

Smart and Skilled Year One Program Review: Stage Two

14 June 2016

Prepared for the NSW Skills Board

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The report presents Nous Group's analysis of data provided by the NSW Department of Industry, Skills and Regional Development, TAFE NSW and the Commonwealth Department of Education and Training.

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Executive summary

In January 2015, the New South Wales (NSW) Government introduced new arrangements for the provision of subsidised Vocational Education and Training (VET) qualifications under the banner of 'Smart and Skilled'. Smart and Skilled provides funding for government-subsidised training to eligible students and providers for the VET qualifications most needed in the NSW economy.¹ Its introduction heralded the beginning of a more contestable market for training in NSW.

Under the program, providers are approved to deliver training in specific qualifications and regions, based on demonstrated quality and capability, to eligible students - up to an allocated financial cap. Smart and Skilled reflects the NSW Government's commitment to quality VET and to the National Partnership Agreement on Skills Reform ('the National Partnership').

In July 2015, the NSW Skills Board commissioned Nous Group (Nous) to undertake a first-year review of Smart and Skilled. Nous has conducted the review in two stages. Stage One (July – November 2015) assessed the effectiveness, adequacy and impact of the application and assessment process used to approve providers to deliver Smart and Skilled training. This report provides findings related to Stage Two of the review (December 2015 – April 2016).

It is important to note that this review does not include consideration of NSW Government direct funding to TAFE NSW or Commonwealth VET funding arrangements (including VET FEE-HELP), which together account for over two thirds of government funding to NSW VET providers. The overlap of Smart and Skilled with other funding sources complicates efforts to attribute observed changes and determine the extent to which changes are real or reflect shifts within government-funded delivery.

1. Background

The objectives of Stage Two were to assess and report on how the broad policy settings of NSW's VET reforms have impacted outcomes in the NSW VET market. This also includes the impact of the VET budget structure on outcomes. In undertaking Stage Two, Nous assessed the effectiveness of pricing and quality monitoring arrangements for Smart and Skilled, and provided advice on the achievement of the NSW Government's VET reform objectives. This has included assessment of:

- **Arrangements for prices, fees and subsidies:** how these affected the performance of the contestable market (initially with the introduction of Smart and Skilled and on an ongoing basis), including the alignment of prices with the efficient cost of provision of quality training.
- **Arrangements for ongoing monitoring of provider performance and quality:** how these are monitored and assessed.
- **Structure of the contestable budget:** how that structure (divided into program streams and financial caps) affected VET market performance, reform objectives, provider behaviour and student outcomes.

The NSW Skills Board also asked us to provide recommendations on potential changes to VET policy settings to improve training and employment outcomes of existing program streams (i.e. Smart and Skilled Entitlement Foundation Skills, Entitlement Full Qualifications and Targeted Priorities Full Qualifications) and to explore options for extension of the Smart and Skilled entitlement to higher-level

¹ The NSW Skills List (which details the qualifications most needed in the NSW economy) was developed by the Department based on data analysis and consultation with industry.

qualifications. Appendix A provides a glossary of key terms and Appendix B provides our full terms of reference.

Other related work is also currently underway. This includes several research projects that the NSW Skills Board has commissioned such as: a review of the methodology for development of the NSW Skills List; a research project on the factors that affect demand for higher-level qualifications from low socio-economic status (SES) students; and research on employers' perceptions of, and engagement with, the VET sector. The Department of Industry ('the Department') is also undertaking a number of projects that complement this review. These include a project to develop indicators of quality training and graduate outcomes.

The VET sector is complex, multifaceted and involves a wide variety of stakeholders: different provider types, student cohorts, funding providers, regulators and so on. The interactions between these stakeholders are dynamic and impacted by a diverse range of factors; Smart and Skilled is only one such factor. Other influences on behaviour in the VET market include: economic conditions (local and state-wide); industry and business cycles; historical patterns of supply and demand; social attitudes towards education; and broader policy settings at both a NSW and Commonwealth level. As such, in some cases it can be difficult to isolate effects that can be specifically attributed to the introduction of Smart and Skilled.

Against this backdrop, it is important to note that this review does not include consideration of direct NSW Government funding to TAFE NSW or Commonwealth VET funding arrangements (including VET FEE-HELP loans to students), which together account for over two-thirds of government funding to NSW VET providers (see Table 1). The overlap of Smart and Skilled with other funding sources complicates efforts to attribute observed changes and determine the extent to which changes are real or reflect shifts within government-funded delivery. This is unlikely to be clear until several years of data for all programs becomes available and displacement effects between the programs can be analysed.

Table 1: Funding for VET activity in NSW

	NSW Government funding ²		Commonwealth Government funding			Private funding
	Smart and Skilled	Direct funding to TAFE NSW	VET FEE-HELP loans to students	National skills programs delivered at State level ³	Incentives for apprenticeships / traineeships	Fee for service training
Funding amount	2015: \$680m	2015-16: \$822m	2014: \$788m ⁴	-	-	-
<i>Certificate I to Certificate III</i>	✓	Includes funding for higher level qualifications, community service obligations (CSOs) and operational base funding (OBF).		✓		✓
<i>Certificate IV</i>	✓		✓ ⁵	✓		✓
<i>Diploma and Advanced Diploma</i>	✓		✓	✓		✓
<i>Apprenticeship and traineeship</i>	✓			✓	✓	✓

² Some of this funding comes from Commonwealth Government funding under the National Partnership and National Agreement. The TAFE NSW figure is the revised figure based on data in NSW Budget Paper 3 2015-16.

³ Such as Job Active program.

⁴ \$788m represents total VET FEE-HELP loans in NSW in 2014. Data provided by the Commonwealth Department of Education. 2015 data is not yet available.

⁵ VET FEE-HELP is currently being piloted for a limited number of Certificate IV level qualifications.

Another limitation is the data and evidence that the NSW Government (and other Australian governments) have available to inform their development of VET policy. It is widely acknowledged across the VET sector that there is insufficient research on the factors that impact student decision-making - a key variable in a market-based system.⁶ This lack of data has made it difficult for governments across Australia to robustly assess the outcomes achieved from recent VET reforms.

2. Outcomes

As advised by the Department, Smart and Skilled was designed to achieve six key outcomes. These include the three market-focussed outcomes identified in our Stage One report as well as three additional outcomes:

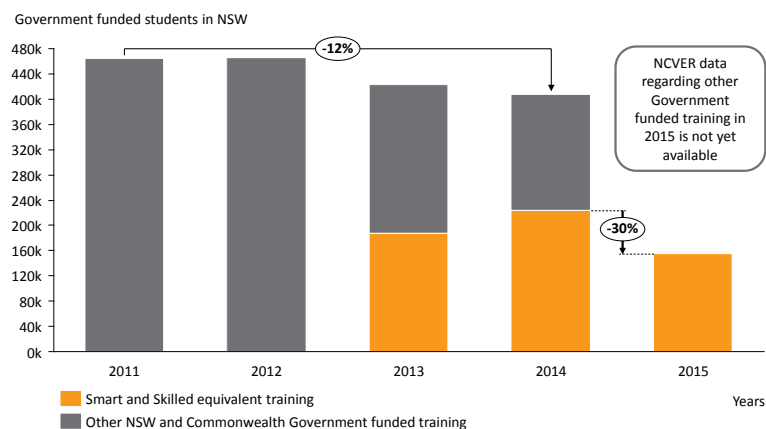
1. **Increase participation in VET**
2. **Give students greater choice**
3. **Better meet industry training needs**
4. **Support disadvantaged students**
5. **Maintain TAFE NSW as a strong and viable public provider**
6. **Improve the quality of VET.**

The review has found progress against each of these outcomes. These findings are detailed below.

1. ***Increase participation in VET: Training activity has decreased for a range of reasons, but there were signs of improvement throughout late 2015 and early 2016.*** Early evidence suggests that there has been a decline in training activity now covered by Smart and Skilled. This is illustrated in orange in Figure 1 below. The decline in Smart and Skilled subsidised training in 2015 affected all qualification levels and industries. However, it is too early to know if this is part of a wider decline in government-subsidised training.

⁶ NCVER, 2004. *A fair go: Factors impacting on VET participation*, p. 27

Figure 1: NCVER data on total government funded students in NSW (2011-2014), and training delivered under Smart and Skilled equivalent programs (2013-2015)⁷



It is difficult to definitively attribute this decline to a single factor due to the limited timeframe of operation for Smart and Skilled, the lack of National Centre for Vocational Education and Research (NCVER) data on government-funded training in NSW in 2015 and issues with the TAFE NSW data sets. It is Nous' view that the decline has been the result of a combination of factors internal and external to Smart and Skilled. These include: the broader historical decline in commencements in VET across Australia; TAFE NSW Institutes bringing training forward to 2014 in anticipation of the introduction of Smart and Skilled; and the initial design and implementation of financial caps under Smart and Skilled.

Importantly, there are signs that participation may be improving in 2016. There have been more than twice as many commencements at Private Registered Training Organisations (RTOs) and Adult Community Education (ACE) providers in the first quarter of 2016 compared to the first quarter of 2015.⁸

2. **Give students greater choice: Consumer training options are increasing as the Smart and Skilled market develops.** Students have gained access to more training options as Smart and Skilled has matured over 2015. The number of providers to choose from has increased, as has the diversity of qualifications and regions where students can undertake subsidised training. Quality monitoring arrangements continue to evolve to ensure new providers or offers meet established quality thresholds for training.
3. **Meet industry training needs: Apprenticeships and traineeships initially declined but have increased this year.** It is difficult to assess the extent to which Smart and Skilled has met industry training needs because longer term data on graduate outcomes and employer satisfaction is not yet available. To assess success against this objective we have therefore focused on apprenticeships and traineeships. Apprenticeship and traineeship commencements declined last

⁷ NCVER, *Revised Government funded students and courses, 2014, New South Wales, Table 13*. Smart and Skilled 2015 training data and 2013 and 2014 NSW Government subsidised training for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Note that data was not available to identify what training was equivalent to Smart and Skilled prior to 2013. Note also that complete data is not yet available on Other NSW and Commonwealth Government funded training in 2015. Initial data from NCVER, *Government funded students and courses January – September 2015* suggests that there were 242,500 NSW and Commonwealth Government funded students in NSW in the first nine months of 2015.

⁸ Based on initial data provided by the Department in April 2016.

year under Smart and Skilled. They have since increased, however, which suggests an improvement in this outcome area.

4. **Support disadvantaged students: Disadvantaged groups appear to be well-represented in Smart and Skilled.** Disadvantaged groups have been well represented in training under Smart and Skilled. The proportion of Aboriginal and Torres Strait Islander students, students from regional and remote areas and students with disability engaging in training was higher under Smart and Skilled than in 2014. However, it appears that the application of location loadings for training for regional students may not have produced the desired result: a large number of regional loading recipients live in postcodes that take in metropolitan and inner regional areas, particularly in the Sydney region.
5. **Support TAFE NSW so that it remains a strong and viable public provider: TAFE NSW appears to have performed better against their financial caps than other providers.** It appears that TAFE NSW has remained a strong public provider under Smart and Skilled in terms of overall training. It secured approximately 60 percent of Smart and Skilled funding when contracts were initially offered in October 2014. Based on data submitted through the Smart and Skilled eReporting system for 2015, TAFE NSW Institutes have spent 54 percent of their financial caps in the entitlement program and 51 percent in foundation skills program. Private RTOs and ACE providers have spent significantly less of their financial caps. It should be noted that TAFE NSW Institutes have not yet submitted complete data through the Smart and Skilled eReporting system. We have estimated the financial cap spent by these institutes based on more up-to-date data supplied by TAFE NSW. This analysis suggests that almost all TAFE NSW Institutes have commenced students in Smart and Skilled up to the value of their financial cap in the entitlement program. It also suggests that TAFE NSW Institutes have accounted for approximately 84 percent of the financial caps spent across Smart and Skilled.
6. **Improve the quality of VET: It is too early to effectively measure quality, but there do not appear to be wide-spread quality issues at this stage.** It is too soon to effectively measure training outcomes such as graduate salary and employment outcomes. Very early indicators suggest that completion rates exceed the national average, ranging from 30 percent to 85.5 percent (depending on qualification level, provider type and the method of calculation) compared to a state and national average completion rate of 34 percent in 2013.⁹ Notably, private RTOs have also had completion rates consistently above the national average under Smart and Skilled. This provides an early indication that the quality issues observed in the VET FEE-HELP market do not reflect the situation in the Smart and Skilled market. Furthermore, stakeholder feedback suggests there do not appear to be systemic quality issues in the Smart and Skilled market.

3. Contribution of pricing and quality monitoring arrangements

Three key elements have contributed to the progress against the NSW Government's desired outcomes for Smart and Skilled: prices, fees and subsidies; quality monitoring; and the budget structure. We have found that the broad Smart and Skilled policy tools are generally appropriate. However, there is opportunity for the effectiveness of some tools to be improved, as discussed below.

Arrangements for prices, fees and subsidies

- **Prices (government subsidies plus student fees) have supported stability in provision:** Available evidence does not show a clear relationship between the introduction of new prices and declines

⁹ NCVET, *Likelihood of completing 2009-13*.

in training activity. We note that prices are generally comparable between qualifications and within industry groups and qualification levels, are broadly in line with other jurisdictions and have not resulted in significant changes in provider behaviour. However, we have identified a small number of qualifications that we recommend undergo Departmental review, including foundation skills qualifications. This is based on indicators that prices may be inconsistent with the efficient cost for quality training. The concentration of training activity also needs to be monitored and the existing pricing approach will need to be redesigned as the market matures.

- ***Complexity in student fees and concessions may have contributed to student confusion, but does not appear to have fundamentally distorted the market:*** Available evidence does not show a clear relationship between the introduction of new, higher student fees and declines in student commencements. We note that student fees are generally comparable between qualifications and within industry groups and qualification levels, are mostly consistent with graduate outcomes achieved, and concession fees support access for students from disadvantaged backgrounds. Providers have raised the administrative complexity of these arrangements, with students facing multiple prices depending on their individual circumstances. They have also raised the issue of, in selected cases, the fairness of fees. Consistent with this input we have identified a small number of areas where streamlining may be possible and where student fees should be reviewed. Further findings are restricted by the limited evidence on how students make decisions to enrol in VET.
- ***Students with loadings have been well represented. However, there are issues with the targeting of regional loadings and loadings for students with very complex needs:*** Students in receipt of loadings have been well represented in Smart and Skilled enrolments. All loading groups have been represented above population parity, with the exception of students with disability. We have, however, identified significant volumes of training in metropolitan and inner-regional areas that have attracted regional loadings. This is attributable to inconsistencies between eligibility requirements for the regional loadings and the initial policy intent. Feedback from stakeholders and our analysis also suggests that the disadvantage loadings may be insufficient for students with very complex needs. There is also a lack of clarity on how loadings and TAFE NSW Community Service Obligations (CSOs) work together to support training of disadvantaged students, particularly those with very complex needs.

Arrangements for ongoing monitoring of provider performance and quality

- ***Early indications point to mostly high quality provision by Smart and Skilled providers:*** It is too early to effectively measure quality in terms of training outcomes. However, preliminary analysis of completions indicates rates consistently above the national average of 34 percent for government subsidised training. Systemic issues are not evident at this stage, with only a small number of instances of questionable provider behaviour identified. The process of quality monitoring that the Department has put in place appears to be appropriate and has already identified many of the instances of questionable provider behaviour that we identified in our data analysis. Initiatives already under way by the Department should further strengthen their capability to deal effectively with emerging quality issues such as brokering, and to meet growing consumer expectations for greater information on outcomes.

Structure of the contestable budget

- ***The initial design and implementation of the financial caps negatively affected delivery:*** Until recent changes, limitations on the flexibility of financial caps likely dampened training activity in NSW, particularly for the targeted priorities program where the total budget was very limited. The limited flexibility was used to ensure the available budget for Smart and Skilled was managed

and not exceeded. It is likely that the dampening of demand was a key contributor to the budget underspend for each program.

4. Recommendations

Our recommendations acknowledge the potential of Smart and Skilled over the longer term to both improve the contribution of VET to the NSW economy and to individuals' wellbeing (effectiveness), and to manage the costs to the NSW budget (efficiency). Our recommendations also seek to move the Smart and Skilled market to being more innovative, responsive and agile to ensure that the future needs of students, industry and the economy can be met. Our recommendations take the form of refinements to the existing system, medium term initiatives that will provide foundations for future reform, and possible longer term directions.

It is advisable that recommendations are introduced as the Smart and Skilled market matures and foundations for future reform are embedded. There may also be value in using pilot programs to build an evidence base for change and to signal future policy intent.

It is noted that the VET sector in NSW has undergone significant changes in recent years and there is a degree of reform fatigue. The staging and gradual implementation of recommendations could help mitigate this fatigue.

This approach and our recommendations are shown in Figure 2 .

Figure 2: Staging of recommendations

		Short term recommendations (1-2 years)	Assess outcomes before proceeding	Medium term recommendations (2-3 years)	Assess outcomes before proceeding	Long term recommendations (3+ years)
Arrangements for prices, fees and subsidies	Pricing	Recommendation 1: Maintain existing approach to pricing, and review prices and student fees for a small number of qualifications. Recommendation 2: Build department understanding of cost drivers.		Recommendation 3: Explore provider willingness to supply.		Recommendation 4: Explore partial deregulation.
	Loadings	Recommendation 5: Revise eligibility for location loadings.		Recommendation 6: Implement other mechanisms to complement existing location loadings. Recommendation 7: Implement other mechanisms to complement existing disadvantage loadings.		
	Fees and concession	Recommendation 8: Reduce student fees for some Certificate II qualifications. Recommendation 9: Simplify fee free scholarships and exemptions.				
Arrangements for ongoing monitoring of provider performance and quality	Engaging consumers	Recommendation 10: Identify opportunities to create 'smart consumers'.				
	Quality monitoring	Recommendation 11: Augment existing data analytics by monitoring additional indicators and expanding AVETMISS collection.		Recommendation 12: Explore options to reduce the risk of low quality VET FEE-HELP provision in NSW. Recommendation 13: Establish a complaint mechanism for students. Recommendation 14: Continue investment in new indicators of graduate outcomes.		

Further details for each recommendation are provided below.

Arrangements for prices, fees and subsidies

- In the short term, maintain the existing approach to pricing and review a small number of prices, student fees and location loadings.*** We recommend that, in conjunction with the review

of prices, there is a consideration of a reduction in student fees for foundation qualifications. We have also raised the potential to simplify fee-free scholarships and fee exemptions to reduce complexity for providers and the potential for inconsistent student fees for students with similar characteristics. There should also be an immediate review and revision of eligibility for location loadings to ensure they align with the policy intent of the mechanism. We further recommend that the Department build its understanding of cost drivers, with a specific focus on the highest demand qualifications prior to consideration of future changes.

- ***In the medium term, explore provider willingness to supply and mechanisms to support disadvantaged and remote training.*** Exploring the willingness of providers to supply at different combinations of price and quantity will enable a fuller consideration of market composition and training supply. Medium to longer term changes to fees should be considered in the context of decisions on pricing and training supply. There are also opportunities to complement existing loadings with other mechanisms to improve support for students from regional or remote areas and disadvantaged students. Additional mechanisms should target students with the most complex needs, with the maintenance of existing loadings to meet the needs of most students.
- ***Explore progression to partial deregulation in the long term, once quality has been assured.*** The NSW Government may wish to consider partial deregulation in the longer term, once the market has stabilised and the market design is proven to be sufficiently robust. Full deregulation is not recommended.

Arrangements for ongoing monitoring of provider performance and quality

- ***In the short term, augment existing data collection and analytics to strengthen the responsiveness of quality monitoring.*** A number of additional quality indicators should be included within quality monitoring activities in the short term. Consideration should be given to expansion of the data collection for a sample of key indicators on student outcomes that form part of the Australian Vocational Education and Training Management Information Statistical Standard (AVETMISS) collection in NSW. Information should be made available to potential students through new or enhanced mechanisms that make it easier for students to make smart choices in selecting training.
- ***In the medium term, there are opportunities to better support students to become 'smart consumers' of VET and minimise risks posed to Smart and Skilled by VET FEE-HELP.*** The Department should continue its investment in new indicators of graduate outcomes. We also recommend implementation of a new complaints mechanism that enables consumers to play a greater role in quality monitoring. Finally, the risk of VET FEE-HELP to training activity in NSW will need to be continually monitored and may benefit from a greater role by the NSW Government in partnership with the Commonwealth Government.

Structure of the contestable budget

- ***We do not propose additional recommendations beyond those outlined in Stage One to offer greater flexibility for providers to work within financial caps and budget.*** At the conclusion of Stage One, recommendations were proposed to adjust contracts and financial caps to allow providers to respond to growth in demand (these are detailed in Appendix C). A series of recommendations were also made to offer greater flexibility to providers to work within their financial caps and make it easier for providers to manage financial caps. Some of these recommendations have already been progressed. It is Nous' view that adoption of these recommendations will mitigate the need for any extension of entitlement to higher-level qualifications.

5. Acknowledgements

Nous would like to acknowledge the contributions of stakeholders to building the evidence base that underpins the analysis in this report. We would also like to thank the NSW Department of Industry for its cooperation and time in the provision of documents and data and participation in interviews.

We trust that this report assists the NSW Skills Board in its deliberations on the future approach to Smart and Skilled.

1 Introduction

Smart and Skilled is the NSW Government's response to the National Agreement for Skills and Workforce Development ('the National Agreement') and the National Partnership Agreement on Skills Reform ('the National Partnership'). Smart and Skilled seeks to provide consumers and industry with choice between quality training options, and ensure the role of TAFE NSW as the public provider. Smart and Skilled provides contestable funding for courses on the NSW Skills List, a list of the Vocational Education and Training (VET) qualifications most needed in the NSW economy and the fixed prices for delivery of these qualifications. Providers were approved based on their capability to deliver quality VET. Approved providers were allocated financial caps allowing them to deliver government subsidised training to eligible students based on set prices consisting of fixed government subsidies and student fees.

The NSW Skills Board commissioned Nous Group (Nous) to conduct an independent review of the first year of implementation of Smart and Skilled. The review was conducted in two stages. Stage One concluded in November 2015 and provided independent advice on the effectiveness, adequacy and impact of the provider application and assessment process. The objective of Stage Two of the review was to assess how the NSW VET reform's broad policy settings have impacted on outcomes in the NSW VET market, and the impact of the VET budget structure on VET reform. To achieve these objectives, Nous has reviewed the effectiveness of the prices (including government subsidies, student fees, concessions and loadings), the budget structure and the quality monitoring arrangements under Smart and Skilled.

1.1 The VET market is funded through a number of programs, and Smart and Skilled accounts for one third of Government funding

Smart and Skilled is one of a number of programs that fund VET activity in NSW. As shown in Table 2, VET activity in NSW is funded through the following mechanisms:

- NSW Government funding arrangements, including:
 - Contestable Smart and Skilled funding available to Private RTOs, ACE Providers and TAFE NSW Institutes
 - Community Services Obligations (CSOs) funding directly provided to TAFE NSW Institutes for training of disadvantaged students
 - Direct funding to the NSW TAFE Commission for its operations.
- Commonwealth Government funding arrangements, including:
 - Funding to state and territory governments for the National Agreement and National Partnership
 - VET FEE-HELP which provides loans to students for part or all of the tuition costs for higher level qualifications
 - National programs that support skill advancement through state based training systems
 - Incentives for employers to take on apprenticeships and traineeships.

- Fee for service training financed by individuals and businesses.

Broadly speaking (as the numbers are not strictly comparable) Smart and Skilled accounts for about one third of government funding for VET activity in NSW. Direct NSW Government funding to TAFE NSW and Commonwealth funding of VET FEE-HELP account for the other two thirds. These programs and the activity they fund all impact on the delivery of VET in NSW. However, this review has only focused on one funding program, Smart and Skilled. Where possible we have sought to isolate the impact of Smart and Skilled, however, this is not always possible due to the interrelationship between funding sources.

Table 2: Funding for VET activity in NSW

	NSW Government funding ¹⁰		Commonwealth Government funding			Private funding
	Smart and Skilled	Direct funding to TAFE NSW	VET FEE-HELP loans to students	National skills programs delivered at State level ¹¹	Incentives for apprenticeships / traineeships	Fee for service training
Funding amount	2015: \$680m	2015-16: \$822m	2014: \$788m ¹²	-	-	-
<i>Certificate I to Certificate III</i>	✓	Includes funding for higher level qualifications, community service obligations (CSOs) and operational base funding (OBF).		✓		✓
<i>Certificate IV</i>	✓		✓ ¹³	✓		✓
<i>Diploma and Advanced Diploma</i>	✓		✓	✓		✓
<i>Apprenticeship and traineeship</i>	✓			✓	✓	✓

1.2 Smart and Skilled was introduced in response to the National Partnership Agreement on Skills Reform

In 2012 the National Agreement and the National Partnership committed Australian governments to a series of structural reforms to VET at the national level and state and territory levels. One of the reforms was the introduction of an entitlement to government subsidised training up to at least a Certificate III. Smart and Skilled was introduced in 2015 as the NSW Government's response to the introduction of an entitlement for government subsidised training.

Under Smart and Skilled, approved providers can deliver government subsidised training in approved qualifications to eligible students at fixed prices up to the value of their financial cap, as shown in Figure 3.

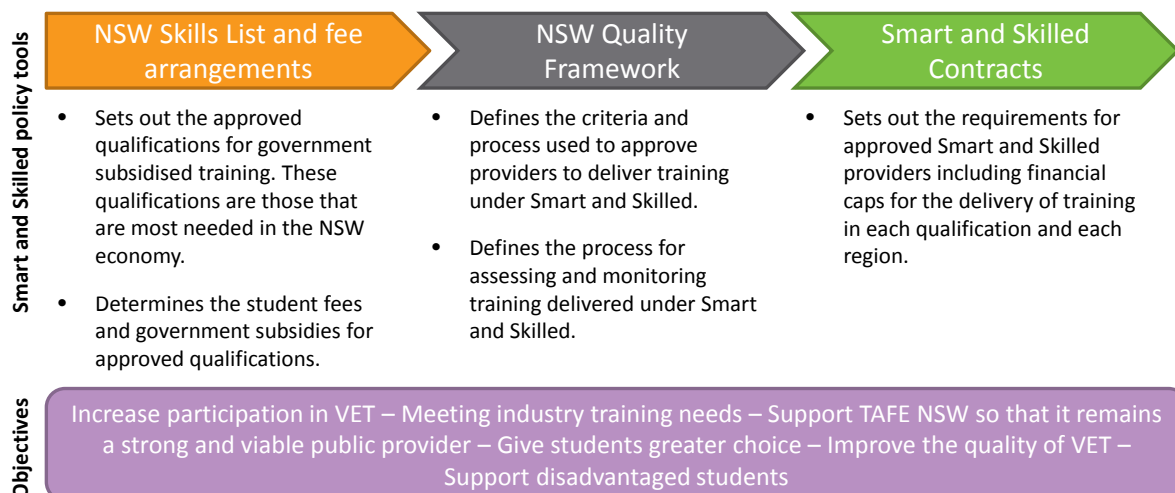
¹⁰ Some of this funding comes from Commonwealth Government funding under the National Partnership and National Agreement. The TAFE NSW figure is the revised figures based on data in NSW Budget Paper 3 2015-16.

¹¹ Such as Job Active program.

¹² \$788m represents total VET FEE-HELP loans in NSW in 2014. Data provided by the Commonwealth Department of Education. 2015 data is not yet available.

¹³ VET FEE-HELP is currently being piloted for a limited number of Certificate IV level qualifications.

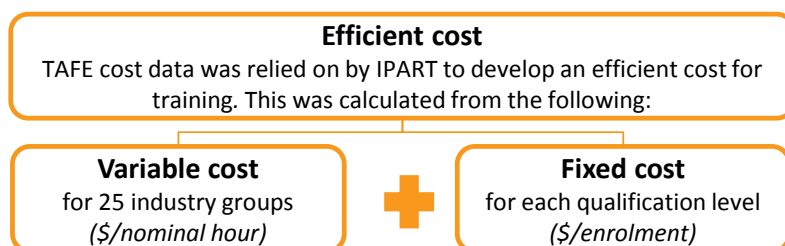
Figure 3: Smart and Skilled policy tools and objectives



1.3 Prices were developed by IPART and the Department

The NSW Government commissioned IPART to develop prices for Smart and Skilled, including government subsidies and student fees. At a high level, IPART used TAFE NSW cost data based on TAFE NSW's Resource Allocation Model to develop efficient costs for a qualification by calculating an efficient variable cost per Unit of Competency (UoCs) and an efficient fixed cost per qualification level. This data was validated against Private RTO data submitted through the Strategic Skills Program (SSP). The validation of costs against Private RTO data was intended to ensure that the prices under Smart and Skilled were not overly generous due to the higher operating costs of TAFE NSW Institutes. This approach is summarised in Figure 4 and detailed in Appendix D.

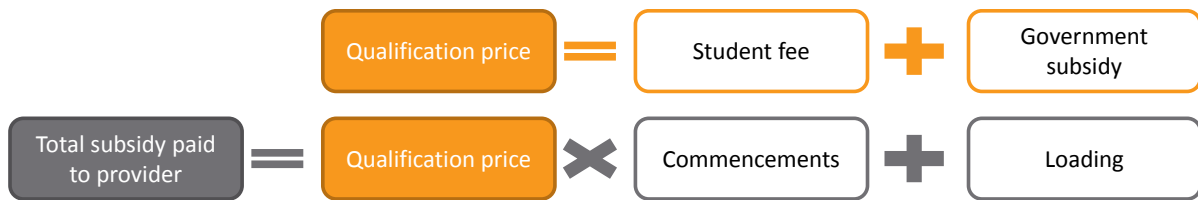
Figure 4: IPART approach to developing efficient cost¹⁴



The Department then calculated a qualification price by using the efficient variable cost per UoC and the fixed cost per qualification level calculated by IPART, in combination with a standard pathway for each qualification. The qualification price is made up of the government subsidy and the student fee. The total subsidy paid to providers is determined by the qualification price, the number of commencements and any relevant loadings, as shown in Figure 5 overleaf. The total subsidy is divided into milestone payments as the student progresses through training.

¹⁴ The calculation of the efficient cost for a UoC involved variable costs at a UoC level and fixed costs at a qualification level.

Figure 5: Qualification price and subsidy paid to providers¹⁵



Providers receive loadings to meet the higher cost of training students based on the student's location (remote or region) and disadvantage (Aboriginal and Torres Strait Islander students, students with disability and students who have been long term unemployed). Providers can receive up to one location loading and one disadvantage loading per eligible student (equal to the amount of the most generous loading).

Students can also be eligible for fee reductions, fee exemptions and fee-free scholarships based on receiving a Commonwealth Government payment, having a disability or being of Aboriginal and Torres Strait Islander descent.¹⁶ Where a student receives a fee reduction or exemption, the NSW Government pays the provider for the 'fee gap' (the difference between the usual student fee and the reduced student fee).

1.4 This review focuses on the contribution of pricing, quality monitoring and budget structure to VET outcomes in NSW

The NSW Skills Board commissioned Nous to conduct an independent review of the first year of implementation of Smart and Skilled in July 2015. The review has provided independent advice to the NSW Skills Board on how Smart and Skilled should progress. The review has been delivered over two stages:

- Stage One focussed on the effectiveness, adequacy and impact of the provider application and assessment process. Stage One was completed in November 2015. Appendix C provides a summary of our findings from Stage One.
- The objectives of Stage Two were to assess how the NSW VET reform's broad policy settings have impacted on outcomes in the NSW VET market, and how the structure of the VET budget has impacted on VET reform.
- To achieve these objectives, Stage Two has:
 - Reviewed the effectiveness and appropriateness of total qualification prices, including:
 - Government subsidies and loadings
 - Student fees, concession fees, fee exemptions and scholarships
 - Reviewed the structure of the Smart and Skilled budget
 - Reviewed the quality monitoring arrangements under Smart and Skilled

¹⁵ Loadings are paid to provider for eligible students. Loadings are a proportion in addition to the base price paid for each student.

¹⁶ Students can also access 1) Jobs of Tomorrow Scholarships for students undertaking qualifications in fields related to science, technology, engineering and mathematics, and 2) Fee free scholarships for people who meet defined criteria.

- Identified changes to the VET reform policy settings to enhance training and employment outcomes, both for existing program streams and in relation to extending the entitlement to higher level qualifications.

In discussions with the reference group for this review (made up of members of the NSW Skills Board) it was decided that Stage Two would focus on detailed analysis of the budget structure of Smart and Skilled, pricing and quality monitoring arrangements. It was agreed that Nous would not directly examine the broader VET budget in NSW (including NSW Government direct funding to TAFE NSW) or the Commonwealth VET funding arrangements.

The NSW Skills Board has also commissioned a number of other research projects to complement this work, such as a review of the methodology for developing the NSW Skills List, a research project on the factors impacting demand for higher level qualifications from low socio-economic students, and research on employers' perceptions and engagement with the VET sector. The Department is currently undertaking work to complement this review, including developing indicators of quality training and graduate outcomes.

Appendix B provides the terms of reference for Stage Two of the review.

1.5 Our methodology has used data analysis of observed market behaviour and limited stakeholder consultation

Nous has undertaken data analysis of observed market behaviour under Smart and Skilled and limited stakeholder consultation.

We have used available data to identify indicators of whether prices, student fees and loadings may be inappropriate. This allowed us to ensure our analysis was targeted and efficient. The data sources used included:

- **Delivery of Smart and Skilled training:** Smart and Skilled student level data provided by the Department, including student classifications, qualification details, provider details, training details and payments data. Student level data for Smart and Skilled students at TAFE NSW Institutes was provided by TAFE NSW.
- **Delivery of government subsidised training under previous arrangements:** Approved Provider List (APL) student level data, including student classifications, qualification details, provider details, training details and payments data. Student level data for students at TAFE NSW Institutes was provided by TAFE NSW. This was limited to NSW Government subsidised students at TAFE NSW Institutes.¹⁷
- **VET FEE-HELP data:** Qualification level data provided by the Commonwealth Government, including total fees, loans and enrolments for each qualification, for both fee-for-service and subsidised students.

This was complemented by consultations with:

- **A panel of expert advisors:** For the Stage Two review we brought together a panel of expert advisors. Nous met with the expert advisors twice throughout the review to test our analysis and findings, and to gain the expert panel's views on areas for further analysis and recommendations.

¹⁷ This data excluded school students studying TAFE-delivered VET (TVET) as part of their HSC.

The panel comprised Professor Gerald Burke, Professor Peter Noonan, Geoff Favell and Kay Schofield AO.

- **Government stakeholders:** We conducted interviews with experts within the Department to understand the pricing and quality monitoring arrangements. We also met with members of the IPART team that were involved with developing pricing under Smart and Skilled.
- **Providers and peak bodies:** We consulted with a small number of providers and peak bodies including TAFE NSW, the Australian Council for Private Education and Training (ACPET), Community Colleges Australia (CCA), and the NSW Skills Board Provider Reference Group and Industry Reference Group.
- **The NSW Skills Board and its Review Reference Group:** We consulted with a subcommittee of the NSW Skills Board intended to oversee this review ('the Review Reference Group'). We met with the Review Reference Group twice throughout the review to test our findings and recommendations, and understand their views on areas of priority for the NSW Skills Board. We also met with the full NSW Skills Board twice.

This report also draws on findings from extensive stakeholder consultation with employers, students, providers and the community and survey data collected for Stage One of this Review.

A detailed explanation of our methodology is outlined in Appendix E. A full list of the stakeholders consulted in Stage Two is provided in Appendix F.

1.6 This report details the findings of Stage Two of the review

This report contains the detailed analysis from Nous' review of the pricing and quality arrangements for Smart and Skilled. It is structured in the following sections:

- Section 2 provides an assessment of the performance of Smart and Skilled
- Section 3 provides our analysis of the budget structure under Smart and Skilled
- Section 4 details our analysis of the prices under Smart and Skilled
- Section 5 provides our analysis of the Smart and Skilled student fees and concessions
- Section 6 contains our analysis of the loadings used for location and disadvantage
- Section 7 details our assessment of the effectiveness of the quality monitoring process
- Section 8 provides our recommendations.

Appendix N contains a list of figures presented in this report and Appendix O contains a list of tables.

2 Performance of Smart and Skilled

Smart and Skilled has not prevented a wider decline in government subsidised training. Factors outside of Smart and Skilled have had a strong impact on this decline, such as broader trends in VET, Commonwealth Government policies and the broader economy. However, the initial design and implementation of Smart and Skilled also contributed to this decline in training activity.

Despite the overall decline, there continues to be progress against Smart and Skilled's objectives. There has particularly been success in supporting both disadvantaged students and TAFE NSW, and initial indications of success in the improvement of the quality of VET. Our analysis of training activity data shows that the objectives of increasing participation, giving students greater choice and meeting industry needs have not yet been met. However, there are promising signs that they are improving and may be achievable within Smart and Skilled. The evidence for these conclusions is presented below.

2.1 Evidence points to a decline in training activity under Smart and Skilled. However, the extent is unclear

Early evidence suggests that there has been a decline in training activity equivalent to Smart and Skilled from 2014 to 2015. This is illustrated in orange¹⁸ in Figure 6. As it shows, there was a 30 percent decline in NSW Government subsidised commencements in 2015 compared to 2014. The decline in NSW Government subsidised training in 2015 affected all qualification levels¹⁹ and industries.^{20 21} However, it is too early to know if this is part of a wider decline in government subsidised training.

NCVER data on all government funded training in NSW for 2015 was not available at the time of writing this report. This means we cannot identify if there has been a displacement effect between Smart and Skilled training and other types of government funded training in NSW over 2015.

The inclusion of NCVER data on the total government funded training in NSW from 2011 to 2014 (shown in grey in Figure 6, including NSW and Commonwealth funded training and VET FEE-HELP) shows there was an overall trend of declining government funded training across Australia.

Over this period there was a 12 percent decline in overall government funded training in NSW. However, the Australia-wide decline in government funded training was less than that experienced in NSW (6 percent Australia-wide compared to 12 percent in NSW). The decline in NSW was similar to jurisdictions such as Queensland, Western Australia and Australian Capital Territory which all experienced declines in government subsidised training of between 10-18 percent.

¹⁸ Reliable data on Smart and Skilled equivalent training prior to 2013 was not available.

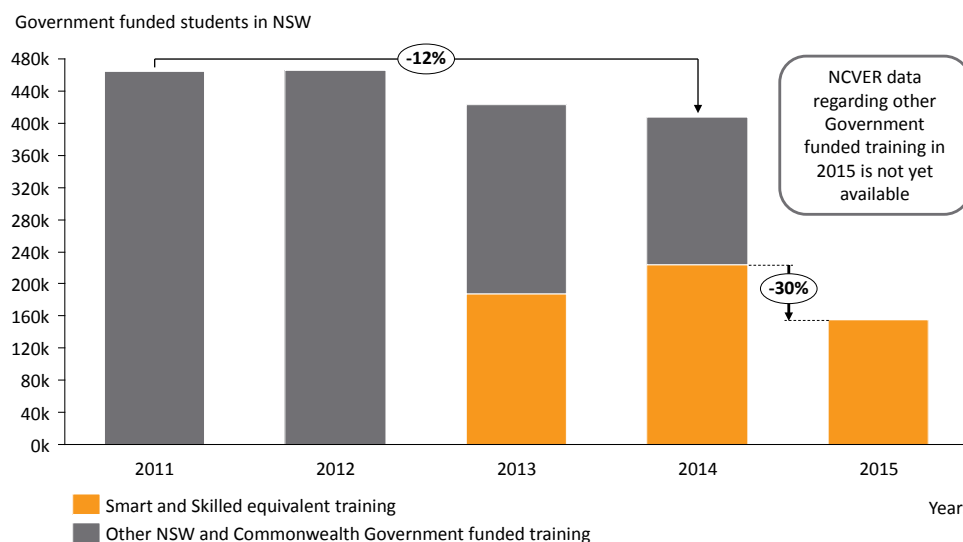
¹⁹ The declines by qualification level varied in scale from a 22% decline in Certificate IIIs to a 55% decrease in Advanced Diplomas. This is potentially reflective of the budget structure of Smart and Skilled, which is discussed further in Section 3. While all provider types showed a similar overall trend, the distribution of qualification levels for each provider type shifted, which again may reflect the budget structure of Smart and Skilled.

²⁰ The industries range from a 2% decline in commencements for Utilities and Electrotechnology to a 67% reduction in commencements for Forest and Forest Products and Furnishing. These industries are identified by the training package of the qualification. This range may be explained by contextual factors discussed in Section 2.2, or may be symptomatic of other issues such as budget structure or pricing.

²¹ Based on Smart and Skilled 2015 training data and 2014 NSW Government subsidised training for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Equivalent training activity is defined as the APL for Private RTOs and ACE Providers, and NSW Government subsidised training excluding CSOs and TVET for TAFE NSW Institutes.

The overall decline in total government funded training and the larger decline in NSW Government subsidised training has been partially due to contextual factors outside of Smart and Skilled (discussed below in Section 2.2). However, the design and implementation of Smart and Skilled financial caps also dampened training activity and contributed to the decline in training (discussed below in Section 2.3). As already described, due to the unavailability of NCVER 2015 data on government funded training, we were unable to identify if the decline in NSW Government subsidised training in 2015 has been offset by an increase in other types of government funded training.

Figure 6: NCVER data on total Government funded students in NSW (2011-2014), and training delivered under Smart and Skilled equivalent programs (2013-2015)²²



2.2 Contextual factors outside of Smart and Skilled continue to have a strong impact on this decline in training activity

The introduction of Smart and Skilled, and the decline in training activity, have been affected by a number of contextual factors. These include changes in provider behaviour, policy settings from the Commonwealth Government, competing sectors such as universities, and public perception of VET. These contextual factors were identified through both research and consultation with stakeholders, and are detailed below.

- **Training levels were especially high in 2014 for equivalent training to Smart and Skilled, potentially due to providers intentionally bringing forward enrolments:** From 2013 to 2014 there was an increase in NSW Government subsidised training activity which is equivalent to Smart and Skilled at every qualification level (shown in the orange bars in Figure 6).²³ When

²² NCVER, *Revised Government funded students and courses, 2014, New South Wales, Table 13*. Smart and Skilled 2015 training data and 2013 and 2014 NSW Government subsidised training for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Note that data was not available to identify what training was equivalent to Smart and Skilled prior to 2013. Note also that complete data is not yet available on Other NSW and Commonwealth Government funded training in 2015. Initial data from NCVER, *Government funded students and courses January – September 2015* suggests that there were 242,500 NSW and Commonwealth Government funded students in NSW in the first nine months of 2015.

²³ This is contrary to the overall trend in government subsidised training activity shown in Figure 6 which shows that training decreased between 2013 and 2015. This holds true for TAFE NSW Institutes as well as for the Private RTOs and ACE providers.

training under Smart and Skilled in 2015 is compared to equivalent training in 2014, there was a 30 percent decline in training. However, when training under Smart and Skilled in 2015 is compared to training in 2013, there is only a 17 percent decline in training. Some stakeholders have suggested that this peak of NSW Government subsidised training activity in 2014 was a result of TAFE NSW Institutes encouraging employers and students to bring forward their training in anticipation of the introduction of Smart and Skilled in 2015.

- **Strong labour market growth throughout 2015 may have meant there were employment opportunities without training:** Employment growth in NSW throughout 2015 was strong at 4.4 percent (the highest growth rate since the period June 1987 to 1988).²⁴ This suggests there were sufficient employment opportunities and people did not need to engage in training to gain employment. However, it should be noted that this growth was concentrated in the second half of the year, after commencements under Smart and Skilled had already declined.
- **Changes to Commonwealth incentives for trainees and apprentices:** From 2012 there were a series of changes to incentive payments for employers to take on apprenticeships and traineeships, and changes to the award rates. This led to a significant decline in the number of apprenticeship and traineeship commencements in NSW, down from over 90,000 in 2011 and 2012 to just 50,000 in 2014.²⁵ This trend continued under Smart and Skilled with apprenticeships and traineeships decreasing to 34,600 in 2015.
- **Negative perceptions of VET:** Throughout 2015 there was significant media attention on poor quality training provision, particularly in the VET FEE-HELP market. This media attention may have led to negative perceptions of VET which had an effect on students' willingness to engage in training.
- **Accessibility of alternatives to Smart and Skilled:** Alternatives to Smart and Skilled such as university and VET FEE-HELP have been increasingly accessible to students, as detailed below.
 - The introduction of demand-driven university places has led to universities increasingly admitting students who may have otherwise considered VET. University undergraduate enrolments have risen 43 percent in the last ten years.²⁶ In 2007, only one quarter of university offers for NSW school finishers went to students with a University Admissions Index (UAI) below 60, whereas in 2014 the equivalent figure was one third.²⁷
 - Additionally, the use of VET FEE-HELP has increased significantly, and both students and providers may prefer to use VET FEE-HELP. In 2009 only 5,300 students in Australia accessed VET FEE-HELP, but in 2014 there were more than 58,200 VET FEE-HELP commencements in NSW alone.²⁸ The deferred payment model is appealing to students, and has increased the accessibility of fee-for-service training.²⁹ Additionally under VET FEE-HELP for much of 2015, providers were able to receive a larger payment upfront when a student was enrolled relative to Smart and Skilled. This payment method may be preferred by some providers compared to the Smart and Skilled payment method where providers are paid as the student progresses through their training.

²⁴ Calculated from ABS data on total employed persons (trend) from December 2014 to December 2015.

²⁵ NCVER, *Apprentices and Trainees 2015 September quarter: state and territory data tables*.

²⁶ Noonan, P. 2016. *VET funding in Australia: Background, trends and future directions*.

²⁷ UAC Reports on the Scaling of the NSW Higher School Certificate. Equivalent 2014 figure based on ATAR instead of UAI.

²⁸ Department of Education and Training, *2014 VET FEE-HELP Statistical Report*.

²⁹ It should be noted that government subsidised students are also eligible for VET FEE-HELP as long as their provider is approved for both programs. This has low take up, with subsidised training making up less than 1% of NSW VET FEE-HELP enrolments in 2014.

It should be noted that students can use VET FEE-HELP in combination with Smart and Skilled if their provider is approved for both programs. However, very few students have done so (430 students). This reflects that only 13 percent, or 54, providers hold both Smart and Skilled contracts and VET FEE-HELP contracts.³⁰ As of December 2015, only eight of these providers (or 2 percent of all Smart and Skilled providers) have used VET FEE-HELP for Smart and Skilled delivery.

- **The market taking time to adjust to the Smart and Skilled reform:** It is likely that the declines in commencements in part reflect the market taking time to adjust to a system change. Smart and Skilled was a significant reform to the VET market in NSW. It generally takes time for markets to adjust and operate effectively after large system changes.
- **Confusion and attention surrounding the Smart and Skilled changes, particularly fee increases:** The student fee increases under Smart and Skilled received significant media attention. In our survey and stakeholder consultations in Stage One of this review there was some confusion regarding the extent of these fee increases due to the move from annual fees to qualification fees. This attention and confusion likely deterred some students from engaging in training.
- **Changing practices for training disadvantaged students:** In 2014, some providers (particularly TAFE NSW Institutes) would co-enrol disadvantaged students in foundation qualifications along with their chosen qualification to ensure that they received appropriate additional training support. Stakeholder feedback suggests that under Smart and Skilled, students are co-enrolled in part qualifications instead, and therefore these extra commencements are not represented in this report. Nous' analysis suggests that this change could explain approximately 13 percent of the decline in training activity (or 8,700 commencements).

2.3 The initial design and implementation of Smart and Skilled financial caps further dampened training activity

The initial design and implementation of Smart and Skilled financial caps impacted providers' ability and willingness to deliver training, and contributed to the overall decline in training activity. These findings were reported in detail in our Stage One report and are summarised in Appendix C.

The approach of using financial caps to manage the budget for training was appropriate given that providers unrealistically expected that they could use Smart and Skilled to significantly expand their delivery of government subsidised training.³¹ Without a budget constraint there would have been a significant risk to the sustainability of the VET budget.

Nonetheless, the initial approach to applying a budget constraint through financial caps was overly cautious and likely dampened training activity in NSW (as detailed below).

- **Some providers received financial caps which were lower than they expected to receive,** and stakeholder consultations suggested that these providers did not feel they could profitably deliver their low financial caps.³²

³⁰ Data provided by the Department to Nous Group. File 'VET FEE HELP S&S providers 2015'.

³¹ Across NSW, providers applied for 26 times more places than were available under the allocated funding for Smart and Skilled and a total of 4.3 million training places were applied for.

³² Due to the release of additional funds throughout 2015 many provider's financial caps have increased.

- **Some providers received financial caps that did not align with their historical patterns of delivery.** This impacted these providers' ability to initially deliver training, as they had to build their business and relationships with employers in new qualifications and regions.
- **The regional financial caps did not give some providers sufficient flexibility to maintain their existing business models.** Some providers' business models involve working across NSW with large employers. The initial design of the regional financial caps did not give these providers sufficient flexibility to continue to work with some of these employers.³³
- **There was some initial confusion as to how the financial caps operate.** Stakeholder consultations suggest that in early 2015, some providers thought that their financial caps were intended to cover the cost of the entire training of students they enrolled, even if the student was completing a qualification with a duration of longer than one year. This led some providers to initially enrol fewer students than their financial cap allowed.³⁴

The Department has introduced a number of changes to the design of the financial caps throughout 2015. These changes have addressed many of the issues outlined above.

2.4 Progress continues to be made against objectives, with mixed results

Smart and Skilled was designed to achieve six key objectives.³⁵ These include the three market-focussed objectives identified in our Stage One report, as well as three additional objectives. In general, there has been some success against all Smart and Skilled objectives, and results improved throughout 2015. These objectives and our observations regarding the performance against each objective are outlined in Table 3 below.

Table 3: Objectives of Smart and Skilled

Objectives of Smart and Skilled	Observations from analysis of training activity
Increase participation in VET	Training activity has decreased for a range of reasons, but there were signs throughout late 2015 and early 2016 that this is improving
Give students greater choice	Consumers' training options are increasing as the Smart and Skilled market develops
Meet industry training needs	Apprenticeship and traineeship training initially declined but has been increasing this year
Support disadvantaged students	Disadvantaged groups appear to be well-represented under Smart and Skilled
Support TAFE NSW so that it remains a strong and viable public provider	TAFE NSW appears to have performed better against their financial caps than other provider types
Improve the quality of VET	It is too early to effectively measure quality, however, there do not appear to be widespread quality issues at this stage

³³ This has been partially addressed by the introduction of state-wide financial caps for apprenticeships and traineeships in 2015.

³⁴ The Department has run a series of training and roadshows to ensure providers understand how their financial caps work.

³⁵ Summary of Smart and Skilled provided to Nous by the Department.

These findings are discussed further in the following sections. We have also developed a series of indicators to provide a progress update as to the extent to which Smart and Skilled is meeting these objectives, shown in Appendix G.

Increase participation in VET: Training activity has decreased for a range of reasons, but there were signs throughout late 2015 and early 2016 that this is improving

There were fewer government subsidised VET commencements in 2015 than in 2014 due to a range of contributing factors. Therefore, the objective of increasing participation in VET under Smart and Skilled has not yet been achieved.

It is Nous' view that the decline has been the result of a combination of internal and external factors to Smart and Skilled including: the broader historical decline in commencements in VET across Australia (discussed in Section 2.1); TAFE NSW Institutes pulling forward training to 2014 in anticipation of the introduction of Smart and Skilled (detailed in Section 2.2); and the initial design and implementation of financial caps under Smart and Skilled (detailed Section 2.3). As already discussed, it is not possible to reach definitive conclusions as to the exact extent to which the decline was the result of Smart and Skilled, or other external factors.

Though there was a decline in training in 2015, the diversity of training activity has been improving, which suggests that the volume of training may increase in the future. Private providers have become more involved in Smart and Skilled over the year, and so should contribute to increasing training volumes in 2016. Early indications suggest that this is happening, with over 10,500 commencements at Private RTOs and ACE Providers in the first quarter of 2016, compared to fewer than 4,500 in 2015.³⁶

Give students greater choice by opening VET to private providers: Consumers' training options are increasing as the Smart and Skilled market develops

Consumers have more choice as Smart and Skilled has matured over 2015. The number of providers that consumers could choose between has increased, as has the diversity of qualifications and regions where students could undertake training. This is detailed below.

- ***The number of active providers increased throughout 2015***, peaking in the third quarter when 261 different providers commenced at least one student. Overall, there were 301 providers commencing Smart and Skilled students in 2015. This improvement is due to the increased participation of Private RTOs and ACE Providers in Smart and Skilled throughout the year. In the first quarter, they accounted for just 5.6 percent of commencements, whereas they made up 51.7 percent of commencements in the last quarter. This is partially due to the traditional commencement cycles of TAFE NSW Institutes, but the extent of the change suggests that Private RTOs engaged more with subsidised training over the year.
- ***The number of qualifications and regions being offered by providers increased throughout 2015***. There were 4,639 qualification and region combinations where at least one student commenced in 2015, and so are considered 'active'. While the number of active qualification and region combinations did decline throughout the year, this is explained by the concentration of commencements in the early stages of the year. Comparative to the number of students commencing, the range of operating markets actually increased.

³⁶ Smart and Skilled 2016 training data for Private RTOs and ACE Providers, provided by the Department. Note that this data was provided on 5 April, and is only reliably accurate up to 8 March.

Meet industry training needs: Apprenticeship and traineeship training initially declined but has been increasing this year

Data on graduate employment and employer satisfaction is not yet available. This means it is not possible at this stage to reach firm conclusions regarding the extent to which Smart and Skilled has met industry training needs.

To provide an early indication of the extent to which industry needs have been met, we have examined apprenticeship and traineeship commencements. Apprenticeship and traineeship commencements initially declined under Smart and Skilled. However, they have since increased, suggesting there has been an improvement in the performance of Smart and Skilled in meeting industry needs.

By the end of 2015, apprenticeships and traineeships made up a similar proportion of commencements under Smart and Skilled (22.4 percent) compared to 2014 (23.1 percent). Even though the proportions were similar, the volumes of apprenticeships and traineeships declined from 51,600 commencements in 2014 to 35,100 under Smart and Skilled. This is consistent with the historical trend of declining numbers of apprentices and trainees over recent years, as discussed in Section 2.2.

Initial data on commencements in 2016 suggest that the capping of traineeship fees has improved the willingness of industry to commence trainees, with over 2,800 commencements in the first quarter of 2016, compared to fewer than 1,400 in 2015.³⁷ It should be noted that this data is not yet complete, and therefore, likely an underestimate of activity.

Support disadvantaged students: Disadvantaged groups appear to be well-represented in Smart and Skilled

Disadvantaged groups appear to have been well-represented in training under Smart and Skilled. However, there may be some issues with the targeting of the loadings for students from regional areas.

- ***Disadvantaged students:*** The proportion of students with disability and Aboriginal and Torres Strait Islander students engaging in training was higher under Smart and Skilled than in 2014.
 - Despite the overall decline in training, there were only 1,800 fewer disabled commencements, increasing their share of training activity by 3.4 percent. Though there was an increase in the proportion of students with disability, students with disability have been below population parity under Smart and Skilled.
 - There was an increase in Aboriginal and Torres Strait Islander commencements by 350, a 3.6 percent increase in training share. Aboriginal and Torres Strait Islander students have had more than population parity in commencements under Smart and Skilled.
- ***Regional and remote students:*** Students from remote and regional areas appear to have had more than population parity in enrolments under Smart and Skilled. The rates of students from regional and remote areas engaging in training were also high. These improvements are true across provider types, including Private RTOs.³⁸ However, it appears that the policy intent of the location loadings for training for regional students may not have been fulfilled. There have been high rates of students receiving regional loadings who live in postcodes that take in metropolitan and inner regional areas, particularly in the Sydney region. This presents a challenge for ensuring that the training activity occurring with loadings reflects the policy objective.

³⁷ Smart and Skilled 2016 training data for Private RTOs and ACE Providers, provided by the Department. Note that this data is provided on 5 April, and is only reliably accurate up to 8 March.

³⁸ Smart and Skilled 2015 training data and 2014 NSW Government subsidised training for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW.

Support TAFE NSW so that it remains a strong and viable public provider: TAFE NSW appears to have performed better against their financial caps than other provider types

It appears that TAFE NSW has remained a strong public provider under Smart and Skilled in terms of overall training delivery.

TAFE NSW performed well in the application and assessment process, and secured approximately 60 percent of Smart and Skilled funding when contracts were initially offered in October 2014.

Based on data submitted through the Smart and Skilled eReporting system, TAFE NSW Institutes have performed better in spending their financial caps compared to other provider types. TAFE NSW Institutes have spent 54 percent of their financial caps in the entitlement program and 51 percent in the foundation skills program. Private RTOs and ACE providers have spent significantly less of their financial caps across the entitlement and targeted priorities programs (14-29 percent).

It should be noted that TAFE NSW Institutes have not yet submitted complete data through the Smart and Skilled eReporting system. We have made an estimate of the additional financial cap spent by TAFE NSW based on more up-to-date data. This analysis suggests that TAFE NSW has spent all of their financial cap in the entitlement program and 57 percent in the foundation skills program. This analysis also suggests that TAFE NSW Institutes have accounted for approximately 84 percent of the financial caps spent across Smart and Skilled.

TAFE NSW has also performed well in delivery to disadvantaged students. For most groups of disadvantaged students, TAFE NSW ultimately trained students at a higher rate than Private RTOs and ACE Providers. This was particularly notable for regional and remote students, and for students with disability. However, TAFE NSW only trained slightly higher rates of Aboriginal and Torres Strait Islander students, and fewer students with concessions. These findings are discussed in Sections 5 and 6.

Improve the quality of VET: It is too early to effectively measure quality, however, there do not appear to be widespread quality issues at this stage

Stakeholder feedback suggests there do not appear to be system-level quality issues in the Smart and Skilled market, although it is too early to effectively measure training outcomes.

Very early indicators suggest that completion rates exceed the national average, ranging from 30 percent to 85.5 percent (depending on qualification level, provider type and method of calculation) compared to a state and national average completion rate of 34 percent in 2013.³⁹ This is the case for Private RTOs, which have experienced completion rates that are generally similar to TAFE NSW Institutes. This suggests that the issues with very low completion rates at Private RTOs in the VET FEE-HELP market do not reflect the completion rates of Private RTOs under Smart and Skilled.

However, data on training outcomes such as graduate employment following qualification completion is not yet available. This is due to both the relatively short amount of time since Smart and Skilled was implemented, as well as data collection frameworks still being established.

Provider feedback clearly says there are not wide-spread issues of high risk provider behaviour. There are also only a small number of providers operating in the Smart and Skilled market that are approved to enrol students accessing VET FEE-HELP, suggesting the quality issues in the VET-FEE HELP market have not impacted Smart and Skilled.

This being said, we have identified anomalies in the behaviour of a small number of providers. The Department is examining these providers.

³⁹ NCVER, *Likelihood of completing 2009-13*.

3 Budget structure

The budget structure is the approach the NSW Government uses to fund government subsidised VET in NSW. Funding under Smart and Skilled was divided into three programs: the Smart and Skilled Entitlement Full Qualifications program, including apprenticeships and traineeships ('entitlement program'); the Targeted Priorities Full Qualifications Program ('targeted priorities program');⁴⁰ and the Entitlement Foundation Skills Program ('foundation skills program'). For each program, providers were awarded a total financial cap to deliver specified qualifications within a specified region. This approach effectively managed budget risk and introduced contestability in a gradual manner. However, it has also exposed the NSW Government to different levels of risk across different programs and involved differing levels of contestability across the three programs.

Our analysis of training activity shows that the initial design and implementation of the financial caps under Smart and Skilled negatively impacted providers' ability and willingness to deliver training. The total budget available under Smart and Skilled has not directly constrained training delivery, as providers did not spend the available funding in 2015. However, it is our view that the emphasis on responsible budget management in the lead up to the introduction of Smart and Skilled significantly contributed to the initial design of the inflexible financial caps. This inflexibility had a negative impact on training delivery.

3.1 The budget structure should ensure an efficient allocation of resources to achieve outcomes and objectives

The objectives of the NSW Government in the design of the budget structure for Smart and Skilled are to ensure that:

- Resources are efficiently allocated so that the NSW Government receives value-for-money for its investment
- Outcomes are achieved for students, employers and the NSW economy
- The NSW Government objectives for Smart and Skilled are achieved.

The NSW Government's budget structure for VET is outlined in Table 2 in Section 1.1. It involves Smart and Skilled funding, direct CSO funding to TAFE NSW Institutes, and direct funding to TAFE NSW Institutes in the form of operational base funding (OBF) and targeted priorities funding for higher level qualifications. It should also be recognised that VET delivery in NSW is also funded through Commonwealth Government programs such as VET FEE-HELP, and support for apprenticeships and traineeships. Our terms of reference, and the analysis in this report, focusses on the contestable Smart and Skilled funding envelope which accounts for approximately one third of overall Government funding in NSW.

The contestable Smart and Skilled funding envelope was divided into three programs, shown in Table 4. For each of these programs, providers were approved⁴¹ to deliver certain qualifications within specified

⁴⁰ This does not include the separate funding for targeted priorities for TAFE NSW.

⁴¹ Providers were given approval for qualifications and regions based on their capability to deliver quality training. This was measured through an application and assessment process which was undertaken in late 2014.

regions.⁴² Providers were given a total funding amount for delivery of approved qualifications within approved regions. These are referred to as ‘financial caps’.

Table 4: Smart and Skilled programs

Program	Description	Eligible RTOs
Entitlement courses (including apprenticeships and traineeships)	<ul style="list-style-type: none"> Entitlement for full qualifications- Certificate II and III Entitlement for apprenticeships and selected traineeships 	<ul style="list-style-type: none"> All providers based in NSW
Targeted priorities	<ul style="list-style-type: none"> Funding for full qualifications- Certificate IV and above Funding for pre-vocational and part qualifications 	<ul style="list-style-type: none"> Private RTOs and ACE providers for Cert IV +⁴³ All providers for pre-vocational and part qualifications
Foundation courses	<ul style="list-style-type: none"> Entitlement for foundation skills - Certificate I and II 	<ul style="list-style-type: none"> TAFE and ACE providers

This approach of dividing funding into programs and financial caps had a number of benefits, as detailed below.

- **The approach introduced contestability in a managed way**, reducing the risk to the budget.
- **It prevented the significant changes in training delivery experienced in other jurisdictions** by restricting the amount of training which providers could deliver.
- **It ensured training delivery was spread across NSW** and prevented a concentration of training in metropolitan areas.
- **It aligned with the NSW Government’s objectives** of ensuring TAFE NSW retained its position as the public provider.

However, these funding arrangements also created complexity and risk in the market, as detailed below.

- **The NSW Government is exposed to different levels of risk across different funding types.** The different approach to funding training under CSOs, other direct funding to TAFE NSW and contestable funding in Smart and Skilled exposes the Department to different levels of risk across funding types. The programs with greater flexibility for providers (for example, the apprenticeships and traineeships) have greater budget risk than those programs with less flexibility (for example, the entitlement program which has financial caps by region and approved qualifications).
- **The structure of the budget involved inconsistent levels of contestability.** Only one of the Smart and Skilled programs was contestable for all provider types, whereas the other programs were available to only some providers. This means there were differing levels of contestability across the programs.
- **The structure of the budget created challenges for providers in managing their training activity.** Feedback received from providers in Stage One said that receiving financial caps with different rules across different programs created complexity for them in managing their training activity.

⁴² Regions are based on ABS SA4.

⁴³ TAFE NSW is funded directly for Certificate IV and above qualifications.

This complexity will create ongoing challenges for the NSW Government, as discussed in Section 3.3. It will create challenges for providing clarity on the role of CSO funding and TAFE NSW Institutes. It also creates a risk of fragmentation in the market as a result of the different funding arrangements. We have made a series of recommendations in Section 8 to address these challenges.

3.2 The budget structure impacted providers' initial ability to deliver training

In our analysis of training activity data, we have not identified significant distortions or constraints in the market as a result of the budget structure.⁴⁴ This is largely because training activity has been low across Smart and Skilled. This is due in part to the initial design and implementation of Smart and Skilled, which impacted providers' willingness and ability to deliver training. The initial design of the restrictive financial caps was a response to the focus on responsible budget management. We have observed that:

- There has been an underspending of funding under Smart and Skilled.
- The focus on responsible budget management led to an overly cautious approach to the design of the financial caps.
- The initial design and implementation of Smart and Skilled financial caps negatively impacted providers' ability and willingness to deliver training.
- TAFE NSW appears to have performed better against their financial caps than other provider types.
- Training delivery by qualification does not consistently reflect the budget modelling used in the implementation of Smart and Skilled.
- Regional differences in training activity do not consistently reflect the different funding amounts available by region.

The analysis in this section focuses on the funding that was 'committed' to training students under Smart and Skilled in 2015. It assumes that students who have enrolled continue training at the expected rate. Therefore, this analysis does not take into account student attrition and as such, is an overestimation of the funding that will be spent.

We were not able to conduct analysis on the actual funding which has been distributed to providers as reliable data for all students at TAFE NSW Institutes could not be provided. For these students, we have estimated the funds 'committed' based on the set price and expected length of delivery, and so this will also constitute an overestimate.

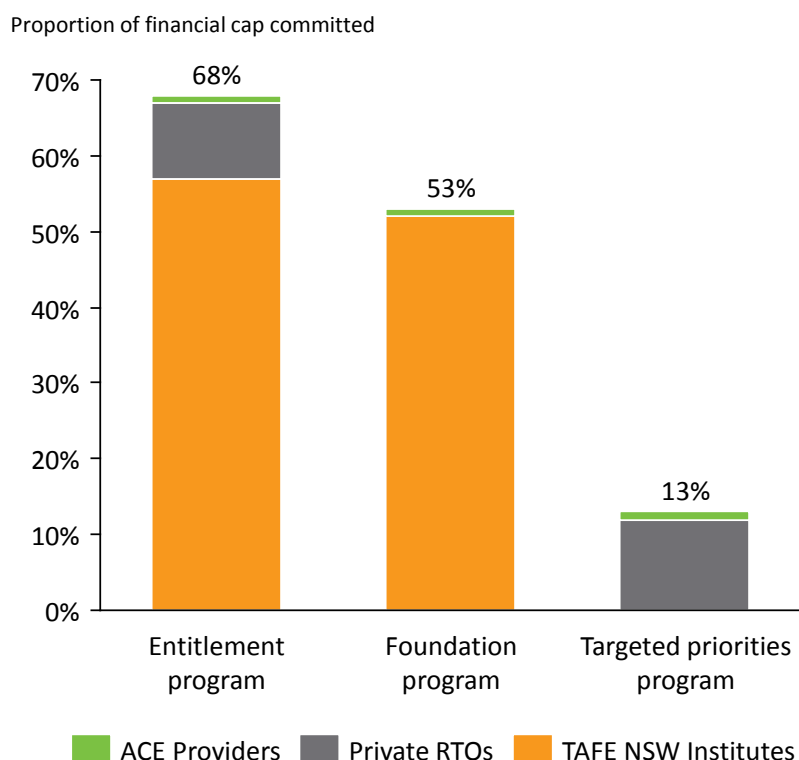
⁴⁴ Appendix E provides a detailed methodology for our analysis.

There has been an underspending of funding under Smart and Skilled

In all three programs there has been an underspending of the funding available in 2015. This suggests that across the market most providers have funding to deliver more training activity than they have actually delivered. This underspending is impacted by a range of factors external to Smart and Skilled (as detailed in Section 2.2), as well as by the initial design and implementation of the financial caps under Smart and Skilled (detailed below).

Figure 7 shows that most of the funding has been spent or 'committed' for the entitlement program (67 percent), about half for the foundation program (53 percent) and only 13 percent of the funding for the targeted priorities program.

Figure 7: Forecast proportion of financial cap committed by program type in 2015⁴⁵



The focus on responsible budget management led to an overly cautious approach to the design of the financial caps

Our findings from Stage One of the review suggest that the underspending of funding in Smart and Skilled is due in part to the emphasis on responsible budget management leading to an overly restrictive design of the financial caps. This is particularly the case in the targeted priorities program, where financial caps are restricted to individual qualifications. Appendix C provides a summary of our findings from Stage One.

⁴⁵ Note: The analysis of targeted priorities only includes the funding distributed to Private RTOs and ACE providers as part of Smart and Skilled. It does not include the separate funding distributed to TAFE NSW for targeted priority higher qualifications. Source: Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Calculated by totalling the forecast subsidy that each student in a program would accrue in 2015 if they continue training at the expected rate, and dividing this by the total financial caps available in each program. This analysis excludes additional payments for loadings and concession students, as these are paid in addition to a provider's financial cap.

Providers unrealistically expected that they could use Smart and Skilled to significantly expand their delivery of government subsidised training. These expectations meant that without a budget constraint there would have been a significant risk to the sustainability of the budget for VET in NSW due to significant provider demand for government subsidised training.

Though there was a need for some form of budget constraint to avoid the experience in other jurisdictions of an unsustainable increase in training activity, the approach under Smart and Skilled proved to be overly cautious. Providers were allocated financial caps for specific qualifications within a region and only 70 percent of the available funding for the entitlement program was allocated in the initial contract offers in October 2014. As detailed below, this restrictive design contributed to an under-delivery of training under Smart and Skilled.

Therefore it is Nous' view that the total funding available has not constrained delivery. However, the initial design of the financial caps was a response to the focus on responsible budget management and this initial design did contribute to the under delivery of training.

The NSW Government has since made adjustments to the financial caps to address these issues, including releasing additional funds and offering providers greater flexibility in how they can use their financial caps.⁴⁶

The initial design and implementation of Smart and Skilled financial caps had a negative impact on providers' ability and willingness to deliver training

The initial willingness and ability of providers to deliver training under Smart and Skilled was negatively impacted by the overly cautious design of the financial caps. The way in which the design negatively impacted delivery is detailed below.

- ***Some providers initially received very low financial allocations due to significant demand for training in the application process:*** Overall, providers applied for 26 times more places than were available under the allocated funding for Smart and Skilled.⁴⁷ This demand for places, combined with a limited budget in the targeted priorities program in particular, meant that some providers initially received very low financial caps which were unviable to deliver.⁴⁸ It should be noted that since additional funding has been released, providers have larger financial allocations and providers with lower financial caps now have similar levels of delivery to other providers (Figure 10 on page 36).
- ***Some providers received financial caps that did not align with their historical patterns of delivery:*** Some providers indicated that they did not receive funding for regions and qualifications which were previously core parts of their business. This affected their ability to deliver training as they had to build new relationships with employers and local communities.
- ***The regional financial caps did not offer some providers with sufficient flexibility to continue their previous business models:*** Some providers' business models involve working across regions with large employers. The initial design of the regional financial caps did not offer these providers sufficient flexibility to continue working with some of these employers. This was due to providers not being approved for all the regions in which an employer may require training, and providers not having sufficient numbers of training places in the regions the employers required training.

⁴⁶ For example, allowing providers to use their financial caps for the entitlement program apprenticeships and traineeships across NSW and allowing providers to use a proportion of their financial cap outside of the regions for which they are approved.

⁴⁷ Providers applied for a total of 4.3 million training places.

⁴⁸ Most Private RTOs and ACE providers initially received caps of less than \$100,000 when contracts were first offered in October 2014 and 75 providers initially received less than \$25,000 in funding. In Stage 1 of the review, we found that providers with lower financial caps were less likely to initially deliver training than providers with larger financial caps

- ***Providers were initially confused as to how many students they could enrol:*** Early in 2015 some providers thought that their financial caps were intended to cover the cost of the entire training of students they enrolled. In reality, the financial caps cover the training to be delivered to a student within that calendar year. This misunderstanding led some providers to initially enrol fewer students than their financial cap allowed.
- ***Lower delivery in targeted priorities is likely due to the very prescriptive design of the program:*** The lower level of spending in targeted priorities is likely driven by the very restrictive design of financial caps for this program. Under the targeted priorities program, providers received a financial cap to deliver a specific qualification in a specific region. This means that providers had the least flexibility in targeted priorities to respond to market demand and feedback from providers suggests that this made it challenging for them to deliver training in targeted priorities. Additionally, we found in Stage One of our review that most providers received small financial caps in targeted priorities (this reflected the limited funding available), meaning that the issue of very low financial allocations which were unviable to deliver was particularly acute in targeted priorities.

TAFE NSW appears to have performed better against their financial caps than other provider types

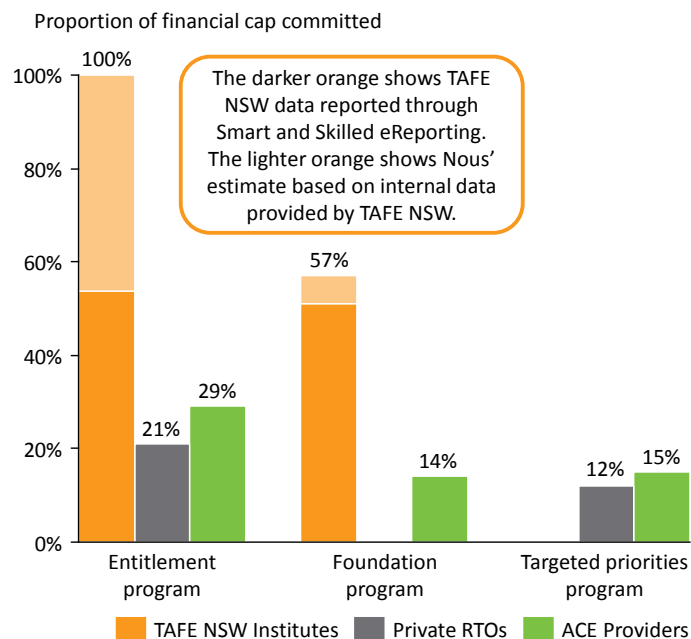
Based on data submitted through the Smart and Skilled eReporting system, TAFE NSW Institutes overall spent 54 percent of their financial caps in the entitlement program and 51 percent in the foundation skills program; however, Private RTOs and ACE providers spent significantly less of their financial caps.

Figure 8 below shows the proportion of financial cap spent in each program by provider type. It should be noted that TAFE NSW Institutes have not yet submitted complete data through the Smart and Skilled eReporting system. Nous has made an estimate of the additional financial cap spent by TAFE NSW which brings their estimated spend to 100 percent for the entitlement program and 57 percent for the foundation skills program. This estimate neither takes into account student attrition (though it does take into account duration of qualification), nor does it account for recognition of prior learning or credit transfer. Therefore, it is an overestimation of the funding that was actually spent.

Private RTOs and ACE providers have continued to struggle to spend their financial caps. Private RTOs have delivered 21 percent of the financial cap available to them in the entitlement program. ACE Providers have spent between 14 - 29 percent of the financial cap available in the entitlement and foundation skills program.

In the targeted priorities program, TAFE NSW is not allocated financial caps. Private RTOs achieved 12 percent and ACE Providers spent 15 percent of their financial caps. As already described, the low level of training delivery in the targeted priorities program is likely due to the restrictive nature of the financial caps that providers received in this program, which involved individual financial caps for each specific qualification in a specific region.

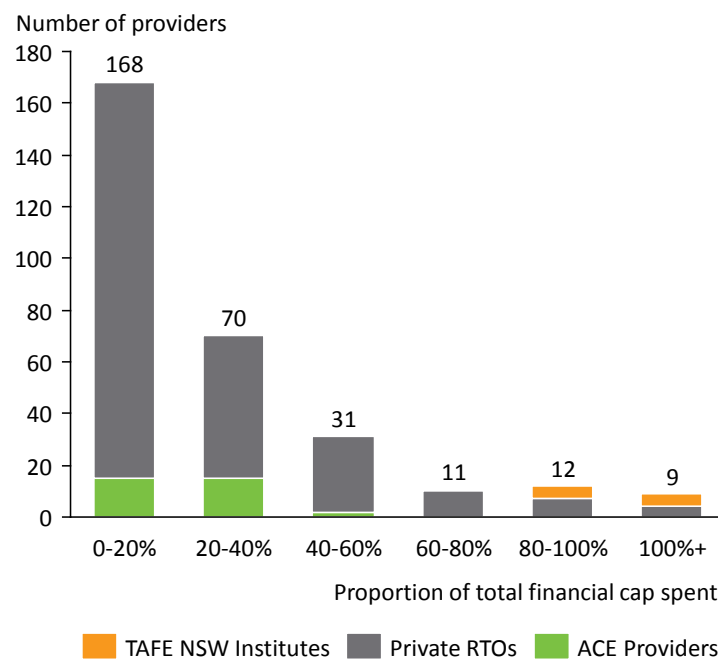
Figure 8: Estimate of proportion of financial cap spent and committed, by program type and provider type in 2015⁴⁹



⁴⁹ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Calculated by totalling the forecast subsidy that each student in a program would accrue in 2015 if they continue training at the expected rate, and dividing this by the total financial caps available in each program. This analysis excludes additional payments for loadings and concession students, as these are paid in addition to a provider's financial cap.

The vast majority of providers have not spent their total financial cap across the three programs. Figure 9 below shows the number of providers by the proportion of their total financial cap across programs and regions that they have spent. The majority of providers (55 percent or 168 providers) have spent less than 20 percent of their total financial cap. A minority of providers have spent all of their financial caps: five TAFE NSW Institutes and four Private RTOs (3 percent of providers). These providers would likely have received additional financial caps as part of the release of additional funds in 2015. This suggests that most providers have not had their delivery constrained within the qualifications and regions they are approved to deliver.

Figure 9: Number of providers by proportion of total financial cap spent in 2015 and provider type (all program types)⁵⁰



⁵⁰ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Calculated by totalling the forecast subsidy that each student in a program would accrue in 2015 if they continue training at the expected rate, and dividing this by the total financial caps available in each program. This analysis excludes additional payments for loadings and concession students, as these are paid in addition to a provider's financial cap.

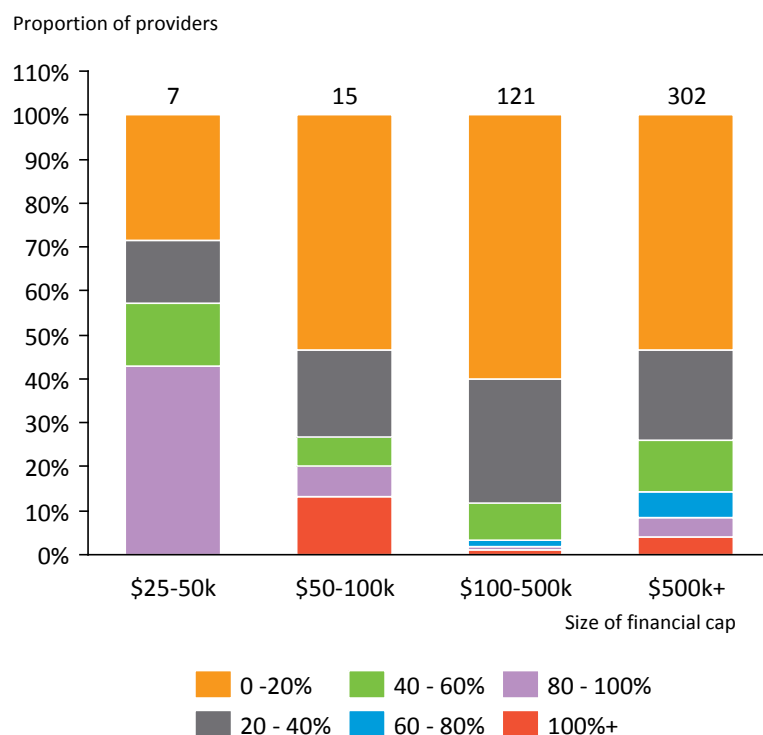
Figure 10 below shows the proportion of financial cap spent by the size of the providers' total financial cap across the programs and regions they are approved for. Providers receive separate financial caps for each program and region; however, we have conducted an analysis of the providers' total financial cap across the programs to identify if lower levels of total funding negatively impact providers' ability to deliver training under Smart and Skilled.

In the first stage of this review we found that providers with small financial caps generally had delivered lower proportions of their financial caps. However, Figure 10 shows the majority of providers with a financial cap of under \$50,000 have delivered between 40 - 99 percent of their financial caps, compared to less than a third of providers with larger financial caps. This may suggest that there isn't a significant relationship between the size of the financial cap and providers' delivery of training.

However, it should be noted that no providers with financial caps under \$50,000 have delivered all of their financial caps, whereas some providers with larger financial caps have delivered all of their financial caps.

Stakeholder feedback received in Stage One also suggests that some providers' under delivery of training is because they made a business decision to not offer Smart and Skilled places in some qualifications and regions for which they received a financial cap.

Figure 10: Proportion of financial cap spent by size of total financial cap for all providers in 2015 (all program types)⁵¹



⁵¹ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Calculated by totalling the forecast subsidy that each student in a program would accrue in 2015 if they continue training at the expected rate, and dividing this by the total financial caps available in each program. This analysis excludes additional payments for loadings and concession students, as these are paid in addition to a provider's financial cap.

Training delivery by qualification does not consistently reflect the budget modelling used in the implementation of Smart and Skilled

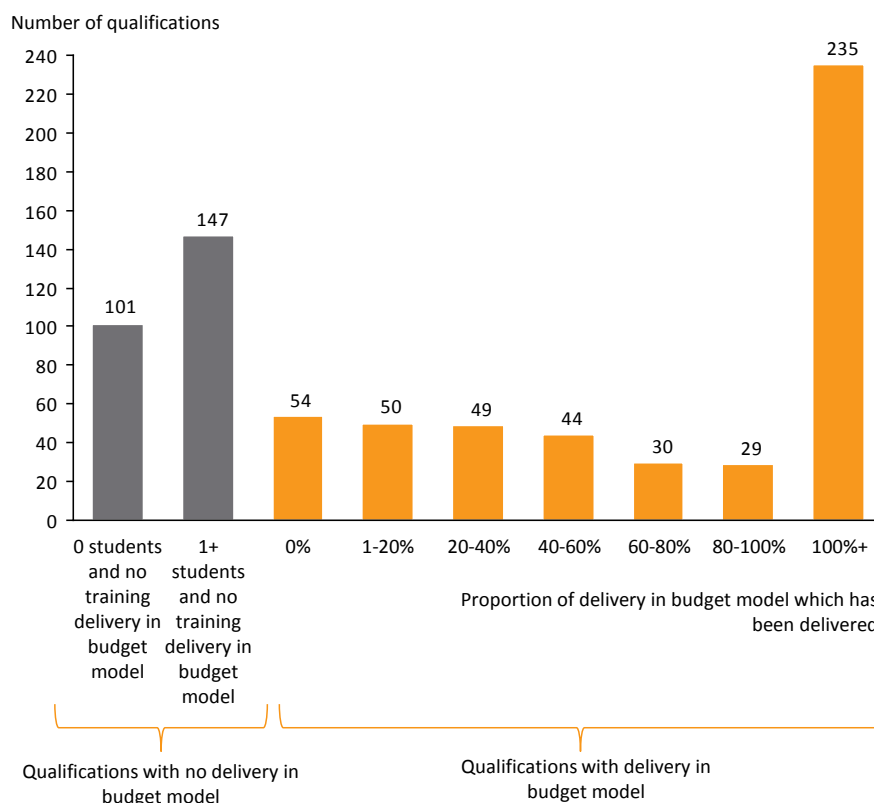
In the initial stages of designing Smart and Skilled, the Department conducted internal budget modelling based on historical delivery. This modelling was used in the distribution of financial caps. Training delivery by qualification does not consistently reflect this budget modelling, with different qualifications having different proportions of the initially modelled commencements delivered. This suggests that patterns of training activity do not reflect the initial estimates used for the purposes of budgeting.

Figure 11 shows the number of qualifications by proportion of modelled training activity delivered. A third of qualifications (235 qualifications) have similar levels of delivery to those used in the budget modelling. However, another third have had below 60 percent of the modelled training delivered.

There were a number of qualifications for which, based on historical patterns of delivery, the budget modelling assumed no training would be delivered. Despite the budget modelling assuming no training would be delivered, 60 percent of these qualifications have experienced some commencements. The remaining 40 percent of qualifications have had no training activity.

This analysis suggests that patterns of training activity have not reflected the initial estimates of training in the budget modelling. This poses a question as to the extent that detailed modelling for training at a qualification level based on historical demand can be accurate, given the influence of market forces on training demand.

Figure 11: Number of qualifications by proportion of budget modelled training achieved in 2015⁵²



⁵² Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Targets are per qualification, based on data provided by the Department.

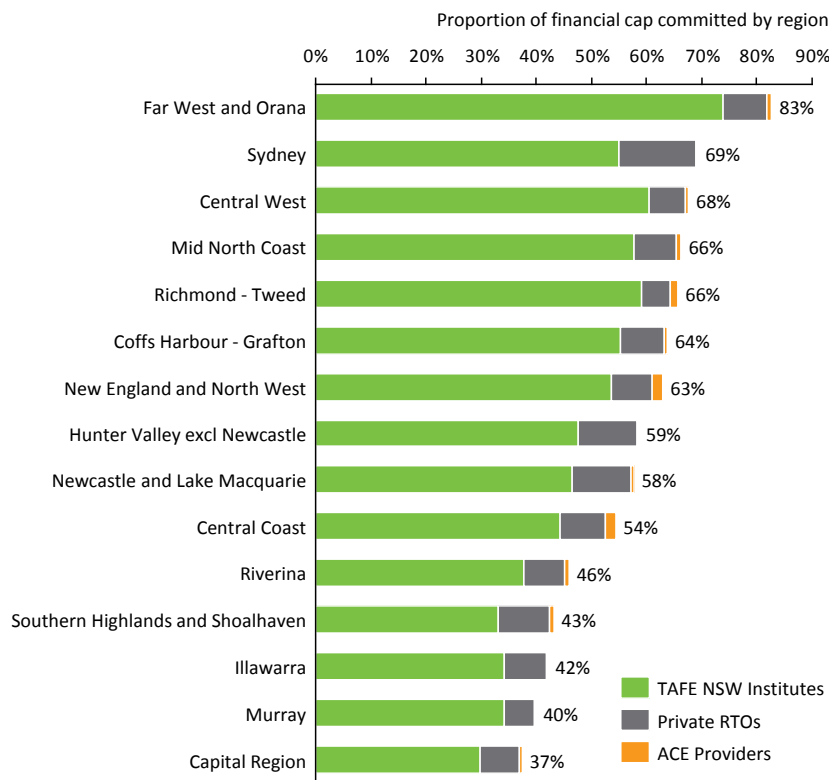
Regional differences in training activity do not consistently reflect the different funding amounts available by region

There have been differences in the levels of training activity by region, with some providers in some regions delivering low levels of training activity. However, these have not been driven by the different levels of funding available in each region.

Figure 12 shows the proportion of total financial cap that has been committed by region. The majority of regions spent more than 50 percent of the total financial cap in 2015. However, in five regions, less than 46 percent of the total funding available has been spent. Consistent with the NSW wide patterns of training activity, a lower proportion of funding available for targeted priorities has been spent by region (between 2 and 17 percent) than the entitlement program (between 40 and 83 percent).

This suggests that the different levels of training activity are driven by external factors in the local economies, and the ability and willingness of providers within these regions to deliver training. This is consistent with our findings from Stage One of the review where we found that providers in some regions struggled to deliver training activity. Additionally, it shows that in no region has overall training delivery been constrained by the financial caps available, largely due to other constraints on provider activity as outlined above.

Figure 12: Proportion of financial cap committed by region in 2015⁵³



⁵³ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Calculated by totalling the forecast subsidy that each student a region would accrue in 2015 if they continue training at the expected rate, and dividing this by the total financial caps available in each region. This analysis excludes additional payments for loadings and concession students, as these are paid in addition to a provider's financial cap. Foundation Skills students are excluded as the program is not regionally bound.

3.3 There will be a challenge to clarify the purpose of different funding mechanisms and prevent market fragmentation

There will be an ongoing challenge for the NSW Government to develop a budget structure that is clear and responsive to changes in demand. In the short term, there needs to be clarity as to the purpose of non-contestable funding such as CSOs, including the role of TAFE NSW Institutes as the public provider in a contestable market. In the medium term, the NSW Government will need to manage the emerging risk of fragmentation of the VET market in NSW as a result of different funding arrangements at a NSW and Commonwealth level. In the longer term, providers may need more flexibility in how they can use their financial caps in order to be responsive to changing market demands.

In the short term, there needs to be clarity on the role of CSO funding and other direct funding to TAFE NSW Institutes

As already described, CSO funding is provided directly to TAFE NSW Institutes for support services for disadvantaged students. However, under Smart and Skilled there are also loading mechanisms to compensate providers for training higher cost learners (discussed in Section 5). There is not a significant difference in the policy intent of these funding mechanisms as both at their core seek to ensure that disadvantaged students can access and complete training. This should be clarified.

The NSW Government has an explicit objective for TAFE NSW to maintain a role as the public provider. The budget structure reflected this objective with TAFE NSW Institutes receiving preferential treatment in funding mechanisms such as direct funding for targeted priority full qualifications, Operational Base Funding and Community Service Obligations; and the availability of foundation courses funding only to TAFE NSW Institutes and ACE Providers. The NSW Government should clarify what the role of TAFE NSW will be in a contestable market and whether it will continue to receive preferential treatment which may be inconsistent with greater contestability. We have not included a specific recommendation on this issue. However, it is Nous' view that the NSW Government and the NSW Skills Board should include this issue in their considerations as Smart and Skilled evolves.

There is evidence of fragmentation in the market and this may pose medium term risks to the effective operation of the VET market in NSW

There is a range of funding sources for VET in NSW and there is evidence that the market is already fragmenting based on these different sources.

As described in Section 1.2 on page 15, VET in NSW is funded by the NSW Government, the Commonwealth Government and privately by employers and students. There is a growing trend of providers focussing their delivery either on NSW Government subsidised training through Smart and Skilled or Commonwealth Government supported training through VET FEE-HELP. Of the 445 providers currently on contract under Smart and Skilled, only 12 percent or 54 providers also hold VET FEE-HELP contracts.⁵⁴ As of December 2015, only eight of these providers (or 2 percent of all providers) have used VET FEE-HELP for Smart and Skilled delivery.

This presents a risk of fragmentation in which two separate markets emerge: one market of providers who deliver government subsidised training and one market of providers who deliver VET FEE-HELP training. If the market continues to fragment in this manner, this will pose a challenge for the effective operation of the VET market across NSW.

⁵⁴ Data provided by the Department to Nous Group.

In the longer term, there will be inherent constraints as a result of the prescriptive design of the financial caps

We identified in our Stage One report and in Section 3.2 on page 30 of this report, that the design of the financial caps minimised the risk to budget sustainability. However, the design also does not give providers sufficient flexibility to respond to market demand.

It appears that there is currently a mismatch between the levels of training and the jobs activity in a small number of industries. The majority of industry groups displayed similar changes in labour market growth and changes in training from 2014 to 2015.⁵⁵ However, there was one industry group that experienced an increase in the proportion of jobs and a decrease in the proportion of training between 2014 and 2015 suggesting an undersupply of training (arts, communication and finance). There were also three industry groups that experienced larger increases in the proportion of training than the increase in the proportion of jobs, suggesting potential oversupply of training (construction, plumbing, printing and graphic arts; community services and health; and utilities and electrotechnology).

The Department has introduced reforms for greater flexibility in the financial caps. However, in the entitlement program,⁵⁶ if a provider is not approved for a qualification or a region, they are not able to provide training in response to new or growing demand. This means that as the Smart and Skilled market evolves, the design of the financial caps will continue to inhibit providers' ability to respond to market demand, and ensure that employment growth and training levels are aligned.

It is Nous' view that the Department should continue to progress our recommendations from the Stage One report to provide additional flexibility in the financial caps in the medium term. These recommendations are detailed in Appendix C.

⁵⁵ The following industry groups all had a less than 1% difference in the change in the proportion of training activity from 2014 and 2015, and the change in proportion of the labour market (using ABS detailed labour force data); Construction, plumbing, printing and graphic arts Food and Primary Industry and Racing; Manufacturing and Engineering, Light Manufacturing (TCF) and Process Manufacturing; Resources and Infrastructure; Sport and Recreation, Tourism and Hospitality and Wholesale, Retail and Personal Services; and Transport and Logistics and Automotive.

⁵⁶ The largest program under Smart and Skilled.

4 Pricing

The qualification price is the amount that a provider receives to deliver training for a standard student. It consists of a government subsidy and student fee component, and plays an important role to incentivise providers to deliver training. Under Smart and Skilled the price per qualification is set by the NSW Government. This approach was taken in the formative stages of the contestable subsidised market to minimise risk of distortions that have arisen in some jurisdictions where contestability has been pursued more aggressively.

Analysis of provider willingness to supply training shows that prices have not fundamentally distorted the market. However, there are a small number of anomalies in provider behaviour in some qualifications and the Department should review the prices of these qualifications. In the longer term, the current pricing approach will require reform.

4.1 Prices seek to ensure quality delivery

Prices and quantity supplied through financial caps are the key determinants of resources available to providers to deliver training. Prices are an important incentive to providers to deliver training to students. As the primary funder of subsidised VET activity in NSW, the NSW Government must balance prices to meet two objectives:

- **Provide sufficient resources for quality training**, meeting minimum standards set by the Australian Skills and Quality Authority (ASQA) and the Smart and Skilled NSW Quality Framework.
- **Optimise the use of available resources to achieve training outcomes**, delivering value for money from public investment and incentivising innovation across the sector.

There are a number of mechanisms which could be used to set prices to achieve these objectives, outlined in Table 5.

Table 5: Range of pricing methodologies

	Basis	Description
Fixed Price	Price determination	<ul style="list-style-type: none"> • The government acts as a price setter, administratively setting prices based on an estimated cost of delivery. This can be determined through audits, financial modelling or provider submissions regarding their costs.
Partially flexible price	Price auction	<ul style="list-style-type: none"> • The government acts as a price negotiator, accepting submissions from providers on the price at which they are willing to deliver and the quantities they expect to deliver. The government may accept these submissions or may choose to use information provided to inform alternate arrangements.
	Partial deregulation	<ul style="list-style-type: none"> • The government acts as a limited price taker, setting limits on prices (e.g. floors and ceilings) and providers have the flexibility to set prices within the specified limits.
Flexible Price	Full deregulation	<ul style="list-style-type: none"> • Providers have full flexibility to determine their prices, and the government acts as a price taker.
		= The current approach under Smart and Skilled

Under Smart and Skilled, the NSW Government uses price determination and fixed prices (the first approach detailed in Table 5). The fixed prices are based on the historical cost of delivery. In the context of a newly established contestable market, there have been benefits to this approach, as detailed below.

- **Created consistency and transparency** across NSW in both price and structure, which was intended to create student choice between providers.
- **Reduced the risk of adverse impacts on quality** by basing the price on cost and disallowing price competition. This reduced the competitive imperative for providers to reduce costs in order to be competitive on price and reinforced the NSW Government's objective to produce high quality training.
- **Promoted efficiency from providers** by taking into account potential for providers to adopt lower cost structures for delivery than TAFE NSW previously had (as IPART modelled delivery costs at a reduced rate to TAFE NSW, reflecting their higher staff costs). This avoided exacerbating the market distorting effects of the system change, and prevented a cannibalisation of TAFE NSW.
- **Provided budget certainty for government**, which enabled other policy instruments such as fees, concessions and loadings to be funded, while still maintaining budget control.
- **Delivered a level playing field for all providers**. This allowed the pricing mechanism to be applied across a broad and diverse sector, enabling the benefits above to be realised.

4.2 Prices have not fundamentally distorted the market

When prices are set administratively, an appropriate price is one which does not distort the supply of training in the market and gives providers a sufficient incentive to deliver training. The analysis in this section is limited to total prices (the sum of subsidy and student fees received by a provider per commencement) as prices impact providers' willingness to supply training. Distortion may be reflected in training activity, pricing behaviour, market composition, or market dynamics at the provider level. Each of these potential distortions in provider willingness to supply has been assessed for a link to the qualification price.⁵⁷

We observed that:

- Smart and Skilled has not changed the overall composition of provider activity in the market.
- Available evidence does not show a clear relationship between declines in providers' willingness to supply and changes in total prices.
- Total prices are generally comparable between qualifications within industry groups and qualification levels.
- Smart and Skilled government subsidies and total prices are broadly in line with other jurisdictions.
- Providers generally receive lower revenue per student from Smart and Skilled than VET FEE-HELP.
- Most qualifications do not have an unusually high concentration of provider delivery.

⁵⁷ This analysis of provider behaviour has involved; 1) analysing training delivery across Smart and Skilled (including by qualification, by provider type and by location), 2) identifying qualifications which are outliers across indicators such as commencements, change in commencements, concentration of provider delivery and cohort size, 3) conducting further analysis of the prices of these outlier qualifications to determine if price may be a factor. Appendix E provides a detailed explanation of this methodology. Note that training activity is defined in terms of numbers of student commencements.

- Cohort sizes are small and it is unclear if this is due to generous prices.

Smart and Skilled has not changed the overall composition of provider activity in the market

Analysis shows that the distribution of training activity between 2013, 2014 and 2015 is similar, indicating that Smart and Skilled prices have not significantly changed the overall composition of provider activity in the market.

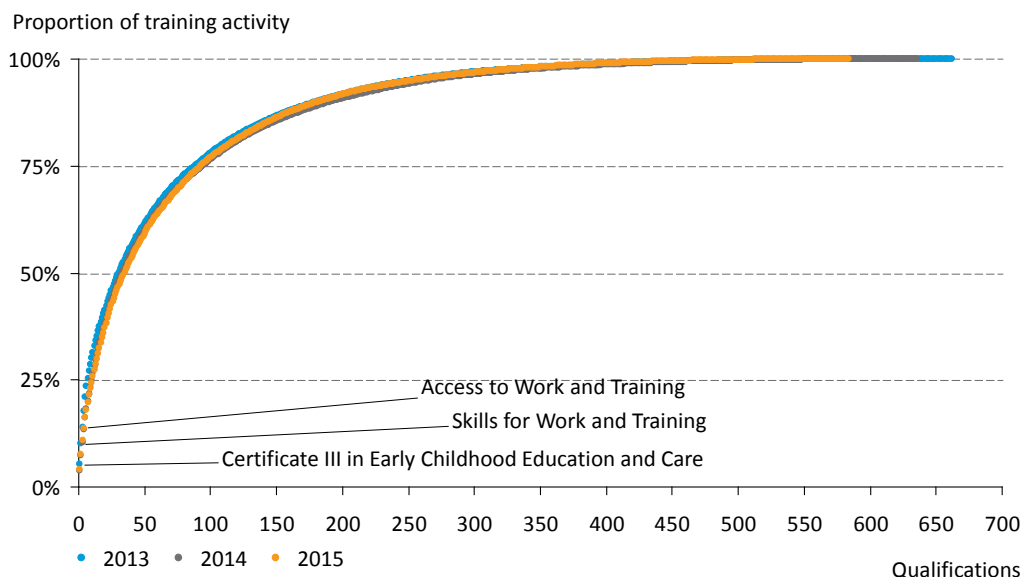
Figure 13 shows the cumulative training activity by qualification in 2013, 2014 and 2015, which are largely consistent. In all years, the top 5 qualifications made up over 16 percent of total training activity and in all years a similar number of qualifications made up 70 percent of training activity (13 percent of active qualifications in 2015, 12 percent of active qualifications in 2014 and 11 percent of active qualifications in 2013).

The distribution of training activity from 2013 to 2015 shows that there is a significant concentration of training provision in NSW. There were only small changes in the set of high activity qualifications between 2014 and 2015, as detailed below.

- The three qualifications with the highest training activity were the same qualifications in 2015 and 2014: Certificate III in Early Childhood Education and Care, Certificate III in Individual Support and Certificate III in Business Administration.
- All of the 25 highest training activity qualifications in 2015 were within the 30 highest commencement qualifications in 2014.
- Of the 80 highest training activity qualifications in 2015, 71 were within the highest 100 commencement qualifications in 2014.

The risk of price misalignment is concentrated in the high training activity qualifications. Small distortions in the prices of high training activity qualifications could have a significant impact on the market.

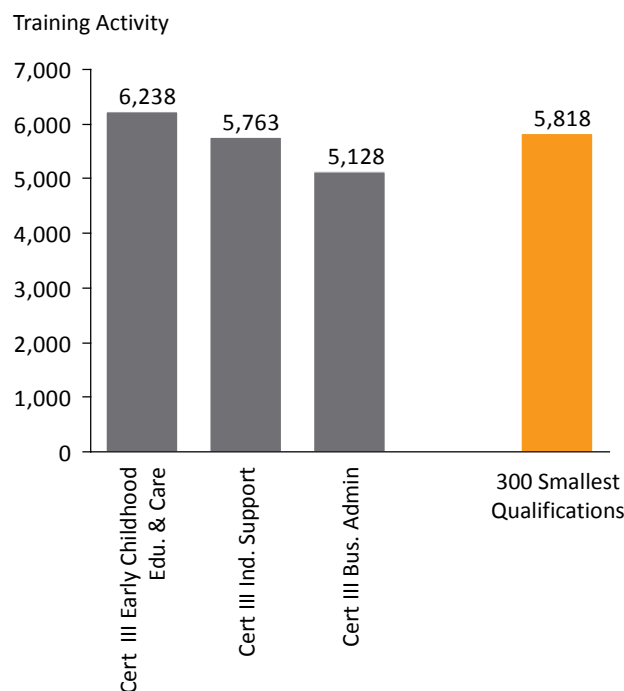
Figure 13: Cumulative training activity by qualification: 2013, 2014 and 2015⁵⁸



⁵⁸ Smart and Skilled 2015 training data and 2013 and 2014 NSW Government subsidised training for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW.

Figure 14 shows that the highest training activity qualification (the Certificate III in Early Childhood Education and Care) had more training activity than the 300 smallest qualifications combined. If the prices for high volume qualifications are not appropriate, this could have a significant impact on the training market due to the amount of activity.

Figure 14: Training activity for the 3 largest qualifications and for the 300 smallest qualifications combined⁵⁹



This trend of concentrated training delivery is largely consistent across provider types and within certain qualifications, with some exceptions detailed below.

- **TAFE NSW generally drives the delivery of the largest qualifications. However, Private RTOs are driving the delivery of some large qualifications.** TAFE NSW Institutes are the majority provider for most high training activity qualifications. However, Private RTOs are the majority provider for four of the largest 25 qualifications: the Certificate III in Hospitality, the Certificates II and III in Retail Services, and the Certificate III in Warehousing Operations.
- **Private RTOs and ACE providers have generally more concentrated delivery than TAFE NSW Institutes.** The 10 highest training activity qualifications for Private RTOs and ACE providers make up more than half of their total activity, while the 10 largest qualifications for TAFE NSW Institutes make up just 24 percent of their total commencements.
- **Trades are taught almost exclusively by the TAFE NSW Institutes,** such as the Certificate III in Electrotechnology Electrician. This is likely driven by TAFE NSW's established infrastructure and experience in delivering these qualifications to industry.

⁵⁹ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW.

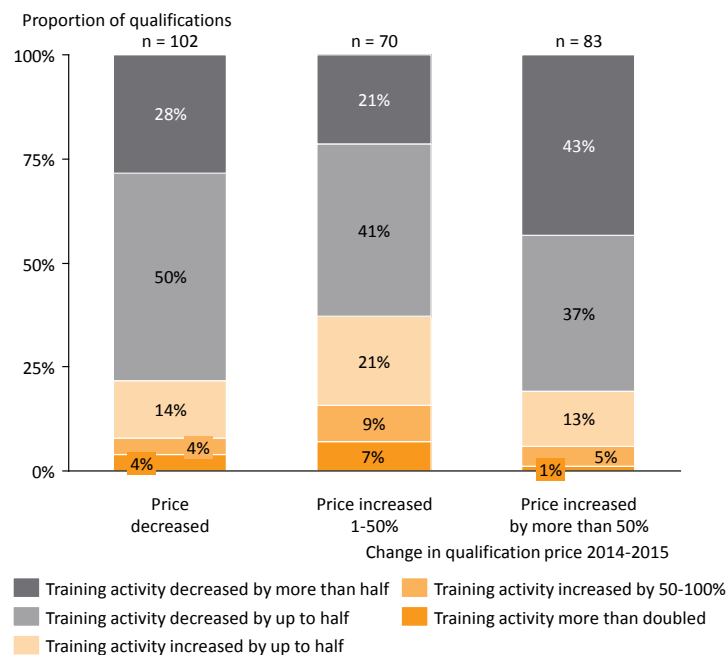
Available evidence does not show a clear relationship between declines in providers' willingness to supply and changes in total prices

Figure 15 shows the proportion of qualifications by change in qualification price and change in training activity from 2014 to 2015. This shows that patterns of change in training activity are relatively consistent across qualifications with different levels of changes in price. This means that providers' training activity changed to similar extents whether prices decreased, increased marginally or increased significantly.

This was confirmed by regression analysis of the change in prices and change in training activity for full qualifications which found a negligible relationship (R-Squared of 0.03). Apprenticeships and traineeships displayed a similar trend to full qualifications. Analysis (including regression analysis) showed that there is not a statistically significant relationship between the changes in traineeship and apprenticeship prices, and changes in training activity.⁶⁰

This is contrary to theoretical economic relationships between changes in price and demand. If training activity is driven by demand, qualifications with large increases in price would be expected to experience the most significant declines in training activity.⁶¹ If training activity is driven by willingness to supply, price increases should lead to more training. Neither is observed in this case.

Figure 15: Proportion of qualifications by change in qualification price and change in training activity⁶²



⁶⁰ However, it should be noted that our analysis of training data from the first quarter of 2016 suggests that the capping of traineeship student fees has increased training activity.

⁶¹ Although this would be affected by differences between the qualification price and the student fee.

⁶² Smart and Skilled 2015 training data and 2014 NSW Government subsidised training for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. 2014 prices determined by adding the fee from TAFE fee data 2010-2014 to the average cost to the Department, from 2014 APL training data, both provided by the Department. Note that the prices used for Apprenticeships and Traineeships in 2014 are only those mandated by the Department, and providers may have received additional funding. Excludes qualifications that had fewer than 10 commencements in both 2014 and 2015. These exclusions leave 255 qualifications, out of 584 active qualifications in 2015. These qualifications represent 73.5% of all commencements in 2015. Note that this does not account for the VET context more broadly, which is discussed in section 2.2. Note also that this only measures the effect of price on willingness to supply. The effect on demand is explored in section 5.2.

There are, however, some relationships between changes in prices and training activity at some qualification levels.

Our data analysis did not show a significant relationship between change in price and change in training activity for full qualifications at the Certificate I, Certificate III, Diploma and Advanced Diploma levels. However, there is a statistically significant positive relationship between change in price and change in training activity for full qualifications at the Certificate II level, a negative relationship for Certificate IV qualifications, and a negative relationship for traineeships at the Certificate III level.⁶³

Potential reasons for these relationships are detailed below. The potential reasons we have identified largely relate to student decision making, and this is relevant to analysis of prices as providers' ability to supply training is also dependent on demand from students.

- ***The positive relationship between price increases and training activity for Certificate II full qualifications may be distorted by high rates of concessions:*** There is a strong positive relationship between increase in price and increase in training activity for Certificate II qualifications. This may be because the increased prices incentivised providers to supply these qualifications as they could make a profit. Or it may be because the high rate of concessions and fee exemptions in Certificate II qualifications (detailed in Section 5) dampens the ability of fees to balance supply side incentives.⁶⁴
- ***The negative relationship between prices and training activity for Certificate IV full qualifications may be driven by students substituting government subsidised training with VET FEE-HELP:*** Analysis of Certificate IV qualifications indicated that an increase in prices resulted in a decrease in training activity. This may be because students preferred to undertake higher qualifications (Diploma and Advanced Diploma) using VET FEE-HELP. As a result, providers have struggled to attract students to undertake Certificate IV qualifications under Smart and Skilled, and the price increases contributed to a decline in commencements.
- ***The negative relationship between price increases and training activity for Certificate III traineeships may have been rectified.*** Our analysis found that there is a relationship between an increase in price for Certificate III traineeships and a decline in commencements. The declines in training activity in traineeships under Smart and Skilled may be part of a historical trend.⁶⁵ The relationship may be directly related to Smart and Skilled price increases in traineeships, and this has been addressed by the capping of traineeship fees at \$1,000. Initial data on commencements in 2016 suggest that the capping of traineeship fees has increased training activity, with over 2,800 traineeship commencements in the first quarter of 2016, compared to fewer than 1,400 in 2015.⁶⁶

⁶³ Relationship measured is Pearson's product-moment correlation. Significance threshold was set at 95%. Certificate II correlation was +0.86, Certificate IV correlation was -0.32, traineeship Certificate III correlation was -0.24.

⁶⁴ Note that this relationship is not found in Certificate II apprenticeships or traineeships.

⁶⁵ Changes to Commonwealth incentives in 2012 were followed by consistent declines in apprenticeship and traineeship training.

⁶⁶ Smart and Skilled 2016 training data for Private RTOs and ACE Providers, provided by the Department. Note that this data is provided on 5 April, and is only reliably accurate up to 8 March.

Total prices are generally comparable between qualifications within industry groups and qualification levels

Smart and Skilled prices are generally consistent when compared to qualifications with similar characteristics such as industry group, qualification level and qualification length. This pricing consistency minimises the risk that providers will have a greater incentive to deliver some qualifications over other qualifications due to differences in price.

We conducted regression analysis of qualification characteristics such as qualification level, industry group and hours of delivery. This approximately replicated the approach undertaken by IPART in pricing qualifications and sought to identify if the prices for any qualifications deviated from expectations. This analysis also sought to identify if any qualifications were priced differently to similar qualifications, which may result in providers having a greater incentive to deliver certain qualifications over others.

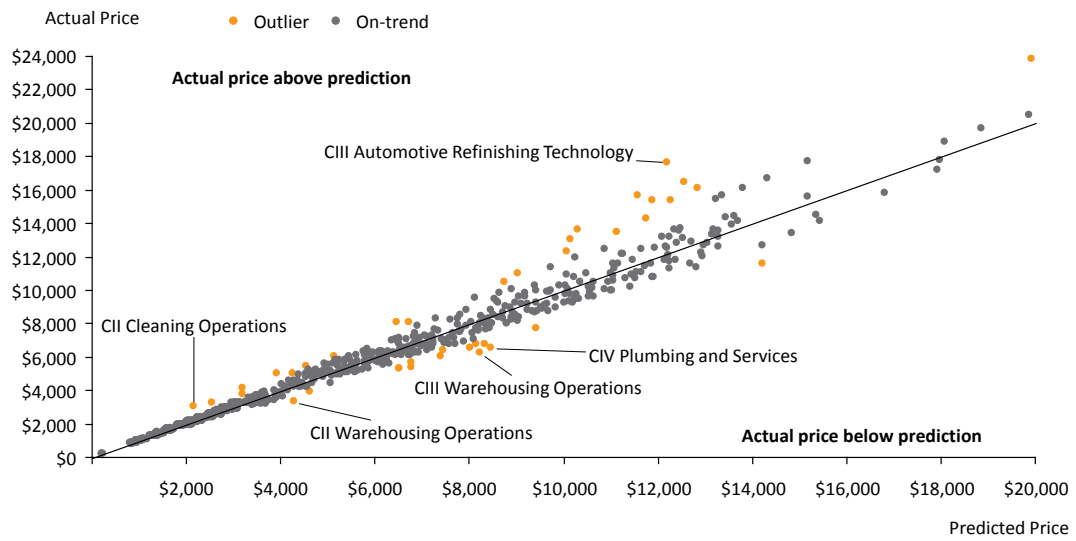
The results of the regression analysis are shown in Figure 16. This compares the predicted prices against the actual price for each qualification. Less than 10 percent of qualifications are priced significantly differently⁶⁷ to other qualifications with similar characteristics.

Those qualifications that are priced differently to other qualifications with similar characteristics (such as industry group, qualification level and qualification length) may not necessarily be priced inappropriately. Differences between the methodology we used for the regression analysis and the IPART methodology may be contributing to these outliers, as detailed below.

- ***The IPART methodology identified certain Units of Competency (UoCs) as being a higher cost*** per hour than other UoCs in the same industry group. The regression analysis does not take into account the cost of individual UoCs. The outliers in automotive (e.g. Certificate III in Automotive Refinishing Technology) are likely to fall into this category as there are several high cost UoCs within this industry.
- ***The regression analysis is based on industry groups which may have both courses which are low cost to deliver and courses that are high cost to deliver.*** For example, the Certificate III in Warehousing Operations is classified in the regression model as part of 'Transport, Logistics and Automotive', which also includes automotive qualifications which are very high cost to deliver. The Certificate III in Warehousing Operations may genuinely be low cost to deliver compared to other qualifications within the same industry. We have conducted further analysis on the outliers in the regression analysis to identify where the differences in prices of similar qualifications may be encouraging providers to deliver certain qualifications. This is detailed in Appendix J.

⁶⁷ Outliers were defined at 15% deviation from prediction since this was the profit margin built into the prices by IPART. As such, outliers priced above expectation would double profits, while outliers below expectation would see no profits.

Figure 16: Actual and predicted prices by qualification⁶⁸



⁶⁸ NSW 2015 Skills List and Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Predicted prices were determined by regression analysis, with inputs of: qualification level, standard qualification length, industry and commencements.

Smart and Skilled government subsidies and total prices are generally in line with other jurisdictions

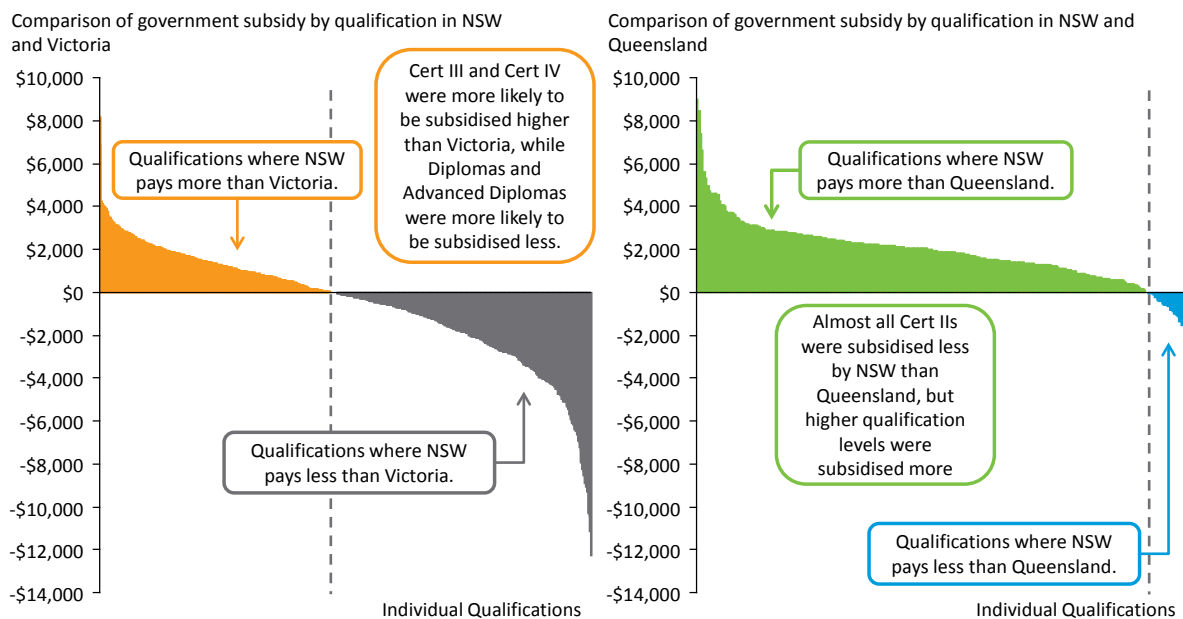
Smart and Skilled government subsidies and total prices are generally in line with Victoria and Queensland.⁶⁹

This analysis was used to identify if providers would have an incentive or disincentive to deliver training in NSW relative to other jurisdictions as a result of prices and government subsidies. It also provides an indication of whether prices and government subsidies in NSW are higher or lower compared to other jurisdictions. This provides an indication of whether NSW has overly generous government subsidies and prices, or insufficient subsidies and prices.

Figure 17 below compares government subsidies in NSW to Queensland and Victoria. Subsidies are compared due to student fees in other jurisdictions being deregulated, meaning there is not a fixed student fee for each qualification in Queensland and Victoria.

The NSW Government subsidies are generally higher than Queensland Government subsidies, and a mixture of higher and lower than Victorian Government subsidies. This suggests that generally providers do not have a strong incentive or disincentive to deliver training in NSW relative to other jurisdictions as a result of government subsidies.

Figure 17: Comparison of Smart and Skilled government subsidies with Victoria and Queensland government subsidies⁷⁰



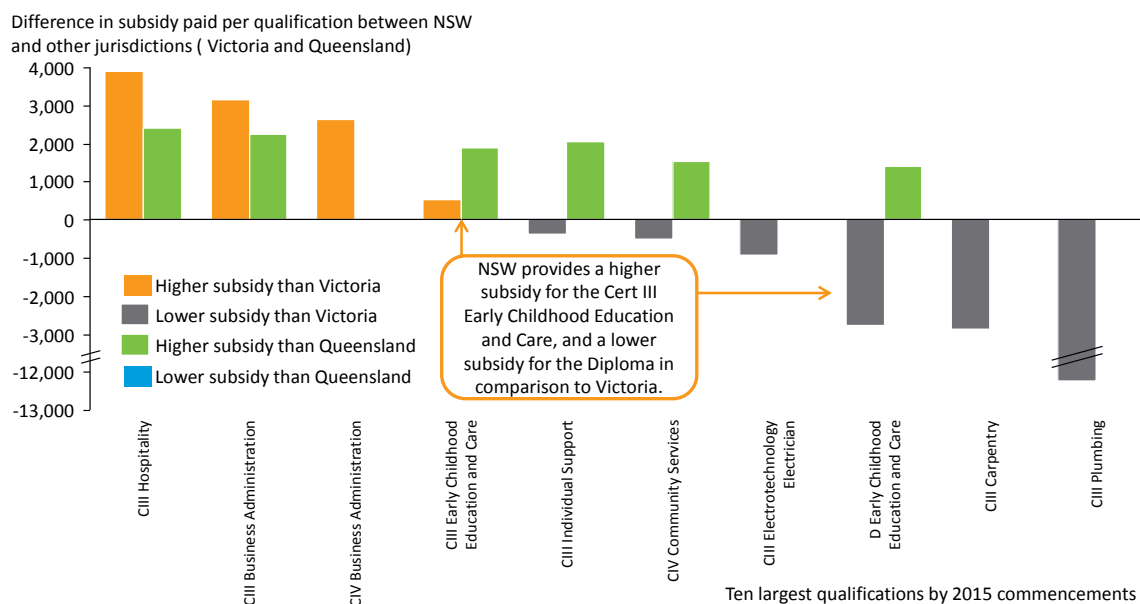
⁶⁹ Analysis was undertaken based on government subsidy rather than overall price because student fees vary in Victoria and Queensland by provider.

⁷⁰ NSW 2015 Skills List, Queensland Training Subsidies List 2015, Victorian Funded Courses Report 2016. Victorian subsidies are calculated by multiplying the subsidy hourly rate by the maximum nominal hours.

For the highest activity qualifications, Smart and Skilled government subsidies are also in line with other jurisdictions. This is shown in Figure 18 and detailed below.

- **Four of the highest training activity qualifications have higher subsidies in NSW** than in Queensland and Victoria. These qualifications are in business, hospitality and early childhood.
- **Four of the highest training activity qualifications have lower subsidies in NSW** and these are in 'traditional trades' and early childhood.
- **There are also two qualifications where the NSW Government subsidy is lower than Victoria and higher than Queensland.** These qualifications are in community support.

Figure 18: Comparison of Smart and Skilled government subsidy with Victoria and Queensland government subsidies for the 10 highest commencement qualifications⁷¹

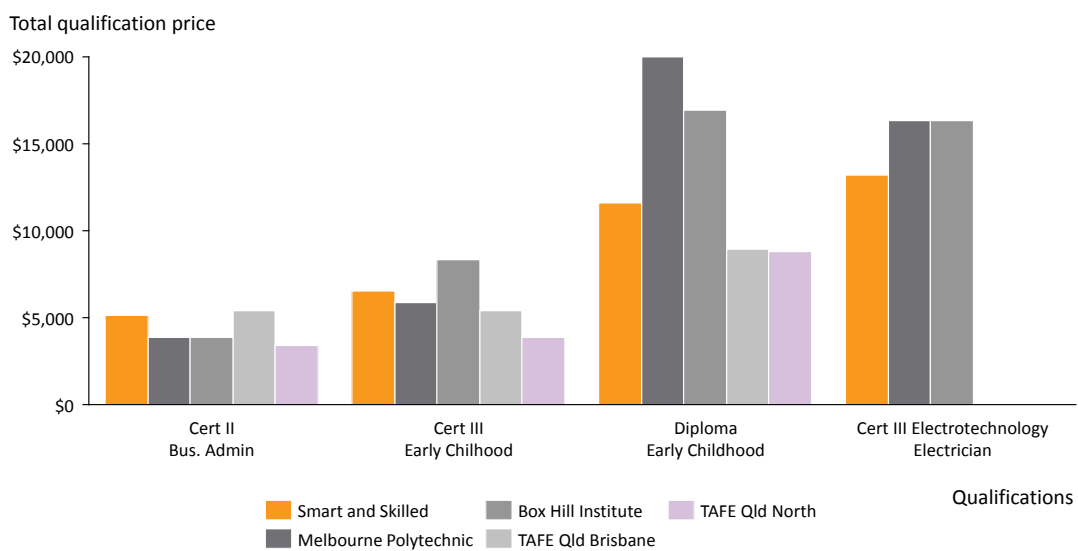


⁷¹ NSW 2015 Skills List, Queensland Training Subsidies List 2015, Victorian Funded Courses Report 2016. Victorian subsidies are calculated by multiplying the subsidy hourly rate by the maximum nominal hours.

Figure 19 shows a comparison of qualification price between jurisdictions. To conduct this analysis we collected the student fee amounts at selected TAFE providers in Victoria and Queensland. We added the student fees to the government subsidies to calculate the total price which these providers receive for delivering training.

Figure 19 shows that there is no consistent relationship between the total price paid in different jurisdictions. Smart and Skilled providers receive more funding for some qualifications than providers in other jurisdictions. For other qualifications, Smart and Skilled providers receive less funding. For example, the Certificate III in Early Childhood Education and Care has a higher price in Smart and Skilled than at Melbourne Polytechnic or the Queensland TAFE Institutes, but lower than at the Box Hill Institute.

Figure 19: Total qualification price comparisons between Smart and Skilled and providers in Victoria⁷²



⁷² NSW 2015 Skills List, Queensland Training Subsidies List 2015, Victorian Funded Courses Report 2016, and research on provider websites. Victorian subsidies are calculated by multiplying the subsidy hourly rate by the maximum nominal hours.

Providers generally receive lower revenue per student from Smart and Skilled than VET FEE-HELP

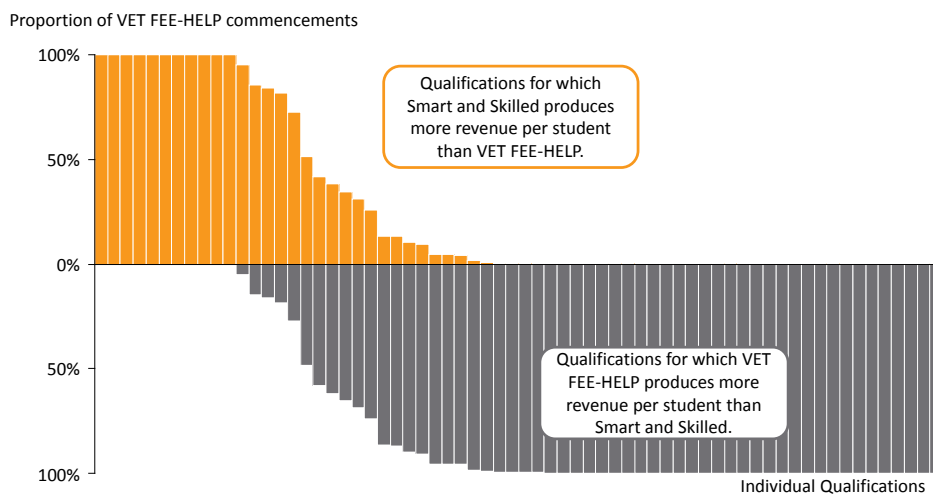
For most qualifications, the total qualification price for Smart and Skilled is lower than the prices providers receive under VET FEE-HELP. This means that providers generally receive less revenue per student from Smart and Skilled than VET-FEE HELP.

Figure 20 shows the proportion of VET FEE-HELP fee-for-service students in a qualification that produce less revenue (orange) or more revenue (grey) for the provider than Smart and Skilled students.⁷³ In the majority of cases, Smart and Skilled provides less revenue per student than VET FEE-HELP. This could imply either that the Smart and Skilled prices are below market rates, that VET FEE-HELP providers are delivering a different type of product to Smart and Skilled providers, or that VET FEE-HELP providers can charge high prices due to the student receiving a loan to cover their contribution.

Providers of both VET FEE-HELP and Smart and Skilled have a higher rate of delivery of those qualifications where Smart and Skilled produces more revenue.⁷⁴ This may suggest that some providers are directing their training delivery between different funding programs to where more revenue can be gained.

However, it should be noted that in the data supplied by the Commonwealth Government to Nous there were large differences between the revenue per student of different VET FEE-HELP providers. More than 60 percent of qualifications had a range of more than \$4,000 between the highest and lowest revenue per student VET FEE-HELP provider. These significant differences suggest this data should not be relied upon to reach definitive conclusions regarding the appropriateness of Smart and Skilled prices.

Figure 20: Proportion of VET FEE-HELP fee-for-service students that provide higher or lower revenue than Smart and Skilled in each qualification⁷⁵



⁷³ The revenue per student for Smart and Skilled is the full qualification price (including student fee and government subsidy). The revenue per student for VET FEE-HELP providers is the student fee (as in most cases there are no government subsidies).

⁷⁴ It should be noted that this delivery is at relatively low proportions. For example, ACE providers who hold VET FEE-HELP and Smart and Skilled contracts have 1.5% of their training in qualifications shown in orange in Figure 20, whereas non-VET FEE HELP providers have 0.5%. Similar Private RTOs who hold VET FEE-HELP and Smart and Skilled contracts have 3.3% of their deliver in qualifications shown in orange in Figure 20, whereas non-VET FEE HELP providers have 1.7%. All TAFE NSW Institutes hold VET FEE-HELP contracts and therefore this comparison cannot be made.

⁷⁵ NSW 2015 Skills List, and VET FEE-HELP 2014 data provided by the Commonwealth. Smart and Skilled price taken as the full qualification price. VET FEE-HELP price calculated as the fee per student. This is calculated by dividing the total annual fee intake by the total student load for a given qualification at a given provider. This accounts for students studying part time, and potentially for student attrition, but not if a student pays for a larger portion of the course than they complete. Calculated student fees for the whole qualification for VET FEE-HELP are then increased by 5.5% on 2014 figures, in line with Education CPI according to ABS, in order to be comparable with 2015 Smart and Skilled student fees. Qualifications with fewer than five VET FEE-HELP equivalent full time students were excluded.

Most qualifications do not have unusually high concentration of provider delivery

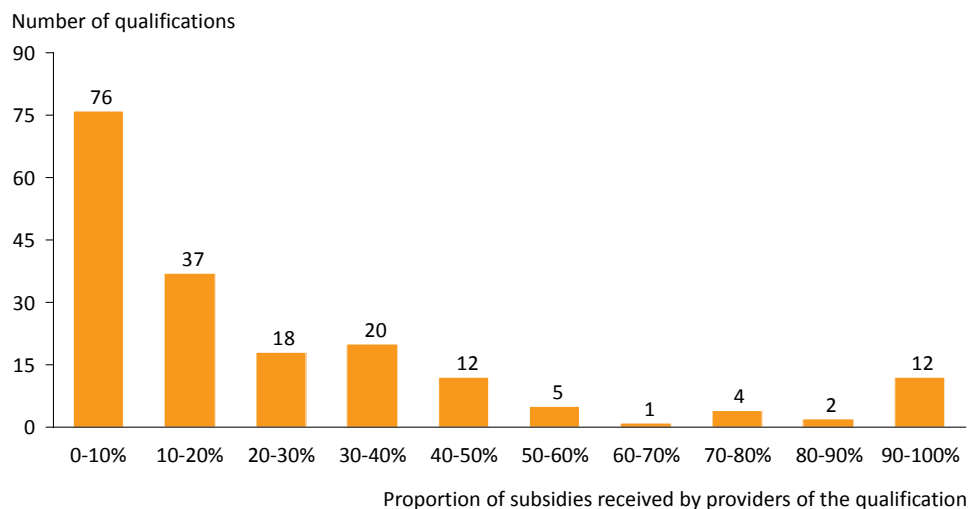
Most providers are distributing their training delivery across a range of qualifications, suggesting that prices are generally not incentivising providers to concentrate their delivery in certain qualifications over others.

Figure 21 shows the number of qualifications by average proportion of provider spending for Private RTOs and ACE providers. TAFE NSW Institutes have been excluded from this analysis as a complete data set on spending could not be provided. Additionally, the scale of the TAFE NSW operation means that spending would not be concentrated.⁷⁶

Figure 21 shows that the vast majority of qualifications offered (88 percent) account for less than 50 percent of providers' spending on average. This suggests that providers generally offer a range of qualifications and do not have price based incentives to deliver some qualifications to the exclusion of others. This is consistent with a well-functioning market.

At the same time, some providers are specialising and there are a small number of specific qualifications which providers consistently focus on delivering. These qualifications, and the reasons that providers may focus on them, are explored in more depth in Appendix J.

Figure 21: Number of qualifications by average proportion of subsidies received by providers of the qualification for Private RTO and ACE Providers⁷⁷



⁷⁶ No single qualification takes up more than 5% of TAFE NSW activity.

⁷⁷ Smart and Skilled training and payments data for Private RTOs and ACE providers provided by the Department. Chart is limited to qualifications with at least 10 commencements in 2015. All programs are included.

Cohort sizes are small and it is unclear if this is due to generous prices

Cohort sizes under Smart and Skilled are generally small, with fewer than five students commencing together.

This analysis was undertaken to identify if prices are sufficiently generous for providers to run small cohorts. This gives insight into the quantity of training that providers deliver at the set qualification price and therefore, the revenues they require. We calculated a 'cohort' as students at the same provider and at the same location, undertaking the same qualification and commencing within the same month. It should be noted that this is an estimation of cohort size, as definitive data on cohorts is not available.

The generally small cohorts we have identified may be due to a range of factors and it is not possible to definitively link the relationship to total prices.

Figure 22 overleaf shows the distribution of cohort sizes for full qualifications delivered through face-to-face or mixed mode training. This shows that across provider types and industries there are consistently small cohorts, with 56 percent of Smart and Skilled cohorts smaller than five students.⁷⁸

Some cohorts may also be overestimated in this analysis, as it does not distinguish when a provider commences multiple cohorts for a qualification at the same time and location. However, the analysis does account for students who enrol at different times but commence together.

There are a number of possible reasons for this and these reasons are detailed below.

- ***Providers may have had to run small cohorts because of receiving financial caps in regions and qualifications that were not a core part of their business model.*** This may have meant that providers could only attract small numbers of students initially, and have had to build their delivery in these regions and qualifications over time.
- ***Providers may have misunderstood how financial caps operate for qualifications delivered over more than one year.*** In the first stage of this review we found that many providers misunderstood how the financial caps work. Providers receive financial caps for one year of training activity. If a qualification is delivered over more than a year, then the training can be funded by two years of financial caps. Many providers thought that commencing students had to be funded entirely out of their financial cap for that year. Therefore, they may have underestimated how many students they could enrol and ran small cohorts as a result.
- ***Providers may be running mixed classrooms for Smart and Skilled students and fee for service students.*** It should be noted that some providers indicated to Nous that providers are not running mixed classrooms with fee for service students as they do not want students discussing the different fees they are paying.
- ***Providers may be running mixed classrooms for the same unit of competency*** across multiple qualifications. For example, students undertaking a Certificate III in Early Childhood Education and Care and students undertaking a Certificate III in Individual Support may be undertaking workplace health and safety UoCs together.⁷⁹ Stakeholder consultation has suggested that this is common behaviour and therefore, cohorts may be larger than they appear in our analysis which calculates cohorts as students undertaking the same qualification.

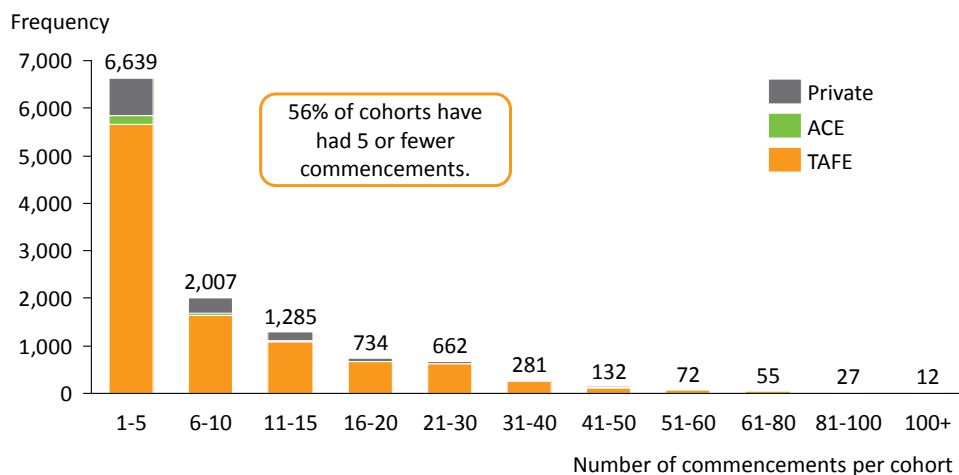
⁷⁸ This is consistent for TAFE NSW Institutes and Private RTOs, although ACE Providers show a higher rate of small cohorts (66%). The result is also consistent across multiple ways of identifying cohorts such as using alternate months (15th-15th rather than 1st to 30th). If cohorts commencing in consecutive months are combined, there are still 46% of cohorts with fewer than five students. Further analysis is presented in Appendix H.

⁷⁹ These students would be counted in separate cohorts in our analysis because they are undertaking different qualifications.

- **Small contract sizes** may force providers to teach small cohorts if they are not funded to subsidise larger numbers of students. Our analysis found that providers with smaller financial caps are more likely to have small cohorts.⁸⁰ Additionally, a financial cap of \$28,000 would only be able to support five subsidised students in the Certificate III in Individual Support and five subsidised students in the Certificate III in Business Administration, although possibly more if one allows for expected rates of attrition. This analysis is presented in Appendix H.
- **Prices under Smart and Skilled may be sufficiently generous** for providers to make a profit at low cohort sizes.

It was suggested to Nous that cohorts may be small because providers may be using recognition of prior learning (RPL) or credit transfer to reduce the teaching requirements of students, lowering costs and enabling smaller cohorts. This does not appear to be a significant driver, as cohorts are consistently small regardless of the rate of RPL or credit transfer.⁸¹

Figure 22: Frequency of cohort sizes for full qualifications delivered face-to-face or mixed mode⁸²



⁸⁰ Providers with combined financial caps of less than 100% had fewer than five students in 70% of cohorts, whereas providers with larger caps had fewer than five students in only 55% of cohorts.

⁸¹ Our analysis found that cohorts with high rates of RPL and credit transfer are more likely to be small cohorts. However, this affects a small proportion of cohorts (18.6%). This is because only 14.1% of all students gained any training using RPL or credit transfer, and only 4.6% of total potential training.

⁸² Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Cohorts have been defined as the group of students commencing the same qualification, with the same provider, at the same training location. Apprentices, Trainees, students identified as studying through 'Employment' or 'On-line/Correspondence' delivery modes have been excluded, as have all Open Training and Education Network (OTEN) students, as these students are not taught in cohorts in the same way.

4.3 Prices for some qualifications may require review

As detailed in Section 4.2, prices have not fundamentally distorted provider behaviour. However, our analysis of training activity has identified some qualifications for which the prices may require review. These qualifications are those that have anomalies in provider behaviour and those that have a very high number of commencements.

There are anomalies in provider behaviour which may necessitate short term revisions to prices for a small number of qualifications

There are a small number of qualifications for which provider behaviour suggests there may be distortions in the market. Our detailed analysis suggests that there is potential that these distortions in provider willingness to supply these qualifications may be related to pricing.

We conducted detailed analysis to identify qualifications where:

- Prices may be misaligned compared to similar qualifications.
- There have been changes in training activity from 2014 to 2015 that cannot be explained by factors external to Smart and Skilled.
- Providers have been very willing to supply the qualification.⁸³
- Providers have generally had very large cohorts for the qualification.

This analysis is presented in Appendix J.

There is a risk that qualifications identified through this analysis have misaligned prices which potentially represent a challenge to the functioning of the market in the short term. The Department should review the prices for these qualifications to see if they require short term adjustment to prices.

Table 6 provides a list of these qualifications.

Table 6: Qualifications which may require pricing review⁸⁴

Indicator	Qualifications	
Qualifications identified through regression analysis as having potentially misaligned prices ⁸⁵	Certificate II in Automotive Body Repair Technology	Certificate III in Automotive Body Repair Technology
	Certificate III in Logistics	Certificate IV in Logistics
	Certificate II in Cleaning Operations	Certificate III in Cleaning Operations
	Certificate IV in Dental Assisting	Certificate III in Dental Assisting
	Certificate III in Warehousing Operations	Certificate II in Warehousing Operations
	Certificate IV in Warehousing Operations	

⁸³ As indicated by a high proportion of provider's financial caps being spent on the qualification.

⁸⁴ Nous analysis of Smart and Skilled training data for Private RTOs and ACE providers, provided by the Department. TAFE NSW subsidised training data for 2015, provided by TAFE NSW.

⁸⁵ As detailed on page 47, there may be legitimate reasons for qualifications to have misaligned prices with other qualifications in the given industry group. However, this should be investigated.

Indicator	Qualifications	
Qualifications with significant changes in commencements from 2014 to 2015	Certificate IV in Leadership and Management	Certificate III in Civil Construction Plant Operations ⁸⁶
	Skills for Work and Training	Certificate II in Automotive Servicing Technology
	Access to Work and Training	Diploma of Leadership and Management
	Certificate I in Skills for Vocational Pathways	
Qualifications with unusual provider behaviour (concentration of spending or large cohorts)	Certificate III in Travel	Certificate IV in Allied Health Assistance
	Certificate IV in Building and Construction (Building)	Certificate III in Hospitality

Pricing risk is concentrated in high volume qualifications and the prices for these qualifications should be reviewed to ensure they are appropriate

Commencements and pricing risk are concentrated in five qualifications. We have not identified anomalies in provider behaviour in these qualifications which suggest the prices are inappropriate. However, due to the concentration of commencements in these qualifications it is essential that the prices for these qualifications are appropriate.

A major challenge for managing the NSW Government subsidised VET market is that commencements are highly concentrated (as highlighted in Section 4.2 on page 43). This means that pricing risk and risk more generally are also highly concentrated. The whole market is vulnerable to minor distortions in the price of the highest volume qualifications, or to small changes in the behaviour of providers for these qualifications.

The following qualifications have the highest commencements, making up 16 percent of all Smart and Skilled commencements:

- Certificate III in Early Childhood Education and Care.
- Certificate III in Individual Support.
- Certificate III in Business Administration.
- Certificate III in Electrotechnology Electrician.
- Certificate III in Hospitality.

The Department should review the prices for these qualifications to ensure they are appropriate. This will help ensure the effective operation of the market.

⁸⁶ Feedback from providers suggests that there may be broader issues of qualifications within this training package. However, the price for Cert III Civil Construction Plant Technology may still warrant review.

4.4 The existing pricing approach poses challenges in the longer term as the market matures

Prices and the approach taken to setting initial prices are broadly appropriate, but there are a number of challenges which will need to be addressed in order to maintain a functioning contestable market. The current approach to pricing cannot be replicated and may not be effective as the market matures and diversifies over the medium to long term

The initial approach to setting fixed prices by IPART was broadly appropriate for introducing contestability in a measured manner (see Section 4.1). Additionally, the prices that were developed have not led to significant distortions in provider willingness to supply (see Section 4.2). However, the IPART approach to pricing will not be able to be replicated, and it may also not be appropriate as the Smart and Skilled market diversifies and evolves over the medium to long term.

The IPART approach to pricing used TAFE NSW cost data to develop efficient costs of UoCs. This data was sense checked against Private RTO data submitted through the Strategic Skills Program (SSP). This approach is summarised in Section 1.3 on page 16. The IPART approach cannot be replicated on an ongoing basis as these data sources are no longer available, and it would be administratively complex and costly to collect new cost data from providers. It may also not be sufficiently flexible to allow for prices to be revised when there are changes to training packages for qualifications which significantly impact the cost for providers of delivering training (for example, requirements for work placements or use of new equipment).

As detailed in Section 4.1 on page 41, there were advantages to using administrative price setting in the initial stages of Smart and Skilled. However, administrative price setting may not be appropriate as the market matures and diversifies.

The Smart and Skilled market may become increasingly diverse as the market matures. There are already a large range of providers, locations and qualifications in Smart and Skilled. Over time, this diversity may increase as providers compete and innovate, and as new demands arise in response to the contestable market. This diversification and innovation will be an important feature of the contestable funding model, particularly against the objective of improving consumer choice. As such, even if the market does not diversify naturally, it is important to encourage diversification.

To enable this, Smart and Skilled will need pricing mechanisms that enable providers to be more responsive to changes in consumer demand and expectations, and more innovative in their responses.

5 Student fees and concessions

Students' investment in training is facilitated through student fees. Fees send signals to students about the market, encourage student demand and increase students' commitment to their training.

Concessions ensure that students from disadvantaged backgrounds who are more price-sensitive do not face financial barriers in engaging in training. Under Smart and Skilled, students pay a proportion of the total qualification price and this proportion increases with higher qualifications. Disadvantaged students can also be eligible for concessions, fee exemptions or full fee scholarships.

Our analysis of training activity data shows that student fees arrangements did not directly cause the decline in enrolments in 2015, and concession arrangements appear to be operating as intended. However, there are a small number of qualifications for which student fee amounts may need to be re-examined.

5.1 Student fees and concessions balance private returns with accessibility and providing a signal for student decisions

Student fees and concessions are an essential part of a well-functioning VET market. They ensure that training is accessible to a diverse range of students, students are engaged with their training and that providers are able to attract enough students to deliver quality training.

Student fees share the cost of training, create buy-in from students and signal the value of qualifications

In setting student fees the NSW Government must balance the following objectives:

- ***Sharing the cost of training between the student and government*** to reflect the private benefit that individuals gain from the completion of training and the economy wide benefits of increased productivity.
- ***Creating 'buy-in' from the student***. There is a growing body of evidence that charging student fees makes the student more responsible for their education.⁸⁷
- ***Signalling the relative value of qualifications to students***. Fees are a major signal to students, but the nature and clarity of that signal can vary. Ideally a fee structure will send a consistent message about the value of the qualification.

There are a range of options to setting student fees which seek to achieve the above objectives, which are detailed in Table 7 .

⁸⁷ Weber, L., and Bergan, S. (eds), 2005, *The Public Responsibility for Higher Education and Research*, Council of Europe Publishing

Table 7: Options for student fees

	Description
Fixed student fees	<ul style="list-style-type: none"> The Government can determine the student fees which providers are allowed to charge students. These fixed fees can be based on consumers' willingness to pay, the cost of delivery, lifetime earnings or incentivise individuals to undertake a specific qualification.
Partially flexible student fees	<ul style="list-style-type: none"> The Government can give providers a degree of flexibility to determine the student fees for qualifications. This can involve the Government setting a minimum and maximum student fee.
Fully flexible student fees	<ul style="list-style-type: none"> The Government can offer providers full flexibility to determine the student fee amount, within the bounds of policies regarding the reasonableness of fees.
	= Current approach under Smart and Skilled

The NSW Government chose an initial approach of setting fixed student fees based on a proportion of the total cost of the qualification. Student fees are on average 25 percent of the total price for Certificate II and III qualifications, 30 percent for Certificate IV, and 40 percent for Diploma and Advanced Diploma. This is lower than the original IPART recommendations as a result of advice from the NSW Skills Board, reflecting the need to maintain access and minimise the impact of demand from fee increases.

This was advantageous in the initial stages of Smart and Skilled as it allowed certainty over access to the market and balanced the objectives outlined above. These advantages are detailed below.

- **Ensured that students paid part of the cost of training**, which was in line with government objectives to reflect the private benefits and created 'buy-in' from students.
- **Gave a consistent signal to students about the relative value of increasing qualification levels.** This reflected the pathway nature of Certificate II and III qualifications, as well as the higher earnings returns from higher level qualifications.⁸⁸
- **Prevented quality issues that could arise from competition on fees** between providers.

Under Smart and Skilled, students can access VET FEE-HELP for Diplomas and Advanced Diplomas to defer the payment of their student fee.

Concessions ensure that training is accessible to students with a limited ability to pay

Concessions ensure that training is accessible for students for whom fees could be a barrier. The Government's objectives in providing concessions are to:

- **Address the higher levels of price sensitivity of disadvantaged students** and mitigate the financial barriers faced by some students in engaging in training.⁸⁹
- **Reflect the higher public benefit of disadvantaged students training and gaining employment.** There is a higher public benefit from these students engaging in training and gaining employment due to the higher risk that they are reliant on welfare payments. Assisting these people to overcome disadvantage and contribute more fully to society increases the public benefit.

⁸⁸ Leigh, A., *Returns to Education in Australia*, 2007, <http://andrewleigh.org/pdf/ReturnsEducationAustralia.pdf> accessed 7 March 2016.

⁸⁹ L. L. Leslie and P. T. Brinkman, 'Student price response in higher education', *Journal of Higher Education*, Vol. 58, 1987, pp. 181-204; D. E. Heller, 'The effects of tuition and state financial aid on public college enrolment', *The Review of Higher Education*, Vol. 23, No.1, Fall, 1999, pp. 65-89.

There are a range of options for using concessions and similar mechanisms to reduce student fees and meet these objectives, as shown in Table 8.

Table 8: Options for reduced fees for disadvantaged students

Means tested reduced fees	Fees can be reduced according to a sliding scale based on student characteristics.
Flat reduced fees	Fees can be reduced by a flat amount for students from disadvantaged backgrounds.
Scholarships	Students can be given scholarships to offset part or all of the cost of training.
	= Current approach under Smart and Skilled

The initial approach in Smart and Skilled is to have eligible students pay a flat reduced fee, as well as fee exemptions and fee free scholarships. This has a number of advantages as an initial approach:

- It mitigates the financial barriers faced by disadvantaged students.
- It reflects the higher public benefit from the training of these students.

However, the eligibility requirements for each of these mechanisms are very similar and the rationale for the three different mechanisms is not entirely clear. The eligibility requirements are outlined in Table 9, and potential redundancy is discussed further in Section 5.4.

Table 9: Eligibility for fee reductions or exemptions in 2015⁹⁰

	Student eligibility
Exemptions	<ul style="list-style-type: none"> • Aboriginal and Torres Strait Islander students. • Students with disability undertaking their first qualification.⁹¹
Concessions	<ul style="list-style-type: none"> • Students receiving a Commonwealth Government payment or allowance. • Students who are dependent on a parent, guardian, spouse or partner who receives a Commonwealth Government payment or holds a pensioner or concession card issued by Centrelink.
Fee free scholarships ⁹²	<ul style="list-style-type: none"> • Aged 15-30 years, and • Eligible for concession fees (see above), and • Studying a Cert I to Cert IV (including apprenticeships and traineeships), and • Start after 1 July 2015.

5.2 Student fee increases have not fundamentally distorted the market and are appropriately distributed

Appropriate student fees reflect the Government's intentions for training and allow the competitive market to operate without distortions. We have analysed a range of indicators of provider behaviour

⁹⁰ Smart and Skilled, 2015. *Fee exemptions and concessions for Smart and Skilled training.*

⁹¹ From 2016, students with disability will receive fee exemptions for all qualifications, including subsequent qualifications.

⁹² Students can receive one scholarship in a calendar year and max of two scholarships over 4 years. Young people living in Social Housing or on the waiting list for Social Housing are given priority. There are 50,000 available in 2015/16.

and student commencements to identify if student fees have distorted the market. We have observed that:

- Fee increases in most qualifications are consistent with graduate outcomes.
- There is not a clear statistical relationship between the increases in student fees and declines in enrolments.
- Student fees are generally comparable between qualifications with similar characteristics.
- The total cost to Smart and Skilled students is lower than VET FEE-HELP students, although the up-front cost is higher under Smart and Skilled.

Fee increases in most qualifications are consistent with graduate outcomes

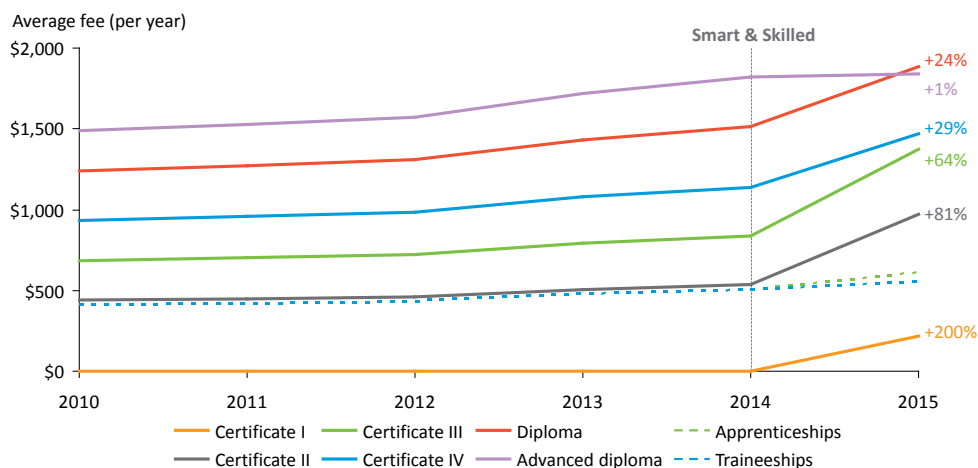
The fee increases in Smart and Skilled have generally been concentrated in industries and qualification levels that have higher graduate salaries.

Fees increased across all qualification levels under Smart and Skilled, as shown in Figure 23. The fee increases for Certificate III and above match the clear earnings benefit of attaining these qualifications (evidence shows an annual wage increase of 21 percent for Certificate III or IV training above 11 or fewer years of schooling).⁹³

However, the fee increases for Certificate I⁹⁴ and Certificate II qualifications may not align with the outcomes for graduates. There is limited evidence of earning benefits for Certificate I and Certificate II qualifications (evidence shows that Certificate I and II improve rates of participation in work, but do not raise earnings).⁹³

The convergence of student fees for Diplomas and Advanced Diplomas may reflect the fact that Advanced Diplomas have generally fewer hours of delivery than Diplomas.⁹⁵ This is usually because Advanced Diplomas require the relevant Diploma as a prerequisite.

Figure 23: Average student fee by qualification level, 2010-2015⁹⁶



⁹³ Leigh, A., *Returns to Education in Australia*, 2007.

⁹⁴ The Certificate I qualifications available under Smart and Skilled are foundation qualifications. These qualifications offered by TAFE NSW had no student fee prior to 2015. There were Certificate I qualifications in vocational areas such as automotive that had student fees prior to 2015, however, these qualifications are not included in Smart and Skilled.

⁹⁵ Diplomas have on average 925 standard course hours compared to 873 for advanced diplomas.

⁹⁶ Fees from the 2015 Skills List and TAFE fee data 2010-2014, provided by the Department. The 2015 student fee by level of qualification is an average across all qualifications in that qualification level. Average fee for traineeships assume a 1.7 years average duration and apprenticeship assumes a 3.1 years average duration.

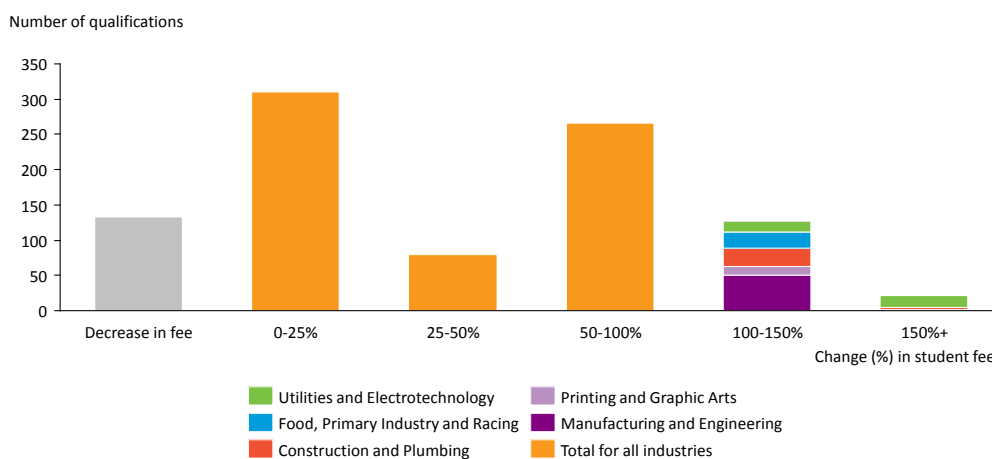
Fee increases were generally concentrated in industries which have higher graduate salaries. Figure 24 shows the distribution of qualifications by change in fee and industry. The industries where student fees have more than doubled are:

- Food, Primary Industry and Racing (22 qualifications).
- Manufacturing and Engineering (51 qualifications).
- Utilities and Electrotechnology (34 qualifications).
- Construction and Plumbing (28 qualifications).
- Printing and Graphic Arts (14 qualifications).

Higher fees for Manufacturing and Engineering, Utilities and Electrotechnology, Construction and Plumbing can be justified based on the higher lifetime earnings of many occupations within these industries.

However, Food and Hospitality occupations, and Printing and Graphic Art occupations tend to have low lifetime earnings (almost half that of Engineering occupations) and so these fees may not match the earnings potential of graduates. However, it should be noted that people often transition from Food and Hospitality occupations to other higher paying employment, both within the sector and in other sectors. Nonetheless, these fee increases may require re-examination.

Figure 24: Number of qualifications by change in student fee from 2014 to 2015 and industry⁹⁷



⁹⁷ Fees from the NSW 2015 Skills List and TAFE fee data 2010-2014, provided by the Department.

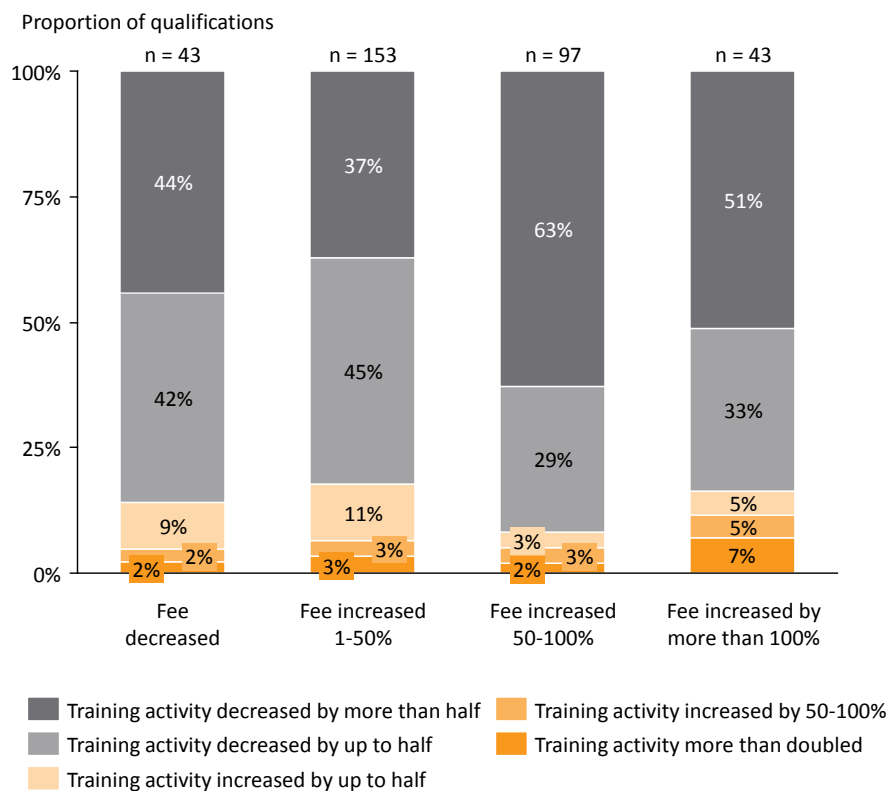
There is not a clear statistical relationship between the increases in student fees and declines in enrolments

Our regression analyses have not have found evidence that student fees are related to the decline in training. This finding is consistent across different qualifications levels, including capped apprenticeship fees and the traineeship fees before they were capped.

Figure 25 shows that there is no clear statistical relationship between increases in student fees and declines in commencements. Those qualifications with fee increases of more than 100 percent experienced similar declines in commencements to qualifications where fees decreased or increased marginally.

This is confirmed by regression analysis, which shows no statistical correlation between student fees and changes in commencements.⁹⁸ This analysis excludes concession students to avoid including students paying lower fees. This analysis also excludes very low commencement qualifications and includes 333 qualifications (out of 568 active qualifications in 2015).

Figure 25: Proportion of full qualifications by change in student fee and change in commencements⁹⁹



There were also no statistically significant relationships at the qualification level between student fee increases and declines in commencements in 2015. This was the case at each Certificate level for full

⁹⁸ R-squared of 0.00.

⁹⁹ Smart and Skilled 2015 training data and 2014 NSW Government subsidised training for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Smart and Skilled fees from the NSW 2015 Skills List. 2014 fees from TAFE fee data 2010-2014, provided by the Department. Excludes qualifications that had fewer than 10 commencements in both 2014 and 2015 from the chart, but not from correlation analysis. Qualifications with no commencements in 2014 are considered as 'more than doubled'. Concession students are excluded. These exclusions leave 333 qualifications, out of 586 active qualifications in 2015, representing 98% of full qualification students on a standard fee.

qualifications, apprenticeships, and traineeships¹⁰⁰ in 2015. However, early results since traineeship fees were capped this year suggest that the student fee decreases may have resulted in an increase in commencements.

It should be noted that the results showing no significant relationship between increases in student fees and declines in commencements are contrary to stakeholder feedback received in Stage One of this review. In a survey of providers, 79 percent said that fees were high or too high.¹⁰¹ However, only 40 percent of students surveyed who were paying the full qualification price thought that their fees were unreasonable or very unreasonable (compared to 15 percent paying concession fees).¹⁰²

These differences reflect a broader challenge that the relationship between student fees and demand is not clearly understood. Section 5.4 discusses how this could be improved so as to better plan student fees for the future.

¹⁰⁰ Regression analysis showed that overall and across all qualifications levels, there was no relationship between apprenticeship and traineeships fees increases and change in commencements for these qualifications in 2015. Traineeships with fees in 2015 over \$1,000 were also tested separately, with no relationship found.

¹⁰¹ Nous survey of Smart and Skilled providers, conducted in August 2015.

¹⁰² Nous survey of VET students, conducted in August 2015.

Student fees are generally comparable between qualifications with similar characteristics

Smart and Skilled fees are generally consistent when compared to qualifications with similar characteristics such as industry group and qualification level, and training type (full qualification, apprenticeship or traineeship). This consistency minimises the risk that students will favour certain qualifications over other based on price.

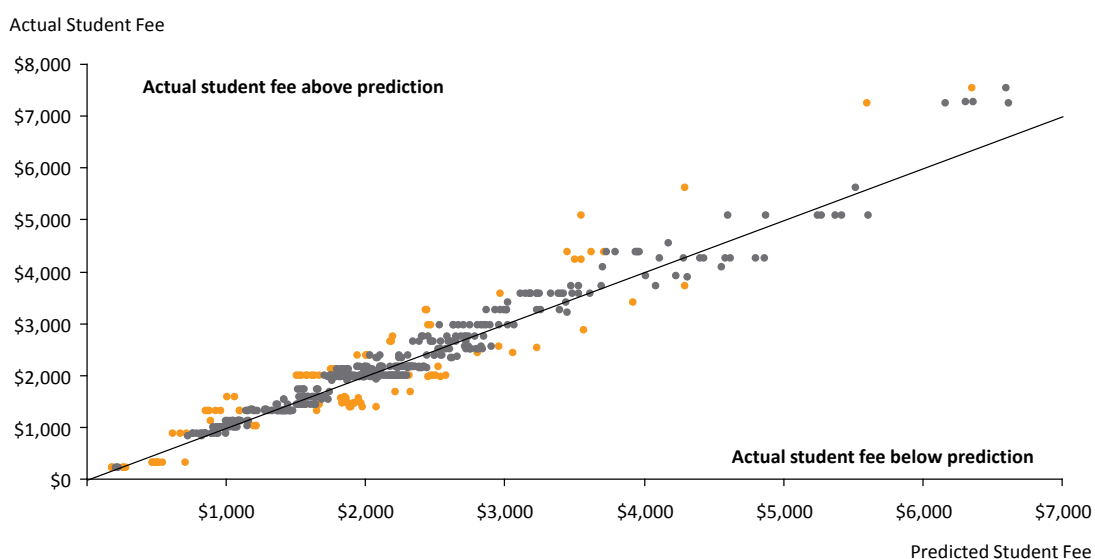
We conducted regression analysis of qualification characteristics such as qualification level, industry group, hours of delivery and training type.¹⁰³ This sought to identify if there are similar qualifications where the student fees are inconsistent or misaligned. Misalignment of the student fees of similar qualifications may cause students to select the lower student fee qualification.

The results of the regression analysis are shown on Figure 26. This compares the predicted student fees against the actual student fee for each qualification. Less than 20 percent of qualifications have student fees which are significantly different¹⁰⁴ to other qualifications with similar characteristics.

Those qualifications with different fees to other similar qualifications may not necessarily be priced inappropriately.

It should be noted that this analysis only partially accounts for the cap placed on apprenticeship fees. Several of the outliers on this model are apprenticeships which the model expected to have fees higher than \$2,000.

Figure 26: Predicted student fee versus actual student fee¹⁰⁵



¹⁰³ It should be noted that unlike the regression analysis of prices, this is not a close replication of the approach used by IPART to develop student fees. The IPART approach to student fees was to calculate prices, and then to reduce to fee proportion. This analysis constructs fees directly in a replication of the methodology used by IPART to develop prices.

¹⁰⁴ Outliers were defined at 15% deviation from prediction since this was the profit margin built into the prices by IPART. As such, outliers priced above expectation would double profits from fees, while outliers below expectation would see no profits from fees.

¹⁰⁵ NSW 2015 Skills List and Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Predicted fees were determined by regression analysis, with inputs of: qualification level, standard qualification length, industry, commencements and training type. Full qualification, apprenticeship and traineeship versions of qualifications have been separated for this analysis.

The total cost to Smart and Skilled students is lower than VET FEE-HELP students, although the up-front cost is higher under Smart and Skilled

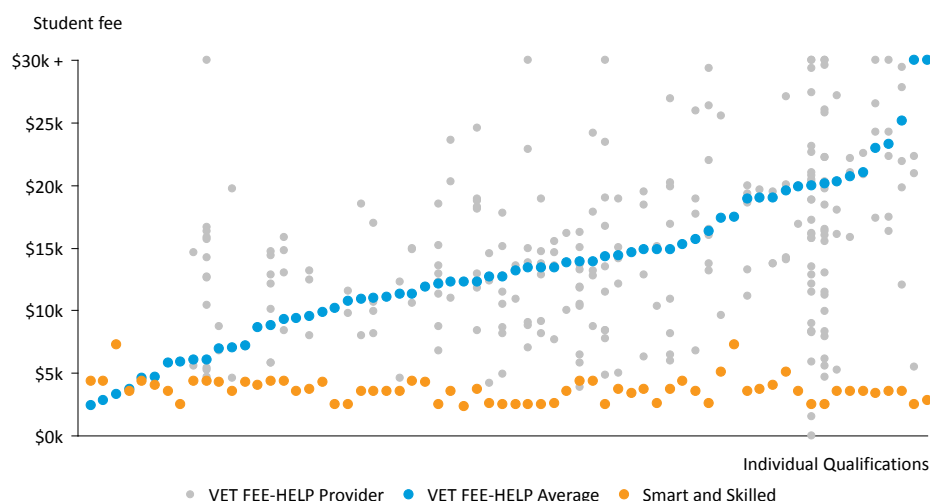
Smart and Skilled students almost always pay less in total than fee-for-service studying the same qualification with VET FEE-HELP, although they will pay more up-front.

Figure 27 compares the Smart and Skilled student fees and average VET FEE-HELP fees, as well as showing the range of prices offered by VET FEE-HELP providers for a given qualification. The majority of students in the majority of qualifications faced lower total cost under Smart and Skilled than VET FEE-HELP.¹⁰⁶

It should be noted that VET FEE-HELP students face no up-front cost, which distorts the price signal to students.¹⁰⁷

There were large differences in student fees between providers under VET FEE-HELP. This is shown by the spread of the grey dots in Figure 27. More than 60 percent of these qualifications had a range of more than \$4,000 between the most and least expensive VET FEE-HELP provider. These significant differences suggest this data should not be relied upon to reach definitive conclusions regarding the appropriateness of Smart and Skilled prices.

Figure 27: Comparison of student fee for Smart and Skilled providers and VET FEE-HELP providers¹⁰⁸



¹⁰⁶ Some Smart and Skilled students for these qualifications may be eligible for VET FEE-HELP, very few took that up. There were more than 220,000 students enrolled in VET FEE-HELP fee-for-service training in NSW in 2014. However, there were only 373 students utilising both VET FEE-HELP and NSW government subsidised training under Smart and Skilled. This suggests that students aren't aware of both programs, or aren't aware that they can be combined.

¹⁰⁷ VET FEE-HELP students also face additional costs in the form of a 20% loan fee.

¹⁰⁸ NSW 2015 Skills List, and VET FEE-HELP 2014 data provided by the Commonwealth. Smart and Skilled fees taken as the full qualification student fee for a first Smart and Skilled qualification, and so may be an overestimate in some cases. VET FEE-HELP fee calculated as the fee per student. This is calculated by dividing the total annual fee intake by the total student load for a given qualification at a given provider. This accounts for students studying part time, and potentially for student attrition, but not if a student pays for a larger portion of the course than they complete. The VET FEE-HELP average is calculated as a weighted average based on the total annual fee intake and total student load across all providers. Calculated student fees for the whole qualification for VET FEE-HELP are then increased by 5.5% on 2014 figures, in line with Education CPI according to ABS, in order to be comparable with 2015 Smart and Skilled student fees. Qualifications with fewer than five VET FEE-HELP equivalent full time students were excluded.

5.3 Concessions have generally been used as intended

Effective concessions ensure that training is accessible to students from disadvantaged backgrounds. Our analysis of market behaviour suggests that concessions have not distorted the market and have generally been used as was intended. We have observed that:

- Concessions, fee exemptions and scholarships are being used for entry level qualifications.
- Use of fee exemptions is generally consistent across eligible student cohorts.
- Use of concessions, fee exemptions and scholarships is distributed across a range of providers.

Concessions, fee exemptions and scholarships are being used for entry level qualifications

The use of concessions, fee exemptions and scholarships is concentrated in lower level qualifications. This reflects that concession students are more likely to require qualifications which provide the foundational skills for training and employment.

Figure 28 shows that students receiving concessions, exemptions or scholarships are concentrated in lower level certificates (73 percent of Certificate I and 70 percent of Certificate II). Conversely, higher level qualifications such as Diplomas and Advanced Diplomas have significantly lower proportions of exempt students (less than 10 percent).¹⁰⁹ These patterns of concessions, exemptions or scholarships are similar to 2014. In 2014, 95 percent of Certificate I students, 72 percent of Certificate II students and 41 percent of Certificate III students at TAFE NSW Institutes received some form of fee reduction.¹¹⁰ It should be noted that the eligibility requirements for fee reductions and exemptions at TAFE NSW Institutes in 2014 do not exactly align with the eligibility requirements under Smart and Skilled.

Figure 29 on page 69 shows the proportion of students with concessions, exemptions or scholarships by the full student fee for the qualification. As it shows, concessions, exemptions or scholarships are concentrated in qualifications with lower student fees. This is largely driven by the concentration of concessions in Certificate I and II qualifications which generally have lower full student fees.

This analysis suggests that providers are not directing students to higher price qualifications by using concessions to offset the fee, but that concessions are being used appropriately for disadvantaged students, who are more likely to require lower level qualifications.

¹⁰⁹ This is partially due to concession fees not being available for Diploma and Advanced Diploma qualifications.

¹¹⁰ 2014 training data for TAFE NSW Institutes, provided by TAFE NSW on students receiving some form of fee exemption or reduction.
Note: The eligibility requirements for these fee exemptions or reductions in 2014 do not exactly match those used under Smart and Skilled.

Figure 28: Proportion of students with exemptions, scholarships, and concessions by qualification level¹¹¹

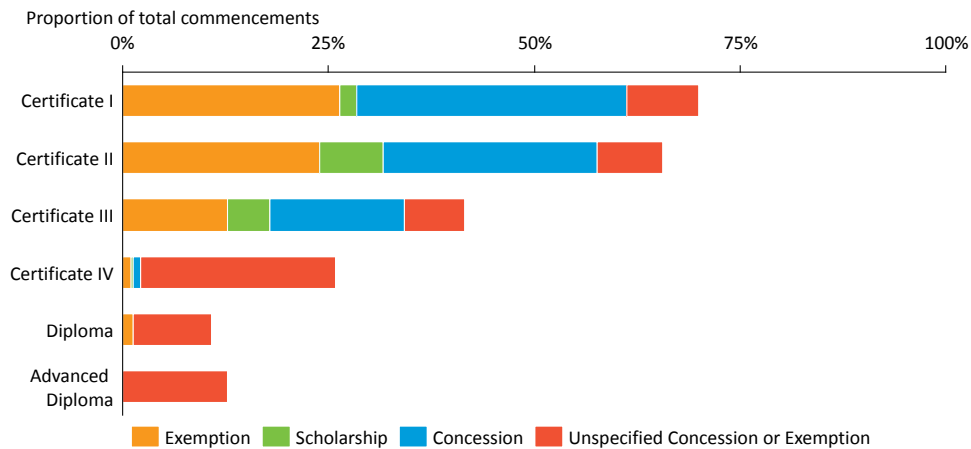
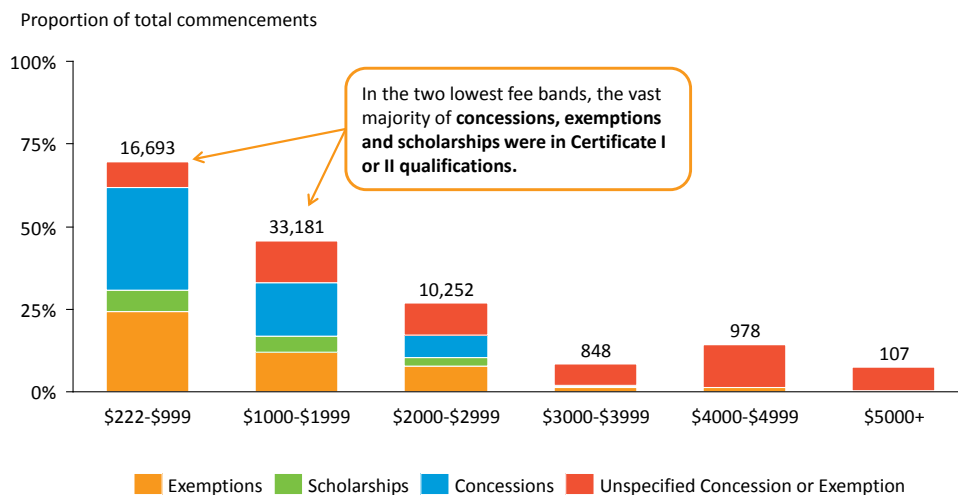


Figure 29: Proportion of students with exemptions, scholarships and concessions by student fee¹¹²



¹¹¹ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. 'Unspecified Concession or Exemption' indicates students for whom there was available data about receiving some sort of fee reduction, but not the type or extent of reduction (mostly high qualification students at TAFE NSW Institutes). Note that this 'Unspecified Concession or Exemption' category may include some students who don't actually receive any concession under Smart and Skilled, and so may represent an overestimate. Note that there are some students where data sources disagreed about their concession status. We have treated Department data sources as ultimately accurate.

¹¹² Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. 'Unspecified Concession or Exemption' indicates students for whom there was available data about receiving some sort of fee reduction, but not the type or extent of reduction (mostly high qualification students at TAFE NSW Institutes). Note that this 'Unspecified Concession or Exemption' category may include some students who don't actually receive any concession under Smart and Skilled, and so may represent an overestimate. Note that there are some students where data sources disagreed about their concession status. We have treated Department data sources as ultimately accurate.

Use of fee exemptions is generally consistent across eligible student cohorts

Fee exemptions are generally being used consistently across eligible student cohorts.

Figure 30 shows that exemptions are relatively evenly split between students with disability and Aboriginal and Torres Strait Islander students. For example, across Certificate II and III qualifications exemptions for students with disability represent 40 percent of commencements, and Aboriginal and Torres Strait Islander students represent 47 percent of commencements. This suggests that providers are not favouring certain eligible students over others due to the cost of delivering training to these students.

This is also generally consistent across qualification levels, with students with disability more likely to take lower level qualifications.

Figure 30: Number of commencements with fee exemptions by qualification level and type of disadvantage loading¹¹³



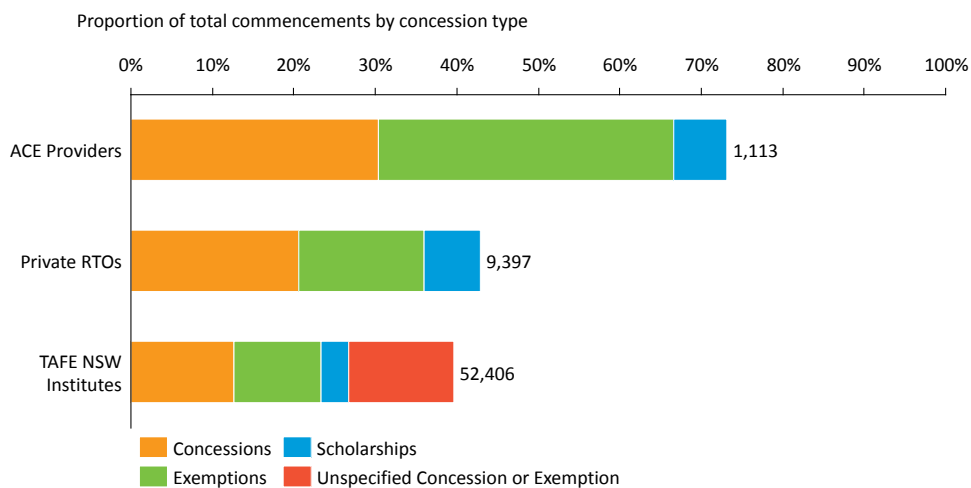
¹¹³ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Students who are listed as 'Neither' may be eligible for fee exemption due to other reasons such as being the dependent of a person in receipt of disability support pension. Note that there are some students where data sources disagreed about their concession status. We have treated Department data sources as ultimately accurate.

Use of concessions, fee exemptions and scholarships is distributed across a range of providers

Concessions, fee exemptions and scholarships are being used by a range of providers and provider types. Across Private RTOs, ACE Providers and TAFE NSW Institutes some providers have a significant proportion of their students attracting a concession and some providers have a low proportion. This diversity would be expected in a competitive market.

As shown in Figure 31, Private RTOs and TAFE NSW Institutes both have approximately 40 percent of their commencements attracting concessions. As would be expected, ACE providers have higher rates of concessions (74 percent of overall commencements). This is consistent with the qualification profile of each provider type, with ACE Providers focussing more on Certificates I and II (which have higher rates of concessions), and TAFE NSW Institutes focussing more on higher level qualifications (which have lower rates of concessions).

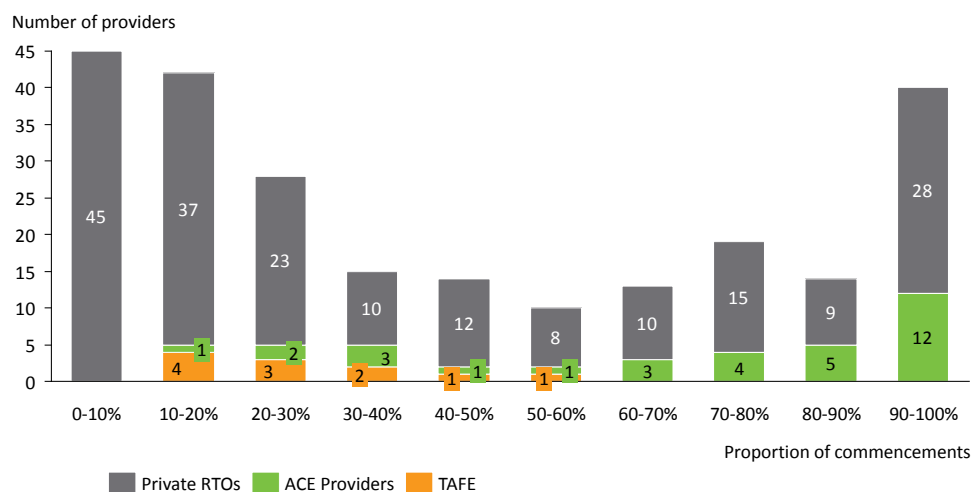
Figure 31: Proportion of students with exemptions, scholarships, and concessions by provider type¹¹⁴



¹¹⁴ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. 'Unspecified Concession or Exemption' indicates students for whom there was available data about receiving some sort of fee reduction, but not the type or extent of reduction (mostly high qualification students at TAFE NSW Institutes). Note that this 'Unspecified Concession or Exemption' category may include some students who don't actually receive any concession under Smart and Skilled, and so may represent an overestimate. Note that there are some students where data sources disagreed about their concession status. We have treated Department data sources as ultimately accurate.

Figure 32 shows that providers have enrolled different proportions of students attracting concessions, fee exemptions and scholarships. Two thirds of providers have experienced less than 50 percent of their commencements attract a concession, exemption or scholarship. There are also a number of providers that have experienced over 90 percent of their commencements attract a fee reduction or waiver (16 percent of providers). This shows that there is a diversity of provision in the market with some providers specialising in catering to concession students and most providers enrolling at least some concession students.

Figure 32: Number of providers by proportion of commencements receiving an exemption, scholarship or concession¹¹⁵



5.4 There are short and long-term challenges to the accessibility and effectiveness of student fees and concessions

Student fees and concessions do not appear to be causing distortions in the market. However, there are a number of challenges which will need to be addressed in order to maintain a well-functioning market of government subsidised training, as detailed below.

- In the short term, the accessibility of Smart and Skilled may be challenged by the complexity of concession fees, exemptions and scholarship arrangements.
- In the medium term, as the NSW Government revisits the student fees and concessions under Smart and Skilled, the ability to develop effective student fees and concessions will be challenged by the lack of evidence on student decision making.
- In the long term, the approach of government setting fees may not allow providers sufficient flexibility to differentiate their offers to students.

¹¹⁵ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Note that there are some students where data sources disagreed about their concession status. We have treated Department data sources as ultimately accurate.

Accessibility in the short term may be challenged by the complexity of concession arrangements

Student fee and concession arrangements appear to be operating effectively under Smart and Skilled. However, the accessibility of training may be challenged by the complexity of the eligibility requirements for fee reductions or exemptions.

The three mechanisms used to ensure Smart and Skilled is accessible to disadvantaged students all have similar eligibility requirements. There is some overlap between eligibility requirements, as detailed in Table 10. This complexity may pose a challenge to the accessibility of Smart and Skilled going forward. Stakeholders have indicated that the complexity of concession, exemptions and student fee arrangements has resulted in the following impacts:

- It makes it difficult for eligible students to understand for which fee reductions or exemptions they may be eligible.
- It creates an administrative burden for providers to identify for which fee reductions or exemptions a student is eligible, and report data on the different mechanisms.
- It increases the potential for divergent fees for students with similar characteristics.

There could be simplification of these mechanisms, and savings could be invested in offering foundation skills that providers have emphasised are essential to support students in completing their studies.

Table 10: Eligibility requirements for concessions, exemptions and student fees

Eligible for:	Student groups:
Exemptions and fee-free scholarships	<ul style="list-style-type: none"> • Students in social housing aged 15-30 years who have a disability or are Aboriginal and Torres Strait Islander.
Exemptions and concessions	<ul style="list-style-type: none"> • Students with disability receiving Commonwealth payments. • Aboriginal and Torres Strait Islander students receiving Commonwealth payments.
Fee-free scholarships and concessions	<ul style="list-style-type: none"> • All students receiving fee-free scholarships would also be eligible for concessions.

The lack of evidence on student decision making will continue to limit the ability of Government to effectively set fees

There is currently a lack of evidence and research on the impact of student fees on student decision making in VET, and this will continue to limit the ability of Government to effectively set student fees.

In many sectors where government determines prices, there is a significant body of analysis and research which informs this process. For example, there is research in the Higher Education sector that higher fees equate to higher demand, due to price being considered a proxy for quality.¹¹⁶ This was evidenced when Curtin University did not increase fees in 2003 when all other universities increased their fees, and Curtin University's student numbers decreased.¹¹⁷

This level of analysis and research does not exist in VET. This lack of evidence will limit the ability of Government to effectively revise student fees. Additional information on unmet demand, student

¹¹⁶ Journal of Research in Higher Education, 2009. *Analysis of US News and World Report Annual College Rankings*. Quoted in New York Times, 2009.

¹¹⁷ ABC News, 2005. *Curtin Uni announces HECS increase*.

decision making and student price sensitivity could greatly assist in the setting of student fees moving forward.

In the longer term, fixed student fees may not allow providers to differentiate their offers

As the Smart and Skilled market develops, it should have a range of provider offerings which allow students to access training which meets their individual needs. The administrative setting of student fees may not allow sufficient flexibility for this to occur.

Fixed fees mean that providers all have the same level of funding to invest in their training and mean that providers are competing at the same price. This may not afford sufficient flexibility for providers to differentiate their offer and for students to have consumer choice.

As discussed in Section 4.4, the pricing mechanism may need to be revisited in the longer term to promote greater innovation and diversity by providers. As a component of price, the fee setting mechanism may also need to be revisited to complement that.

6 Loadings

There are a range of factors which make some students more costly to train. The Government can provide additional funding to providers to ensure a sufficient supply of quality training for these students. Under Smart and Skilled, the initial approach was to use a combination of location and disadvantage loadings to offset these higher costs for providers, as well as Community Service Obligations (CSOs) for TAFE NSW Institutes. There were a number of benefits to this as an initial approach; it recognises there are multiple factors which make students higher cost and the funding follows the student.

There has been strong uptake of both location and disadvantage loadings across NSW under Smart and Skilled. This suggests the loadings are generally sufficient to ensure a supply of training to higher cost students. However, there will be short term challenges to ensure that the NSW Government's investment in loadings is effectively targeted and longer term challenges to clarify priorities for funding students with complex needs.

6.1 Loadings ensure a sufficient supply of quality training to higher cost students

Some students are more costly to train. Mechanisms such as loadings attempt to compensate providers for these costs, and ensure there is a quality supply of training to higher cost students.

The NSW Government's objectives in providing additional funding for these students are to:

- **Compensate providers for the higher cost of training these students.** It can be more costly to provide quality training to students from disadvantaged backgrounds because they may require training support such as literacy and numeracy support. These students may also require support outside the classroom and physical infrastructure if they have a disability. Students from regional and remote areas may be more costly to train as trainers may need to travel and smaller student cohorts may prevent economies of scale. Additional funding compensates providers for these costs.
- **Ensure that these students are receiving the supports they require to successfully complete training.** Providing additional funding to providers ensures that higher cost learners receive additional support, thereby increasing the likelihood that the student will complete their training and/or progress to further training or employment.
- **Ensure that there is a sufficient quality supply of training for higher cost students.** By compensating providers for the costs detailed above, the government removes cost barriers for providers and ensures there is a sufficient supply of quality training.

There are a range of mechanisms which can be used to achieve these objectives, as detailed below. These mechanisms seek to address supply side issues, as opposed to concessions, scholarships and fee exemptions which address demand side issues.

Table 11: Mechanisms for encouraging supply of training to higher cost learners

Mechanism	Description
Providing payments to meet Community Services Obligations	<ul style="list-style-type: none"> Governments can provide direct funding to specific providers to deliver training to disadvantaged learners. The NSW Government currently provides CSOs to TAFE NSW to ensure all people in NSW can access VET.
Purchasing services from providers	<ul style="list-style-type: none"> Governments can contract providers to deliver training to students from disadvantaged backgrounds. This can involve government issuing a tender and providers submitting the price they require.
Loadings in addition to base prices	<ul style="list-style-type: none"> Governments can provide additional payments as a proportionate increase in the base prices for disadvantaged students.
Directly or indirectly subsidising costs	<ul style="list-style-type: none"> Government can provide direct or indirect subsidies to providers, such as providing specialist support teachers or facilities in regional locations at no cost.
	= Current approach under Smart and Skilled

The NSW Government chose to use loadings to ensure a sufficient supply of high quality training for disadvantaged learners, along with the continuation of CSO payments to TAFE NSW Institutes for support services for very high cost students. Providers receive loadings based on the student's eligibility due to geography and/or disadvantage, as detailed in Table 12. Students can receive one location loading and one disadvantage loading (equal to the amount of the most generous loading).

There were a number of benefits to this approach, as detailed below.

- The two types of loadings recognise that there are many factors which increase cost.** Allowing providers to access both loading types for the same students recognises that a student may have multiple characteristics which compound to increase the cost of their training.
- The loadings are demand driven.** The amount of funding a provider receives depends on the number of students from disadvantaged backgrounds who chose to study with that provider. This means that the funding follows the student.
- The continuation of CSO funding to TAFE NSW recognises that there are some learners who will be very high cost to train.** The flat rate means that there are some very high cost students for whom loadings will be insufficient to compensate providers for the cost of their training. The continuation of CSOs means that TAFE NSW Institutes have ongoing funding to provide the physical infrastructure and supports required by these students to undertake training.

Table 12: Eligibility for loadings¹¹⁸

	Loading type	Eligibility	Loading amount
Disadvantage loadings	Aboriginal and Torres Strait Islander	<ul style="list-style-type: none"> Students who are identified through descent, self-identification and community acceptance as Aboriginal and Torres Strait Islander. 	15%

¹¹⁸ The NSW Department of Education and Communities, 2015. *Smart and Skilled: Training provider guide to 2015 prices, fees and subsidies*.

	Loading type	Eligibility	Loading amount
	Person with disability	<ul style="list-style-type: none"> Students who are on a Disability Support Pension or can provide evidence of disability from an appropriate specialist/support professional. 	15%
	Long term unemployed	<ul style="list-style-type: none"> Students who have been unemployed for 52 weeks and can provide evidence through a Job Services Australia provider. 	10%
Location loadings	Regional	<ul style="list-style-type: none"> The student's residential address is in a postcode which takes in an inner regional area.¹¹⁹ 	10%
	Remote	<ul style="list-style-type: none"> The student's residential address is in a postcode which takes in an outer regional, remote or very remote area. 	20%

6.2 Location loadings have encouraged training across NSW, but may be funding training outside the policy objective

Location loadings have been utilised across NSW. However, location loadings are funding high levels of training activity in the Sydney region, and in inner regional and outer regional areas, which may be outside the initial policy intent.

We have analysed training activity to identify if there are distortions or anomalies in provider behaviour which suggest that loadings are not operating effectively. We have observed that:

- Loading amounts in NSW are generally lower than other jurisdictions; however, NSW has more categories of loadings and loadings are applied to total qualification price.
- Regional and remote students have been well-represented in Smart and Skilled enrolments.
- Regional and remote training generally occurs in smaller cohorts.
- The vast majority of location loadings have been used for students living and training in major cities, inner regional and outer regional areas and living in low SES areas.
- There has been significant use of regional loadings for students living in the Sydney area.
- Some providers are specialising in regional and remote delivery.

¹¹⁹ Remoteness classifications use the ABS definitions.

Loading amounts in NSW are generally lower than other jurisdictions, however, NSW has more categories of loadings and loadings are applied to total qualification price

Generally, loading proportions in NSW are lower than in Victoria and Queensland. However, it should be noted that NSW has more categories of loadings available to providers and the loading is applied to the total qualification price as opposed to just the student fee.

Table 13 shows the loading types and amounts in NSW, Victoria and Queensland. Regional loadings are similar in all jurisdictions (between 10-15 percent). However, remote loadings are significantly higher on average in Queensland than in NSW (75 percent compared to 20 percent). Similarly, disadvantage loadings are generally lower in NSW than in Victoria (between 10-15 percent compared to 30-50 percent).¹²⁰ However, it should be noted that NSW has additional categories of loadings to other jurisdictions and that loadings in Victoria are applied only to the government subsidy (as opposed to the total qualification price including student fee and government subsidy).

Table 13: Comparison of loadings in NSW, Victoria and Queensland

		NSW	Victoria	Queensland
		Applied to total qualification price.	Applied to government subsidy.	Applied to total qualification price.
Location loading	Regional	10%	10% ¹²¹	15% ¹²²
	Remote	20%		75% ¹²²
	Other			Cape York and Torres Strait: 250% ¹²²
Disadvantage loading	Aboriginal and Torres Strait Islander	15%	50% ¹²³	
	Person with disability	15%		
	Long-term unemployed	10%		
	Early school leavers		30% ¹²⁴	

¹²⁰ Disadvantage loadings are not paid to providers in Queensland. However, providers receive a full government subsidy for Indigenous students, people from a non-English speaking background, and people with disability.

¹²¹ Clause 12.6(b) of Schedule 1 of 2015 VET Funding Contract. Definition: Units/modules delivered in non-metropolitan locations to Eligible Individual's. Training will be considered to be a non-metropolitan location if the postcode of the training delivery location identified in the NAT000120 file is one of the postcodes identified as "non-metropolitan" on the Regional Postcodes Report as published on SVTS. The Regional Loading does not apply to online delivery or to distance education.

¹²² Queensland Government, 2014 Locations Subsidies List.

¹²³ Clause 12.6(a)(i) of Schedule 1 of 2015 VET Funding Contract. Definition: Eligible individuals who self-identity as being of Aboriginal or Torres Strait Islander descent (and are reported as such through the "Indigenous Student Identifier" field of the Student Statistical Report.

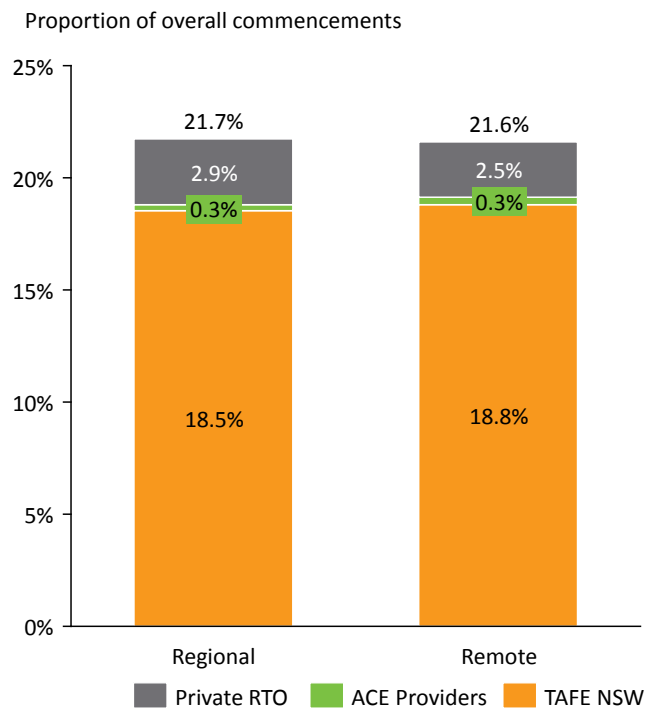
¹²⁴ Clause 12.6(a)(ii) of Schedule 1 of 2015 VET Funding Contract. Definition: Eligible individuals 15 – 19 years without a senior secondary certificate or an accredited qualification at Australian Qualifications Framework (AWG) II or above, and eligible for a concession in accordance with Clauses 3.6 and 3.7 of the Guidelines about Fees (Holds a Health Care Card, Pensioner Concession Card, Veterans Gold Care, alternative concession card). Also apply to a dependent spouse or dependent child of a card holder.

Regional and remote students have been well-represented in Smart and Skilled enrolments

There has been strong uptake of the location loadings under Smart and Skilled across provider type, qualification level and industry. Nous modelling of the approximate cost of these loadings suggests that between \$60-80 million has been invested in location loadings (with regional loadings accounting for approximately 30 percent of this and remote loadings accounting for approximately 70 percent).¹²⁵

Figure 33 shows the proportion of overall commencements that have attracted a location loading. As it shows, a total of nearly 44 percent of commencements have been from students who attract a regional or remote loading. This suggests that population parity has more than been achieved in enrolments of students from regional and remote areas who represent 20 percent and 6.5 percent of NSW population respectively. However, as detailed below some of this use of location loadings may not be consistent with the policy intent.

Figure 33: Proportion of overall commencements by location loading type¹²⁶



Regional and remote students also appear to be well-represented across provider types. TAFE NSW Institutes have attracted the vast majority of location loadings. However, Private RTOs, ACE Providers, and TAFE NSW Institutes have all had at least population parity in enrolments of regional and remote students. For example, 21 percent of TAFE NSW commencements have attracted a regional loading, 19

¹²⁵ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Regional and remote loadings are calculated by applying the Smart and Skilled eligibility for loadings to student postcode. Cost of loadings calculated by analysing the number of commencements attracting a location loading by each qualification on the NSW Skills List and multiplying this by the cost of the loading for that qualification.

¹²⁶ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Regional and remote loadings are calculated by applying the Smart and Skilled eligibility for loadings to student postcode.

percent of Private RTO and 35 percent of ACE commencements. Similarly, 22 percent of TAFE NSW Commencements have attracted a remote loading, 17 percent of Private RTO commencements and 36 percent of ACE commencements.

Regional and remote students also appear to be well-represented across qualification levels. Students with regional and remote loadings range from 14 percent of Advanced Diploma qualifications up to 22 percent of Certificate III qualifications.

We also conducted analysis of delivery mode for students at Private RTOs and ACE providers receiving location loadings. This analysis was not undertaken for TAFE NSW Institutes as a full data set could not be provided. Students with location loadings at Private RTOs and ACE providers have a broadly similar distribution across modes of study to other students. For example, 41 percent of students with location loadings study in classrooms and 43 percent of students without location loadings are classroom based. However, students with location loadings have a marginally higher rate of mixed mode and employment based training, as detailed below.

- ***A higher rate of mixed mode delivery compared to other students*** (17 percent compared to 12 percent). These higher rates are likely due to students not being eligible for location loadings if they study online. Students studying online represent 13 percent of overall commencements at Private RTO and ACE providers.
- ***A higher rate of employment based training compared to other students*** (42 percent compared to 32 percent). This may be due to the lack of specialised training facilities in regional and remote locations meaning that students need to train in workplaces.
- ***A higher rate of employment based training compared to other students*** (42 percent compared to 32 percent). This may be due to the lack of specialised training facilities in regional and remote locations meaning that students need to train in workplaces.

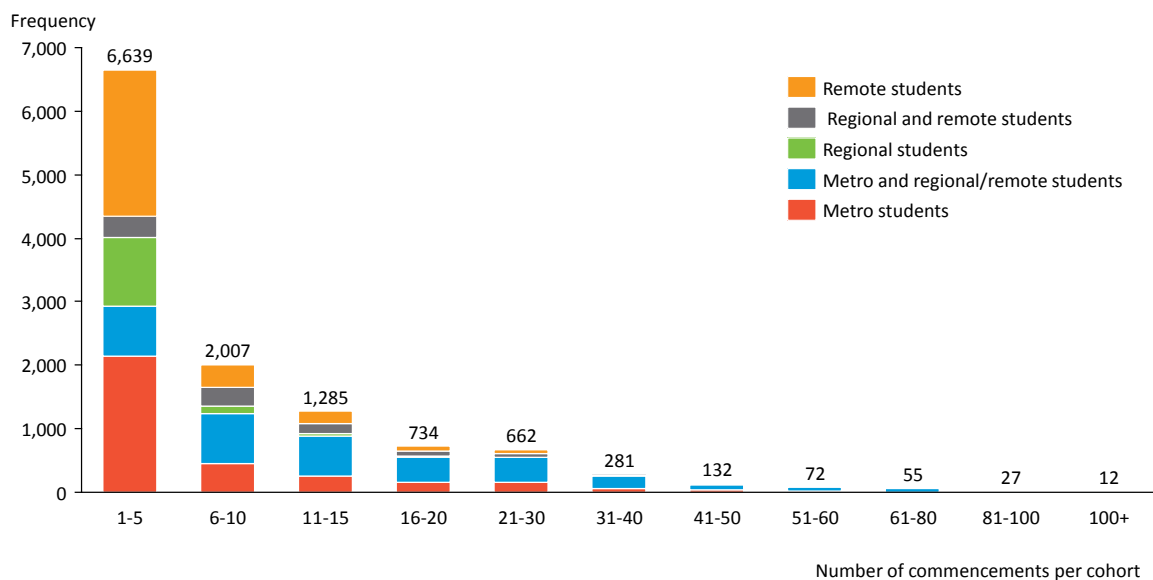
Regional and remote training generally occurs in smaller cohorts

Our analysis suggests that students attracting regional and remote loadings are generally trained in smaller cohorts than other students.

Figure 34 shows our analysis of the frequency of different cohort sizes by the location of residence of students. As it shows, the vast majority of students from remote and regional areas are in cohorts of five students or fewer. 79 percent of cohorts with regional and/or remote students have five students or fewer, compared to 43 percent of cohorts of metropolitan students.

The greater concentration of smaller cohorts of regional and remote students suggests that location loadings may be required to offset the smaller student numbers in these areas. These smaller student numbers prevent providers from achieving economies of scale which reduce the cost of delivering training to each student.

Figure 34: Frequency of cohort size by location of students¹²⁷



¹²⁷ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. A cohort is defined as the number of students in a unique qualification, provider, training location and starting month. Apprentices, Trainees, students identified as studying through 'Employment' or 'On-line/Correspondence' delivery modes have been excluded, as have all OTEN students.

The vast majority of location loadings have been used for students living and training in major cities, and inner regional and outer regional areas for students living in low SES areas

Location loadings have been well-distributed across NSW, particularly in low SES areas. However, they have been predominately used for training students in major cities, inner regional and outer regional areas.

As detailed in Section 6.1, providers receive loadings based on the ABS remoteness classification of the student's residential postcode. Students from a postcode that takes in an inner regional area receive a regional loading, and students from a postcode that takes in an outer regional or remote area receive a remote loading. For example, a student living in a postcode that is classified as metropolitan and inner regional receives a regional loading, even if they live in the metropolitan part of the postcode. This means that many students receive a location loading despite being based in a metropolitan area.

Figure 35 and Figure 36 show the geographical distribution of regional and remote loadings across NSW. As it shows, both loading types have generally been well-distributed across NSW, with a concentration of regional loadings in the Sydney area (discussed further below).

Figure 35: Number of regional commencements by region¹²⁸

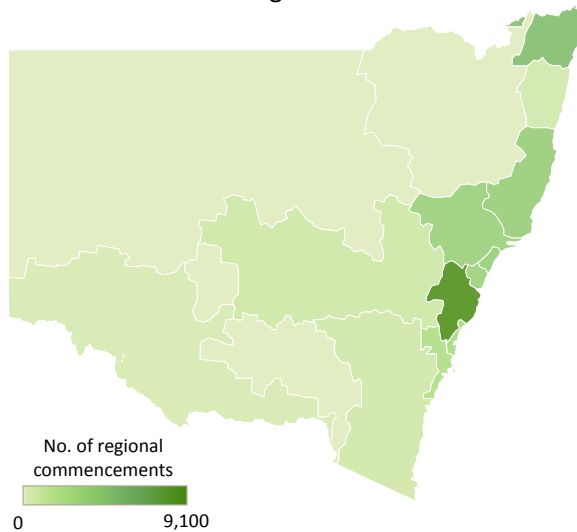
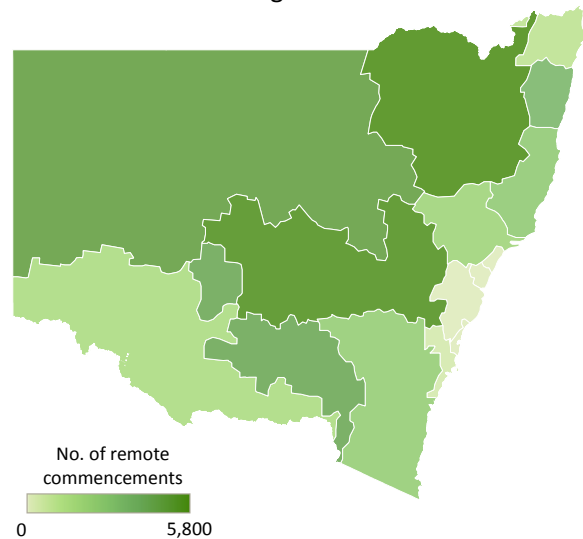


Figure 36: Number of remote commencements by region¹²⁹



¹²⁸ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW.

¹²⁹ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW.

The students receiving regional and remote loadings predominately live in low SES areas. Figure 37 shows the SES of postcodes of students receiving regional loadings and Figure 38 shows the SES of postcodes of students receiving remote loadings. As it shows, 50 percent of students receiving a regional loading live in very low or low SES areas, and 75 percent of students receiving a remote loading live in very low or low SES areas.

Figure 37: Regional commencements by SES classification of student postcode¹³⁰

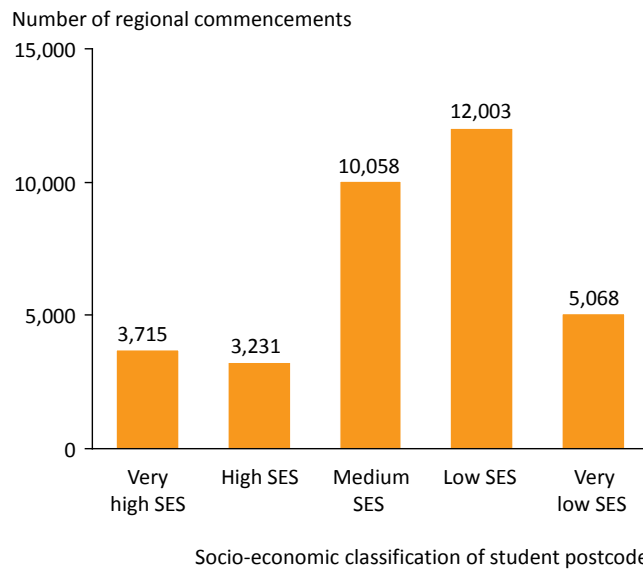
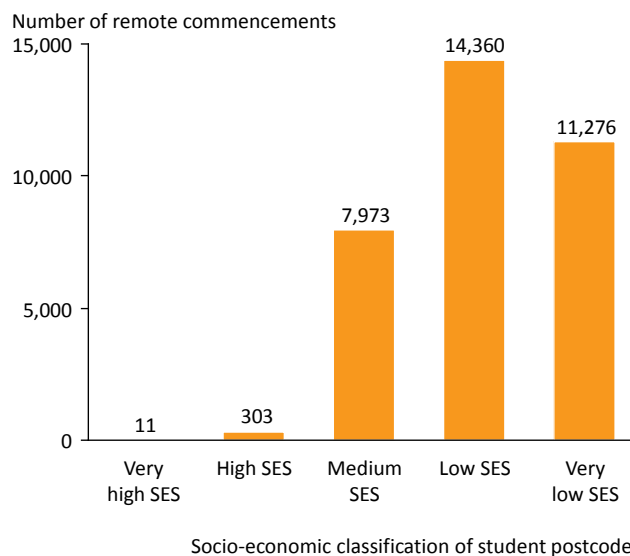


Figure 38: Remote commencements by SES classification of student postcode¹³⁰



¹³⁰ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. SES data from ABS Socio-Economic Indexes of Areas (SEIFA) 2011. Very low SES defined as lowest quintile (i.e. lowest 20% of postcodes), low SES defined as quintile two (i.e. second lowest 20%), medium SES defined as middle quintile (i.e. middle 20%), high SES defined as second highest quintile (i.e. second highest 20%) and very high SES defined as highest quintile (i.e. highest 20%).

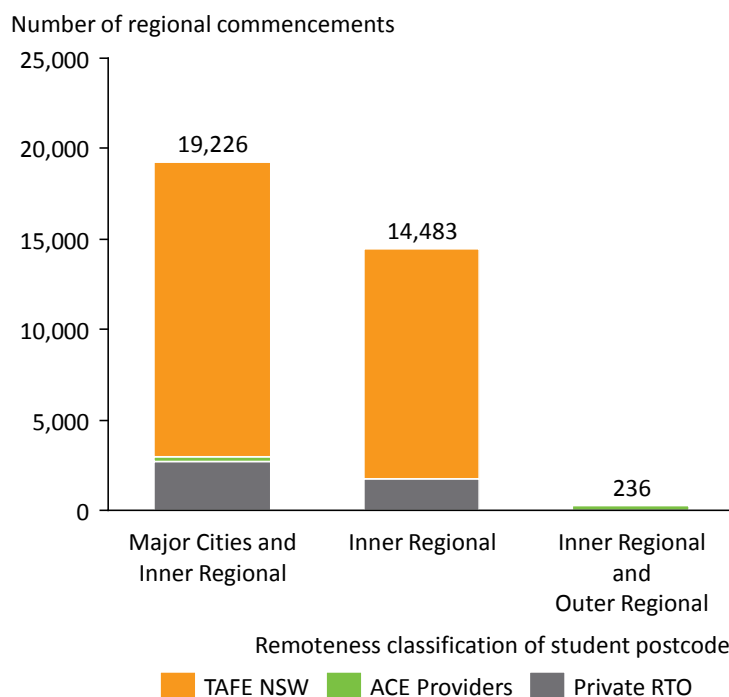
Regional loadings have predominately been used for students living in metropolitan and inner regional areas, and remote loadings have predominately been used for students living in inner regional and outer regional areas.

Figure 39 shows the number of commencements receiving a regional loading and Figure 40 overleaf shows the number of commencements receiving a remote loading. 55 percent of students receiving a regional loading live in a postcode that takes in a major city and inner regional area (19,000 commencements). Our analysis has found that these loadings have cost approximately \$8-12 million.¹³¹

Figure 40 overleaf shows that 70 percent of students receiving a remote loading live in a postcode that takes in an inner regional and outer regional area (at a cost of approximately \$30-35 million).¹³² Less than 10 percent of students attracting a remote loading live in a postcode which is entirely remote.

This reflects the eligibility criteria for loadings described above, and suggests that government investment in loadings is poorly targeted. Loadings do not appear to be consistently used according to the original policy intent to compensate providers for the high cost of training students in regional and remote areas. This is explored further in Section 6.4.

Figure 39: Number of regional commencements by student postcode¹³³

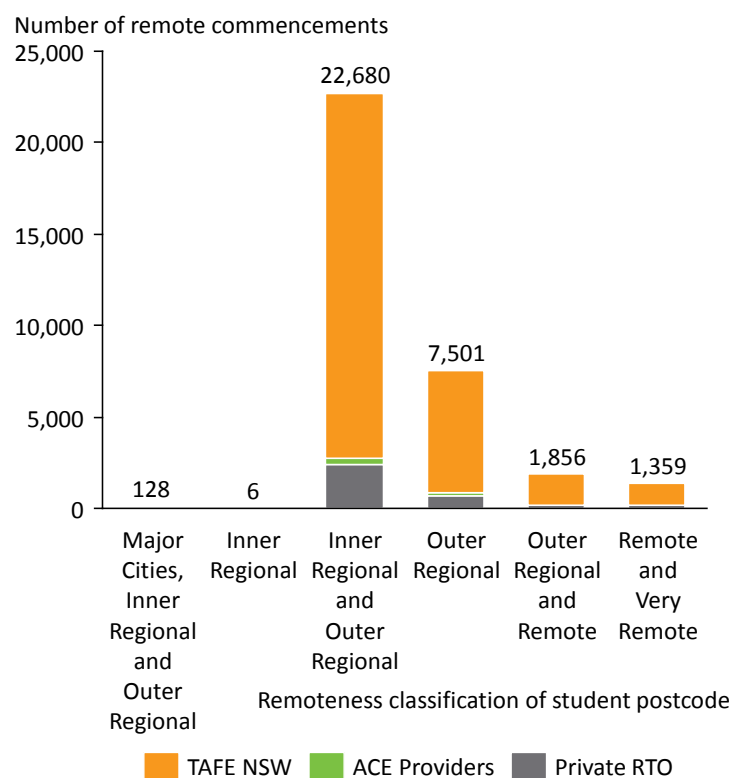


¹³¹ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Regional and remote loadings are calculated by applying the Smart and Skilled eligibility for loadings to student postcode. Cost of loadings calculated by analysing the number of commencements attracting a location loading by each qualification on the NSW Skills List and multiplying this by the cost of the loading for that qualification.

¹³² Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Regional and remote loadings are calculated by applying the Smart and Skilled eligibility for loadings to student postcode. Cost of loadings calculated by analysing the number of commencements attracting a location loading by each qualification on the NSW Skills List and multiplying this by the cost of the loading for that qualification.

¹³³ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW.

Figure 40: Number of remote commencements by student postcode¹³⁴



¹³⁴ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW.

There has been significant use of regional loadings for students living in the Sydney area

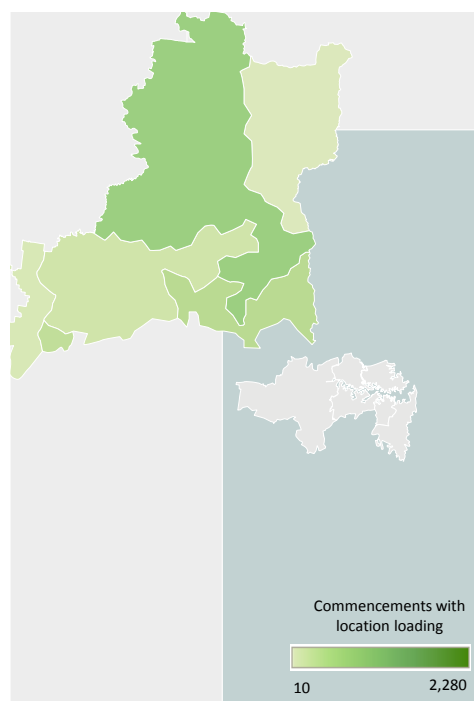
There has been significant use of regional loadings within the Sydney region. Though some students receiving location loadings in Sydney may experience location based disadvantage, the use of loadings for students within the Sydney region is contrary to the original policy intent of compensating providers for the higher cost of training students from regional and remote areas.

Over 9,000 training commencements in the Sydney region have attracted a regional loading. This represents 27 percent of all commencements receiving a regional loading across NSW and means that the Sydney region has the highest number of commencements with regional loadings (followed by 5,100 commencements in Richmond-Tweed). This represents a cost of \$5.5 – 7.5 million of regional loadings in the Sydney region.

Commencements with location loadings at Western Sydney Institute and South Western Sydney Institute are driving the use of regional loadings in the Sydney region (accounting for 53 percent of commencements with a regional loading in Sydney).

The distribution of these commencements is shown in Figure 41. As it shows, there has been a high concentration of commencements in the south-west of Sydney. These commencements represent 11 percent of all commencements receiving a regional loading and have cost approximately \$2.5 – 3.5 million. There has particularly been high concentration of regional loadings in the postcode of Campbelltown (2,280 commencements, 7 percent of all commencements with a regional loading and a cost of approximately \$1.3 - \$2 million). Campbelltown has the highest number of commencements with regional loadings of any postcode in NSW (followed by two postcodes on the Central Coast and Lismore).

Figure 41: Number of commencements with location loadings in the Sydney region¹³⁵

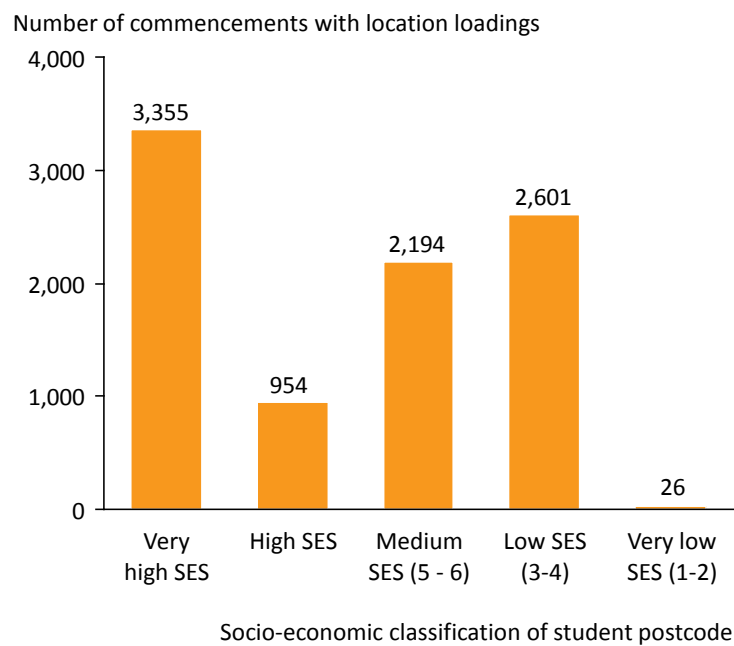


¹³⁵ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW.

Just under a majority of the students receiving location loadings in the Sydney region live in medium to high SES areas. As shown in Figure 42, 47 percent of students receiving a location loading in the Sydney region are from high or very high SES areas (4,300 commencements). Less than one third of students receiving a location loading in the Sydney region are from low or very low SES areas (2,600 commencements).

This suggests that government investment in regional loadings is poorly targeted. This is in large part due to the use of postcodes as a mechanism to identify students who should accrue a loading, which only provides a broad indication of the remoteness of student location. This is discussed in Section 6.4.

Figure 42: Number of commencements in the Sydney region receiving location loadings, by SES¹³⁶



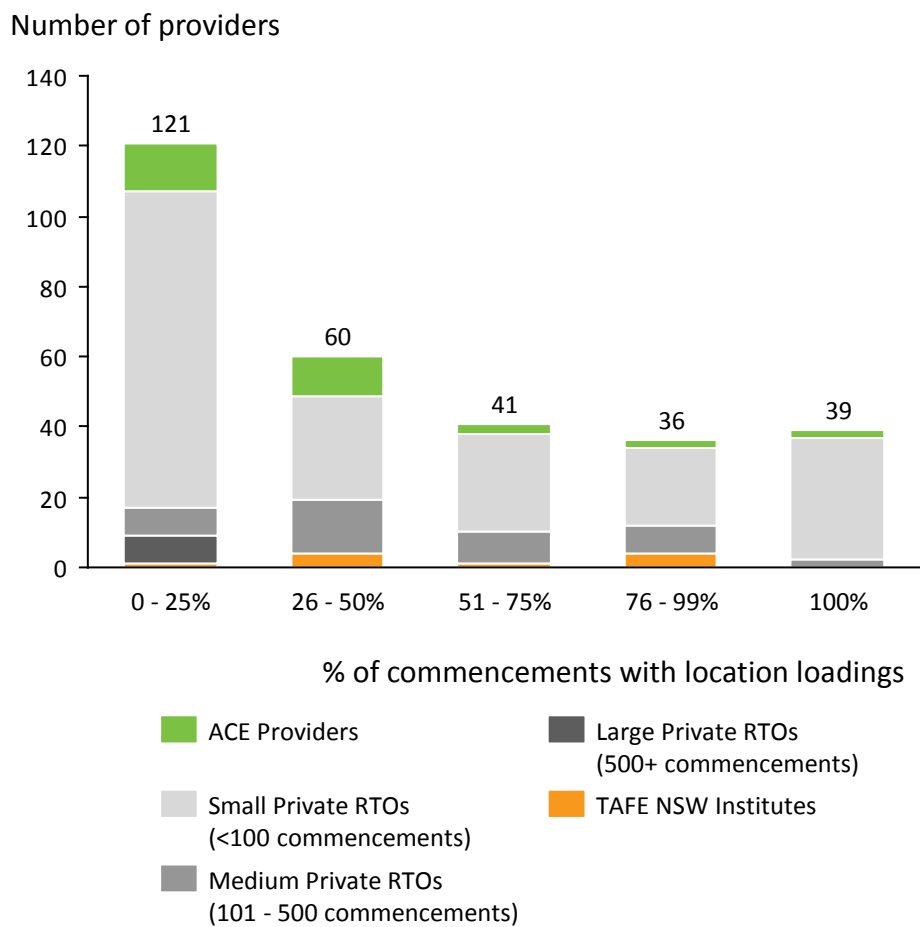
¹³⁶ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. SES data from ABS Socio-Economic Indexes of Areas (SEIFA) 2011. Very low SES defined as lowest quintile (i.e. lowest 20% of postcodes), low SES defined as quintile two (i.e. second lowest 20%), medium SES defined as middle quintile (i.e. middle 20%), high SES defined as second highest quintile (i.e. second highest 20%) and very high SES defined as highest quintile (i.e. highest 20%).

Some providers are specialising in regional and remote delivery

Some providers are concentrating their delivery in regional and remote areas. This is appropriate in a competitive environment in which some providers choose to specialise their delivery.

Figure 43 shows the number of providers by the proportion of commencements attracting a location loading. As it shows, 40 percent of providers (121 providers) have less than one quarter of their commencements attracting a location loading. There are also a number of providers (13 percent or 39 providers) who have had all their commencements attract location loadings. Most of these providers (26 providers) are based in regional areas.

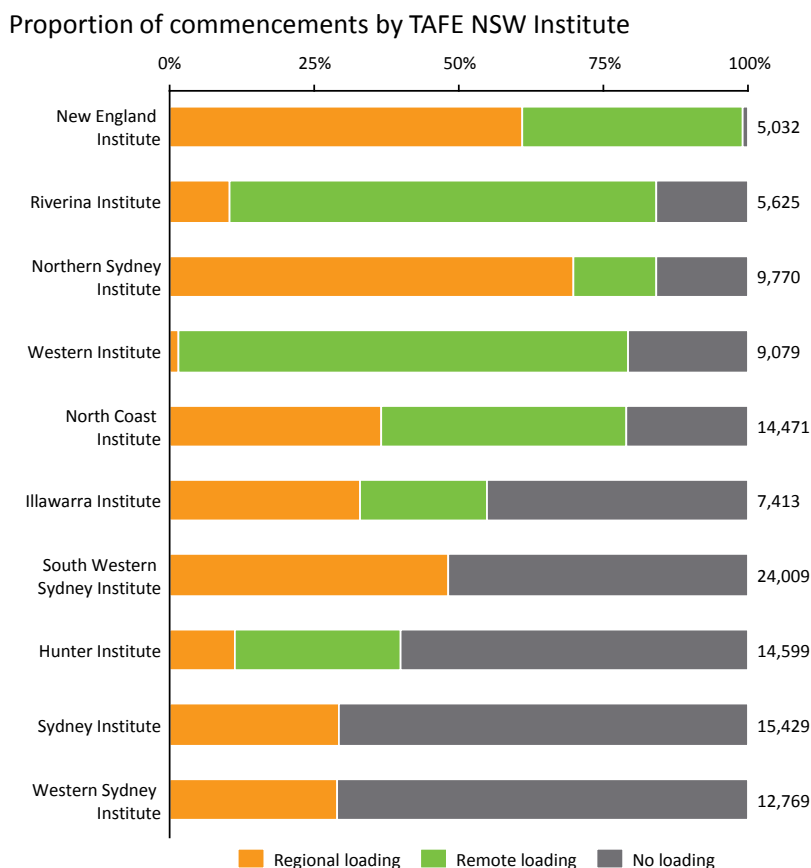
Figure 43: Number of providers by proportion of commencements with location loadings¹³⁷



¹³⁷ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW.

TAFE NSW Institutes, like the rest of the market, have had different rates of commencements attracting location loadings. This is shown in Figure 44. Five TAFE NSW Institutes have had over 75 percent of their commencements attract a location loading and four of these TAFE NSW Institutes are regionally based. The remaining TAFE NSW Institutes have had between 30 percent and 50 percent of their commencements attract a location loading.

Figure 44: Proportion of commencements attracting location loadings by TAFE NSW Institute¹³⁸



6.3 Disadvantage loadings appear to be encouraging access

Disadvantage loadings appear to be encouraging access and allowing providers to deliver training to high cost, disadvantaged students. From analysis of training activity data, we have observed that:

- Disadvantaged students are generally well-represented in Smart and Skilled enrolments
- Students with disadvantage loadings are being trained in a range of cohort sizes
- Disadvantage loadings are concentrated in the Sydney region, and being used predominately in low SES areas
- Some providers are specialising in delivery to disadvantaged students.

¹³⁸ TAFE NSW subsidised training data for 2014 and 2015, provided by TAFE NSW

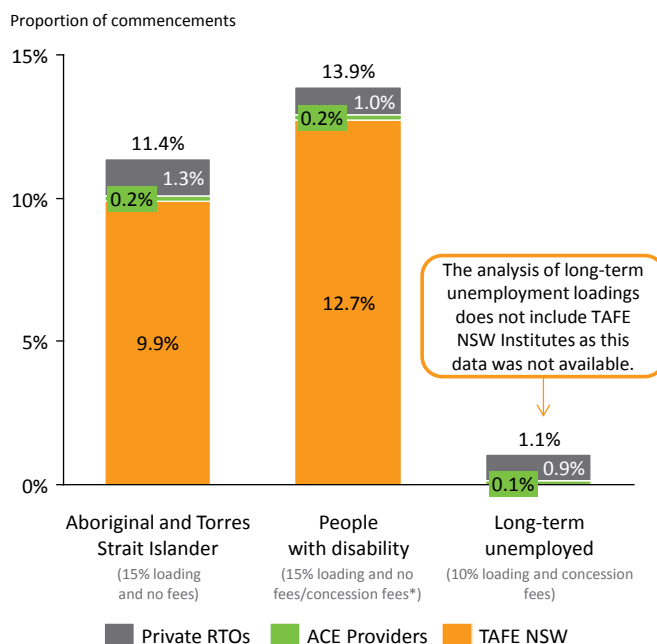
Disadvantaged students are generally well-represented in Smart and Skilled enrolments

There has been strong uptake of the disadvantage loadings under Smart and Skilled, and this is the case across provider types, qualifications and locations.

As shown in Figure 45, Aboriginal and Torres Strait Islander students have been well-represented (11 percent of all commencements or 17,800 commencements) and have exceeded population parity. Students with disability have been below population parity at 14 percent of commencements (21,700 commencements) compared to approximately 18.5 percent of the population.¹³⁹ This has represented an investment of approximately \$30 – 45 million in disadvantage loadings for Aboriginal and Torres Strait Islander students and students with disability.¹⁴⁰

We have not been able to conduct an analysis of the proportion of commencements at TAFE NSW Institutes attracting long term unemployment loadings. However, students who are long term unemployed are well-represented in Private RTO and ACE commencements. They make up 1.1 percent of overall commencements and 8 percent of commencements at Private RTOs and ACE providers, compared to approximately 1 percent of the population.¹⁴¹

Figure 45: Proportion of commencements with disadvantage loadings¹⁴²



Though TAFE NSW Institutes have attracted the vast majority of disadvantage loadings, all provider types have had students attracting disadvantage loadings well-represented in their commencements. TAFE

¹³⁹ ABS, 2009. *Disability Prevalence*.

¹⁴⁰ This analysis does not include long-term unemployment loadings as a complete data set could not be provided by TAFE NSW. Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Regional and remote loadings are calculated by applying the Smart and Skilled eligibility for loadings to student postcode. Cost of loadings calculated by analysing the number of commencements attracting a location loading by each qualification on the NSW Skills List and multiplying this by the cost of the loading for that qualification.

¹⁴¹ ABS, 2011. *Trends in Long-term Unemployment*.

¹⁴² Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Population by remoteness sourced from ABS data sets. *People with disability who have not previously undertaken a qualification receive a fee exception and receive concession fees for subsequent qualifications.

NSW Institutes have had 12 percent of their commencements attract an Aboriginal and Torres Strait Islander loading, Private RTOs have had 9 percent and ACE providers have had 18 percent. TAFE NSW Institutes and ACE providers have had higher proportions of their commencements attract a disability loading (15 percent and 18 percent) then Private RTOs (7 percent).

Enrolments of students attracting disadvantage loadings have been distributed across qualification levels. There has been some concentration of disadvantaged students in Certificate I and II qualifications (33 percent of disadvantage commencements compared to 20 percent of overall commencements). This reflects the likelihood that students from disadvantaged backgrounds may require more foundation skills to prepare for employment or further training.

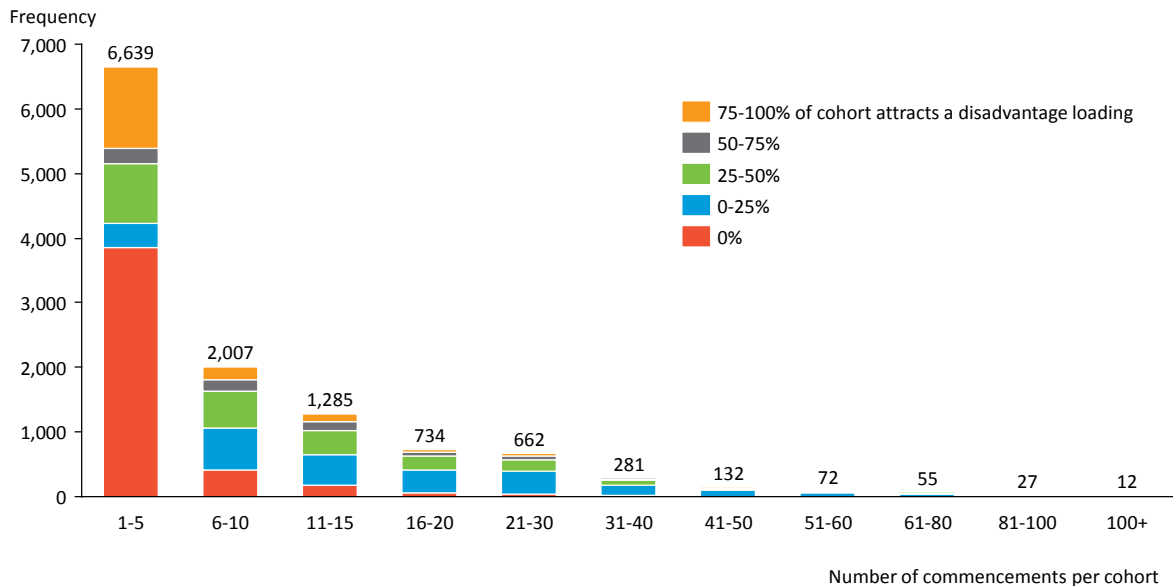
Students with disadvantage loadings are being trained in a range of cohort sizes

Students with disadvantage loadings are being trained in a range of cohort sizes, both with other disadvantaged students and with students who do not attract disadvantage loadings.

Figure 46 shows the frequency of different cohort sizes by the proportion of students with disadvantage loadings. As it indicates, cohort sizes are relatively consistent regardless of number of disadvantaged students. This being said, very low and very high proportions of students with disadvantage loadings generally occur in cohorts of less than five.

Students with disadvantage loadings are studying in a mixture of cohorts with other disadvantaged students, and in cohorts with very few students with disadvantage loadings. This diversity may reflect the different extents to which providers are specialising in delivering training to disadvantaged students, as detailed below.

Figure 46: Frequency of cohort size by proportion of students with a disadvantage loading¹⁴³



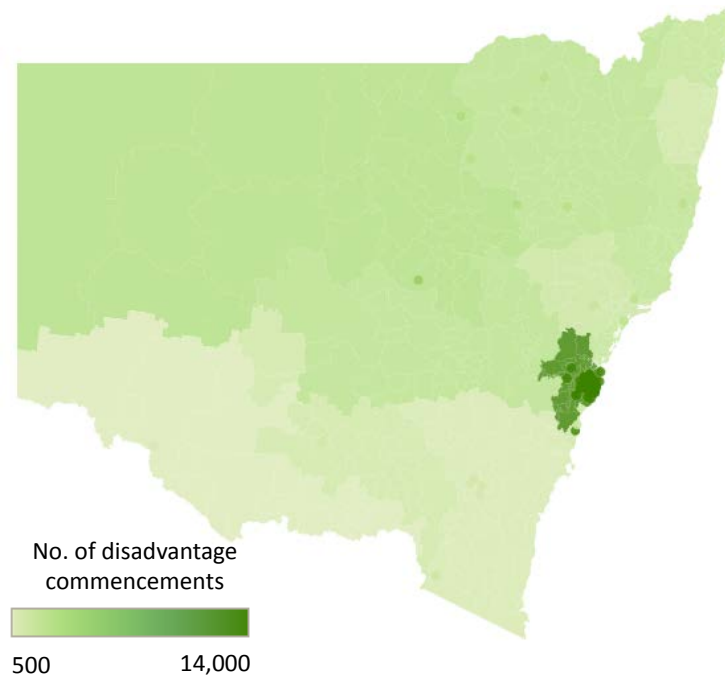
¹⁴³ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. A cohort is defined as the number of students in a unique qualification, provider, training location and starting month. Apprentices, Trainees, students identified as studying through 'Employment' or 'On-line/Correspondence' delivery modes have been excluded, as have all OTEN students.

Disadvantage loadings are concentrated in the Sydney region, and being used predominately in low SES areas

Disadvantage loadings have been concentrated in the Sydney region and, as would be expected, have predominately been used for students who live in low SES areas.

Figure 47 shows the geographical distribution of commencements attracting a disadvantage loading by region. Disadvantage loadings have been concentrated in the Sydney region, in a similar manner to overall commencements. Over a third (35 percent) of students attracting disadvantage loadings have been trained in the Sydney region. All other regions have accounted for less than 6 percent of commencements attracting disadvantage loadings.

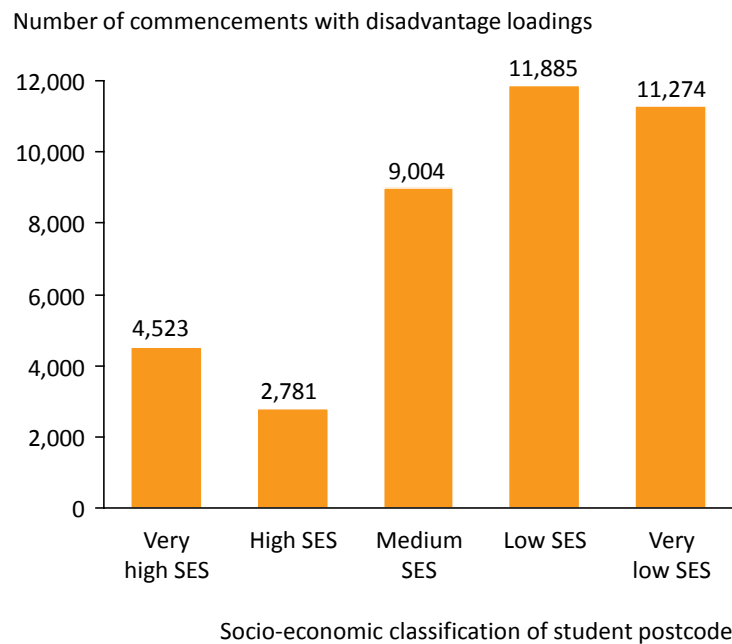
Figure 47: Number of commencements with disadvantage loadings by region¹⁴⁴



¹⁴⁴ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW.

Figure 48 shows the number of commencements receiving a disadvantage loading by the SES of the student's postcode. As would be expected, the majority of disadvantage loadings have been used by students living in low or very low SES areas (59 percent or 23,000 commencements). A small proportion of disadvantage loadings have been used by students living in high or very high SES areas (18 percent or 7,300 commencements).

Figure 48: Number of commencements with disadvantage loadings by SES of student postcode¹⁴⁵



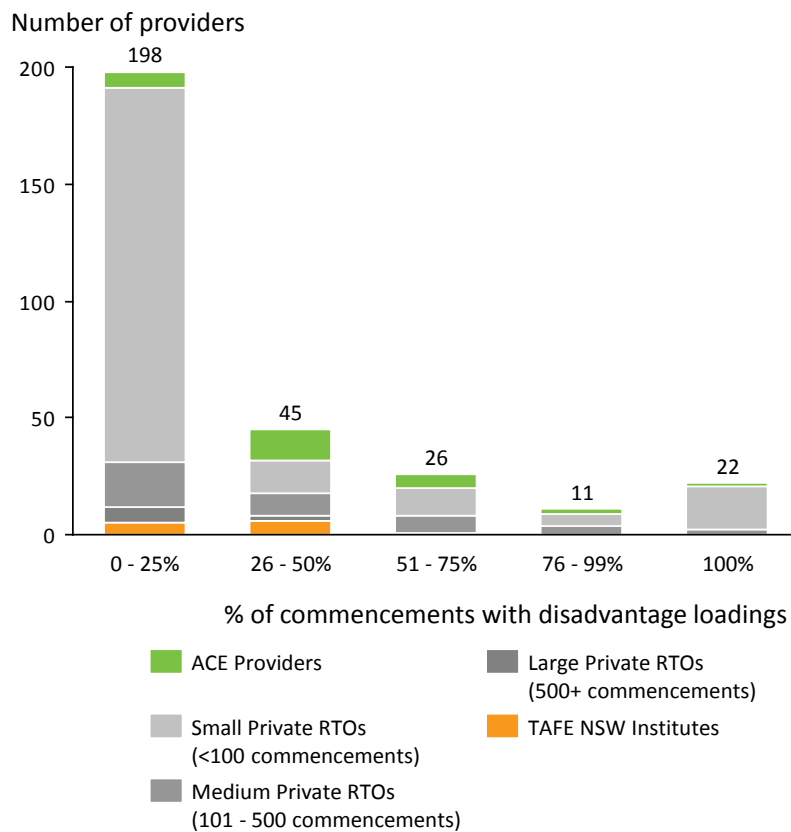
¹⁴⁵ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. SES data from ABS Socio-Economic Indexes of Areas (SEIFA) 2011. Very low SES defined as lowest quintile (i.e. lowest 20% of postcodes), low SES defined as quintile two (i.e. second lowest 20%), medium SES defined as middle quintile (i.e. middle 20%), high SES defined as second highest quintile (i.e. second highest 20%) and very high SES defined as highest quintile (i.e. highest 20%).

Some providers are specialising in delivery to disadvantaged students

For the effective operation of a competitive market, providers need to specialise and this appears to be occurring with some providers specialising in delivery to disadvantaged students.

Figure 49 shows the number of providers by proportion of students attracting a disadvantage loading. As it shows, the vast majority of providers (65 percent) have had less than 25 percent of their commencements attract a disadvantage loading. At the same time, there has been a smaller number of providers (33 providers or 11 percent of providers) that appeared to have specialised in delivery to disadvantaged students.

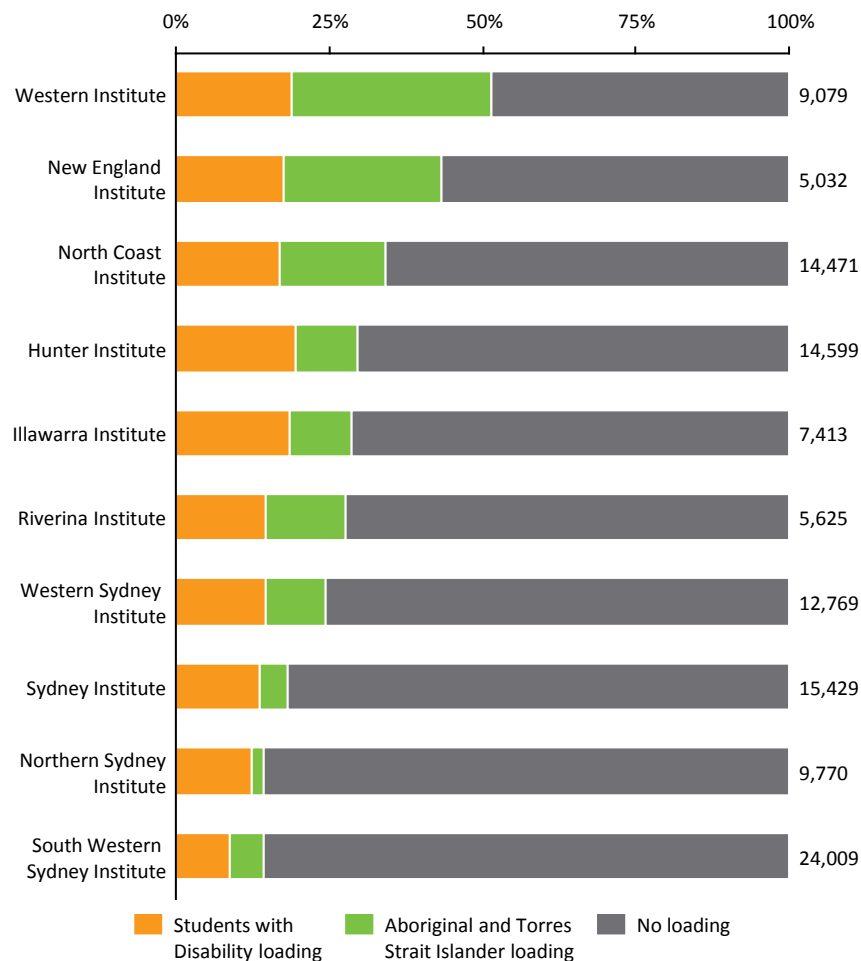
Figure 49: Number of providers by proportion of students with disadvantage loadings¹⁴⁶



¹⁴⁶ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW.

Like Private RTOs and ACE providers, TAFE NSW Institutes have had different proportions of commencements attract disadvantage loadings. Figure 50 shows the proportion of commencements attracting a disadvantage loading by TAFE NSW Institute. Five TAFE NSW Institutes have had between 25-50 percent of their commencements attract a disadvantage loading, and the five remaining TAFE NSW Institutes have had less than 25 percent of their commencements attract a disadvantage loading.

Figure 50: Proportion of commencements by TAFE NSW Institutes¹⁴⁷



6.4 There is opportunity for government investment in loadings to be more effectively targeted

Though loadings appear to be operating effectively, the NSW Government will face short term and longer term challenges in ensuring its investment in loadings is effectively targeted. There will be a short term challenge to ensure that the NSW Government receives value-for-money for its investment in regional and remote loadings. There will be a longer term challenge for the NSW Government to clearly define its priorities in ensuring the supply of quality training to students with complex needs.

¹⁴⁷ TAFE NSW subsidised training data for 2014 and 2015, provided by TAFE NSW

There is a short term challenge to clarify the purpose of location loadings and ensure that government receives value-for-money for its investment

Government investment in location loadings can be more effectively targeted to ensure it receives value-for-money for its investment.

The objective of government in providing loadings is to ensure a quality supply of training to higher cost students in regional and remote areas who, without this funding, it would be unviable for providers to service. This means that government is aiming to fund training that otherwise would not occur.

The use of postcodes to allocate location loadings has created difficulty in effectively targeting regional and remote delivery because they are an imprecise measure of location. As shown in Figure 39 and Figure 40 on pages 84 and 85, the vast majority of students with location loadings live in postcodes that take in metropolitan and inner regional areas, and inner regional and outer regional areas. Furthermore, there are a significant proportion of students from the Sydney region who are receiving regional loadings (shown in Figure 41 on page 86).

As shown in Figure 37 and Figure 38 on page 83, most of these students live in low SES areas. Therefore, there may be location based disadvantage that makes these students more costly to train. However, it is questionable whether the higher costs of training these students would be driven by the challenges of distance which the location loadings were intended to address. Furthermore, this location based disadvantage may not be tied directly to remoteness, and so may not currently be addressed fully across NSW.

Therefore, there is a short term challenge to ensure that the location loadings are being delivered in line with the policy intent. There is also a short term challenge to clarify if the loadings are seeking to deal with higher costs for regional and remote delivery, or are also addressing the higher costs of training students in areas with concentrated disadvantage. If the latter is the case, and location loadings become more effectively targeted, there may be a further challenge in ensuring that this disadvantage is otherwise addressed.

There is a longer term question of government priorities in ensuring the supply of quality training to students with complex needs

There is a longer term challenge for government to clearly identify its priorities for ensuring a supply of quality training to students with complex needs.

Private and ACE provider feedback suggests that the disadvantage and location loadings are insufficient for very high needs students. We have explored a number of case studies of the additional funding that providers would receive for training students from regional/remote areas and disadvantaged backgrounds. We used the NDIS support price list to calculate the types of support that this funding could provide. These case studies are provided in Table 14 and Table 15.

Table 14: Case studies of students with loadings¹⁴⁸

Students	Qualification	Additional funding per student	Number of standard hours per student	Additional funding per hour per student	Services and supports that could be funded for individual
Student with disability	Certificate IV Business Admin	\$790.50	440 hours	\$1.79 per hour	7.5 hours of personal assistance to access training, and Hearing loop equipment
Long term unemployed student	Certificate II Skills for Work and Study	\$321.00	330 hours	\$0.97 per hour	6 hours of individual support and mentoring
Aboriginal and Torres Strait Islander student from regional area	Certificate III Early Childhood Education and Care	\$1,635	675 hours	\$2.42 per hour	11 hours of individual support and mentoring

Table 15: Case studies of cohorts with loadings

Cohort	Qualification	Additional funding for cohort	Number of standard hours per student	Services and supports that could be funded for cohort
10 x long term unemployed student with disability in a metro area	Certificate II Customer Contact	\$4,815	355 hours	Word process software for alternative access, and 110 hours of group support for training
5 x Aboriginal and Torres Strait Islander students in a regional areas	Certificate III Individual Support	\$15,125	450 hours	90 hours of specialised group support for preparing for employment, and 285 hours of travel for the trainer.

These case studies show that it would be viable for providers to purchase a range of supports for students with disadvantage and location loadings. However, there remains a question as to whether these loadings would be sufficient for students who have very complex needs and require a range of supports. This question received significant attention in the recent Legislative Council inquiry.

As already described, TAFE NSW Institutes receive CSO funding outside of Smart and Skilled to ensure that they can meet the needs of all people in NSW and provide appropriate training. It is currently unclear the extent to which the NSW Government's intention is for this CSO funding to support the training of students with complex needs, or whether the loadings are intended to be sufficient for all students with additional needs.

There will be a challenge going forward to clarify the NSW Government's funding priorities to support the training of students with complex needs.

¹⁴⁸ Cost of supports taken from the NDIS prices guide. Prices and standard hours taken from 2015 NSW Skills List. Assumed that travel to regional areas costs \$0.77 per km for vehicle costs (ATO standard cost for medium-large vehicle) and \$30 per hour for trainer time during travel.

7 Quality monitoring

Quality monitoring mechanisms in VET seek to ensure that high quality training and outcomes are delivered. There are a range of mechanisms through which this can be achieved including setting market access standards, setting out requirements in contracts, monitoring performance and reporting data to the market.

Smart and Skilled uses a range of these mechanisms, including a risk based approach to quality monitoring. The Smart and Skilled quality monitoring arrangements have been broadly successful in preventing systemic quality issues. However, it is too early to conclude whether they have ensured quality outcomes.

7.1 Quality monitoring seeks to ensure that Government investment in training produces outcomes

Quality monitoring seeks to ensure that the NSW Government's investment in VET produces outcomes for individual students and the NSW economy.

The NSW Government has a series of objectives for quality monitoring:

- ***Incentivising providers to address any quality issues*** by working with providers cooperatively to encourage them to improve their quality and having a range of deterrence mechanisms to discourage providers from offering low quality training.
- ***Improving the likelihood that outcomes*** are achieved, such as graduate employment and productivity gains.
- ***Ensuring that the NSW Government's investment in training represents value for money***, as quality training is delivered and outcomes are achieved.

There are a range of mechanisms by which quality training can be assured and monitored, some of which are detailed in Table 16. These mechanisms can be used in combination. Additionally, some of these mechanisms can be driven by government, consumers, industry or providers themselves.

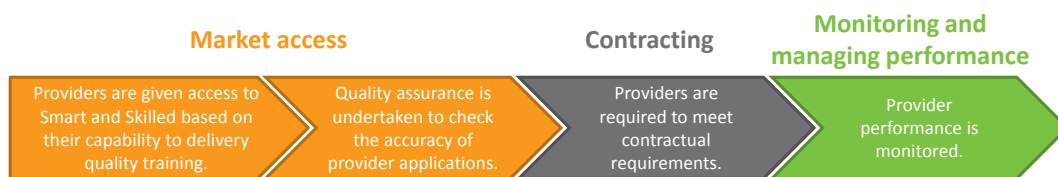
Table 16: Mechanisms for quality monitoring and assurance

Mechanism		Description
Quality standards for market access		<ul style="list-style-type: none"> • Prior to gaining access to the market, providers can be required to meet quality standards.
Contracting requirements		<ul style="list-style-type: none"> • Providers can be required to meet contractual requirements for their processes and operations (e.g. experience of the trainers), data reporting (e.g. reporting completions), and outcomes to be achieved (e.g. graduate outcome benchmarks).
Monitoring and managing performance	Risk based monitoring by government	<ul style="list-style-type: none"> • Providers can be profiled based on risk indicators and government can prioritise quality monitoring activities based on risk. Risk indicators may include the size of the provider, the type of providers and the industries in which they operate.

Mechanism		Description
	Provider self-assessment	<ul style="list-style-type: none"> Providers can be encouraged or required to undertake self-assessments of their compliance, providing an opportunity to identify areas for improvement.
	Collecting consumer views	<ul style="list-style-type: none"> Employers and students can be surveyed on the quality of training. Consumers can be provided with mechanisms for making complaints.
Transparency in reporting data and information		<ul style="list-style-type: none"> Data and information can be provided to consumers to enable them to make smart decisions in selecting a training provider.
		= Included in the current approach under Smart and Skilled

The Smart and Skilled quality assurance and monitoring approach involves a range of the mechanisms discussed above. The overall approach is shown in Figure 51. The approach to the quality monitoring part of the process (shown in green in Figure 51) is detailed in Appendix M, as well as a summary of the Department's quality monitoring activities to date.¹⁴⁹

Figure 51: Smart and Skilled approach to quality assurance and monitoring¹⁵⁰



There were a range of benefits to this as an initial approach to quality monitoring, as detailed below.

- ***It involves a range of mechanisms which reflect accepted best practice.*** The Smart and Skilled quality monitoring approach generally reflects accepted best practice in VET. This includes a risk based approach in which multiple indicators are monitored, the prioritisation of high risk providers in monitoring activities, a collaborative approach, self-assessments and the collection of consumer views.¹⁵¹
- ***It includes a high bar for quality which does not rely on ASQA compliance as the sole indicator of quality.*** The requirements for Smart and Skilled providers set a higher bar for quality than ASQA requirements. Nous' analysis of the ASQA and Smart and Skilled requirements is provided in Appendix G.

¹⁴⁹ At the time of writing this report, the Smart and Skilled Performance Monitoring Strategy had been signed off by the Quality Review Committee but had not yet been finalised.

¹⁵⁰ Prepared by Nous from documents provided by the Department and interviews with the Department

¹⁵¹ Providers are rated by the Department according to their risk level on a range of indicators including sanctions and complaints, membership of an RTO group, size of contract, industries, signs of high risk training activity and new entrants to Smart and Skilled.

7.2 It does not appear that there are widespread quality issues; however, there are high risk providers

We have conducted an analysis of training activity and found that there are not systemic quality issues in the Smart and Skilled market. However, there are some high risk providers who should be monitored. We have observed that:

- Provider feedback clearly says there are not widespread issues of high risk provider behaviour.
- There is limited cross-over between the VET FEE-HELP and Smart and Skilled markets.
- Very early indications are that completion rates have consistently exceeded the national average.
- There are a small number of providers whose training activity is anomalous to the market and who may be engaging in high risk behaviour.

Provider feedback clearly says there are not widespread issues of high risk provider behaviour

Feedback from stakeholders received during the Legislative Council inquiry and Stage One of this review says there are no prevalent quality issues in the Smart and Skilled market.

The recent Legislative Council inquiry concluded that the quality issues which have been reported in the media regarding VET FEE-HELP providers are not representative of the Smart and Skilled market. They concluded that that “the vast majority” of Smart and Skilled providers are committed to providing quality training.¹⁵²

This is consistent with the findings of our stakeholder consultations in Stage One of this review. Of our consultations with over 300 providers in NSW, very few specific incidents of quality issues were cited. Additionally, 81 percent of Smart and Skilled students who were surveyed indicated they were satisfied or very satisfied with the quality of their training¹⁵³ and employers generally indicated they were satisfied with training quality under Smart and Skilled.¹⁵⁴ This is in line with national trends of satisfaction with government subsidised training, with NCVER data showing that 85 percent of students in government subsidised training were satisfied with the overall quality of their training.¹⁵⁵

There is limited cross-over between the VET FEE-HELP and Smart and Skilled markets

The Smart and Skilled market and VET FEE-HELP market in NSW have very limited cross-over, suggesting that the quality issues in the VET FEE-HELP market may not have spread to Smart and Skilled.

There have been extensive quality issues in the VET FEE-HELP market across Australia. Throughout 2014 and 2015, ASQA received a significant increase in complaints regarding VET FEE-HELP.¹⁵⁶ In response to these quality issues, a range of reforms to the program have been introduced by the Commonwealth Government.¹⁵⁷

However, there is very limited cross-over between the market of Smart and Skilled providers and VET FEE-HELP providers in NSW. Of the 408 providers currently on contract under Smart and Skilled, only 13

¹⁵² NSW Legislative Council, 2015. *Vocational education and training in New South Wales*.

¹⁵³ 552 responses. It should be noted that over 80% of survey responses were from students studying at TAFE NSW Institutes.

¹⁵⁴ Though it should be noted that many employers indicated they were not able to work with their preferred provider due to the structure of the financial caps under Smart and Skilled.

¹⁵⁵ NCVER, 2015. *Government funded student outcomes*.

¹⁵⁶ ASQA, 2015. *Targeted audits of VET FEE-HELP providers*.

¹⁵⁷ Department of Education and Training, 2015. *VET FEE-HELP Loans for Quality Training*

percent or 54 providers also hold VET FEE-HELP contracts.¹⁵⁸ As of December 2015, only eight of these providers (or 2 percent of all providers) have used VET FEE-HELP for Smart and Skilled delivery. This shows that it is unlikely that the quality issues in the VET FEE HELP market have spread into the Smart and Skilled market.

Very early indications are that completion rates have consistently exceeded the national average

Our very early, preliminary analysis of training activity data shows that, to date, completions have generally been consistently above the national average completion rate for government subsidised training of 34 percent.¹⁵⁹

We have conducted an initial analysis of the completion rates under Smart and Skilled using two different methods. It should be noted that there are issues with the reliability of both of these calculations, and completion rates should continue to be monitored on an ongoing basis.

The data in Table 17 was calculated as the proportion of finalised students who have completed their qualification.¹⁶⁰ Table 18 on page 102 was calculated as the proportion of commenced students who have completed training (restricted to students who enrolled in full qualifications in January to April 2015 in order to only include those students who realistically could have completed their training). The second method in Table 18 most closely reflects the method used by NCVER.¹⁶¹ On both calculations, completion rates have consistently been above 30 percent and in most cases significantly higher.

This early data suggests that the Department's approach to quality monitoring has delivered a positive impact on training outcomes. In particular, Private RTOs under Smart and Skilled have been successful at completing their students. This suggests that the issues of low completion rates at some Private RTOs in the VET FEE-HELP market are not currently present in Smart and Skilled.

Table 17: Preliminary analysis of completion rates (Method 1)¹⁶²

	ACE Providers	Private RTOs	TAFE NSW Institutes	Overall
Certificate I	60.4%	54.5%	84.5%	82.5%
Certificate II	45.8%	84.2%	76.5%	77.3%
Certificate III	68.1%	76.0%	74.3%	74.5%
Certificate IV	60.5%	78.6%	68.5%	68.9%
Diploma	81.9%	82.6%	62.6%	63.7%
Advanced Diploma	-	-	72.0%	72.0%

¹⁵⁸ Data provided by the Department to Nous Group. File 'VET FEE HELP S&S providers 2015'.

¹⁵⁹ NCVER, 2015. *The likelihood of completing a government funded VET program 2009-2013*.

¹⁶⁰ This is the approach used by the Department in their quality monitoring arrangements.

¹⁶¹ NCVER, 2012. *Lifting the lid on completion rates in the VET sector: How they are defined and derived*.

¹⁶² Smart and Skilled 2015 training data, provided by the Department, and TAFE NSW 2015 subsidised training data, provided by TAFE NSW. Completion rates are calculated as the number of completed students divided by the number of finalised students, including those who have finished studying but have failed units, or those who have withdrawn from training. Note that this value is an overestimate, as TAFE NSW data does not identify students who have finished studying all units but failed some or all. There is also a potential concern over the accuracy of data regarding withdrawn students.

Table 18: Preliminary analysis of completion rates (Method 2) ¹⁶³

	ACE Providers	Private RTOs	TAFE NSW Institutes	Overall
Certificate I	74.6%	40.0%	44.7%	45.2%
Certificate II	31.0%	65.7%	37.2%	39.4%
Certificate III	61.9%	53.8%	41.0%	42.2%
Certificate IV	27.6%	28.3%	34.0%	33.8%
Diploma	-	40.1%	30.0%	30.3%
Advanced Diploma	-	-	38.2%	38.1%

¹⁶³ Smart and Skilled 2015 training data, provided by the Department, and TAFE NSW 2015 subsidised training data, provided by TAFE NSW. Completion rates are calculated as the number of completed students divided by the number of commenced students, including those who have finished studying but have failed units, those who have withdrawn from training, or those who are still undertaking training. This is limited to students who commenced in the first four months of 2015, in order to exclude students who could not reasonably have completed yet. Note that this will be an underestimate for longer qualifications, particularly affecting the higher level qualifications.

There is a small number of providers whose training activity is anomalous to the market and who may be engaging in high risk behaviour

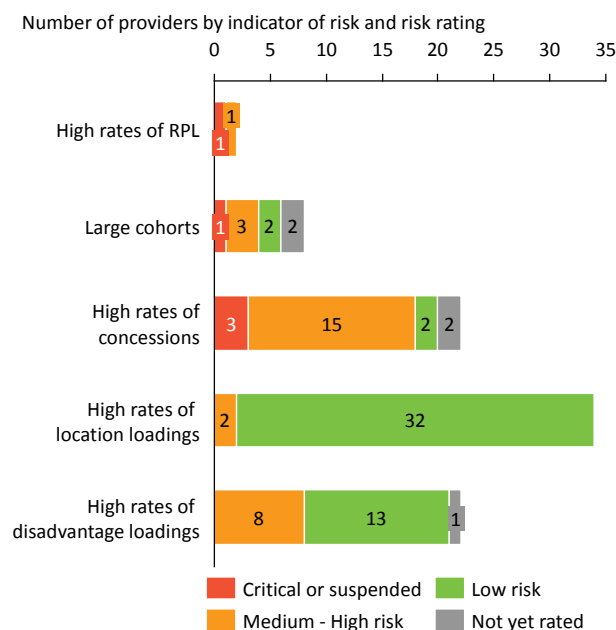
We have identified a small number of providers whose patterns of training activity suggest they may be at risk of low quality provision.

In our analysis of training behaviour, we sought to identify providers whose patterns of training activity are anomalous to the market. We explored large cohorts (Figure 22), high rates of concessions (Figure 32), and high rates of loadings (Figure 43 and Figure 49). We identified a small number of providers whose training activity is inconsistent with the rest of the market.

The number of providers in each category and the risk rating of these providers in the Department's quality monitoring activities are detailed in Figure 52. As it shows, high rates of RPL, large cohorts and high rates of concessions appear to be stronger indicators of risk than high rates of location and disadvantage loadings.

It should be noted that a number of the providers whom we have identified as outliers in terms of their training activity patterns have been rated as low risk or have not yet received a risk rating.¹⁶⁴ The behaviour of these providers should be investigated.

Figure 52: Indicators of high risk behaviour¹⁶⁵



¹⁶⁴ All providers will be risk rated by the end of March 2016.

¹⁶⁵ Smart and Skilled 2015 training data for all providers, provided for Private RTOs and ACE Providers by the Department and provided for TAFE NSW Institutes by TAFE NSW. Nous analysis of Quality Assurance data provided by the Department.

7.3 There are a small number of short and long-term quality challenges the Department should monitor

There is a small number of emerging quality challenges that will need to be addressed in the short and long term. Anecdotal evidence suggests that brokering is a growing issue in Smart and Skilled, and the Department will need to continue to monitor this. Consumers will need to be better informed on their training options and equipped with the tools or skills to make use of this information. This is critical to ensure the effective operation of the Smart and Skilled market in the short term. In the medium term, consumers will continue to seek more information about outcomes and the quality of training. As the Smart and Skilled market becomes more diverse and dynamic in the longer term, quality monitoring arrangements will need to play a role in facilitating this more competitive environment.

In the short term, the NSW Government will need to continue to monitor the use of brokering in Smart and Skilled

The only quality issues which stakeholders consistently raised during this review was the issue of brokering and the Department is already monitoring this issue.

Stakeholders indicated that the use of brokers is not widespread within the Smart and Skilled market; however, many suspected that it is on the rise. Widespread brokering poses a risk to quality because it requires providers to forgo part of the total qualification price to pay for these services, putting quality delivery at potential risk. Stakeholders reported:

- Consistent business terms of approximately 30-40 percent of the Smart and Skilled total price being paid to brokers upfront, and
- That brokers are 'shopping around' cohorts of students to Smart and Skilled providers, and that many providers had been approached by multiple brokers.

It should be noted that there are quality providers who have engaged brokers on business terms which minimise the risk of quality issues. These terms include broker fees being divided into payment milestones as the student completes to ensure that the broker is incentivised to recruit students with a high likelihood of graduating. Additionally, some providers have indicated that the brokers they work with are willing to be included in the Department's quality monitoring activities.

The Department is already considering a range of mechanisms to monitor brokering in the Smart and Skilled market and should continue to monitor this issue.

In the short term, consumers are not aware of their training options

VET consumers are currently not well informed of their training options. This will create challenges for the effective operation of the Smart and Skilled market.

Stakeholder feedback and evidence from research suggests that students across Australia are not aware of their training options and do not engage with existing information on their options. This was reinforced by our Stage One survey of students, where 38 percent of respondents unsure whether they were being subsidised by Smart and Skilled¹⁶⁶ and 71 percent of respondents were not sure if they had accessed the Smart and Skilled website.

This presents a challenge for government to find ways to better inform students about their training options. Smart consumers are an important part of any effective and efficient market to create competitive pressures for providers to improve their service offering and performance.

¹⁶⁶ Nons survey of VET students, conducted in August 2015.

In the medium term, consumers will continue to seek more information on quality and outcomes

Consumers' expectations for more information on quality and outcomes in selecting their Smart and Skilled training will continue to grow.

Across a range of sectors, consumers are expecting more information and transparency. This trend has extended to education and training both overseas and in Australia. Increasingly, data regarding the outcomes of education and training are published, for example, on the MySchools website. Consumers engaging with Smart and Skilled will expect similar information. They will expect information on the quality of different providers and the graduate outcomes from study. Consumers also increasingly expect transparent mechanisms to provide feedback on the quality of services they receive. The Smart and Skilled and MySkills websites do not currently meet this need.

This presents a medium term challenge for government to collect data on quality and outcomes, and to determine how this can be shared in a way that empowers consumers. This challenge is particularly acute in the VET sector due to the complexity of collecting quality and outcomes data.

In the longer term, quality monitoring will need to evolve as provider business models change and the Smart and Skilled market becomes more diverse and dynamic

The existing approach to quality monitoring is reliant on the Department and other government agencies monitoring quality. As already discussed, in the longer term the Smart and Skilled market will need to become more diverse and dynamic, and quality monitoring arrangements will need to evolve with this.

Additionally, provider business models will likely change in order to be more responsive to changing industry needs. Traditional approaches to quality monitoring may not be sufficiently agile to respond to changing provider business models.

Quality monitoring arrangements could be improved in the longer term through consumers being enabled to play a role through clear complaints mechanisms such as a Training Ombudsman, a census of students on the quality of their training, and the reporting of data to the market to enable consumers to make more informed and smarter choices in selecting their training.

8 Recommendations

This section provides our recommendations for the future of Smart and Skilled. The recommendations seek to ensure that Smart and Skilled can deliver on the objectives set by the NSW Government. The recommendations also seek to move the Smart and Skilled market to being more innovative, responsive and agile to ensure that the future needs of students, industry and the economy can be met. The implementation of these objectives will need to be carefully managed. Reflecting this, the recommendations have a staged implementation with pilots and reviews to ensure effective market stewardship.

8.1 The introduction of recommendations will need to be carefully managed and gradual

The implementation of recommendations to create a Smart and Skilled market which meets the objectives set by the NSW Government and improves the agility of the market needs to be carefully managed. The recommendations should be introduced gradually. Therefore, our recommendations involve:

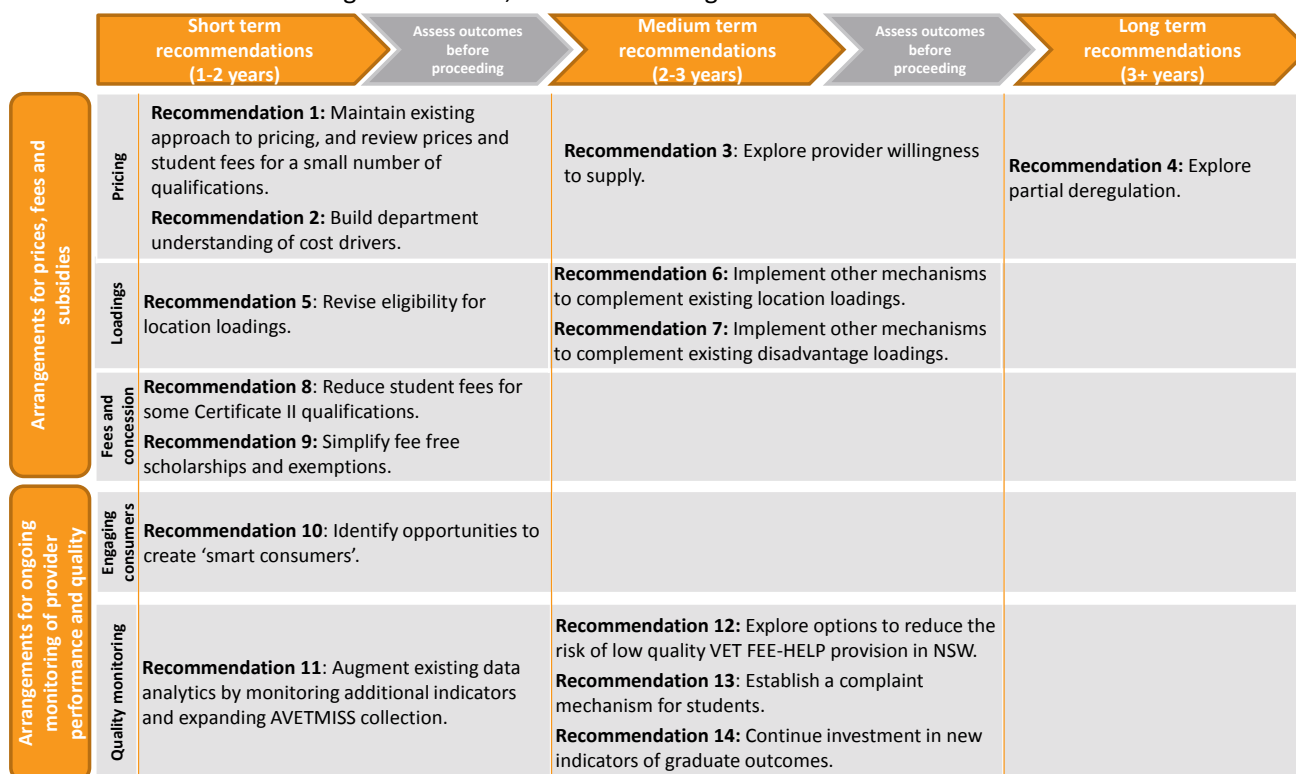
- The use of pilots and reviews to test reforms before they are rolled out to the whole Smart and Skilled market
- Short term changes being introduced over the next 1-2 years to provide the market with time to prepare
- Medium and longer term recommendations to implement reforms in a staged manner, only being implemented after progress against the vision is achieved.

We believe that a staged approach, in which further changes are implemented as progress against the objectives is achieved, will minimise the risk of adverse impacts on the market.

It is noted that the VET sector in NSW has undergone significant changes in recent years and there is a degree of reform fatigue. The staging and gradual implementation of recommendations could help mitigate this fatigue.

Our recommendations are summarised in Figure 53 and detailed in the following sections.

Figure 53: Short, medium and long-term recommendations



The NSW Skills Board requested that we consider extending the entitlement to higher level qualifications. This is not recommended in the short term. The Commonwealth Government is currently piloting extending VET FEE-HELP to Certificate IV qualifications and is considering a range of other reforms to VET FEE-HELP. Once there is resolution on policy settings in VET FEE-HELP, extending the entitlement to higher qualifications could potentially be reconsidered.

Significant changes to the budget structure in Smart and Skilled are also not recommended. The recommendations in Stage One covered the changes necessary to the budget structure (detailed in Appendix C). Furthermore, the reforms which the NSW Government and the Department have already introduced address many of the issues relating to budget structure raised in this report.

8.2 Arrangements for prices, fees and subsidies

The Smart and Skilled market needs to be efficient and innovative to ensure that consumers have access to value-for-money training which meets their needs. There are a series of recommendations for pricing mechanisms, loadings, and student fees and concessions to achieve these ends. These are detailed below.

Pricing

Recommendation 1: Maintain existing approach to pricing, and review prices and student fees for a small number of qualifications (Short-term)

We did not identify market-wide distortions as a result of the existing approach to pricing (as detailed in Section 4.2 on page 42) and therefore, the existing approach to pricing should be maintained. However, our analysis did identify:

- **There are pricing anomalies in a small number of qualifications** (as detailed in Appendix J on page 137) and there is a challenge in ensuring the prices for these qualifications are appropriate
- **There is a high concentration of commencements in a small number of qualifications** and so the effective operation of the market is highly dependent on appropriate prices in these qualifications (as detailed in Section 4.4 on page 57)
- **Student fees for some qualifications may not align with graduate outcomes** (as detailed in Section 5.2 on page 61).

Prices for the qualifications listed in the table below may require further examination.

Table 19: Qualification prices and student fees which require review

Indicator	Qualification	
Qualifications with misaligned prices	Certificate II in Automotive Body Repair Technology	Certificate III in Automotive Body Repair Technology
	Certificate III in Logistics	Certificate IV in Logistics
	Certificate IV in Dental Assisting	Certificate III in Dental Assisting
	Certificate II in Cleaning Operations	Certificate III in Cleaning Operations
	Certificate III in Warehousing Operations	Certificate II in Warehousing Operations
	Certificate IV in Warehousing Operations	
Qualifications with substantial swings in popularity	Certificate IV in Leadership and Management	Certificate III in Civil Construction Plant Operations ¹⁶⁷
	Skills for Work and Training	Certificate II in Automotive Servicing Technology
	Access to Work and Training	Diploma of Leadership and Management
	Certificate I in Skills for Vocational Pathways	
Qualifications with unusual provider behaviour (concentration of spending or large cohorts)	Certificate III in Travel	Certificate IV in Allied Health Assistance
	Certificate IV in Building and Construction (Building)	Certificate III in Hospitality
Qualifications with very high commencements	Certificate III in Early Childhood Education and Care	Certificate III in Individual Support
	Certificate III in Business Administration	Certificate III in Electrotechnology Electrician
	Certificate III in Hospitality	

¹⁶⁷ Feedback from providers suggests that there may be broader issues of qualifications within this training package. However, the price for Cert III Civil Construction Plant Technology may still warrant review.

Indicator	Qualification
Qualifications where student fees may not align with graduate outcomes	Certificate I and Certificate II 'foundation' qualifications

Recommendation 2: Build Department understanding of cost drivers (Short-term)

Governments and providers across Australia have limited data on the cost of delivering VET. As a result, there will be an ongoing challenge in setting and revising prices when there is limited research and information on costs. This challenge is particularly acute for those qualifications with a very high number of commencements where there is a significant risk to the market if the prices for these qualifications are inappropriate (see Section 4.4 on page 58).

To address this challenge the Department can draw on certain mechanisms to build an evidence base for cost drivers and price:

- **An approach for collecting cost data from a sample of providers** for all the qualifications on their scope to better understand cost drivers for providers
- **Collection of cost data for high commencement qualifications** to ensure that prices are appropriate for those qualifications where pricing risk is concentrated.

Recommendation 3: Explore provider willingness to supply (Medium-term)

Administrative setting of prices was appropriate as an initial approach for Smart and Skilled; however, the initial approach to administratively setting prices cannot be replicated on an ongoing basis (as the data on which it was based cannot be updated.)¹⁶⁸ Additionally, over time it will be challenging to set administrative prices in an increasingly diverse market (see Section 4.4 on page 58).

Setting of prices requires an understanding of costs as well as their relationship with training supplied. Understanding the supply curve will be essential to inform decisions on future market shape.

Additionally, these mechanisms could also be used to ensure greater consistency in the levels of contestability across the programs of Smart and Skilled. Currently there are differing levels of contestability across the three programs. These mechanisms could be used to test giving all providers access to all programs under Smart and Skilled.

A pilot auction mechanism is one approach that could provide better insight into the relationship between price and quantity supplied. This would allow the Department to understand diversity in the market in terms of different providers' cost of delivery. Additionally, piloting price auction mechanisms on the highest commencement qualifications would provide the Department with cost data on the qualifications where pricing risk is concentrated. This information could be used to inform pricing for these high commencement qualifications, minimising the risk of misaligned prices.

A price auction mechanism could involve:

- **Providers 'bidding'** for different quantities of training at different prices
- **Bids being accepted or used to inform future price setting and allocation of financial caps** through an improved understanding of the supply curve.

¹⁶⁸ IPART used TAFE NSW cost of delivery data from 2012 and data on the cost of delivery for Private RTOs submitted as part of the APL. This data is no longer collected or available.

Recommendation 4: Explore partial deregulation (Long-term)

There is currently a limited diversity of training products and providers in the Smart and Skilled market. As the market evolves, there will be a challenge in ensuring that pricing arrangements are sufficiently flexible to allow providers to diversify (see Section 4.4 on page 58).

To ensure this flexibility exists in pricing arrangements, consideration should be given to moving towards partial price flexibility in the longer term. This should only be considered once the market has stabilised and there is evidence that providers in the market are high quality (demonstrated by the achievement of training outcomes) and the market design is sufficiently robust to ensure this remains the case. It should also be tested through pilots in certain regions and/or qualifications.

Partial deregulation of prices could involve:

- **Price ceilings and floors** to mitigate against unreasonable fees and ensure students retain a sense of investment in their training
- **Regulatory mechanisms to provide disincentives for aggressive competition on price**, such as having an average student fee and if providers reduce fees below this level, the subsidy they receive also reduces
- **Specification of a standard product** that goes beyond specifications of training packages to include inputs such as standard hours and mode.

This approach could be complemented by a deferred acceptance model for higher qualifications similar to the system used in university education. This would complement partial deregulation by ensuring that students are effectively matched to training providers, and provide a market clearing mechanism. This would need to be piloted and tested prior to implementation.

Loadings

Recommendation 5: Revise eligibility for location loadings (Short-term)

There has been high uptake of regional loadings by providers delivering training in major centres and significant use of regional loadings within the Sydney region (as detailed in Section 6.2 on page 82). This raises a challenge in ensuring that the eligibility criteria for location loadings align with the policy intent.

To address this challenge, the eligibility criteria for location loadings should be tightened to better reflect the policy intent. This could be achieved through:

- **Application of geocoding** so that eligibility for loadings is based on the remoteness classification of the student's exact address (rather than the remoteness classification of the student's whole postcode)
- **Defining a proportion of a student's postcode** that must be regional / remote for the loading to apply
- **Applying loadings based on the training location.**

It should be noted that the approach of applying the loading to the student's place of residence means that providers can be compensated for:

- The additional costs providers may incur in travelling to the student's location to provide training
- The investment providers may make in technology-enabled delivery for elements of the training.

This approach can incentivise providers to travel to the student in the regional and remote location to deliver training. However, applying the loading to the location of training does not compensate

providers in metropolitan or inner regional areas for training students who are from more remote locations.

Recommendation 6: Implement other mechanisms to complement existing location loadings (Medium-term)

There have been low rates of training in outer regional and remote areas (as detailed in Section 6.2 on page 84) and there is a challenge to ensure that providers are able to achieve scale and meet costs in delivering training in outer regional and remote areas.

The savings from tightening the eligibility criteria for location loadings (as detailed in recommendation 5) could be invested in additional mechanisms to support training in regional and remote locations which would complement the existing location loadings. The mechanisms detailed below could be piloted in regions to see which are most effective in meeting training needs in regional and remote areas:

- **Contestable grants** to providers for training students in thin markets in remote locations
- **The Department taking a role in aggregating demand** in regional and remote areas to identify viable cohorts for training
- **Training centres in regional and remote locations** which are available to all providers to lease to reduce the infrastructure costs of delivering training in regional and remote areas
- **Assistance for students in regional and remote locations to travel for training** to complement other supports for the cost of training, such as Youth Allowance.

Recommendation 7: Implement other mechanisms to complement existing disadvantage loadings (Medium-term)

Loadings may be insufficient to compensate providers for the cost of training students with significant disadvantage and very complex needs (as detailed in Section 6.4 on page 96). To address this, a range of mechanisms could be used to support training of disadvantaged students with very complex needs and complement existing disadvantage loadings. These mechanisms are detailed below.

- **Use CSOs to ensure provision of base services.** We note that the NSW Government already provides a large amount of funding to TAFE NSW in the form of CSOs. If these mechanisms continue to be used into the future to complement the disadvantage loadings, there needs to be clarity on how the purpose and use of CSOs is distinct from disadvantage loadings.
- **Increase loadings for students with very complex needs** such as having multiple indicators of disadvantage (for example, being long-term unemployed and Aboriginal and Torres Strait Islander).
- **Implement mechanisms that enable providers to achieve scale** in training disadvantaged students and direct disadvantaged students to specialist providers (for example, the Department certifying some providers as 'providers of choice' for disadvantaged students).
- **Implement outcomes based grants and payments** for the provision of training to disadvantaged students (for example, providing additional grants or payments to providers with high completion rates for disadvantaged students).

In developing other mechanisms to support training of disadvantaged students, the Department should ensure there is clarity regarding the different policy objectives of loadings, CSOs and any additional mechanisms to support training of disadvantaged students.

These options could be complemented by further analysis and research on the needs of disadvantaged students, and the interaction between Smart and Skilled and other funding streams such as Disability

Employment Services (DES), Skills for Education and Employment (SEE) and the National Disability Insurance Scheme (NDIS).

Student fees and concessions

Recommendation 8: Reduce student fees for some Certificate II qualifications (Short-term)

Certificate II qualifications had large fee increases under Smart and Skilled (as detailed in Section 5.2 on page 62). However, most students in Certificate II qualifications are paying concession fees or no fee at all (as detailed in Section 5.3 on page 68). The NSW Government has faced criticism for increasing fees, but for Certificate II qualifications the use of concessions means that very few students are paying the full student fee.

To address this, student fees for selected 'foundation' qualifications could be reduced (for example, qualifications that provide basic preparation for work). It is recognised that student fees for Certificate II courses are already generally low (from \$320 in 'foundation' Certificate II qualifications,¹⁶⁹ such as Certificate II in Skills for Work and Study, and up to approximately \$1,340 for trade based qualifications, such as Certificate II in Construction).¹⁷⁰ However, provider feedback suggests that many students require payment plans even for these small amounts, and that student fees for 'foundation' qualifications may be too high. This suggests that the upfront payment of such a fee would otherwise be a barrier.

Reductions in Certificate II student fees in 'foundation' qualifications should be accompanied by monitoring of the impact on provider behaviour and student demand. Subject to market activity, minor modifications to eligibility arrangements may be required to help manage demand.

Recommendation 9: Simplify fee free scholarships and exemptions (Short-term)

The categories of concessions, fee exemptions and scholarships have similar eligibility (as detailed in Section 5.4 on page 73). There is a challenge in ensuring that these arrangements are sufficiently simple for providers and students to understand. To ensure simplicity:

- ***Fee free scholarships could cease after the current scholarships expire¹⁷¹*** and these students would still be eligible for concession fees
- ***Fee free scholarships and exemptions could be consolidated into one mechanism.***

Implementation will reduce complexity for providers and the potential for divergent fees for students with similar characteristics. Savings from this change could be invested in mechanisms to complement disadvantage loadings detailed in Recommendation 7.

8.3 Arrangements for ongoing monitoring of provider performance and quality

Though we did not identify systemic quality issues in the Smart and Skilled market, there are indicators of questionable behaviour by a small number of providers. Quality training needs to be assured across the Smart and Skilled market to ensure that the NSW Government receives value-for-money for its investment in VET. Furthermore, in the longer term, high quality providers and products are an essential

¹⁶⁹ Concession fees are between \$80 to \$160.

¹⁷⁰ Department of Industry, 2015. *Smart and Skilled: 2015 Prices, fees and subsidies V3*

¹⁷¹ The existing fee free scholarships end in 2019.

precondition for mechanisms to embed greater competition, such as partial fee deregulation. This will require quality monitoring mechanisms which are flexible and responsive to changing provider business models.

Furthermore, for quality to be achieved, consumers need to be able to easily navigate the system and be able to identify quality training options. This will empower individuals and employers to be 'smart consumers' of VET.

We have developed a series of recommendations which seek to ensure that the Smart and Skilled market has high quality providers and products, and that consumers are empowered to access these products. These are detailed below.

Recommendation 10: Identify opportunities to create 'smart consumers' (Short-term)

Students undertaking VET qualifications have limited knowledge of their training options (detailed in Section 7.3 on page 104). There is a challenge to ensuring that students and the people that influence their decision making (such as parents, friends and communities) are sufficiently informed and can make 'smart' decisions.

There are a range of options which could be used to create 'smart consumers', as detailed below. These options should be complemented by further research on why students study VET, and how they make choices on what and where to study.¹⁷² This research could improve the implementation of the below options by improving the Department's understanding of what information students find useful in making decisions about training and the formats in which they want this information.

- The Department could use the Smart and Skilled website to publish data on provider performance and graduate outcomes. It is recognised that evidence from higher education suggests that not all students will access provider performance information. However, many employers would be likely to access this information and the transparent reporting of this data creates a competitive pressure for providers to improve.
- The Department could provide career counselling services to potential students, either via the Smart and Skilled website or via telephone. However, we note the cost may be prohibitive.
- The Department could develop mechanisms to collect information on students' training preferences and provide students with information on training options which meet their objectives. This would have the additional benefit of providing the Department with data on unmet demand from students registering, and indicating an interest in VET, and never undertaking training.

Implementation of this recommendation will require equal attention to the nature of information being provided and how it is accessed and used by consumers to inform training choices.

Recommendation 11: Augment existing data analytics by monitoring additional indicators and expanding AVETMISS collection (Short-term)

As there are indicators of questionable training behaviour by a small number of providers (detailed in Section 7.3 on page 104), there will be an ongoing challenge to ensure quality monitoring identifies these providers early. This challenge can be addressed in the short term by the measures detailed below.

¹⁷² The Research Committee of the NSW Skills Board is currently conducting work on this subject and the Australian Council of Education Research is releasing a report in late 2016 on learner choice in VET.

- **Add additional indicators to the quality monitoring of training activity:** The Department already has developed a number of training activity indicators which will be monitored to identify quality issues. This could be improved by monitoring completions using the NCVER definition. The indicators we have identified as having a strong relationship to the risk-level of providers could also be monitored (detailed in Section 7.2 on page 103): large cohorts, high rates of RPL and high rates of concession use.
- **Engage NCVER to expand the sample for AVETMISS collection in NSW:** The Victorian Government has engaged NCVER to increase the sample size for the student outcomes survey as part of the AVETMISS collection. This larger sample is intended to provide additional provider and course-level insights. Feedback from stakeholders indicates that this data is providing useful information for quality monitoring purposes. It involves a limited burden for providers as it uses an existing data collection, with contact made with students by the survey research firm commissioned by NCVER. NSW should investigate doing the same and engaging NCVER to expand the sample size of the student outcomes survey within the AVETMISS collection in NSW.

Recommendation 12: Explore options to reduce the risk of low quality VET FEE-HELP provision in NSW (Medium-term)

The VET market in NSW is currently fragmented, with some providers focusing on delivery of government subsidised training and other providers focusing on delivery of VET FEE-HELP. This will pose a challenge for effective market operation (as detailed in Section 3.3 on page 39). To reduce the risk of inappropriate VET FEE-HELP activity to the achievement of Smart and Skilled objectives in NSW, the NSW Government could take a role in providing signals of quality in the NSW VET FEE-HELP market (but not providing funding). This could involve:

- The Department running an application and assessment process for providers of higher qualifications eligible for VET FEE-HELP (potentially for a limited set of qualifications) and certifying high quality providers as 'Smart and Skilled' providers (but not providing funding)
- The Department placing requirements on Smart and Skilled providers of higher qualifications such as:
 - A maximum student fee for qualifications
 - Participation in Smart and Skilled quality monitoring.

Such reforms may also strengthen the contribution of VET FEE-HELP activity to the NSW economy through higher quality and more targeted provision.

Recommendation 13: Establish a complaint mechanism for students (Medium-term)

The existing approach to quality monitoring is reliant on the Department and other government agencies monitoring quality. In the longer term there is an opportunity for quality monitoring to involve consumers (discussed in Section 7.3 on page 105). This could occur through clear, published complaints mechanisms for students, as detailed below.

- Published mechanisms for resolving consumer complaints such as a complaints portal on the Smart and Skilled website, or a complaints hotline.
- Communication with all new students to inform them of their rights, complaint mechanisms and the training provider's obligations.

This could also involve consideration of introducing a training ombudsman to add an additional level of robustness to the existing quality monitoring processes.

Recommendation 14: Continue investment in new indicators of graduate outcomes (Medium-term)

The existing quality monitoring process has focused on checking provider applications and only recently started to more systematically use data analytics. The design of this data analytics reflects the limited data available across the VET sector on graduate outcomes (see Section 7.3 on page 104). There is an ongoing challenge to collect graduate outcomes data to ensure quality can be effectively monitored. This could be addressed by the measures detailed below.

- Track progression rates from training to other study through student surveys.
- Track employer satisfaction with skills of graduates through an employer survey.
- Work with the Australian Tax Office (ATO) to collect data on graduate employment and salary outcomes.

We understand that the Department has already started to progress some of these measures, such as the student survey and the collection of graduate employment and salary information from the ATO.

Appendix A Glossary

Term	Definition
ACE providers	Adult and Community Education (ACE) providers are not-for-profit providers of Vocational Education and Training (VET).
Application and assessment process	The application and assessment process was used to approve providers for delivering government subsidised training under Smart and Skilled. It consisted of three components; an assessment of the organisation's capability to deliver quality VET ('the organisational assessment'); a check of any sanctions against the provider; and an assessment of the organisation's capability to deliver specific qualifications in specific regions ('the qualification and region assessment').
Allocation process	The process by which Smart and Skilled funding was allocated to providers, based on their ability to deliver quality training for specific qualifications in specific regions.
ASQA	The Australian Skills Quality Authority (ASQA) is the national regulator for VET.
Completions	Completions refer to the number of students who complete their VET studies and are awarded a qualification.
Concession fees	Concession fees are reduced student fees for disadvantaged students. They are a flat fee based on qualification level, ranging from \$80 to \$240. Concession fees are available for qualifications up to Certificate IV. Eligibility requirements include students receiving a specified Australian Government benefit or allowance at the time of enrolment, or are the dependent of someone receiving a specified Australian Government benefit or allowance.
Enterprise RTOs	Enterprise Registered Training Organisations (RTOs) are associated with a business and provide VET training to the employees of that business.
Entitlement program	The entitlement program was one of three programs under Smart and Skilled. It provides funding to all provider types for full qualifications (up to Certificate III) and apprenticeships and selected traineeships on the NSW Skills List.
Exemptions	Exemptions provide disadvantaged students with training at no upfront cost. Eligible students include students with disability and Aboriginal and Torres Strait Islander students.
Fee for service	Fee for service refers to VET training for which the student (or their employer) pays for the full cost of training.
Fee free scholarships	Fee free scholarships provide disadvantaged students with training at no upfront cost. Eligible students are aged 15- 30 years, receive a Commonwealth assistance payment and are studying a Certificate I to Certificate IV (including apprenticeships and traineeships).
Financial caps / allocations	Financial caps or financial allocations are a funding limit on the amount of government subsidised training a provider can deliver under Smart and Skilled. Providers may deliver training up to the value of their financial caps. The financial caps for most qualifications (except apprenticeships and traineeships) are specific to the region of delivery.
Foundation program	The foundation program was one of three programs under Smart and Skilled. It provides funding to Adult and Community Education (ACE) providers and TAFE NSW Institutes for Certificate I and II foundation skills qualifications on the NSW Skills List.
Government subsidised training	Government subsidised training refers to VET training for which the government covers at least part of the cost.

Government subsidy	The Government portion of the qualification price, defined as the set price minus the student fee. This varies based on whether the student is studying a full qualification, an apprenticeship or a traineeship, and whether the student is studying their first Smart and Skilled qualification. It does not include additional funding such as loadings, or the gap payment made to cover the difference in fee for concession students. Government subsidies are the portion of the qualification price which is counted against a provider's financial cap.
Loadings	Loadings are additional funding made available to providers who are training disadvantaged students. They are accrued per disadvantaged student, and their value is determined as a proportion of the qualification price; but they are separate to the Government subsidy and do not count against a provider's financial cap. Each student can accrue two separate loadings, one for location and one for disadvantage, combined additively. In each category, the provider receives the most generous loading for which the student is eligible. The categories of student eligible for location loadings are: based in an inner regional area (10% loading), based in an outer regional, remote or very remote area (20% loading). For disadvantage loadings, the categories are: long term unemployed (10% loading), Aboriginal and Torres Strait Islander (15%), students with disability (15%).
NSW Quality Framework	The NSW Quality Framework sets requirements for the delivery of quality VET under Smart and Skilled. It sets out the assessment criteria providers were assessed against to gain access to Smart and Skilled and the processes for monitoring the quality of training delivered under Smart and Skilled.
NSW Skills List	The NSW Skills List defines the qualifications that are subsidised under Smart and Skilled, and sets out the student fees and government subsidies for each qualification.
Outcomes	Outcomes are the indicators that quality VET has been delivered. Outcomes in VET are often defined in terms of student completions, however, can also include broader outcomes such as graduate employment, student attainment of skills, employer and student satisfaction with training and productivity gains.
Organisational assessment	The organisational assessment refers to the first part of the application and assessment process for Smart and Skilled in which providers were assessed for their organisation's capability to deliver quality VET. Providers were awarded a score in the organisational assessment which had to be above a certain level for them to be eligible for Smart and Skilled.
Post-training outcomes	Post-training outcomes indicate that quality VET has been delivered and are measured after students have been awarded a qualification. They include graduate employment, progress to further education, employer satisfaction and productivity gains.
Prices	The price is the full amount received by the provider for training a standard student in a qualification. This is made up of the full student fee (regardless of concession status) and the standard Government subsidy. The amount is defined by the Skills List. It does not include additional funding in the form of loadings.
Private RTOs	Private Registered Training Organisations (RTOs) are privately owned businesses that deliver training.
Providers	Providers are RTOs who deliver VET training.
Qualification and region assessment	The qualification and region assessment refers to the second part of the application and assessment process for Smart and Skilled in which providers were assessed for capability to deliver a specific qualification in a specific region. Providers were awarded a score in the qualification and region assessment. These scores were used to determine a provider's financial allocation.
Quality assurance	Quality assurance refers to the processes and procedures used by the Department to ensure providers have given accurate information in their applications to Smart and Skilled.
Quality monitoring	Quality monitoring refers to the processes and procedures used by the Department to ensure that Smart and Skilled providers are delivering quality training and are complying with their contractual requirements.

Smart and Skilled	Smart and Skilled provides government subsidised training to eligible students and providers for the VET qualifications most needed in the NSW economy. Under Smart and Skilled, providers are approved to deliver training based on demonstrated quality and capability, and are allocated financial caps to deliver specific qualifications to eligible students in designated regions.
State Training Services	State Training Services (STS) within the NSW Department of Industry that implemented Smart and Skilled. STS is now Training Services NSW and part of the NSW Department of Industry.
Student fee	The student fee is the student component of the qualification price. The student fee refers to the fee paid by a standard student, without any fee waivers. It varies based on qualification, whether the student is studying a full qualification, apprenticeship or traineeship, and whether it is the student's first Smart and Skilled qualification. If not otherwise specified, the first qualification fee for a full qualification is used.
RTOs	Registered Training Organisations (RTOs) deliver VET training and are accredited by ASQA.
TAFE NSW	TAFE NSW is an RTO owned by the NSW Government and is the public provider of VET in NSW.
TAFE NSW Institutes	TAFE NSW Institutes are the Institutes which make up TAFE NSW.
Targeted priorities program	The targeted priorities program was one of three programs under Smart and Skilled. It provides funding for Certificate IV and above for ACE providers and Private RTOs and pre-vocational and part qualifications for all providers.
The Department	The Department refers to the NSW Department of Industry.
The NSW Skills Board	The NSW Skills Board advises the Minister for Skills on how best to meet the skills and training needs of NSW and provides independent, high level, strategic advice on VET in NSW. The NSW Skills Board commissioned this review of Smart and Skilled.

Appendix B Terms of reference

The objectives of Stage Two of the review of Smart and Skilled are to assess and report on:

- How the NSW vocational education and training (VET) reform's broad policy settings have impacted on outcomes in the NSW VET market (*focussing on policy settings that were not reviewed in Stage One or are examined through other mechanisms*)
- The impact of the structure of the VET budget on VET reform.

Terms of Reference for Stage Two:

1. Assess and advise on the effectiveness of the following policy tools in achieving the Government's VET reform objectives, including:
 - a. how the arrangements for prices, fees and subsidies impacted the performance of the contestable market, including:
 - i. the mechanisms for setting prices, fees and subsidies (initially and on an ongoing basis)
 - ii. the level prices were set at, with reference to the efficient cost of providing quality training.
 - b. the arrangements for ongoing monitoring of provider performance and quality.
 - c. how the structure of the contestable budget (into program streams and financial caps) impacted VET market performance and reform objectives, provider behaviour and student outcomes.
2. Identify changes to the VET reform policy settings to enhance training and employment outcomes, including both for existing program streams and in relation to extending the entitlement to higher level qualifications.

Appendix C Summary of findings from the Smart and Skilled Review Stage One

The following sections provide a summary of our findings from Stage One of the Smart and Skilled review. Stage One was conducted between June and December of 2015.

Background

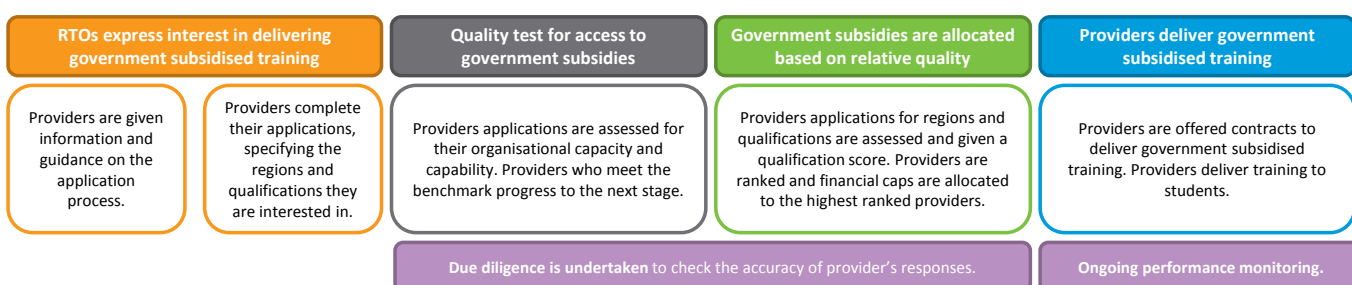
The NSW Skills Board commissioned Nous to conduct an independent review of the first year of implementation of Smart and Skilled. Stage One focussed on the effectiveness, adequacy and impact of the provider application and assessment process under Smart and Skilled.

The application and assessment process was designed to ensure that:

- Smart and Skilled funding went to providers with a capability to deliver high quality training
- Providers were allocated financial caps for those qualifications and regions which they were the highest quality in.

The process is broadly outlined in Figure 54.

Figure 54: Design of the application and assessment process for Smart and Skilled



Under Smart and Skilled, applications were received from 747 providers. Of these 747 providers, 512 passed the quality benchmark. Providers were assessed on their organisational capability and past performance, and had to pass a quality benchmark score to progress to applications for specific qualifications and regions. When contracts were first offered in October 2014, 338 providers accepted Smart and Skilled contracts. Since the end of 2014, additional contracts have been offered and the number of Smart and Skilled providers has now risen to around 450.

Methodology

Nous has used data analysis and stakeholder consultation to ensure that our review incorporates both quantitative and qualitative assessments.

The data sources used included:

- **Application and assessment data:** Provider answers to the application questions and assessment results were analysed to determine how effective and consistent the application and assessment process was at filtering for quality providers.
- **Financial allocation data:** Smart and Skilled funding over time was analysed to determine the effectiveness of the allocation methodology in meeting the four initial objectives of Smart and Skilled. The distribution of funds across region, provider size and provider type, and the size and scope of allocations were examined.

- **Delivery of training data:** Delivery of Smart and Skilled training was tracked throughout the year and measured against the expectations of the financial allocations.

Nous drew on this data to measure the impacts of the application and assessment process on VET in NSW and to determine the drivers of those impacts.

Extensive stakeholder consultation also informed our findings and provided quantitative and qualitative input to the review including:

- **Surveys:** Nous has conducted surveys of providers, students, employers and communities in order to gain large scale data on stakeholder views and the impacts of Smart and Skilled. In total, 209 responses were received from providers, 230 responses from employers and community groups and 1,384 responses from VET students.
- **Interviews and focus groups:** Nous has conducted extensive interviews, focus groups and workshops with a range of stakeholders in metropolitan and regional areas¹⁷³ across NSW, including; 98 students and prospective students; 19 employers and industry groups; 15 community groups such as local councils and chambers of commerce; and 190 providers.

We also conducted interviews with staff of State Training Services (STS), now Training Services NSW, in the Department of Industry ('the Department'), the former Department of Education and Communities, the Department of Premier and Cabinet, NSW Treasury and ASQA.

Key findings

Smart and Skilled was initially designed to achieve four objectives: high quality VET provision; improved consumer choice; a strong public provider; and responsible budget management. In Stage One of the review we found that the design of the application and assessment process was broadly consistent with these objectives, and that as of December 2015 Smart and Skilled had achieved some success against each. However, no single objective had been fully met by the conclusion of Stage One.

These key findings against each objective are detailed below.

- **Quality VET provision was largely addressed to the extent that current data limitations and decisions on probity allowed:** The application included the key indicators of quality through a point-in-time assessment of inferred capability, and was effective in differentiating providers. However, limitations in data and a preference for objective rather than qualitative assessment restricted efforts to place a greater emphasis on learning and post-training outcomes.
- **Improved consumer choice had not yet been achieved under Smart and Skilled:** The transition to greater consumer choice under Smart and Skilled was inhibited by a range of factors: a lack of student and employer awareness of VET options; students and employers being unwilling and unable to exercise choice; the opening up of the market for government subsidised training not initially delivering the planned diversity in local provision; and some providers initially not delivering Smart and Skilled training in their approved regions.
- **The Smart and Skilled assessment process supported TAFE NSW:** The objective of a strong public provider reflects community and provider sentiment that TAFE NSW has an important role in the market. Smart and Skilled was successful in achieving this objective given there were elements of the allocation process which supported TAFE NSW Institutes. Partially due to this, TAFE NSW Institutes were allocated relatively large financial caps and performed relatively well in delivering their financial caps.

¹⁷³ Face-to-face consultations were conducted in Sydney, Wagga Wagga, Lismore and Orange.

It should be noted that significant concerns were raised in Stage One by employers, students and trainers about a perceived decline in the quality of TAFE NSW training, although we acknowledge many of these concerns predated or were unrelated to the introduction of Smart and Skilled.

- **Responsible budget management was achieved, but there also was an underspending of funding:** Providers unrealistically expected that they could use Smart and Skilled to significantly expand their delivery of government subsidised training. These unrealistic expectations mean that without a budget constraint there would have been a significant risk to the sustainability of the budget for VET. This being said, the initial approach to a budget constraint was overly cautious and settings have since been adjusted to address the under delivery of Smart and Skilled training.

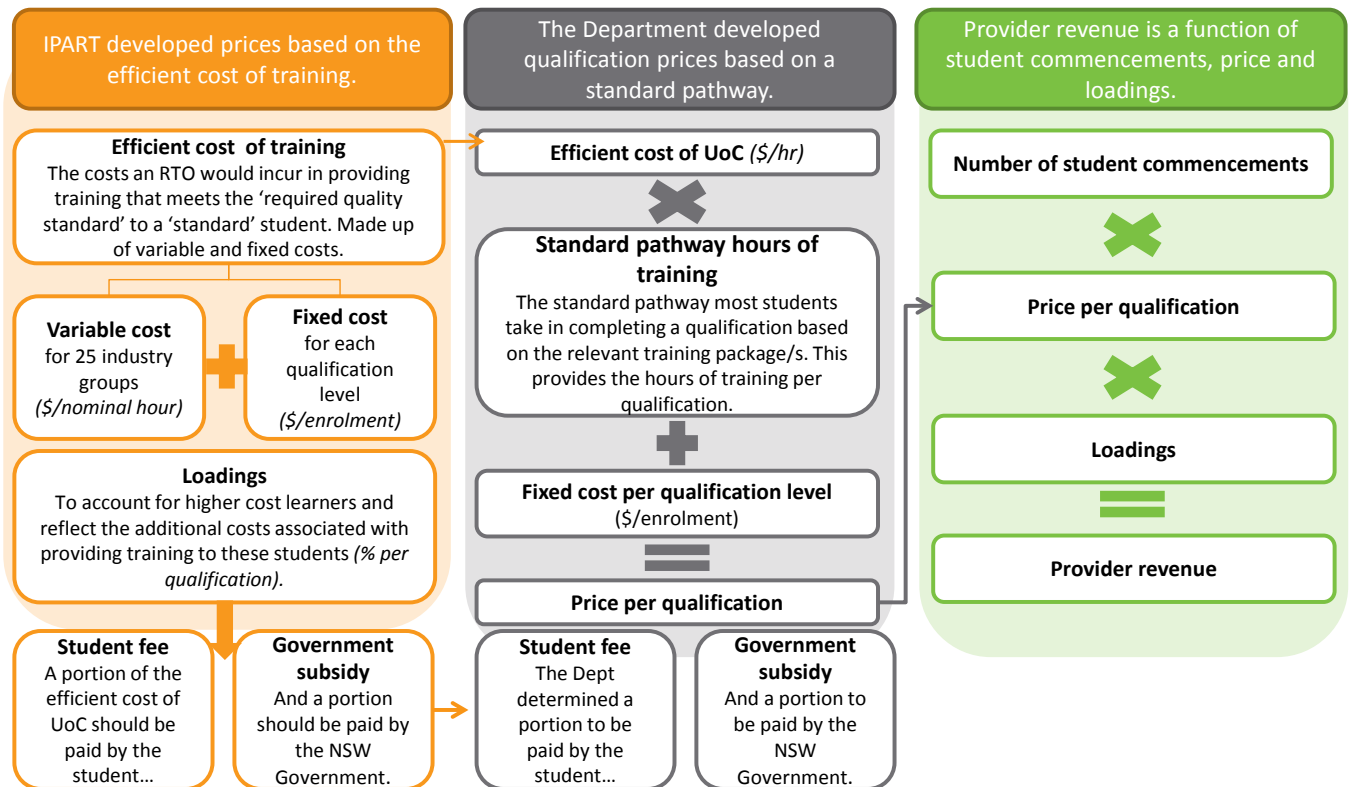
Additionally, across the application process there was a significant focus on probity to ensure a level playing field and responsible budget management. The focus on probity meant that there was no qualitative assessment of applicants and some financial allocations did not have a clear rationale as a result.

Recommendations

In Stage One we made a series of recommendations that, taken together, sought to create the conditions for Smart and Skilled to better meet the objectives detailed above. These recommendations are detailed below, and many are already being progressed by the Department.

- **Enhance the availability of quality training by ensuring a flow of suitable providers into and out of the publicly subsidised market:** From time to time new providers need to be added to Smart and Skilled to maintain quality and choice. Additionally, for the market to operate effectively there needs to be pragmatic mechanisms to exit providers from the market. We made recommendations to address these needs, provide a greater emphasis on demonstrated capability, simplify changes to a provider's activity schedule and ensure quality provision once providers receive a funding allocation under Smart and Skilled.
- **Greater flexibility for providers to respond to consumer demand:** Recommendations were made to adjust contracts and financial caps to allow providers to respond to growth in demand, and to adjust contracts or remove providers from the system where they are not delivering quality training. These recommendations were intended to incentivise providers to work with the Department to ensure that their contracts and financial caps reflect their capability and intention to deliver training. These recommendations also provided mechanisms for high quality providers to expand their delivery of training, and for underperforming providers to have their financial allocations reduced or removed.
- **Greater flexibility for providers to work within financial caps:** The financial caps serve an important role in ensuring training is distributed across regions and qualifications. We made a series of recommendations to provide greater flexibility to providers to work within their financial caps and make it easier for providers to manage their financial caps. Some of these recommendations are already being progressed by the Department.
- **Revising market oversight arrangements to improve system performance:** A range of recommendations were developed to improve system operation, including the setting and management of provider and community expectations and the reduction of administrative burden for providers.

Appendix D Approach to pricing under Smart and Skilled



Appendix E Detailed methodology

Our approach was divided into five streams of analysis, based on the Terms of Reference: qualification prices, student fees and concessions; loadings; quality monitoring and budget structure. The project was structured into two parts, with a presentation of initial findings to the NSW Skills Board in February 2016 followed by additional analysis and development of recommendations.

Planning and initial analysis to identify pricing outliers

Initial analysis focussed on identifying whether qualifications were priced too high, too low or about right. We developed a series of hypotheses on measurable provider behaviour which would indicate that a qualification's price, loading, concession or fee was too high or too low. Table 20 shows the list of indicators initially tested.

Table 20: Initially developed list of observable indicators of anomalous prices

Prices	
Volume of training delivery relative to expected delivery.	Student attrition.
Volume of training delivery relative to non-Smart and Skilled delivery.	Average cohort size.
Volume of training delivery relative to historical delivery of government subsidised training.	Rates of subcontracting for qualification.
Proportion of provider financial cap spent on qualification.	Provider satisfaction with price.

Using Smart and Skilled data provided by the Department, we calculated the result for each indicator for every Skills List qualification. Historical comparisons were made based on the Approved Provider List (APL). Analysis was initially limited to Private RTOs and ACE Providers because reliable data regarding students at TAFE NSW Institutes was not available at that time. Based on initial results, available data and iterative testing, four additional indicators were developed to further identify anomalous qualification prices, shown in Table 21.

Table 21: Additional observable indicators of pricing anomalies

Prices
Proportion of total commencements.
Proportion of providers with the qualification on scope that were actually delivering
Provider preference for qualifications based on likelihood and extent of delivery of certain qualifications when alternatives were also on scope.
Difference between actual qualification price and predicted qualification price based on regression modelling.

Outliers for each indicator were initially defined as the top and bottom 20 percent of the distribution. After examining the distribution of these results, we prioritised the indicators that were providing useful differentiation of qualifications. These indicators are detailed below:

- Proportion of total subsidised commencements
- Change in subsidised commencements compared to 2014
- Average cohort size
- Average proportion of provider spending
- Proportion of providers with the qualification on scope that were delivering
- Provider preference for qualifications based on likelihood and extent of delivery of certain qualifications when alternatives were also on scope
- Difference from predicted qualification price based on regression modelling

An initial list of outlier qualifications was developed by examining the qualifications which were outliers on these indicators, and determining in each case where there was a coherent reason to believe the qualification had an inappropriate price. If a qualification was an outlier on multiple indicators it was more likely to be considered to have an inappropriate price. The initial list of identified outliers is shown in Table 22.

Table 22: List of initially identified outlier qualifications

Initial Outlier Qualifications		
Certificate III in Hospitality	Certificate III in Business Administration	Certificate IV in Building and Construction (Building)
Certificate III in Early Childhood Education and Care	Certificate III in Cleaning Operations	Certificate II in Skills for Work and Vocational Pathways
Certificate II in Retail Services	Certificate II in Cleaning Operations	Certificate II in Warehousing Operations
Certificate III in Retail Operations	Certificate III in Business	Certificate III in Travel
Certificate III in Aged Care	Diploma of Management	Certificate IV in Disability
Certificate III in Business Administration	Certificate IV in Small Business Management	Certificate III in Logistics
Certificate III in Business	Certificate IV in Frontline Management	Certificate III in Warehousing Operations
Certificate III in Plumbing		

After identifying a relatively small list of qualifications which needed further exploration, we tested broader relationships between qualification price and training. Statistical analysis found no consistent relationship between qualification price and qualification commencements, or between change in price and change in commencements.

Planning and initial analysis of broad trends in student fees, concessions, loadings and quality monitoring

Concurrently with this initial analysis on prices, we also analysed student fees, concessions, loadings and quality monitoring. These analyses were to identify anomalies in overall trends. The initially identified indicators to examine are outlined in Table 23.

Table 23: Initially developed list of observable indicators of anomalous behaviour

Loadings	
Geographic distribution of training.	Commencements by students who attract loadings.
Concessions	
Geographic distribution of training by socio-economic classification.	Commencements by concession students.
Student fees	
Volume of training delivery relative to expected delivery.	Proportion of provider financial cap spent on qualification.
Volume of training delivery relative to non-Smart and Skilled delivery.	Student attrition.
Volume of training delivery relative to historical delivery of government subsidised training.	

Initial analysis was limited to Private RTOs and ACE Providers, using data provided by the Department.

Student fees were examined through the following analyses.

- **Change in fees over time by qualification level and industry group, compared to expected lifetime earnings.** This showed that some fee increases were more appropriate than others when compared to the private benefit that students accrued.
- **Relationship of change in fees and change in commencements.** This showed that there was no consistent relationship between fees and commencements, despite contrary reports from stakeholders consultations conducted in Stage One.

Concessions were examined through the following analyses.

- **Proportion of commencements with concessions, exemptions and scholarships by qualification level and qualification fee.** This showed that fee reductions were concentrated at lower level, cheaper qualifications.
- **Distribution of providers by proportion of students receiving a concession, exemption or scholarship.** This showed that concession students were generally able to attend a wide range of providers, although some providers may be targeting them.

Loadings were examined through the following analyses.

- **Proportion of commencements eligible for each loading type compared to NSW population parity.** This showed that loadings were effective in creating training opportunities for most categories, although students with disability were underrepresented.

- **Geographic distribution of loading types.** This showed that loadings were similarly effective across the state, although the postcode based definitions of loadings meant that they weren't as representative as they might seem.
- **Distribution of providers by proportion of students accruing a loading.** This showed that students accruing a loading were generally able to attend a wide range of providers, although some providers may be targeting them.

Quality monitoring processes were examined through the following analyses.

- **Provider attitudes to the quality monitoring in our Stage One survey.** This showed that providers mostly found it easy or very easy to maintain compliance, and overwhelmingly thought that the standards were appropriate.
- **Mapping of the quality monitoring processes.** This showed that quality monitoring to date has focussed on due diligence of provider applications rather than evaluating training outcomes.
- **Mapping of progress of quality assurance.** This showed that half of providers, representing 95 percent of students, had already undergone quality assurance by early 2016.

Development of report showing initial findings

A report was prepared detailing the initial findings of analysis to this point.

Iterative testing of findings

These initial findings and the report were tested with numerous stakeholders.

- **The Department:** Appropriateness of analysis and accuracy of findings were tested with the Department. Several analyses were conducted or adjusted as a result of this.
- **The NSW Skills Board Review Reference Group:** Findings were tested with the Review Reference Group. Several analyses were conducted or adjusted as a result of this.
- **Nous' Expert Panel:** Findings were tested with our Expert Panel, consisting of members with deep experience in VET across a range of jurisdictions. Several analyses were conducted or adjusted as a result of this. The Expert Panel also suggested directions for further analysis.

An updated initial report of findings was presented to the NSW Skills Board on 18 February. The NSW Skills Board provided feedback as to which issues were of particular interest or importance.

Based on feedback from the Skills Board and the Expert Panel, we conducted further analysis to ensure our findings were robust and representative.

Updating data

In order to ensure robust results, we improved the representativeness of our data:

- Students undertaking qualifications that had been superseded were treated as though studying the newest version.
- TAFE NSW data was used to expand our existing analyses to the entire subsidised VET market. The inclusion of TAFE NSW data did not substantially change the results of any analyses.

In order to ensure comparability of historical data, it was limited to NSW Government subsidised students who were not also attending school, excluding Commonwealth subsidies and the TAFE-delivered VET (TVET) program for school students.

A number of issues in TAFE NSW data sets prevented certain analyses from being conducted. These issues included:

- Identifying type of concession (e.g. concession, exemption, scholarship)
- Identifying delivery mode
- Identifying long term unemployed students
- Conflicts with Department monitoring data regarding student completion status, disability status and Aboriginal and Torres Strait Islander status.

Further analysis of prices, student fees, concessions, loadings, quality monitoring and budget structure

Findings were explored further to ensure robust results. These further analyses were based on a combination of feedback from stakeholder consultations and our own experience and expertise.

The effect of the budget structure was initially examined in Stage One of the review, and further examined through the following analyses.

- Proportion of available funding committed to training by program stream, provider type and region.
- Distribution of providers by proportion of total financial cap spent.
- Number of qualifications by proportion of target delivery achieved.

The effect of prices on the market was further examined through addressing numerous ways in which the market may have been distorted. The following analyses were conducted.

- ***Change in market shape over time.*** This showed that Smart and Skilled did not distort the market shape, defined as the relative concentration of commencements by qualification.
- ***The relationship of price and commencements was tested at the qualification level by training type.*** This showed that there was no relationship between price and commencements for most qualification levels, across full qualifications, apprenticeships and traineeships.
- ***Subsidies and prices were compared to other jurisdictions.*** This showed that Smart and Skilled subsidies and prices tended to be moderate compared to Victoria and Queensland, although there was substantial variation in individual qualifications.
- ***Cohort sizes were examined by provider type, industry, proportion of students attracting RPL or credit transfer, and size of provider financial cap, as well as on multiple definitions.*** This showed that cohorts were consistently small in Smart and Skilled in 2015.

To refine the list of qualifications with outlier prices, we conducted the following analyses.

- ***Change in commencements between similar qualifications identified as being potentially mispriced.*** This showed that several qualification prices seemed misaligned to similar qualifications.
- ***Change in proportion of total commencements.*** This showed that some qualifications became significantly more or less popular with the introduction of Smart and Skilled, focusing on those qualifications with significant changes.

These analyses, combined with the initial analyses, produced the list of outlier qualifications identified above in Table 6, and reproduced here in Table 24.

Table 24: Qualifications with anomalies in provider behaviour

Indicator	Qualification	
Qualifications with misaligned prices	Certificate II in Automotive Body Repair Technology	Certificate III in Automotive Body Repair Technology
	Certificate III in Logistics	Certificate IV in Logistics
	Certificate IV in Dental Assisting	Certificate III in Dental Assisting
	Certificate II in Cleaning Operations	Certificate III in Cleaning Operations
	Certificate III in Warehousing Operations	Certificate II in Warehousing Operations
	Certificate IV in Warehousing Operations	
Qualifications with substantial swings in popularity	Certificate IV in Leadership and Management	Certificate III in Civil Construction Plant Operations
	Skills for Work and Training	Certificate II in Automotive Servicing Technology
	Access to Work and Training	Diploma of Leadership and Management
	Certificate I in Skills for Vocational Pathways	
Qualifications with unusual provider behaviour (concentration of spending or large cohorts)	Certificate III in Travel	Certificate IV in Allied Health Assistance
	Certificate IV in Building and Construction (Building)	Certificate III in Hospitality

The effect of student fees on the market was further examined through the following analyses.

- **The relationship of student fee and commencements was tested at the qualification level by training type.** This showed that there was no relationship between price and commencements for any qualification level, across full qualifications, apprenticeships and traineeships.
- **Difference between actual student fee and predicted student fee based on regression modelling.** This showed that qualification fees were generally as expected.
- **Comparison between Smart and Skilled fees and VET-FEE-HELP fees.** This showed that student fees were generally lower in Smart and Skilled.

The use and effectiveness of concessions was further examined through the following analyses.

- **Proportion of students with fee exemptions by different eligibility criteria by qualification level.** This showed that Aboriginal and Torres Strait Islander students were more likely to take higher level qualifications than students with disabilities.
- **Proportion of students of concession type by provider type.** This showed that ACE Providers had the highest proportion of students for all concession types, and TAFE NSW Institutes had the lowest (as much as could be identified through available data).

The use and effectiveness of loadings was further examined through the following analyses.

- ***Distribution of cohort sizes by type of student loading.*** This showed that students in regional and remote areas tended to be trained in smaller cohorts, but that students attracting disadvantage loadings were trained across a range of cohort sizes.
- ***More detailed analysis of the geographic distribution of students receiving location loadings.*** This showed that regional and remote loadings tended to go to students living in areas that are less regional or remote than intended.
- ***Distribution of students receiving loadings by SES.*** This showed that loadings tended to go to students with medium to low SES. The exceptions were students accruing a regional loading, mostly based in Sydney.

The effectiveness of current quality monitoring processes was further examined through the following analyses.

- ***Calculation of completion rates to date by multiple methods.*** This showed that initial indicators of outcomes of Smart and Skilled are positive, although it is too early to effectively draw conclusions.
- ***Comparison of provider risk ratings from the Department to anomalous behaviour identified in our analysis.*** This showed that having high rates of training through RPL, having large cohorts and having high rates of concession students were good predictors of being a rated a medium, high or critical risk provider by the Department (as shown in Figure 52).

Development of initial recommendations

Based on findings across both Stage One and Stage Two of the evaluation, we developed initial recommendations for the qualification pricing, student fees and concessions, loadings, quality monitoring and budget structure.

Development of draft final report

This report was written based on these further analyses and initial recommendations.

Stakeholder consultation to further test results and seek input on recommendations

The results of our further analysis were tested with numerous stakeholders;

- ***Peak bodies of provider types:*** Summary analysis packs were prepared for TAFE NSW, the Australian Council for Private Education and Training (ACPET) and Community Colleges Australia (CCA), in each case only using data relevant to the appropriate provider type. Accuracy of findings were tested, and input on potential recommendations was received.
- ***Nous' Expert Panel:*** Robustness of findings and feasibility of initial recommendations were tested.
- ***The Department:*** Accuracy of findings, feasibility of initial recommendations and structure of the report was tested with the Department.
- ***NSW Skills Board Review Reference Group:*** Initial recommendations and structure of the report was tested with the NSW Skills Board Review Reference Group

Appendix F Stakeholder consultations

The below table details the membership of the expert panel for Stage Two of the review. Nous met with the expert panel twice throughout the review to present our findings and analysis. The expert panel provided feedback and advice on analysis and recommendations.

Table 25: Expert panel membership

Name	Organisation
Professor Gerald Burke	Monash University
Geoff Favell	Training Ombudsman (Queensland)
Professor Peter Noonan	Victoria University
Kaye Schofield AO	Kaye Schofield and Associates

The below table details the stakeholders consulted as part of Stage Two.

Table 26: Stakeholders consulted

Organisations consulted	
The Department of Industry	Independent Pricing and Regulatory Tribunal
Australian Council for Private Education and Training	Centre for Market Design, University of Melbourne
VERTO	TAFE NSW
Community Colleges Australia	NSW Skills Board Industry Reference Group
NSW Skills Board Provider Reference Group	NSW Skills Board Review Reference Group

Appendix G Indicators of progress against Smart and Skilled objectives

The below table shows a series of indicators which could be used to track performance of Smart and Skilled against the Department's objectives. Data is shown for 2014 and by quarter in 2015. Once data is available, this can be updated for 2016.

Table 27: Key findings against Smart and Skilled objectives.¹⁷⁴

Objective	Indicator	2014	2015				
		Total	Q1	Q2	Q3	Q4	Total
Increase participation in VET	Total Commencements	223,282	81,718	48,683	23,445	2,663	156,509
	Private % of commencements	18.0%	5.2%	15.9%	38.4%	50.1%	14.3%
	ACE % of commencements	1.0%	0.4%	1.4%	1.9%	1.6%	0.9%
Meet industry training needs	Apprenticeship % of commencements	23.1% ¹⁷⁵	20.7%	7.8%	4.9%	4.4%	14.1%
	Traineeship % of commencements		4.4%	8.4%	19.9%	22.0%	8.3%
Give students greater choice	No. of providers with a commencement	415	188	243	261	129	301
	No. of qualification-region combinations with a commencement	NA ¹⁷⁶	3763 ¹⁷⁷	3101 ¹⁷⁷	2244 ¹⁷⁷	654 ¹⁷⁷	4656 ¹⁷⁷
Support disadvantaged students	Concessions as % of commencements	NA ¹⁷⁶	36.2%	45.6%	45.5%	31.0%	40.4%
	% of commencements from Regional and Remote areas	NA ¹⁷⁶	43.7%	40.6%	45.4%	39.9%	42.9%
	% of commencements that are Aboriginal and Torres Strait Islander	7.7%	10.1%	12.0%	14.3%	9.8%	11.3%
	% of commencements with disability	10.6%	14.0%	14.5%	12.4%	10.1%	13.9%

¹⁷⁴ Smart and Skilled 2015 training data and APL 2014 training data, provided by the Department. TAFE NSW 2014 and 2015 NSW subsidised training data, provided by TAFE NSW.

¹⁷⁵ Apprenticeships and Traineeships cannot be separated in all of the 2014 data available.

¹⁷⁶ 2014 Data not available

¹⁷⁷ Regions for TAFE NSW based on residential postcode of student.

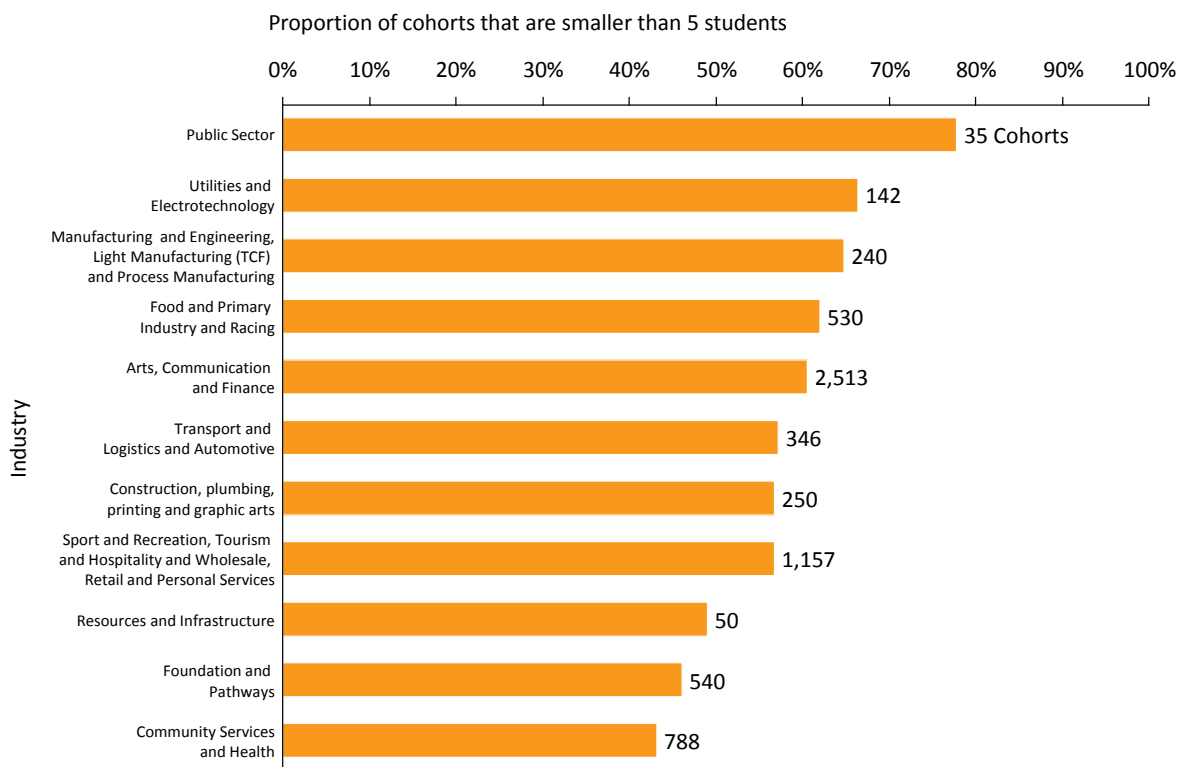
Objective	Indicator	2014	2015				
Support TAFE NSW so that it remains a strong and viable public provider	TAFE % of commencements	81.0%	94.5%	82.7%	59.7%	48.3%	84.8%
	Difference between concession % of commencements for TAFE NSW and for Private RTO and ACE Provider	NA ¹⁷⁶	-14.7%	+4.1%	-0.0%	-12.7%	-5.2%
	Difference between regional and remote % of commencements for TAFE NSW and Private RTO and ACE Providers	NA ¹⁷⁶	+4.0%	+4.9%	+19.4%	+18.3%	+8.4%
	Difference between Aboriginal and Torres Strait Islander % of commencements for TAFE NSW and Private RTO and ACE Providers	+1.8%	-0.7%	+2.1%	+9.2%	+7.6%	+2.1%
	Difference between TAFE disability % and Private RTO and ACE Provider disability %	+7.0%	+9.2%	+7.6%	+6.7%	+7.6%	+7.4%
Improve the quality of VET	No. of suspensions	NA ¹⁷⁶	14 (with 6 then reinstated, and 2 then terminated)				
	No. of contract terminations	NA ¹⁷⁶	11 (5 for quality reasons, 6 for entering liquidation or administration)				

Appendix H Cohort size analysis

Cohort sizes remain consistently small across industry groups. Figure 55 shows the proportion of cohorts within an industry group that have fewer than five commencements, as detailed below.

- Most industry groups (7 out of 11) have between 57 percent and 66 percent of cohorts with fewer than five commencements.
- One industry, public sector, has a higher rate of small cohorts (78 percent). This is likely driven by the low overall commencements in public sector qualifications.
- Three industries have lower rates of small cohorts, resources and infrastructure, foundation and pathways, and community services and health. The larger cohorts in resources and infrastructure may be explained by the high fixed costs of training in this industry, while the larger cohorts in community services and health may be driven by the overall high commencements in qualifications in these industries. It is unclear why foundation and pathways have generally larger cohorts considering the additional support that students in these qualifications generally require.

Figure 55: Proportion of cohorts with fewer than five commencements by industry¹⁷⁸



¹⁷⁸ Smart and Skilled training data for Private RTOs and ACE providers, provided by the Department. TAFE NSW subsidised training data for 2015, provided by TAFE NSW. Cohorts have been defined as the group of students commencing the same qualification, with the same provider, at the same training location. Apprentices, Trainees, students identified as studying through 'Employment' or 'On-line/Correspondence' delivery modes have been excluded, as have all OTEN students, as these students are not taught in cohorts in the same way. The Industries 'Forest and Forest Products and Furnishing' and 'Other' are not presented in this chart.

A small cohort for two popular qualifications would use up a large proportion of a small financial cap. For example, a financial cap of \$28,000 would only be able to support five subsidised students in the Certificate III in Individual Support and five subsidised students in the Certificate III in Business Administration.

Table 28: Total government subsidy for a small cohort in selected high training volume qualifications¹⁷⁹

Qualification	Annual subsidy for 5 students
Certificate III in Individual Support	\$15,367
Certificate III in Business Administration	\$12,767
Certificate III in Electrotechnology Electrician (Apprenticeship)	\$15,971
Certificate III in Early Childhood Education and Care (Trainee)	\$18,467

¹⁷⁹ NSW 2015 Skills List. Assumes standard qualification lengths of 1.5 years for a Certificate III Full Qualification or Traineeship, and 3.5 years for an Apprenticeship

Appendix I Analysis of changes in commencement by provider type

The changes in commencements by qualification are not consistent across provider types, as TAFE NSW Institutes had a substantially different profile of qualifications changing popularity to Private RTOs and ACE Providers. In some cases this is evidence of the contestable market functioning effectively, with the market reallocating between provider types. For example, the Certificate IV in Disability has decreased in popularity with Private RTOs and ACE Providers, but has increased in popularity with TAFE NSW Institutes. However, these swings in popularity may also indicate that providers are reallocating between qualifications. Table 29 and Table 30 show the qualifications that saw large swings in popularity for the two groups.

Table 29: Qualifications with substantial swings in popularity for TAFE NSW Institutes¹⁸⁰

Substantially less popular qualifications for TAFE NSW Institutes	Substantially more popular qualifications for TAFE NSW Institutes
Certificate I in Skills for Vocational Pathways	Certificate III in Civil Construction Plant Operations
Skills for Work and Training	Certificate II in Automotive Servicing Technology
Access to Work and Training	Certificate II in Construction
	Certificate IV in Disability

Table 30: Qualifications with substantial swings in popularity for Private RTOs and ACE Providers¹⁸⁰

Substantially less popular qualifications for Private RTOs and ACE Providers	Substantially more popular qualifications for Private RTOs and ACE Providers
Certificate IV in Leadership and Management	Certificate II in Skills for Work and Vocational Pathways
Certificate IV in Ageing Support	Certificate II in Cleaning Operations
Certificate II in Surface Extraction Operations	Certificate IV in Building and Construction (Building)
Diploma of Leadership and Management	Certificate III in Business Administration
Certificate IV in Disability	Certificate III in Hospitality
Diploma of Early Childhood Education and Care	
Certificate IV in Hospitality	
Certificate IV in Business	

¹⁸⁰ Substantial swings are defined as decreasing or increasing by more than 50%.

Appendix J Analysis of qualifications which require further investigation

As discussed in Section 0, there are outliers in provider behaviour in a small number of qualifications. These anomalies may be driven by prices which require adjustment. We have examined a number of areas of anomalous provider behaviour to identify if factors other than price can explain the behaviour. We have identified:

- A small number of qualification prices which may be misaligned compared to similar qualifications.
- Qualifications that have had substantial changes in commencements.
- Qualifications which providers have displayed a high willingness to supply.
- A small number of providers with very large cohorts for certain qualifications.

On the basis of this analysis, we have identified a number of qualifications which are outliers across multiple indicators and for which misaligned price may be a factor in provider behaviour. These qualifications are listed in Section 8.2 in Table 19. We recommend that the Department review the prices of these qualifications to ensure that the prices are appropriate and are not contributing to the anomalies in provider behaviour that we have identified.

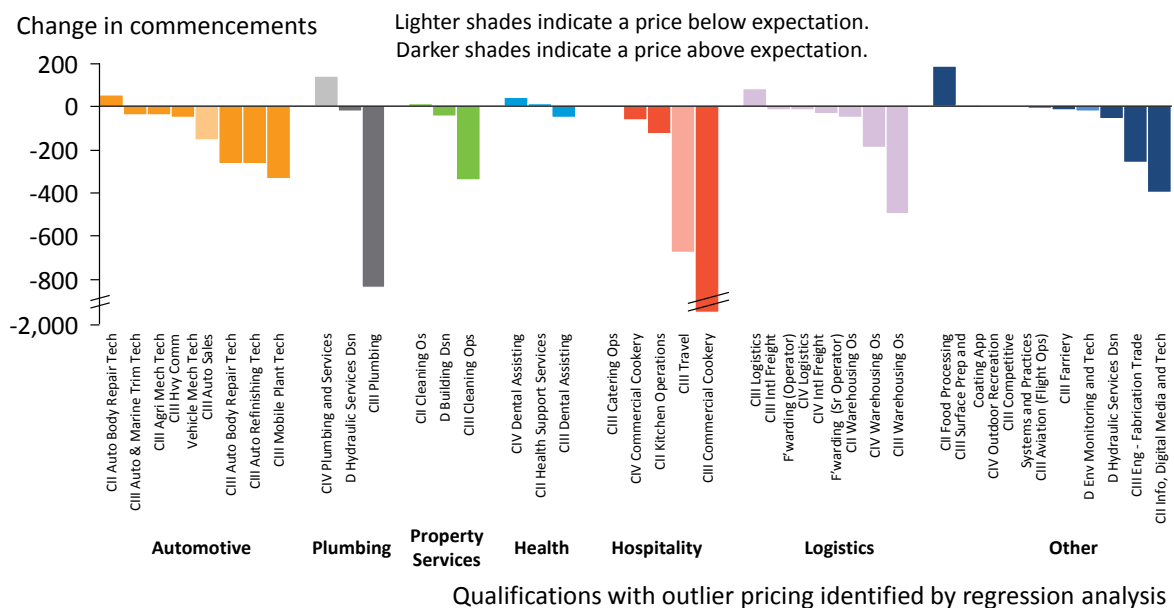
A small number of qualification prices may be misaligned compared to similar qualifications

Our analysis shows that there are a small number of qualifications where changes in commencements may suggest misaligned prices, and further investigation may be required.

We examined the change in commencements between qualifications within industry groups that were identified by regression analysis as being outliers (discussed in Section 4.2). These qualifications have prices that are above or below expectation when compared to other qualifications with similar characteristics. This is shown in Figure 56.

This analysis sought to identify if providers have shifted their delivery between qualifications within the same industry group. This may suggest that providers have a greater incentive to deliver some qualifications over others due to more generous pricing.

Figure 56: Change in commencements for qualifications with outlier prices identified in regression analysis, grouped by industry¹⁸¹



There are a number of reasons other than price that may explain the shifts in training activity for the 39 qualifications in Figure 56. We analysed the factors below to identify where there may be other causes of these shifts in providers' training activity.

- ***There are no substitute qualifications with misaligned prices.***
- ***There is limited evidence of substitution between qualifications.***
- ***Substitute qualifications are not of comparable scale.***¹⁸²
- ***The price has not already been altered.***¹⁸³

From this analysis we identified four pairs of qualifications which other factors could not explain the change in training activity, and therefore, the prices may require further investigation (as shown in Table 31). We have included in Table 31 qualifications which have had small increases in training activity. This is because in a market where there has been a clear trend of declining training activity, small increases in training activity become more significant and may suggest providers have an incentive to deliver these qualifications due to generous prices.

¹⁸¹ Smart and Skilled training data for Private RTOs and ACE providers, and 2014 APL training data, provided by the Department. TAFE NSW subsidised training data for 2014 and 2015, provided by TAFE NSW. Note that outlier qualifications without training data have been excluded, as have very small qualifications (<10 commencements).

¹⁸² If substitute qualifications have dramatically different size, providers are not likely to be substituting between them, even if they show different declines. While the Certificate III in Commercial Cookery has experienced a much larger decline than the Certificate IV, the latter is too small for providers to have been redirecting students to it. These qualifications have been excluded for this reason.

¹⁸³ Some qualifications have already had their price adjusted by the Department, in response to feedback from providers. Plumbing qualifications have been excluded because of this effect on the Certificate III in Plumbing.

Table 31: Pairs of qualifications with potentially misaligned prices

Qualifications with misaligned prices that providers may be shifting training activity towards	Qualifications with misaligned prices that providers may be shifting training activity away from
Certificate II in Automotive Body Repair Technology	Certificate III in Automotive Body Repair Technology
Certificate III in Logistics	Certificate IV in Logistics
Certificate II in Cleaning Operations	Certificate III in Cleaning Operations
Certificate IV in Dental Assisting	Certificate III in Dental Assisting
Certificate II in Warehousing Operations	Certificate I in Warehousing Operations
Certificate IV in Warehousing Operations	

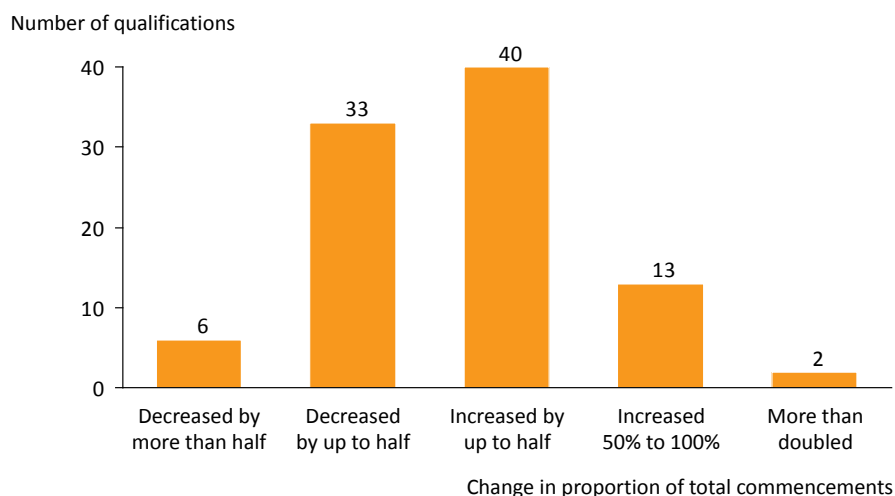
Some qualifications have had substantial changes in popularity

Our analysis shows that there are a number of qualifications which have experienced substantial changes in training activity from 2014 to 2015. We have sought to identify if there are factors outside of Smart and Skilled which may have caused this, or if it has been caused by providers being more or less willing to supply qualifications due to price.

Figure 57 shows the change in training activity for qualifications that had high commencements in 2014 or 2015. There were a number of qualifications for which training activity decreased by more than 50 percent (6 qualifications) or increased by more than 50 percent (15 qualifications). We conducted further analysis on these outlier qualifications.

It should be noted that the qualifications with significant changes in training activity are not consistent across provider type, as detailed in Appendix I. However, we have considered the outliers across the whole market to be more significant and have conducted further analysis on these market-wide outliers.

Figure 57: Number of qualifications by change in proportion of total training activity, for qualifications in the largest 80 in either 2014 or 2015¹⁸⁴



We explored a range of market factors external to Smart and Skilled which may have contributed to these significant changes in training activity, as detailed below. We excluded qualifications for which these external factors appear to be causing the shift in commencements.

- ***Demand for qualifications may be due to labour market shortages.***¹⁸⁵
- ***Students in higher level qualifications may use VET FEE-HELP to avoid upfront fees and this student preference for VET FEE-HELP may have contributed to a decline in training activity.***¹⁸⁶

Qualifications which saw substantial changes in training activity but are not explained by the factors above may have misaligned prices. The substantial increases in training activity may be because providers have a price incentive to deliver training for these qualifications, and the substantial decreases may be because prices are low meaning providers do not have sufficient incentive to deliver the qualification.

In total there are ten qualifications which had significant changes in training activity which could not be explained by the above factors and therefore may be due to prices. These are outlined in Table 32.

Table 32: Qualifications with substantial changes in training activity, by magnitude of swing¹⁸⁷

Substantial decline in proportion of training activity	Substantial increase in proportion of training activity
Skills for Work and Training	Certificate IV in Massage Therapy
Access to Work and Training	Certificate II in Design Fundamentals

¹⁸⁴ Source: Smart and Skilled training data for Private RTOs and ACE providers, and 2014 APL training data, provided by the Department. TAFE NSW subsidised training data for 2014 and 2015, provided by TAFE NSW. These 94 qualifications were selected due to making up more than 70% of training in both 2014 and 2015.

¹⁸⁵ There are currently shortages in most trades (including construction, electrical, automotive and plumbing), as well as nursing.¹⁸⁵ Many of these shortages have been persistent over several years, and so may not explain the short term increase in commencements. However, this would mean that increases in training are the desired result, and not an issue of concerning provider behaviour. Eight of the 15 qualifications with substantial increases in training fall under these categories, and do not require further examination

¹⁸⁶ This would cause a substitution effect between subsidised training and fee-for-service training in higher level qualifications. Three of the six qualifications with substantial decreases are Certificate IV or above, and therefore substitution to VET FEE-HELP may be a factor

¹⁸⁷ Substantial swings are defined as decreasing by more than half, or increasing to more than double.

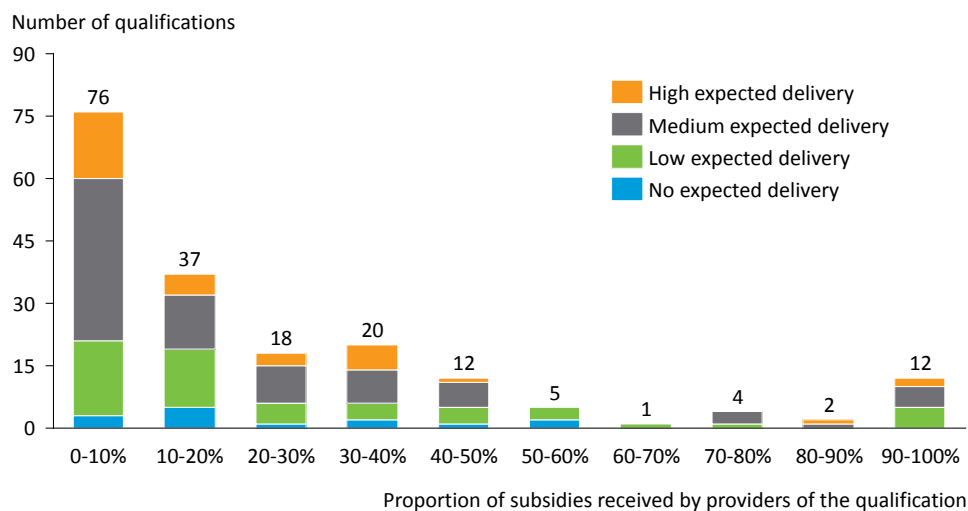
Substantial decline in proportion of training activity	Substantial increase in proportion of training activity
Certificate I in Skills for Vocational Pathways	Employment and Training
	Diploma of Human Resources Management
	Certificate III in Air-conditioning and Refrigeration
	Certificate IV in Youth Work
	English for Further Study

There are qualifications which providers have displayed a high willingness to supply

If qualifications have a high concentration of provider spending, it may indicate that providers have an incentive to deliver these qualifications because they are more profitable than others. We have analysed a number of qualifications with high provider spending to see if there are alternative explanations for this concentration, or if price may be a factor.

Figure 58 shows that there are 18 qualifications which made up more than 70 percent of the subsidies received by the Private RTOs and ACE providers that offer them. TAFE NSW Institutes were excluded from this analysis because the scale of their activity means they have a low concentration of spending in each qualification.

Figure 58: Number of qualifications by average proportion of subsidies received by providers of the qualification for Private RTO and ACE Providers¹⁸⁸



We examined three potential reasons for this concentration of provider spending to identify where factors other than inappropriate prices may be at play. These factors are detailed below. Where a factor outside of price appeared to explain the concentration of provider spending, we removed these qualifications from further analysis.

¹⁸⁸ Smart and Skilled training and payments data for Private RTOs and ACE providers provided by the Department. Chart is limited to qualifications with at least 10 commencements in 2015. Expected delivery is based on initial target allocations, provided by the Department.

- **Qualifications may have high targets under Smart and Skilled**, which would imply that providers can be expected to deliver more training in these qualifications than in others due to higher funding.¹⁸⁹
- **The provider has a low financial cap or restricted contract scope**. This would reduce the number of qualifications a provider could deliver and increase the proportion of spending that each qualification receives.¹⁹⁰
- **The provider is choosing to deliver a low number of qualifications due to concentrated demand**, which would also increase the proportion of spending that each qualification receives.¹⁹¹

From this analysis we identified three qualifications for which we could not identify a reason other than pricing for the high concentration of provider spending. Table 33 details these qualifications and summarises why these qualifications are considered as pricing anomalies. The Certificate IV in Building and Construction (Building) and the Certificate IV in Allied Health Assistance were both primarily offered through the Targeted Priorities program, and so providers did not have flexibility over how to allocate their subsidies. Conversely, the Certificate III in Travel was offered exclusively as a Traineeship and so providers had complete flexibility.

Table 33: Qualifications attracting unusually high proportions of provider spending¹⁹²

Qualification	Average proportion of provider spending	Average no. of approved qualifications for providers	No. of approved providers
Certificate III in Travel	88%	35	5
Certificate IV in Building and Construction (Building)	70%	11	12
Certificate IV in Allied Health Assistance	88%	4	8

Some providers have very large cohorts for certain qualifications

Extremely large cohorts are another form of provider focus on a qualification and there are some outlier qualifications which providers consistently have large cohorts for. This could indicate that the qualification cannot be viably delivered without a large cohort due to low prices.

Figure 59 shows the distribution of cohorts. There are 298 cohorts of more than 40 students.

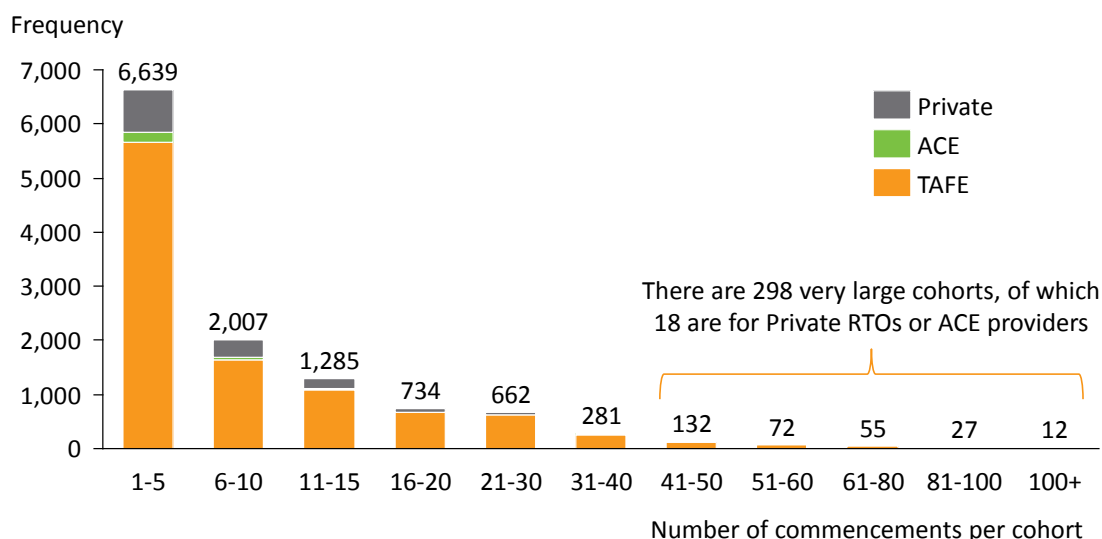
¹⁸⁹ Three qualifications had high targets, which could explain the concentration of provider delivery. One of these (Certificate III in Travel) had a high target, but has not come close to meeting this target. This indicates that spending was not concentrated because of the high target. The remaining 15 qualifications did not have high targets and we continued to explore potential reasons for the high concentration of provider delivery

¹⁹⁰ For ten qualifications, providers were generally approved to deliver a reasonable number of qualifications (e.g. over four qualifications) and therefore, a low financial cap does not explain the concentration of spending. Eight qualifications were generally delivered by providers with low financial caps suggesting that this factor was at play. These qualifications were excluded from further analysis

¹⁹¹ Six qualifications had at least five providers approved to deliver the qualification, suggesting that providers did not necessarily have a high market share. The remaining twelve qualifications had a low number of providers delivering the qualification. These qualifications were excluded from further analysis as concentration of demand may explain the concentration of spending.

¹⁹² Source: Smart and Skilled training data for Private RTOs and ACE providers, provided by the Department. TAFE NSW subsidised training data for 2015, provided by TAFE NSW.

Figure 59: Frequency of cohort sizes by provider type¹⁹³



We sought to identify if factors other than low prices could explain these large cohorts. We examined the two factors detailed below to exclude qualifications from further analysis, as detailed below.

- **There is high demand for the qualification** which would mean that providers are enrolling large numbers of students.
- **The cohort reflects the business model of an individual provider for that qualification in which they enrol large numbers of student.** However, it does not reflect the cohort sizes of most providers of that qualification and therefore, is not a market wide trend.¹⁹⁴

Table 34 shows the two qualifications for which high demand and provider business models did not appear to be at play. This suggests that prices being too low may be leading providers to run large cohorts. These qualifications require further examination to see if price is indeed a factor in the large cohorts that have been observed.

Table 34: Qualifications with multiple examples of very large cohorts from Private RTOs¹⁹⁵

Qualification	No. of cohorts of 40+ students
Certificate III in Hospitality	9

¹⁹³ Source: Smart and Skilled training data for Private RTOs and ACE providers, provided by the Department. TAFE NSW subsidised training data for 2015, provided by TAFE NSW. Cohorts have been defined as students commencing a Full Qualification with in the same qualification, with the same provider, at the same training location. Students that can be identified as having a delivery mode of "Employment" or "On-line/Correspondence" have been excluded. Students enrolled at OTEN have been excluded.

¹⁹⁴ Most qualifications represented in the large cohorts did not have multiple large cohorts. This suggests that there is not a pricing issue, rather an individual provider has decided to enrol a large cohort. However, there were two qualifications which had at least four examples of large cohort sizes.

¹⁹⁵ Smart and Skilled training data for Private RTOs and ACE providers, provided by the Department. TAFE NSW subsidised training data for 2015, provided by TAFE NSW. Cohorts have been defined as students commencing a Full Qualification with in the same qualification, with the same provider, at the same training location. Those with a delivery mode of "Employment" or "On-line/Correspondence" have been excluded as much as possible, although delivery mode data was not comprehensive. Students enrolled at OTEN have been excluded.

Qualification	No. of cohorts of 40+ students
Certificate III in Warehousing Operations	4

Appendix K NDIS supports available

The below tables summarise the supports that will be available to people with disability under the NDIS that would assist them with engaging in VET.

Table 35: NDIS supports and prices¹⁹⁶

Category	Name	Price	Support
Improved learning	Transition into and through school and to further education	\$55.50 hour	Assist-Integrate School/Ed
Finding and keeping a job	Employment preparation and support in a group	\$18.16 hour	Assist Access/Maintain Employ
	Individual employment support	\$54.46 hour	Assist Access/Maintain Employ
	Employment related assessments and counselling	\$172.13 hour	Assist Access/Maintain Employ
Increased social and community participation	Individual skills development and training	\$53.99 hour	Development-Life Skills
	Skills development in a group	\$17.99 hour	Development-Life Skills
Transport to access daily activities	Transport	Varies	Assist-Travel/Transport
	Specialised transport to school/educational facility/employment/community	Varies	Assist-Integrate School/Ed

The below table summarises the prices per hour for carer support for participating in community, social and recreational activities which can include VET.

Table 36: NDIS support for participating in community, social and recreational activities¹⁹⁷

		Price per participant
Group based (Ratio 1 staff to 2 participants)	Weekday	\$20.59
	Weekday evening	\$22.58
	Saturday	\$28.57
	Sunday	\$36.55
Group based (Ratio 1 staff to 3 participants)	Weekday	\$13.73
	Weekday evening	\$15.06
	Saturday	\$19.04
	Sunday	\$24.37
Centre based group	Weekday	\$18.64










¹⁹⁶ NDIA, 2016. VIC, NSW, Tasmania and QLD price guide.




¹⁹⁷ NDIA, 2016. VIC, NSW, Tasmania and QLD price guide.

		Price per participant
	Weekday evening	\$20.46
	Saturday	\$27.32
	Sunday	\$34.95

Appendix L Assessment of Smart and Skilled requirements and ASQA requirements

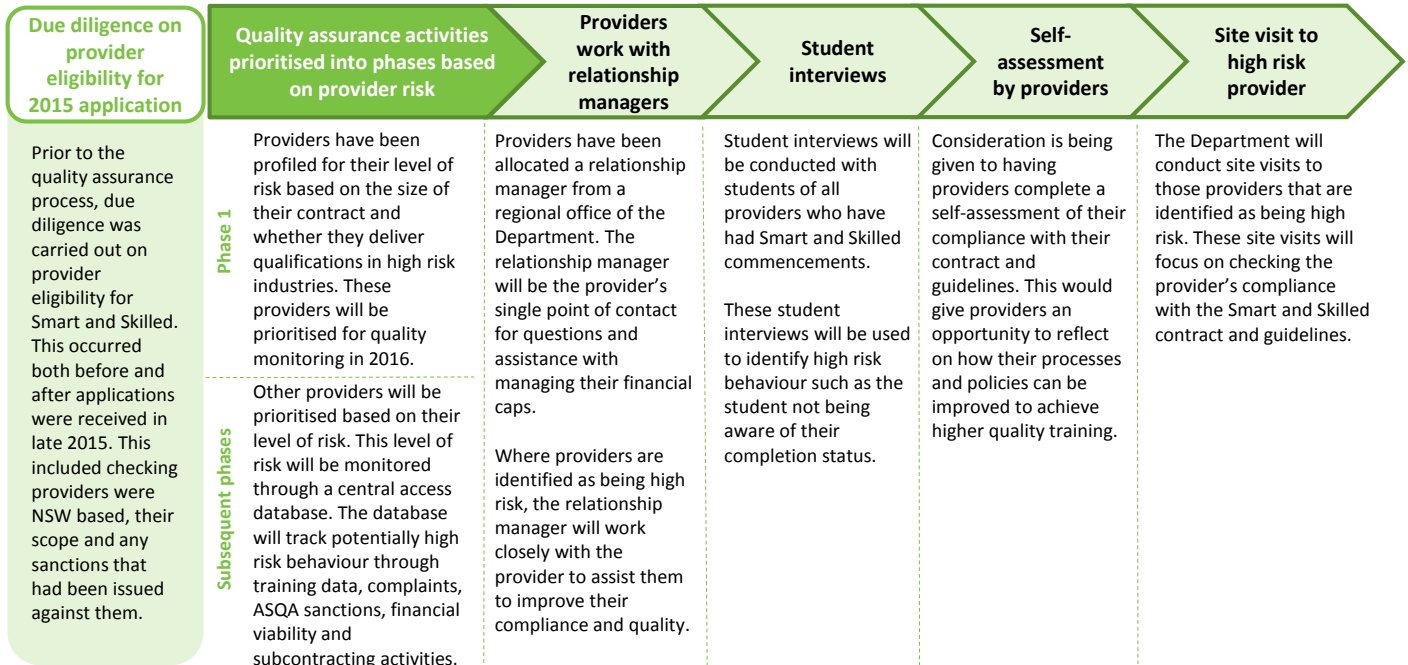
Table 37: Comparison of Smart and Skilled requirements and ASQA requirements¹⁹⁸

Training and assessment		<ul style="list-style-type: none"> • Similar requirements across most areas. • Smart and Skilled has higher standards regarding maintaining quality services tailored to learners' needs. • Smart and Skilled is less specific in requirements regarding the person/s delivering training.
Quality assurance of operations		<ul style="list-style-type: none"> • Similar requirements in many areas, and higher requirements regarding approvals for subcontracting arrangements.
Certification documentation and records		<ul style="list-style-type: none"> • A mix of higher requirements, similar requirements and less specific requirements. • Smart and Skilled requires a shorter timeframe for AQF Certifications to be issued. • Smart and Skilled requires a shorter timeframes for storage of records.
Accurate and accessible information		<ul style="list-style-type: none"> • Similar requirements in many areas, and however Smart and Skilled requirements do not address quality of information.
Informing and protecting learners		<ul style="list-style-type: none"> • A mix of similar and less specific requirements. However, much of the information required under the ASQA Standards is provided through the Smart and Skilled website rather than through requirements on providers.
Complaints and appeals		<ul style="list-style-type: none"> • A mix of similar, less specific and higher requirements. Smart and Skilled requirements around provider appeal policies are less prescriptive. • However, Smart and Skilled has additional processes regarding appeals and complaints handling externally.
Governance and administration		<ul style="list-style-type: none"> • Similar requirements, and Smart and Skilled has additional requirements for the reporting of financial information.
VET cooperation and compliance		<ul style="list-style-type: none"> • Smart and Skilled requires providers to be ASQA compliant.
Other		<ul style="list-style-type: none"> • Smart and Skilled requires reporting of training activity data and outcomes data which ASQA does not require.

 = Similar or same standard
  = Smart and Skilled has a slightly higher overall standard
  = Smart and Skilled has higher standard overall

¹⁹⁸ Nous assessment prepared by comparing the ASQA Standards with Smart and Skilled Contracts, Operating Guidelines, Consumer Protection Strategy. Note: Smart and Skilled providers must be ASQA registered and therefore, must also comply with all ASQA requirements

Appendix M Quality monitoring process



The quality assurance process will be overseen by the Department's **Quality Review Committee**.
Across the process there will be information sharing and collaboration with **ASQA, Fair Trading, the ACCC and other Governments**.

Table 38: The Department's quality monitoring activities

Percentage of providers who have been through quality monitoring	51%
Percentage of commencements at the providers who have been through quality monitoring	95%
No. of providers who have had additional quality monitoring activities ¹⁹⁹	150
No. of providers with suspended contracts	6
No. of providers with contracts terminated	11

¹⁹⁹ For example, approval of subcontracts, complaints referred to ASQA and requests for further information on commencements.

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