

Australian Government

Department of Industry, Innovation Science, Research and Tertiary Education

The Commissioner Impacts and Benefits of COAG Reforms Productivity Commission GPO Box 1428 Canberra City ACT 2601

SUBMISSION ON IMPACTS OF COAG REFORMS: BUSINESS REGULATION AND VET – PRODUCTIVITY COMMISSION DISCUSSION DRAFT

Dear Ms Scott

Thank you for the opportunity to comment formally on the Productivity Commission *Discussion Draft – Impacts of COAG reforms: Business Regulation and Vocational Education and Training.* I also appreciate your taking the time to meet with the Department to discuss the draft on 17 February 2012.

As discussed, while noting the difficulties associated with ascribing real values of productivity and growth, the Department has some concerns about the assumptions underpinning the estimates of the impact of skills reform.

Productivity impact

It is our view that the benefits of the VET reforms for overall productivity may not be fully captured due to the way workforce "productivity" is measured.

The PC takes, as its baseline for measuring productivity benefits, people increasing their highest level of attainment. The PC therefore identifies low completion rates, enrolments in lower level qualifications and qualification completion by individuals at the same or lower levels than they had already attained as impediments to productivity.

However, many of the students who do not complete may have completed sufficient training to obtain a benefit – for example via achieving a skill set. Moreover, in the current environment of labour flexibility, a change of qualification, not necessarily an increase in level, of qualification, may also be indicative of benefit to an individual who may otherwise have become unemployed.

Additionally, those who enter the workforce with a qualification lower than the average – which would be the case for many unemployed people – are taken to lower the average productivity of the workforce.

This approach doesn't take into effect the overall positive contribution that is made by a person returning to the labour force or subsequently entering higher education – even via a lower level qualification.

Inclusion of a Multi Factor Productivity Measurement may produce an expanded perspective on productivity gain.

Impact on GDP of completions

It is possible that the benefit to GDP may be significantly higher than factoring only the completion rate, given that 80% of individuals express satisfaction with their training modules, and that a similar percentage complete individual modules. The use of sensitivity analysis may assist with the modelling.

As noted above, individuals complete skill sets and upgrade qualifications (for example to enable use of new technology) which do not require a qualification to be achieved. Benefits are also obtained where people obtain new skills but at the same or lower qualification level, but this is not captured by the modelling.

Measuring completions

While we acknowledge that the NCVER work on completions is the best estimate currently available, in the absence of a Unique Student Identifier a series of assumptions are made in calculating the estimate which reduces its reliability. Many of these would appear likely to result in downward bias.

NCVER uses the 'Markov Chain' methodology to estimate VET qualification completion rates. Reasons that the Markov Chain estimates probably understate the 'true' rate include:

- Lack of a unique student identifier means tracking students through the VET system is difficult—and accurate tracking impossible;
- NCVER must attempt data matching over several years to create the longitudinal dataset for Markov Chain statistical modelling;
- The Markov Chain assumes that if somebody who was enrolled-and has not completeddoes not present as a continuing enrolment, they have dropped out ("not in the VET system"), which is a terminating state;
- the VET system lacks a clear definition of 'qualification commencement';
- the VET system also lacks a clear definition of 'qualification completion'
- the VET system also lacks a clear definition of the completion event;
- qualification courses change over time, changing the course identifier and invalidating tracking of the course ID code;
- the student may complete at a different qualification <u>level</u> to the original enrolment, which changes the course ID for the completed qualification; and
- the course ID changes and the student then completes at a different level, giving at least two changes of course identifier.

The reasons above suggest that the Markov Chain estimates of completion probability are likely to be lower than the unobservable 'true' completion rate. It is impossible to derive confidence intervals on the completion probability estimates, as no information exists to quantify the prediction error.

Effect of possible prediction errors, using the 2008 completion rate estimate of 28.4%:

VET Completion rate Understatement error	estimate					
level	original	5%	10%	15%	20%	25%
Adjusted for error	28.4	29.8	31.2	32.7	34.1	35.5

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Another (less sophisticated) approach was taken by Michael Long¹ (then of the Centre of Education and Employment Training, Monash University), who considered the ratio of completions to student enrolling for qualifications, "a crude measure of completion rates", which was 26.6% in 2008 by his reckoning. He suggested a likely completions ratio closer to 40% if the denominator were commencing students (i.e., he discounted for continuing students). He suggested the ratio would be higher if movement between courses were taken into account.

In summary, we consider that using the 27% completion estimate without sensitivity analysis to be likely to produce a downward biased figure for economic benefit.

Reform by other states and territories

The PC limits analysis to reforms in South Australia and Victoria. However, it is existing Government policy that Income Contingent Loans (ICLs) be provided for publicly subsidised courses to all states and territories that provide an entitlement to training. It would be useful if the PC could estimate the benefit of a national entitlement system and access to ICLs. The current analysis on likelihood of achieving the COAG targets is limited as prospective actions which are part of the current reform framework are not included, even as a hypothetical.

Foundation Skills

The PC assesses that the impact of efforts in increasing foundation skills have been limited. Specifically, the PC assessed the effect of LLNP funding for 43 500 additional places for the Language, Literacy and Numeracy Program (LLNP) as having provided skill improvement for around 10 000 people. This analysis seems to be underpinned by an assumption that a relatively small number of people benefiting from a program means that the program is of little value.

An issue not considered by the PC is that LLN places are largely targeted to individuals who need to improve their skills to obtain employment. The practice of referral through Centrelink means that the program may have a disproportionate benefit in terms of increasing participation (and potentially reducing government welfare outlays).

Thank you again for the opportunity to comment on this discussion paper.

Yours sincerely

Peta Furnell Division Head VET Reform Division

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¹ TAFE Funding and the Education Targets, Centre for the Economics of Education and Training 2010