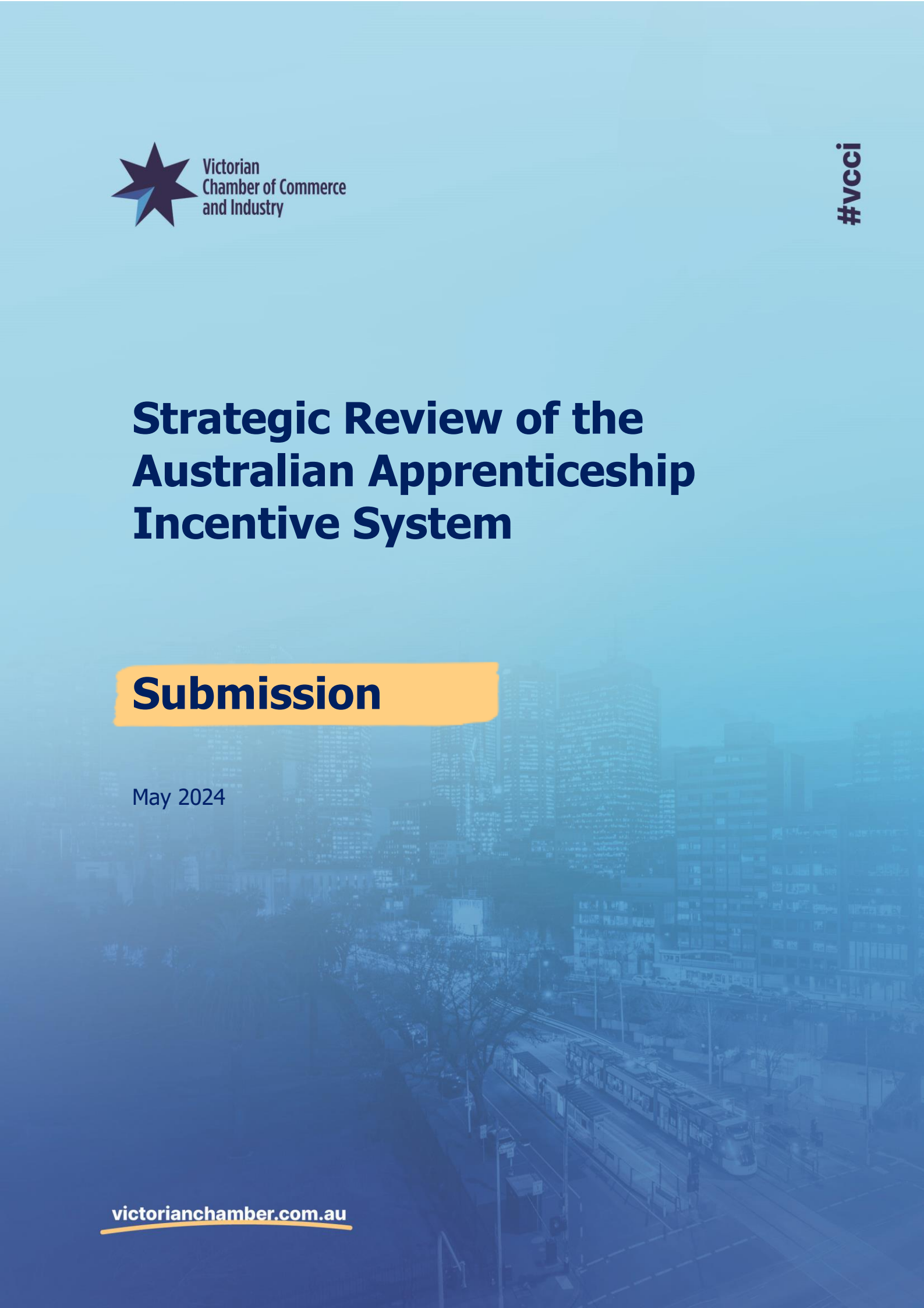
Victorian Chamber of Commerce and Industry

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Strategic Review of the Australian Apprenticeship Incentive System

Submission

May 2024



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Submission to the Strategic Review of the Australian Apprenticeship Incentive System

Victorian Chamber of Commerce and Industry

Executive Summary

As Victoria's leading business and industry body, the Victorian Chamber of Commerce and Industry (Victorian Chamber) informs and services more than 85,000 members, stakeholders and clients across the State. Our work encompasses all industry sectors, spanning small, family, medium, and large enterprises, including several registered training organisations (RTOs), TAFEs and universities.

The Victorian Chamber is home to Apprenticeship Support Australia (ASA), a contracted Australian Apprenticeship Support Services (AASS) provider that services a significant number of apprentices in Victoria, South Australia and Tasmania.

As such, the Victorian Chamber has more than 26 years of experience successfully supporting apprentices and employers and delivers a completion rate significantly higher than the national average.

Employers play a central role in the education, training and employment of apprentices.

Business is an indispensable partner in this system. The 'earn and learn' aspect of apprenticeships hinges entirely on employer engagement.

The Victorian Chamber believes that any reduction or removal of incentive payments to business will have disastrous consequences on commencements and completions, exacerbate skill shortages and impact economic growth.

The costs for businesses to employ apprentices are significant. In Victoria, these costs include the payment of payroll tax for apprentices.

This submission strongly urges that support for employers in the form of incentive payments is maintained.

We also argue for the introduction of a Job Creation Incentive Program that would drive commencements and completions in apprenticeships. The Job Creation Incentive Program would allow for incentive payments, made on a quarterly basis, in the form of a lump sum payment at the completion of study and additional payments for those who are attaining skills on the priority list.

We advocate for the introduction of a program modelled on the Employer Parity Initiative, which was a great success in significantly increasing Indigenous employment. This initiative could be redesigned for apprentices and include other cohorts that face structural barriers such as people with disability, refugees and mature women.

The Victorian Chamber's submission makes a series of other recommendations designed to strengthen the training system more broadly.

We believe there is a need for a more integrated approach to higher education that better connects vocational education and training (VET) and the university sectors. This was also noted in the report by Dr Peter Shergold AC *'Looking to the Future: Report of the Review on Senior Secondary Pathways into Work, Further Education and Training'.*

This should also include a more coherent approach to lifelong learning, if we are to keep pace with how quickly the economy is adapting, new industries emerging and ways of working are changing.

The perception of VET careers and pathways needs to be lifted to align with their importance in delivering the critical skills and workers the Australian economy relies on today and into the future.

The Australian Government's Employment White Paper found that today 51 per cent of jobs require a VET qualification versus the 35 per cent that require a Bachelor's degree or higher.

Investment in apprenticeships, traineeships and work-integrated learning is essential. To meet skills needs, commencements and completions in VET pathways must be strategically enabled and incentivised.

This requires a partnership between Government and business. Industry must be included. It is a key stakeholder and partner.

Additionally, to drive lifelong learning and equip workers and industry with changing skills and jobs needs, we need to increase delivery and integration of short, stackable training options, including industry-delivered micro-credentials and deliver these through a National Skills Passport system.

The delivery of this type of digital infrastructure will also assist the Government to optimise data linkages between departments that are focused on meeting skill shortages, industry needs and skilled migration imperatives.

The Victorian Chamber acknowledges the work to date on the national reform of skills, education and training and we note that many of the features of these reforms reflect the Victorian Chamber's policy and advocacy on behalf of business.

Summary of Recommendations

The Incentive System

1	Postpone any changes to the incentive system pending the outcomes of the Strategic Review of the apprenticeship system and development of a new model.
2	Create a five-year Job Creation Incentive Program to drive commencements and completions. The Job Creation Incentive Program provides incentive payments on a quarterly basis and a lump sum payment at the completion of study, with additional payments made for those who are attaining skills on the priority list.

Pipeline and Recruitment

3	Improve pathways for young people entering the apprenticeship system in school through a coordinated approach to promoting apprenticeships. Programs such as Head Start in Victoria can be built on for national implementation but need deeper connection to industry.
4	Work with industry to develop best practice guides and toolkits for matching apprentices with employers. The guides would include material for students considering apprenticeships (training requirements, career opportunities, benefit of completion) and materials for employers (recruitment, mentoring, HR advice).

Complexity and ongoing training

5	Allocate existing free TAFE funding towards apprenticeship/traineeship programs to support employers by reducing costs associated with off-the-job training costs and fees.
6	Address on costs for pre-apprentices such as training fees as this will help increase opportunities for employers to take on this cohort and drive further improvements in the overall apprenticeship program. Relatedly, ensure that higher apprenticeships can access relevant subsidies.

Accurate Data

7	Implement a National Skills Passport to provide an efficient method of data capture allowing employers to view and verify qualifications and competencies while also allowing the apprentice to maximise their career progression.

Regions

8	Offer incentives broadly across the apprenticeship system in regions, so bespoke, regional training needs are captured within incentive schemes and easily communicated and understood, to increase the number regional apprenticeship opportunities.
9	To address the skills shortages in regional areas, examine offsets for the higher costs for apprentices and employers undertaking apprenticeships in Regional Australia.

Participation

10	Include robust career advice with equal consideration of further education options in the VET sector, other forms of higher education and up-to-date information on current and emerging jobs, industries and skills to increase participation rates.
11	Develop targeted initiatives for hard-to-reach cohorts including micro-credentialing and foundational skills incentives, particularly in digital skills for mature women returning to the workforce or young people who exited school at an early age.
12	Design a program similar to the Employment Parity Initiative, which was a best-practice program that achieved significant results for employment of Indigenous youth and expand to include other vulnerable cohorts that face barriers including people with disability, refugees and mature women.

Overview

Apprenticeships are a critical pipeline for skills and the skilled workers Australia needs.

Australia's future prosperity rests on our ability to build on our natural advantages, create new sectors and capture new markets in advanced manufacturing, artificial intelligence, quantum computing and critical minerals.

Apprentice pathways are often the only pipeline for the essential highly skilled and technical occupations needed for infrastructure, economic growth and productivity.

To give additional economic context to this: in the immediate term, there are $524 billion in planned infrastructure projects across the nation, the highest on record[1].

Ensuring that we have the skilled workers to turn these ambitions into reality requires a new approach to apprenticeships and traineeships.

Our current trajectory is problematic. Victoria will need 400,000 apprentices by 2025.[2]

Despite this, the number of new apprentices in Victoria is trending downwards[3].

These crucial occupations include jobs in manufacturing, renewable energy and digital, alongside more traditional occupations.

Business is facing a skilled workforce recession.

Over 90 per cent of the 1.2 million jobs created out to 2026 will require a post-secondary qualification, with 40 per cent of those typically needing a VET qualification.[4]

The World Economic Forum's Future of Jobs Report 2023 estimates that 60 per cent of workers will require reskilling before 2027.[5]

Business is already feeling the effects of this.

According to Hays Salary Guide FY23-24, 88 per cent of Australian companies are experiencing skills shortages. Eighty per cent of Australian businesses expect that the skills shortage will negatively impact their growth plans.

In response, business is significantly increasing its expenditure on the learning and development of its employees.

Deloitte Access Economics found that Australian business is planning on spending $8 billion on learning and development in 2024, an increase of 15 per cent per employee year-on-year[6].

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[1] Skills Shortage threatens Australia's Future Prosperity, Opinion Article, CEDA April 2024.
[2] Trade Institute of Victoria. (2023). Are women a key solution in the labour and skills shortage facing Victoria?. https://www.tiv.vic.edu.au/women-labour/
[3] Victorian Shadow Minister for Education. (2024). Apprentice and trainee opportunities plummet across Victoria amid Labor skills policy failure. Apprentice and trainee opportunities plummet across Victoria amid Labor skills policy failure (sarahhenderson.com.au)
[4] Workforce Australia, National Workforce Strategy 2022-2027
[5] World Economic Forum Future of Jobs Report 2023 WEF_Future_of_Jobs_2023.pdf (weforum.org)
[6] RMIT Online Maximising the ROI of skills and training 2024, Prepared by Deloitte Access Economics.

Improving the apprenticeship system

There is broad consensus that the apprenticeship system needs to be improved.

In the lead-up to the 2022 Jobs and Skills Summit, a Statement of Common Interests[7] between the Australian Council of Trade Unions (ACTU), Australian Industry (Ai) Group, Australian Chamber of Commerce and Industry (ACCI) and Business Council of Australia (BCA) on Skills and Training was released in which the ACTU, AiGroup, ACCI, and the BCA outlined key principles to reform the skills and training systems for the mutual benefit of learners, employers and employees, as well as the Australian economy and society more generally.

The Statement noted: *"Australia's apprenticeship system was once world leading but has struggled to maintain consistent growth and combat falling completion rates over the last decade. Additional support through the pandemic boosted commencements of apprenticeships and traineeships and it is vital that we maintain and build on this momentum and translate the rise in new commencements into a sustained uplift in completions. An increase in funding for apprenticeships and traineeships is warranted, with support for both the employer and employee."*[8]

Supporting and enhancing employer capacity and capability is crucial to achieving the pipeline of skilled workers business needs.

Employers want their apprentices to stay with them through to completion and beyond. Taking on apprentices is a significant commitment with associated costs and barriers for an employer. Departing apprentices are a cost on business that cannot be recuperated: employers then must start from scratch.

The Employment White Paper emphasises filling skills shortages, including through innovative approaches. It also highlights that both commencement and completions matter in attaining requisite skills.

Incentives for both employers and apprentices play a critical role in achieving this.

The incentive system and impact on job creation and meeting skills needs.

Apprenticeships are not a standard labour market program.

Government incentives are not a wage subsidy: rather, they are critical training models for youth and people upskilling, reskilling or changing careers.

The importance of incentives in supporting apprentices is evidenced by the decline in apprenticeship numbers since 2013.

The graph below demonstrates the impact of reductions in employer incentives and the commensurate steady decline in apprenticeship commencements, posing significant risks to our economy's future workforce.

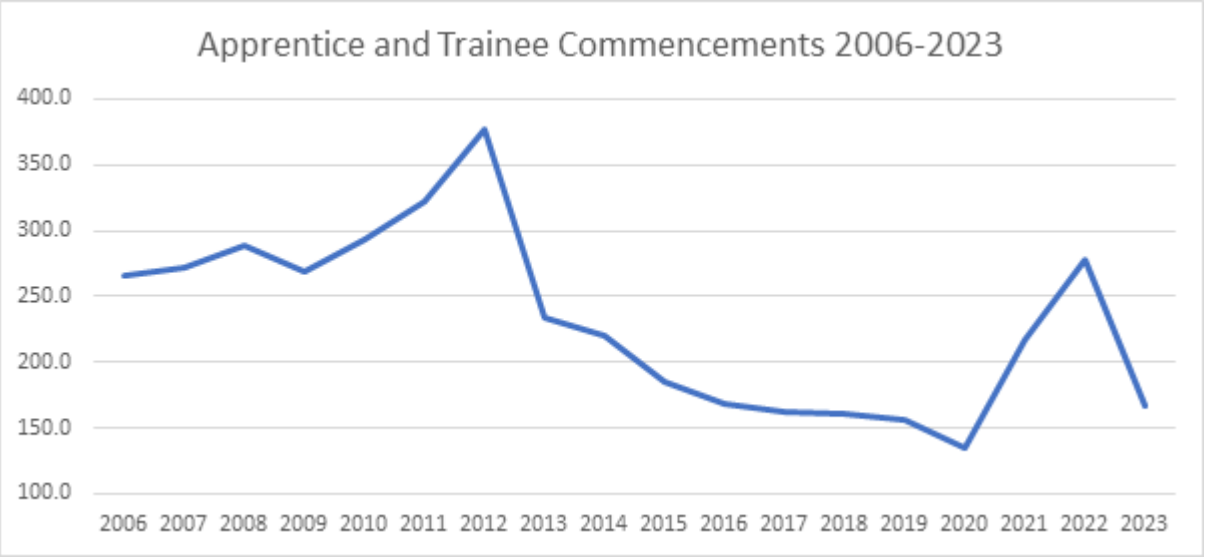
The decline aligns with more targeted eligibility criteria and a sequence of policy adjustments in 2012-2013, such as the removal of funding for existing workers doing traineeships, introduction of the part-time incentive, and diplomas no longer funded under the program.

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[7] Business Council of Australia. (2022). ACTU, Ai Group, ACCI, BCA statement on common interests on skills and training.

[8] Business Council of Australia. (2022). ACTU, Ai Group, ACCI, BCA statement on common interests on skills and training.

These changes sought to address the apprenticeship system's capacity to tackle skills shortages by directing program funding to priority occupations.



As a result of these changes, 83,000 fewer apprentices and trainees were in training on 31 March 2021 compared to 30 September 2013.[9]

The extent and impact of these policy adjustments is detailed in the submission presented by the ACCI and hence not repeated here.

Employer incentives are needed to help employers overcome some of the costs and barriers associated with taking on an apprentice.

In a survey by the Victorian Chamber, respondents estimated that an apprentice costs the business an average of $14,773 in time and supervision in their first year, $8,341 in the second year, $7,341 in the third year, and $3,159 in the fourth year.

The average cost of apprenticeships for business is in the order of $34,000 over the four-year program.

This does not include costs to business including wages, payroll taxes (relevant to Victoria), costs associated with training and materials.

Costs associated with training are between $3,000 to $8,500 per annum for a Certificate III apprenticeship.

Respondents also indicated that they had between two to five apprentices with some (11 per cent) having as many as 20.

The Victorian Chamber believes the step down of incentives, currently due to begin 1 July 2024, will have adverse impacts for apprenticeship opportunities for employers and potential apprentices.

This stepdown should be delayed pending the outcomes of this Strategic Review and development of a new model.

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[9] Australian Government, Department of Education Skills and Employment. (2022). Australian Apprenticeship Incentives System Reform Regulation Impact Statement. Apprenticeship Impact Statement

To underscore the impact further, 38 per cent of Victorian Chamber members that employ apprentices believe an incentive of $12,000 and above would be required to encourage them to employ more apprentices.

Seventy-five per cent of respondents advocated for the incentive to be spread evenly across the apprenticeship.

Given the current economic climate, attendant cost of living pressures and tight labour market, young Australians undertaking apprenticeships and traineeships can be easily lured away from study. Data supporting this is included in the 'need for accurate data' section of this submission.

The 2022 Productivity Commission report, *National Agreement for Skills and Workforce Development Review*, noted that changes to the (trade) apprenticeship system should focus on adjusting the timing of employer incentives to provide more support when the risk of cancellation is the greatest.[10]

Similarly, Access Economics research on incentives has found that financial incentives have a positive impact on commencement, and that the timing of incentive payments is important.[11]

To support a substantial increase in apprenticeship and traineeship commencements and completions, the Victorian Chamber echoes support for the Job Creation Incentive Program outlined in the ACCI submission.

The Job Creation Incentive Program envisages incentive payments made on a quarterly basis with a lump sum payment at the completion of study and additional payments made for those who are attaining skills on the priority list.

As a critical partner in the success of apprenticeships, business must be involved in the development of a new model and any refinements of incentives.

Recommendations:

1	Postpone any changes to the incentive system pending the outcomes of the Strategic Review of the apprenticeship system and development of a new model.
2	Create a five-year Job Creation Incentive Program that will drive commencements and completions. The Job Creation Incentive Program provides incentive payments on a quarterly basis and a lump sum payment at the completion of study, with additional payments made for those who are attaining skills on the priority list.

[10] Australian Productivity Commission. (2020). *National Agreement for Skills and Workforce Development Review, Productivity Commission Study Report.* https://www.pc.gov.au/inquiries/completed/skills-workforce-agreement/report/skills-workforce-agreement.pdf
Incentives have helped drive apprenticeship commencements. For example, commencements increased by 35 per cent after the introduction of Covid-19-related targeted apprenticeship programs and incentivesxiv

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[11] Opcit.

Preparation pipelines and recruitment

For those entering apprenticeships, the information and expectations they have, as well as the process of being recruited and onboarded, can profoundly impact apprenticeship completions.

The 2022 Productivity Commission report into changes to the (trade) apprenticeship system found that better screening and matching of prospective apprentices could have a marked impact on completions and needs to be addressed as a top priority.

Most non-completions occur in the first year of an apprenticeship indicating that pre-apprenticeship information and preparation needs to be improved.

Beyond this, the process and culture of apprenticeship commencements, recruitment and apprentice-employer matching needs to be progressed.

Anecdotally, currently more than 90 per cent of employers initiate an apprenticeship sign-up when the apprentice has been selected or already commenced with the employer.

The Victorian Chamber believes employer recruitment capability and equally the apprentices' expectations would be significantly enhanced by targeted training programs and best practice guides designed to improve employer-apprentice fit.

This includes targeted programs that could be delivered in schools to create better pathways for young people entering the apprenticeship system. Relatedly, there is a need for stronger recruitment processes that better match employers and apprentices. Enhancing employer recruitment capability and apprentices' expectations could be achieved through targeted training programs designed to improve employer-apprentice fit.

A recent Victorian Chamber survey found that 67 per cent of businesses reported that poor organisational fit and high apprentice expectations were the main reasons for non-completion.

Studies seeking to improve participation and completion rates often look to Swiss and German apprenticeship models. The close collaboration between industry, business, educational institutions and apprentices ensures that the two countries' curricula reflect the interests and requirements of all stakeholders. Apprenticeship training is embedded in the secondary education system, with extensive resources available to help learners investigate individual aptitude and personal proclivity towards an occupation.

Recommendations

3	Improve pathways for young people entering the apprenticeship system in school through a coordinated approach to promoting apprenticeships. Programs such as Head Start in Victoria can be built on for national implementation but need deeper connection to industry.
4	Work with industry to develop best practice guides and toolkits for matching apprentices with employers. The guides would include material for students considering apprenticeships (training requirements, career opportunities, benefit of completion) and materials for employers (recruitment, mentoring, HR advice).

Complexity and the need for ongoing training

The training fee system, including its administration and costs, needs to be simplified and made more attractive for both the employer and the apprentice.

Training fees are a significant cost to the employer.

For example, a Certificate III in Electrotechnology Electrician can cost an employer up to $21,390, excluding materials and associated administrative fees for the apprenticeship training fees.[12]

Fifty-eight per cent of employers, in a recent survey conducted by the Victorian Chamber, stated that support to cover the costs of apprentice training fees would make it easier for them to take on an apprentice.[13]

The role of Free TAFE needs to be considered in this context.

Allocation of existing Free TAFE funding towards apprenticeship/traineeship programs would support employers by reducing costs as well as administration when taking on an apprentice.

This shift would support industries with severe skill shortages and help employers to bring on more apprentices.

Relatedly, pre-apprenticeships have been identified as important pathways into apprenticeships by providing a solid foundation for apprentices entering their chosen industry. Increasing opportunities for employers to take on pre-apprentices through consideration of the training fees will further help increase pipelines and completions.

Higher or degree apprenticeships are also an opportunity to strengthen the apprenticeship system in an innovative way that meets skills needs. This will require policy changes to enable higher/degree apprenticeships access to relevant apprenticeship subsidies.

Recommendations:

5	Allocate existing free TAFE funding towards apprenticeship/traineeship programs to support employers by reducing costs associated with off-the-job training costs and fees.
6	Address on costs for pre-apprentices such as training fees as this will help increase opportunities for employers to take on this cohort and drive further improvements in the overall apprenticeship program. Relatedly ensure that higher apprenticeships can access relevant subsidies.

[12] Chisolm. (2024). *Certificate III in Electrotechnology Electrician.* https://www.chisholm.edu.au/courses/certificate-iii/electrotechnology-electrician-apprenticeship

[13] Victorian Chamber of Commerce and Industry. (2024). *Business Voice Survey:* March 2024.

The need for accurate data

Completion rates across all post-school qualifications are not where they should be:

- The completion rate across VET qualifications as a sector sits at 47.6 per cent, according to the National VET completions report 2023.
- By comparison, apprentice and trainee completions sit at 55.7 per cent
- The rate of attrition at Australian universities is now at record highs.[14]

The issue of apprenticeship completions is not an isolated one. It is a broad issue that requires early intervention, more information and career guidance for people before they decide where to work and what qualification to commence.

The Victorian Chamber has previously advocated for work in this area, including in our 2023 Career Service Policy Paper.[15]

Equally, a strong labour market and cost of living pressures may be a key determinant of abandoning study.

Better data quality is an issue.

There are significant data gaps in the VET and apprenticeship system relating to student destinations, employment patterns and rotations and consistency of data across states and jurisdictions.

One way of achieving the need for better quality data is through the development of a National Skills Passport.

Skills passports enable the most efficient method of data capture allowing employers to view and verify qualifications and competencies while allowing the apprentice to maximise their career progression and movement.

This should be built by the private sector following Government development of policy, standards and IT architecture.

Relatedly, apprentice health and safety are of paramount importance. Accurate data capture is vital to identifying the incidence and extent of apprentices experiencing poorer outcomes, such as mental health issues. It will also allow for comparisons to be undertaken against the non-apprenticeship workforce. Having evidence and data enables targeted action to efficiently improve outcomes nationwide.

Employers should be seen as a key source and audience of data. Relatedly, how data is presented and communicated should be seen as a critical tool that helps employers in the apprenticeship system.

Recommendation:

7	Implement a National Skills Passport to provide an efficient method of data capture allowing employers to view and verify qualifications and competencies while also allowing the apprentice to maximise their career progression.

[14] University degree dropouts reach record, AFR, 8 January 2024 University dropouts reach record high (afr.com)
[15] Victorian Chamber (2023). *Career Services Policy Paper*. https://www.victorianchamber.com.au/policy-and-advocacy/initiatives/career-services-policy

A regional view

Chronic skills gaps are emerging in parts of Regional Australia.

Demand for workers in Regional Australia is at record levels. Filling the top four categories of skill vacancy in the regions could create an economic uplift of more than $1 billion according to the 2023 Regional Australia Institute report.[16]

Skills needs in Regional Australia often operate in a microclimate. One region can look very different to another region or metro centres, depending on the industry needs and communities.

The Victorian Chamber supports broad-based incentives offered in regional settings across the apprenticeship system.

This is because skills shortage lists do not accurately reflect needs at a local level, or the barriers associated with regional specific costs.

By way of example, it is more expensive for employers to send apprentices to trade school if it is far away – incurring travel, meal, increased time away from work and accommodation costs.

Broad-based incentives also tend to be simpler to administer.

Simplicity in understanding incentives, and how to access them, are important considerations for apprentices and employers, particularly given the rate at which young people are leaving regional areas to pursue opportunities in larger centres.

A similar conclusion was reached by the Productivity Commission 2022 report, National Agreement for Skills and Workforce Development Review, which also argued for providing subsidies across apprenticeships thereby making pathways more flexible.

Recommendations:

8	Offer incentives broadly across the apprenticeship system in regions, so bespoke, regional training needs are captured within incentive schemes and are easily communicated and understood, to increase the number regional apprenticeship opportunities.
9	To address the skills shortages in regional areas, examine offsets for the higher costs for apprentices and employers undertaking apprenticeships in Regional Australia.

[16] Regional Jobs 2022: The Big Skills Challenge, Regional Australia Institute, website: The_Big_Skills_Challenge_Report.pdf (regionalaustralia.org.au)

Participation

Higher participation of diverse cohorts is critical to the apprenticeship system.

The Victorian Chamber recognises that more needs to be done in this regard to achieve employer, community and Government ambitions.

Key factors contributing to participation include pipelines, pathways and employer capacity.

In Victoria, research on women in construction highlights that the aspirational career of young girls occurs in the later years of primary school and early middle school, and by Year 9 schoolgirls had selected their career path.

Young women and girls self-selecting out of construction pathways have cited concerns about being deemed incapable, inappropriate behaviour from teachers and other students and the future work environment.

A lack of pathways into trade/technology-focused schools and pre-apprenticeships is also a contributing factor.

Further, the people around young women and girls influence their career choices, with 27 per cent of girls considering trade while at school being actively discouraged by apprehensive friends and family.[17]

The perception of VET careers and pathways needs to be lifted to correspond with its importance in delivering the critical skills and workers Australia relies on. VET is highly valued by Victorian Chamber members because of its role in developing skills in industry and providing a critical pipeline for workers into jobs.

As noted in the Shergold report, Australia should be embedding modernised career advice in our schools, promoting different types of qualifications equally, and ensuring student awareness of multiple career and educational pathways.

The Victorian Chamber supports initiatives that include high-quality career advice with equal consideration of further education options in the VET sector, other forms of higher education and up-to-date information on jobs, industries, and skills needed now and into the future. We believe this will be vital in increasing participation rates.

The role of micro-credentialing is also an important consideration.

Students in the early years of school record almost identical results in mathematics. Gender gaps begin to emerge, however, in the later years of primary school and extrapolated forward have a direct impact on career choice.

A STEM accelerator program in the form of a micro-credential needs to be examined and trailed initially as a foundation skill with the ability for further iterations. The Victorian Chamber is an ideal location for such a trial.

Other such initiatives that are relevant to hard-to-reach cohorts include micro-credentialing and foundational skills incentives, particularly in digital skills for mature women returning to the workforce or young people who exited school at an early age.

We also recommend the creation of an Employment Parity Initiative, which was a best-practice program that achieved significant results for employment of Indigenous youth. This initiative could be expanded to include other cohorts that face barriers to employment including people with disability, refugees and mature women.

[17] MIT: Holdsworth & Turner. (2022). Career pathways of women in construction. https://researchrepository.rmit.edu.au/esploro/outputs/9922248547401341

Recommendation:

10	Include robust career advice with equal consideration of further education options in the VET sector, other forms of higher education and up to date information on current and emerging jobs, industries, and skills to increase participation rates.
11	Develop targeted initiatives for hard-to-reach cohorts including micro-credentialing and foundational skills incentives, particularly in digital skills for older women returning to the workforce or young people who exited school at an early age.
12	Design a program similar to the Employment Parity Initiative, which was a best-practice program that achieved significant results for employment of Indigenous youth, and expand to include other vulnerable cohorts that face barriers including people with disability, refugees, and older women.

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