

Matching skills training with market needs

26 JULY 2018



NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

PERFORMANCE AUDIT

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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled
'Matching skills training with market needs'.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

Margaret Crawford

Auditor-General
26 July 2018

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Section one

Matching skills training with
market needs



Executive summary

In 2012, governments across Australia entered into the National Partnership Agreement on Skills Reform. Under the National Partnership Agreement, the Australian Government provided incentive payments to States and Territories to move towards a more contestable Vocational Education and Training (VET) market. The aim of the National Partnership Agreement was to foster a more accessible, transparent, efficient and high-quality training sector that is responsive to the needs of students and industry.

The New South Wales Government introduced the Smart and Skilled program in response to the National Partnership Agreement. Through Smart and Skilled, students can choose a vocational course from a list of approved qualifications and training providers. Students pay the same fee for their chosen qualification regardless of the selected training provider and the government covers the gap between the student fee and the fixed price of the qualification through a subsidy paid to their training provider.

Smart and Skilled commenced in January 2015, with the then Department of Education and Communities having primary responsibility for its implementation. Since July 2015, the NSW Department of Industry (the Department) has been responsible for VET in New South Wales and the implementation of Smart and Skilled.

The NSW Skills Board, comprising nine part-time members appointed by the Minister for Skills, provides independent strategic advice on VET reform and funding. In line with most other States and Territories, the Department maintains a 'Skills List' which contains government-subsidised qualifications to address identified priority skill needs in New South Wales.

This audit assessed the effectiveness of the Department in identifying, prioritising, and aligning course subsidies to the skill needs of NSW. To do this we examined whether:

- the Department effectively identifies and prioritises present and future skill needs
- Smart and Skilled funding is aligned with the priority skill areas
- skill needs and available VET courses are effectively communicated to potential participants and training providers.

Smart and Skilled is a relatively new and complex program, and is being delivered in the context of significant reform to VET nationally and in New South Wales. A large-scale government-funded contestable market was not present in the VET sector in New South Wales before the introduction of Smart and Skilled. This audit's findings should be considered in that context.



Conclusion

The Department effectively consults with industry, training providers and government departments to identify skill needs, and targets subsidies to meet those needs. However, the Department does not have a robust, data-driven process to remove subsidies from qualifications which are no longer a priority. There is a risk that some qualifications are being subsidised which do not reflect the skill needs of New South Wales.

The Department needs to better use the data it has, and collect additional data, to support its analysis of priority skill needs in New South Wales, and direct funding accordingly.

In addition to subsidising priority qualifications, the Department promotes engagement in skills training by:

- funding scholarships and support for disadvantaged students
- funding training in regional and remote areas
- providing additional support to deliver some qualifications that the market is not providing.

The Department needs to evaluate these funding strategies to ensure they are achieving their goals. It should also explore why training providers are not delivering some priority qualifications through Smart and Skilled.

Training providers compete for funding allocations based on their capacity to deliver. The Department successfully manages the budget by capping funding allocated to each Smart and Skilled training provider. However, training providers have only one year of funding certainty at present. Training providers that are performing well are not rewarded with greater certainty.

The Department needs to improve its communication with prospective students to ensure they can make informed decisions in the VET market. The Department also needs to communicate more transparently to training providers about its funding allocations and decisions about changes to the NSW Skills List.



1. Key findings

The Department only subsidises qualifications on the NSW Skills List, but some qualifications on the list may be of low priority

The Department relies on stakeholder proposals to update the NSW Skills List. Stakeholders include industry, training providers and government departments. These stakeholders, particularly industry, are likely to be aware of skill needs and have a strong incentive to propose qualifications to address these needs. The Department's process of collecting stakeholder proposals helps to ensure that it can identify qualifications needed to address skill needs.

It is also important for the Department to ensure that the NSW Skills List only includes high priority qualifications that need to be subsidised by government. As the Department does not yet have a robust process to remove qualifications from the NSW Skills List, there is a risk that it may be subsidising lower-priority skill areas. Since the NSW Skills List was established, new additions to the list have outnumbered those removed by five to one.

The Department does not always use available data to inform decisions about which skills to add or remove from the list

The Department does not always validate information included in stakeholder proposals, even when it has data to do so. Its decision-making about what to add to, or remove from, the NSW Skills List is not transparent because the rationale for decisions is not adequately documented.

The Department is undertaking projects to better use data to support decisions about what should be on the NSW Skills List. Some of these projects are well-advanced and should deliver useful data soon. For example, the Department is currently analysing the results of its 2017 Student Outcomes Survey for Smart and Skilled graduates. This should provide a clearer picture of employment and further study outcomes associated with each NSW Skills List qualification. Other projects underway will only deliver useful insights when sufficient trend data is collected. For example, the Department is collaborating with the Australian Taxation Office (ATO) to investigate the long-term employment outcomes associated with different qualifications and training providers.

The Department provides incentives to high performing training providers but offers only limited funding certainty

The Department allocates funding to providers that have Smart and Skilled contracts to deliver qualifications on the NSW Skills List. The Department has been improving its processes to reward providers that perform well in terms of enrolments and completion rates. It renews the contracts of high-performing providers and gives them more funding if they propose to increase their student enrolment numbers.

The Department reduces or removes funding from training providers that do not meet quality standards, breach contract conditions or are unable to spend their allocated funding effectively. It also offers additional funding to encourage training providers to deliver priority qualifications that are not currently available.

While the Department has recently made improvements to its Smart and Skilled training provider contracts, these contracts only run for one year, offering providers little funding certainty. The Department gives training providers estimates of their allocations for a further 12 months, but these are only indicative.

The Department is managing Smart and Skilled within approved budget limits

Training providers compete for funding allocations based on their capacity to deliver. The Department contains the budget by capping funding allocated to each Smart and Skilled training provider.

Each year, some training providers are not able to spend their full allocation. While the Department moves unspent money between training providers, there is a lag between the Department identifying a training provider's underspend and reallocating these funds to another training provider.

Using data from this process for several years, the Department has successfully reduced the extent of the underspend. The Department could still collect and use additional data on training provider performance and qualification outcomes to improve its budget allocation process.

The Department does not evaluate the effectiveness of additional funding streams provided under Smart and Skilled

In addition to standard qualification subsidies, Smart and Skilled provides further funding to training providers where the cost of delivery is high, such as in remote areas, or when catering to students with a disability. The Department also offers scholarships to encourage students to pursue selected qualifications. However, the Department has not yet evaluated whether this additional funding is achieving its intended objectives.

Some qualifications on the NSW Skills List are not being provided

The Department aims to ensure that in each of the 15 Smart and Skilled regions, training providers offer as many NSW Skills List qualifications as possible. At the time of the audit, there were 770 qualifications on the NSW Skills List. Eight per cent of qualifications that have been on the NSW Skills List since 2015 are not delivered under Smart and Skilled anywhere in New South Wales. A further 14 per cent of qualifications that are offered by training providers have had no student commencements.

The Department is yet to identify the reasons why these high priority qualifications are either not offered or not taken up by students. The Department should engage more proactively with training providers to encourage them to deliver these qualifications, and to promote qualifications with no commencements to prospective students.

The Department needs to improve its communication, particularly with prospective VET students

In a contestable market, it is important for consumers to have sufficient information to make informed decisions. The Department does not provide some key information to prospective students to support their decisions, such as measures of training provider quality and the employment or further education outcomes of students completing particular courses. Existing information is spread across numerous channels and is not presented in a user-friendly manner. This is a potential barrier to participation in VET for those less engaged with the system or less ICT-literate.

The Department conveys relevant information about the program to training providers through its websites and its regional offices. However, it could better communicate some specific information directly to individual Smart and Skilled training providers, such as the reasons their proposals to include new qualifications on the NSW Skills List are accepted or rejected.

While the Department is implementing a communication strategy for VET in New South Wales, it does not have a specific communication strategy for Smart and Skilled that comprehensively identifies the needs of different stakeholders and how these can be addressed.



2. Recommendations

By June 2019, the NSW Department of Industry should:

1. increase transparency of decisions about proposed changes to the NSW Skills List and improve record-keeping of deliberations regarding these changes
2. investigate why training providers do not offer, and prospective students do not enrol in, some Smart and Skilled-subsidised qualifications.

By December 2019, the NSW Department of Industry should:

3. use data more effectively and consistently to ensure that the NSW Skills List only includes high-priority qualifications
4. evaluate the effectiveness of Smart and Skilled funding which supplements standard subsidies for qualifications on the NSW Skills List, to determine whether it is achieving its objectives
5. provide longer-term funding certainty to high performing training providers, while retaining incentives for them to continue to perform well
6. develop and implement a specific communications strategy for Smart and Skilled to:
 - support prospective student engagement and informed decision-making
 - meet the information needs of training providers.



1. Introduction

Vocational education and training (VET) is education and training in job related and technical skills. It covers many careers and industries such as traditional trades, office work, retail, hospitality, community services, health and the technology sector. VET also plays a key role in increasing workforce participation for people lacking foundational language, literacy and numeracy skills.

There are six levels of national VET qualifications, described in Exhibit 1.

Exhibit 1: Qualification levels and descriptions

Level	Description
Certificate I	Knowledge and skills for initial work, community involvement and further learning
Certificate II	Knowledge and skills for work in a defined context and further learning
Certificate III	Theoretical and practical knowledge and skills for work and further learning
Certificate IV	Theoretical and practical knowledge and skills for specialised and skilled work and further learning
Diploma	Specialised knowledge and skills for skilled/paraprofessional work and further learning
Advanced Diploma	Broad knowledge and skills for paraprofessional/highly skilled work and further learning

Source: Australian Qualifications Framework – Second Edition 2013.

Apprenticeships and traineeships are structured employment and training arrangements that require successful completion of a qualification. These can be undertaken at Certificate level II or above for many qualifications.

There are four types of VET provider in New South Wales:

- Technical and Further Education (TAFE) NSW – not-for-profit, government entity
- Adult and Community Education (ACE) providers – not-for-profit community-owned and managed training organisations
- private training providers – both for-profit or not-for-profit providers
- enterprise-registered training organisations – these provide accredited training for the employees of those enterprises.

The move to a demand-driven VET model

In 2012 governments across Australia entered into a new National Partnership Agreement on Skills Reform (National Partnership). Under this National Partnership, the Australian Government provided incentive payments to States and Territories to introduce greater contestability in the national VET market. The aim of the National Partnership was to foster a more accessible, transparent, efficient and high-quality training sector that is responsive to the needs of students and industry.

Smart and Skilled is a NSW Government program introduced in January 2015 in response to the National Partnership. The program represents a move towards a demand-driven and contestable funding model, where demand for training dictates government spending and students choose their preferred training provider.

The objectives of Smart and Skilled are to:

- increase participation in VET
- meet industry training needs
- support TAFE NSW so that it remains a strong and viable public training provider
- give students greater choice by opening VET to private training providers
- improve the quality of VET
- support disadvantaged students.

In addition, the NSW Government decided that the Department would implement the program at no additional cost to the State's overall VET budget.

The introduction of Smart and Skilled was a major change to the way VET is funded and delivered in New South Wales.

Under Smart and Skilled, a student can choose a government-subsidised course of study from a list of approved qualifications (NSW Skills List) and training providers. Students pay the same fee for their chosen qualification regardless of the selected training provider and the government covers the gap between the fee and the qualification price through a subsidy paid to their training provider. Disadvantaged students, depending on their eligibility, can have their fee partially or fully paid by the government.

Only Smart and Skilled training providers approved by the Department can deliver government-subsidised qualifications. At the time of the audit, there were 770 qualifications on the NSW Skills List and over 450 approved training providers.

Under Smart and Skilled, subsidised training is divided into two broad funding streams. These are the Entitlement and Targeted Priorities streams.

The Entitlement stream subsidises qualifications on the NSW Skills List related to:

- foundation skills training (Certificate levels I or II), a combination of basic reading, writing, numeracy and oral communication
- full qualifications leading to Certificate levels II or III
- apprenticeship and traineeship training from Certificate level II to Advanced Diploma.

The Targeted Priorities stream subsidises qualifications on the NSW Skills List for:

- full qualifications leading to a Certificate level IV, Diploma or Advanced Diploma, not undertaken as an apprenticeship or traineeship
- pre-vocational training to get people ready for work
- part-qualifications for priority occupations and industry sectors where a small amount of retraining of the workforce may be needed to meet skill needs.

All funding streams have been available since Smart and Skilled started in January 2015, except the pre-vocational and part-qualifications programs under the Targeted Priorities stream which started in July 2015.

Different types of training providers are able to access different funding streams. The eligibility of training providers to apply for each funding stream is shown in Exhibit 2.

Exhibit 2: Eligibility of training providers for Smart and Skilled subsidies by funding stream

Funding stream	ACE	Private	TAFE NSW
Entitlement foundation skills	✓	✗	✓
Entitlement full qualification	✓	✓	✓
Entitlement apprenticeship and traineeship	✓	✓	✓
Targeted priorities full qualification	✓	✓	✗ *
Targeted priorities pre-vocational and part-qualifications	✓	✓	✓

Key ✓ Eligible ✗ Not eligible

* TAFE NSW receives separate funding from the NSW Government to cover these qualifications.

Source: Department of Industry 2018.

The NSW Government separately funds TAFE NSW for the delivery of government-subsidised training in NSW Skills List qualifications for Certificate IV, Diploma, Advanced Diploma levels and part-qualifications under TAFE NSW's Targeted Priorities Program.

Smart and Skilled accounts for roughly 30 per cent of the NSW Department of Industry's skills budget.

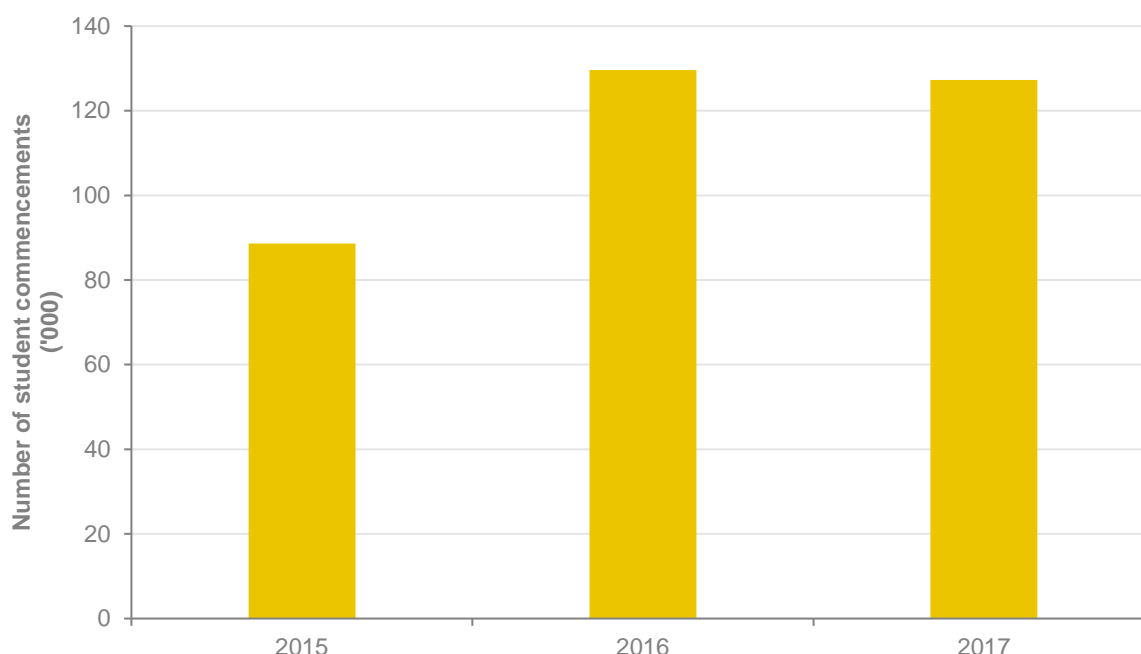
Responsibility for Smart and Skilled

Initially, the then NSW Department of Education and Communities had responsibility for the delivery of Smart and Skilled. From July 2015, the NSW Department of Industry (the Department) has been responsible for VET in New South Wales, including the implementation of Smart and Skilled. The NSW Skills Board provides the Minister for Skills with independent strategic advice on VET reform and funding. The Department has a representative on the Board. The other eight part-time members are appointed by the Minister for Skills. The Board members include representatives of industry, academia and the community.

Smart and Skilled student commencements

Between 2015 and 2017, the number of students commencing VET courses under Smart and Skilled increased by 44 per cent. Student commencements are shown in Exhibit 3.

Exhibit 3: Students commencing VET courses under Smart and Skilled



Source: Department of Industry 2018.

About the audit

This audit assessed the effectiveness of the NSW Department of Industry in identifying, prioritising, and aligning course subsidies to the skill needs of NSW. To do this we examined whether:

- the NSW Department of Industry effectively identifies and prioritises present and future skill needs
- Smart and Skilled funding is aligned with the priority skill areas
- skill needs and available VET courses are effectively communicated to potential participants and training providers.

More details can be found in Appendix two.



2. NSW Skills List



The NSW Skills List is unlikely to be missing high-priority qualifications, but may include lower-priority qualifications because the Department does not have a robust process to identify and remove these qualifications from the list. The Department needs to better use available data, and collect further data, to support decisions about which qualifications should be on the NSW Skills List.

The Department relies on stakeholder proposals to update the NSW Skills List. Stakeholders include industry, training providers and government departments. These stakeholders, particularly industry, are likely to be aware of skill needs, and have a strong incentive to propose qualifications that address these needs. The Department's process of collecting stakeholder proposals helps to ensure that it can identify qualifications needed to address material skill needs.

It is also important that the Department ensures the NSW Skills List only includes priority qualifications that need to be subsidised by government. The Department does not have robust processes in place to remove qualifications from the NSW Skills List. As a result, there is a risk that the list may include lower-priority skill areas. Since the NSW Skills List was first created, new additions to the list have outnumbered those removed by five to one.

The Department does not always validate information gathered from stakeholder proposals, even when it has data to do so. Further, its decision-making about what to include on, or delete from, the NSW Skills List is not transparent because the rationale for decisions is not adequately documented.

The Department is undertaking projects to better use data to support its decisions about what should be on the NSW Skills List. Some of these projects should deliver useful data soon, but some can only provide useful information when sufficient trend data is available.

Recommendation

The Department should:

- by June 2019, increase transparency of decisions about proposed changes to the NSW Skills List and improve record-keeping of deliberations regarding these changes
- by December 2019, use data more effectively and consistently to ensure that the NSW Skills List only includes high-priority qualifications.

2.1 Creation of the NSW Skills List

The NSW Skills List contains qualifications that the Department assesses as high priority for industry

In line with one of the Smart and Skilled objectives, the NSW Skills List defines the qualifications which develop skills required to meet industry needs. The Department updates the NSW Skills List twice a year to ensure it meets the changing skill needs of industry. The NSW Skills Board endorses any changes to the Skills List. Following this process, the Department publishes an updated NSW Skills List on its website. Skills lists are also used in other Australian jurisdictions.

At the time of the audit, the NSW Skills List contained 770 qualifications out of over 1,400 nationally accredited qualifications. The NSW Skills List covers selected Certificate level I to Advanced Diploma qualifications, including all apprenticeships and most traineeships. In addition to containing qualifications which reflect industry need, the NSW Skills List also contains qualifications which reflect social benefits, such as those that teach basic language and numeracy.

The former NSW Department of Education and Communities analysed data and consulted widely to create the initial NSW Skills List

Preparing for the implementation of Smart and Skilled in 2013, the then NSW Department of Education and Communities needed to identify the qualifications which would be eligible for Smart and Skilled funding.

It assessed and ranked all VET qualifications available in New South Wales, and placed those it rated as high priority on the NSW Skills List. The initial NSW Skills List contained 733 qualifications.

Prioritisation was based on the then NSW Department of Education and Communities assessment of:

- job prospects
- industry demand for qualifications
- career pathways or pathways to higher study
- percentage of commencements in the non-government funded (fee-for-service) VET market.

The then NSW Department of Education and Communities commissioned modelling of employment projections for 2014 to 2018, and used other available sources of information, to identify skills likely to be needed by industry. However, the then NSW Department of Education and Communities had no data on the extent of skills shortage, nor student outcomes. Additionally, it had no comprehensive data on training activities because, prior to 2014, the non-government funded training providers were not required to provide VET data to the New South Wales or Australian Governments.

Following analysis of industries, occupations and qualifications, the then NSW Department of Education and Communities consulted extensively with stakeholders, including industry and government departments, to validate the contents of the NSW Skills List. The NSW Skills Board endorsed the NSW Skills List in 2014 before it was approved by the then Minister for Education.

A review identified potential improvements to the approach to creating the NSW Skills List

An external review of the NSW Skills List methodology (methodology review), completed in 2016, concluded that the methodology used to create the NSW Skills List was complicated and not transparent. The review found that the NSW Department of Industry could improve the way it identifies the skill needs of industry by:

- better using existing data
- collecting and using new data
- no longer using occupational modelling, as it is unreliable.

The methodology review noted that a simpler way to assign qualifications to the NSW Skills List was to use the following indicators, all of which give some idea about labour market imbalances:

- the unemployment rate for the occupation associated with a qualification
- the proportion of VET graduates from a relevant qualification employed in an associated occupation after training
- the proportion of VET graduates employed after training but not employed before training.

The NSW Skills Board endorsed the idea of monitoring existing imbalances in the labour market and the employment outcomes for specific qualifications, with the inclusion of additional data sources to increase rigour.

In response to the methodology review, the Department no longer uses occupational modelling to forecast occupational demand. The Department has also begun work on a skills 'shortage and surplus' dashboard. This dashboard intends to draw data from a variety of sources to show whether occupations are in surplus or shortage, though not the extent of these. The dashboard is still some way from completion.

The Department's responses to other suggestions from the methodology review are discussed later in this chapter.

2.2 Updates to the NSW Skills List

The Department updates the NSW Skills List based on stakeholder advice

The Department updates the NSW Skills List twice a year. It notifies stakeholders when they can submit proposals to add or remove qualifications from the NSW Skills List. Stakeholders primarily comprise industry representatives, training providers and government departments.

These stakeholders are likely to be aware of skill needs. Stakeholders, particularly industry, have an incentive to propose the inclusion of qualifications on the NSW Skills List as subsidised qualifications will likely lead to a greater supply of qualified workers. The Department's process of requesting stakeholder proposals therefore mitigates the risk that the Department is not advised of qualifications needed to address significant skill needs in the State.

In response to the 2016 Smart and Skilled Year One Program Review, the Department moved from annual to twice yearly updates in 2017. Updating the NSW Skills List twice a year allows the Department to be more responsive to the needs of industry, while balancing those needs with stability in course offerings. An example of the Department responding to the needs of the labour market is shown in Exhibit 4.

Exhibit 4: Expedited addition of qualification to the NSW Skills List



Throughout 2017, the Department received four separate requests from TAFE NSW to add the Certificate level IV in Cyber Security to the NSW Skills List. These proposals drew attention to a skills shortage not just in New South Wales, but across Australia. The proposals also noted that the qualification would support New South Wales and Australian Government strategies and priorities.

The Department assessed these proposals and suggested that the NSW Skills Board expedite the addition of the qualification to the NSW Skills List outside the usual update periods. The qualification was added to the NSW Skills List at the end of 2017.

Source: Audit Office analysis.

The Department does not adequately record the rationale for its assessment decisions about stakeholder proposals

The Department uses criteria to assess whether to add or remove a qualification from the NSW Skills List, shown at Exhibit 5.

Exhibit 5: Criteria for updating the NSW Skills List

Rationale for including new qualification	Rationale for not including requested qualification
Industry demand/key qualification	Enrolments in non-government funded VET
Entry level qualification	Low job outcomes
Regional economic development and communities	No/low industry demand
Support for small business	No/very low take-up
Qualification is declared as an apprenticeship or traineeship in NSW	Similar qualification
Pathway/access to study	
Job/career outcomes	
Disadvantaged/equity groups	
Key government strategy	

Source: Department of Industry, 2018.

The Department informs stakeholders of these criteria when it seeks proposals to include or remove qualifications from the NSW Skills List. However, it gives limited guidance on what is required to fulfil these criteria. In practice, the quality of information in proposals varies considerably, and a common reason for rejecting proposals is insufficient information about one or more of the above criteria.

A panel of the Department's staff assesses all proposals against the criteria to guide decision-making and promote consistency. The assessment panel consists of four senior departmental employees with responsibility for skills policy and delivery of VET in New South Wales.

The panel's deliberations and decisions are not adequately recorded, making it difficult to determine if the Department is assessing proposals consistently and, in some cases, the reason for a particular decision. Exhibit 6 provides an example of inadequate recording of assessment decisions.

Exhibit 6: Inadequate record keeping

A proponent applied to include the Certificate IV in Vehicle Loss Assessing on the NSW Skills List in the May 2017 update. The Department's assessment panel rejected this qualification because they believed it had low job outcomes and no/low industry demand. In its advice to the NSW Skills Board the assessment panel stated only the following:

'No evidence provided of employment outcomes. Weak evidence of industry demand.'

However, data from the National Centre for Vocational Education Research's student outcomes survey demonstrated that 31 of 32 survey respondents (97 per cent) were employed in a relevant industry after the completion of the Certificate IV in Vehicle Loss Assessing. The assessment panel documented the results of this survey to support its recommendations of many other qualifications, but not in this case.

Due to inadequate documentation of assessment panel deliberations, it is not clear why the panel concluded that there was no evidence of employment outcomes and rejected the proposal.

Source: Audit Office analysis.

The panel recommends changes to the NSW Skills List to the NSW Skills Board for endorsement.

Not all proposed qualifications are accepted onto the Skills List. For example, the assessment panel recommended:

- 17 (28.8 per cent) of 59 proposed qualifications during the May 2017 update
- 5 (19.2 per cent) of 26 proposed qualifications during the November 2017 update.

After assessing proposals, the Department sends out a letter to all proponents outlining the changes to be made to the NSW Skills List. Unless specifically requested, the Department does not tell unsuccessful proponents why their proposals were rejected, missing an opportunity to improve future proposals.

The Department does not have a robust process to remove qualifications from the NSW Skills List

The Department currently relies on stakeholders to identify qualifications that should be removed from the list. This process has yielded few removal requests. Stakeholders have little incentive to apply to remove qualifications from the NSW Skills List.

As shown in Exhibit 7, the new addition to the NSW Skills List outnumbered those removed by five to one.

Exhibit 7: Qualifications added and removed from the NSW Skills List in each update

Consultation period	Added	Removed
2014 (prior to Smart and Skilled)	13	10
2015	35	5
2016	30	3
2017 - March	17	--
2017 - October	5*	--
Total	100	18

* This includes the addition of the Certificate level IV in Cyber Security in November 2017, outside the normal update period.

Source: Department of Industry, 2018.

In addition to the above, 45 qualifications have been removed because they:

- have expired
- were removed from the list of available national qualifications
- were superseded.

The Department advised that these are the only circumstances in which qualifications are removed from the NSW Skills list without a stakeholder request.

There are several reasons why it may be desirable to remove a qualification from the NSW Skills List, including:

- the non-government funded VET market adequately addresses the skills need
- a surplus of workers with the relevant skills
- decline in demand for those skills.

The NSW Skills Board wants the Department to develop a robust process for removing qualifications from the NSW Skills List. The Department already has some data which could be used to inform this process and is currently working on a method for evaluating qualifications on the NSW Skills List, as noted below.

The Department does not always use data when considering which qualifications to add to or remove from the NSW Skills List

The Department has developed an online application form to support consistency of proposals from stakeholders such as training providers, industry representatives and employers to update the NSW Skills List. It invites stakeholders to attach supporting data or information from reliable and verifiable sources.

The Department could supplement the information in stakeholder proposals with additional data, such as student commencements and results from student outcome surveys. This would provide important validation that selected qualifications will provide students with job-relevant skills, and that students who enrol in them are likely to receive quality training. However, the Department does not always use such data when it is available.

The Department advised that it does not consistently record how supplementary data has been used in its decision-making. For example, there is evidence that the Department used available commencement and student outcome survey data to assess some proposals during the May 2017 update, but there is no evidence that this data was used during the November 2017 update. As it does not always adequately record the assessment panel's decisions, the Department cannot demonstrate that its decision-making process is rigorous and objective.

The Department has projects underway to improve the use of data in managing the Skills List

The Department is working on several projects to enhance its collection and use of data, so it can improve the assessment of proposals and better identify qualifications to add to or remove from the NSW Skills List. A more evidence-driven approach to managing the NSW Skills List should provide greater assurance that the NSW Skills List reflects actual skill needs.

The projects aim to:

- provide information about graduates' outcomes from each qualification
- identify qualifications which lead to relevant jobs
- evaluate qualifications which are under or over-enrolled.

The Department expects to complete some projects in the short-term, while the benefits of other projects may only be realised once the Department has collected and analysed several years of trend data.

The Department is currently analysing the results from the first NSW Smart and Skilled Student Outcomes Survey, conducted in 2017. The National Centre for Vocational Education Research (NCVER) has been collecting information on student outcomes since 1999, but only includes a sample of VET students. The NSW Smart and Skilled Student Outcome Survey incorporates all Smart and Skilled graduates and should provide better information on graduate employment and further study outcomes than is presently available to the Department from NCVER. The 2017 Survey aimed to collect information on the employment and further study outcomes of all 2015 and 2016 Smart and Skilled graduates. The Department is planning to repeat this survey in 2018 to cover all 2017 graduates.

The University of Sydney is leading a project which aims to identify qualifications that have a high degree of overlap in course content. This will allow the Department to compare employment outcomes across similar qualifications when considering removal of qualifications from the NSW Skills List.

The Department is working on a skills surplus/shortage dashboard to better identify whether there is an oversupply or undersupply of workers in an occupation. This project aims to better target qualifications to fill potential skill needs and exclude those qualifications which lead to jobs in occupations with an oversupply of workers.

The Department has partnered with the Australian Tax Office to track the long-term earnings of VET graduates and generate information about the long-term outcomes linked to individual VET qualifications and training providers.

The Department is collaborating on a project with the University of Technology, Sydney and the NSW Data Analytics Centre. This project links job advertisements with VET qualifications to provide information about qualifications which are in demand.

The NSW Skills Board plans to commission research into the non-government funded VET market in New South Wales to better understand this market and its relationship with the government-funded VET market. This project will be completed by the end of 2018.



3. Alignment of funding



The Department funds training providers that deliver qualifications on the NSW Skills List. Alignment of funding to skill needs relies on the accuracy of the NSW Skills List, which may include some lower priority qualifications.

Only qualifications on the NSW Skills List are eligible for subsidies under Smart and Skilled. As the Department does not have a robust process for removing low-priority qualifications from the NSW Skills list, some low-priority qualifications may be subsidised.

The Department allocates the Smart and Skilled budget through contracts with Smart and Skilled training providers. Training providers that meet contractual obligations and perform well in terms of enrolments and completion rates are rewarded with renewed contracts and more funding for increased enrolments, but these decisions are not based on student outcomes. The Department reduces or removes funding from training providers that do not meet quality standards, breach contract conditions or that are unable to spend their allocated funding effectively. Contracts are for only one year, offering training providers little funding certainty.

Smart and Skilled provides additional funding for scholarships and for training providers in locations where the cost of delivery is high or to those that cater to students with disabilities. The Department has not yet evaluated whether this additional funding is achieving its intended outcomes.

Eight per cent of the qualifications that have been on the NSW Skills List since 2015 are not delivered under Smart and Skilled anywhere in New South Wales. A further 14 per cent of the qualifications that are offered by training providers have had no student commencements. The Department is yet to identify the reasons that these high priority qualifications are either not offered or not taken up by students.

Recommendation

The Department should:

- by June 2019, investigate why training providers do not offer, and prospective students do not enrol in, some Smart and Skilled-subsidised qualifications
- by December 2019, evaluate the effectiveness of Smart and Skilled funding which supplements standard subsidies for qualifications on the NSW Skills List, to determine whether it is achieving its objectives
- by December 2019, provide longer-term funding certainty to high performing training providers, while retaining incentives for them to continue to perform well.

3.1 Paying training providers for Smart and Skilled training

The Department provides Smart and Skilled funding to training providers for training government-subsidised students. To receive Smart and Skilled funding, training providers must go through the following process:

- training providers apply to the Department for approval to offer qualifications on the NSW Skills List
- the Department assesses training providers' applications
- the Department advises successful training providers which qualifications it will subsidise, and the total amount of subsidy they can receive in a year
- the Department pays training providers in instalments as students enrol and progress through their courses
- throughout the year, training providers can request additional funding allocations to meet greater demand, and the Department can reallocate funding from training providers that will not use their full funding allocation.

Only qualifications on the NSW Skills List are eligible for Smart and Skilled funding

Only qualifications on the NSW Skills List are eligible for Smart and Skilled funding, and only when delivered by an approved Smart and Skilled training provider. To ensure that funding is aligned with skill need, the NSW Skills List should be up to date with only high priority qualifications. As discussed in Chapter 2, this may not be the case.

The NSW Government sets the price for each qualification on the NSW Skills List, and all training providers receive the same amount of money for delivering the same qualification. The training provider receives money to deliver the qualification from two sources:

- the NSW Government's subsidy
- the fee paid by the student.

The level of the student fee is linked to the level of the qualification, rising from ten per cent at Certificate level I through to 40 per cent at Diploma and Advanced Diploma level. Higher level qualifications attract a lower government-subsidy than lower level qualifications on the assumption that higher level qualifications will deliver greater personal benefits through higher earnings than lower level qualifications.

The exceptions to these pricing arrangements are:

- apprenticeships and traineeships on the NSW Skills List, where student fees are capped at \$2,000 and \$1,000 respectively¹
- pre-vocational and part-qualification courses on the NSW Skills List, for which no student fee is paid by job seekers and existing workers who need to be upskilled.

Some eligible students can have their fee fully or partially funded by the NSW Government.

Additional funding is available to deliver training where the cost of delivery is high

The Department offers additional funding to training providers, called loadings, in circumstances where the cost of training delivery is likely to be higher than the set price of the qualification. There are two types of loading:

- location loading – to provide courses in regional and remote areas
- needs-based loading – to provide courses to Aboriginal and Torres Strait Islander (ATSI) students, students with a disability and the long-term unemployed.

In addition to loadings, the Department makes community service obligation payments to TAFE NSW and Adult and Community Education training providers to:

- subsidise the cost of training in 'thin markets', which are those markets where no training provider is willing to deliver training for the qualification price and applicable loadings
- support students with particularly complex and high-cost disabilities
- provide 'wrap around' support services, such as counselling and career services.

As discussed in the 2015 Performance Audit 'Vocational Education and Training Reform', the Department does not offer community service obligation payments to private training providers in recognition of the NSW Government's objective of maintaining TAFE NSW as a strong public training provider.

In addition, Smart and Skilled supports some disadvantaged students by:

- fully subsidising student fees (fee exemptions) for Aboriginal and Torres Strait Islander students and students with a disability
- partially subsidising student fees (fee concessions) for welfare recipients who are studying for qualifications up to and including Certificate level IV.

¹ A new arrangement for apprenticeship fees was announced in the 2018-19 NSW Budget which applies from July 2018. See Exhibit 8.

The Department also offers a limited number of fee-free scholarships to students eligible for concessions. The Department gives priority to students living in social housing, students currently living in or previously living in out-of-home care and students who are experiencing, or have experienced, family or domestic violence.

The Department has not evaluated the effectiveness of its loadings and community service obligation payments

In 2015, a NSW Parliamentary Inquiry into 'Vocational education and training in New South Wales' identified issues with the implementation of needs-based and location loadings. This included a lack of monitoring of how training providers used the loadings and whether the loadings were sufficient to cover the additional costs of training delivery. The 2016 Smart and Skilled Year One Program Review identified similar issues.

In response, the Department:

- collected and analysed additional data to better understand the needs of students who attract needs-based loadings
- adjusted eligibility criteria for loadings
- improved the methodology for identifying a student's location loading eligibility
- prioritised applications from training providers that offer to deliver qualifications in 'thin markets'.

While the Department has made these changes, it has not evaluated the effectiveness or adequacy of the loadings. The Department advised that an internal review of the loadings would occur in 2018–19.

We found that a higher proportion of ATSI students and students with a disability are enrolled in government-funded VET in New South Wales compared to government-funded VET programs in other jurisdictions in Australia. For example, the National Centre for Vocational Education Research reported that in September 2017:

- ATSI students represented nine per cent of the total NSW VET student population compared with seven per cent nationally
- students with a disability represented 12 per cent of the total NSW VET student population compared with ten per cent nationally.

While these positive statistics may indicate effectiveness of the loadings, other data is less positive.

Smart and Skilled data shows that commencements for most categories of disadvantaged students fell between 2016 and 2017. The shift in commencements from students in regional in remote areas coincides with a change in the way that the Department determines eligibility for location loading. However, the change in the methodology for determining location loading does not explain a 22 per cent reduction in commencements of long-term unemployed students between 2016 and 2017. The Department has not examined the reasons for this drop.

The Department relies on training providers to identify a need and apply for 'thin market' funding. In 2015–16, the Department allocated \$9.5 million in TAFE NSW's budget for 'thin market' as it did not know the extent of the 'thin market' funding needs. Since then, the Department has substantially reduced the 'thin market' budget for TAFE NSW and ACE to \$250,000 in 2016–17 and \$750,000 in 2017–18. The Department has not evaluated the community service obligation funding allocation, including 'thin market' funding.

The government targets additional funding towards apprenticeships, agricultural and select STEM qualifications

Under Smart and Skilled, the government has put in place short-term measures to target funding at specific industry needs. For example, the Department administers:

- fee-free apprenticeships
- subsidies tied to select agricultural qualifications through the AgSkilled program
- Jobs of Tomorrow scholarships for some science, technology, engineering or mathematics (STEM) qualifications. These are additional to fee-free scholarships that are not related to any specific industry.

Exhibit 8, 9 and 10 describe these measures.

Exhibit 8: Fee-free apprenticeships



From 1 July 2018, the NSW Government allocated an additional \$285 million over four years to remove fees for 100,000 new apprenticeships and encourage more young people into trades. The fee-free apprenticeships are only for new students who are about to enrol, or students who are currently studying and decide to change courses.

This funding is available for all 121 apprenticeship courses currently offered under the Smart and Skilled program.

This program was announced during the audit.

Source: Audit Office analysis.

Exhibit 9: AgSkilled program

The AgSkilled program provides \$14.7 million worth of government-subsidised training between 2017 and 2020 to help attract new workers and retain and upskill existing workers in the cotton and grains industries. The program subsidises training in emerging technologies, including the use of drones and satellite data, as well as training in farm machinery and business management.

AgSkilled can subsidise the cost of full qualifications (Certificate level I to Advanced Diploma) on the NSW Skills List and fully subsidise the cost of some part-qualification training.

To be eligible for this funding, a Smart and Skilled training provider must offer relevant training in regional areas. Currently, there are six approved training providers that deliver qualifications funded by the AgSkilled program.

As this program only started in 2017, it is too early to comment on its outcomes.



Source: Audit Office analysis.

Exhibit 10: Jobs of Tomorrow scholarships



The NSW Government has identified that people with STEM skills are in high demand. To encourage students to undertake STEM qualifications, the Department is offering 6,250 Jobs of Tomorrow scholarships of \$1,000 per scholarship each year for four years (a total of 25,000 scholarships). Jobs of Tomorrow scholarships are targeted at students undertaking courses at Certificate level IV or higher. Since the program started in March 2016, over 2,000 scholarships have been funded. Students receive \$500 at the start of their training and \$500 on completion.

Source: Audit Office analysis.

Jobs of Tomorrow and fee-free scholarships uptake is low, and the Department has not determined reasons for this

The NSW Government has committed \$48.0 million to fund 200,000 Smart and Skilled fee-free scholarships between 1 July 2015 and 30 June 2019, and \$25.0 million to fund Jobs of Tomorrow scholarships between 2016 and 2019.

Uptake of scholarships has been low. The 2015 NSW Parliamentary Inquiry into 'Vocational Education and Training in New South Wales' commented that stringent eligibility criteria may prevent many students from taking up the fee-free scholarships. As shown in Exhibit 11, since 2015–16, only \$14.3 million of a budgeted \$51.6 million was spent on Jobs of Tomorrow and fee-free scholarships. However, it should be noted that 50 per cent of the Jobs of Tomorrow scholarship funds are paid when a student completes a course, which could be after three or four or more years, meaning that some expenditure will not appear until later years.

Exhibit 11: Scholarship allocations and expenditures

	2015–16	2016–17	2017–18
	\$m	\$m	\$m
Jobs of Tomorrow allocation	3.1	6.2	6.2
Fee-free allocation	12.0	12.0	12.0
Total scholarship allocation	15.1	18.2	18.2
Jobs of Tomorrow expenditure	--	1.3	1.1*
Fee-free expenditure	3.5	5.9	3.2*
Total scholarship expenditure	3.5	7.2	4.4*
Total unspent allocation	11.6 (77%)	11.0 (60%)	13.8* (76%)

* July 2017 to May 2018.

Source: Department of Industry, 2018.

The Department advised that it relies on training providers to promote the scholarships to students and that training providers have an incentive to promote scholarships as they make courses more attractive. The Department advised that it regularly discusses the low take-up of the scholarships with Smart and Skilled training providers. However, the Department has not evaluated reasons for the low take-up of scholarships.

The Department has improved its methodology for allocating funding to Smart and Skilled training providers

Smart and Skilled approved training providers receive payments for enrolling and training government-subsidised students. A training provider will only receive their full payment if students complete their qualification. In 2015, the first year of Smart and Skilled, the Department allocated funds to training providers with the aim of providing as many qualifications as possible in each of its 15 Smart and Skilled regions in New South Wales to ensure accessibility to the greatest number of students.

Since 2016, the Department has modified funding allocation rules to:

- allocate more funding to training providers that propose to increase their student enrolment numbers
- focus funding on training providers that have utilised their funding allocation under their Smart and Skilled contract
- encourage delivery of priority qualifications or those requiring additional capacity
- broaden provision of training across qualifications and regions.

The Department reduces or removes the funding allocation from inactive training providers and those that breach contract conditions or do not meet required quality standards. It then offers that funding to training providers that can use the money to deliver more training. The Department gives priority to those training providers that agree to deliver qualifications which support government priorities. These include:

- qualifications that support National Disability Insurance Scheme workforce development
- apprenticeships and traineeships
- Jobs of Tomorrow eligible qualifications
- 'thin market' qualifications
- qualifications recently added to the NSW Skills List.

The Department is improving its information on graduate outcomes and the job market to better target Smart and Skilled funding

In line with the findings of a 2016 Jobs for NSW report, the Department has indicated a desire to allocate funds based more heavily on graduate outcomes. The report found:

'The VET system is more likely to adapt more rapidly to changes in jobs and skills demand if it were managed (and funded) on an outcomes basis: for example, by the students gaining and maintaining employment, rather than on the number or nature of the courses offered.'

Source: Jobs for NSW, 'Jobs for the Future, Adding 1 million rewarding jobs in NSW by 2036', August 2016.

An outcomes-based funding approach would rely on data analytics to establish a set of indicators for skill shortages and surpluses in New South Wales. For this purpose, the Department is sourcing data from:

- the NSW Student Outcomes Surveys of Smart and Skilled graduates to provide an indicator of short-term outcomes
- the Australian Tax Office to track longer-term income and employment outcomes for Smart and Skilled graduates.

The Department plans to use this data to better target Smart and Skilled funding as well as update the NSW Skills List. Until this and other relevant data is available, the Department's ability to move towards an outcomes-based funding approach is limited.

Smart and Skilled contracts define the funding limits for each approved training provider and where they may deliver training

Under Smart and Skilled, each approved training provider has a one-year contract with the Department that specifies:

- the qualifications they can deliver as government-subsidised training
- the Smart and Skilled regions in which they can offer government-subsidised training
- the financial cap which the training provider is eligible to receive for delivering Smart and Skilled qualifications. This cap does not include payments for loadings or fee exemptions and concessions.

Depending on student demand, training providers may not be able to fully utilise their allocated financial caps. Training providers cannot carry forward unused financial caps to the next financial year.

Training providers receive subsidy payments in instalments, based on students achieving milestones throughout their course. For example, training providers receive a payment when a student commences their study and another when the student completes the qualification. Certificate levels I to IV qualifications also deliver a half-way milestone payment. An example is given in Exhibit 12. Diploma and Advanced Diploma qualifications deliver three milestone payments between enrolment and completion, reflecting the longer duration of these courses.

Exhibit 12: Example of paying Smart and Skilled training providers in instalments

A training provider approved to offer Certificate III in Early Childhood Education and Care under Smart and Skilled receives:

- 20 per cent of the government-subsidy for enrolling a student, as well as any applicable loadings
- 40 per cent when the student has successfully completed half of the required units of competency
- 40 per cent when the student has successfully completed the course and achieved the qualification.



Source: Department of Industry, 2018.

By paying in instalments, the Department provides an incentive for training providers to work with students to ensure that they complete their training.

The Department has made some changes over time to help training providers plan better

Since the start of Smart and Skilled in 2015, the Department has:

- removed the financial cap for the delivery of apprenticeship and traineeship training
- increased the minimum financial cap for training providers
- allowed training providers to use up to 15 per cent of their financial cap in neighbouring Smart and Skilled regions
- reviewed and adjusted the prices of qualifications where it determined the qualification price was too low.

At the time of the audit, the Department was transitioning from calendar year to financial year funding arrangements to better align with training providers' business processes and the Department's budget management process. These new Smart and Skilled funding arrangements came into effect on 1 July 2018.

The removal of financial caps on apprenticeships and traineeships has coincided with an increase in apprenticeship and traineeship commencements, as shown in Exhibit 13. Between 2015 and 2017 the proportion of students commencing apprenticeships and traineeships under Smart and Skilled increased by 32 per cent and 56 per cent respectively.

Exhibit 13: Smart and Skilled apprenticeship and traineeship commencements

	2015	2016	2017
Apprenticeships	14,123	17,255	18,645
Traineeships	12,582	19,423	19,636
Total	26,705	36,678	38,281

Source: Department of Industry, 2018.

It is too early to comment on the impact of the other changes on student commencements.

One-year contracts may not give training providers sufficient financial security

The Department does not offer multi-year Smart and Skilled contracts, meaning that training providers that meet required quality standards do not have guaranteed funding continuity from one year to the next. It now provides training providers with estimates of their allocations for a further 12 months, but these are only indicative.

The Department advised it reviews Smart and Skilled contracts annually, and training providers that demonstrate satisfactory performance have their contracts rolled over into the following year.

However, the training provider representatives we consulted reported that one-year contracts do not offer enough certainty for them to invest in the development and delivery of high quality training products and services. Further, they asserted that these arrangements create difficulties for training providers in managing cash flows. For example, a one-year contract may be insufficient for a training provider to secure finances needed to invest in facilities, equipment and staff development.

The Department is considering the introduction of three-year Smart and Skilled contracts but has not committed to a timeframe for making this decision.

Some qualifications on the NSW Skills List are not being delivered or have no enrolments

At the time of the audit, 770 qualifications were on the Skills List. Of these:

- 58 qualifications (eight per cent) had no approved training providers in the State since Smart and Skilled began in 2015
- 108 qualifications (14 per cent) have had no enrolments under Smart and Skilled despite training providers offering these qualifications since the program began in 2015.

Exhibit 14 breaks this down by qualification level.

Exhibit 14: NSW Skills List qualifications not available or with no enrolments under Smart and Skilled

Qualification level	Not offered	No commencements
Certificate II	9	12
Certificate III	22	16
Certificate IV	16	31
Diploma	6	41
Advanced Diploma	5	8
Total	58	108

Source: Department of Industry, 2018.

Examples of the qualifications which are not being delivered include:

- Certificate II in Automotive Cylinder Head Reconditioning
- Certificate III in Funeral Operations
- Certificate IV in Glass and Glazing
- Diploma of Maritime Operations (Marine Surveying).

The Department does not investigate the reasons why training providers are not offering these high-priority qualifications nor does it proactively seek training providers to deliver these qualifications.

3.2 Managing the Smart and Skilled budget

The NSW Government gave the Department an explicit objective to implement Smart and Skilled within budget. This was a result of the experience in Victoria, where the introduction of a contestable VET market had resulted in substantial overspending.

The Department has met the government's objective of responsible budget management

Separate funding streams, financial caps and government-set qualification prices have ensured that the Smart and Skilled budget has been managed without budget overruns while still allowing for student-driven choices. The 2016 Smart and Skilled Year One Program Review commented 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.'

Source: Smart and Skilled Year One Program Review: Stage Two, 2016.

'The application and assessment process demonstrated that provider demand for government subsidised training far exceeds the NSW Government's capacity to fund.'

Source: Smart and Skilled Year One Program Review: Stage One, 2016.

As shown in Exhibit 15, the Department's expenditure in 2016–17 was within the budget and the 2017–18 budget is likely to be underspent.

Exhibit 15: Smart and Skilled budget and expenditure for financial years 2015–16 to 2017–18

Program streams	2015–16 Budget	2015–16 Expenditures	2016–17 Budget	2016–17 Expenditures	2017–18 Budget	2017–18 Expenditure forecast
	\$m	\$m	\$m	\$m	\$m	\$m
Capped program streams ^{*#}	N/A	N/A	458.4	341.7	403.4	355.1
Apprenticeship and traineeship [#]	N/A	N/A	99.5	187.1	170.0	213.9
Part qualifications [#]	N/A	N/A	13.3	42.0	38.4	30.4
Community service obligation	N/A	N/A	1.0	2.4	0.8	1.0
Other (e.g. scholarships)	N/A	N/A	16.9	13.1	10.5	8.6
Total Smart and Skilled	651.1	371.6	589.2	586.3	623.1	609.0

* Capped program streams include all course types except apprenticeships and traineeships, and part-qualifications.

Includes: loadings, exemptions and concessions.

Note: 2015–16 budget information was not produced on the same basis as 2016–17 and 2017–18. 2017–18 projections as at May 2018.

Source: Department of Industry, 2018.

The Department's underspend for Smart and Skilled has decreased

The Department caps each Smart and Skilled training provider's funding allocation to ensure budget containment. However, each year some training providers will not be able to spend their full allocation. When the Department becomes aware that a provider will not meet their financial cap, it reallocates the unused cap to other training providers with capacity to increase commencements.

The Department has implemented system and process improvements to substantially reduce underspending from \$279.5 million in 2015–16 to \$14.1 million or 2.3 per cent of the Smart and Skilled budget in 2017–18. As the Department gains more information on the VET market over time, it should be able to reduce its Smart and Skilled budget underspend further.

Nevertheless, the Department is unlikely to ever spend its full budget under current arrangements. There will always be a lag between the Department identifying a training provider's underspend and reallocating these funds to another training provider.

Further, the timeliness of a reallocation depends on training providers reporting training data to the Department. The Department advised that not all training providers report on time.

The Department advised that since 2017–18 it seeks Ministerial approval for some Smart and Skilled funding reallocations. This process may increase the time the Department requires to make reallocations.

Funding arrangements are not sufficiently flexible

Fixing qualification prices, student fees and government subsidies for each qualification on the NSW Skills List helps the Department manage its Smart and Skilled budget. Fixed prices have also provided stability for both training providers and students during the early stage of transition to a contestable VET market. However, fixed qualification prices limit the Department's ability to use the budget in a more flexible and agile way.

A 2017 review of the Smart and Skilled pricing methodology confirmed that the current Smart and Skilled pricing and funding model has provided a suitable starting point. However, the review noted that this model may limit responsiveness of the VET system to changes in the training market and in broader economic conditions over the medium term. The review concluded that:

- in the short-term, the Department should maintain and refine the current pricing and funding model by:
 - looking for opportunities to adopt simpler pricing and funding settings
 - ensuring VET market stability
 - pursuing improved data collection and broadening the evidence base to fine-tune pricing over time
- in the medium term, the Department could introduce flexibility into the pricing and funding model through judicious use of pilots.

The review argued that the Department should ensure that it has taken appropriate time to develop an evidence-based pricing and funding system.

In consultation with the NSW Skills Board, the Department may consider trialling more flexible pricing methodologies to build the required evidence base.



4. Communication with prospective VET students and training providers



The Department needs to improve its communication, particularly with prospective students.

In a contestable market, it is important for consumers to have sufficient information to make informed decisions. The Department does not provide some key information to prospective VET students to support their decisions, such as measures of provider quality and examples of employment and further education outcomes of students completing particular courses. Existing information is spread across numerous channels and is not presented in a user-friendly manner. This is a potential barrier to participation in VET for those less engaged with the system or less ICT literate.

The Department conveys relevant information about the program to training providers through its websites and its regional offices. However, it could better communicate some specific information directly to individual Smart and Skilled training providers, such as reasons their proposals to include new qualifications on the NSW Skills List are accepted or rejected.

While the Department is implementing a communication strategy for VET in New South Wales, it does not have a specific communications strategy for Smart and Skilled which comprehensively identifies the needs of different stakeholders and how these can be addressed.

Recommendation

By December 2019, the Department should develop and implement a specific communications strategy for Smart and Skilled to:

- support prospective student engagement and informed decision-making
- meet the information needs of training providers.

4.1 Communication with prospective students

Prospective students need to be able to readily access comprehensive information on the qualifications available to them, the benefits and costs of undertaking a VET qualification, the job opportunities, and available government assistance. For a market to operate effectively, consumers must be able to make informed choices.

The Department is implementing a communication strategy to raise the profile of VET in NSW

The Department is currently implementing a communication strategy which focuses on positioning VET as a credible alternative to higher education, leading to well-paid jobs and careers. The total budget for the 'VET repositioning' campaign from May 2017 to June 2018 was \$1.63 million. This is separate to marketing campaigns conducted by individual training providers, including TAFE NSW.

Marketing research commissioned by the Department in 2016 showed that:

- school students see university as more appealing, and more in line with their aspirations, than VET
- the VET sector is often seen as the fall-back for when one cannot get into university
- many school students are unaware of the occupations associated with VET qualifications
- prospective VET students and their parents are wary of the quality of providers and generally see the private VET sector as untrustworthy and too expensive.

The findings of this research are in line with findings from a National Centre for Vocational Education Research paper.

The Department is using multiple marketing channels to deliver its campaign messages, including newspaper partnerships, website advertising and the launch of a new VET website. The new website links through to other VET websites, including Smart and Skilled and Training Services NSW.

Interim campaign results are outlined in Exhibit 16.

Exhibit 16: Select vet.nsw.gov.au campaign key performance indicators

KPI	Target to 30 June 2018	Actual as at 30 May 2018
Number of visitors to website	42,852	64,256
Number of users accessing further content on website	10,713	7,429
Time spent on website	2:32	1:17
Number of clicks on 'useful links' to find more VET information	428	9,418

Source: Department of Industry based on Google analytics report.

The Department does not have a communications strategy for Smart and Skilled

While the then NSW Department of Education and Communities conducted research on the information needs of prospective students when it designed the Smart and Skilled website, it did not develop a communications strategy setting out how the information needs of stakeholders, including prospective students, would be met.

Awareness of Smart and Skilled is low. In a survey undertaken for the Department, only seven per cent of current students, nine per cent of New South Wales school leavers and eleven per cent of parents, said they had heard of Smart and Skilled. Similarly, 17 per cent of current students, 25 per cent of New South Wales school leavers and 35 per cent of parents, were aware that government subsidies were available for VET qualifications which deliver skills in short supply.

The VET repositioning campaign may have some impact on the awareness of the availability of NSW Government subsidies and Smart and Skilled, as the new VET website links to the Smart and Skilled website in places. However, a communications strategy for Smart and Skilled may help the Department to alleviate some of the information shortcomings discussed below.

A wide variety of training information is available to prospective VET students

While training providers play a key role in providing information to prospective VET students, governments are uniquely placed to provide independent information about training providers and employment outcomes. Prospective students have a wide variety of information available to them from several New South Wales and Australian Government sources. This information covers most of what prospective students would need to make an informed choice in the training market.

The Business Council of Australia has identified some key information that prospective students require when navigating the VET system. Most of this information is available on one or more of the key websites which provide information on VET courses, as shown in Exhibit 17.

Exhibit 17: Availability of information to prospective NSW VET students

Information	Available	Source	Information maintained by
Jobs that suit student's strengths	✓	JobOutlook	The Australian Department of Jobs and Small Business
Student fees	✓	Smart and Skilled	The NSW Department of Industry
Level of government subsidy	✓	Smart and Skilled	The NSW Department of Industry
Likely availability of jobs relevant to course	✓	Myskills and Smart and Skilled job guides	The Australian Department of Education and Training and the NSW Department of Industry
Graduate starting salaries	✓	Myskills	The Australian Department of Education and Training
Long-term potential earnings	✗		
Who offers the course and where	✓	Smart and Skilled	The NSW Department of Industry
Time to complete qualifications at each provider	✓	Myskills	The Australian Department of Education and Training
Weekly study time commitment	✓	Smart and Skilled	The NSW Department of Industry
Comparison of provider outcomes	✗		

Key ✓ Available ✗ Not available

Source: Audit Office research, 2018. The list of expected information is adapted from Business Council of Australia, 'Future-Proof: Protecting Australians through education and skills', p. 74–75.

The Smart and Skilled website serves as the Department's primary source of information about the program. The Department also has the Training Services NSW website which acts as the main website for apprentices and trainees.

The Smart and Skilled and Myskills websites are discussed further below.

Some information required to make informed training choices is not provided anywhere

As noted in Exhibit 17, students are unable to access information about long-term potential earnings or comparative provider outcomes, despite these being important pieces of information to enable students to make informed choices in the VET market.

Long-term potential earnings information could assist a prospective VET student to decide which qualification and occupation appeals to them. While the Department is collecting this information, there are currently no plans to make it publicly available.

Comparative information on provider performance and training outcomes could help prospective students decide which training provider to choose, and encourage providers to optimise their performance and deliver high quality training. In the 2015 Performance Audit 'Vocational Education and Training Reform' the then NSW Department of Education and Communities advised it was planning to add information on provider outcomes to the Smart and Skilled website in 2016. The Smart and Skilled Year One Program Review also said this information should be made available to inform prospective students.

This information is not yet available to prospective students, but the Department intends to use data from the latest Smart and Skilled Student Outcomes Survey as a source of information on the outcomes of training.

Information is not available in a user-friendly manner

Information about VET is available from a variety of sources and a recent report commissioned by the NSW Skills Board emphasised that Smart and Skilled information can be difficult for prospective students to navigate. Requiring prospective students to collect information from multiple sources may pose a barrier to participation for those less engaged with the VET system or less ICT literate.

Exhibit 17 demonstrates that there are two primary websites that provide most VET information required by prospective students: Smart and Skilled and Myskills. The Smart and Skilled course search tool is particularly important for disseminating information to prospective students but it is not well integrated with related information on the Myskills website operated by the Australian Department of Education and Training.

In addition to the information in the course search, the Smart and Skilled website contains other information which would be useful to prospective VET students, but which is not integrated into the course search tool. The Department has produced 101 job guides with occupation descriptions including average earnings, projected employment growth and associated qualifications. However, these job guides cannot be accessed from the course search tool, limiting their ease of access.

The Department collects other information which would be useful to prospective students, such as job advertisements and trends, but does not make this information available on the Smart and Skilled website. Instead, prospective students must access this information through a different Department website, the Skills Portal.

In comparison, the Victorian Government's Skills Gateway contains information concerning the likely availability of roles, graduate salaries and the time to complete a required qualification. Victorian VET students do not need to access multiple websites to locate the information they require.

The NSW Skills Board has acknowledged that prospective students need easier access to information and plans to work with the Department to make improvements. The Department is also working at the national level to influence ongoing information and data sharing projects across jurisdictions.

The Department has projects underway to use data to improve information and support student choice

The Department has a number of projects underway which will improve the use of data to inform prospective students about possible educational pathways, occupations in demand and available training for occupations where there are skill needs. When available, the outputs from these projects could be made accessible to prospective students in a user-friendly format and would provide additional information as input to informed career and training choices.

The Department has plans for the VET repositioning website to allow prospective students to select their interests from a list, which will then link them to available VET courses. This would assist with matching prospective students' strengths and interests to occupations, and could be usefully integrated into the Smart and Skilled course finder.

4.2 Communication with training providers

For Smart and Skilled to work effectively and address skill needs, training providers should have a good understanding of how the program works and the opportunities available to them. The Department also needs to understand any issues of concern to training providers and communicate clearly regarding these.

The Department uses a wide variety of methods to communicate with Smart and Skilled training providers

The Department makes a great deal of information available to potential and existing training providers through:

- the Training Services NSW website
- the Smart and Skilled website
- dedicated phone lines and email addresses.

In addition, the Department communicates with training providers through the following channels:

- an online portal where the Department can communicate important information, such as impending program deadlines and changes to program policies and procedures
- interactive webinars to explain significant program changes
- an online portal with job ads to encourage training providers to tailor their training to market needs.

Representatives of training providers meet regularly with the Department and the NSW Skills Board to discuss emerging issues. Dedicated Department relationship managers communicate directly with Smart and Skilled training providers about contractual matters of program changes.

The Department could be more transparent about the Smart and Skilled budget, and communicate more clearly about decisions that impact training providers

The Department gives training providers key information, but is not sufficiently transparent about the Smart and Skilled budget and the rationale for some of its key decisions. For example, the Department does not inform training providers about the expenditure in previous years or the budget for each funding stream available in the coming year. In comparison, the equivalent Department in Queensland releases an annual VET investment plan which contains budget allocations and previous year expenditures by sub-program. Information on changes in Smart and Skilled budget and expenditures can help training providers plan their business better and provide greater transparency of total funding allocations.

The Department does not always communicate the rationale for some of its decisions clearly enough. For example, it:

- does not inform stakeholders why their proposals to add qualifications to the NSW Skills List are rejected unless they specifically request feedback
- did not clearly explain its rationale for establishing a minimum financial cap of \$1,000 for the period 1 January 2018 to 30 June 2018.

The Department could also do more to ensure prospective training providers are well informed of skill needs and opportunities to meet these needs.

The Department could engage more proactively with training providers to fill skill needs

There is an opportunity for the Department to be more proactive in encouraging existing and potential training providers to offer qualifications which are already on the NSW Skills List but are not currently offered. The Department relies on applications from training providers to offer these qualifications and does not actively seek out training providers that might be interested.

As discussed earlier, there are several qualifications on the NSW Skills List offered by few or no training providers through Smart and Skilled. We also identified a number of qualifications recently added to the NSW Skills List that are not currently offered by any training providers. Fifteen of the seventeen qualifications added to the NSW Skills List in November 2017 did not have a Smart and Skilled training provider by May 2018. The Department advised that there may be valid reasons for this delay, such as training providers taking time to develop training and assessment materials before enrolling students.

Rather than relying on existing and prospective training providers to respond to skill needs, more proactive engagement with training providers may help the Department to react more quickly to industry skill needs and ensure that these are being met.

Section two

Appendices



Appendix one – Response from agency



SEC18/262

18 July 2018

Ms Margaret Crawford
Auditor-General of NSW
Audit Office of NSW
GPO Box 12
Sydney NSW 2001

Dear Auditor-General ^{Margaret}

Performance Audit – Matching skills training with market needs

Thank you for your letter of 26 June 2018 providing the NSW Department of Industry with an opportunity to respond to the final report of the performance audit – *Matching skills training with market needs*.

I have reviewed the final report and agree with its six recommendations. Please find enclosed the Department's response to and further comments on the six recommendations.

The Department is pleased to see the recommendations support our focus on improving the evidence base to inform government decisions about which qualifications to subsidise and students' decisions about what to study, to maximise job outcomes for NSW people.

Should the Audit Office of NSW wish to discuss the matter further, or require additional information, please do not hesitate to contact the liaison officer for this report Ms Ellen Lintjens on phone 9338 6925 or via email at Ellen.Lintjens@industry.nsw.gov.au.

Yours sincerely

Simon Draper
Secretary

Encl.

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Recommendation from performance audit 'Matching skills training with market needs'

By June 2019, the NSW Department of Industry should:

1. increase transparency of decisions about proposed changes to the NSW Skills List and improve record-keeping of deliberations regarding these changes.

NSW Department of Industry response: agreed.

2. investigate why training providers do not offer, and prospective students do not enrol in, some Smart and Skilled-subsidised qualifications.

NSW Department of Industry Response: agreed.

The NSW Department of Industry will investigate this further with training providers. However, the NSW Department of Industry notes it examines data on the take up of qualifications in reviews of the NSW Skills List. It is also the role of the Strategic Relationship Managers in Training Services NSW to discuss the take up of qualifications with Smart and Skilled approved training providers.

By December 2019, the NSW Department of Industry should:

3. use data more effectively and consistently to ensure that the NSW Skills List only includes high-priority qualifications.

NSW Department of Industry response: agreed.

This work is already underway.

4. evaluate the effectiveness of Smart and Skilled funding which supplements standard subsidies for qualifications on the NSW Skills List, to determine whether it is achieving its objectives.

NSW Department of Industry Response: agreed.

A review was scheduled prior to the start of this performance audit.

5. provide longer-term funding certainty to high performing training providers, while retaining incentives for them to continue to perform well.

NSW Department of Industry Response: agreed.

The NSW Department of Industry is providing Smart and Skilled approved training providers with rolling contracts and annual financial allocations. Training providers that perform well are given assurance that they will receive future financial allocations for 2018-19. The NSW Department of Industry notes that providing longer-term funding certainty through contracts would be a matter for government to consider through the budget process.

6. develop and implement a specific communications strategy for Smart and Skilled to:
 - support prospective student engagement and informed decision-making; and
 - meet the information needs of training providers.

NSW Department of Industry Response: agreed.

The NSW Department of Industry will complement its VET repositioning campaign with a specific communications strategy for Smart and Skilled.



Appendix two – About the audit

Audit objective

This audit assessed the effectiveness of the NSW Department of Industry in identifying, prioritising, and aligning course subsidies to the skill needs of NSW.

Audit criteria

We addressed the audit objective with the following criteria:

1. The NSW Department of Industry effectively identifies and prioritises present and future skill needs.
2. Smart and Skilled funding is aligned with the priority skill areas.
3. Skill needs and available VET courses are effectively communicated to prospective participants and training providers.

Audit scope and focus

In assessing the criteria, we checked the following aspects:

1. The NSW Department of Industry effectively identifies and prioritises present and future skill needs.
 - a) The Department ensures that sufficient resources are available to identify current and future skill needs.
 - b) The Department identifies skill gaps and shortages using a methodology that is underpinned by research and consultation with key stakeholders and experts.
 - c) The Department prioritises skill needs, both State-wide and by region, and uses this to inform the NSW Skills List.
 - d) The Department regularly evaluates the methodology for identifying and prioritising skill gaps to ensure its effectiveness.
 - e) The Department's approach to identifying and prioritising skill gaps compares favourably to approaches in other jurisdictions.
2. Smart and Skilled funding is aligned with the priority skill areas.
 - a) The Department aligns the courses on the NSW Skills List with identified skill gaps.
 - b) Incentives are available to encourage training providers to offer courses in high priority areas and students to enrol in them.
 - c) The Department regularly evaluates the effectiveness of its funding and incentives and addresses identified issues.
 - d) The Department's approach to aligning funding to skill needs compares favourably to approaches in other jurisdictions.
3. Skill needs and available VET courses are effectively communicated to prospective participants and training providers.
 - a) The Department provides comprehensive and up-to-date information allowing prospective students and VET training providers to make informed decisions regarding priority VET courses.
 - b) All relevant information is easily accessible to prospective students and training providers.
 - c) The Department communicates their decisions to training providers and the rationale for those decisions.
 - d) As part of Smart and Skilled, the Department seeks regular feedback from relevant stakeholders to improve its communication and addresses identified issues.
 - e) The Department's approach to presenting information compares favourably to approaches in other jurisdictions.

This audit focused on the NSW Skill List under the Smart and Skilled program.

Audit exclusions

The audit did not seek to examine:

- regulation of VET training providers
- development of VET course programs
- methodology for setting course fees
- quality of provision of VET courses
- outcomes of the Smart and Skilled program
- funding for VET courses outside Smart and Skilled
- VET Programs for Secondary Students.

Audit approach

This audit involved:

- examination of relevant documents, including policies, strategies, plans, procedures, guidelines, standards, and MoUs
- data analysis
- discussions with key staff in the NSW Department of Industry
- consultation with key stakeholders, including NSW Treasury, the NSW Department of Premier and Cabinet, NSW Skills Board and representatives of VET training providers
- research into better practices
- a comparison with approaches in other jurisdictions where relevant and appropriate.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing. The Standard requires the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by the staff from the NSW Department of Industry.

Audit cost

The estimated cost of the audit is \$283,000.



Appendix three – Performance auditing

What are performance audits?

Performance audits determine whether State or local government entities carry out their activities effectively, and do so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of an audited entity, or more than one entity. They can also consider particular issues which affect the whole public sector and/or the whole local government sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in section 38B of the *Public Finance and Audit Act 1983* for State government entities, and in section 421D of the *Local Government Act 1993* for local government entities.

Why do we conduct performance audits?

Performance audits provide independent assurance to the NSW Parliament and the public.

Through their recommendations, performance audits seek to improve the value for money the community receives from government services.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, State and local government entities, other interested stakeholders and Audit Office research.

How are performance audits selected

When selecting and scoping topics, we aim to choose topics that reflect the interests of parliament in holding the government to account. Performance audits are selected at the discretion of the Auditor-General based on our own research, suggestions from the public, and consultation with parliamentarians, agency heads and key government stakeholders. Our three year performance audit program is published on the website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. Our program is sufficiently flexible to allow us to respond readily to any emerging issues.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team develops an understanding of the audit topic and responsible entities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the audited entity, program or activities are assessed. Criteria may be based on relevant legislation, internal policies and procedures, industry standards, best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork, the audit team meets with management representatives to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with management representatives to check that facts presented in the draft report are accurate and to seek input in developing practical recommendations on areas of improvement.

A final report is then provided to the head of the audited entity who is invited to formally respond to the report. The report presented to the NSW Parliament includes any response from the head of the audited entity. The relevant minister and the Treasurer are also provided with a copy of the final report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

Who checks to see if recommendations have been implemented?

After the report is presented to the NSW Parliament, it is usual for the entity's audit committee to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report received by the NSW Parliament. These reports are available on the NSW Parliament website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is presented to the NSW Parliament and available on its website.

Periodic peer reviews by other Audit Offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100.

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help parliament hold government accountable for its use of public resources.

OUR VALUES

Purpose – we have an impact, are accountable, and work as a team.

People – we trust and respect others and have a balanced approach to work.

Professionalism – we are recognised for our independence and integrity and the value we deliver.

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