Trading Up
A REFORM PACKAGE FOR A STRONGER TAFE NSW

A P R I L  2 0 1 8
About the McKell Institute

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The opinions in this paper are those of the author and do not necessarily represent the views of the McKell Institute's members, affiliates, individual board members or research committee members. Any remaining errors or omissions are the responsibility of the author.
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THE ADVISORY PANEL

The McKell Institute would like to thank the following group of esteemed experts for their valuable feedback and contributions in the creation of this report.

PETER NOONAN
Professor Peter Noonan has played a major role in shaping policy in Australia’s tertiary education and training systems over the past two decades as a policy adviser, senior executive in and consultant to federal and state governments, universities, higher education providers, and TAFE institutes and in major reviews.

Peter’s major areas of expertise are in tertiary education policy, funding and regulation.

Peter has held a number of senior appointments in education and training portfolios at both state and national levels. He was a member of the Expert Panel for the Review of Australian Higher Education (Bradley Review) in 2008 and in 2010 undertook a Review of Post-Secondary Education for the Queensland State Government.

Peter also led the development by the Allen Consulting Group on the design of the Schooling Resources Standard for the Review of Australian Government School Funding (Gonski Review) and led a major project to develop a supply and demand model of the Australian tertiary education system for the LH Martin Institute.

He has also worked extensively internationally and in 1994 was a Fulbright Scholarship Recipient based at the National Centre for Education and the Economy in Washington DC.

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STEPHEN BLACK
Stephen Black is an Honorary Research Associate at the University of Technology Sydney (UTS). Previously, for a period of more than 30 years, he worked in TAFE NSW, and was a head teacher at Meadowbank TAFE College from 1993-2009.

He received his PhD from UTS in 2001. His specialist area is adult literacy, and he has published extensively in academic journals, including Journal of Education and Work, Critical Studies in Education, Studies in the Education of Adults, and Australian Educational Researcher. His research reflects a critical orientation, particularly in relation to the damaging impact of neo-liberalism on Australian education, including TAFE. Recently he co-edited a book entitled Beyond economic interests: Critical perspectives in adult literacy and numeracy in a globalised world (2016 Sense: Rotterdam).

DISCLAIMER: THE VIEWS EXPRESSED IN THIS REPORT DO NOT NECESSARILY REFLECT THOSE OF THE REVIEW BOARD.
FOREWORD

As Australia’s economy navigates a period of unprecedented transformation, quality education for all Australians has never been more important. For generations, TAFE has been a leading provider of quality vocational education and training in Australia, equipping students with the skills required to succeed in a dynamic national economy.

However, in recent years, TAFE in New South Wales has faced significant challenges that have impeded its mandate to continue to provide the highest quality vocational education and training to students across the state. This report explores these pressing challenges, and offers a detailed reform package aimed to enhance TAFE’s standing in New South Wales and improve its capacity as a high-quality provider of education.

The importance of a strong vocational education and training sector should not be underestimated. A healthy VET sector is essential to any thriving economy, helping foster a skilled workforce that allows a nation to grow and innovate while providing high quality jobs for its citizens. Extending VET options to students in high school also provides an opportunity for those who want to pursue other avenues of education and skills development over University degrees.

This report explores the changing role of vocational education and training in NSW and the challenges facing TAFE in NSW, offering reforms that target funding, teacher qualifications, improved engagement with industry, skills shortage areas, technological adaptation, and encourage business investment to help the sector and TAFE thrive.

THE HON JOHN WATKINS
CHAIR, MCKELL INSTITUTE

SAM CROSBY
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EXECUTIVE SUMMARY

Vocational education and training (VET) is a central pillar of Australia’s education system. VET equips students with the skills required to succeed in a rapidly changing economy. At the heart of VET in Australia is TAFE – an institution that has provided training to Australian students for generations. But in New South Wales, TAFE is facing genuine challenges that threaten its ongoing ability to provide the highest standard of education for students. This report explores actionable recommendations that if adopted will help TAFE thrive for generations to come and continue to provide benefits for the New South Wales economy.

The first section of this report overviews the challenges facing TAFE, and explores the impact that changes to TAFE NSW and VET – particularly the recent reforms and the implementation of Smart and Skilled – have had on the quality of education offered to students. Smart and Skilled increased competition and changed the way that TAFE NSW must operate. Recent reports released from the organisation suggest that they are focusing on industry and innovation, both of which are important however this report suggests a more holistic approach. TAFE needs to not only foster good relationships with industry but also not ignore the importance of providing a high quality education for students. Focus needs to be on both areas for TAFE to maximise its competitiveness and ensure that it improves its reputation and attracts students.

This report then moves to offer an extensive reform package that aims to improve TAFE’s standing in the state and enable it to better meet the needs of its students. The 18 key recommendations in this report begin by exploring the relationship that TAFE NSW has with industry. Recommendations include returning jurisdiction over TAFE NSW to The NSW Department of Education, enhancing the capacity of SkillsPoint HQ’s to provide better engagement with industry, and re-focusing funding towards areas where they are needed most – such as orienting students towards industries with skills shortages, allocating more funding to VET programs in high schools, and better resourcing career counsellors so high-school students can be provided with the best career advice. This report also provides a model for the estimated cost of funding places in skills shortage areas and discusses the benefits this would have on TAFE and industry.

Areas such as Western Sydney are experiencing periods of rapid growth, if industry doesn’t have the skills necessary to support this then economic growth will become sluggish and everyone will suffer. Expanding TAFE NSW in workplace development areas to upskill employees will not only help support industry and benefit the economy, it will also decrease the need for businesses to hire skilled people on 457 visas and focus on improving the domestic labour force.

Further reform options tabled include ensuring TAFE a minimum of 70 per cent VET funding, guaranteeing apprentices and trainees one day’s education per week at TAFE, further publicizing a list of reputable providers that Australian Skills Quality Authority (ASQA) has audited in the last two years to give future students an informed choice, and considering a cap on course fees. Other recommendations argue for an increase in administration support for teachers, disincentivising the casualisation of the TAFE teacher workforce, working towards enhancing TAFE teacher’s education standards, and improving TAFE’s computer system to ensure its efficiency and operability for those who rely on it every day.

Part 3 then offers a detailed funding reform option that explores the impact of introducing a neutral incentive for business investment in VET in NSW. It considers using a payroll tax incentive scheme to encourage businesses to hire apprentices and trainees, and to create additional revenue for the funding of VET. By increasing the payroll tax by 0.01 per cent, and then offering businesses a generous deduction on their taxable payroll for each apprentice or trainee hired, Part 3 suggests that thousands of new apprenticeships and traineeships places could be created in NSW. The modelling also suggests the introduction of this policy would be revenue neutral, and at times, revenue positive.

TAFE NSW has long been the central provider for vocational education and training in the state. But recent disruptions to the VET industry in New South Wales have left it facing considerable challenges. This report offers a path forward ensuring TAFE NSW can continue to be a leading provider of the highest quality vocational education and training in the state, offering a quality education for its students, and play an essential role in the future of the state’s economy.
RECOMMENDATIONS

RECOMMENDATION 1
The NSW government needs to expand funding in courses where there are specific skills shortages, as well as investigate fully funding courses in skills shortage areas.

RECOMMENDATION 2
Expand workplace development programs to help businesses upskill employees and create new market opportunities for TAFE NSW.

RECOMMENDATION 3:
The points of contact between industry and TAFE – SkillsPoint HQ’s – need to be given adequate resources and expanded to include liaisons between teaching staff, SkillsPoint HQ’s and industry.

RECOMMENDATION 4
Oversight of TAFE NSW should be returned to the NSW Department of Education.

RECOMMENDATION 5
Smart and Skilled needs to be replaced with an effective funding model that accurately reflects the reality of course prices.

RECOMMENDATION 6
A minimum of 70 per cent of VET funding should be guaranteed to TAFE NSW.

RECOMMENDATION 7
Where possible apprentices need to be guaranteed one day at TAFE per week.

RECOMMENDATION 8
Expand Externally delivered VET (EVET) programs in high schools.

RECOMMENDATION 9
TAFE NSW’s outreach program needs to be funded and expanded.

RECOMMENDATION 10
A list of reputable private providers needs to be made publicly and easily available.

RECOMMENDATION 11
A cap needs to be placed on private provider course fees.

RECOMMENDATION 12
Increased support for teachers who are tasked with administration, teaching, managing and technological requirements. This will allow them to return their focus to innovative educational leadership.

RECOMMENDATION 13
TAFE needs to move back to permanent teacher positions and provide employment security for its teachers.

RECOMMENDATION 14
Teacher qualifications need to be reassessed to maintain the quality of teachers and support needs to be given so that TAFE teachers can undertake adult learning education Bachelors or Diplomas, as was previously the teaching standard.

RECOMMENDATION 15
A new computer system needs to be installed that is simplified, easy and efficient for teachers, students and staff.

RECOMMENDATION 16
Online education needs to supplement courses. Expand and improve the quality of online and remote learning options, however also ensuring face-to-face time.

RECOMMENDATION 17
Introduce a pay roll tax deduction for businesses hiring apprentices and trainees, while increasing the pay roll tax by 0.1 per cent.
PART ONE: THE CHALLENGES FACING TAFE IN NSW

Vocational education and training (VET) is the arm of tertiary education that provides necessary job related technical training and skills. A strong VET sector is central to a thriving economy, helps create future jobs and encourages innovation. TAFE NSW is the largest provider of VET in Australia, and for over 100 years has operated in a virtual monopoly in the sector. However, in recent years VET in NSW has shifted and the NSW government’s implementation of Smart and Skilled reforms in 2015 opened the market for increased competition. This has had a number of implications for TAFE, and has compounded problems the organisation has been experiencing over the past decade.

VET is a crucial component of tertiary education, however expenditure in the VET sector has experienced a marked deterioration since 2012. This has been felt throughout TAFE NSW largely in the form of staff and teacher cuts and campus closures. The creation of a VET market has also allowed space for the exploitation of students by private providers, and there are numerous reports of fraudulent colleges and institutions that are not only providing an inadequate quality of education but also charging exorbitant course fees and even leaving students with no qualifications. In July 2011, there were 2,046 Australian Skills Quality Authority (ASQA) registered trading organisations (RTOs), a number that jumped to 3,966 by December 2013. NSW has the largest share of RTO’s, with 1,127 RTOs and the national regulatory agency ASQA must ensure that all are complying with quality standards. The increase in competition in the VET sector has coincided with a decrease in apprenticeship and trainee completions as demonstrated in figure 1.1.
Simultaneously, TAFE has also experienced a de-professionalisation of its teaching staff, which has had a flow on effect on the quality of teaching experienced by students. Previously, TAFE teachers who were renowned for their experience and expertise, were required to not only have a minimum of five years industry experience but also pursue Bachelor’s degrees and diplomas in adult education while teaching. However, in an effort to raise standards in private providers, a minimum teaching standard was put into place of a Certificate IV in training and assessment, which had the effect of discouraging TAFE from giving teachers time to pursue proper education degrees. This has marked a change in tone for TAFE, which has in an effort to increase industry engagement, moved too far away from education. This is demonstrated by the oversight of TAFE NSW being transferred from the NSW Department of Education to the NSW Department of Industry.

Teachers are bearing much of the burden of cost cutting, with overburdened workloads and insecure positions. Teachers who have been employed part time or on a causal basis for years have no security of permanent work. The roll out of the learning management and business reform software throughout TAFE NSW in 2015 caused immense issues for staff, teachers and students alike. It resulted in enrolment problems, misreported funds and increased time and work for teachers. Costs for the system ballooned and its total cost stood at $752 million, almost twice the originally projected cost.5

TAFE’s challenges have coincided with declining VET participation & completion rates, and skills shortages for Western Sydney

In 2015 TAFE NSW Western Sydney in conjunction with the Western Sydney Business Connection produced a report entitled Skills Barometer 2015: Building a skilled workforce for greater Western Sydney, to look at how to target future education and skills training.6 Western Sydney has been experiencing rapid growth and development, including in large infrastructure such as roads, rail, light rail and the new airport. The Greater Western Skills audit was conducted by Longergan Research for TAFE Western Sydney and Western Sydney Business Connection and included participation from 456 businesses of various sizes and from differing industries.7 The Skills Audit surveyed businesses and determined that there is already a significant shortage of skilled and qualified workers in Western Sydney, with ‘around half of job applicants under-qualified for positions’.8 The audit revealed that a shortage of industry skills is the largest contributing factor for 54 per cent of businesses that can’t fill positions, a figure that rises to 78 per cent in businesses that had more than 20 employees.9 Areas that experienced the most skills shortages were in business finance and management, building, electro technology engineering and manufacturing.10 The Skills Audit also found that 66,000 positions were vacant due to lack of suitable applicants.11

These numerous challenges have caused TAFE NSW to seriously re-evaluate its position in NSW. It is currently undergoing a significant modernisation program – called One TAFE NSW – which aims to create a “sustainable and innovative future and provide higher quality learning and training for our (TAFE NSW) students”.12 However, if TAFE fails to re-centre its priorities to sit between education and industry, it risks not only losing its advantage as the best quality VET provider in the state, but also risks the future of VET in NSW.

Source: NSW Department of Industry13
PART TWO:
SAVING TAFE NSW

Expanding the relationship between TAFE NSW and industry

RECOMMENDATION 1
The NSW government needs to expand funding in courses where there are specific skills shortages, as well as investigate fully funding courses in skills shortage areas.

In industry areas where there is a need to encourage participation, the NSW government should expand funding in these courses. This should be done through communication with those responsible for the Skills List that outlines what qualifications are eligible for government funding under Smart and Skilled.

This report has estimated that funding 100 places in each of the 40 occupations in skills shortage areas able to be studied at TAFE would cost approximately $6,936,000. Further costing would need to be done to determine the current number of people studying at TAFE in these course areas and the increase needed by industry. The Skills Shortage List provided by the Department of Employment shows the occupations exhibiting shortages both across NSW and nationwide. Of the 47 occupations exhibiting skills shortages, TAFE provides the necessary qualifications for 40 of them. The areas that are not studied at TAFE were focused in Health occupations such as Optometry, Physiotherapy as well as Veterinary Science and Law. Nationwide shortage areas were included in this cost estimate as they were either indistinguishable from state shortages or it had been specifically indicated that they were present in Australia’s Eastern States.
The Skills Shortage List for NSW also categorises ratings as being either State-wide, exhibited in metropolitan or regional areas or as a recruitment difficulty. Due to the problem with estimating the number of places needed this report chose an arbitrary number to illustrate a funding of 100 places in each occupation, 4,000 places in total.

To determine cost, corresponding TAFE qualifications were used to estimate what the cost of studying a course at TAFE would be. For example, to become a Motorcycle Mechanic, you could undertake a Cert III Qualification in Motorcycle Mechanical Technology providing a course fee estimate. For the majority of this model Cert III qualifications were chosen, or if not available, then Cert IV or Diploma levels. Fee estimates are dependent on several factors including student eligibility, previous study and which TAFE campus a student studies at. The estimates provided for this model were given for a domestic student, over 15 years of age, with foundation skills. Given this, the total of funding 100 people in each of these 40 courses would be approximately $6,936,000. Further investigation into funding costs would also be needed to take into consideration the necessary changes and replacement of the Smart and Skilled funding model that are discussed in Recommendation 5, to ensure that providing these courses is financially viable for TAFE NSW. Funding areas of skills shortages will not only encourage students studying in these areas to study at TAFE over private providers, it will also address industry needs. Combining incentives for people to study at TAFE in skills shortage areas with the focus on providing the best quality education at TAFE, will positively impact both TAFE and industry.

Domestic skills shortages have encouraged temporary work visas

As discussed in Part 1, the Western Sydney Skills audit determined that a shortage of industry skills is the largest contributing factor for 54 per cent of businesses that can’t fill positions. In order to address these shortages businesses had two strategies, 47 per cent addressed deficits through external sources such as hiring more staff, outsourcing key tasks and acquiring new businesses and 74 per cent undertook in house training, with some undertaking both. This presents a good opportunity for TAFE NSW to be the provider of upskilling employees for businesses. It also means that instead of filling skills needs with overseas workers on temporary work (skilled) visas (457 visas), skills needs can be met domestically through encouraging the upskilling of the existing Australian labour force.

TAFE NSW has the potential to expand workplace development programs and assist in upskilling existing employees

TAFE NSW is looking to increase enrolments and to get people engaged in the organisation, workplace development programs would be a great way of doing this. As the Greater Western Sydney Skills audit demonstrates, 74 per cent of businesses that are experiencing skills shortages are looking at undertaking in house training. By publicising and engaging with industry and business and determining what sort of skills they need TAFE is able to engage with a whole market. As Figure 2.1 demonstrates, 84 per cent of people that undertake vocational education do so for employment reasons.

### FIGURE 2.1
Reasons for undertaking VET

<table>
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<tr>
<th>Employment Reasons</th>
<th>Personal Reasons</th>
<th>Further Study</th>
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However, within this market, TAFE receives less enrolments than private providers and community education providers, as shown in Figure 2.2. The figure demonstrates that 80 per cent of TAFE graduates undertook training for employment reasons, compared to 87 per cent of graduates from private providers. TAFE already offers workplace development programs that are aimed at assisting businesses grow but can also help design and implement a workforce development strategy that underpins business plans. TAFE consultants identify the skills businesses need to reach their objectives, as well as suggest a step-by-step training strategy to give staff the skills they need to reach them. TAFE NSW has the ability to customise courses and training to suit individual businesses; however, this area of TAFE is not well publicised and should be further explored and developed.

**FIGURE 2.2**
Graduates who undertook training for employment reasons, by provider type

<table>
<thead>
<tr>
<th>Provider Type</th>
<th>Percentage</th>
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<tr>
<td>TAFE</td>
<td>90</td>
</tr>
<tr>
<td>University</td>
<td>85</td>
</tr>
<tr>
<td>Community Education</td>
<td>80</td>
</tr>
<tr>
<td>Private Provider</td>
<td>75</td>
</tr>
<tr>
<td>TAFE</td>
<td>70</td>
</tr>
</tbody>
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**RECOMMENDATION 2**
Expand workplace development programs to help businesses upskill employees and create new market opportunities for TAFE NSW.

TAFE NSW has industry experts who can develop training programs to:
- Develop specific skills (they can also assess staff skills on the job)
- Improve efficiency and productivity in your workplace
- Meet compliance or legislative requirements
- Provide staff with nationally recognised skills and qualifications.

By making courses more accessible for businesses, TAFE can get more people involved and upskill the workforce. This can happen through making more businesses aware of what TAFE can offer them. In the example of the Western Sydney Skills audit discussed previously, it could provide an avenue of employment for graduates where the area is experiencing skills shortages: business finance and management, building, electro-technology, engineering and manufacturing.

Despite the need to focus on education, it is important that TAFE maintain and expand industry relationships. TAFE NSW has established Industry Liaison Units (ILUs) that are responsible for connecting campuses with industry so that training is up to date. The ILUs “work closely with industry leaders, peak bodies, associations and State and National Regulators” and monitor changes to legislation to keep up to date on emerging skills so that TAFE can stay ahead of competitors.

There are currently ten regionally operating ILUs with each one focusing on the industry strength areas in that particular region, for example in the Hunter region focus is on Electro-Communication and Energy Utilities; Electricity generation; electricity supply; electro-technology; gas supply. TAFE takes into account local employment and social demographics in planning the delivery of courses so that they meet future skills needs, as well as to deliver specialist training in industry priority areas. Including in thin markets or high-cost areas such as regional and rural communities under the TAFE NSW Community Service Obligation.

SkillsPoints are going to be established to serve as intersections between vocational education and industry.

In 2015 it was announced that in 2016-2017 TAFE NSW would establish regionally focused and industry specific SkillsPoints HQ’s that would gradually replace ILUs over the next 8 months and be fully operational by June 2018. The first SkillsPoint HQ is set to open in September 2017 in Newcastle with a focus on Innovative Manufacturing, Robotics and Science, with a total of nine HQ’s planned, six of which will open in regional areas. These SkillsPoint HQ’s would serve as a replacement for ILU’s and serve a new role between VET and industry.
RECOMMENDATION 3
The points of contact between industry and TAFE – SkillsPoint HQ’s – need to be given adequate resources and expanded to include liaisons between teaching staff, SkillsPoints and Industry.

SkillsPoint HQ’s are to serve as the intersection point between vocational education and industry, business and employers to help TAFE design training that is innovative and looks to the future. Although TAFE has announced that each SkillsPoint HQ will be staffed with between eight to fifteen team members, it is important that other TAFE campuses have resources to connect and build relationships with industry.

It is also important that courses are not simply designed by industry, teachers should be involved in course outcomes as well, in particular because they have both industry and educational experience. Ensuring that there is communication across all these areas will allow Industry, Educator and Student to gain maximum benefits.

EXAMPLE 1
TAFE NSW’s collaboration with industry
The Barangaroo Skills Exchange in 2013 is an example of industry and TAFE working together to coordinate and deliver training. The project was run by Lendlease and cost roughly $6 billion, with the Skills Exchange providing support to workers, access to classes, language and literacy teachers and industry experience.

It delivered:
- More than 18,000 accredited training outcomes
- Almost 19,000 health and safety training outcomes such as asbestos awareness, drug and alcohol awareness and quit smoking programs
- Assessments of the foundation skill levels of almost 10,000 workers, with around half receiving literacy or numeracy support
- More than 750 apprentices inducted to work on site, and 85 per cent were still employed as apprentices at the end of October 2016
- Mentoring to 750 apprentices and 250 other workers undertaking trade qualifications.

RECOMMENDATION 4
Oversight of TAFE NSW should be returned to the NSW Department of Education.

As a vocational education and training provider, TAFE NSW needs to return under the purview of the NSW Department of Education instead of its current position within the NSW Department of Industry. The move from the Education to Industry departments took effect in 2014 and was justified as an attempt to ‘strengthen the link between skills development, industry and communities’. This is in contrast with the move by the ACT to move skills training back to education from industry portfolios. The announcement from TAFE NSW stated that the move would give “greater opportunity to adapt and respond to changing customer needs during a period of significant reform” as well as serving to highlight the direction TAFE NSW is taking, prioritising skills and industry.

Shifting TAFE to the NSW Department of Industry has impacted education outcomes
In principle, the move seems to be a positive attempt to join vocational education with industry and job employment, however a key problem with TAFE NSW that this report identifies is the move away from providing quality educational services. Instead of simply focusing on industry relationships, TAFE NSW needs to develop a world-class vocational education program that encourages students to learn and make their own career pathways. The world economic forum predicted that the top skills that employees will need in 2020 are: complex problem solving, critical thinking and creativity. Focusing on industry needs over education completely misses these needs and how they are created, through innovative and quality learning environments. Placing the responsibility of VET in NSW under the NSW Department of Education means that it will again be under the guidance of managers focused on education and innovation over simply putting out graduates to only suit industry requirements. It will also create simplicity so that there are no cross department issues, as many responsibilities still rest under the NSW Department of Education and Communities, including agreements between employers and apprentices/apprentices.

Increasing funding for TAFE NSW and making it more affordable for students
Funding responsibility for VET is shared between the Commonwealth and State government.

Funding for VET is a shared responsibility between the Commonwealth and State governments, with the Commonwealth contributing through agreements with each state and territory. In 2012, the Commonwealth and state and territory governments agreed to a revised National Agreement for Skills and Workplace Development (NASWD) and a new National Partnership Agreement on Skills reform (NP) which ran out on 30 June 2017. The Government has established a Skilling Australians Fund that began on 1 July 2017, and prioritises apprentices, trainees and pre- and higher apprentices in certain key areas such as occupations that are in particular demand. The Skilling Australians Fund will underpin a new partnership with the states and territories, however no new agreement has yet been made with New South Wales.

The NP agreement provided Commonwealth incentive payments to states and territories to introduce greater competition to the VET sector with the aim of fostering a more efficient, accessible training sector. Under the agreement the Australian Government would provide up to $561.6 million to NSW over five years if the state were to implement the following changes:
- Introduce an entitlement for entry level training up to Certificate III
- Ensure access and equity for students,
- Support and improve the competitiveness of TAFE
- Increase the number of people completing post-school qualifications by 14 per cent annually.

The implementation of Smart and Skilled on January 1, 2015 was the NSW government’s commitment to the partnership agreement and provides funding for government-subsidised training to eligible students and providers for the VET qualifications most needed in the NSW economy. Under Smart and Skilled, “providers are approved to deliver training in specific qualifications and regions based on demonstrated quality and capability, to eligible students – up to an allocated financial cap.”

Smart and Skilled makes up about one third of VET funding in NSW with the other two thirds coming from NSW Government direct funding to TAFE NSW and Commonwealth VET funding arrangements (including VET FEE-HELP).

The NSW Skills List outlines what qualifications are eligible for government funding under Smart and Skilled and is updated to reflect changes to qualifications and industry needs.

The NSW Government pays a fixed price for each qualification on the Skills List and students pay the same fee for government-subsidised training regardless of whether they study at TAFE or another private provider. However Smart and Skilled has been problematic for TAFE NSW partly as course fees were inaccurately calculated, resulting in insufficient funding.
It is important that courses fees are correct so that students get the best quality education and TAFE is given the right amount of resources.

**RECOMMENDATION 5**

Smart and Skilled needs to be replaced with an effective funding model that accurately reflects the reality of course prices.

When the NSW government was looking to implement Smart and Skilled Funding it commissioned the Independent Pricing and Regulatory Tribunal New South Wales (IPART) to review the price and fee arrangements for government-funded vocational education and training. However, IPART failed to take into account additional overhead costs for TAFE while conducting the study, including important campus assets like maintenance, careers advice and counselling. This has meant that qualification prices paid to training providers are incorrect and mostly too low to cover the costs of delivering a course. This has resulted in teachers and colleges having to find ways to make the funding work such as through increasing class size. For example, in discussions during this report’s research, teachers provided anecdotal evidence arguing for the need to increase funds in order to provide welding classes. The class, which only has 12 welding benches designed for use by 12 students, now occupies 24 class members, with each student doubling up at benches and having to observe instead of perform the tasks. This is a succinct example of how funding challenges have impacted the quality of learning each student can access. This pricing model needs to be changed and adjusted.

The other two thirds of VET funding come from NSW Government direct funding to TAFE NSW and Commonwealth VET funding arrangements (including VET FEE-HELP)

The VET FEE-HELP student loan scheme which was funded by the Australian Government allows eligible students to defer all or some of their tuition fees for diploma level and above qualifications and defer all or some of their student fees for NSW Government subsidised training places in Diploma, Advanced Diploma and selected Certificate IV qualifications. VET FEE-HELP was replaced when it was discovered that providers were defrauding the scheme for years with no regulation. In January 2017 the new VET Student Loan program was put in place with Commonwealth Minister for Education and Training Simon Birmingham saying that the new system was specifically designed to “weed out the rorters and restore credibility to VET.” To be eligible for funding, courses will have to be seen to be supporting the needs of industry to increase the likelihood of graduates finding employment following graduation and caps will be placed on loans, ranging from $5,000, $10,000 and $15,000. However this policy will not be sufficient and will incentivise students to seek out personal loans or look elsewhere for additional funds. Any provider wanting to access VET student loans needs to demonstrate that they are delivering a program that is consistent with industry needs and will be able to leverage the new funding model.

The NSW government needs to implement a new funding model that is more effective and accurately reflects the true cost of training. This will ensure that TAFE is adequately funded and can deliver high quality, industry relevant training programs. Any new funding model needs to be designed with the needs of students and industry in mind to ensure that the workforce is equipped with the skills required to succeed in the global economy.
loans will be assessed on a variety of criteria including, their relationship with industry, student completion rates, employment outcomes and track records. 54

Despite student loan schemes and dual level funding from both the state and commonwealth governments, vocational education is the lowest funded education sector with funding declining 24 per cent since 2008 and funding to TAFE in particular dropping from 71 per cent in 2007 to 52 per cent in 2014. 55 Simultaneously government resources to private providers has risen from 18 per cent in 2007 to 40 per cent in 2014. 56

Funding cuts to TAFE NSW will impact minority and migrant communities

TAFE NSW has recognised the high volume of participants from ethnic minority communities, including refugees and skilled migrants, and implemented strategies to support the development of programs and services for people from different language backgrounds. 57 Participation in TAFE NSW by students from communities with high numbers of refugees and humanitarian entrants increased 5 per cent between 2004 and 2011. 58

TAFE NSW is a public provider of VET and therefore should be guaranteed 70 per cent of VET funding

The NSW budget for 2017-2018 pledges that $759 million will be invested in skills development and training through TAFE NSW and other providers. 63

The creation of a market for VET in NSW has led to the rise of fraudulent providers as well as flaws to a still young system. For example, The Australian Institute of Professional Education only graduated 117 students and cost taxpayers $1 million per graduate. 64 Guaranteeing 70 per cent of funding to TAFE means that private providers have access to a smaller portion of funds, but also that the market is able to grow at a sustainable pace while minimising the potential for the exploitation of students. In particular the contestable market is not working in regional, rural and remote areas, otherwise known as ‘thin market’ areas, where TAFE is in many cases the only VET provider. 65

In these areas the NSW government should further modify funding arrangements to limit contestability by placing a cap on funding in thin market areas, and by allocating TAFE additional direct funding in order to ensure the long-term sustainability of these communities. 66 TAFE is the dominant provider of VET in inner regional, outer regional, remote and very remote areas. Increasing funding will ensure that people within these communities continue to have access to vocational education as well as ensure the survival of industry in these areas.

TABLE 2.1
TAFE NSW enrolments – Students with language backgrounds other than English (LBOTE)

<table>
<thead>
<tr>
<th>Year</th>
<th>LBOTE students</th>
<th>LBOTE (%) of TAFE NSW enrolments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>93,926</td>
<td>18.5</td>
</tr>
<tr>
<td>2005</td>
<td>94,157</td>
<td>18.4</td>
</tr>
<tr>
<td>2006</td>
<td>100,307</td>
<td>20</td>
</tr>
<tr>
<td>2007</td>
<td>105,737</td>
<td>21.2</td>
</tr>
<tr>
<td>2008</td>
<td>111,930</td>
<td>22.2</td>
</tr>
<tr>
<td>2009</td>
<td>120,883</td>
<td>23.0</td>
</tr>
<tr>
<td>2010</td>
<td>130,175</td>
<td>23.4</td>
</tr>
</tbody>
</table>

Source: Ethnic Affairs Priorities Statement, 2015 59

NSW has the highest enrolment of migrants enrolled in TAFE across Australia, 167,000 compared to the next highest, Victoria which has 118,000. 60 Cuts to TAFE will greatly impact these migrant communities. TAFE NSW is a key provider of Australian Migrant English Program (AMEP), which provides up to 510 hours of English language tuition and settlement skills to eligible immigrants and humanitarian entrants. 61

As an example, TAFE NSW Meadowbank holds approximately 15 AMEP classes, with up to 20 students in each class, in an area where approximately 42.2 per cent of residents are born overseas. 62 These students will feasibly go on to complete other courses and participate in their communities, both socially and economically. Any cuts to TAFE NSW campuses will greatly impact migrant communities and their ability to access education that allows them to gain the knowledge and skills to contribute to society.

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FIGURE 2.3
VET and higher education students by remoteness (000s)

The discrepancy between delivery costs is another important distinction between TAFE and other providers. Private providers tend to operate in areas with lower delivery costs in order to maximise profit whereas TAFE has an obligation to meet broader industry and community needs rather than simply focus on the bottom line. In areas where there are skills shortages, there is a dominance of TAFE providing the education and training. Training costs will increase where there are things like large equipment costs or technological requirements, both of which are present in the four areas where TAFE is dominant.

1. Mining
2. Information media and telecommunications
3. Electricity, Gas, Water and Waste Services
4. Construction

Other factors that increase cost are specialised tools or costly consumable products such as lumber. In contrast the top four areas dominated by private providers have lower overhead costs, being:

1. Wholesale Trade
2. Retail Trade
3. Public Administration and Safety
4. Administration and Support Services

Providing a guarantee of a minimum of 70 per cent available VET funding for TAFE for the next ten years would ensure that TAFE can provide quality education for people from all backgrounds and needs in the future.

Funding has failed to keep pace with the growth in VET demand

Historically funding has failed to keep pace with the growth in demand for VET and as of 2004, funding per annum is less than it was in 1997. In 2002, funding was only $13.4 per hour compared to $16.5 in 1997 in real terms, a decline of 19 per cent and a fall of 4 per cent per annum. The Commonwealth Government cutbacks over the period 1997-2000 have been a major contributing factor to this funding shortfall. In order to rebuild TAFE and move toward a thriving VET sector in NSW these past mistakes need to be avoided. Increasing funding in VET will not only give people access to affordable education, but also encourage innovation and skills development, which can only have positive consequences for the NSW economy.

Improving the key vocational education and training areas of TAFE NSW

Apprenticeships must successfully integrate paid work with structured learning

TAFE NSW makes up 83.7 per cent of NSW apprentice commencements and 85.9 per cent of completions. The basis of apprenticeship training is to combine paid work and structured training, with programs typically lasting three to four years covering areas in a diversity of skills. Traineeships are available for newer forms of vocational training in business and industry and last between one to two years. Both include paid employment, an agreement between the employer and apprentice/trainee which is registered with the NSW Department of Education and Communities, structured on-the-job-training, and a training program that is delivered by a Registered Training Organisation (RTO) through which apprentices/trainees gain a nationally recognised qualification.
Due to lack of funding, schools have been struggling to keep open vocational training courses in schools. For example, in Muswellbrook the high school used to provide one afternoon a week where students could learn mechanic skills providing a potential path to a mechanic apprenticeship. Due to funding cuts and the class being deemed to not have enough students, it was shut down, not only preventing students from learning, but also cutting off the supply of mechanic apprentices for the community.70

This is not to say that Australia should push to adopt a dual vocational education and training system in schools like Germany has done.71 However it is important to consider that not everyone is suited to a university environment that is presented to students as the main (and sometimes only) option following high school. This can be seen in the university dropout rate, with one in three students failing to complete the course they began within six years of enrolment.72

**VET can help overcome youth unemployment**

Giving high school students access to opportunities that TAFE has to offer could also assist with youth unemployment and underemployment rates. Currently almost a third of Australian youths aged 15-24 are under or unemployed which is the highest figure in 40 years.73 The Australian youth underemployment rate is 18 per cent with youth unemployment at 13.5 per cent.74 Comparably, Germany’s youth underemployment sits at 2.7 per cent and youth unemployment sits at 7 per cent.75

TAFE NSW currently offers nationally recognised skills sets or qualifications as part of the Higher School Certificate (HSC) and in 2014 there were approximately 24,000 students enrolled in EVET programs through TAFE, most of whom gained both an Australian Qualifications Framework credential and a Higher School Certificate.76 TAFE delivers transitional programs to prepare students for the workforce, including pre-apprenticeship and pre-employment programs to help students leaving school to develop skills both in specific industry areas as well as job interview skills and communication.77 TAFE NSW also allows students to complete a year in apprenticeship or traineeship while in school, and in 2015 TAFE NSW trained 350 school-based apprentices and more than 480 school based trainees a number which has definite growth potential.78

**EXAMPLE 2**

**How vocational education in schools helps children and communities**

In 2015, as part of the HSC, 34 students studying the Certificate III in Construction from the TAFE NSW New England Institute helped build a new Tamworth adventure playground.79 The students undertook 70 hours of on-the-job work experience and worked with local builders who assessed their performance as potential apprentices.80

**RECOMMENDATION 8**

Expand Externally Delivered VET (EVET) programs in high schools.

This report not only recommends increasing funding and resources to expand EVET courses, particularly for students living in regional, rural and remote areas, but more should be done to promote vocational education and training as a first-choice pathway into fulfilling post-school employment. It is recommended that school career’s advice be improved to ensure that students, parents and teachers are empowered with this knowledge.

TAFE NSW’s outreach program helped the most vulnerable members of society gain access to preliminary skills and education

TAFE NSW’s outreach program was run through colleges and reached out to disadvantaged members of the community and gave them access and information about the opportunities that TAFE could offer them. A teacher would reach out to people who were on probation or parole, halfway houses, refugees, and victims of domestic violence to give them access to rudimentary skills which would give them not only the skills but the confidence to pursue other avenues of education. Most if not all of these individuals would then enter the workforce.81 However, this program does not receive funding from the NSW government’s Smart and Skilled, and there are very few outreach staff left.

A key part of an apprenticeship is this combination of work and training, meaning that time is allocated for apprentices to spend time at TAFE or their chosen education provider. However, with online training courses, and even some construction training programs saying that students can do the entire course online means that students are missing out on valuable hands on experience, time with experienced teachers and learning unforeseen aspects of their trade. Ensuring that one day is spent in the training environment means that apprentices get the most out of their training and come out with the highest level of skills and experience. This would not be possible for students studying in block release and alternative ways of ensuring time with teachers and engagement with chosen courses need to be explored while they are away from campus.

**VET provides students choice following high school**

The current high school system encourages students to pursue university degrees. However, some job pathways are better suited to being studied at TAFE and teenagers that are not given enough access to any attractive opportunities that TAFE has to offer could also assist with youth unemployment and underemployment rates. Currently almost a third of Australian youths aged 15-24 are under or unemployed which is the highest figure in 40 years.73 The Australian youth underemployment rate is 18 per cent with youth unemployment at 13.5 per cent.74 Comparably, Germany’s youth underemployment sits at 2.7 per cent and youth unemployment sits at 7 per cent.75

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Private providers of VET in NSW need to be adequately regulated

Private VET enrolments have outpaced TAFE enrolments

The implementation of Smart and Skilled marked the shift to a contestable training market for vocational education in NSW, meaning students can choose to use government subsidies to study at any approved training organisation whether that be a public organisation like TAFE, or a private one. This has meant that TAFE, who had essentially a 130 year monopoly of VET and was the state’s public provider of VET now has to compete with other providers. NSW is the last state to implement this reform in Australia which was a result of a 2012 agreement between all states and territories with the aim of introducing greater competition in the VET sector. TAFE has been heavily impacted by this as seen in the Figure below, demonstrating the difference in enrolments between TAFE and private providers in 2014 and 2015.

There are over 3000 private providers of VET

There are now approximately 3,322 private providers in the VET market in NSW and, with private colleges being for profit, they are making vast amounts of money. For example, when Global Intellectual Holdings, which owns Aspire, Keystone and Compass colleges and operates all over Australia, went into administration, the two key stakeholders Aloi Burgess and Roger Williams paid themselves approximately $10 million each. Corrupt private providers not only defraud students but also receive Smart and Skilled funding. In addition, it costs more to educate a student, on average it costs $73,200 per graduate from private providers compared to $10,500 per graduate in TAFE, roughly seven times as much.

Some private VET providers have dismal completion rates

Careers Australia one of Australia’s largest private providers was placed into voluntary administration in May 2017 after it was stripped of federal funding due to poor completion rates and aggressive recruitment practices. Between 2013 and 2015 the college earned more than $264 million in taxpayer funding, however only 14.7 per cent of students graduated in this same period. This situation has left 15,000 students in precarious positions and 1,000 staff without employment. Although there are only a small number of registered VET providers that are rorting the system, it is enough that the reputation of VET is being tarnished. This has resulted in a declining trust in qualifications, the lacking standards are exemplified in the time it takes to undertake a course at a private provider in contrast to TAFE. For example, an ex-Telstra worker completed a Certificate III in Electrician’s, where safety and skill are extremely important, in just 28 days training four hours, three evenings a week, or 72 hours, and received his electrical licence from the office of fair trading.

In order to be a provider of VET, a company must be registered as a registered training organisation (RTO) where it must meet a range of mandatory requirements to ensure that it can deliver training and assessment to the high standard expected by students, industry and employers. The provider must also cooperate with Australian Skills and Quality Authority (ASQA) which monitors compliance and activity. ASQA undertakes two different types of audits, registration audits and compliance audits. Compliance audits are scheduled within two years of initial registration, or if the RTO is failing to comply with relevant standards. However, with 3,322 private providers in NSW alone, ASQA has a hard time keeping up with auditing each of them, as well as with ongoing registration audits. With limited funds and resources time often can be wasted auditing organisations that are established and whom ASQA is certain of compliance. For example, during 2015-2016, TAFE NSW had 13 RTOs, meaning that ASQA needed to spend a considerable amount of time auditing TAFE.

Private providers are frequently rorting the system or making poor quality courses, sometimes using worthless learning programs to educate a student. In cases of fraud, it is enough that only 14.7 per cent of students graduated in this period. This situation has left 15,000 students in precarious positions and 1,000 staff without employment. Although there are only a small number of registered VET providers that are rorting the system, it is enough that the reputation of VET is being tarnished. This has resulted in a declining trust in qualifications, the lacking standards are exemplified in the time it takes to undertake a course at a private provider in contrast to TAFE. For example, an ex-Telstra worker completed a Certificate III in Electrician’s, where safety and skill are extremely important, in just 28 days training four hours, three evenings a week, or 72 hours, and received his electrical licence from the office of fair trading.

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Students must be able to identify reputable providers

This report recommends a number of options. Firstly, that a list of reputable and audit compliant providers are publicly and easily available for students so they can see the status of the organisation in which they hope to study. This list should only include RTOs who have been audited in the last two years, as well as organisations who are established and who ASQA is assured of their compliance, such as TAFE. Although the current list of RTO’s could be seen to be doing this, the existence of fraudulent providers shows that there are clear gaps in the current system.

A rating system should be developed so that students are also aware of the quality and calibre of the institute they are looking at studying at, and where any RTO that receives under a two-star rating gets shut down by regulatory agencies. These rankings could also be tied to the number and frequency of audits, for example a five star provider only gets audited every five years and a two star RTO gets audited every two years and so on. This would also incentivise providers to raise their standards as higher rankings can be used to attract students and be an effective marketing tool.

Quality assessments have been inadequate

The department that would be responsible for this could be ASQA, however in 2015, the Legislative Council Committee on vocational education and training in New South Wales suggested that independent of ASQA, State Training Services develop an audit and compliance strategy “that through the course of a three-year contract, ensures that every provider is checked for contractual compliance, and continued compliance with the NSW Quality Framework.” A state regulatory body would expand the oversight of providers, however any agencies responsible for this would need to be ensured the necessary resources in order to do so. What should also be avoided is duplication and the spreading of an audit culture for reputable providers that could struggle with continuing audits. Reputable and highly ranked providers, such as TAFE, should be given time to dedicate to education rather than constantly having to prepare for audits.

Providers are able to charge students uncapped course fees

Another way to protect students from being exploited by private providers is to cap course fees. This report recommends that course fee ranges are explored and a document put out for students so they are informed of how much they should be spending on their courses. While TAFE is able to attract a large portion of funding from the government, private providers tend to generate the majority of their funding from course fees despite now being eligible to offer students FEE-HELP loans.
RECOMMENDATION 11
A cap needs to be placed on private provider course fees.

TAFE NSW course fees can range from $3,690 to $14,000 per semester for vocational courses, and $6,000 to $10,400 per semester for TAFE NSW Degree courses: setting a cap would ensure that private providers are not able to exploit students by charging triple these amounts. It would also inform students so that they knew how much their chosen course should cost. Educating people about the risks of not checking private providers is important to help protect them against abuse.

Teachers must be given the resources, support and training in order to improve the quality of TAFE NSW

Head teachers play an important role in TAFE acting as experts, mentors and go-betweens between teachers and managers.

Almost every teaching section in the main TAFE colleges has a head teacher whose role is to manage all aspects of the human, financial and physical resources of their sections, and while sometimes referred to as managers within TAFE NSW they are classified as part of the teaching force. A survey of 109 head teachers in NSW demonstrated that administration overload was a chief grievance among teachers and that routine administration tasks not only took them away from important tasks and providing educational leadership and working with other teachers to provide mentoring and professional guidance.

Providing head teachers with administrative support will enable them to focus on innovative education.

In the aforementioned survey, teachers outlined various strategies they used to manage their workloads including working on weekends, and taking leave days to ensure they got all their work done. However these methods are unsustainable, and of the 109 teachers interviewed more than 60 per cent responded that they were either ‘dissatisfied or very dissatisfied’ with their work. The survey also asked what teachers needed to be more effective and there was a consensus that there was an increased need for clerical or administrative support, especially since administrative staff had experienced severe cuts to staff members in the past.

RECOMMENDATION 12
Increased support for teachers who are tasked with administration, teaching, managing and technological requirements. This will allow them to return their focus to innovative educational leadership.

Providing head teachers with administrative support, particularly with tasks that are repetitive and systems based will allow them to focus on their role as educational leaders, something they don’t have time to do. This support should also be extended to teachers who suffer under excessive workloads and pressures.

There are three main issues facing teachers: administrative overload, job uncertainty and fear of casualisation.

Along with increased workload TAFE NSW teachers also face a fear of casualization and uncertain employment. TAFE NSW has one of the largest casualized workforces in the world, with 70 per cent of delivery undertaken by teachers who are employed on a casual basis, many of whom have been working for TAFE for over ten years. Uncertain employment is an immense source of stress for TAFE teachers and is a result of attempts to cut costs by replacing permanent teachers with casual ones. This attempt to cut teaching costs was partly driven by a commissioned report by the Boston Consulting Group in 2015 which identified high teaching salaries and low teaching hours as the cause of high costs, particularly compared to private providers. The report was commissioned by TAFE NSW to look at how it may operate in a newly competitive VET sector, however despite the report suggesting that TAFE NSW’s staff costs were a negative factor, the report also identified the quality of TAFE NSW’s teaching as its competitive advantage.

Addressing the issues facing teachers, including providing them with stable and certain employment will ensure that TAFE NSW can maintain this advantage.

Putting a stop to the idea that teachers are an expense that needs to be cut rather than a necessity that TAFE needs in order to offer its students an education of the highest quality will help restore TAFE NSW to what it should be and move into the future with the best possible foundation.

RECOMMENDATION 13
TAFE needs to move back to permanent teacher positions and provide employment security for its teachers.

TAFE NSW has historically been the source of the best quality VET education in NSW, it is important that these standards are kept for the future.

Traditionally TAFE NSW required teachers to have five years industry experience (in addition to any years spent as an apprentice) to become a teacher. Then, while they taught, they also completed either a diploma or bachelor of adult education at University which took between 12 months and two years. This meant that experienced industry and tradespeople became confident and well trained teachers and pursued teaching at TAFE as a long term career. Traditionally, teachers were given two days to study and taught the remaining three days. Now, teachers are only provided with two hours of professional development per week, which disincentives this process and among other things, has led to this system breaking down.

In an effort to raise teacher quality standards in private providers a minimum teaching certification was put in place of a Certificate IV in training and assessment. This has meant that TAFE can no longer justify the cost of supporting and incentivising teachers to pursue diplomas and degrees in adult education. The last batch of teachers that had both industry experience and teaching qualifications was in approximately 2009, something that has immense implications for the future of TAFE and the VET industry.
Teacher qualifications need to be reassessed to maintain the quality of teachers and support needs to be given so that TAFE teachers can undertake adult learning education Bachelors or Diplomas, as was previously the teaching standard.

This report recommends that teacher standards be maintained at appropriate levels, teachers encouraged to pursue education degrees, and that teachers and education experts should work together to create a new teaching standard that ensures the high quality of education is maintained for students. One of TAFE NSW’s biggest advantages is its strong brand and strong reputation for quality teaching that puts it above its competition. However, if TAFE NSW allows teaching quality standards to drop then not only will it lose the advantage it has over its competition, in 10–20 years when all teachers that are educated in adult learning have retired, the standards of learning will have decreased dramatically. Both the government, TAFE and the VET industry must look to the future of vocational industry in Australia, not simply in terms of industry, employment and growth areas, but also ensuring that the workforce is highly educated and of the highest quality.

A higher proportion of TAFE teachers should be professional educators

Another issue resulting from changes to required teacher qualifications is that more workplace training and assessing is being done by individuals who are not employed primarily as teachers. Requiring these trainers and assessors, who do not primarily work in this role, to undertake the same base qualification as well as other teachers means that the base qualification must be designed to meet the needs of this group, even if it is not a sufficient foundation for the whole system and makes it more difficult to implement rigorous entry level qualifications for teachers and trainers at a system level. These visiting experts need to be given other qualification levels, and/or be under the guidance of professional educators as they are important to VET and qualification issues should not hinder their participation.

Wheelahan and Moodie (2011) suggest that ‘VET develop specialised qualifications for trainers in these circumstances that reflect their level of responsibility, which are linked to appropriate preparation for that level of responsibility.’ In England, teachers are distinguished between a full time teaching role and an associate teaching position, with high mandatory qualifications required for a full time position. It is important to ensure that this doesn’t encourage the casualisation of teachers which this report has already defined as an issue for TAFE NSW. The required qualifications will need to be considered by teachers, employers and enterprise RTOs and their trainers and assessors and all should play a part in designing the qualifications needed.

The ineffective learning management and business reform (LMBR) system needs to be replaced and the technology at TAFE NSW needs to be effective, easy to use and innovative

The state education body established the learning management and business reform (LMBR) software in 2006 in a plan to overhaul modernise technology in the state’s schools and vocational education system. The system was delivered over eight years and cost a total of $386 million, and was intended to replace the former ERP system and manage human resources, finance, payroll and student administration. NSW education delivered the finance software to TAFE in 2010, and the HR and payroll systems in 2013. The student and learning management (SALM/ebs) was installed in TAFE in 2014 and was meant to facilitate ‘almost all critical functions for the business flows of the complex organisation, including the promotion of courses, enrolment of students, taking fee payments and recording communication results.’ However the system had multiple issues both during and following implementation.

Students have missed enrolment because of IT difficulties

Up to 2000 students at TAFE’s Sydney Institute were not able to enroll in 2016 because of continuous problems with the system, and it also impeded students’ ability to borrow library books, log on to computers and access on campus facilities like printers. During the peak enrolment period in 2015 it struggled to enroll students and track students financial data and has reduced TAFE’s ability to deliver consistently high quality customer service and placed extremely high demands on staff. In late 2015, TAFE NSW developed standardised student enrolment processes as an interim workaround to improve accuracy of 2015-2016 revenue data which included developing an internal control system with segregation of duties across finance, administration and work flows and the delivery of staff training and resources. It also saw a massive drop in enrolments because it was so hard for students to find out which courses were being offered.

The NSW auditor-general refused to sign off on TAFE’s 2014-2015 books after “concluding the agency was still in the dark about how much student revenue it had acquired during that year and TAFE was forced to spend $10 million on internal and KPMG accountants to track down a missing $138 million in course fees.” In 2015, Minister for Skills John Barilaro, admitted to Parliament that the system failed in the enrolment period and in June 2016 the NSW Government announced that SALM/ebs would be scrapped and Mr Barilaro had directed TAFE NSW to develop a new cloud based alternative system in time for the 2018 enrollment period. Despite these plans, TAFE NSW and teachers have spent a great deal of time and money to fix and work around the problem with the system, time taken away from their teaching responsibilities. TAFE NSW has already begun preparations to transfer centralised information technology services from the NSW Department of Education to a cloud-based environment managed by TAFE NSW, which is designed to enhance delivery.

The Legislative Council’s Committee on vocational education reiterated the failed roll out of SALM/ebs and stated that the government knew of potential problems prior to the system being introduced in 2015 with the burden falling on TAFE staff and students. The council reiterated that there is no confidence in making the system work and it must be replaced.

The existing computing system is onerous for teachers

The impact that computing systems have on teachers is enormous. In a study by Black (2008) head teachers universally had issue with the increased use of electronic systems which not only did not increase efficiency but involved considerable time and caused immense frustration. The system was used for electronic rolls, teacher payments, online enrolments, room bookings, curriculum documents and student information, there were also many electronic systems in use which differed from institute to institute, especially budgeting tools. However the system is time and labour intensive as it takes longer than paper based systems.

This inefficiency is compounded by the fact that head teachers are now undertaking routine work that had previously been done by administrative staff. Any new system must be efficient and easy for teachers and staff to use. The combination of a new computer system and administrative assistance for head teachers and teachers will greatly improve efficiency and the functioning of TAFE.
TAFE NSW has a successful online platform, and students can now begin on the day of enrolment and study where and when they want.\textsuperscript{146} In 2015, TAFE NSW reported that TAFE Digital had more than 4,000 enrolments from students both domestically and overseas.\textsuperscript{147} Mobile learning has allowed TAFE NSW to expand its reach and give access to those particularly in remote areas, however IT spending should not be an excuse to cut teaching staff and replace face-to-face learning.

Some face-to-face delivery is necessary, particularly for high safety risk programs. The impact of increasing participation in online education has yet to be fully investigated, and the Legislative Council recommends that the NSW Skills Board study the post-qualification outcomes of online courses compared with those who undertake face-to-face study to determine any variance in employment, income and participation in further vocational or tertiary education.\textsuperscript{148}

Another recommendation that the committee put forward was for the government to establish and enforce minimum face-to-face delivery time for all courses subsidised under Smart and Skilled to ensure adequate teaching time, in particular for hands on trade areas.\textsuperscript{149}

**RECOMMENDATION 15**

A new computer system needs to be installed that is simplified, easy and efficient for teachers, students and staff.

**RECOMMENDATION 16**

Online education needs to supplement courses. Expand and improve the quality of online and remote learning options, however also ensuring face-to-face time.
The previous sections in this report have advocated predominantly administrative adjustments within TAFE and highlighted priority areas within the TAFE system that the NSW Government should aim to reform. However, the active engagement of industry in investing in vocational education is also vital in providing places for future apprentices and trainees in businesses across the state. Encouraging further investment by businesses in apprentices and trainees will provide more opportunities for those in New South Wales.

This report advances one such option aimed at incentivising businesses across the state to invest more in vocational education and training, through a marginal adjustment in the payroll tax that businesses can offset through genuine deductions in their taxable payroll the more they invest in apprentice and trainee labour.

Increasing the deductible payroll-value of VET wages

Currently, most wages paid towards apprentices and trainees in NSW do not count towards a business’ payroll tax liability. While this is essential, this paper notes that the current arrangement is not an incentive to employ apprentices. Rather, the current situation simply removes a disincentive (tax on pay roll) that would otherwise relate to employing an apprentice.

Building upon this principal, this report recommends the implementation of a genuine incentive for businesses to employ apprentices and trainees by utilising the payroll tax system. This paper proposes the doubling of the Pay-Roll-Value of VET wages for employers. Simply, the wages of the apprentice or trainee remain static, but their value in relation to a business’s overall payroll would be doubled.

This proposal would see the payroll tax increase from 5.45 per cent to 5.55 per cent

Currently, the payroll tax rate in New South Wales is 5.45 per cent for all businesses with a payroll of over $750,000 per annum. This proposal recommends raising the payroll tax rate to 5.55 per cent for all businesses with over $750,000 in payroll while simultaneously introducing a generous tax deduction for those businesses that invest in apprentice and trainee placements. While some businesses will face a marginally higher payroll tax burden, for businesses that are willing to invest in apprentices and trainees — in effect, the future skilled labour force for its industry — in many cases, these businesses will pay less payroll tax overall. The following three scenarios follow three different sized businesses in New South Wales, and demonstrate that each business would be able to minimise their tax burden through investment in apprentices and trainees.

PART THREE:
A REVENUE-NEUTRAL INCENTIVE FOR BUSINESS INVESTMENT IN VET

RECOMMENDATION 17
Introduce a payroll tax deduction for businesses hiring apprentices and trainees, while increasing the payroll tax by 0.1 per cent.

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Trading Up  A Reform Package for a Stronger TAFE NSW

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**Company A – $3.5 million pay roll**

The operation of this incentive is demonstrated in the hypothetical case study of Company A, a medium size business with a total pay roll of $3.5 million at the start of this scenario:

* Company A begins the scenario with 0 apprentices employed, and a total pay roll of $3.5 million. Under current law, Company A’s total annual pay roll tax burden is $149,875 excluding additional costs and charges.
* Company A then hires 5 apprentices, paying each $45,000 per annum for a total apprentice wage cost of $225,000. Company A now has a total pay roll of $3.725 million, with only $3.5 million being eligible for pay roll tax (the $225,000 in apprentice wages are not included in the pay roll tax burden).
* At this stage, Company A has not received any disincentive in the form of an additional tax burden from hiring the apprentices, but nor has it received any overt incentive or reward for hiring the apprentices.
* Under this proposal, Company A would be able to double the pay-roll-value of the apprentices’ wages, and deduct this total value from its overall pay roll tax liability.
* Under this scenario, Company A’s total pay roll expenditure would remain the same ($3.725 million). However, its total taxable pay roll would be reduced from $3.5 million (under current law) to $3.275 million after doubling the pay-roll-value of its total apprentice wages from $225,000 (the actual wages) to $450,000 (the pay-roll-value of the actual wages), and reducing this value from its total pay roll to calculate its taxable pay roll.
* Company A’s new total pay roll tax liability would be reduced from $149,875 to $137,612.50.

**A genuine incentive for businesses to invest in VET is established**

While Company A is still paying more in wages, this additional expenditure is a productive one, compared to the unproductive pay roll tax, of which Company A now pays significantly less. This encourages the business to invest its capital in the employment of apprentices and trainees, growing their business and labour capacity, whilst simultaneously lowering its overall tax burden. The pay roll tax is extremely unpopular with businesses and economists, with the principal of taxing employment being seen as bad policy. This proposal would grant a business more control over their tax burden, enabling them to invest their capital in the future of their business and industry’s labour force, while minimising the impact the pay roll tax has on its bottom line.

**FIGURE 3.1**

Total taxable pay roll tax liable for Company A

After increasing the pay roll tax, Company A would still pay less tax

The advantage of this reform option is that businesses are increasingly awarded the more they invest in VET, and even if the pay roll tax were to be raised, those businesses that have invested in hiring apprentices would still pay less in pay roll tax.

If the pay roll tax was increased by 0.05 per cent or 0.10 per cent, Company A would still be paying less pay roll tax if it hired 5 apprentices than it would be under the current law.

<table>
<thead>
<tr>
<th>APPRENTICES</th>
<th>NOW</th>
<th>5.45%</th>
<th>5.50%</th>
<th>5.55%</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>$149,875</td>
<td>$137,612</td>
<td>$138,875</td>
<td>$140,138</td>
</tr>
<tr>
<td>10</td>
<td>$149,875</td>
<td>$125,350</td>
<td>$126,500</td>
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</tr>
<tr>
<td>20</td>
<td>$149,875</td>
<td>$100,825</td>
<td>$101,750</td>
<td>$102,675</td>
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<td>30</td>
<td>$149,875</td>
<td>$76,300</td>
<td>$77,000</td>
<td>$77,700</td>
</tr>
</tbody>
</table>
Were the pay roll tax to be increased to 5.55 per cent and Company A employed 10 apprentices, it would still be paying less pay roll tax overall ($127,650) than under the current pay roll tax rate and under current policy ($149,875). The more apprentices or trainees Company A hires, the lower its pay roll tax liability gets, even at higher rates of taxation, as demonstrated in the graph in Figure 3.2:

The following two scenarios demonstrate that businesses of varying sizes stand to benefit from this proposal.

**Company B – $10 million pay roll (larger business)**

**TABLE 3.2 Total annual pay roll tax burden Company B**

<table>
<thead>
<tr>
<th>APPRENTICES</th>
<th>NOW</th>
<th>5.45%</th>
<th>5.50%</th>
<th>5.55%</th>
</tr>
</thead>
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<tr>
<td>5</td>
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<td>$479,600</td>
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<td>$430,550</td>
<td>$434,500</td>
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</tr>
</tbody>
</table>
Overall impact on the NSW Budget

This reform option, with an expected business uptake of between 1-10 per cent, would raise a marginal amount of revenue for the government, but is nearing revenue neutrality. In the previous case study, by employing five new apprentices, Company A demonstrated its ability to reduce its taxable payroll by 8 per cent at the current payroll tax rate. Assuming that all other businesses with a payroll of over $750,000 invest to the same extent as Company A, and reduce their taxable payroll by 8 per cent, it would take over 20 per cent of all businesses paying payroll tax in New South Wales to adopt this scheme wholeheartedly before this policy would become an additional cost to the Government. The following models demonstrate the estimated revenue impact depending on various uptake rates of businesses eligible for payroll tax.

**Company C – $1 million payroll (smaller business)**

**TABLE 3.3** Total annual payroll tax burden Company C

| PROPOSAL A                  |
|-----------------------------|----------------|----------------|----------------|
| APPRENTICES | NOW | 5.45% | 5.50% | 5.55%          |
| 1            | $13,625 | $11,173 | $11,275 | $11,378        |
| 3            | $13,625 | $6,268  | $6,325  | $6,383         |
| 5            | $13,625 | $1,363  | $1,375  | $1,388         |
| 10           | $13,625 | -$     | -$     | -$             |

**FIGURE 3.4**
Total annual payroll tax burden Company C

Overall impact on the NSW Budget

This reform option, with an expected business uptake of between 1-10 per cent, would raise a marginal amount of revenue for the government, but is nearing revenue neutrality. In the previous case study, by employing five new apprentices, Company A demonstrated its ability to reduce its taxable payroll by 8 per cent at the current payroll tax rate. Assuming that all other businesses with a payroll of over $750,000 invest to the same extent as Company A, and reduce their taxable payroll by 8 per cent, it would take over 20 per cent of all businesses paying payroll tax in New South Wales to adopt this scheme wholeheartedly before this policy would become an additional cost to the Government. The following models demonstrate the estimated revenue impact depending on various uptake rates of businesses eligible for payroll tax.
Revenue forecast model A

**TABLE 3.4** Impact on revenue under different % business uptake of scheme

**MODEL A:**
Businesses Reducing Taxable Pay Roll by 8% at a 5.55% pay roll tax rate

<table>
<thead>
<tr>
<th>% OF BUSINESSES UPTAKE</th>
<th>TOTAL PAY ROLL REVENUE AT 5.55%</th>
<th>PAY ROLL TAX REVENUE AT 5.45%(CURRENT)</th>
<th>REVENUE DIFFERENCE AFTER CHANGE + SELECTED COMPANY UPTAKE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$6,635,906,735</td>
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<tr>
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<tr>
<td>5</td>
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<tr>
<td>7.5</td>
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<td>$39,966,979</td>
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<tr>
<td>20</td>
<td>$6,534,960,196</td>
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<td>$13,402,101</td>
</tr>
</tbody>
</table>

**FIGURE 3.5** Impact on revenue under different % business uptake of scheme

Revenue forecast model B

**TABLE 3.5** Impact on revenue under different % business uptake of scheme (Model B)

**MODEL B:**
Businesses reducing taxable pay roll by 5% at a 5.55% pay roll tax rate

<table>
<thead>
<tr>
<th>% OF BUSINESSES UPTAKE</th>
<th>TOTAL PAY ROLL REVENUE AT 5.55%</th>
<th>PAY ROLL TAX REVENUE AT 5.45%(CURRENT)</th>
<th>REVENUE DIFFERENCE AFTER CHANGE + SELECTED COMPANY UPTAKE</th>
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<tbody>
<tr>
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<td>$6,521,558,095</td>
<td>$53,249,419</td>
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</table>

**FIGURE 3.6** Impact on revenue under different % business uptake of scheme (Model B)
Revenue forecast model C

**TABLE 3.6** Impact on revenue under different % business uptake of scheme (Model C)

**MODEL C:**
Businesses reducing taxable pay roll by 10% at a 5.55% pay roll tax rate

<table>
<thead>
<tr>
<th>% OF BUSINESSES UPTAKE</th>
<th>TOTAL PAY ROLL REVENUE AT 5.55%</th>
<th>PAY ROLL TAX REVENUE AT 5.45% (CURRENT)</th>
<th>REVENUE DIFFERENCE AFTER CHANGE + SELECTED COMPANY UPTAKE</th>
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<tr>
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<td>($13,622,778)</td>
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</table>

**FIGURE 3.7**
Impact on revenue under different % business uptake of scheme (Model C)

This proposal is revenue neutral (with the potential to be revenue positive)

The above models demonstrate that under realistic scenarios where between 1 and 10 per cent of pay roll tax eligible businesses commit to investing in apprentices and trainees in order to reduce their taxable pay roll, the scheme remains revenue neutral (and in many cases, marginally revenue positive).

The models demonstrate that through the introduction of this scheme, there is a negligible impact on the NSW state budget, even though an enormous incentive has been created that encourages NSW businesses to invest in apprentices and traineeships. While a majority of businesses are unlikely to join this scheme, offering such a notable deduction in pay roll tax will encourage those businesses that are considering expanding to preference their investments towards apprentices and trainees.

This will boost overall apprenticeship and traineeship uptake in the state, with subsequent flow on effects, like an increased demand in government investment in VET and TAFE, to emerge as a result of these business signals.

**This proposal puts upwards pressure on apprentice wages**

The policy proposed in this paper has the additional benefit of encouraging businesses to adequately compensate apprentice and trainee labourers. One of the major determinants for apprentices and trainees failing to complete their qualifications is low rates of pay across many industries. As businesses are being rewarded for investing in apprentice and trainee wages through this policy initiative, businesses will be able to reduce their taxable payroll decreasingly as they invest more in apprentice and trainee wages. This will have the added benefit of putting upward pressure on apprentice and trainee wages, with businesses being rewarded for offering higher compensation for apprentices and trainees. This outcome will help to overcome one of the key determinants for apprentice and trainee incompletion: low rates of remuneration.

**TABLE 3.7** Estimated increased in apprentice and trainee numbers

<table>
<thead>
<tr>
<th>NSW businesses’ annual payroll threshold</th>
<th>$750,000–$3M</th>
<th>$3M–$10M</th>
<th>$10M–$50M</th>
<th>$50–$100M</th>
<th>$100M–500M</th>
<th>$500M AND ABOVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of businesses</td>
<td>16,527</td>
<td>15,492</td>
<td>17,623</td>
<td>14,666</td>
<td>16,469</td>
<td>15,428</td>
</tr>
<tr>
<td>Average apprentices currently employed</td>
<td>4,128</td>
<td>9,513</td>
<td>17,231</td>
<td>14,379</td>
<td>4,215</td>
<td>4,128</td>
</tr>
<tr>
<td>Estimated increase (Low)</td>
<td>2,871</td>
<td>2,257</td>
<td>2,150</td>
<td>2,150</td>
<td>2,150</td>
<td>754</td>
</tr>
<tr>
<td>Estimated increase (Median)</td>
<td>8,765</td>
<td>4,469</td>
<td>6,242</td>
<td>1,514</td>
<td>1,514</td>
<td>18,579</td>
</tr>
<tr>
<td>Estimated increase (High)</td>
<td>6,999</td>
<td>8,681</td>
<td>6,500</td>
<td>6,500</td>
<td>6,500</td>
<td>2,274</td>
</tr>
<tr>
<td>Total increase in apprentices Low estimate</td>
<td>26,095</td>
<td>52,347</td>
<td>78,599</td>
<td>26,095</td>
<td>52,347</td>
<td>78,599</td>
</tr>
</tbody>
</table>

% ELIGIBLE BUSINESS UPTAKE

- Total Pay Roll Revenue 5.55%
- Pay Roll Tax Revenue at 5.45% (current)
The average number of apprentices currently employed have been calculated from the data available with the Office of State Revenue. The low estimate is calculated to be the present average multiplied by 1.5 extra apprentices, the median estimate by two and the high estimate by 2.5 extra apprentices due to the new incentive scheme. This is the expected rates of increase that businesses will likely engage in due to the new initiative.

This report estimates that an additional 26,095 apprentice and trainee placements could be created annually, with the highest estimate reaching 78,599 apprentices were larger numbers of businesses willing to take up the incentive.

This proposal will cause a rise in the number of apprentices hired as shown in Figure 3.8 and result in additional spill over effects to the local economy and state government. It is evident that the businesses that have a payroll of between $750,000-$3 million annually and between $10 million-$50 million annually will likely be encouraged the most to take up the initiative to expand and hire more apprentices and trainees in order to benefit from the rebate and concurrent tax incentive.

FIGURE 3.8 Estimated increased in apprentice and trainee numbers.
Implementing safeguards to this scheme is necessary

The proposal to use a pay roll tax deduction to incentivise business investment in VET is essential in:

- Certification of apprenticeships and traineeships
  - The proposed policy for is a significant incentive for businesses to invest in apprentice and trainee labour. However, with that considerable incentive comes a temptation for businesses to attempt to exploit the proposed scheme, capitalizing on the benefits of the incentive without fulfilling their obligations as employers of apprentices or trainees. Businesses would have to demonstrate that the apprenticeships and traineeships on offer through their employment adequately meet the criteria before being eligible for the scheme.

- Incentivising apprentice completion as opposed to simply apprentice uptake
  - Along with the decline in apprenticeship and traineeship uptake that New South Wales is experiencing comes a significant reduction in completion rates of these programs. Currently, only around half of all apprentices and trainees complete their qualifications. In order to improve the skills base of the New South Wales workforce, the policy proposed in this report could be designed in such a way that it increasingly incentivises businesses the longer they employ an apprentice or trainee.

The current proposal is based around the doubling of the pay-roll-value of all apprentice and trainee wages. In order to promote long-term employment of apprentices and trainees, and encourage businesses to incentivise their apprentices and trainees to complete their qualifications, this existing proposal could be applied at different rates depending on the year of an apprentice or trainee. For example, this proposal could consider the design:

- 1st year apprentice: 1.25*pay-roll-value wage deduction
- 2nd year apprentice: 1.50* pay-roll-value wage deduction
- 3rd year apprentice: 1.75* pay-roll-value wage deduction
- 4th year apprentice: 2.00* pay-roll-value wage deduction (existing proposal in this report).

Such a design strategy would minimise the ability for businesses to exploit the proposed scheme, and benefit from retaining apprentices and trainees throughout their qualification. However, this additional measure also complicates the scheme, mitigating its ability to harmonise the existing and somewhat complex system of rebates and incentives for businesses to invest in apprenticeships and traineeships.

- Caps on apprentice wages’ pay-roll-value deduction
  - In order to prevent a larger business from exploiting the proposed incentive and reducing their taxable pay roll excessively, a maximum cap on the pay-roll-value reduction could be considered. Were a cap of $5,000,000 to be adopted, this would only impact a number of larger businesses (less than 3000) in New South Wales, maintaining a generous incentive for them and other employers, while preventing the system from being exploited.

- Leveraging revenue gains towards investment in vocational education and training
  - The proposal in this report is marginally revenue positive, creating a modest increase in revenue for the New South Wales Government. This additional revenue could be allocated towards further incentives for the employment of apprentices and trainees.

NSW stands to benefit from an increase in VET investment

This report has established the challenges facing VET in New South Wales. Fewer individuals are starting and completing apprenticeships and traineeships, which will have a noticeable impact on the supply of skilled labour if this trend continues. Today, apprenticeship and traineeship enrollments and completions are at their lowest level in over a decade, and significant policy measures must be put in place in order to reverse this trend.

This incentive would create a genuine incentive for businesses to employ apprentices and trainees as a means of arresting the alarming decline in apprenticeship and traineeship enrolment and completion. By raising the pay roll tax to 5.55 cent (a 0.10 cent per increase), and by then enabling businesses to double the pay-roll-value of apprentice and trainee wages, businesses will be encouraged to invest in apprentices and trainees as a means of lowering their taxable pay roll.

In the scenarios tabled in this Part 3 of this report, small, medium and large enterprises were able to lower their total pay roll tax liability more apprentices or trainees they employ under this proposed reform. Additionally, the reform would be revenue neutral under the expected business participation rates tabled in this paper.

The proposed reform would result in the implementation of a significant incentive for businesses to invest in apprentices and trainees, remain revenue neutral, all while keeping New South Wales’ pay roll tax rate at a highly completive rate of 5.55 cent for business with a pay roll of over $750,000 per annum.

By a marginal increase in the pay roll tax rate, and allowing businesses to double the pay roll value of apprentice wages, this report argues that there would be a significant uptake in investment in apprenticeships and traineeships by businesses; the calculations suggest, that at minimum, an additional 26,095 apprentices/trainees will be added to the system annually and at maximum, approximately 78,599 more apprentices/trainees than the current average. The previously tabled reform options for TAFE NSW in Part 2 of this report would help enable the organisation to cater for the increased demand in its services that this incentive result in.
CONCLUSION

In order for TAFE NSW to be competitive in the new market created through Smart and Skilled it must ensure that it balances education with the needs of industry. There must be an increase in funding so that it has the resources that it needs to function properly, as well as support for students so that fees are accessible.

As the VET market is still in its infancy, new rules must be established to prevent the fraudulent providers that have emerged. By publicizing reputable providers and capping fees, it will assist in ensuring that students are protected and prevent the rorting of the system. By expanding key areas such as VET in schools, outreach and workplace development programs, TAFE will open up new growth areas and increase enrollments. Through supporting and encouraging teachers to be educational innovators TAFE will create a superb learning environment that will not only attract students but also help to boost the NSW economy in the future.

Throughout this report the importance of the VET sector in NSW has been emphasised. With key changes TAFE NSW has the ability to provide a desirable and alternate route for people looking at alternate career pathways, as well as supply industry with the necessary skills it needs to flourish.
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