

Skills and Workforce Development Agreement

Productivity Commission Issues Paper

Submission

By the



**National Australian
Apprenticeship Association**

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Background

The National Australian Apprenticeships Association (NAAA) represents the companies that organise and support all apprenticeships and traineeships in Australia. We strive to create a highly regarded, industry centred, future focussed and inclusive apprenticeship system.

From February 2020, there will be 7 companies that form part of the Australian Apprenticeship Support Network (AASN). Since its inception in 1998 network providers have assisted over 4.7 million Australians into apprenticeships.

Apprenticeship Network Providers (ANPs) have deep insight into the complexity and challenges of the apprenticeship system gained through long term experience and multiple annual touchpoints with school leavers, apprentices and their employers.

The Association strongly supports the Commonwealth government's focus on the Vocational Education and Training sector. We also support the recent investment in the Skills Package to address some of the issues highlighted by Expert Review of Australia's VET system by Hon Steven Joyce (Joyce Review).

This paper explores how to improve the efficiency and funding arrangements for the apprenticeship system through the Skills and Workforce Development Agreement.

We seek to do this primarily by responding to information request 18 in the issues paper.

Here is the framing statement on apprenticeships from the issues paper:

“Apprenticeships

There is overlap in governments' support for the apprenticeship system — for instance, some Commonwealth-funded services for apprentices and their employers (delivered by Australian Apprenticeship Support Network providers) duplicate support provided by State and Territory governments (Joyce 2019). This may reduce the effectiveness of government efforts and any overlap may also increase the system's complexity, making it more difficult to navigate (AIG 2016). The Tasmanian Government (2019) has noted that employers' engagement with the system may be diminished by administrative burdens.”

This is the information request that flows from these observations:

INFORMATION REQUEST 18

- *Can the apprenticeships system and data collection by governments be better coordinated, or streamlined? If so, how?*
- *What other areas of the VET system are unnecessarily complex or inefficient? Are there any additional opportunities for governments to better streamline or coordinate their initiatives to improve the VET system?*
- *To what extent will fixing these issues improve the operation of the VET system?*

Key observations

In this paper, the Association makes a number of key observations:

1. The contention in the Joyce Review that the AASN contract duplicates State Training Authority (STA) functions is not supported by the evidence.
2. That the complexity of the apprenticeship system is primarily a result of its federated governance and funding arrangements, the construct of Modern Awards, Training Packages and the compliance regime implemented by ASQA.
3. Users of the system do not need to understand the complex funding and administrative arrangements, but just need to know where to get started.
4. For 100% of the apprenticeships and traineeships in Australia the place to get started is the Australian Apprenticeship Support Network. But since the cut to the national apprenticeship marketing budget this is not as widely known as it should be.
5. Significant efficiencies could be achieved through a single data model for the apprenticeship system, agreed by States, Territories and the Commonwealth. This data model should underpin the new Apprenticeship Data Management System (ADMS)
6. That a new transaction logic to support employers that engage in the apprenticeship system could significantly streamline incentive arrangements.
7. That confidence by the Australian public in the VET system will not be fully restored until funding levels are at least restored to 2013 levels. Once this occurs "Growth Funding" should be committed across the next decade to underpin the priorities identified by the National Skills Commission to enable future focussed reform.

The contention in the Joyce Review that the AASN contract duplicates State Training Authority (STA) functions is not supported by the evidence.

Steven Joyce made two observations about the AASN arrangements before recommending that these functions be transferred to Skills Organisations in the medium term.

The observations were:

- That AASN provider's performance is poor
- That the AASN contract duplicates STA functions

Neither observation was supported by any evidence, perhaps because neither *can* be demonstrated by the available evidence.

The AASN contract as you would expect contains a set of detailed Key Performance Indicators that ANPs are formerly assessed against on a quarterly basis. The Department can provide an overview of the results of these performance reviews but they average in the 96% to 98% range, sometimes with 100% compliance. Performance against agreed indicators is extremely high.

ANPs must abide by a Code of Conduct and in the current contract period there have been no serious breaches to this Code.

In 2018 a detailed independent national review of the AASN arrangements was undertaken by the Ithaca Group. The "Evaluation of the AASN Model" report outlined these key findings:

There are four high-level messages that we drew from our analysis of the findings of the evaluation activities:

1. In terms of policy intent, broad construct and key components, the model is comprehensive and widely supported by stakeholders
2. The design of the model in terms of KPIs, payment structures and feedback mechanisms could be improved to better support the measurement and monitoring of program effectiveness in relation to policy intent
3. A number of factors in the design and implementation of the model have impacted on the realisation of potential efficiencies
4. There are a few components of the model that could be expanded or modified slightly to further strengthen the comprehensiveness and effectiveness of the model.

The main areas in which the model might be strengthened are in the:

- ▶ underpinning IT infrastructure
- ▶ use of KPIs, payment structures and feedback mechanisms
- ▶ quality and consistency of sign-up processes
- ▶ comprehensiveness of Gateway services
- ▶ flexibility of In-training services.

These findings were used to improve the design of the next AASN contract that will commence in February 2020. The Joyce Review did not reference the Ithaca Review in their report despite its currency. They also did not consider the new model that was mid procurement during the review period.

A key finding of the Ithaca report was that the underpinning IT infrastructure was not fit for purpose. This was largely due to the failed implementation of the Australian Apprenticeship Management System (AAMS) that was to replace the Training Youth Internet Management System (TYIMS). PwC were retained to review the reasons for the failure of AAMS.

The Association recommends that the Productivity Commission read the PwC review of the AAMS project as part of its considerations about how technology improvements can support the streamlining of the VET system.

The second contention that the Joyce Review made about the AASN contract was that it duplicated the STA functions.

Please see Annexure 1 for a detailed map of the functions undertaken by State Training Authorities in each jurisdiction, where there is minor data entry overlap with ANP requirements and where ANPs have an exclusive role.

The AASN arrangements are mature, they will have been in operation under one program name or another for 22 years in May 2020. Over that time two trends can be observed in relation to the demarcation between ANP and STA roles:

- Firstly, the functions of each party are clearly defined and the demarcation of roles is well understood. They are enshrined in detailed operational guidelines that ANPs abide by.
- Secondly, some of the functions that STAs performed in the 1990's may now be undertaken by ANPs. But with the passage of time these capabilities are no longer held by STAs, particularly in relation to a network of field staff that can attend to the needs of apprentices and their employers.

Annexure 1 details how the roles are now split. The following elements can be clearly observed.

- STAs maintain clear approval functions for the Training Contract and subsequent variations to it.
- ANPs have a number of core functions outlined in the AASN contract that relate to Universal and Targeted Services, none of which STAs undertake.
- Both STAs and ANPs have a role in verifying data when it moves between TYIMS and the IT system used in each jurisdiction. (this was one area that the AAMS system was aiming to streamline).

There are also some minor jurisdictional differences where ANPs are contracted to undertake specific additional requirements by the STA. These occur in Queensland and the Northern Territory.

The Association argues that there remains further potential for the system to be streamlined through contemporary data management and integrated IT systems. But ANP data entry and STA verification of Training Contract administration is only a small (but important) component of this.

Otherwise any overlap or duplication of functions cannot be substantiated.

That the complexity of the apprenticeship system is primarily a result of its federated governance and funding arrangements, the construct of Modern Awards, Training Packages and the compliance regime implemented by ASQA.

There is widespread agreement by VET practitioners that the apprenticeship system is too complex.

In the Association's response to the establishment of the National Skills Commission (NSC) we identified several ways to streamline the system within current federated governance constraints. We recommend

- **Standardising the contractual artefacts** by having a single approach to apprenticeship Training Contracts, Training Plans and approval processes. This could be done through the co-development of model legislation that could be used to amend the Apprenticeship and Traineeship Act in each jurisdiction.
- **Developing a National Training Wage** for apprentices based on a percentage of the National Minimum wage. The approach could have several tiers of wage rate percentages to account to industrial relations differences but could provide national clarity about how to pay an apprentice accurately.
- **New transaction logic for employer incentives**, supporting employers to provide on-the-job supervision (which is a current requirement of the Training Contract). A supervision fee paid quarterly in arrears would help defray the cost to employers of providing this invaluable training service. It would also provide proportionally more support to employers engaged in longer Training Contracts for traditional trades.
- **National Framework for other apprenticeship incentives**, so that State and Territory specific incentives can be aligned to a national approach and be more easily understood by employers and apprentices.
- **National commitment to local apprenticeship training**, acting as a backstop to ensure access to locally available training for all apprentices in Australia regardless of where they live and work.
- **A national advertising campaign**, about how apprenticeships work and how to get started.

Users of the system do not need to understand the complex funding and administrative arrangements, but just need to know where to get started.

As a minimum, employers of apprentices want to know who to contact to get started, how much they need to pay their apprentice, how the training will work and how much support they will get from the government.

Prospective apprentices want to know how they can secure an apprenticeship, where they will attend training, how much they will be paid, what financial assistance is available and where to go for support if they have questions or encounter difficulties.

A first priority for 2020 is to let everyone know that the way you start an apprenticeship is by contacting your local Apprenticeship Network Provider at one of 430 offices available across Australia. They are uniquely placed to answer all of the key questions about employing or commencing as an apprentice.

As the NSC commences its work it will discover the need to stabilise the fundamentals of the system. A streamlined national approach to meeting key value propositions for users of the apprenticeship system can be achieved in part by the complexity reducing initiatives outlined above.

For 100% of the apprenticeships and traineeships in Australia the place to get started is the Australian Apprenticeship Support Network. But that since the cut to the national apprenticeship marketing budget this is not as widely known as it should be.

The Association has recommended in its pre-budget submission that an underspend in this year's AASN budget should be used in 2020-21 to mount a national apprenticeship sales campaign.

In 2015 the government redesigned the apprenticeship support system to include new targeted recruitment (gateway) and mentoring (in-training support) services. The model was widely welcomed and enjoys broad support from all stakeholders.

However, one of the consequences of reducing the overall funding envelope for apprenticeships in the 2014 Budget from \$300m to \$200m was that the new AASN services had to be funded from the existing AASN budget.

This had the effect of reducing investment in Universal Services from \$185m in 2015 to \$95m in 2016. A vital aspect of Universal services is to provide the sales force to engage with employers and encourage them to employ an apprentice or trainee.

With the reduction in sales activity came an inevitable decline in commencements. So, despite additional investment in new employer incentives net commencement levels have remained flat.

Another consequence is that the total AASN budget has been underspent by \$200m since 2015, by as much as \$51m last year. This is seen as a "fortuitous saving" by Treasury but is in fact undermining the stated aim of the Commonwealth Government to grow apprenticeship commencements by 300,000 through the life of the Skilling Australian Fund agreements.

The Association strongly supports this aspiration and argues that it is prudent to return trade apprenticeships and traineeships to at least 2.5% of the workforce, as they were for the first 15 years of this century. Increasing the stock of apprentices to 325,000 in 2021 an increase of 50,000 apprentice commencements in the year ahead.

The easiest mechanism to achieve this is to reinvest the underspend in the AASN budget in 2019-20 to fund a national apprenticeship sales campaign in 2020-21. During the Howard Government \$10m was allocated annually for this purpose. Given the decline in apprenticeships and the looming skills shortages this is creating, the Association argues that \$20m will be required to turn commencements around.

This could take the form of \$10m for a nationally coordinated campaign and \$10m directed to AASN providers on a proportional market share basis to increase their full time equivalent sales force for a year.

It's vital that a simple message is commonly communicated by all Stakeholders.

"To start an apprenticeship, contact your local Apprenticeship Network Provider"

Significant efficiencies could be achieved through a single data model for the apprenticeship system, agreed by States, Territories and the Commonwealth. This data model should underpin the new Apprenticeship Data Management System (ADMS)

The replacement for the Training Youth Internet Management System (TYIMS) had its first pass business case approved by Federal Cabinet in 2019 and a budget was allocated in MYEFO to develop the second pass process.

During the preparation of the second pass business case some urgent stabilisation work still needs to be completed to enable TYIMS to function until the new Apprenticeship Data Management System (ADMS) can be developed. Immediate priorities include enhanced Trade Support Loan functionality and migrating “Smart Forms” from the Department of Industry.

The Association recommends that the high-level design principles for ADMS are:

- ADMS being an integrated data store, compliance and payment engine. Essentially the “back end” inter-departmental, payment and policy design functions of apprenticeship management.
- An application Program Interface (API) first strategy that allows market based solutions to develop the service delivery software “font end”.
- Establish a single data model for apprenticeships but no single database. Data should be integrated consistent with legislative frameworks from multiple data sources.
- Allow service delivery and workflow innovation within parameters defined by the Department for access to the API and through the AASN contract arrangements.
- Employer and Apprentice self service functions should sit outside ADMS and be a result of service provider innovation. Future AASN contracts with the Department could reward this innovation.
- AASN provider contractual arrangements should fund innovations that become system wide functionality.

ADMS could then aim to achieve the following goals:

- Stable and effective systems during the ADMS design and build phase. A two-way API with the front-end software that Apprenticeship Network Providers use to manage current arrangements whilst the new system is progressively developed and rolled out
- Provide multiple entry points for employers and apprentices into ADMS regardless of where they search from
- Real time transactions for system users
- A unified view of the apprentice and employer support plans
- A dynamic Training Contract updated as circumstances change
- A system that enables the development of value-added tools for AASN providers
- A modular approach that supports future technology and policy innovations
- Advanced business intelligence tools to manage Australian Apprenticeship programs
- Access to government and high-end user data to better inform future policy directions
- Improved accessibility of apprenticeship data to inform other government policy and service provision.
- A digital marketplace to better connect apprentices and employers

The second pass business case will be co-designed with user input to avoid the mistakes of Australian Apprenticeships Management System (AAMS). Assuming the immediate stabilisation work occurs during the next 6 months then the Association anticipates a three-staged approach to the development of the new system.

1. **Initial integration** of current systems with the third-party software used by ANPs through a two-way API. Development of the data model for the whole system and an integration plan with the existing apprenticeship ecosystem of State Training Authorities, AASN providers, employers and apprentices.
2. **Dynamic data services** modules are developed, tested and implemented that value add to provider service delivery. This could include digital access for apprentices and employers to update their basic data. It should also allow the enhancement of core IT support systems for Australian Apprenticeships.
3. **Integrated digital market** modules that improve the experience for apprentices and employers, allow for dynamic user profiles, enhance digital capability across virtual assistants, analytics and machine learning and take connections between employers, apprentices and their ANP to the next level.

The Association has recommended that the Federal Government invest in all three stages and that these be progressively rolled out between 2021 and 2024 as they are developed, tested and become fully functional.

The 2020-21 budget should make provision for this commitment and it should be confirmed in MYEFO in 2020 once the second pass business case is approved.

That a new transaction logic to support employers that engage in the apprenticeship system could significantly streamline incentive arrangements.

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. It's the primary way employers of all sizes show active leadership in the VET system.

The government should consider piloting a new transaction logic for supporting employers of apprentices. It could do this by providing employers with a "supervision allowance" for each of the apprentices they employ. This would be to defray the costs of providing the supervisor 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. The new Apprenticeship Data Management System could automate these payments.

This approach 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.

If the pilot is successful it could lead to a radically streamlined incentive system with the supervision allowance replacing most employer incentives. Then the balance of incentive investment could be focused on assisting apprentices with particular barriers to complete their training.

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 a current example of this, the transition to a low carbon economy could be a future example)

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 complement a "nowcasting" approach that the National Skills Commission is considering.

The supervision allowance has the potential to both radically streamline the employer incentive system and improve the value proposition for employers to participate.

It would also enable the provision of financial assistance to apprentices to address some of the causes of the stubbornly low completion levels in certain vocations.

That confidence by the Australian public in the VET system will not be fully restored until funding levels are at least restored to 2013 levels. Once this occurs “growth funding” should be committed across the next decade to underpin the priorities identified by the National Skills Commission to enable future focussed reform.

Overall government funding for VET has declined from \$8.032 billion in 2012-13¹ to \$6.032 billion in 2017-18. Commonwealth funding for vocational education and training fell by 5.4% last year.

Table 4 VET funding activities (\$ million)

Funding type		NSW	Vic.	Qld	WA	SA	Tas.	NT	ACT	Aust. Govt	Total
VET delivery	2018	1,480.40	1,186.80	733	412	288.3	91.8	72.9	94.6	300.6	4,660.20
	2017	1,352.40	1,242.70	743.9	414	250.1	92.6	75.9	90	380.8	4,642.40
Employer assistance	2018	3.9	4.6	60	20	4.9	5.5	4.1	0	497.3	600.3
	2017	5.9	4.3	59.2	23.7	4.4	2.2	5.6	0	511.7	617.1
Student assistance	2018	19.4	24.9	30.1	6.9	1.8	2.1	1.8	0.6	35.1	122.7
	2017	13.5	20.7	29.4	5.9	1.5	1.7	1.5	0.5 -		74.7
Capital funding	2018	0.7	40	47.1	23.1	13.1 -		4	6.6 -		134.6
	2017	1.4	52	31.5	55.7	12.2 -		3.6	2.8 -		159.2
System administration and governance	2018	84.1	75.7	75.1	79.2	25.4	8.9	15.1	6.5	177.9	547.9
	2017	103.7	61.7	55.3	87.9	25.5	7.3	15.3	5.9	175.9	538.5
TOTAL	2018	\$ 1,589	\$ 1,332	\$ 945	\$ 541	\$ 334	\$ 108	\$ 98	\$ 108	\$ 1,011	\$ 6,066
	2017	\$ 1,477	\$ 1,381	\$ 919	\$ 587	\$ 294	\$ 104	\$ 102	\$ 99	\$ 1,068	\$ 6,032
% change 2017-2018		7.6	-3.6	2.8	-7.8	13.5	4.4	-4.1	9.2	-5.4	0.6

Table 1 NCVET Government funding of VET 2018, December 2019

The Joyce Review made a number of observations about government’s lack of confidence in the VET system. However, confidence in the sector will not return until the quantum of government investment better matches the 4.2 million students that access VET training annually.

The Government has created the National Skills Commission to lead the VET system and restore confidence by governments and users of the system. To enable this leadership role the Commonwealth should seek to restore funding to at least the 2013 levels by investing in “growth funding” which the states and territories would be required to match.

This was the approach successfully pioneered by the Australian National Training Authority (ANTA) which led to a consensus driven development of VET in Australia. It supported the introduction of competency based training, the development of National Training Packages and the introduction of User Choice arrangements. These progressive developments made the Australian VET system the envy of the world.

If the Joyce Review and Skills Package are to result in a meaningful restoration and reinvigoration of the VET sector, reinvestment by all governments must occur. To build consensus for this the Commonwealth will need to lead the process by investing an additional \$1b annually to fund the priorities identified by the National Skills Commission.

In framing its advice to government, the Productivity Commission should assess the unlocked potential of a properly funded VET system that enjoys the steady growth in funding seen in the School Education and University sectors.

¹ Analysis of Government Expenditure ABS 5512 – Government Finance Statistics 2018

Annexure 1 Map of STA and AASN functions

STA Functions	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Core AASN functions	QLD AASN	NT AASN
Approval functions											
Training Contracts	█	█		█	█	█	█	█			█
Suspensions	█	█	█	█	█	█	█	█			
Cancellations	█	█	█	█	█	█	█	█			
Change of RTO	█	█	█	█	█	█	█	█			
Change commencement date	█	█	█	█	█	█	█	█			
Change nominal completion date	█	█	█	█	█	█	█	█			
Change hours	█	█	█	█	█	█	█	█			
Change qualification / vocation	█	█	█	█	█	█	█	█			
Extend probation period	█	█	█	█	█	█	█	█			
Change of employer ownership	█	█	█	█	█	█	█	█			
Change worksite location						█					
Employer transfer	█	█	█	█	█	█	█	█			
Temporary transfer					█	█		█			
Third party access form			█					█			
Competency based completion	█	█	█	█	█	█	█	█			
Tracking functions											
Enter change of employer details	█	█		█	█	█	█		█	█	█
Enter change to apprentice details	█	█		█	█	█	█		█	█	█
Minor amendments to Training Contract	█	█		█	█	█	█		█	█	█
NT additional contact visits											█
Apprenticeship Network Provider functions											
Universal services											
Marketing, information and advice about Australian Apprenticeships									█		
Initial assessments of prospective apprentices and employers									█		
Training Contract preparation, sign up and administration									█		
Eligibility assessments for AAIP and TSL									█		
Incentive and trade support loan payment processing									█		
Client progress contacts for duration of Training Contract									█		
Engage with STAs through Training Contract									█		
Gateway Services											
Pre-commencement advice									█		
Candidate testing									█		
Candidate streaming									█		
Candidate matching									█		
In-Training support services											
In training assessment									█		
Apprentice mentoring									█		
Employer assistance									█		

This map is also provided in excel format with this submission