



**National Apprenticeship
Employment Network**

Submission to the Productivity Commission
Interim Report into the National Agreement for Skills
and Workforce Development Review

July 2020

NAEN's response

The National Apprenticeship Employment Network (NAEN) is pleased to provide this response to the Productivity Commission's Interim Report into the review of the National Agreement for Skills and Workforce Development.

While the Commission's report covers a wide area of the VET system, NAEN's response is confined to the issue of apprenticeships and apprentice support, largely covered by the Commission's report in the sections: Government supports for trade apprenticeships (6.3), and Support services for apprenticeships (7.2).

Who we are

The National Apprenticeship Employment Network is Australia's largest employer network of apprentices and trainees. Across metropolitan, rural, regional and remote Australia, the network employs some 22,000 apprentices and trainees in a diverse range of industries.

First established during the 1980s, the member businesses, known as group training organisations (GTOs) have employed approximately one million apprentices over that time. No other organisation has employed more apprentices in Australia.

The practice of group training entails GTOs employing apprentices and trainees under Contracts of Training with the various state and territory governments and placing them with host businesses.

GTOs are responsible for selecting and recruiting apprentices and trainees, matching them to host businesses, meeting all employer obligations including paying wages and entitlements, arranging formal training and assessment, and providing pastoral care and support throughout the engagement. The GTO is the legal employer.

GTOs have come to occupy a pivotal role in many communities through their links with enterprises, training providers and schools, as well as in Indigenous and remote communities where they play a central role in careers and training.

NAEN's response to the Commission's findings on apprenticeships

Employer incentives make a difference

The Commission, broadly, considers that employer incentives are not effective in increasing apprentice enrolments and that other options should be considered.

While NAEN generally agrees with the Commission's view that the system of government financial support under the Australian Apprenticeships Incentives Program (AAIP) is "messy and intersecting", it strongly disagrees with the assertion that these incentives are not effective or, as the Commission puts it, "appear to have limited impacts on enrolments".

These support payments have long been part of the apprenticeship system. They have seen numerous changes over the years to payment rates, eligibility and timing. They have become cumbersome and administratively complex.

The current Australian Apprenticeships Incentives Program Guidelines run to more than 120 pages. It needs to be remembered that this is the official guidance for an employer of an apprentice or trainee that needs to be digested and followed in order to receive government financial support. For a small business, it may be that the administrative burden is more of an obstacle to apprentice employment than the payments themselves.

As the Commission notes, the planned streamlining of these incentive payments has been delayed due to COVID 19 and is now scheduled for late 2020.

NAEN certainly regards the streamlining and simplification of the incentive payments as a priority.

But, NAEN contests any suggestion that government incentive payments be wound back or dismantled on the grounds that they do not serve to attract, retain or lead to the completion of apprentices and trainees.

We consider that the Commission may have sought to diminish the impact of incentive payments and resort to other alternatives without more careful consideration as to how the system of payments could be improved.

It is a little surprising that anyone could suggest that a direct financial payment does not influence behaviour but that appears to be what the Commission is suggesting when it refers to the "limited impacts on enrolments".

The incentive payments clearly have the effect of stimulating apprentice employment. They provide a payment to the employers of apprentices and trainees, effectively subsidising a part of the apprentice wage, thereby reducing the direct cost of an apprentice, and also the cost relative to other employees

To the extent that there is some substitution of similarly priced skilled (apprentice) labour for unskilled labour as a result of the incentive payment, there is also the benefit of enhanced workforce capability.

The Commission raises the idea of re-orienting employer incentives to particular types of apprenticeships "where the public or social benefits are deemed larger". In particular, it refers to efforts to encourage recruitment of apprentices in regional Australia, with disabilities, and in occupations with very significant shortages.

These categories of apprenticeships are all worthy of encouragement and support, but so too are many other areas of apprenticeships.

It is worth remembering that Australia's apprenticeship system represents more than just employment. It is a critical platform for building national skills capability, an avenue for youth career progression, and a potential pathway into self-employment and entrepreneurship.

Apprenticeships produce private and public benefits. The private benefits derive to individuals (who forego lower wages during the training period) for higher average lifetime earnings, improved employability and career satisfaction.

The public benefits of apprenticeships derive from social and economic returns on investment in a skilled workforce, training in areas of skills needs, higher taxation revenue, and reduced social welfare.

It must also be remembered that an apprentice's productivity is lower than that of a skilled worker and increases over the course of the apprenticeship. There is a question about whether apprentice productivity covers wages, particularly in the early period.

These are arguments for a continuation of the long-accepted notion of targeted public subsidy to support and incentivise apprentice employment, particularly at the early stages of engagement, as well as at milestones that give the best chance of completion.

NAEN would be most concerned at any suggestion that the long-established practice of public support for apprenticeships should be diminished.

Better targeting of apprentice incentives

Instead of lessening the system of government financial incentives for apprenticeships, per se, NAEN believes a better option is to examine how these incentives can be better constructed and targeted, so that they work as intended.

Some of the issues that should be considered include the quantum of payments, timing and milestones, qualification levels, eligibility, and ensuring payments maintain their real value over time.

Much depends, for instance, on when incentives are paid. A payment six months into an apprenticeship clearly won't influence recruitment, nor will a payment that is insufficient to make a real difference to the total wage of the apprentice over a three or four-year period. Payments close to commencement would have an impact on enrolments.

There is a view among some NAEN members that the value of the payments is simply too low to change employer behaviour, since they comprise only a small percentage of the total cost of taking on an apprentice. Also, the payments have not been effectively indexed, so their value has been further eroded.

There is also a view that there is room for different scales of payment, targeting particular industries or trades that have a larger public benefit or meet particular skills needs and national economic priorities.

The strong view of NAEN's members, based on the experience with host employers, is that the apprentice incentives should remain, but they should be reviewed to ensure they are set at a level and at periods that change behaviour that includes better encouraging enrolments, retention and completion.

Given the crisis in apprentice employment caused by COVID-19, it is the worst time to be contemplating dismantling or reducing employer incentives and would add to the reasons for employers to withdraw further.

Barriers to the uptake of apprenticeships

The Commission says that in light of the “poor effectiveness of employer incentives”, governments might consider addressing barriers to hiring apprentices, including their foundational skills, work readiness and minimum wages or other award conditions set by the Fair Work Commission.

Wages are significant issue across the group training sector, both for apprentices and employers. On the one hand, many apprentices feel that their wages are too low, thus constituting a barrier to many young people who could earn equivalent or higher pay in unskilled roles.

Many employers see the level of apprentice wages as a significant hurdle, particularly in the early years when there is a considerable element of supervision, and apprentice productivity is generally low.

The minimum wage for adult apprentices is a significant issue which exacerbates the disincentive to taking on an apprentice, notwithstanding that adult apprentices have typically had wider life and work experience and higher productivity.

Wage rates in some jurisdictions have a perverse impact. The federal award rate for a carpenter in some states is about \$45 per hour, but in Queensland is \$30 to \$35 per hour, which can make it more difficult to justify paying an apprentice carpenter’s wage in Queensland.

Foundational skills play an important part in apprentice selection and recruitment.

There is a common view among GTOs that many young people are poorly prepared for work and further learning.

Often the mathematical and problem-solving skills required for many trade apprenticeships is underestimated. Literacy is important in all roles and many candidates will need additional development in this area.

Some GTOs adopt rigorous testing of applicants for basic literacy, numeracy and aptitude in the knowledge that those deficient in these areas are likely to struggle and that, ultimately, these requirements are essential for completion.

There is often a belief that some students leave secondary school without the basic requirements for starting an apprenticeship. Some of this could be addressed by improved careers advice through years 7 – 12 where more information about VET requirements and standards could be offered.

Too often students considering VET choices are not offered the support, guidance or the detailed subject advice that is offered to those choosing university pathways.

We encourage promotion of trades careers as a first option, not as a “Plan B”. Improved matching of trade aspirations with subject selection in years 9 – 10 would also help.

Reports from some GTOs suggest that in some schools, students who pursue a VET pathway can be encouraged to drop ATAR-relevant subjects including English and mathematics, leaving them without the required level of education for most vocations. This needs to be addressed.

Given the role that GTOs already have in pre-apprenticeships, it would make sense to fund group training to work with schools to enhance school-based programs to not only educate young adults, but improve their foundational skills and work-readiness.

Industry levies

The Commission raises the issue of “poaching” of apprentices and whether it is a problem that would justify measures such as industry levies.

Among the considerations are such issues as their effectiveness in increasing apprenticeships, and their administrative complexity.

There are mixed views across the group training sector in regard to industry levies, although the prevailing view is that such instruments either don’t work, or that their impact is dispersed and lacks effective focus on priority areas.

In principle, the idea of a levy that encourages participation from employers who are currently disengaged from training should be a positive.

In reality, different industries have variable capacity to pay, and a one-size-fits-all can cause difficulty. Also, levies are something of a blunt instrument which may work well in some occupations or industries, but not universally. They have the potential to create additional problems rather than sorting out existing problems. An example is the current apprentice levy in the UK which has seen funds used for both poor quality training, and for bachelor degrees and MBAs by senior executives.

There is also the issue of design, so that organisations that are already making a substantial contribution to training investment are not required to pay an additional levy.

There are a number of industry levies already in place, including the Australian Brick & Blocklaying Training Foundation (ABBTF) Training Levy, funded by industry and the general public who purchase bricks and blocks.

In Western Australia, the Construction Training Fund administers the *Building and Construction Industry Training Fund and Levy Collection Act 1990* to collect the levy. The levy is calculated at 0.2% of the total value of construction, for all works valued at more than \$20,000.

The jury is probably still out on whether these schemes increase enrolments or incentivise training that would not otherwise occur.

The group training sector does not have a unified position on the issue of industry levies, but there is more than a little scepticism that they are the answer to a training shortfall, and a feeling that their design might create unintended adverse outcomes.

Better coordinating and streamlining information on apprenticeship incentives

The Commission raises the issue of harmonising and streamlining information about apprentice incentives, possibly under the Australian Apprenticeship Support Network.

It also raises the issue of consolidating some support services including pastoral care and mentoring, again, through the Australian Apprenticeship Support Network.

NAEN's view on these matters is guided by its experience working closely with AASN providers as key participants in the apprenticeship system.

AASNs play a critical part, but their role is largely administrative – managing the execution of training contracts, and providing essential administrative support and payment processing. They were not set up to deliver effective in-person mentoring and support.

If the Commission wants to elevate and encourage greater pastoral care and mentoring, it should be utilising group training, whose approach is based upon its highly-regarded support services that encompass apprentices, trainees and employers.

Effective mentoring is essential to improving completion rates for apprentices and should be constant and ongoing. One-off contact is not effective in addressing the many issues that can arise with predominantly young people, in their first full time job, negotiating workplace culture and relationships, as well as formal training and finances – especially when they are fresh out of school.

This is a specialised task that should be undertaken by appropriately qualified and experienced mentors. GTOs are the organisations that use these people and provide these services.

NAEN agrees that there is a plethora of information of variable quality in the marketplace, and that this is problematic and confusing. Streamlining makes sense but GTOs are equally well, if not better placed, to do this.

Group training is a tried and tested employment model that has been in existence since the 1980s, with proven outcomes, and mentoring at its core. GTOs and AASNs have different expertise and roles. GTOs should be used for any extension of mentoring and support services.

In considering options for improving the effectiveness of the Australian Apprenticeship Support Network, the Commission canvasses publishing more information, more evaluation of AASN contracts, and better alignment with services of state and territory governments.

NAEN supports greater transparency and accountability, including less reliance on KPIs which may not fully reflect the quality of service, particularly in areas such as mentoring and pastoral care.

More specifically, NAEN believes that the challenge with AASNs is not so much duplication of services, but that mentoring and related apprentice support are not core AASN expertise, and that this should be more fully utilised and funded through group training.

Further information or inquiries

Please contact:

Dianne Dayhew
Chief Executive Officer
National Apprentice Employment Network

E NAEN website: naen.com.au