td>635.8</td>
<td>744.9</td>
<td>798.4</td>
<td>851.7</td>
</tr>
<tr>
<td>Share of training</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continuing training</td>
<td>%</td>
<td>55.0</td>
<td>59.7</td>
<td>62.2</td>
<td>63.8</td>
<td>64.4</td>
</tr>
<tr>
<td>Re-entrants training</td>
<td>%</td>
<td>22.4</td>
<td>24.2</td>
<td>23.2</td>
<td>22.0</td>
<td>21.4</td>
</tr>
<tr>
<td>New apprenticeships - existing workers</td>
<td>%</td>
<td>3.0</td>
<td>3.0</td>
<td>2.8</td>
<td>2.8</td>
<td>2.8</td>
</tr>
<tr>
<td>New apprenticeships - new entrants</td>
<td>%</td>
<td>19.6</td>
<td>13.1</td>
<td>11.8</td>
<td>11.4</td>
<td>11.4</td>
</tr>
</tbody>
</table>

Source: Access Economics modelling outcomes.
Note that at the time of modelling, 2005 figures had to be estimated as official values were not available.

These rates of growth in VET demand are driven by the higher growth in employment as well as the assumed government policy initiatives to lift labour force participation to alleviate the current skill shortage and also to prevent future skill shortages. Training would be one of the important and necessary policies to achieve this lift in participation. The modelling in this target scenario includes training provisions for:

- **Increased re-entrant training** – this training targets unemployed people and people not in the labour force. Many of these people are likely to have become disengaged from work, so providing them with the necessary skills to become active in the labour market will require more than the general refresher training or continuing training. The modelling assumes training of 650 hours per student in this target group, which is more than double the assumed VET hours per student for continuing training. Given the characteristics of this target group, training for them is assumed to be longer and/or more intensive in order to achieve a better outcome. The success rate of this training is assumed to be 50 per cent, where success means gaining employment or moving to further studies. These assumptions were adopted after considering programs previously and currently in place to help the unemployed and long-term unemployed re-enter work, as well as the fact that more training has been allowed for this group. Such programs include the Outreach Australians Working Together Program, the TAFE Get Skilled Program, the Priority Places Programs, Language and Literacy Programs, and the TAFE Masters Program. General VET student outcomes data from NCVER was also considered (see Appendix 7).

- **Increased continuing training** – for people who are employed, maintaining and upgrading their skills so they can remain competitive in the labour market is

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186 The estimate of hours of VET required reflects a maximum amount of training delivered institutionally. Where a combination of institutional and work-based training is adopted, the total number of hours could be greater (as set out in section 4.3). This is because, in terms of skills development, work-based training would be less intensive than institutional training and it is therefore expected that there would be (comparatively) more of it.
important. This training serves as a preventative measure against the experience of the
last two decades where the decline in blue collar occupations have limited employment
opportunities for males with lower levels of educational attainment, forcing many into
premature retirement or onto the disability support pension as their skills became
outdated.

- **Increased refresher training** – this is a type of continuing training for people who are
currently underemployed, especially if they have been so for some time. Refresher
training should aim to restore their skills and assist them to move towards fully
utilising their qualifications. This will also serve as a preventative measure to ensure
that people currently underemployed do not let their skills become outdated and
atrophy.

- **Increased training due to the trend towards part time and casual employment.** On
the job training for part time and casual employees is notably reduced compared to full
time employees.\(^{187}\) This implies that an additional burden will be placed on the public
VET system and individuals to provide and fund skill development to compensate for
the lower rate of employer-provided training for these people.

Under the IGR scenario, the average age of VET students is expected to increase. Given the
targeted types of training under the target scenario, the average age of VET students is
expected to increase even further. For example, the share of VET students aged above 30 in
2025 is 8.4 per cent higher in the target scenario than in the IGR scenario (Table A2.5).

<table>
<thead>
<tr>
<th>Share of VET students by age</th>
<th>Males</th>
<th>Females</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2025</td>
<td>2005</td>
</tr>
<tr>
<td>Target scenario</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19&amp; under</td>
<td>%</td>
<td>27.0</td>
<td>20.6</td>
</tr>
<tr>
<td>20-24</td>
<td>%</td>
<td>20.2</td>
<td>15.5</td>
</tr>
<tr>
<td>25-29</td>
<td>%</td>
<td>10.6</td>
<td>9.3</td>
</tr>
<tr>
<td>30-39</td>
<td>%</td>
<td>17.4</td>
<td>18.2</td>
</tr>
<tr>
<td>40-49</td>
<td>%</td>
<td>13.3</td>
<td>15.5</td>
</tr>
<tr>
<td>50-59</td>
<td>%</td>
<td>8.2</td>
<td>12.5</td>
</tr>
<tr>
<td>60+</td>
<td>%</td>
<td>3.2</td>
<td>8.4</td>
</tr>
<tr>
<td>Total number of students</td>
<td>,000</td>
<td>279.2</td>
<td>433.0</td>
</tr>
<tr>
<td>IGR scenario</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19&amp; under</td>
<td>%</td>
<td>27.0</td>
<td>24.5</td>
</tr>
<tr>
<td>20-24</td>
<td>%</td>
<td>20.2</td>
<td>19.1</td>
</tr>
<tr>
<td>25-29</td>
<td>%</td>
<td>10.6</td>
<td>11.3</td>
</tr>
<tr>
<td>30-39</td>
<td>%</td>
<td>17.4</td>
<td>18.4</td>
</tr>
<tr>
<td>40-49</td>
<td>%</td>
<td>13.3</td>
<td>12.6</td>
</tr>
<tr>
<td>50-59</td>
<td>%</td>
<td>8.2</td>
<td>9.1</td>
</tr>
<tr>
<td>60+</td>
<td>%</td>
<td>3.2</td>
<td>5.0</td>
</tr>
<tr>
<td>Total number of students</td>
<td>,000</td>
<td>279.2</td>
<td>332.4</td>
</tr>
</tbody>
</table>

Source: Access Economics modelling outcomes.

What is the cost of providing increased training?

Given the nature of investing in infrastructure – in this case human capital – the benefits are unlikely to be realised in the short term or possibly even the medium term. With this push to increase publicly funded VET training now, in preparation for the future, what does this mean for governments in terms of budget?

An attempt to estimate the future cost of funding VET using a bottom up approach was not adopted given the uncertainties about the cost of the different types of VET training. Instead, the following approach has been adopted to provide an indicative cost estimate for future VET funding:

- **Estimate a unit cost.** In 2004, $1.5 billion (real 2004 $) was spent on VET delivery in NSW, which includes government and student contributions. If we divide this amount by the number of VET hours in 2004 (111.6 million) that yields a unit cost of $13.76 per VET hour in 2004 dollars.

- **Project the unit cost forward.** Apply an inflation factor of 3.5 per cent per annum to the unit cost. This inflation factor includes the increase in the CPI and a premium for the labour intensive nature of VET teaching and the potential for slower productivity growth in this sector.

- Apply projected unit costs to the forecast of VET hours.

Using this estimation method, the projected cost of VET in 2025, consistent with the target scenario, is expected to be around $2.9 billion dollars (real 2006 $). Under the target scenario, nominal GSP is projected to grow over the next 20 years at an average annual rate of 5.5 per cent per annum, in line with projected employment, productivity and price growth. In effect, this means that the training initiatives underpinning the increase in labour force participation largely pay for themselves as the rate of increase in training expenditure is broadly matched by the additional rate of increase in GSP over the long term.
APPENDIX 3 PERFORMANCE OF THE PUBLICLY FUNDED VET SECTOR

Performance of the VET sector can be looked at from an effectiveness and efficiency perspective.

When measuring the effectiveness of the VET sector it is important to recognise that the objectives of VET students vary, while some study to attain a formal qualification, others only attempt to complete modules aimed at attaining specific skills. This makes it difficult to measure success and effectiveness using any one indicator. Therefore, measures to assess the effectiveness of the publicly funded VET system usually incorporate multiple indicators including participation rates, completion rates, student outcomes sought, and student satisfaction.

As discussed in Chapter 6, indicators used to compare the efficiency of the VET systems in each jurisdiction are government recurrent expenditure per publicly funded curriculum hour and real government recurrent expenditure per publicly funded load pass (this is the cost to government of each successfully completed VET module or unit of competency).\textsuperscript{188}

A3.1 Effectiveness of publicly funded VET sector through measures of student outcomes

A study by Ball and John found that the completion rates for apprentices and trainees are 60 per cent and that completion rates for traditional apprenticeships have declined for students enrolled since the mid-1990s.\textsuperscript{189} Table A3.1 shows the completion rates for individual course modules in NSW. It indicates that module pass rates are around 70 per cent and withdrawal rates of approximately 15 per cent.

<table>
<thead>
<tr>
<th>Table A3.1 VET subject enrolments in NSW by subject result 2000-2004 (.000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Module outcomes</td>
</tr>
<tr>
<td>Assessed – pass</td>
</tr>
<tr>
<td>Assessed – fail</td>
</tr>
<tr>
<td>Withdrawn</td>
</tr>
<tr>
<td>Recognition of prior learning</td>
</tr>
<tr>
<td>Continuing studies</td>
</tr>
<tr>
<td>Not assessed – completed</td>
</tr>
<tr>
<td>Not assessed - not completed</td>
</tr>
<tr>
<td>Not available</td>
</tr>
<tr>
<td>Total subject enrolments</td>
</tr>
</tbody>
</table>

Source: NCVER, National VET provider collection 2005, NSW, Table 33; any differences due to rounding.

\textsuperscript{188} The Annual National Report of the Australian VET system, published by the Commonwealth Department of Education, Science and Training, provides information on the efficiency of publicly funded VET systems across the nation. See also the Productivity Commission in its Report on Government Services.

\textsuperscript{189} Ball K. and John D., \textit{Apprentice and Trainee Completion Rates}, NCVER, 2005.
Tables A3.2 and A3.3 set out the reasons why public VET graduates and module completers in Australia undertake training. The tables indicate that a high proportion of these people achieved their main reason for undertaking training and were satisfied with the quality of training received.

**Table A3.2  Outcome sought by VET graduates and module completers in NSW 2000-2005 (%)**

<table>
<thead>
<tr>
<th></th>
<th>TAFE NSW</th>
<th>All public VET</th>
<th>2005*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
<td>2001</td>
<td>2002</td>
</tr>
<tr>
<td><strong>Graduates</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seeking an employment related outcome</td>
<td>75</td>
<td>71</td>
<td>75</td>
</tr>
<tr>
<td>Seeking a further study outcome</td>
<td>7</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Seeking a personal development outcome</td>
<td>18</td>
<td>23</td>
<td>18</td>
</tr>
<tr>
<td><strong>Module completers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seeking an employment related outcome</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Seeking a further study outcome</td>
<td>5</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Seeking a personal development outcome</td>
<td>35</td>
<td>36</td>
<td>36</td>
</tr>
</tbody>
</table>

*NCVER broadened the scope of the Student Outcomes Survey to include all students undertaking activity within the public VET system.

**Table A3.3  Satisfaction of VET graduates and module completers NSW 2000-2005 (%)**

<table>
<thead>
<tr>
<th></th>
<th>TAFE NSW</th>
<th>All public VET</th>
<th>2005*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
<td>2001</td>
<td>2002</td>
</tr>
<tr>
<td><strong>Graduates</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Achieved main reason for undertaking training</td>
<td>78</td>
<td>80</td>
<td>75</td>
</tr>
<tr>
<td>Satisfied with overall quality of training</td>
<td>81</td>
<td>83</td>
<td>78</td>
</tr>
<tr>
<td><strong>Module completers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Achieved main reason for undertaking training</td>
<td>70</td>
<td>72</td>
<td>70</td>
</tr>
<tr>
<td>Satisfied with overall quality of training</td>
<td>80</td>
<td>79</td>
<td>76</td>
</tr>
</tbody>
</table>

Source: NCVER, Student Outcomes Survey, 2000-2005, Table A2.7.
*NCVER broadened the scope of the Student Outcomes Survey to include all students undertaking activity within the public VET system.
A3.2 Efficiency improvements in the VET sector

Chapter 6 provides information on government recurrent expenditure per publicly funded curriculum hour. The other efficiency measure used by the Productivity Commission is real government recurrent expenditure per publicly funded load pass as a measure of efficiency. NSW improved its performance against this measure between 2000 and 2004, and government recurrent funding per hour in NSW is now lower than all other jurisdictions except Victoria (Table A3.4).

Table A3.4 Real government recurrent expenditure per hour of publicly funded load pass* ($ 2004 per hour)

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>WA</th>
<th>SA</th>
<th>Tas</th>
<th>ACT</th>
<th>NT</th>
<th>Aust</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>20.73</td>
<td>16.06</td>
<td>26.21</td>
<td>22.77</td>
<td>16.55</td>
<td>23.32</td>
<td>18.47</td>
<td>32.96</td>
<td>20.18</td>
</tr>
</tbody>
</table>

* Load pass is defined as being a successfully completed VET module or unit of competency.

The Annual National Report provides other information that helps to compare publicly funded VET systems across Australia. As shown in Table A3.5, NSW spent more on employee-related operating expenses than Victoria in 2004. While this partly reflects the larger size of the NSW sector,190 it also reflects the comparatively higher salaries paid to TAFE NSW teachers. A TAFE NSW teacher’s starting salary is $59,888 per year (as at January 2006), and reaches a maximum of $69,334, with an annual effective teaching load of 684 hours per year. In Victoria, the figures are $41,093 (as at 1 September 2005), $60,960 and 800 hours per year respectively.191

Table A3.5 Employee expenses, by type, 2004, ($,000)

<table>
<thead>
<tr>
<th>State/ Territory</th>
<th>Salaries, Wages, Overtime and Allowances</th>
<th>Superannuation</th>
<th>Payroll Tax</th>
<th>Other Salary &amp; Wage Related Costs</th>
<th>TOTAL EMPLOYEE EXPENSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>910,193</td>
<td>97,035</td>
<td>57,664</td>
<td>10,565</td>
<td>1,075,457</td>
</tr>
<tr>
<td>Vic</td>
<td>645,056</td>
<td>58,318</td>
<td>34,321</td>
<td>11,183</td>
<td>748,878</td>
</tr>
<tr>
<td>Qld</td>
<td>359,552</td>
<td>33,792</td>
<td>17,971</td>
<td>6,269</td>
<td>417,584</td>
</tr>
<tr>
<td>SA</td>
<td>180,690</td>
<td>18,745</td>
<td>11,576</td>
<td>6,302</td>
<td>217,313</td>
</tr>
<tr>
<td>WA</td>
<td>241,645</td>
<td>24,578</td>
<td>13,837</td>
<td>7,706</td>
<td>287,766</td>
</tr>
<tr>
<td>Tas</td>
<td>57,150</td>
<td>5,982</td>
<td>3,850</td>
<td>1,204</td>
<td>68,186</td>
</tr>
<tr>
<td>NT</td>
<td>38,434</td>
<td>5,078</td>
<td>2,826</td>
<td>3,247</td>
<td>49,585</td>
</tr>
<tr>
<td>ACT</td>
<td>51,294</td>
<td>6,500</td>
<td>0</td>
<td>594</td>
<td>58,388</td>
</tr>
<tr>
<td>National</td>
<td>8,465</td>
<td>1,042</td>
<td>0</td>
<td>426</td>
<td>9,933</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,492,479</td>
<td>251,070</td>
<td>142,045</td>
<td>47,496</td>
<td>2,933,090</td>
</tr>
</tbody>
</table>

Source: DEST, 2004 Annual national report of Australian vocational education and training system, 2005, Table 3.3.

190 95.1 million adjusted nominal hours in 2004 in NSW and 75.7 million in Victoria (Source: 2004 Annual National Report).
191 Source: Australian Education Union website www.aeufederal.org.au
Table A3.6 shows other operating expenses (that is, not related to employees). The amount spent by NSW was less than Victoria in 2004, which reflects the higher level of payments to non-TAFE providers for VET delivery in Victoria.

**Table A3.6  Other operating expenses, by type, 2004 ($,000)**

<table>
<thead>
<tr>
<th>State/Territory</th>
<th>Supplies and Services</th>
<th>Payments to Non-TAFE Providers for VET Delivery</th>
<th>Grants &amp; Subsidies</th>
<th>Depreciation and Amortisation</th>
<th>Other incl Borrowing Costs</th>
<th>TOTAL OTHER OPERATING EXPENSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>286,990</td>
<td>73,292</td>
<td>56,424</td>
<td>89,569</td>
<td>1,126</td>
<td>507,401</td>
</tr>
<tr>
<td>Vic</td>
<td>276,163</td>
<td>107,215</td>
<td>57,714</td>
<td>75,697</td>
<td>17,953</td>
<td>534,742</td>
</tr>
<tr>
<td>Qld</td>
<td>173,962</td>
<td>76,717</td>
<td>26,934</td>
<td>52,580</td>
<td>4,677</td>
<td>334,870</td>
</tr>
<tr>
<td>SA</td>
<td>112,193</td>
<td>20,173</td>
<td>16,087</td>
<td>13,274</td>
<td>6,963</td>
<td>168,690</td>
</tr>
<tr>
<td>WA</td>
<td>127,567</td>
<td>43,811</td>
<td>4,005</td>
<td>23,387</td>
<td>6,320</td>
<td>205,090</td>
</tr>
<tr>
<td>Tas</td>
<td>22,088</td>
<td>6,348</td>
<td>3,454</td>
<td>7,632</td>
<td>2,361</td>
<td>41,883</td>
</tr>
<tr>
<td>NT</td>
<td>32,172</td>
<td>4,293</td>
<td>7,481</td>
<td>4,862</td>
<td>293</td>
<td>49,101</td>
</tr>
<tr>
<td>ACT</td>
<td>24,308</td>
<td>11,022</td>
<td>1,207</td>
<td>3,323</td>
<td>909</td>
<td>40,769</td>
</tr>
<tr>
<td>National**</td>
<td>69,949</td>
<td>0</td>
<td>983</td>
<td>441</td>
<td>55</td>
<td>71,428</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,125,392</td>
<td>342,871</td>
<td>174,289</td>
<td>270,765</td>
<td>40,657</td>
<td>1,953,974</td>
</tr>
</tbody>
</table>

Source: DEST, 2004 Annual national report of Australian vocational education and training system, 2005, Table 3.4

In terms of source of operating revenues (see Tables A3.7 and A3.8 over page), the amount of revenue NSW received from fee for service in 2004 was around half that received by Victoria - $127 million compared to $266 million. Further breakdown of fee for service revenue shows that total overseas student fees in Victoria are nearly three times those in NSW, with revenue from both Government and non-Government clients around twice as high in Victoria compared to NSW.
### Table A3.7 VET operating revenue by type*, 2004, ($,000)

<table>
<thead>
<tr>
<th>State/Territory</th>
<th>General operating revenues</th>
<th>Operating revenues from government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fee for service</td>
<td>Ancillary trading</td>
</tr>
<tr>
<td>NSW</td>
<td>126,567</td>
<td>29,405</td>
</tr>
<tr>
<td>Vic</td>
<td>265,874</td>
<td>33,263</td>
</tr>
<tr>
<td>Qld</td>
<td>45,006</td>
<td>13,740</td>
</tr>
<tr>
<td>SA</td>
<td>35,438</td>
<td>9,610</td>
</tr>
<tr>
<td>WA</td>
<td>38,300</td>
<td>4,892</td>
</tr>
<tr>
<td>Tas</td>
<td>13,816</td>
<td>2,730</td>
</tr>
<tr>
<td>NT</td>
<td>2,696</td>
<td>0</td>
</tr>
<tr>
<td>ACT</td>
<td>6,561</td>
<td>3,288</td>
</tr>
<tr>
<td>National</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>534,258</strong></td>
<td><strong>96,928</strong></td>
</tr>
</tbody>
</table>

Notes:

* Operating Revenues represent accrual based revenues. Operating revenues from government cover both government funds provided to TAFE institutes and government funded service provision by private RTOs.

(1) Comprises total Commonwealth general purpose recurrent funding for National Projects.

(2) Represents the balance of Commonwealth funding for National Programs not included within state and territory figures and ANTA’s operating costs.

Source: DEST, 2004 Annual national report of Australian vocational education and training system, 2005, Table 3.1.
### Table A3.8 Comparison of NSW, Victoria, Queensland fee for service revenue 2000-2004 ($’000)

#### NSW

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Govt agencies</td>
<td>34,776</td>
<td>30,648</td>
<td>23,217</td>
<td>18,493</td>
<td>26,581</td>
</tr>
<tr>
<td>Other (a)</td>
<td>69,319</td>
<td>70,467</td>
<td>62,208</td>
<td>65,334</td>
<td>48,835</td>
</tr>
<tr>
<td>Overseas student fees (b)</td>
<td>22,472</td>
<td>21,913</td>
<td>18,652</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Adult &amp; Comm Ed</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>126,567</td>
<td>123,028</td>
<td>104,077</td>
<td>83,827</td>
<td>75,416</td>
</tr>
</tbody>
</table>

#### Victoria

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Govt agencies</td>
<td>73,811</td>
<td>71,738</td>
<td>62,789</td>
<td>68,732</td>
<td>68,570</td>
</tr>
<tr>
<td>Other(a)</td>
<td>127,396</td>
<td>120,594</td>
<td>115,654</td>
<td>168,654</td>
<td>154,025</td>
</tr>
<tr>
<td>Overseas student fees (b)</td>
<td>64,667</td>
<td>67,317</td>
<td>68,666</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Adult &amp; Comm Ed</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>265,874</td>
<td>259,649</td>
<td>247,109</td>
<td>237,386</td>
<td>222,595</td>
</tr>
</tbody>
</table>

#### Queensland

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Govt agencies</td>
<td>75</td>
<td>921</td>
<td>3,348</td>
<td>2,183</td>
<td>2,623</td>
</tr>
<tr>
<td>Other(a)</td>
<td>25,953</td>
<td>21,675</td>
<td>14,646</td>
<td>32,826</td>
<td>32,754</td>
</tr>
<tr>
<td>Overseas student fees (b)</td>
<td>16,261</td>
<td>14,215</td>
<td>11,994</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Adult &amp; Comm Ed</td>
<td>2,717</td>
<td>2,965</td>
<td>3,205</td>
<td>3,405</td>
<td>4,014</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>45,006</td>
<td>39,776</td>
<td>33,193</td>
<td>38,414</td>
<td>39,391</td>
</tr>
</tbody>
</table>

Notes:
(a) ‘Other’ comprises revenues received from non government clients. However some of these clients may have received government funds for VET training purposes.
(b) Prior to 2002 this item was included in fee for service ‘Other’.
APPENDIX 4 RECENT REFORMS AND TRENDS IN TAFE NSW

During the period from 1990 to 2006, training systems across Australia underwent significant reform, primarily to align them more closely with governments’ economic, employment and social policies. For example, major policy change occurred to create a nationally consistent system, facilitate greater industry input, and introduce competition and user choice. Training providers responded to these changes by developing new products and services, new teaching and delivery approaches, and a more collaborative training culture. The following sections highlight the changes that have influenced and continue to shape TAFE NSW.

A4.1 National reforms

The late 1980s and early 1990s were a time of significant economic restructuring, micro-economic reform and high unemployment across Australia. Over this period, there was a heightened appreciation of the significant changes taking place in the Australian labour market and the need for a radical redirection of effort and increased investment by governments and industry in training, especially entry level training. There was also a greater recognition of the direct link between the Australia’s competitiveness and economic well being and the development of a flexible and highly skilled workforce.

In the context of these changes, the Commonwealth and state and territory governments developed the Australian National Training Authority (ANTA) Agreement. This agreement aimed to create a consistent national VET system that would be industry led. It included agreements on:

- national policy, strategies and operational mechanisms for industry advice to enable greater responsiveness to employer and individual requirements and priorities
- promotion of a competitive training market to allow greater choice and influence on provision by consumers
- national policy frameworks for portability and mutual recognition of qualifications, and common assessment arrangements and qualification frameworks across education sectors to increase mobility of labour and enable individuals to build on existing qualifications.

The implementation of the ANTA agreement over the 1990s and 2000s has led to:

- an industry-led VET system
- streamlined regulation and quality assurance systems and a national framework for recognition of training
- implementation of national Training Packages developed by industry
- the development of a national training market and the introduction of User Choice
- the establishment of the Board of Vocational Education and Training (BVET) as the State Training Authority – the key source of advice to the Minister on state priorities for VET and allocation of Commonwealth funds.
A4.2 Competition and diversified revenue

Prior to 1995, publicly funded vocational education and training in Australia was primarily delivered by TAFE Colleges. However, in 1998, the ‘User Choice’ system was introduced, opening the market to a wider range of training providers, including a wide range of training institutions and enterprises, and private providers that receive public funding. In 2000, Australian publicly funded institutions comprised:

- around 90 TAFE institutes which delivered training at more than 1300 campuses
- community providers which delivered training at over 1,100 centres
- Over 3,300 other registered organisations, including private providers.

In 2005 and 2006, there were 1,643 RTOs operating in NSW, 929 of which were also registered in NSW. Of these, 450 RTOs were on the NSW Approved Providers List, competing to deliver publicly funded training in the open training market. In 2005, TAFE NSW won 38 per cent of the NSW public funds available through the state’s open training market.

Over this period, TAFE NSW has widened its revenue sources as the training market has become more competitive and TAFE has expanded its product diversity and increased its marketing focus and expertise. In 1996/97, state and Commonwealth government grants represented 86.3 per cent of TAFE revenue; by 2004, this had reduced to 79.6 per cent. However, the Tribunal notes that TAFE NSW’s commercial revenue from all sources of fee-for-service activity has been consistently lower than might be expected.

A4.3 TAFE Governance

In late 1980s and early 1990s, TAFE systems across Australia were significantly restructured. TAFE NSW was moved from being a department in its own right, as it had been for forty years. The intention of the restructure was major devolution of operational responsibilities though the establishment of (then) eleven regionally focused Institutes. The TAFE Commission Board was established under new legislation passed in 1990.

This decentralised composition largely set the stage for the future, with regional arrangements being consolidated over a series of further restructures. The first took place in 1995, with TAFE being absorbed in to Department of Training and Education Co-ordination (DTEC). Under this arrangement the Director General also became the Managing Director of TAFE NSW. In 1997, DTEC merged with the Department of School Education and formed the Department of Education and Training (DET) as it remains today. A further restructure in 2004 aligned TAFE and schools regional boundaries and gave TAFE Institute Directors the responsibility for devolved corporate services for schools and TAFE in each region.

192 Information provided to IPART 1 March 2005.
A4.4 TAFE NSW participation profile

Over the period 1995 to 2004, TAFE NSW’s enrolments grew by 23 per cent, taking total enrolments to approximately 507,000. Over the same period, its annual student hours (ASH) increased by 16 per cent, taking them to approximately 99 million. Enrolments and ASH for females increased slightly more than those for males.

Table A4.1 TAFE NSW - 1995 & 2004 Enrolments and Annual Student Hours (ASH) by Gender

<table>
<thead>
<tr>
<th></th>
<th>Enrolments</th>
<th>%change</th>
<th>ASH</th>
<th>%change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>191,070</td>
<td>238,501</td>
<td>41,266,123</td>
<td>50,268,893</td>
</tr>
<tr>
<td>Male</td>
<td>219,976</td>
<td>268,429</td>
<td>44,015,122</td>
<td>48,720,517</td>
</tr>
<tr>
<td>Total</td>
<td>411,046</td>
<td>506,930</td>
<td>85,281,245</td>
<td>98,989,410</td>
</tr>
</tbody>
</table>

Source: Information provided by DET, 16 February 2006.

In terms of age, most TAFE students are still under 30 (57.6 per cent in 1995, compared to 54 per cent in 2004). However, the number of students aged more than forty years increased significantly over this period (those aged 40 - 49 years increased by 54 per cent, and those aged 50 years and older increased by 134 per cent). As a result, the average student age is now 31 years.

Figure A4.1

The balance between metropolitan and country enrolments has remained approximately the same over the period, with 51 per cent of enrolments coming from metropolitan areas in 1996, compared to 49 per cent in 2004. Given the distribution of the NSW population, it can be argued TAFE NSW plays an especially significant role in rural and regional NSW.
The number of students in full-time employment while studying decreased by 27 per cent over the period 1995 to 2004, and the number in part-time employment increased by 30 per cent. There was also a proportional drop in those who were unemployed while studying (-8 per cent) and those not in the labour force (-8 per cent).

Table A4.2  TAFE NSW - 1995 and 2004 Enrolments by Employment Status

<table>
<thead>
<tr>
<th>Employment Status</th>
<th>Enrolments</th>
<th>% change</th>
<th>ASH</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time employee</td>
<td>152,410</td>
<td>111,129</td>
<td>-27%</td>
<td>26,795,861</td>
</tr>
<tr>
<td>Part-time employee</td>
<td>52,129</td>
<td>67,812</td>
<td>30%</td>
<td>12,208,510</td>
</tr>
<tr>
<td>Self-employed and/or employer</td>
<td>16,529</td>
<td>18,017</td>
<td>9%</td>
<td>2,468,394</td>
</tr>
<tr>
<td>Not employed, looking for paid job</td>
<td>93,937</td>
<td>86,756</td>
<td>-8%</td>
<td>22,118,323</td>
</tr>
<tr>
<td>Not employed, not looking for paid job</td>
<td>54,347</td>
<td>49,844</td>
<td>-8%</td>
<td>14,030,860</td>
</tr>
<tr>
<td>No answer</td>
<td>41,694</td>
<td>173,372</td>
<td>316%</td>
<td>7,659,297</td>
</tr>
<tr>
<td>Total</td>
<td>411,046</td>
<td>506,930</td>
<td>23%</td>
<td>85,281,245</td>
</tr>
</tbody>
</table>

Source: Information provided by NSW DET, 16 February 2006.

The majority of TAFE NSW students were studying part time in 1996 and still continue to do so in 2004 (86.7 per cent compared to 93 per cent).

The TAFE course profile has changed, with increases in courses on community services and health, hospitality and building, and decreases in engineering and natural and physical sciences. These changes reflect changing employment conditions over the period.

Figure A4.2

TAFE NSW Enrolments by Field of Education

Source: Information provided by DET, 16 February 2006.
As the public provider, TAFE NSW plays a significant role in providing education and training for low income and other equity groups to enhance their capacity to enter the labour force. In 2004, TAFE NSW was the major provider of training for equity groups:

- Aboriginal and Torres Strait Islander students represented 3.9 per cent of enrolments compared to 3.2 per cent of enrolments in 1996 (and compared with 1.9 per cent of the NSW population).
- Students with a disability represented 9.2 per cent of enrolments compared to 4.9 per cent of enrolments in 1996 (and compared with 19 per cent of the NSW population).
- Non-English speaking background students represented 18.5 per cent of enrolments compared to 21.6 per cent in 1996 (and compared with 23.4 per cent of the NSW population).
- Low income earners or people from other disadvantaged groups who were exempt from fees represented 28 per cent of all enrolments in 2004.

### A4.5 Products and services

In 1996 Ministers agreed to introduce Training Packages, to be developed and reviewed by Industry Skills Councils (and their predecessors), and the first Packages to be available in 1999. At that time, the Industry Skills Councils were the new national and state advisory entities with whom training providers interacted to ensure currency of training products.

Currently, around 90 national Training Packages have been endorsed, making approximately 1,000 qualifications available for delivery. These Training Packages have progressively replaced previous course curricula. TAFE NSW has absorbed these changes and is notable for the breadth and diversity of delivery across Training Packages.

TAFE NSW retains a product development capacity to meet industry requirements where Training Packages are not available, or do not fully meet industry or enterprise needs. It has also developed a number of specialist courses for which it is the sole or almost exclusive provider in NSW. In 2004, the TAFE NSW Accreditation Council accredited 52 courses.

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193 Based on the ABS 1998 survey, 3.6 million people, 19 per cent of the Australian population, had a disability. 2.1 million, some 17 per cent of those within in working age 15 - 64 years had a disability, and over one quarter of these (27 per cent), were permanently unable to work due to their condition. See Australian Bureau of Statistics, catalogue number 4433.0, *Disability and disabling conditions*, 1998, 2000.
Table A4.3 Qualifications introduced by TAFE NSW 1996-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of courses accredited*</th>
<th>No. of training package qualifications implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>243</td>
<td>0</td>
</tr>
<tr>
<td>1997</td>
<td>213</td>
<td>1</td>
</tr>
<tr>
<td>1998</td>
<td>151</td>
<td>50</td>
</tr>
<tr>
<td>1999</td>
<td>124</td>
<td>210</td>
</tr>
<tr>
<td>2000</td>
<td>97</td>
<td>210</td>
</tr>
<tr>
<td>2001</td>
<td>103</td>
<td>251</td>
</tr>
<tr>
<td>2002</td>
<td>95</td>
<td>292</td>
</tr>
<tr>
<td>2003</td>
<td>51</td>
<td>299</td>
</tr>
<tr>
<td>2004</td>
<td>52</td>
<td>157</td>
</tr>
<tr>
<td>2005</td>
<td>48</td>
<td>139</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1177</td>
<td>1609**</td>
</tr>
</tbody>
</table>

*Figures for some calendar years of earlier period are approximated from financial year data. The first Training Package was approved in 1997, with the major impact being felt from 1999.

**Total does not reflect number of qualifications now available, as some qualifications have been superseded by Training Package reviews and updates. Progressively fewer accredited courses have been introduced as more Training Package qualifications have become available. Most of the courses (26) accredited in 2005 were "short courses" ie, a Statements of Attainment that receives the award of "Course In".

Source: Information provided by DET, 15 March 2006.

TAFE NSW has significantly grown the market for VET in schools. In 2005, almost 20,000 students were enrolled in TAFE-delivered VET in schools programs. It has also increased its international student business, which it manages through the TAFE International Students Centre and TAFE Global. In 2004, overseas student fees accounted 18 per cent of fee for service revenue in NSW (compared to 24 per cent in Victoria).

A4.6 Teaching

The reforms to the VET sector over the last 10 years have had a significant impact on the work of TAFE NSW teachers. In particular, the Training Packages have placed far greater emphasis on industry requirements, and vocational learning has increasingly become ‘de-institutionalised’, as TAFE teachers collaborate with clients in industry partnerships and move into industry locations to teach. There has been a growing understanding of what constitutes contemporary professional practice in VET, with the shift to more learner-centred delivery approaches.

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New technology has led to new learning options, such as on-line, CD and DVD delivery, simulated workplaces, self-paced learning and blended delivery of classroom-based and on-line teaching. Between 2000 and 2004, the number of courses with on-line components increased from 200 to over 1,000, and the number of students studying online also multiplied by a factor of 10, enabled through the significant capital investment in TAFE-Online.

For TAFE teachers, the shift to enterprise-based learning has entailed a broadening of their job scope and skills, to including working with employers and on-the-job learners, conducting training needs analyses and customising appropriate delivery. Delivery may involve a combination of modes depending on business and individual needs and the capacity of the workplace to incorporate on-the-job learning. The level of on-the-job learning has only recently started to be recorded, and is now a component of the national statistical collection. Approximately 25 per cent of TAFE NSW delivery in 2004 was recorded as flexible, including fully on-the-job work-based delivery. The Tribunal notes that fully on-the-job delivery constitutes approximately 2 per cent of delivery, and expects that this will increase over time if the new business approaches recommended in this report are implemented.

<table>
<thead>
<tr>
<th>Delivery mode</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>College/Campus Class</td>
<td>1,790,676</td>
<td>73.6</td>
</tr>
<tr>
<td>Distance Education &amp; on-line</td>
<td>184,614</td>
<td>7.6</td>
</tr>
<tr>
<td>Flexible delivery (various)</td>
<td>350,804</td>
<td>14.4</td>
</tr>
<tr>
<td>Fully on the job*</td>
<td>57,154</td>
<td>2.4</td>
</tr>
<tr>
<td>Other modes &amp; combinations</td>
<td>49,134</td>
<td>2.0</td>
</tr>
<tr>
<td>Total</td>
<td>2,432,382</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*This field has been introduced as a new requirement for national reporting from 2004. Under-reporting is expected. Flexible delivery in this table may include components of work based delivery. Information provided from internal reporting at Sydney Institute from the Classroom management system (CLAMS) confirms that in 2005, 208 courses were delivered in the workplace which represented 6.9 per cent of delivery.

Source: Information provided by DET, 17 March 2006.

**A4.7 Training culture**

Stronger industry relationships are occurring more often as the training system develops, both at the national level, and most importantly, at the local level through employer involvement with TAFE teachers in course customisation and product development. For example, in August 2005, TAFE had over 300 formal local, state, national and international partnerships in place with enterprises, industry associations, government agencies, community agencies etc. Industry also participates through the Institute Advisory Councils, and TAFE Institutes have strong bonds with Regional Development Councils, Chambers of Commerce, local government, local enterprises large and employers and such as Area Health Services.

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The graduate or qualification profile of TAFE NSW has shifted over the last decade. There has been an increased emphasis on the need of adult learners for short, modularised courses and course articulation. From 1995 to 2004, there was an increase in enrolments in accredited entry level courses and short courses, particularly Certificate II level as well as TAFE Plus statements and accredited short courses. Industry changes mean that Certificate II qualifications have shifted from occupational qualifications to pathway qualifications, as industry calls for higher level skills post initial employment. The proportion of delivery in higher level qualifications at Certificate IV and above has increased in recent years in relation to this trend.

![Figure A4.3](image)

The actual increase in enrolments, or level of engagement of individuals in training, is one measure of the spread of a vocational education and training culture. Over the last 10 years nationally the number of participants in training has increased from approximately 1 million per annum to 1.7 million per annum. As noted previously, over the same period TAFE NSW enrolments have gone from approximately 400,000 to over 500,000 with an increase in duration in the average time in training.

Consumer satisfaction is another aspect of the training culture. Although there are difficulties in trend comparisons due to breaks in time series, the NCVER annually surveys students on the reasons they undertake VET, and whether they are satisfied with the results or outcomes of the training. The NCVER student outcomes surveys show a high proportion of students achieved their main reason for undertaking training, and were satisfied with the quality of training received. The 2005 report indicated that NSW had an overall student satisfaction level 87 per cent (equal to the national average), and that nationally, for government funded TAFE students, satisfaction with training was the highest reported in five years (88 per cent).\(^{196}\)

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\(^{196}\) See NCVER (2006) *Australian Vocational Education Training Statistics. Student Outcomes 2005* and surveys for 2001, and 1998. Comparisons in employer satisfaction over time are of limited use due to the significant differences in survey methodology between the 2001 and recent 2005 survey. It should be noted however that NSW TAFE scored a 96 per cent satisfaction rate from employers who used TAFE for accredited (non apprenticeship /traineeship) training, compared to the national average of 85 per cent.
A4.8 Efficiency

NSW has reduced VET unit costs, largely as a result of increased efficiencies and effectiveness measures introduced TAFE NSW. The 2001 Annual National Report (Vol 3:83) showed a decrease in NSW unit costs of 18 per cent over the period 1997 to 2001, and this was followed by a further decrease in the period to 2004, with NSW now ranking as the third lowest state in terms of cost per student hour, and below the national average. This has also coincided with productivity improvements required of public sector agencies by NSW Treasury. The efficiency initiatives that TAFE NSW has employed include:

- Significant restructuring across and within Institutes and at the head office level (eg recent absorption of Southern Sydney Institute within Sydney Institute and South West Sydney Institute; and the absorption of OTEN within Western Sydney Institute).
- Shared corporate services across Institutes and the review of various contractual arrangements for procurements.
- Adjustments to delivery profile, products and modes of delivery.
- The introduction of a new student fee structure in 2004 to recover administrative costs.
- Increased commercial activity.
- Rationalisation of curriculum development.
- General improvements in support services and benchmarking of educational delivery costs between and within Institutes.

A4.9 Future issues for TAFE NSW performance

The Tribunal notes the progress in TAFE NSW’s development over the last decade. But as preceding chapters have indicated, despite the strong links that TAFE has established with enterprises, these links must be stronger, and the public provider needs to use its substantial leverage to further engage with industry in the process of workforce development.

The milestones of the past in terms of growth of the sector, system efficiencies, changes in products and services and shifts in style of delivery will not be a sufficient platform for the challenges of future demographic, workplace and economic change. Indeed, the performance measures of the past are in a number of respects inadequate to gauge the changes required. The Tribunal is also of the view that a more decentralised approach within a new accountability framework will be required, where individual TAFE Institutes have the necessary authority to work with individual firms or clusters of firms within a skills ecosystem to foster workforce development. The Tribunal proposes a range of reforms to influence the longer term development of a culture based on entrepreneurship and innovation within Institutes.

The Tribunal sees the future of Institutes as aligned closely to state economic and social development and taking a leadership role at a whole of government level to influence greater labour market participation.
At the individual firm level, skill development through education and training leads to positive benefits for employers. Increasingly, a firm’s productivity, competitiveness, profitability and capacity to cope with technological change are shaped by its ability to develop and effectively deploy a skilled workforce. In recent years, employer surveys have also found that the inability to secure skilled labour is the major factor constraining firms’ capacity.

Training and skill development provide a variety of benefits to firms, including:

- increased labour productivity
- higher levels of value-added activities as a result of greater levels of employee skills
- increased flexibility, from employees being able to perform a range of tasks
- reduced overhead costs to the firm, such as more efficient use of existing facilities
- greater ability to innovate in terms of adopting new technology and introducing new, forms of work organisation.\(^{197}\)

Training can occur in a number of ways, one of which is through the formal VET system. This kind of training provides individuals with qualifications that are nationally recognised. VET training includes both apprenticeships and traineeships, and other national recognised training. Another way is through the provision by employers of unaccredited training. This training can be formal and structured like that provided in the VET system, but it can also be informal on-the-job training, such as equipment demonstrations and employer contributions towards the cost of individual employees undertaking their study.

Given the positive link between training and a firm’s productive capacity, it is not surprising to find that Australian employers provide a substantial amount of training for their employees. It is difficult to ascertain exactly how much training employers provide and fund, because much of this training is not recognised in the official training statistics collected by the NCVER, which focus on publicly funded VET. However, ABS statistics show that in 2001/02, employers spent a total of around $3,650 million on employee training in Australia, or $458 per employee.\(^{198}\) In comparison, the total recurrent expenditure by the Australian and all the State Governments on publicly funded VET in 2002 was around $3,900 million, or some $3,300 per student.\(^{199}\) So effectively, the public and private sectors spend roughly the same amount on training, but the private expenditure covers many more people and is therefore spread much more thinly.

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The NCVER’s survey of employers’ use of and views on the VET system provides an indication of how much training is provided by Australian employers. This survey found that:

- 57 per cent of employers were involved with the VET system in the previous 12 months
- 53 per cent of employers provided formal structured training that is not part of the VET system
- 79 per cent of employers provided informal training
- only 11 per cent of employers provided no training to staff.200

Some stakeholders have suggested that employer-funded training has declined since the 1990s. This argument is difficult to assess, but the Tribunal believes that the overall training market – that is, the market for both formal publicly and privately funded VET and informal training – remains substantial. The fact that many employers choose to provide training that is accredited but provided outside the publicly funded VET system, or is informal and unaccredited, may have led to the perception that employers’ provision of training has declined.

A study conducted in Queensland supports this view. It found that more than half of those undertaking VET in Queensland are doing so with private providers, and the vast majority of this training is on a fee-for-service basis.201 It is likely that some of this training will be funded by employers and some by individual participants. However, the general point is that there is a substantial amount of training being provided by employers outside of the public VET system.

The challenge for the VET system as a whole, and for TAFE Institutes in particular, is how to encourage more employers to provide training, particularly more formal, accredited training rather than informal training. Higher levels of accredited training would benefit the VET sector and individuals in the form of qualifications that are nationally recognised.

### A5.1 Cost of training to employers

As for any business expenditure, the costs of providing training influence the amount provided. These costs vary greatly. While short unstructured training can be provided on-the-job at little cost, the costs of providing the formal training required by an apprentice in the traditional trades over a four-year period are significant. However, these costs are at least partly offset by the contribution the apprentice or trainee makes to their employer in terms of their output while they are being trained.

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In addition, a survey of employers conducted by Toner indicates that the cost of providing training is not the most significant factor in determining how much training they provide. However, government financial incentives and subsidies are often nominated by employers as an important determinant, because they offset part of these costs.202

**A5.2 Current funding and incentive arrangements**

Both the Australian and NSW Governments provide employers with financial incentives to employ and train apprentices and trainees. These incentives are provided to offset the lower levels of productivity in the early period of an apprenticeship and traineeship and the costs of training.

Table A5.1 below shows the financial incentives provided by the Australian Government to employers under the Australian Apprenticeships Incentives Program.203 These current incentives are grouped into one-off commencement and completion payments, which depend on the level of the qualification and whether the apprentice or trainee meets specific eligibility criteria.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apprentice commencement at AQF level II</td>
<td>$1,250</td>
</tr>
<tr>
<td>Apprentice commencement at AQF level III or IV</td>
<td>$1,500</td>
</tr>
<tr>
<td>Selected diploma and advanced diploma commencement</td>
<td>$1,500</td>
</tr>
<tr>
<td>Selected diploma and advanced diploma completion</td>
<td>$2,500</td>
</tr>
<tr>
<td>Innovation training package apprentice commencement (AQF III and IV)</td>
<td>$1,100</td>
</tr>
<tr>
<td>School-based apprentice commencement (AQF II to IV)</td>
<td>$750</td>
</tr>
<tr>
<td>Apprentice commencing qualifications in occupations that are in national skill shortage in rural and regional area (AQF II to IV)</td>
<td>$1,000</td>
</tr>
<tr>
<td>Eligible apprentice commencement in drought declared areas (AQF II)</td>
<td>$1,500</td>
</tr>
<tr>
<td>Eligible apprentice completion in drought declared areas (AQF II)</td>
<td>$1,500</td>
</tr>
<tr>
<td>Apprentice commencement for disadvantaged person over 45 (AQF II to IV)</td>
<td>$750</td>
</tr>
<tr>
<td>Completion for disadvantaged mature age worker apprentice</td>
<td>$750</td>
</tr>
<tr>
<td>Recommencing out of trade apprentice (AQF III and IV)</td>
<td>$750</td>
</tr>
<tr>
<td>Continuing employment for school based apprentice after completing year 12 (AQF II to IV)</td>
<td>$750</td>
</tr>
<tr>
<td>Completion of AQF III and IV (must be with employer for 3 months prior to completion)</td>
<td>20%, 50%, 75% or 100% of $2,500*</td>
</tr>
<tr>
<td>Special incentive for group training company supports an apprentice at AQF II</td>
<td>$1,000</td>
</tr>
</tbody>
</table>

* Amount determined by New Apprenticeship Centres.


203 Australian Apprenticeship is the new name for the scheme formally known as New Apprenticeships.
The NSW Government also provides some additional financial assistance to employers who employ apprentices. In particular, the NSW Government meets the costs of training that is delivered by registered training organisations, if this training is approved for all apprentices and new entrant trainees (but not existing trainees). The NSW Government also provides exemptions from payroll tax for the wages of apprentices and new entrant trainees, and makes additional payments to employers who employ apprentices from specific target groups (such as those with disabilities).

DEST completed an evaluation of New Apprenticeships in December 2004. Overall, DEST concluded that the New Apprenticeship program has been very successful in increasing participation in structured training. Key findings of the review were:

- In 2003, 85 per cent of training occurs at Certificate III level or above. This represents an increase since 1996, when only 60 per cent of New Apprentices were training at the Certificate level III.
- In 2003, 45 per cent of commencements and numbers in training were over 25 years of age, compared to 1996 when 15 per cent of commencements and 11 per cent of those in training were aged over 25. Commencements over the age of 40 accounted for 20 per cent of commencements in 2003, compared to only 3 per cent in 1996.
- Women accounted for 40 per cent of commencements in 2003, which represents an increase of 10 per cent since 1996.
- Existing workers accounted for 30 per cent of commencements in 2003, compared to 18 per cent in 1996.
- In 2003, 73 per cent of commencements were in contracts of training of between one and four years. This is a significant increase since 1996, when 50 per cent of commencement were in contracts of one to four years, and most of the remainder (48 per cent) were in contracts of one year or less.
- Occupations that have seen substantial growth in New Apprenticeship commencements include associate professionals; advanced, intermediate and elementary clerical, sales and service workers and labourers and related workers. The traditional trades experienced little growth in apprenticeship commencements.
- The industries that experienced considerable growth include manufacturing, retail trade, accommodation and restaurants, transport and storage, property and business services and health and community services.

As Chapter 9 discussed, a number of stakeholders have criticised the structure of the Australian Government financial incentives. One criticism is that they fail to target skill shortage areas. The Tribunal notes that the Australian Government has acknowledged, and DEST has indicated that it will review the incentive structure to address this issue in the future.

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205 Ibid.
However, the Tribunal also notes that there is a danger that in diverting additional resources to fill a perceived skill shortage it is possible to create an over-supply of skilled labour if the actual demand for those skills is not as substantial as perceived. As Chapter 4 discussed, although there are reports of skills shortages in the traditional trades at present, the industries that predominately employ tradespeople have not experienced employment growth in recent decades and are not forecast to increase into the future.

In addition, the evidence presented by the NCVER and NILS demonstrates that there are many people with VET qualifications working in lower skilled occupations. Many of these people hold traditional trade qualifications. NILS estimates that there are nearly 470,000 trade-qualified workers working in occupations with lower skill levels. In terms of addressing skill shortages, a more efficient use of resources could be to encourage such people not to leave these occupations in the first place, or to re-enter these occupations after a period of absence (including by providing any top-up training required).

The Tribunal’s overall assessment of the New Apprenticeships program is that it has delivered some positive outcomes, probably the most important of which has been the considerable growth in training in industries that did not possess a strong training history. Since its introduction, the numbers training at higher qualifications levels has increased, and the numbers of older, existing workers and women receiving training has also increased. The industries and occupations that have seen significant growth in New Apprenticeship numbers are generally those that have also seen substantial increases in overall employment numbers. For example, the services industries, such as business and health services, and sales and hospitality have experienced substantial increases in employment and numbers in training. The trades, on the other hand, are concentrated in industries that have not experienced strong employment growth over the last decades, and unsurprisingly the number in training for these occupations and industries has not increased.

Many stakeholders argued during this review that the limited public resources should not be directed at lower level qualifications such as those provided in some traineeships, as this is not the most efficient use of scarce resources. While the direct benefit of such lower level qualifications can be questioned – particularly given the evidence that the wage premium earned by holders of certificate levels I and II are below those of year 12 completers (see Appendix 5) – the Tribunal is also aware that certificate levels I and II can be important education and training pathways. A certificate level I and II may be the first step for many individuals who then move onto higher qualifications.

An analysis of the evidence indicates that while the numbers in training at certificate levels I and II have increased, as a percentage of the total numbers in training their proportion of total funding has declined. The significant growth in New Apprentice commencements has been at the AQF levels III and IV. In 2003, commencements at AQF I and II were 25.9 per cent (compared to 39.8 per cent in 1996). In the same year, commencements at level III accounted for 65.8 per cent (compared to 59.8 per cent in 1996) and level IV 8 per cent (compared 0.4 per cent in 1996). Chart A5.1 shows the decrease in commencements at

206 National Institute of Labour Studies, Reasons why persons with VET qualifications are employed in lower skilled occupations, Flinders University, report for IPART, 2006, p 31.
AQF level I and II for NSW compared to the increase in commencements at AQF levels III and IV.

**Chart A5.1 New apprenticeship commencements in NSW by qualification level, 2000 to 2005**

Source: NCVER apprentice and trainee statistics, September quarter 2005.
Typically, individuals’ job prospects and incomes depend on the qualifications they hold. In addition, employers require their employees to continually update and change skills in response to ongoing technological change and developments within the goods and services markets. Therefore, individuals need to ensure that they possess the skills that enable them to gain satisfactory employment outcomes in today’s labour market, and remain competitive in the labour markets of the future. The best way they can do this is through education and training.

### A6.1 Returns on training

Most people are aware of the positive labour market outcomes associated with university qualifications. Indeed such outcomes, along with employers’ demand for higher level skills, have probably contributed to the substantial increases in the number of Australians with university qualifications. However, VET qualifications also continue to lead to positive labour market outcomes. In general, a person who holds a VET qualification has less chance of being unemployed and receives higher wages over their career than someone who has not completed their Higher School Certificate and does not have any post-school qualifications. The increased wages accruing to a person with a VET qualification can be seen as the positive return on their investment in the qualification.

The available research on returns on education and training demonstrates that both men and women earn a wage premium if they hold qualifications – and the higher the qualification, the greater the wage premium.\(^{209}\) However, those with VET qualifications at the certificate III/IV level earn a wage premium similar to that earned by year 12 completers. Those with lower level VET qualifications earn wage premiums that are less than those for year 12 completers, but are higher than those earned by those who do not complete year 12.

#### Table A6.1 Wage premium of qualification holders relative to non-school completers

<table>
<thead>
<tr>
<th>Highest qualification</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree or higher</td>
<td>43.2</td>
<td>41.2</td>
</tr>
<tr>
<td>Diploma</td>
<td>28.3</td>
<td>20.4</td>
</tr>
<tr>
<td>Certificate III/IV</td>
<td>13.1</td>
<td>7.6</td>
</tr>
<tr>
<td>Certificate II/I</td>
<td>7.5</td>
<td>4.8</td>
</tr>
<tr>
<td>Certificate not further defined</td>
<td>5.1</td>
<td>10.0</td>
</tr>
<tr>
<td>Year 12</td>
<td>13.8</td>
<td>8.9</td>
</tr>
</tbody>
</table>


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A6.2 Current incentive and income support arrangements for training participants

As Chapter 9 discussed, the Australian and NSW Governments provide incentives to individuals to encourage their participation in training. In addition, the Australian Government provides income support payments to people studying and people who are unemployed and seeking employment. The Australian Government also provides labour market programs designed to assist and encourage those on social security payments back into employment.

Australian Government incentives to people who are studying

The Australian Government provides two kinds of incentives for people who are undertaking training. The Trade Learning Scholarship provides eligible apprentices undertaking qualifications in skill needs trades with two $500 tax-exempt payments. In addition, the Australian Government assists eligible apprentices in the first year of their Australian Apprenticeship by providing tool kits worth up to $800 including GST. Recently the Australian Government’s Skills for the Future Package introduced a new apprenticeship support payment valued at $13,000 to offset the financial penalty associated with the move to a traditional trade apprenticeship.

Australian Government income support payments to people who are studying

Individuals undertaking a course of study that is on Centrelink’s approved list may be eligible for income support payments if they are studying full time or undertaking an Australian Apprenticeship. Accredited VET courses run by TAFE Institutes and private providers are on Centrelink’s approved list. In addition, individuals are entitled to apply to Centerlink to have a course (or a unit or module) approved if it is not on the list but would improve their chances of gaining employment.

People who receive income support payments are also able to earn some money from paid employment. However, the payments are income-tested so after a threshold is reached the payments received are reduced according to the income earned. Eventually, if the income received from employment reaches a certain level, the payments cease.

The income support payments available include:

- **The Living Away From Home (LAFH) Allowance**, which is an income support payment for apprentices who have to leave the parental/guardian home to commence their training. The LAFH is paid for the first three years of an apprenticeship. The rate for a first year apprentice is $77 a week. This amount reduces to $38 in year 2 and $25 in year 3.

- **Youth Allowance**, which is an income support payment for 16 to 24 year olds who are studying full time, looking for work or undertaking approved training (or a combination of these). Youth Allowance rates start at $180 and reach a maximum of

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210 The Commonwealth Trade Learning Scholarship provides two tax exempt $500 payments to eligible Australian Apprentices undertaking qualifications in the skill needs trades with a small/medium enterprise or Group Training Organisation. The scholarship is paid to Australian Apprentices after they complete the first 12 and 24 months full-time (or full-time equivalent) employment in their Australian Apprenticeship.

211 To be eligible for the payment for a tool kit the Australian Apprenticeship must be in an area of particular skills need.
$440 a fortnight. The rates payable depend on personal circumstances, such as whether the recipient has dependants.

- **Austudy** which is an income support payment for students who are over 25 and are studying full time. Payments range from $335 to $440 a fortnight and, like Youth Allowance, the amount paid depends on personal circumstances.

- **ABSTUDY**, which is a more specialised income support payment available to Australians of Aboriginal or Torres Strait Islander origin. ABSTUDY is available in place of the Youth Allowance or Austudy to people who are studying an approved course or undertaking full time Australian Apprenticeship and meet Centrelink’s Income and Asset tests. Living Allowances are paid depending on age and living arrangements. The rates are similar to Austudy rates.

### Table A6.2 Youth Allowance and Austudy rates

<table>
<thead>
<tr>
<th>Program</th>
<th>Allowance paid per fortnight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youth Allowance</td>
<td>$183.20 to $438.50</td>
</tr>
<tr>
<td>Austudy</td>
<td>$334.70 to $438.50</td>
</tr>
</tbody>
</table>

Source: Centrelink.

Youth Allowance, Austudy and ABSTUDY are subject to income and asset tests. In addition, if the person is not independent, a parental income test applies. A family actual means test may also apply.

The personal income test provides an income-free area of $62 per fortnight for the unemployed and $236 per fortnight for students and apprentices. Income above the income-free area reduces the payment received. Fortnightly income between $62 and $250 reduces fortnightly allowances by 50 cents in the dollar. For income above $250 per fortnight, fortnightly allowances reduce by 60 cents in the dollar. Partner income which exceeds a cut-off amount reduces fortnightly allowances by 60 cents in the dollar. Part-allowance payments cut off once the fortnightly income level reaches approximately $800, depending on personal circumstances.

Recipients of Youth Allowance and Austudy who are studying or training are able to access an income bank to offset earnings while studying. Full-time students are able to accumulate up to $6,000 of any unused portion of their fortnightly income-free area. Income bank credits can be used to offset any income earned that exceeds the fortnightly income-free area. Apprentices can only accumulate up to $1,000 of any unused portion of their fortnightly income-free area. For example, a person who is 19, living away from home and studying at TAFE full time would be able to earn up to $6,000 a year and still receive a fortnightly payment of around $335 a fortnight.

### NSW Government incentives and payments for individuals

The NSW Government currently provides transport concessions to apprentices and new entrant trainees in the form of public transport concessions. It also provides payments to apprentices and new entrant trainees to cover part of the travel and accommodations costs for those who have to travel more than 120 kilometres to attend training. Apprentices in their first and second years are provided with a $100 rebate on car registration.
Australian Government income support payments to unemployed people and labour market programs

People who are unemployed and looking for work receive Newstart Allowance. The Newstart rates range from $410 to $450 a fortnight. Like Youth Allowance and Austudy, payments are subject to income and asset tests as outlined above. Newstart is administered by Centrelink.

<table>
<thead>
<tr>
<th>Status</th>
<th>Allowance paid per fortnight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single, no children</td>
<td>$410.60</td>
</tr>
<tr>
<td>Single, with children</td>
<td>$444.20</td>
</tr>
<tr>
<td>Single, aged 60 or over, after 9 months</td>
<td>$450.00</td>
</tr>
<tr>
<td>Partnered</td>
<td>$370.50 (each)</td>
</tr>
</tbody>
</table>

Source: Centrelink.

In order to receive Newstart, an individual must agree with Centrelink to undertake certain activities to improve their job prospects. If an individual has been receiving Newstart for longer than 6 months they are asked to meet additional activity test requirements, designed to further increase their chances of getting a job. Study or training is one of the activities Newstart recipients can undertake to meet these ‘mutual obligations’.

Centrelink is also responsible for assessing individual jobseekers’ chances of attaining employment, prior to being referred to a Job Network agency. Job Network agencies are paid for placing a jobseeker (member) in employment. Job Network agencies provide members with services that assist them in finding a job, but these services are concentrated on job search training.

In addition, Centrelink provides incentives in the form of payments and assistance to those on other social security payments to encourage them to undertake training. The Pensioner Education Supplement (PES) provides fortnightly assistance with the costs of studying full or part time in an approved course to those receiving a Carer Payment, Disability Support Pension, Parenting Payment (single parents only), Widow Allowance or Wife Pension. The payments are $62 for full time and $31 for part time study. Recipients are also eligible for a one-off payment of $208 to assist them in meeting the upfront costs of taking up study. Participation in PES is not compulsory and does not affect the eligibility for the payments listed above.

The Jobs, Education and Training (JET) program is designed to help eligible Centrelink customers who get the Parenting Payment allowance access training, education, employment and childcare. The emphasis of this program is to get people back into the labour market by improving their labour market competitiveness through education and training. Like the PES, this program is designed to encourage those receiving the Parenting Payment to undertake training, but there is no obligation to do so and those who choose not to continue to receive their payments.

The Australian Government provides a number of labour market programs designed to improve the job prospects of jobseekers. As the type of assistance provided is tailored to individual circumstances, the programs and their components vary greatly.
The New Apprenticeship Access Program (NAAP) helps jobseekers who experience barriers to skilled employment to achieve and keep an apprenticeship. Participants receive the following assistance to overcome their individual barriers to attaining an apprenticeship:

- pre-vocational training that is nationally recognised under the Australian Quality Training Framework and linked to an Australian Apprenticeship pathway
- intensive job search assistance for a minimum of 13 weeks
- post-placement support for a minimum of 13 weeks to help them settle in to the new workplace
- general support and personal development including such things as life skills and confidence building.

Other labour market programs run by Centrelink include:

- the Job Placement, Employment and Training program, which is targeted at young homeless people
- the Jobs Pathway Program, which helps young people who have left school or are intending to make the transition to work in the next 12 months
- the Language, Literacy and Numeracy Program, which is a $20 per fortnightly payment for job seekers who need assistance in improving their English, writing, reading and mathematical skills
- the New Enterprise Incentive Scheme, which provides services and nationally recognised training for eligible job seekers who want to set up their own business.

These labour market programs are generally part of the assistance program provided to recipients of income support payments such as Newstart Allowance. Many of the programs do not provide additional financial assistance – rather, they aim to provide support which improves the chances of people on a social security payments attaining employment. Participation in the programs is encouraged and could form part of the mutual obligation requirements of recipients. Therefore, participants would still be entitled to receive their income support payments while participating in the labour market programs.

The Department of Employment and Workplace Relations (DEWR) also runs labour market programs such as the Australians Working Together initiative.

The Australians Working Together initiative provides new training opportunities to unemployed people to assist them in becoming more job-ready. As part of this initiative, Youth Allowance and Newstart recipients who complete a Work for the Dole or Community Work placement as part of their mutual obligation requirements can earn a Training Credit worth up to $800. (While the Work for the Dole and Community Work placements provide valuable work experience they involve limited or no training.) The Training Credit can be used to pay the fees for a training course that suits their individual needs in an industry or field of their interest. The Training Credit can be used to enrol in a wide range of competency based and accredited courses.
A6.3 Tribunal’s stylised examples

The Tribunal developed a number of stylised examples to assess the income support available to a mature-aged trainee.

The Tribunal started with a base case theoretical family of four with the main income earner working full time in the Manufacturing sector receiving a modest wage (two thirds of average weekly earnings), partner working 20 hours a week (again earning two thirds of average weekly earnings) and two dependents aged between 5 and 13. The family’s disposable income was calculated to be approximately $950 a week.

### Table A6.4 Weekly disposable income for a family – full time worker ($)

<table>
<thead>
<tr>
<th>Base case example – full time worker in manufacturing</th>
<th>Pre-tax family income</th>
<th>Disposable family income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main income earner’s wage</td>
<td>702</td>
<td>573</td>
</tr>
<tr>
<td>Partner’s wage</td>
<td>244</td>
<td>236</td>
</tr>
<tr>
<td>Government financial assistance</td>
<td>146</td>
<td>146</td>
</tr>
<tr>
<td>Total</td>
<td>1092</td>
<td>955</td>
</tr>
</tbody>
</table>

Source: Tribunal calculations based on various sources.

The Tribunal was keen to understand the level of government assistance which would be provided to a matured-aged trainee and the family’s total disposable income to gauge whether it would be sufficient to enable them to meet their financial commitments under a number of work/training scenarios. The Tribunal’s results are summarised below.

The first scenario tested by the Tribunal involved the main income earner leaving full time employment to take up an apprenticeship, but the partner remained working for 20 hours a week. The main income earner starts off on a first year apprentice wage and collects the $150 weekly support payment from the Australian Government’s Skills for the Future package.\(^{212}\)

In this case the family’s total disposable income is slightly reduced by around $50 per week. Even though the main income earner’s wage is considerably less ($406 compared with $702), the difference is offset by a smaller tax liability, increased rate of financial assistance and the new apprentice support payment of $150/week in the first year.

### Table A6.5 Weekly disposable income for family – full time 1st year apprentice ($)

<table>
<thead>
<tr>
<th>Scenario 1 - Matured-aged apprenticeship</th>
<th>Pre-tax family income</th>
<th>Disposable family income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main income earner’s wage</td>
<td>406</td>
<td>362</td>
</tr>
<tr>
<td>Partner’s wage</td>
<td>244</td>
<td>225</td>
</tr>
<tr>
<td>Government financial assistance</td>
<td>169</td>
<td>169</td>
</tr>
<tr>
<td>+ Apprenticeship support payment</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>969</strong></td>
<td><strong>906</strong></td>
</tr>
</tbody>
</table>

Source: Tribunal calculations based on various sources.

---

\(^{212}\) Note that the apprenticeship support payments do not come into effect until 1 July 2007, however for the purpose of assessing the incentives to take up training, it is assumed they are available now.
In a very similar scenario to the above, the Tribunal assumed that because of prior work experience and age (being matured-aged) the individual would be able to start as a second year apprentice and access a higher apprentice wage as provided for in the revised metals award. Given the 2nd year apprentice wage is being earned, it is assumed that the apprentice support payment of $100/week is received. In such a scenario the family’s disposable income would be approximately $918 a week, around $40 less than the base case example. Again, the considerably lower wage received ($484 compared to $702) is offset by reduced tax liability and an increased rate of financial assistance.

### Table A6.6 Weekly disposable income for family – full time apprentice ($)

<table>
<thead>
<tr>
<th>Scenario 1 - Matured-aged apprenticeship</th>
<th>Pre-tax family income</th>
<th>Disposable family income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main income earner’s wage</td>
<td>484</td>
<td>428</td>
</tr>
<tr>
<td>Partner’s wage</td>
<td>244</td>
<td>225</td>
</tr>
<tr>
<td>Government financial assistance</td>
<td>165</td>
<td>165</td>
</tr>
<tr>
<td>+ Apprentice support payment</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>993</strong></td>
<td><strong>918</strong></td>
</tr>
</tbody>
</table>

Source: Tribunal calculations based on various sources.

With the above 2 examples, even with the new apprenticeship support payment, the move to take up an apprenticeship has negative financial implications for the family.

The Tribunal then tested the impact on a family’s income if the main income earner was not working full time prior to undertaking training full time but was on a disability support pension. The Tribunal’s findings were that the decision to take up training full time would have no impact on the family’s disposable income if the training was approved by Centrelink. The family’s disposable income would be unchanged at around $775 a week. Further, if the training taken up was in the form of an apprenticeship, they could be expected to be able to access an extra $150/week in the first year and $100/week in the second year through the apprentice support payment initiative.

### Table A6.7 Weekly disposable income for family – disability support pension ($)

<table>
<thead>
<tr>
<th>Scenario 2 - Full time training on disability support pension</th>
<th>Pre-tax family income</th>
<th>Disposable family income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disability support pension</td>
<td>194</td>
<td>194</td>
</tr>
<tr>
<td>Partner’s wage</td>
<td>244</td>
<td>219</td>
</tr>
<tr>
<td>Other government financial assistance</td>
<td>363</td>
<td>363</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>801</strong></td>
<td><strong>776</strong></td>
</tr>
</tbody>
</table>

Source: Tribunal calculations based on various sources.
Finally, the Tribunal altered the base case example to test the impact on the family’s income if the main income earner left full time employment, trained full time and received Austudy but did not undertake any part time work. Under such a scenario the family’s disposable income would be around $670 a week, around $280 a week less than the base case example. The Tribunal notes the main income earner in this scenario would be able to work part time to offset the decrease in the family’s weekly income, however once the income earned reached a certain level (greater than approximately $120 a week) the amount of Austudy received each week would be reduced.

<table>
<thead>
<tr>
<th>Scenario 3 – Full time training on Austudy</th>
<th>Pre-tax family income</th>
<th>Disposable family income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austudy</td>
<td>184</td>
<td>184</td>
</tr>
<tr>
<td>Partner’s wage</td>
<td>244</td>
<td>226</td>
</tr>
<tr>
<td>Other government financial assistance</td>
<td>260</td>
<td>260</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>688</strong></td>
<td><strong>670</strong></td>
</tr>
</tbody>
</table>

Source: Tribunal calculations based on various sources.
APPENDIX 7 IMPACT OF TRAINING ON EMPLOYMENT

The Tribunal has taken a conservative approach in estimating the impact of training on the future employment prospects of the people to be assisted. In calculating the impact of the additional training on labour force participation and economic growth, it has assumed that only 50 per cent of those who participate in this training will go on to find work. This assumption is consistent with past experience, and was adopted after considering the impact of existing and previous training programs to help the unemployed and long-term unemployed re-enter work (employment outcomes under these programs ranged from 40 to 80 per cent). General VET student outcomes data from NCVER was also considered. The programs and the NCVER data are described below.

Outreach Australians Working Together (AWT) program

The target groups for the Outreach AWT program were mature age (40 to 65 years old) and parental job-seekers who were predominantly long term unemployed and faced a range of barriers to accessing vocational education and training. The courses offered under the program were generally less than one semester in duration and often led to further study for participants.

Get Skilled Program

The state funded Get Skilled program is designed to facilitate pathways to employment for long-term unemployed learners. Courses are customised to meet the needs of disadvantaged unemployed learners, eg, overseas trained professionals, youth at risk, women and people with a disability. The courses are typically of short duration - between eight to sixteen weeks - and include core modules such as work experience and job seeking skills. The courses lead into nationally accredited training areas, for example panel beating, business administration, aged care and IT.

Helping Young people at risk program

The aims of the Helping Young People at Risk Program are to provide support for the most disadvantaged young people in the community, re-engage them in education and training, and provide pathways for them to undertake further education or gain employment. The target group for the Helping Young People at Risk Program is young people significantly at risk who are 15 to 18 years old. A particular feature of this program has been the extensive partnerships established at the local level between TAFE NSW Institutes, schools, and other government and community agencies, which has contributed to the majority of those learners completing courses continuing with further study.

VET Priority places program

The VET Priority Places program is aimed at low income earners who belong to one of the following priority target groups: people with a disability, older workers aged 45 years or over, and parents entering or re-entering the work force. The program provides up to 12 months training to assist people in the target groups to obtain a nationally recognised qualification (Certificate II or higher) so that they can participate more effectively in the labour market.
Language and literacy programs

- The main aim of the Workplace English Language and Literacy (WELL) program is to provide existing workers with English language, literacy and numeracy skills. Funding is available for language and literacy training to be integrated with vocational training to enable workers to meet their current and future employment and training needs.

- The Language, Literacy and Numeracy program provides language, literacy and numeracy training for eligible job seekers whose skills are below the level considered necessary to secure sustainable employment or pursue further education and training. It is designed to help remove a major barrier to employment and improve participants’ daily lives.

- The Adult Migrant English Program provides up to 510 hours of basic English language tuition to migrants and refugees from non-English speaking backgrounds.

Other programs

- The Mature Age Skill Training and Education Recruitment Strategy (MASTERS) provides accelerated career paths to mature aged workers through a mature aged apprenticeship.

- The Job Ready Program was developed to provide a pathway for aboriginal people in the construction industry through employment opportunities as apprentices, trainees and construction workers.

- The Pre-apprenticeship Housing Project Carpentry & Joinery program enables young people to gain work based experience while building houses for the NSW Department of Housing.
NCVER Student Outcomes Survey – data for 1995-2005 (Australian TAFE graduates only)

The graph below shows the percentage of those TAFE graduates in Australia not employed prior to undertaking training who were employed after the training was complete. In general, over the past ten years between 40 to 50 per cent of students not employed prior to training achieve an employment outcome after training.

Values for 1995-1999 sourced from 2001 Student Outcomes Survey – In Summary Figure 1.
Values for 2000-2003 from 2003 Student Outcomes Survey – At a Glance Figure 1.
Values for 2004 and 2005 calculated using information from the Student Outcomes Survey of the respective years.
Note that a new methodology was introduced in 2003, graduates are defined differently to those in previous publications. Data from 2000 onwards have been revised using this new method and a break in the series thus occurs between 1999 and 2000.
## APPENDIX 8  LIST OF SUBMISSIONS TO THE REVIEW

<table>
<thead>
<tr>
<th>Organisation/Individual</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1  Aged &amp; Community Services Assoc of NSW &amp; ACT</td>
<td>Paul Sadler</td>
</tr>
<tr>
<td>A2  Australian Business Week</td>
<td>Norm Owens</td>
</tr>
<tr>
<td>A3  Australian Council for Private Education and Training</td>
<td>Tim Smith</td>
</tr>
<tr>
<td>A4  Australian industry Group</td>
<td>Mark Goodsell</td>
</tr>
<tr>
<td>A5  Australian Manufacturing Workers Union</td>
<td>Jan Primrose</td>
</tr>
<tr>
<td>A6  Automotive Training Board of NSW</td>
<td>Debbie Young</td>
</tr>
<tr>
<td>B7  Blue Mountains City Council – Tourism branch</td>
<td>Kerry Fryer</td>
</tr>
<tr>
<td>C8  Catholic Education Commission</td>
<td>Ian Baker</td>
</tr>
<tr>
<td>C9  Community Colleges of NSW</td>
<td>John Shugg</td>
</tr>
<tr>
<td>C10 Community Services &amp; Health Industry Skills Council</td>
<td>Natalie Elias</td>
</tr>
<tr>
<td>C11 Community Services &amp; Health ITAB</td>
<td>Susan Scowcroft</td>
</tr>
<tr>
<td>C12 Council of the Ageing</td>
<td>Lisa Langley</td>
</tr>
<tr>
<td>C13 Council of Social Service of NSW</td>
<td>Gary Moore</td>
</tr>
<tr>
<td>C14 Conquest Consulting</td>
<td>Len Norman</td>
</tr>
<tr>
<td>G15 Guild of Dispensing Opticians (Aust) Ltd</td>
<td>John Jackson</td>
</tr>
<tr>
<td>H16 Federation of Housing Associations</td>
<td>Laurel Draffen</td>
</tr>
<tr>
<td>H17 Furnishing Industry Association of Australia</td>
<td>Martin Lewis</td>
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<tr>
<td>H18 Housing Industry Association</td>
<td>Wayne Gersbach</td>
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<tr>
<td>H19 Hunter Valley Training Company</td>
<td>Peter Shinnick</td>
</tr>
<tr>
<td>I20 Individual</td>
<td>Matthew Allen</td>
</tr>
<tr>
<td>I21 Dr Ian Cornford</td>
<td></td>
</tr>
<tr>
<td>I22 Daniel Guthrey</td>
<td></td>
</tr>
<tr>
<td>I23 Daryl Lobsey</td>
<td></td>
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<tr>
<td>I24 Carol O’Donnell</td>
<td></td>
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<td>M26 Manpower</td>
<td>Varina Nissen</td>
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<tr>
<td>M27 Manufacturing Skills Australia</td>
<td>Bob Paton</td>
</tr>
<tr>
<td>M28 Master Plumbers Association</td>
<td>Paul Naylor</td>
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<tr>
<td>M29 Motor Traders Association</td>
<td>James McCall</td>
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<tr>
<td>M30 Murwillumbah Community College</td>
<td>Robert Barr</td>
</tr>
<tr>
<td>N31 National Tertiary Education Unit</td>
<td>Dr Keiko Yasukawa</td>
</tr>
<tr>
<td>N32 NSW Board of Vocational Education and Training</td>
<td>Bert Evens</td>
</tr>
<tr>
<td>N33 NSW Council of Social Services</td>
<td>Gary Moore</td>
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<tr>
<td>N34 NSW Dept of Education</td>
<td>David Michaels</td>
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<tr>
<td>N35 NSW Public Sector ITAB</td>
<td>Jenny James</td>
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<tr>
<td>N36 NSW Rural &amp; Related Industry Skills Advisory Comm.</td>
<td>Niel Jacobsen</td>
</tr>
<tr>
<td>N37 NCVER</td>
<td>Lesley King</td>
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<tr>
<td>N38 NSW Utilities &amp; Electrotechnology ITAB</td>
<td>Naomi Dinnen</td>
</tr>
<tr>
<td>R39 Rural Fire Service Region West</td>
<td>Paul Smith</td>
</tr>
<tr>
<td>R40 Riverina Regional Development Board</td>
<td>Peter Dale</td>
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<tr>
<td>S41 Sydney South West Area Health Service</td>
<td>Paul Gavel</td>
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<tr>
<td>T42 TheCRU</td>
<td>Tracey Lonergan</td>
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<tr>
<td>T43 TAFE Commission Board</td>
<td>Julian Garcia</td>
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<tr>
<td>T44 TAFE Hunter Institute Advisory Council</td>
<td>Greg Hopper</td>
</tr>
<tr>
<td>T45 TAFE North Coast Institute Advisory Council</td>
<td>Warren Grimshaw</td>
</tr>
<tr>
<td>T46 TAFE Riverina Institute Advisory Council</td>
<td>Dennis Tooley</td>
</tr>
<tr>
<td>T47 TAFE Teachers Association</td>
<td>Linda Simon</td>
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<td>T48 TAFE Teachers Association</td>
<td>Kerry Barlow</td>
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<tr>
<td>T49 TAFE Western Sydney Advisory Council</td>
<td>JD Taggart</td>
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<tr>
<td>T50 TAFE Western Institute Advisory Council</td>
<td>Jay Pearce</td>
</tr>
<tr>
<td>U51 University of Technology Sydney</td>
<td>Professor Shirley Alexander</td>
</tr>
<tr>
<td>V52 Versatile Learning Solutions</td>
<td>Graeme Wilton</td>
</tr>
<tr>
<td>Organisation/Individual</td>
<td>Name</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>Women in Adult and Vocational Education (WAVES)</td>
<td>Robyn Woolley</td>
</tr>
<tr>
<td>Yachting Australia</td>
<td>Fiona Medwin</td>
</tr>
</tbody>
</table>
APPENDIX 9    REFERENCE LIST


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