

Ai GROUP SUBMISSION

Review of the Australian Apprenticeship
National Skills Needs List

JANUARY 2020



Review of the Australian Apprenticeship National Skills Needs List

Ai Group welcomes the opportunity to respond to the Methodology Discussion Paper for the National Skills Needs List (NSNL) review.

The discussion paper reports broad support from the 48 submissions for the six design principles articulated in the Issues Paper and describes a skills shortage methodology based on those principles. However, the paper does not fully address some of the feedback to the Issues Paper that questioned the intention to base the NSNL on skills shortage surveys in the first place.

Skills Shortages or Skills Needs?

Ai Group's submission to the Issues Paper noted that the original intent of the NSNL was to distinguish between trade occupations (the traditional apprenticeships) and non-trade occupations (which most know as traineeships). Ai Group's contention is that the NSNL was not restricted to occupations experiencing skills shortages, rather occupations where skills were needed. Hence the title.

This separation of traditional apprenticeships was the mechanism used by the Commonwealth Government to provide additional incentives to employers if they offered apprenticeships to existing workers or people aged over 21 years. It also entitled apprentices to apply for Trade Support Loans.

Discussion about the original intention of the NSNL was not just made by Ai Group in its response. Other organisations made similar comments and proposed similar models for the future. The Australian Chamber of Commerce and Industry (ACCI) noted that the NSNL was a list of trade apprenticeships, and recommended that renaming the list to trade apprenticeships would be more easily understood. The joint submission by the Australian Hotels Association and Tourism Accommodation Australia and the submission by the Restaurant and Catering Industry Association supported the ACCI recommendation.

The submission by the National Australian Apprenticeships Association (NAAA) noted that "over the last seven years the investment in employer incentives for apprenticeships has halved from \$3.6b to \$1.8b over forward estimates". They recommended replacing the current incentive regime with one that helps defray the cost of supervising an apprentice, increasing for those apprenticeships with longer durations. Similarly, the Chamber of Commerce and Industry WA recommended that apprenticeship support payments be designed to assist in offsetting the cost of an employer engaging an apprentice, not to relieve skill shortages.

Ai Group's submission recommended that the NSNL should favour pathways valued by the community which have a substantial requirement for training, measured in years of the training contract duration, or hours of formal training. This aims to broaden occupations on the list to some high-value traineeships, currently listed as priority occupations.

All of the above submissions recommended retaining the additional incentives afforded by the NSNL without the need to demonstrate that an occupation is in shortage. This would keep the system simple for employers and apprentices, and would avoid the cost and complexity of undertaking annual skills shortage reviews.

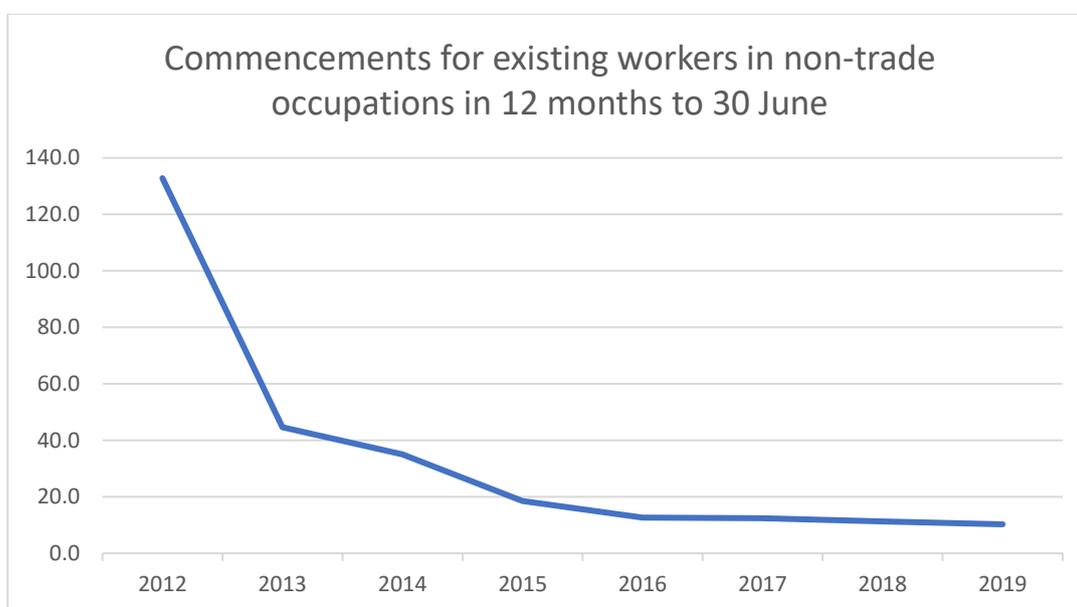
The new methodology proposed in the discussion paper will restrict access to the NSNL to those

employers with apprentices in skills shortage occupations. It is fair to assume that some occupations on the list will be removed. For example, DESSFB's current Labour Market Analysis of Skilled Occupations reports that Welders (First Class) and Painting Trades Workers are not in shortage. Removing them from the list will reduce the total amount of incentives paid to employers of apprentices and reduce the total amount paid to apprentices as Trade Support Loans.

Current NSNL Incentives

Existing Workers

If the number of employers and apprentices eligible for NSNL incentives is reduced, the question is whether this will affect commencement numbers. A comparison could be made with non-trade occupations when incentives for existing workers were abolished in 2012. NCVER commencement numbers for existing workers in non-trade occupations dropped by 66 per cent in twelve months. A commencement number of 132,800 in 2012 for existing workers reached a low of 10,300 in 2019 - a 92 per cent reduction.



Source: NCVER 2019, historical time series of apprenticeships and traineeships in Australia

As at 30 June 2019 there were 177,742 apprentices in trade occupations in training.¹ Of those 8,740 were in fabrication engineering trades (most would be welders) and 2,715 were painting trades workers, totalling 11,455 or about 7 per cent of the total. There were 17,325 existing workers in training in apprenticeships in trade occupations at 30 June 2019. If the reduction reflects that for non-trades, about 1,244 existing workers could be affected (7 per cent) with that number potentially reducing by 92 per cent to 124.

One of the questions this review should consider is whether these existing worker opportunities transform into apprenticeship opportunities for new employees or whether they become a lost opportunity for anyone. Each situation will be different, but there will be some employers who specifically decided on an upskilling strategy for a particular individual already in their workforce, and who may now reconsider without the incentive.

¹ NCVER 2019, Australian vocational education and training statistics: Data slicer: Apprentices and trainees, June 2019, NCVER, Adelaide.

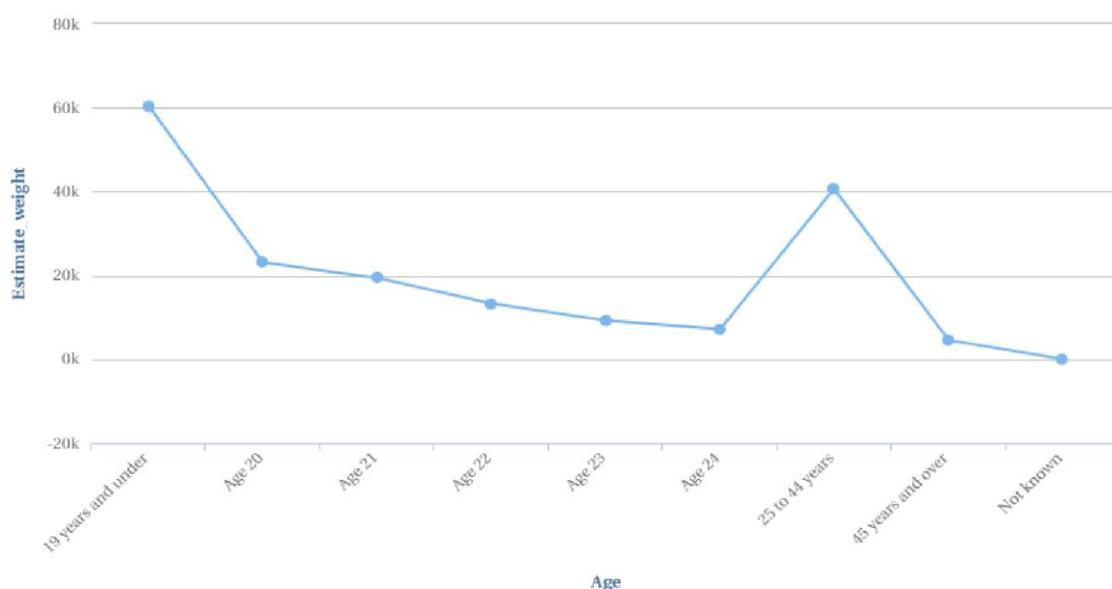
Adult Apprentices

Adult apprentices are another matter. Of the 177,742 apprentices in trade occupations at 30 June 2019, 94,243 were aged over 21, about 53 per cent. All of these apprentices attract the Support for Adult Australian Apprentices incentive of \$4,000 for their employer. Again, using welders and painters as the example, about 6,071 apprentices could be affected. How would their employers react? Would they favour younger apprentices instead? What would be the implications for the ageing workforce? Would those employers take on unskilled labour instead? These are some of the potential implications of changes to the NSNL.



Age by Reporting period, Trade status and Training contract status

Counting Estimate_weight, Filters: Reporting period: Apr - Jun 2019, Trade status: Trade and Training contract status: In-training Apprentices and trainees - June 2019



Source: NCVER VOCSTATS

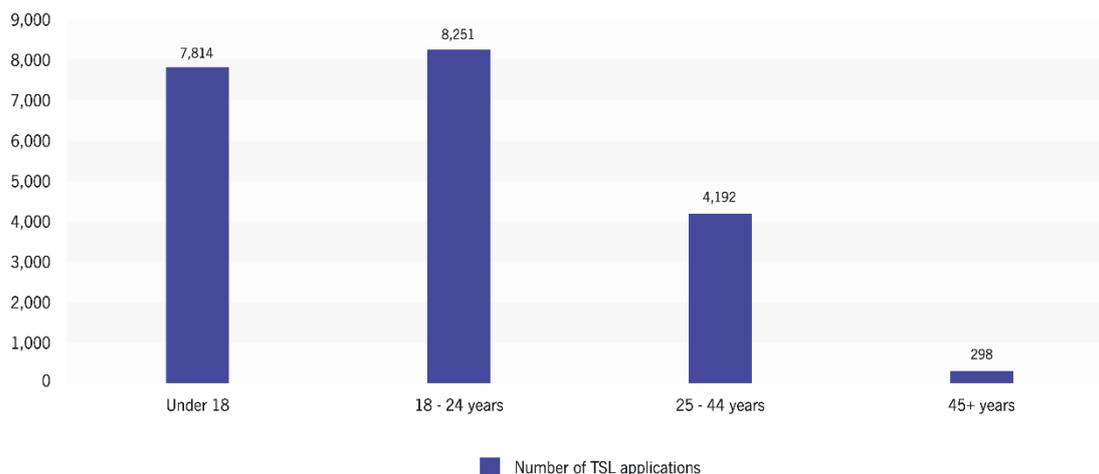
The occupation Welder (First Class) raises another concern about the collection of occupational and apprenticeship statistics. The most recent NCVER Apprenticeship and Traineeship Quarterly Report (June 2019) claims there are only 15 apprentices in training nationally in the Structural Steel and Welding Trades Workers category. This compares to 8,580 in training as Sheetmetal Trades Workers. Yet any TAFE that trains metal fabrication apprentices will advise that almost all of their apprentices are training as boilermakers or welders. This suggests most of these apprentices are wrongly categorised. Discrepancies such as this could lead to some occupations being removed from lists without accurate evidence.

Trade Support Loans

The latest publicly available data from the former Department of Education and Training shows that there were 20,555 successful applications for Trade Support Loans in 2017/18, with the majority in the 18-24 age group.

If the number of successful Trade Support Loan applications is relatively constant each year and applied equally across all trades, the number would drop from 20,555 to 19,116 (7 per cent), worth almost \$30 million in loans. What would be the effect on these apprentices and their employers? Could it drive young people away from particular trades? How does the Apprentice Support Network explain to employers that a Trade Support Loan applies to some trades but not others?

1. Number of successful Trade Support Loans applications received by age categories, 2017-18²



The proposed methodology

While Ai Group recommends that the methodology for determining skills shortages not be used for determining the NSNL, we agree that there is scope for providing additional incentives for some occupations in shortage, for example through the Additional Identified Skills Shortage (AISS) payment. As such, we offer the following comments on the proposed methodology.

Ai Group broadly supports the proposed methodology and the steps outlined in Table 2 of the discussion paper. Predictions are always difficult to make with any accuracy, but the steps proposed in the methodology, based on a range of data sources, should provide good information about shortfalls or surpluses. With industry consultations to follow the forecasting process, there will be opportunities to introduce new factors, such as anticipated infrastructure projects, that might affect the prospects for individual occupations.

We support the proposed timing for announcing the list each May to take effect from 1 July, provided the suggested proviso that occupations remain eligible for incentives for a year after they cease to be on the list is included.

In setting up an annual review process, communications must be an integral design feature of this process, and any determination on and changes to the skills shortages list must be efficiently and effectively disseminated to employers. While the intention of putting the new list into effect some months before the main hiring period is supported, there would be little point if employers are not made aware of changes. The Department and the National Skills Commission will need to ensure that information is received by affected parties in a direct, timely and reliable manner.

The components that make up the skills shortage analysis, as described in Figure 1 and Table 3 of the Discussion Paper appear reasonable at face value, however the estimate of entry to an occupation by a non-apprenticeship pathway raises some concerns. Many trade occupations are filled by people who have not completed an apprenticeship and do not hold a relevant qualification. This could occur for a number of reasons. Sometimes an employer cannot find suitable candidates for a trade or apprenticeship vacancy, but still has work that needs to be done. Some smaller trades do not have training providers in their state, and employers choose not to send apprentices interstate for training.

² Department of Education Training Annual Report 2017-18, Appendix 2 Annual Report of the Trade Support Loans Program

In these situations, an employer may hire an unskilled labourer to perform some of the work, when they would have preferred an apprentice or tradesperson. The data may show over time that the need for apprentices in an occupation is diminishing but this could hide the true picture. Industry consultation to tease out some of these issues will be important.

Another potential concern about estimating occupations filled by a non-apprenticeship pathway arises from the way people describe their job in the census. For example, a production worker may describe themselves as a machinist because they predominantly operate a machine, however this may be interpreted as a machinist (first class) who works in the trade without an apprenticeship pathway. Similarly, a worker who undertakes production welding may call themselves a welder. Again, industry consultation can help identify these situations.

Industry consultations

Ai Group agrees with the proposal to use the traffic light system to lead consultations with industry, and the intention to set skills deficit and surplus thresholds conservatively. Focusing discussions on 'orange' occupations where the estimated future skills balance is within the deficit/surplus thresholds, will enable more targeted discussions, provided the opportunity remains to discuss other occupations if needed.

It will be important to allow sufficient time for industry stakeholders to analyse the outcomes of the skills shortage research and conduct their own investigations if necessary. Membership-based organisations need time to consult with members especially if they are compiling new evidence to support their case.

Occupational analysis

The discussion paper proposes that occupations that have been on the NSNL for more than five of the last ten years be reviewed by the National Skills Commission to determine the public benefit of incentivising these occupations when commencement numbers have not increased.

While the discussion paper suggests that the existing incentives may have had little to no effect and that other treatments may be necessary, there is no suggestion that the level of incentives should be reviewed.

As noted in the NAAA submission to the Issues Paper, the core incentives were set more than 20 years ago in 1998. Since that time, the Reserve Bank of Australia inflation calculator estimates that by 2018 costs had increased by 68 per cent. If incentives had matched these cost increases, via a CPI adjustment, the current core incentives would have been raised from \$4,000 to \$6,720. Instead, the government investment in providing incentives to employers has shrunk by 40 per cent in today's money since 1998.

It is recommended that the National Skills Commission review the rate of incentives offered to employers to examine if the decline has contributed to lower apprenticeship numbers.

Conclusion

The apprenticeship system is highly valued by industry and the community. It develops the skilled staff industries need to keep factories working, to build and fit out houses, to fix cars, or to put food on restaurant tables. Apprenticeships also provide valuable opportunities for people to set themselves up for a career like few other pathways can do, because they develop skills and knowledge over time, combined with years of application in the workplace.

But apprenticeships require investment. Governments invest by subsidising the formal training apprentices complete and by offering incentives to employers because they value the social benefits that derive from a skilled workforce. Individuals invest by foregoing higher earning capacity while they complete their training contract because of the benefits for their future career. And employers invest by paying wages to apprentices who are often unproductive in early years, by paying for their fees, their training materials and books, and by paying skilled staff to remove themselves from productive work to focus on training and supervising apprentices at work.

Not every employer invests in the apprenticeship system. Many will benefit from the system by employing qualified tradespeople but depend on others to make the investment in training.

For those employers that do make the investment, there are often careful budgetary considerations before they commit. These considerations become more difficult to justify each year:

- Apprentice wages used to start at 42 per cent of a tradesperson's rate. After the Fair Work ruling in 2013, that rose to 55 per cent for apprentices with Year 12 completed.
- Competency based progression for apprentices means that most complete their training contract well within the four-year nominal duration, often after three years. This reduces the time spent on apprentice wages and changes the financial equation.
- Enrolment costs for training have risen substantially in some states, although some state governments have abolished them. In Victoria, some public training providers charge more than \$2,500 each year for enrolment.

Yet, the incentives remain at 1998 levels - still at \$4,000 for a new apprentice aged under 21. Now, additional incentives for those who are existing workers, or those aged over 21 may disappear for some trades. And the option for an apprentice to apply for a Trade Support Loan, often used to cover the cost of tools or transport, may also disappear.

Ai Group urges the review to reconsider its intention to change the scope of the NSNL.