



SUBMISSION TO

THE PRODUCTIVITY COMMISSION'S REPORT:

Impact of COAG Reforms: Business Regulations and VET

FROM

TAFE DIRECTORS AUSTRALIA

February 2012

Impacts of COAG Reforms – Business Regulation and VET

Productivity Commission, Canberra 2011

1. Introduction and Overview

TAFE Directors Australia (TDA) is the national peak body representing Australia's 61 public TAFE providers, delivering programs and services to over 80% of participants in vocational education and training (VET). TDA appreciates this opportunity to respond to the Productivity Commission's draft Report *Impacts of COAG Reforms* in VET (the Report).

The TDA response refers to Part B of the Report and the relevant sections of the Summary Report but does not extend to the supplementary report released on 17th February 2012. Our response incorporates the views of a number of TDA members, as well as information provided by the Victorian TAFE Association (VTA) whose members have directly experienced the Victorian reforms that have provided much of the data for the Commission's analysis. Our response is also supported by advice from Independent Economics in the form of a technical analysis, a copy of which is at Attachment A. Additional comments provided by VTA are at Attachment B.

TDA considers that the Report offers an extensive and thoughtful examination of the complex relationships between participation in VET and changes in workforce participation and productivity with a particular focus on the impact of the COAG reform agenda on these relationships. Subject to our comments and recommendations here, we consider that the Report has the potential to significantly improve the way in which policy makers and researchers understand the role of VET in the development of Australia's workforce and in equipping them to further optimise the private and public benefits of the system.

We do, however, have a number of concerns with particular aspects of the analysis. The most important of these is the significant underestimation of impacts of the COAG reforms and, by implication, of the capacity of the VET sector to significantly contribute to further improvement in workforce participation and productivity.¹

This underestimation is due to:

- the very restricted definition of educational attainment adopted in the Report which leads it to consider only the benefits flowing from completed qualifications at successively higher levels and to ignore other outputs and progress indicators set out in the National Agreement for Skills and Workforce Development (NASWD).
- the excessive discounting of projected benefits for an assumed ability bias.

Our response also makes a number of observations about other aspects of the Report including:

- the need for continuing and increased funding for foundation skills (Section 6)

¹ This paper adopts the Report's definition of 'participation' as 'average hours worked' rather than the ABS labour force definition. See Summary Report p.63 and Report Part B p.3.

- the risk of moving too quickly to greater contestability in the current environment of indeterminate quality and transitioning quality assurance arrangements (Section 7)
- the need to improve information systems (Section 8)
- the need for a more extensive examination of the impact of the reforms for low SES and geographically disadvantaged people and communities including Indigenous communities (Section 9)
- the impact of a demand-driven higher education system on student choice
- (Section 10) the structure of the final Report (Section 11).

Based on these comments, TDA has made a number of recommendations for revisions to the Report including the Summary Report. TDA is of the view that if these recommendations are accepted, the Productivity Commission's final report will provide a sound basis both for assessing the impact of the current reform program and for formulating policies for the further reform of the Australian VET system.

2. Recommendations

TDA makes the following recommendations:

Recommendation 1

That an assessment of the net benefits flowing from module completions be included as an addition to the Commission's estimates of the possible impact of the COAG VET reforms.

Recommendation 2

That the Commission's analysis include revised estimates of the potential benefits of second and subsequent qualifications at the same or lower levels and that this reassessment encompass a review of the comparative analysis of the Victorian and South Australian reforms.

Recommendation 3

That

- the Commission reconsider the validity of imputing an ability bias for the purpose of discounting the impacts of the COAG reforms in the VET sector and that
- this factor is omitted from estimates of benefits for the mature learner cohort in VET.

Recommendation 4

That the Commission's Report emphasise the value of additional government funding for integrating LLN skills with vocational qualifications.

Recommendation 5

That the Report's findings on the relationship between contestability and quality, including the range of estimated potential individual and social benefits, should be given greater prominence in the both the overview section of the Report and in the Summary Report. Further, that earlier recommendations of the Productivity Commission on governance reform and industrial relations and the artificial cost disadvantage impacting TAFE become components needing to be sequenced to avoid unintended consequences of VET reform. This mix of issue highlights the risks involved to governments and individuals in a too rapid move to greater contestability, especially in the absence of structural adjustment to TAFE itself.

Recommendation 6

That Report's positive assessment of the *National Partnership Agreement on Productivity Places Program* (NPAPPP) is qualified by emphasising the quality assumption that underpins it.

Recommendation 7

That in considering opportunities for improvements, the Report emphasise that successful reforms require clear, comprehensive and timely information for students and coherent and stable administrative systems, processes and funding arrangements.

Recommendation 8

That the economic and social benefits to be gained from improved transition outcomes for disadvantaged young people be given more prominence in the Report.

Recommendation 9

That

- Chapter 4 of the Summary Report include a clearer statement of the sensitivity of the estimates to the definition of educational attainment adopted in the Report and that
- the Overview section of the Report Part B be expanded to include the additional estimates identified in Section 11 of this response.

3. The purpose and scope of the Report

The purpose of the review is to

- report on the economy-wide, regional and distributional effects of the COAG reforms
- take into account the costs incurred by governments in implementing the reforms
- comment on the time paths over which the effects of reforms are likely to accrue
- provide guidance on the sensitivity of estimated results to the assumptions used
- draw attention to information gaps that limit approaches to reform evaluation
- assess, where practicable, whether Australia's reform potential is being achieved and the opportunities for improvement (pp.-3).

The COAG VET reform program is broad ranging and is underpinned by the intergovernmental *National Agreement for Skills and Workforce Development* (NASWD) and two national partnership agreements: the *National Partnership Agreement on Productivity Places Program* (NPAPPP), the *National Partnership Agreement on Youth Attainment and Transitions* and additional places in the Language, Literacy and Numeracy Program (LLNP) and the Workplace English Language and Literacy (WELL program). The Report identifies and assesses realised, prospective and, where feasible, the potential impacts flowing from each of these agreements.

4. Underestimation of benefits due to the definition and scope of 'educational attainment'

The focus of the report is the benefits and costs of educational attainment as this is reflected in improved workforce participation (average hours worked) and productivity. Educational attainment is defined solely in terms of formal qualifications completed. The basis for this narrow definition of educational attainment appears to be the Report's singular focus on the NASWD reform *targets* which are expressed as quantum increases in qualifications at the Certificate III and Diploma levels. This reprises the concentrated focus on these targets that is evident in the 2009 and 2010 NASWD reports to the COAG Reform Council.²

However, as TDA noted in its original submission to this review, completion of qualifications is only one of a number of NASWD *outputs* which the Agreement clearly envisages as indicators of progress towards achieving COAG's intended reform outcomes and objectives. The other outputs nominated by the NASWD are increases in enrolments and module completions, and increases in enrolments and higher level course completions by Indigenous Australians.³

It is unclear why changes in these outputs have been excluded from the Commission's analysis. These exclusions lead to a serious underestimate of the net benefits of the COAG VET reforms. Taken together, these forms of participation in vocational education and training account for a major component of the overall publicly funded training effort

² COAG Reform Council, <http://www.coagreformcouncil.gov.au/reports/skills.cfm#2010compare>, viewed 23rd February 2012

³ NASWD pp.4-6, http://www.federalfinancialrelations.gov.au/content/national_agreements/skills_workforce/skills_agreement.pdf, viewed 23rd February 2012. The TDA submission is at http://www.pc.gov.au/data/assets/pdf_file/0018/113553/V005.pdf.

and generate demonstrable benefits for individuals and enterprises in terms of both employment and productivity. TDA believes it is essential that the Commission reconsider its analysis and estimates by incorporating a more evidence-based approach to estimating the impact of increased participation in these patterns of skill acquisition.

4.1. The benefits of module completion

Unlike educational qualifications in school and higher education, VET qualifications are designed to ensure that with every module undertaken students acquire measurable additional skills at a standard acceptable in the workplace. Since 1992 Australian governments have made a huge investment in restructuring VET courses and qualifications to achieve this goal. The incremental process of skill acquisition and recognition means that, with the possible exception of immediate school leavers studying full time in VET, module completions cannot be ignored in assessing the employment and productivity benefits of participation in VET even where a formal qualification has not yet been obtained. This is particularly the case for mature learners with considerable prior employment experience and for others who already hold a post-school qualification.

As the Report notes, this mature cohort represents slightly more than half of all VET enrolments and their reasons for study are to change jobs or to upgrade skills in their current job, rather than to find an initial job. It is therefore understandable that, as the Report also notes, their enrolment patterns exhibit more of a bias towards acquiring specific skills and competencies. They may also take considerably longer to complete a qualification than the 1-2 years apparently allowed for in the Commission's calculations (p.29). The productive value of acquiring specific additional competencies has also been attested to by employers, an increasing number of whom are encouraging employees to complete designated sub-qualification 'skill sets'. Other significant groups for whom module completions are immediately beneficial are seasonal workers and remote Indigenous communities where skills across a range of occupations are required to maintain employment. This preference represents a rational choice in given circumstances and should not be dismissed as a form of student 'myopia'. Conversely, the economic rationale for individuals to complete additional qualifications has been challenged by some studies which have concluded that second and subsequent qualifications at any level yield significantly lower returns to individuals than an initial qualification.⁴

Given the very large (and, as yet, largely unexplained) discrepancy between module and qualification completion rates, an estimate of the benefits of module completions is likely to significantly alter the Commission's assessment of the overall net benefits of participation in VET.

Recommendation 1: TDA recommends that an assessment of the net benefits flowing from module completions be included as an addition to the Commission's estimates of the possible impact of the COAG VET reforms.⁵

⁴ For the basic analysis see Chris Ryan, 2000, *Where to next? Graduate outcomes from the Australian higher education and vocational education and training sectors*, NCVET, Adelaide, <http://www.ncver.edu.au/publications/438.html>

⁵ This estimate would be indicative and would lie somewhere between 0 and 1 where 1 is the estimated return on a whole qualification of which the modules are a component.

4.2. The benefits of second and subsequent qualifications

A second source of underestimation is the exclusion of second and subsequent courses completed at the same or lower levels. The Report assumes that '*an individual's workforce participation and....productivity are only enhanced through the attainment of a full qualification above the level of the highest one already held*' (Summary Report, p.51). On this basis, the Report assesses the Victorian reforms as having a more positive impact than those planned for South Australia, given that Victoria's fully subsidised places are only available to students who enrol in successively higher level qualifications while the South Australian reforms include entitlements for individuals to undertake more than one qualification at the same level. The South Australian reforms are thus assessed as having a much lower prospective impact on employment and a zero impact on productivity (pp. 32-43; Appendices; Summary Report, Table 4.1).

This assumption – that further qualifications at the same or a lower level represents only unproductive 'churn' and a manifestation of student myopia, reflects an over simplified understanding of the relationships between fields and levels of study in the VET sector. Increasingly, lifelong work patterns and skill development can be expected to include not only vertical movement within an occupation, but lateral and tangential movements across occupations and industry sectors. A different skill mix and/or qualifications at the same level or even a lower level are often essential for the job mobility required to respond to structural shifts or cyclical fluctuations in the economy, particularly for workers in occupations at the Certificate III level and below. For the economy as a whole, the inability to respond to such shifts in employment opportunities will clearly have a negative impact on participation and, although additional productivity from these qualifications might be negligible, the impact of *not* facilitating these lateral movements in employment is likely to be negative.

VTA has reviewed the impact of the Victorian reforms and has provided TDA with some concrete examples of typical individual circumstances where the limits on Victorian subsidised places have such negative impact.

A former primary school teacher, wishing to return to work after many years out of the workforce, was refused a subsidised place in a Certificate IV in Aged Care. She accepted working a few hours a week in an unskilled job and is in receipt of a part pension. The full fee cost to her of the qualification would have been approximately \$5000.

A minimum Diploma of Auslan is required before an individual can be admitted to an interpreter's course at the Diploma level. The inability to gain subsidised places will over time, reduce the supply of interpreters for the hearing impaired Victorian school students as well as across the broader hearing impaired community. The full fee cost of the Interpreter qualification is likely to be in the vicinity of \$3000 - \$3500

A Certificate IV qualified tradesman/builder who suffers from chronic pain as a consequence of a number of workplace injuries is ineligible to take up a subsidised place in a Certificate IV in Occupational Health and Safety which would have enabled him to return to work in an industry which he knows well and where he could make a measurable difference to on-site work safety. The full fee for of the course is \$3200

A female retail worker with a Certificate III in Retail was ineligible for a subsidised place in a Certificate III in Business Administration. She was counselled to enrol in a fully subsidised Certificate IV but anticipates only completing those modules which she needs in order to perform efficiently as the office manager for a small business.

While the COAG targets imply an exclusive emphasis on the quantum of qualifications at successively higher levels, neither the NASWD nor the analysis in the Report has demonstrated a necessarily *exclusive* link between these and the broader workforce participation and productivity aims of the COAG reform program itself. To exclude the lateral movements and internal labour market upskilling that are the outcomes of module completions and multiple qualifications at the same level is to deny the benefits of multi-skilling and multi-tasking in the workplace.

Recommendation 2: TDA recommends that the Commission's analysis include revised estimates of the potential benefits of second and subsequent qualifications at the same, or lower levels and that this reassessment encompass a review of the comparative analysis of the Victorian and South Australian reforms. In the absence of this revision, the impact of existing COAG reforms risks being seriously underestimated. There is a further risk that based on the Commission's findings in this Report; other jurisdictions will seek to restrict access to VET qualifications in a way which impedes the employment mobility of those undertaking VET courses.

5. The application of ability bias to VET

A third source of underestimation is the imputation of a discount for the lower ability of additional VET graduates which, TDA believes, lacks an adequate empirical basis. The discount for mature VET participants is particularly excessive and should be further reviewed.

The Commission has specifically sought further advice on the assumptions it has made about the relationships between ability, educational attainment and productivity (Box 3.1, pp.30-31 and Appendix C). These relationships are underpinned by the concept of ability bias based on either a single scale or, at best, a two dimensional model of 'measured ability' at Year 9 and/ or Year 12 (blue/white collar or cognitive/mechanical) combined with a presumption that the agreed Australian Qualifications Framework (AQF) represents a linear hierarchy of ability.

A great deal more empirical validation is necessary before these assumptions are warranted in the VET context, or for many of the occupational destinations for which VET courses train people. On the basis of currently available Australian research, we note that:

- Research undertaken for the recent review of the AQF found that abilities at the completion of Year 12 varied between Certificate II and Certificate IV but that Year 12 studies could not be readily compared with the applied learning which is central to VET.⁶

⁶ Some information is available in, *Overview of the Empirical Validation of the Strengthened Australian Qualifications*, AQF, September 2010 <http://www.aqf.edu.au/Portals/0/Documents/Overview%20of%20the%20Empirical%20Validation%20of%20the%20Strengthened%20AQF.pdf>, viewed 23rd February 2012. Unfortunately, to the best of our knowledge the detailed analysis supporting this AQF document has never been published but inquiries can be made to Executive Director, AQF, GPO Box 9880, Adelaide SA 5001, Tel: 08 8306 8688, aqfc@deewr.gov.au Fax: 08 8201 0315 Email:

- 'Measured ability', both at age 15 and at Year 12, is heavily skewed towards cognitive ability and attainment in language literacy and numeracy (LLN), and is an unreliable basis for quantifying the relationship between these and the 'mechanical' or other dimensions of ability. This may change over time with the increasing take-up and recognition of VET courses in schools.
- Ability as measured at Year 9 is one of a number of predictors of successful completion in many VET courses for Year 11 school leavers but less so within the Year 12 cohort, and, even if known, is not reliable for mature age students.
- School-based ability assessments are linked to students' SES backgrounds. The Report makes no allowance for students from low SES backgrounds, Indigenous communities, or those with disabilities having potential that is only realised outside the confines of school measurement systems but able to be developed by participation in VET. Compared with enrolments in higher education, the VET student cohort includes a significantly higher proportion of disabled, low SES and geographically isolated students who are likely to have been 'measured' as having relatively lower ability. This cannot be considered an objective predictor of their employment and earnings potential after they complete a VET qualification.
- Family and peer group values and pressures and perceived job opportunities are the strongest influence on school leaver student preferences and choices about their immediate post-school destinations. For many individuals, decisions about, and performance in VET courses and associated employment are determined by these and other extraneous considerations and any ability factor becomes insignificant in determining employment and earning outcomes.
- An increasing proportion of VET courses require the development of creative and affective attributes which are often a function of personal maturation rather than ability as measured at a point in time.
- Most VET graduates enter far more differentiated labour markets in smaller numbers than is assumed by the Report (p.116).

When these factors are taken into account, the ability mix of any particular cohort of VET graduates entering a specific labour market is likely to have a neutral rather than a negative impact on average productivity. For this reason the concept of ability bias should be regarded with extreme caution. Most importantly, while it might arguably have some utility in respect of Year 12 cohorts entering full time VET courses, and for young people at risk of an unsuccessful transition, this bias cannot credibly be applied to the part time mature learner cohort in VET for whom, it appears, the Commission's current analysis actually includes a *higher* discount. (See Attachment A, pp.-3). As the Report acknowledges, depending on individual circumstances and prior educational and employment history, an individual completing a VET qualification may have a negative, neutral or positive impact on the average productivity of the relevant workforce. For any given workforce, the overall impact is likely to be both insignificant and self-cancelling.

Recommendation 3: TDA recommends that

- the Commission reconsider the validity of imputing an ability bias for the purpose of discounting the impact of the COAG reforms in the VET sector and that

- this factor is omitted from estimates of benefits for the mature learner cohort in VET.

6. Foundation Skills

The open access entitlement to foundation skills is strength of the Victorian system. While there may be a degree of unnecessary recycling as the Report intimates it needs to be recognised that many older adults need more than one course cycle to achieve 21st century workforce functionality in language, literacy and numeracy (LLN).

TDA has for some time advocated the better integration of LLN with accredited VET courses and the setting of a minimum of Level 3 as an objective of all VET qualifications, but thus far, funding arrangements have precluded this from all but a small handful of courses. TDA would support a Commonwealth funding initiative that facilitated greater integration of LLN with vocational qualifications.

Recommendation 4: TDA recommends that the Commission's Report emphasise the value of additional government funding for integrating LLN skills with vocational qualifications.

7. Quality and contestability

Contestability in the training market has, for many years, been something of a mantra in government policy formulation for VET. TDA therefore welcomes the recognition in the report that the benefits of increased contestability are highly dependent on quality being at least maintained and, ideally, improved. The Report recognises that a number of organisations have expressed specific concerns about quality in VET. In its original submission to the Commission's review TDA also expressed its concerns about the rapid increase in the number of, and the poor quality of training delivered by, some private institutional providers.⁷

The Report's estimates show a very strong relationship between high/low quality and positive/negative benefits arising from contestability including, for example, a net social benefit of nearly \$1 billion where contestability improves quality to a net negative benefit of \$0.73 million when contestability leads to deterioration in quality. For the individual, the relationship is equally as strong, reflecting the considerable risk involved for students in an unfortunate choice of provider (Tables D11 and D12).

Quality provision of VET has a substantial cost in terms of equipment and teacher salaries as well as class size. The rapid increase in the number of private providers, particularly in Victoria, has been concentrated in the less expensive courses with an emphasis on very short course durations – often far shorter than recommended by the AQF for completion of qualifications. Clearly many private providers are unwilling to reduce their profits to invest in improved quality. Particularly in the current environment of transitioning quality assurance and audit arrangements and a backlog of registrations and approvals to be cleared, there is a heightened risk of diminished quality as a consequence of further significant moves to greater contestability.

TDA notes that the proposed South Australian reforms have recognised this risk and have built in additional quality assurance processes. The ability and willingness of private

⁷ i.e. private providers who enrol publicly funded students. Employer RTOs who train their own employees are not included in this comment.

providers to meet these standards will provide some retrospective information on the extent to which access to super-normal profits have been the primary motivation of private providers participating in current and past Government funded reforms elsewhere.

Given this environment and the Commission's findings, it would appear overly confident for the Commission to predict that: 'As competitive and high quality markets emerge over time there will be opportunity to wind back on government ownership of training providers (otherwise this would result in substantial distortion in the VET market' (p.19). TDA notes that this has not been the general experience in either the US or the UK where training markets are considerably larger.

Recommendation 5: TDA recommends that the Report's findings on the relationship between contestability and quality, including the range of estimated potential individual and social benefits should be given greater prominence in the both the overview section of the Report and in the Summary Report. Further, that earlier recommendations of the Productivity Commission on governance reform and industrial relations and the artificial cost disadvantage impacting TAFE become components needing to be sequenced to avoid unintended consequences of VET reform. This mix of issues highlights the risks involved to governments and individuals in a too rapid move to greater contestability, especially in the absence of structural adjustment to TAFE itself.

These issues were specific recommendations by the Productivity Commission in its review of the VET Workforce (2011). TDA suggests that these require to be sequenced along with any contestable/entitlement models, otherwise structural inequities will be pronounced – as the Victorian model of VET entitlement and contestability has played out, impacting TAFE market share and viability especially in rural and regional areas and in specialist skills delivery.

Recommendation 6: TDA recommends that the Report's positive assessment of the *National Partnership Agreement on Productivity Places Program* (NPAPPP) is qualified by emphasising the quality assumption that underpins it (p 39).

8. Information available to students

As the Report notes, TDA has previously expressed its concern about the confusion and uncertainty among students, employers and the general public as a result of the lack of a coherent communication strategy and the over hasty introduction of the Victorian reforms. The VTA has provided TDA with updated information indicating that the situation has not improved. Rather, further unanticipated changes to processes and funding arrangements have perpetuated the problems and a public perception of system instability. The main problems identified by the VTA are listed at Attachment B.

The Australian Government has made a significant investment in on-line information sources. However, the links between the various web sites are confusing to a novice and, do not include information about the employment and earnings outcomes from different providers. A comprehensive *My Skills* website is apparently planned but this will be a great deal more complex to design and maintain than the *My School* and *My University* websites.

Further problems should also be noted:

- Careers education in senior secondary schools continues to place a premium on professional, university trained occupations and is often delivered by teachers who

have little knowledge of vocational education and who base their advice primarily on their perception of the relative academic ability of students. This may change with Trade Training Centres in schools.

- There is a lack of transparency in national reporting by private providers. The NCVET has identified this as a major issue for the national statistical collections.

The limitations and distortions associated with information on VET means that students should not be penalised for what the Report suggests are to be poor and myopic initial choices of VET courses and/or providers.

- There is currently no differentiation between the 5,000+ VET providers. TDA believes that this lack of transparency is confusing for students and the community. While the use of the title 'university' is more highly protected in Australia than elsewhere in the world there is no protection for any VET title. The title of university is also associated with five of the six different provider categories. Within VET there are no provider categories. There is also no space in the Higher Education categories that allows any differentiation of TAFE institutes offering higher education qualifications from other Higher Education Providers (HEPs). TDA maintains that the adoption of Provider Categories in VET would assist in clarifying nomenclature; in developing a risk framework and would be required if an efficient and effective tertiary sector is to be realised.⁸
- There is a need for a clear affirmation of the role of the public provider in VET.

In "The Case for a National Charter for TAFE" (November 2011) TDA argued that it is time for the Australian and State and Territory Governments to affirm the significance of TAFE in delivering on the Government's productivity and participation agenda; to articulate the role, scope and responsibilities of TAFE, and commit to administrative and funding arrangements that will enable TAFE providers to perform this role effectively.

Recommendation 7: TDA recommends that, in considering opportunities for improvements, the Report emphasise that successful reforms require clear, comprehensive and timely information for students and coherent and stable administrative systems, processes and funding arrangements.

9. Equity, Distributive and Social Inclusion dimensions of the COAG reforms

The Report is strangely silent about the implications of the reforms for the COAG objectives of equity and inclusion. The educational disadvantages experienced by students in remote communities and from low SES backgrounds are well documented and are reflected in their lower average scores of measured ability at Year 9 and their lower retention rates to Year 12. The same characteristics appear to underpin the different patterns of success and failure in youth transition noted by the report in Appendix G.

⁸ "The case to review provider categories in higher education" (TDA, June 2011) "The case to review provider categories in VET" (TDA, September 2011) in which TDA argued that the opportunity exists to create VET Provider Categories that could be integrated with HE Provider Categories into one seamless tertiary system.

Recommendation 8: TDA recommends that the economic and social benefits to be gained from improved transition outcomes for disadvantaged young people be given more prominence in the Report.

10. The Impact of Higher Education Reforms

In its original submission to this Review, TDA emphasised the greater capacity for the average school leaver to substitute higher education for vocational education and training as a consequence of increased Year 12 retention rates and the uncapping of government funded university places. We recognise that a detailed review of this issue is beyond the Commission's current remit. However, the assumption that in a demand driven higher education system, it is unlikely that the movement of students from VET to higher education will exceed current trends does not seem to be a particularly strong one, given the active recruitment campaigns being conducted by some universities amongst VET students and the rapid growth and accessibility of non-university higher education providers, including some TAFE providers (p.46).

11. Structure of the Report

The Report is lengthy and, in parts, technically complex. It is likely that many VET decision makers will tend to rely on the Summary Report and the Overview when designing further reforms to the VET system and, conceivably, as a basis for determining ongoing policies and recurrent funding arrangements. It is therefore essential that these 'plain English' components of the Report be extended to include more specific information on the extent to which its findings are sensitive to the various assumptions made. Where possible, this should include specifying the quantitative assessments as a range of values rather than a single value for both the individual and social net benefits of reforms. Examples discussed in this response have included

- estimates of the net benefits of the Victorian and South Australian reforms if module completions are included in the definition of educational attainment benefit
- the comparative net benefits of the Victorian and South Australian reforms if second and subsequent course completions at the same or a lower level are included in the estimates
- the estimated benefits if the discount for ability bias is omitted at least for mature learners.
- the impact of different quality assumptions on the net individual and social benefits of the Productivity Places Program.

Recommendation 9: TDA recommends that

- Chapter 4 of the Summary Report include a clearer statement of the sensitivity of the estimates to the definition of educational attainment adopted by the report and that
- the Overview section of the Report Part B be expanded to include the additional estimates identified in Section 11 of this response.

The Productivity Commission's modelling of COAG VET reforms

The Australian Government asked the Productivity Commission (the Commission) to report on the economic impacts and benefits of COAG's VET reform agenda. The majority of these reforms involve a boost to the amount of government funding for VET and hence an expansion in the number of individuals undertaking a VET course.

The Commission estimated the economy-wide impact of expanding the VET sector in three steps.

1. It estimates the number of additional qualifications completed as a result of the policy.
2. It estimates the effects of these additional qualification completions on labour market participation, productivity, perceived private benefits and net social benefits are estimated.
3. The direct benefits from the second step are used to simulate the effects on the economy using an economy-wide model. Specifically, the economy-wide benefits of the boost to participation and productivity, as a result of an expansion of the VET sector, are simulated using a Computable General Equilibrium (CGE) model.

In practice, the first two steps are of more importance in estimating the overall economic impacts than the third step. As the Commission acknowledges, the estimates obtain in the second step of the direct gains in labour force participation and labour productivity could have been used to estimate the GDP gains in a back-of-the-envelope calculation. This produces a similar estimate of the GDP gain to the CGE modelling of the third step:

...approximately 90 per cent of the aggregate, economy-wide impact of the COAG VET reforms can be explained by the direct effects. (p. 184)

The main value of the CGE modelling for the Commission's report is the picture it provides of the industry pattern of the economic gains, rather than of the total amount.

Hence, the focus here is on the second step of estimating the direct economic benefits of COAG's VET reforms. The direct economic benefits of investment in education, including COAG's VET reforms, take three main forms:

- i. higher labour force participation;
- ii. higher labour productivity; and
- iii. a better matching of the skills of workers to the available jobs.

The Commission's estimates of the economic gains through these three channels are now discussed in turn. As noted throughout the Commission's report, there are also social benefits to education, but these were not modelled.

(i) Appropriate measure of labour force participation gain

In general, people with higher levels of educational attainment participate more highly in work. This can occur through higher rates of participation in the labour force, lower rates of unemployment for those in the labour force, and higher average working hours for those in employment. The Commission captures all of these effects by focussing on the additional total hours that are worked as a result of higher levels of educational attainment under COAG's VET reforms.

On a point of terminology, the labour force participation rate published by the ABS is a narrower concept, which refers to rates of participation in the labour force. However, from an economic

perspective, the wider concept used by the Commission is the appropriate measure for capturing benefits of higher levels of educational attainment. To avoid any confusion, the Commission's measure would perhaps be better referred to as participation in work rather than labour force participation.

(ii) Underestimate of productivity gain

People with higher levels of educational attainment are generally more productive. While these productivity gains may be difficult to measure directly, the Commission follows standard practice by using average hourly wages as a proxy for productivity.

Hence, it estimates the productivity gains from higher levels of educational attainment from the associated wage premiums. These premiums are separately estimated for young learners (aged 15-24) and mature learners (aged 25-64).

It is generally recognised that wage premiums for higher levels of educational attainment are likely to over-state the actual productivity benefits that would be achieved by policies that increase the numbers of people with higher levels of education. This is because existing wage premiums show the average benefit of a higher level of education, whereas the marginal benefit from adding to the number of people with a higher level of education could be less, if those additional people are less able.

Hence, there is a case for discounting the existing wage premiums to correct for ability bias (also known as skills and attributes bias). Correcting for such a bias is particularly important when the policy involves a significant expansion in the size of the VET sector. This is because the marginal benefit from expanding the sector diminishes with the size of the expansion as individuals with skills and attributes that are less suited to undertaking VET enter the sector. This diminishing marginal benefit effect is also a feature of expanding other education sectors, such as the higher education sector.

The Commission allows for ability bias. It does this by assuming that an individual who completes a VET qualification as a result of a COAG initiative obtains a productivity benefit that is much less than the average wage gap between the VET-qualified and school-qualified populations. It assumes that the new VET graduates from the initiative are at the lower end of the productivity scale for the VET-qualified population, and otherwise would have been at the upper end of the productivity scale for the school-qualified population. The Commission applies this discount for both young learners and mature learners.

For mature learners, without apparent adequate justification, the Commission also applies an additional discount of 24 per cent, again on the grounds of skills and attributes bias. The two discounts taken together lead to a high effective discount rate for wage premiums and hence an underestimate of the productivity boost from higher education attainment for mature learners. This is significant because mature learners account for 55 per cent of all learners.

The effect of these two adjustments on wage premiums for mature age learners and the effective discount rate applied is shown in the table below. The premiums are expressed relative to an individual whose highest education qualification is Year 12 or lower. For example, without any adjustments, a person whose highest qualification is a Diploma earns 33.3 per cent more than a person whose highest educational attainment is Year 12 or lower. After applying the 24 per cent ability discount, this premium drops to 25.3 per cent. But with both the 24 per cent discount and the further discount for ability, the premium drops to 15.1 per cent. That is, after the two adjustments, a person

whose highest qualification is a Diploma earns 15.1 per cent more than a person whose highest educational attainment is Year 12 or lower. This implies a very high effective discount of 54.7 per cent on the unadjusted wage premium of 33.3 per cent for a Diploma qualification.

Wage premiums and effective discount on wage premiums (per cent)

	Unadjusted	24% ability discount	Further ability and qualification discount	Effective discount
Degree	67.5	51.3	28.2	58.3
Diploma	33.3	25.3	15.1	54.7
Cert. III/IV	10.0	7.6	0.8	92.1

The Commission’s effective discounts of productivity gains for mature learners are high compared to other Australian studies. Leigh (2008) uses a discount of 10 per cent on wage premiums to adjust for the skills and attributes bias when estimating the returns to education. Universities Australia (2010) uses Leigh’s estimates of wage premiums to model the productivity gains from higher expenditure on tertiary funding, but uses a deeper discount of 20 per cent. A study by Leigh and Ryan (2008) estimated an ability bias of between 9 per cent and 39 per cent in Australia. This study seems to be the original source of the Commission’s discount of 24 per cent (i.e. the mid-point between 9 per cent and 39 per cent).

The main issue is that, in the case of mature learners, the Commission has discounted the productive gain twice rather than once, resulting in effective discounts that are much higher than those used by other researchers.

(iii) Does not allow for improvements in labour market flexibility through skill matching

A key role of the VET sector is in developing a labour force with skills that match those in demand by industry. This was recognised in a Skills Australia’s report on the VET sector, Skills for Prosperity.

Vocational education and training will also be expected to equip the workers of the future with the capability to adapt continuously and engage in learning throughout their working lives as they respond to changes in technology and the demands of climate change and globalisation. (p. 110)

By equipping people with the skills that are in most demand, improved skill matching provides economic benefits by both boosting participation in work and supporting higher wages. It does not necessarily involve obtaining a higher level of educational attainment. Rather, it may involve a sideways shift into a different field of study that is in strong demand.

In contrast, the Commission assumes that:

...an individual’s workforce participation and his or her productivity, are only enhanced through the attainment of a full qualification above the level of the highest one already held. (p. xxii)

Hence, under the Commission’s framework, individuals studying at the same level of qualification or below one already held as a result of VET reforms receive no participation or productivity benefit. This assumption captures the benefits from VET’s role in up-skilling individuals but ignores the benefits flowing from VET’s role in re-skilling individuals to reduce jobs mismatch. Completing a

qualification in high demand, even when the qualification is at the same level or below one already held, may assist in improving an individual's employability. This improvement in employability may boost an individual's participation in work, and may also mean that they can command a higher wage.

Re-skilling individuals in qualifications that matches the skills currently in demand improves overall labour market flexibility. Importantly, some of the VET reforms analysed, such as the NPAPPP, tie funding directly to areas of current or emerging skills needs. The Commission's modelling does not take this important dimension of economic benefit into account.

Other studies have focussed on the role of education in improving labour market flexibility. Economic modelling was completed for Skills Australia to analyse the gaps between demand and supply of skills and qualifications at industry, occupation and broad qualification level and VET's role in closing these gaps. This type of economic modelling relies on a greater disaggregation of qualifications (tertiary qualifications are broken down into fields of study) and occupations, so that there is finer detail in the matching between qualifications and occupations. In addition, the modelling relies on the identification of skills shortages and hence requires a modelling framework which captures shortages. These two modelling features are not incorporated into the current modelling framework used by the Commission.

Conclusion on economic impacts

The Commission's modelling only partially captures the economic benefits of COAG's VET reforms. In terms of the three channels through which economic benefits are likely to flow:

- (i) the Commission appropriately captures the gain in participation in work;
- (ii) excessively discounts the productivity gains for mature learners by double discounting; and
- (iii) completely omits the gains in employability from developing a labour force with skills that better match those in demand by industry.

Report outlines the potential case for government intervention in the VET sector, but this is not reflected in the actual modelling

The Commission provides a sound discussion of the potential market failures or government intervention in other markets, which justify government intervention in the VET sector in section 2. One potential cause of market failure in the VET sector identified by the Commission is incomplete information. This is the case when there is not enough information available for potential entrants to the VET sector to make an optimal education-work decision. As noted by the Commission, lack of information is one driver of myopic behaviour of individuals with regard to the education-work decision because the long-term benefits of education are uncertain, while the costs are borne upfront (p. 15). That is, individuals place too much value on short term costs and benefits compared to long term costs and benefits.

However, this case for government intervention in VET is not reflected in the draft modelling. Specifically, in the Education and Labour Market Outcome (ELMO) model used by the Commission, perceived private benefit is one input into an individual's education-work decision. Perceived private benefit is calculated as follows by the Commission:

$$\text{perceived private net benefit} = \text{private benefit} - \text{private cost} + \text{residual} + \text{overestimate (p. 73)}$$

The overestimate term is designed to

...allow for the possibility that people might overestimate or underestimate the net benefit with different education-work options. For example, people from disadvantaged backgrounds might underestimate the benefits from a university degree (chapter 2). (p. 74)

This overestimate term is set to zero by the Commission in the draft modelling (p. 80). This means that the modelling takes no account of the argument in the body of the report that individuals may be too myopic when deciding on their level of educational attainment. The Commission defends this by stating that the issue of whether or not individuals appropriately perceive benefits from education will be addressed in the final report. However, this means that stakeholders are not able to comment on the Commission's final estimate of a fundamental input to the modelling. That is, if this term is not set to be an underestimate (consistent with myopic behaviour of individuals) the modelling would not fully capture the case for government intervention in VET.

Notably, the commission also allows for a separate term to capture the external benefit of education, but this term has also been set to zero (p. 80). This term is used in to capture the benefits accruing to third parties from an individual's education attainment as opposed to the benefits accruing solely to the individual undertaking education. In other words, it is used to capture the positive externalities or public benefits of education and as noted by the Commission, is one argument for government intervention in VET.

Hence while the body of the report acknowledges two key arguments for Government support of the VET sector, and both of these effects are allowed for in the modelling structure, they have both been set to zero in the draft report without adequate justification.

Conclusion of the report is not clear

The Commission recognises that in assessing the efficacy VET reforms, the basis should be its impact on net social benefit as this captures all factors affecting an individual's wellbeing. Net social benefit in the Commission's modelling is defined as:

net social benefit = gross payments to labour – money cost of education – value of non-market activity foregone by working + adjustment to capture the value of government revenue + external benefits + residual (p. 76)

As discussed earlier, the benefits to VET accrue in the long term while the costs are borne upfront. Thus, the Commission has discounted the costs and benefits to arrive at a net social benefit estimate in present value terms. However, the Commission has not published the discount rate used to calculate the present value of net social benefits as a result of VET reforms. Hence, an overall assessment of the VET reforms cannot be made from the report. For example, a discount rate that is too high would not reflect the true opportunity cost of funds invested in VET reforms and thus the present value of net social benefits from the reform would be an under-estimate of its true impact on wellbeing. The discount rate is another fundamental input into the modelling and by not publishing its value in the draft report, the Commission is not providing an opportunity for stakeholders to comment on its appropriateness.

Given that governments have limited funds and competing priorities, a better assessment of the effectiveness of VET reforms can be provided by estimating an internal rate of return (IRR) for government funds allocated to reform. This is because a ranking of policy initiatives according to the IRRs would enable government to allocate funds to those reforms and initiatives which have the highest rate of return. That is, governments can compare the IRR from investing in VET reforms with

the return from other policy initiatives to determine whether investing in VET is the most efficient use of government funds.

Clarity in definition and application of adjustment to capture the value of government revenue

In the equation above for net social benefit, the definition and application of the adjustment to capture the value of government revenue is unclear and greater clarity is needed.

As noted by the Commission, tax receipts and transfer payments between the government and the private sector should not be incorporated into the cost-benefit analysis used to assess the impact of VET reforms as they are merely transfers between different sectors of the economy without aggregate benefits or resource costs (p.21). However, raising taxes to fund government expenditure can blunt economic incentives to work, save and invest, resulting in so-called deadweight losses to the economy. This deadweight loss should be subtracted in the calculation of net social benefit from COAG's VET reforms.

Indeed, this appears to be how the term is calculated and applied when estimating the net social benefit of VET reform for young learners.

The value of tax revenue is assumed to be \$1.24 per dollar of tax revenue (appendix C). (Footnote 4, p. 90)

Hence, Appendix C states that the Commission uses a deadweight loss estimate of 0.24 cents per dollar of tax revenue.

However, when estimating the net social benefit of VET reform for mature learners, the adjustment term is defined rather differently as:

The change in the value of government revenue (the benefit that people gain from government expenditure). (p. 121)

In subsequent calculations of net social benefit for mature learners in Appendix E, this term is added instead of subtracted.

Thus, the section of the report for mature learners appears to have mistakenly added, rather than subtracted, the deadweight loss from raising tax revenue for funding COAG's VET reforms.

References

Leigh, A. (2008) "Returns to Education in Australia", Economic Papers, vol. 27 no. 3.

Leigh, A. and C. Ryan (2008) "Estimating Returns to Education Using Different Natural Experiment Techniques", Economics of Education Review, 27, 149-160.

Universities Australia (2010), "Economic modelling of Improved Funding and Reform Arrangements for Universities", <http://www.universitiesaustralia.edu.au/page/270/submissions---reports/commissioned-studies/economic-modelling/> (accessed 22 February 2012)

Impacts of COAG VET reforms Consultation

Held on Friday February 3, 2012 10.00 am – 12.00 pm
at VTA Offices, level 3, 478 Albert Street, East Melbourne

Convener: Nita Schultz

Purpose: The purpose of this paper is to inform the TAFE Directors Association response to the Productivity Commission (PC) Discussion Draft. VTA will not be lodging a separate submission.

Scope: These comments are responding only to PC Discussion Draft *Part B – VET* Chapter 3 Impacts of COAG Reforms. This consultation is considering the paper from a Victorian perspective and as such comments draw on experiences in an entitlement model for VET within the scope of the Victorian Training Guarantee.

1. Productivity Commission Draft Report assumptions about the relationships between ability, educational attainment and productivity (Ch. 3 pp. 25-31)

We remain unconvinced this assumption is correct. Many industries have endorsed formal skills sets with the industry training package of qualifications in recognition of the importance of clusters of units to the development and productivity of the workforce. Achievement and application of skills sets can improve productivity of workers yet national measures give no value to skills sets undertaken in vocational education and training. This seems at odds with processes in higher education. We propose that the Module Load Completion Rate (MLCR), a common measurement in vocational education and training performance, is worthy of consideration to fully understand the relationship between educational attainment and productivity.

The Discussion Draft acknowledges that in some instances attainment of a qualification simply certifies an individual's existing skills and does not imply an improvement in his or productivity. We agree. However, it appears the data used by the PC on enrolments in Victoria since the introduction of the Victorian Training Guarantee (VTG) have not excluded such enrolments/qualification completions. The extent of recognition of prior learning (RPL) and subsequent issuing of qualifications goes well beyond those occupations where a regulatory change means all workers are required to gain a qualification. We encourage the PC to enquire from Skills Victoria the full extent of qualification completions based on RPL in 2011 and to review comments in the light of the data provided.

However, RPL serves to provide social benefits to awardees and is a valuable tool for workforce development planning that can lead to future productivity benefits.

2. Effect of market-oriented reforms in Victoria (Ch. 3 pp. 33-37)

Observations that:

- The extent of training being paid for my businesses is diminishing (borne out by decline in TAFE fee for service activity as disclosed in Skills Victoria Q3 report). Fee for service enrolments in TAFE fallen 5% as at Q3 2011 compared to Q3 2010. Industry has quickly shifted thinking to an expectation that the government will subsidise workers' training. Concerns that employers cannot afford fee for service rates (eg: Certificate III approx. \$3000-\$5000 in TAFE), cannot access govt. subsidies due to existing qualifications of workforce, and training effort declining. Comments that investment in training by employers will diminish as the value for money cannot be justified. Anecdotal advice that employers in the health sector are recruiting staff not on the basis of the 'best fit' for position, but if the person can attract government subsidies for training.
- There needs to be a forensic investigation of the impact of the limited eligibility criteria in Victoria on mature aged workers/women. With ageing population and the policy imperative to increase workforce participation and entitlement models in VET, policy levers cannot discriminate against mature aged and disadvantaged people from receiving government funding support to undertake training. The public benefit must be quantified with government accepting a responsibility to invest in these cohorts.
- In Victoria pre-apprentices over the age of 20 cannot get government subsidies if they hold a Certificate II or above. In 2010 over 1200 Victorians aged over 20 years of age enrolled in pre-apprenticeship programs (Certificate II) in Victorian TAFE providers while holding equivalent or higher qualifications. Pre-apprenticeship programs are valued by industry and an important stepping stone to skills development and employment not just for young people under the age of twenty. Pre-apprentices have excellent completion rates. Pre-apprenticeship programs need to be protected.

3. Draft Report commentary regarding gains in productivity from improved LLN skills.(Ch. 3 pp. 43-44, 48-49)

The Commission rightly acknowledges the challenges to raise literacy and numeracy skills across the broad spectrum of the population. This must occur from the earliest age with early childhood education and schools providing the foundation. The VET sector has a role to achieve step-change at this point in time to assist people that have missed out through the school system to achieve literacy and numeracy skills, including digital literacy and the use of converging technologies, to be able to effectively participate in work. The investment by the Australian Government and State Governments needed to achieve this is much more than currently being allocated. It is difficult to imagine COAG targets being achieved with current budget allocations. If irresponsible targets have been met they need to be reassessed.

The Victorian Training Guarantee provides an entitlement to foundation training irrespective of age or prior qualifications. This is a strength of the Victorian Training Guarantee.

VTA supports targeted investment (early childhood, schools, specific mature aged groups) with clear outcomes driven performance measures.

4. Improved information to students (Ch. 4 pp. 51-53)

Within the Victorian context of reforms it is noted:

- Timeframes for implementation were impossibly short. Systems and processes had not been fully developed and tested prior to implementation. For example, agreement with Commonwealth had not been reached to enable ICL for Diploma/Adv Dip students although it was announced for commencements 1/7/2009.
 - Implementation commenced without a penetrating communication strategy on the part of the government. Employers were not sufficiently well informed of the changes and the impact on workforce development and training options for their staff.
 - Small businesses particularly disadvantaged in obtaining government funding support for training where existing workers held other equivalent level/higher level qualifications and could not attract funding support.
 - Labour market information to inform user/industry acquisition of training inadequate for public/employers to make informed choices about employment opportunities and training providers' credentials.
 - There has been no improvement in publicly available information to enable informed choice by employers and/or potential students. The prolific advertising of VET courses cannot be taken as a proxy.
 - VTA members mentioned many examples where students have made poor first choices in VET courses and as a consequence cut themselves out of government subsidized training in the course of their subsequent career preference. Many examples cited where young people over the age of 20, find they have been signed up in a traineeship (Certificate II) as part of parttime employment and when they make a choice to gain entry qualifications in another industry, are not eligible for government funding in Victoria (eg for pre-apprenticeship program at Certificate II).
 - Centrally located online information hub is essential with design based on rigorous stakeholder consultations.
- 5. Effective and efficient ways to promote increased quality delivery of VET. (Ch. 4 pp. 53-55)**

The issue of poor quality training and training outcomes as a result of the implementation of a market model in Victoria cannot be swept under the carpet. Qualifications issued by VET providers must have integrity and sound pedagogy at their foundation. We are concerned that the integrity of qualifications, particularly at the higher levels, has diminished in the public view due to well publicised disreputable practices. Reforms are needed to ensure that VET qualifications achieved in Victoria are regarded highly by industry and the general public.

Discussion particularly noted:

- The seemingly impossible task for the regulator (ASQA) to manage the volumes of requests from VET providers and monitor quality with existing resources.
- Escalation of providers in receipt of government funding in Victoria. (list accessible at <http://www.skills.vic.gov.au/get-training/find-a-provider-or-university/list-of-contracted-registered-training-organisations>) The question needs to be asked if an open market, with potentially unlimited suppliers, is the most appropriate in the VET context.
- Lack of a transparent risk based system for regulation of the quality of providers.

- An understanding that quality outcomes are measured by following paper trails through the processes and procedures of training organisations. This does not guarantee continuous improvement and quality outcomes.
- All training providers should be accountable for public funds and be required to publicly report financial and educational performance.

6. Successfully sequencing reform drawing on Victorian experience (Ch. 4 pp. 56-57)

In addition to the comments above regarding information, the following steps are recommended for effective planning for, and implementation of, VET reforms:

- Establish quality standards befitting a market model using billions of dollars of government investment. Standards must go beyond the minimalist requirements of the AQTF.
- Establish a risk management strategy for VET providers participating in government funded training.
- Establish quality monitoring framework and implementation plan.
- Ensure data used to underpin policy decisions are accurate. A flawed assumption based on poor data can have profound impact. (The Victorian policy was underpinned by research concluding that 1.6 million Victorians lacked the necessary qualification to enter the workforce. This has been challenged by TAFEs but there has been no response from the Victorian government bureaucracy.)
- Ensure data used by potential VET students and employers to inform choice are accurate.
- Publicly transparent planning and implementation strategies. In Victorian context policy was implemented in three stages commencing July 1, 2009. At that point in time recording and reporting processes and supporting systems had not been de-bugged. VET Fee-Help had not been agreed between the Commonwealth and the State. There was insufficient opportunity to thoroughly train customer services staff in changes – misinformation resulted. In our view a very poor communication strategy by government. Continuous knee jerk reactions to unwanted outcomes of the policy implementation.