TDA National Conference 2013: TAFE Redefined

The economics of skills:
report on the contribution of additional investment in VET to the Australian Economy

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Contributions of the report

Build on previous studies of the economic contribution of additional investment in VET by:

1. fully including benefits for graduates and module completers
2. fully including benefits for up-skillers and re-skillers
3. VET as supplier of 43 detailed occupations to 120 industries
4. internal rate of return to VET investment for policy evaluation
Internal Rate of Return Finding

- internal rate of return of 18% p.a. to additional VET investment
- an extra dollar in VET yields ongoing annual benefit of 18 cents
- compares to benchmark of 9 cents for business investment
- assumes funds used to expand places in Certificate III & above
- higher than previous estimates because of fuller allowance for benefits from module completion and re-skilling
- implies under-investment at present. Why?
  - unmet demand for places → add to places
  - myopia in potential students → subsidise places
  - inadequate access to loans → HECS-like loans scheme
Policy scenarios for VET spending for 2013 to 2017

• Policy scenarios for what was, what is, and what could be

• Baseline: 2011 policy settings (under 2009 National Agreement for Skills and Workforce Development (NASWD))

• Committed Funding Scenario: includes $2.7 billion additional funding assumed under 2012 NASWD
  — higher funding in net terms from Commonwealth ($1 billion) and all state governments except Victoria
  — commensurately higher funding from students

• Further Expansion Scenario: includes $6.7 billion additional funding
Net Present Value for committed VET investment ($bn)

<table>
<thead>
<tr>
<th>Tuition costs</th>
<th>Foregone earnings opportunities</th>
<th>Employability benefits</th>
<th>Productivity benefits</th>
<th>Total net benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2.3</td>
<td>-4.7</td>
<td>18.4</td>
<td>2.0</td>
<td>13.4</td>
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</tbody>
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Tuition costs, Foregone earnings opportunities, Employability benefits, Productivity benefits, Total net benefits.
Ongoing benefits to Australian economy

- Households better off by $0.6 billion per year
- The workforce is more skilled
  - 0.3% more Technicians and Tradespersons
  - 0.3% more Community and Personal Service workers
- Industries dependent on VET expand significantly:
  - manufacturing
  - automotive repair
  - personal services
- Economy expands
  - 0.1% boost to annual GDP and employment
Alternative VET policies

- A larger boost to funding/places (further expansion scenario) gives larger net benefits than the committed funding scenario.
- If VET places are currently provided on an optimal basis, then expanding the number of places gives the best value for money.
- Alternative policies can be assessed with cost-benefit analysis:
  - policies targeting higher quality tuition
  - policies targeting higher completion rates
  - more emphasis on skills sets
  - more emphasis on VET as pathway to Higher Education
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