

# Review of the Australian Apprenticeships National Skills Needs List

## Submission

By the



**National Australian  
Apprenticeship Association**

## 1. Background

The Association welcomes the opportunity to provide input into the principles that will underpin the design of the Australian Apprenticeships National Skills Needs List. Apprenticeships in Australia are at a generational low, the future methodology of the Skills Needs List must not make the situation worse.

It must “do no harm” to a system that has been under improvident assault.

Over the last seven years the investment in employer incentives for apprenticeships has halved from \$3.6b to \$1.8b over forward estimates. The overall investment in the apprenticeship sales process through Universal Services in the AASN contract has declined by 47% from the system that preceded it. The tools for your trade allowance for apprentices has been replaced with a loan scheme. Over the last five years commencements have fallen by 15.8% and overall completions are down 39.4%.<sup>1</sup> As a result, apprenticeships have declined from 3.8% of the workforce to 1.9%.

This precipitous declension must be halted if young people are to have high quality integrated workplace learning pathways into employment and employers are to actively participate in the skills formation process.

From an employer’s perspective, the comparison between graduates of Higher Education and Vocational Education and Training could not be starker. If an employer takes on a university graduate they have made no contribution to their training and receive the benefit of around a \$100,000 public and private investment in that graduate’s training.

Under an apprenticeship pathway the employer must invest in supporting the apprentice, sign a Training Contract that ensures they are supervised by appropriately qualified staff and run the risk on non-completion. A trade apprentice may receive up to \$30,000 of public investment in their training but may need to take a loan out to be able to afford to attend work.

University degrees are largely supply driven whilst trade qualifications are directly demand driven. The duration of both types of qualifications are equal but that’s where equality considerations end. There is no National Skills Needs List for higher education qualifications.

The effect of state and federal funding and policy changes since 2012 has been to reduce the value proposition for employers to participate in the apprenticeship system by:

- A 19% cut in investment in the VET system overall reducing the availability of local training opportunities – particularly in rural and regional communities.<sup>2</sup>
- Increased apprentice wages through Modern Award changes
- Keeping core employer incentives at 1998 levels
- Making Skilling Australians Fund commitments to apprenticeships contingent on a levy on skilled migrants and then redirecting 46% of funds to the 2019 Skills Package.
- Making investments in new incentive arrangements that are either exceedingly generous for a lucky few businesses (AAWS), or dependent on additionality

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<sup>1</sup> NCVER Apprentices and trainees 2019; March quarter

<sup>2</sup> See Annexure 2

requirements that baffle and confuse employers (AISS) and are yet to prove effective.

The principles that are suggested for the design of the Skills Needs List in the future have the potential to make the situation significantly worse by;

- Quarantining support to vocations where an apprenticeship is the primary pathway
- Implementing additionality requirements at a workplace level that will progressively exclude businesses that currently participate in the apprenticeship system.

These measures are proposed under the guise of delivering “outcomes that have the greatest social and economic benefit”. However, if current apprenticeship levels matched those for the first 12 years of this century, in March 2019 we would have had 214,751 more apprentices in training than we do.

It cannot be in the national interest to let this shortfall widen any further.

This is why the Association recommends the inclusion of a seventh principle to support the design of the National Skills Needs List. It is:

Principle 7 In aggregate the principles should do no harm.

That is, we cannot allow the National Skills Needs List to paradoxically lead to higher skills shortages by further lowering commencements and completions in apprenticeships and traineeships.

To achieve this, principle 6 should also be amended to read:

Principle 6 The methodology should prioritise outcomes that are in the national interest by ensuring apprenticeship levels are above 3% of the workforce and support improved completion levels.

If this is not the intention of the Skills Needs List then the needs list system should be abandoned and replaced with a new transaction logic.

## **2. New transaction logic**

Employers of apprentices play a vital role in the skills formation system by providing apprenticeship and traineeship opportunities. Apprenticeships are the gold standard of integrated workplace learning where 85% of the time is spent under supervision learning skills on the job.

The incentive system should recognise this role by providing employers with a supervision and coaching allowance for each of the apprentices they employ. This is to defray the costs of providing the supervisor or workplace coach that guides the development of the apprentice.

These allowances could be paid 3 months in arrears and would stop if an apprentice leaves the employer.

It would reward employers playing an active role in avoiding skills shortages for their business and their industry. The employment of an apprentice being enough to prove the demand for the skills that the apprentice will learn.

The longer the term of the Training Contract the more support an employer would receive.

The balance of incentive investment could then be focused on assisting apprentices with particular barriers to complete their training. For example, the distance to attend classes with their registered training provider, their socio-economic background or their need for additional health related support.

To complement these measures a future workforce program could seek co-investment by businesses and government where an industry was in transition or new job roles were emerging. (the National Shipbuilding Plan is an example of this)

This type of approach would obviate the need for detailed forecasting for every industry sector preferring instead to allow the market to determine relative demand variations. The incentive system would support these variations as they occur.

It would both radically streamline the employer incentive system and improve the value proposition for employers to participate.

It would also provide financial assistance to apprentices to address some of the causes of the alarming fall in completion levels.

The proposed Skills Needs List methodology is currently blind to these considerations.

### **3. Primary pathway to apprenticeships**

On one view of it the only trades that would be immune from reduced commencements through the application of a primary pathway consideration are Plumbing and Electrical trades. All others have some form of alternative pathway.

The question is, are all pathways created equal? The Association argues that they are not. One of the primary aims of vocational education and training is to support learners to acquire the skills they need on-the-job using an integrated workplace learning model. This provides the depth of opportunity and experience that suits non-academic learning styles. It also underpins the confidence the community and employers have that the skills learned are to a consistently high national standard.

Over the last 5 years there has been a significant substitution of integrated workplace learning based Traineeship qualifications with classroom based upfront training. Or indeed for people to enter vocations without any qualifications or formal training plan. So, for example since 2014:

- Engineering, ICT and Science Technician workforce grew by 47,480 up 22% but apprentice levels declined by 3,310 down 62%
- Food trades workers grew by 24,170 up 14% but apprentice levels declined by 4,715 down by 38%
- Hairdressers grew by 770 up 1% but apprentice levels declined by 1,210, down by 15%
- Miscellaneous technicians and trades workers grew by 14,300 up 25% but apprentice levels fell by 8,555 down by 81%

- Carers and aides grew by an impressive 108,710 up 24% but traineeship levels fell by 3,335 down 36%
- Health and Welfare support workers grew by 31,730 up 28% but traineeship levels fell by 3,115 down 75%
- Hospitality workers grew by 27,010 up 10% but traineeship levels declined by 2,440 down 29%.

Limiting incentive support to vocations where apprenticeships are the primary pathway could seriously increase this rapid decline. We do not support using the Skills Needs List as a mechanism to increase the uptake of short up-front courses at the expense of high quality integrated workplace learning and as another means to disinvest from the apprenticeship system.

#### 4. Additionality

There are two definitions of additionality in the Australian Apprenticeships Incentive Program. The first relates to the Australian Apprenticeship Wage Subsidy (AAWS) trial where the requirement is for an employer to hire a new apprentice. The funding support for each employer under the trial is up to \$38,000 per eligible apprentice.

The Additional Identified Skills Shortage (AISS) definition of additionality is more complex and effectively involves a *test to ensure a net rolling increase in an employer's stock of apprentices*. This is an intricate calculation that requires reference to a June 30<sup>th</sup> 2018 baseline, the Training Youth Internet Management System (TYIMS) data and access to an excel tool. The tool needs to be used first when a potentially eligible apprentice commences and reconfirmed before the 12 month and final payments of \$2,000 are made.

The tool has now had at least 5 iterations to try and account for real world complexity and the guidelines and supporting explanations stretch to over 50 pages.

Association members report that less than 8% of total AISS places are likely taken up in the first full year of its operation due to complex additionality requirements. The difference between the advertising rhetoric and the reality of eligibility in the program is having serious impacts on the employer's willingness to further engage in the apprenticeship system. They feel duped by the advertising which does not mention the need for additionality at a workplace level. When they do know about it they don't understand why.

If all incentives are to be treated this way the government will be spending money to alienate the employers they should be rewarding.

At an individual employer level eligibility for any incentives would rapidly evaporate. For example, if an employer plans to employ the same number of apprentices each year they will never meet the additionality requirements and so the meagre incentives they have been receiving will be phased out.

This will have the same impact as the removal of Existing Worker Traineeships – commencements will collapse. Achieving the obverse of the stated aim of the skills shortage program.

## Annexure 1      Response to specific consultation questions

### 5. Proposed design principles

The six proposed design principles are:

- 1 There should be a single coherent approach to identifying occupational skills shortages
- 2 The methodology should be forward looking
- 3 The methodology should be responsive to changes in skills shortages
- 4 The methodology should be transparent yet flexible
- 5 The methodology should support informed decision making
- 6 The methodology should prioritise outcomes that deliver the greatest social and economic benefit.

### 6. Consultation questions

1. Do you agree with the identified issues with the NSNL as it currently operates?

Yes, but it does not include an examination of how rapidly declining completion levels contribute to skills shortages.

2. What evidence or examples can you highlight in support of your position?

Complexity of multiple incentive arrangements that are time consuming to administer and baffling to employers.

Falling commencement and completion levels. Completion levels falling by 39.4% over the last five years.

3. Are there other issues with the NSNL that should be considered?

Current incentives arrangements support both the stock of existing employment levels – averting the risk of skills shortages in key industries, plus the ability to meet recruitment shortfalls or additional growth requirements.

Also, the issue of historically low completion levels and rapidly falling completion levels in different industries needs to be considered on a sector by sector basis.

4. Are the design principles outlined in this section the right ones for a methodology to identify occupations in skills shortage and to allocate apprenticeship incentives?

No, the first five principles are fine but principle 6 will have the effect of diminishing the levels of support for apprenticeships by encouraging a switch to non-apprenticeship pathways where multiple channels exist. This diminishes the quality of the training and depth of skills by shifting learners to patterns of vocational training that have virtually no integrated workplace learning.

We also have serious concerns about the additionality requirements foreshadowed in principle 6. If they are set at an employer level rather than in aggregate across an industry they will become self-defeating. They will reduce support for employers that put on the same level of apprentices as the previous year. Over time this will exclude many employers from incentive support. As we saw with the removal of Existing Worker

Traineeship incentives this will have a direct negative flow on effect to commencement levels. A degrading of commencements cannot be the aim of the National Skills Needs List methodology.

5. Are there other design principles that should be considered? If so, please describe them and outline the rationale for their inclusion?

The effect of the principles must not be to diminish the apprenticeship commencement and completion levels. So, we suggest the following changes.

**Principle 7      In aggregate the principles should do no harm.**

That is, we cannot allow the national Skills Needs List to paradoxically lower commencements and completions in apprenticeships and traineeships.

To achieve this Principle 6 should also be amended to read:

**Principle 6      The methodology should prioritise outcomes that are in the national interest by ensuring apprenticeship levels are above 3% of the workforce and support improved completion levels.**

6. Which of the design principles would you rank as being of greatest importance?

The methodology around the implementation of principle 6 has the most potential to further weaken commencement levels in apprenticeships by removing support for apprenticeships where they are not the exclusive pathway into a vocation.

7. Do you agree that a single coherent approach should underpin the identification of occupational skills shortages? If not, what is/are the alternative/s?

Yes – if you want to persist with a Skills Shortage methodology.

Or better still consider a new transaction logic to support employers of apprentices and reduce barrier to apprentice completion. These are detailed in our opening discussion above.

8. What timeframe into the future should be used when identifying occupational skills shortages for the purpose of targeting skills shortage incentives? Why?

10-year outlook with annual calibration. Most of the workforce trends are comparatively slow moving such as building a workforce to support the aging population, or the inevitable decarbonisation of the economy. Many national infrastructure projects have 5 to 10-year implementation timelines, so a longer term view is essential.

9. What are the key limitations, if any, of a forward-looking methodology? How can these be addressed or managed?

If a longer-term view is taken it may be subject to political priorities of the time and lead to a “picking winners” approach. This could potentially lead to over supply issues.

One way of managing this is to establish long term priorities but use an annual calibration process – similar in some respects to the bushfire warning system which rates

the risks on a more immediate basis. The Bushfire warning system has the following categories; moderate, high, very high, severe, extreme, catastrophic.

The skills shortage system could have: moderate, high, very high and extreme. Additional incentives could be targeted to vocations that met the very high and extreme categories whilst standard incentives could be used for the two lower levels.

10. Are the core components of a possible forward-looking methodology outlined above appropriate? If not, why and what are the alternatives?

The principles are not yet complete because they could lead to a reduction in apprenticeship commencements.

The overall purpose of the skills shortage regime and the incentives that are triggered by the analysis is to ensure we have the steady flow of skills we need. Additionality requirements and exclusivity provisions discussed and implied in principle 6 will significantly reduce commencement levels.

It's the sort of provision you would make when apprentice commencements were over supplying the market and the government needed to rein in costs. There has been no evidence of over supply since 2012.

The proof that a skill is required by the labour market is provided by an employer offering an apprentice a job. This is the real-time operation of the market that should always be supported.

11. Are there objective means of assessing skills shortages in small and emerging occupations for which there is no primary data?

Yes, the CSIRO have done significant empirically based work charting the impact of global mega trends on the Australian economy. These are trends that will not be wished away by short term government policy making.

So, whilst not a priority of the current government there will be significant shortages of tradespeople to support the electrification of land based transport systems, the expansion of the electricity grid and generating capacity required to support it, and possibly the development of the hydrogen fuel cell industry to support heavy transport and industrial processes. Preparation needs to be made for these developments so that the workforce can be rapidly expanded and does not become a constraint on economic transitions that will occur despite government opposition.

12. Do you agree that the skills shortage methodology should be updated annually?

No, the methodology should be sound enough to adapt to changes in the economy and the agreed principles should remain in place unless they prove to be obviously flawed. They should be updated on a demonstrable needs basis.

13. Should the occupational skills shortage list be updated with the same frequency? If not, why not?

Yes, this list should be revised annually, based on a risk assessment process similar to the bushfire warning system.



14. What is the right balance between transparency and flexibility? How might a formulaic approach to identifying skills shortages be made more flexible without compromising transparency?

Be transparent about the risk based methodology used to set annual priorities. There is no reason why flexibility should not be transparent, unless its indefensible in which case how can it be justified?

15. Do you agree that eligibility for skills shortage incentives over the life of the apprenticeship should be determined at the commencement of the apprenticeship?

Yes, it will destroy employer trust in the system if you change the rules half way through. Standard grandfathering arrangements can be used to prevent this.

16. Would volatility in the availability of skills shortage incentives impede their uptake? If so, what type of stabilising mechanism would help to address this issue?

Consider a different transaction logic for providing support to employers to be involved in the apprenticeship system. This could take the form of a payment to provide supervision and coaching of their apprentice and track skills acquired through integrated work based learning.

All employers of apprentices would get this for the period whilst their apprentice or trainee is in place, paid quarterly in arrears.

Skill shortage payments are then used to top up employers to meet agreed identified needs and help develop emerging workforces. This would occur through an agreed co-investment model.

17. How far in advance of the effect date should changes in the skills shortage list be announced, given the need to balance business planning and distortions to commencement patterns?

Phasing in new priorities 1 month.

Phasing out old priorities could occur using a phased relegation type model (from football competitions such as the English Premier League).

Some skills will be at the top of the Premier League, some close to relegation to the first division. Once in the first division they would still attract incentives until they fell into the relegation zone for the second division. The final standings would be part of the annual review.

18. What criteria should be used to target apprenticeship incentives to deliver the greatest economic and social benefit?

- Ability to add to the overall stock of apprentices, viewing economic and social benefit in aggregate as part of the national interest.
- Support for employers to play an active and engaged role in supervision and coaching of apprentices (see answer to 16 above)

- Support increased completions by reducing barriers faced by apprentices
- Easily understood
- Simple to administer
- Not an “economic rationalist” approach that seeks proof of additionality at a workplace level with the effect of achieving the false economy of reduced commencements overall.

19. What type of occupational analysis should be undertaken in support of the objective of addressing skills shortages in apprenticeship-based occupations?

How these occupations will need to adapt to meet the future needs of the economy. Rarely do whole trade based roles disappear although some (eg printing) decline over time.

More often the job roles and tools change based on technological advancements and overall demand for skills in the economy. Light Vehicle Mechanics for example, may need to do more auto electrical work as the transport system is electrified and transmission systems are simplified.

## Annexure 2 Reduction in VET expenditure

VET Investment	2012-13	2013-14	2014-15	2015-16	2016-17		% Change
Commonwealth	2,068	1,832	1,941	1,879	2,013		-3%
NSW	1,807	1,831	1,649	1,600	1,647		-9%
Vic	2,395	2,225	2,101	2,110	2,204		-8%
Qld	783	696	668	595	629		-20%
WA	618	624	602	559	500		-19%
Tas	166	187	150	130	143		-14%
NT	92	83	82	95	97		5%
ACT	103	99	100	97	96		-7%
Total VET investment	8,032	7,577	7,293	7,065	7,329		-9%

Table 1. Analysis of Government Finance Statistics, ABS April 2018

The 9% reduction in actual funding is a 19% reduction in real terms once CPI over the five years is factored in.