

**PRODUCTIVITY COMMISSION DISCUSSION DRAFT – IMPACTS OF COAG REFORMS: VET
RESPONSE FROM THE DEPARTMENT OF FURTHER EDUCATION, EMPLOYMENT, SCIENCE AND TECHNOLOGY,
SOUTH AUSTRALIA**

PC assertions	DFEEST feedback to PC
<p>Reform classifications:</p> <ul style="list-style-type: none"> § Realised § Prospective § Potential <p>Data and other limitations mean that not all benefits and costs can be estimated.</p> <p>COAG targets are ambitious and will require effort beyond that committed to date</p>	<p>Accept</p>
<p>Qualification Completions – completion of higher qualifications – gains are more pronounced nationally than anticipated for South Australia due to <i>Skills for All</i> policy providing for access to government funding for the same or lower qualification twice</p>	<p>Qualification profiles and the completion of qualifications is more complex than that recognised in the PC Discussion. Other considerations include:</p> <ul style="list-style-type: none"> § Lower qualifications provide a pathway to higher qualifications § Not all qualifications are substitutable, eg career changers may need to start at a lower qualification than that already held. § Regulatory requirements may require people to undertake lower qualifications § The outcome can come from a combination of a government subsidy and the amount people pay themselves.
<p>Estimated changes in workforce participation and productivity:</p> <ul style="list-style-type: none"> § Participation – South Australia has realised 0.09 changes over the base from NPAPPP, and prospective changes of 0.04 from reform, with potential changes of about 1 per cent (0.99) § Productivity expected to be largely unchanged (nationally and in SA) due to net effect of: <ul style="list-style-type: none"> § Increase in the average productivity of the workforce from people on a path to employment or in employment due to VET qualifications gained § Decrease in average productivity of the workforce from people entering the workforce who would not otherwise have 	<ul style="list-style-type: none"> - DFEEST notes that lower level qualifications includes a significant component of LLN content - DFEEST modelling shows that of the additional 100,000 training places 9,700 are expected to be undertaking Certificate II and 11,000 Certificate I and foundation skills, leading to improvements in LLN.

<p>worked § for South Australia 0.01 realised and prospective and 0.05 potential</p> <p>By 2020 it is estimated reform will deliver larger changes nationally to 1% for participation and unchanged for productivity.</p>	
<p>Foundation skills – the additional 53,500 LLNP places announced in 2010-11 and 2011-12 budgets equates to measurable improvements in LLN for 10,000 people – estimated changes in participation and productivity from expanded LLN are expected to be small.</p>	<p>Concern that the PC has only taken account of the Commonwealth funding. States and Territories also contribute funding to Foundation Skills. In South Australia's case:</p> <ul style="list-style-type: none"> - <i>South Australia Works</i> programs, including Adult Community Education, contribute to improved levels of LLN. - A large proportion of Cert. IIs have significant LLN component. - <i>Skills for All</i> will also contribute to improved levels in Foundation Skills through the provision of wrap-around support services for disadvantaged students.
<p>Areas for improvement – PC seeking feedback</p> <ul style="list-style-type: none"> - Information available – the most effective and efficient way to provide potential students with the information they need - Quality issues with further action possibly required in relation to auditing and moderation – most effective and efficient ways to promote increased quality delivery - Completion rates – how might completion rates be improved - Sequencing of reforms to a staged transition to a more competitive system – what should be taken into account in reform sequencing 	<p>§ Information</p> <ul style="list-style-type: none"> ○ Career Planning - the Training Guarantee for SACE Students (TGSS) requires that a prospective TGSS student is able to demonstrably aspire to a career that is related to the qualification sought and has undertaken career planning that has clearly contributed to their decision <p>§ Quality - due to timing, quality issues are yet to be tested in South Australia. However the Department proposes to use a risk assessment framework which will rate providers as:</p> <ul style="list-style-type: none"> ○ Low risk - providers will be approved on the basis of their proposed scope ○ Medium risk – providers may have restrictions limiting the number of their qualifications or student numbers ○ High risk - providers are unlikely to meet the requirements for approval. <p>The selection criteria used to rate risk will have separate selection criteria to the registration process for <i>Skills for All</i> providers which</p>

	<p>will include:</p> <ul style="list-style-type: none"> ○ compliance with contractual obligations ○ suitably qualified and experienced management team ○ appropriate levels of industry engagement ○ sound financial health ○ services in place that support the diverse needs of learners ○ sufficient numbers of graduates from Training Packages in order to make a valid evaluation of performance ○ evidence of learner and employer satisfaction ○ evidence of quality assurance processes ○ trainers and assessors have relevant vocational competence and qualifications <p>DFEEST proposes to monitor provider performance through the AVETMISS reporting process, although the detail is yet to be determined.</p> <p>Providers approved for <i>Skills for All</i> provider status will be granted for three years at which time they will be required to reapply.</p> <p>§ Completion rates can be improved through programs such as Learner Support Services (LSS) and VET to Work (a program to improve both VET and employment outcomes for people with a disability).</p> <ul style="list-style-type: none"> ○ LSS has just undergone a pilot program in South Australia. Early outcomes indicate that 46 out of 159 participants were referred for additional assistance and 34 out of 100 presented with LL&N issues. ○ VET to Work has been operating in SA since 2008 and has an average completion rate over the three year period 2008 – 2010 of 45%, compared to a national average for all VET students of 28.4% <p>§ Sequencing of reforms – South Australia's Implementation Timeframe is attached.</p>
--	---

<p>Assumptions and Analysis - PC seeking feedback on Assumptions and Analysis – either evidence that supports the assumptions or alternative approaches</p> <ul style="list-style-type: none"> - an individual's workforce participation and productivity are only changed through the attainment of a full qualification above that already held - effects of changes in VET attainment at Cert III/IV, Dip/Adv Dip, Foundation Skills - effects of policy initiatives have small impact on prices and can be ignored, ie increased supply of workers will not reduce wages - Increase in VET student numbers take account of: <ul style="list-style-type: none"> o 40% students enrolled in training other than Cert III-Adv Dip. o Potential qualification completers less than total number of students o 2/3 VET students do not complete qualification o Students enrol in qualifications at or below that currently held - Relationship between ability, educational attainment and productivity <ul style="list-style-type: none"> o An individual's productivity is less where a qualification is undertaken through a policy initiative versus a person acquiring a qualification through their own initiative o An individual's educational choices may have been constrained by access to education rather than ability, in which case the PC's analysis could be smaller, zero or replaced by a productivity premium o A qualification attainment may be due to regulatory change and not improve the person's existing skills o PC seeking evidence to support or refute these assumptions - Workforce participation – defined as total hours worked – assumption that people who enter the workforce as a result of policy initiatives work the same average hours as incumbents 	<ul style="list-style-type: none"> § These assumptions are questioned. § The PC's modelling of productivity improvements is based on an assumption that the number of years of schooling (in this case the qualification level) determines the amount of skills and therefore productivity in terms of increased wages acquired. § While this assumption holds relatively well for school education and higher education, it does not necessarily hold true for vocational education and training where many of the skills acquired are specific in nature and non-transferable to other occupations and/or industries. Estimates for increased lifetime earnings performed by different studies have not been consistent as a result (Long and Shah, 2008 for instance end up with very different results when compared to Chapman, et al, 2008 for private returns to VET). § Moreover, the concept of productivity improvements modelled by the PC is based on the notion of additionality where only the net marginal impacts are considered. Thus, training done at the same level (which is assumed to not provide additional wage benefits as described above) would result in no improvements to productivity. § What the notion of additionality fails to take into account is that much of the training under the NPAPPP was conducted as part of structural adjustment for retrenched workers in industries that have either downsized or have made capital improvements resulting in a lower demand for labour. § As a result, the impact on productivity of training is not made in reference to a proper baseline. It assumes training was undertaken by workers who continue to have the same earning potential as before, when in fact this may not be the case. Take for instance the case of a worker who studies a certificate program at the same level as his current highest level of attainment after being retrenched in order to be fit for work in a different occupation where his or her wages would be lower than they were before. In that situation, the proper baseline would be his or her earning potential without the new qualification which would be zero if that person did no training and consequently remained unemployed.
--	--

<p>- Average hourly wages are a proxy for productivity</p>	<p>§ Yet, under the PC's assumptions, the baseline would have to be the wages prior to retrenchment. As pointed out above, when human capital acquisition is specific in nature, retrenchment causes all prior investments in those assets to constitute a sunk cost. The report as it currently stands fails to take this particular limitation into account.</p> <p>§ In the report the PC acknowledges that one of the factors leading to low completion rates is the acquisition of the appropriate level of skills needed for employment prior to the completion of the course. By modelling productivity based on the signalling effect of a qualification, the PC fails to take into account the rise in productivity resulting from the acquisition of skill sets. While the construct of a skill set is yet to be defined and measured, the report should acknowledge that its assumptions result in a downward bias of its productivity assessments.</p>
<p>NPA PPP – recognition that data is not readily available and difficulty in isolating PPP students.</p> <p>Analysis of South Australia commissioned NCVER outcomes</p>	<p>South Australia managed their PPP in a way that was able to be tracked. As a result SA was able to evaluate the outcomes and commissioned NCVER to do this work. The analysis included both student outcomes survey and survey of employers. The results showed:</p> <ul style="list-style-type: none"> - A higher completion rate than the South Australian VET system in total. At the time of the survey, 70.1% of jobs seekers and 47.0% of existing workers had completed their qualification with 21.2% of job seekers and 48.9% of existing workers still in training. Only 8.6% of job seekers and 3.9% of existing workers had left their training before completing. This compares to the estimated VET completion rate in South Australia of 35.2% in 2008 - Of those students that completed their qualification under the program, 41.2% of them did not have a prior qualification - Higher qualifications - the number of PPP students who had a certificate III and or above increased after they completed their qualification. <ul style="list-style-type: none"> o Before training, 34.5% of job seekers that had completed their qualification had a prior qualification of certificate III

	<p>and or above as their highest qualification. After training, 50.7% of job seekers had completed a qualification certificate III and or above.</p> <ul style="list-style-type: none"> ○ Before training, 74.3% of existing workers that had completed their training had a prior qualification of certificate III and or above as their highest qualification. After training, nearly 100% of existing workers had completed a qualification certificate III and or above. ○ Of those students that completed their qualification under the program who had a prior qualification, 53.3% of them had completed a qualification higher than or equal to their prior qualification <ul style="list-style-type: none"> - Additional to current effort - in 2009, the number of Government funded course enrolments was 72,999 (17.68% higher than the baseline provided by the NPA) and 81,565 in 2010 (x enrolments, 31.49% higher than the baseline provided in the NPA). - Qualification commencements in 2009 were 66,283 (28.22% higher than the baseline provided in the NPA) and in 2010 were 73,482 (42.15% higher than the baseline provided in the NPA). - Employer feedback: <ul style="list-style-type: none"> · 70% of respondents said their organisations invested in accredited workforce training before participating in the PPP. · 80% of respondents said the PPP filled a skill gap in their organisation. · 75% of enterprises have a workforce development plan identifying skill requirements. · 90% of enterprises have future plans for training and further developing the skills of their workplace. · 51% of enterprises responded that they would definitely not/probably not have invested in training if funding was not provided by the PPP. · 70% of employers indicated they invested in accredited workforce training before participating in the PPP. Only 40% indicated they either probably or definitely would have invested in training for their employee/s if funding had not been made available through the PPP.
--	--

	<ul style="list-style-type: none"> 82.35% indicated they were satisfied or very satisfied with the quality of the PPP training received by their employee/s Almost 95% of respondents said their organisation benefited from the training and the employee benefited from the training.
<p>South Australian reforms:</p> <p>§ South Australia reform considered 'prospective' as additional training commences 1/7/12 to 31/12/14</p> <p>§ From 1/1/15 South Australia's reform changes to 'potential'</p> <p>§ Of the additional 100,000 training places (in the six years from 2010/2011):</p> <ul style="list-style-type: none"> 25,000 places are due to NPA PPP SfA accounts for 47,000 places from 1/7/12-31/12/14 Training activity from 1/1/15-30/6/2016 accounts for 28,000 Effects of SfA are deemed prospective PC estimates prospective increase of 4,200 will obtain a qual above their previous highest level <p>The PC estimates are based on:</p> <ul style="list-style-type: none"> 22% of SA students versus 12% nationally are enrolled in other recognised courses, ie larger share of pre-voc in SA than other states Students can take up a government subsidised place at the same level or higher, twice Certs I and II are fully subsidised <p>Prospective changes in workforce participation could rise by about 0.04% and productivity relatively unchanged (0.01)</p> <p>Prospective increase in net social benefit of \$0.2 billion</p>	<p>§ Accept that reform in SA is prospective</p> <p>§ Reform through <i>Skills for All</i> is ongoing. Additional funding will continue through to at least 2015/2016 from 100,000 additional training places published in the Jobs Strategy policy 2010. The 100,000 places is the government's commitment to growth.</p> <p>§ Funding past 2015/2016 will combine current base plus growth component.</p> <p>§ The majority of publicly funded training will be demand driven.</p> <p>§ Corrections to the PC assumptions on the 100,000 places:</p> <ul style="list-style-type: none"> 37,000 places are due to NPA PPP Training activity accounts for 10,150 from 1/7/10-30/6/2012 SfA through demand driven training accounts for 52,450 from 1/7/12-30/6/2016 It is important to make clear that the 37,000 PPP training places are a component of the 100,000 places but that their impact has been evaluated separately. <p>§ In relation to PC assertion that 22% of SA students are enrolled in non recognised courses (and PC modelling was done on that basis) it should be noted that:</p> <ul style="list-style-type: none"> SfA training places are for AQF qualifications only. the proportion of non AQF qualifications (skill sets) is expected to be 6% <p>§ It is misleading to assign very low level of productivity and participation improvements to <i>Skills for All</i> as it overlooks the potential for addressing the problem of low completions and high turnover of students from other policy initiatives in the document.</p>

<p>Potential reform effects:</p> <p>§ The PC claims that the potential effects of the reform agenda will come from reforms yet to be implemented. In South Australia the period of potential effects is most likely to come into effect from 1 January 2015.</p> <p>§ If the COAG targets are met, the percentage of Australians without a Certificate III qualification is projected to be 23.6 percent. Based on realised and prospective reform, the PC projects that 28.3 percent will not have completed a Cert III by 2020.</p> <p>§ Meeting the 2020 NASWD targets will result in an estimated rise in workforce participation of almost 1 percent, productivity by 0.05 percent and GDP 1.3 percent higher than the baseline</p> <p>§ LLN – a reduction of 10 percentage points in the proportion of people at skill levels 1 and 2 by 2030 would require 140,000 additional places annually and lead to 0.3 percentage point increase in participation rate for men and 1 percentage point rise for women, with rise in productivity 1.8 percent for men and 1.4 percent for women.</p> <p>§ PC seeking views on whether</p> <ul style="list-style-type: none"> ○ productivity gains from improved LLN are achievable ○ appropriate and realistic scale and timeframe for further government initiative on LLN given the potential costs and benefits 	<p>A number of reforms have already been implemented, such as:</p> <ul style="list-style-type: none"> - the NPA PPP (see detail above), - increase in pathways to accredited training through ACE - increased completions in apprenticeships and traineeships over the last 3-4 years from competency based training. Apprentices and Trainees completing in the year to June 2011 in South Australia have increased by over 8% over those completing in the 12 months to June 2008. <p>§ The PC assumes very low level of improvement in the overall rate of literacy and numeracy due to low completion rates but assumes that no effort will be made to boost completions. Pilot programs and internal DFEEST modelling point to the potential for significant uptake in these rates with very modest investments per person.</p> <p>§ Investment in WELL program funding provides the potential for measuring productivity improvements. The AIG National Workforce Literacy Project – Survey on Employers Views (2010) noted that more than 75% of respondents reported that their business was affected by low levels of literacy and numeracy. Their report <i>When Words Fail</i> (February 2012) identified reduced productivity from poor completion of workplace documents, time wasting, ineffective work, wastage and ineffective training. Only 8% of employers surveyed reported that they had adequate capacity to assist the improvement of literacy and numeracy skills.</p>
<p>Youth transitions (transitions from school) – PC recognises that reform impacts take time to emerge so it has focussed on characteristics of successful transitions. Success has been defined by a person's employment status in the period prior to turning 25. Based on 2008 data:</p> <p>§ 66% of people turning 25 were employed full-time in the 7 months prior (just over 20% classified as having failed to make a successful transition (not in study or child rearing also</p>	<p>Further detailed statistical analysis would need to be undertaken to gain an understanding of the relationships between the measured characteristics (such as disability, locality, parent's education, school type, school attainment, non-school attainment) and their relevance to the probability of a successful transition.</p>

<p>considered))</p> <p>§ This criteria rises to almost 80% successful transition if counting part time employment (13% unsuccessful)</p> <p>§ Employment of any type in four of the seven months equates to 88% are estimated to have made a successful transition (7% failed).</p>	
---	--