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Submission – Review of the Australian Apprenticeships National Skills Needs List



NSW Business Chamber

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About the Chamber

The NSW Business Chamber ('the Chamber') welcomes the opportunity to make a submission to the *Review of the Australian Apprenticeships National Skills Needs List*.

The Chamber is one of Australia's largest business support groups, with a direct membership of more than 20,000 businesses, providing services to over 30,000 businesses each year.

The Chamber works with thousands of businesses ranging in size from owner operators to large corporations, and spanning all industry sectors from product-based manufacturers to service provider enterprises.

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INTRODUCTION

In the 2019-20 Budget, the Commonwealth Government announced it would establish the Additional Identified Skills Shortage Payment (AISS) to boost existing incentives for areas of identified skills needs and to support up to 80,000 new apprentices over five years. In addition, the government announced it would introduce a new simplified and streamlined incentives program for employers of apprentices and trainees from 1 July 2020 – the Incentives for Australian Apprenticeships (IAA) program to replace the existing Australian Apprenticeships Incentives Program (AAIP).

As a result of these changes, the Government undertook to review the National Skills Needs List (NSNL).

The key objectives of the review include:

- to ensure the NSNL is fit for purpose and responsive to changing labour market conditions;
- to develop an integrated approach to identifying occupations in skills shortage to effectively target employer apprenticeship incentives and apprentice payments; and
- to contribute to a coherent policy approach to identifying and addressing skills shortages across government.

The focus of the review is the methodology with which occupations are identified and prioritised for the purpose of targeting apprenticeship incentives and payments.

Current VET and workforce situation

The Chamber firmly believes that a strong Vocational Education and Training (VET) system is essential to building the future workforce of the nation. The combination of work and learning provided by vocational pathways means participants develop their skills in a practical, 'real world' way, providing graduates with the skills that employers demand.

The Australian Government has forecast that of the almost 900,000 new jobs to be created nationally between 2018 and 2023, around 500,000 of these jobs will require a VET qualification.¹

However, as evidenced by data from the National Centre for Vocational Education Research (NCVER), participation in apprenticeships and traineeships overall is in decline.²

¹ Department of Jobs and Small Business. Employment Outlook to 2023. Retrieved from: <http://lmip.gov.au/PortalFile.axd?FieldID=3159652&.docx>

² NCVER 2019, Australian vocational education and training statistics: Data slicer: Apprentices and trainees, March 2019, NCVER, Adelaide. Retrieved from: <https://www.ncver.edu.au/research-and-statistics/publications/all-publications/apprentices-and-trainees-2019-march-quarter-australia> on 24 September 2019.

2018 saw the fewest number of apprentice and trainee commencements since 1998³ and the fewest number of completions since 2001.⁴ There has also been a significant drop in the number of VET students from regional and remote areas.⁵

This trend appears to have continued into 2019. During the period of 12 months ending 31 March 2019, apprentice and trainee commencements across Australia had decreased by 2.7% compared with the previous 12 months and by 15.8% compared to 2015.⁶

Further, completions had decreased by 1.8% compared with the previous 12 months and by 39.4% compared to 2015.⁷

This is of little surprise given that total government funding in VET fell from \$9.4 billion in 2014-15 to \$6.1 billion in 2017-18⁸ - its lowest level since 2008. To put this in perspective, a Skills Australia report in 2011 projected that the VET sector would require almost double current funding levels in 2020 (amounting to \$12 billion in 2020) to keep up with demand.⁹

The reduction in the number of apprentices and trainees is occurring at the same time as widespread skills shortages across businesses. The Chamber recently conducted a 2019 Workforce Skills Survey (the Survey) which found that over half of NSW businesses are experiencing skill shortages.

While this proportion of businesses was slightly lower than in 2017, those experiencing skill shortages are carrying more job vacancies than in 2017 – equating to 82,000 in 2019 state-wide, compared to 54,000 in 2017.¹⁰

Trade skills in construction and manufacturing were reported to be the largest skills in shortage. Other notable areas of shortage were in health; disability; early childhood; education and training; farming and agriculture; retail / customer service and hospitality including chefs and cooks.

The main reason that businesses gave for these shortages was not being able to recruit suitable staff (61.8%). Of concern, almost 20 per cent of respondents experiencing a skills shortage reported that it was due to having had no applications for vacancies.

These shortages impacted productivity and overall output with over 20 per cent of businesses reporting that skills shortages resulted in them losing customers or missing opportunities. Further, there appears to be no end in sight with over 40 per cent of

³ NCVER 2018, Historical time series of apprenticeships and traineeships in Australia, from 1963, NCVER, Adelaide. Retrieved from: <https://www.ncver.edu.au/research-and-statistics/data/all-data/historical-time-series-of-apprenticeships-and-traineeships-in-australia-from-1963-to-2018> on 24 September 2019.

⁴ *ibid*

⁵ NCVER. Total VET students and courses 2018. Retrieved from: https://www.ncver.edu.au/data/assets/pdf_file/0031/6925090/Total-VET-students-and-courses-2018.pdf on 27 September 2019.

⁶ *Supra* Note 2.

⁷ *ibid*

⁸ Department of Prime Minister and Cabinet. Strengthening Skills. Retrieved from <https://pmc.gov.au/sites/default/files/publications/strengthening-skills-independent-review-australia-vets.pdf>

⁹ Skills Australia. Skills for prosperity: a roadmap for vocational education and training. Retrieved from: http://pandora.nla.gov.au/pan/126910/20110518-0842/www.skillsaustralia.gov.au/PDFs_RTfS/SkillsProsperityRoadmap.pdf on 26 September 2019.

¹⁰ NSW Business Chamber. July 2019. 2019 Workforce Skills Survey. Retrieved from <https://www.nswbusinesschamber.com.au/Issues/Issues/Workforce-Skills/Recent-submissions-and-publications> on 22 September 2019.

respondents expecting their business will experience a skills shortage over the next 12 months.

Within this context, the importance of a resilient, high quality VET system cannot be overstated.

The importance of incentives

Employers make a significant investment in the training and supervision of apprentices and trainees with over half of respondents to the Chamber's Survey reporting that they are currently employing an apprentice or trainee.

Those businesses reported that they provided an average of 29 hours of supervision each week to each apprentice or trainee equating to a significant overall investment in the training of each apprentice or trainee.

Given this investment, there was strong feedback from business to support the use and extension of incentives for employers to offset a proportion of the costs. Almost 60 per cent of businesses reported that increased financial incentives would make them more likely to employ an apprentice or trainee.¹¹

The significant, positive impact of incentives on participation is also observable from the fluctuations in engagement that have been seen with their introduction, then removal. For example, apprenticeship commencements were declining in 2007-08, particularly in the construction and engineering sectors. Further, following the introduction of a Federal Government Kickstart Incentive of \$1,000 in December 2009, there followed a significant increase of almost 10 per cent in commencements.¹²

A similar fluctuation occurred on the temporary introduction of another Kickstart incentive for construction in 2013.¹³

Any reduction in the availability or quantum of incentives for both employers and apprentices/trainees is therefore strongly opposed by the Chamber.

¹¹ *Supra* Note 10.

¹² *Supra* Note 3.

¹³ *ibid*

The purpose of the NSNL

One of the key objectives of the AAIP is to expand the available training pathways and/or employment opportunities for young people, disadvantaged groups and mature people needing to retrain.¹⁴ This social benefit is not considered in detail in the Issues Paper but the focus of the proposed methodology is on the objective to encourage participation in occupations that are in, or are expected to be in, shortage.

Therefore we take this opportunity to broaden the discussion to consider ways to expand available training pathways.

One such option, put forward here for discussion, is to expand the NSNL to include all trade apprenticeships recognised by a State or Territory Training Authority. There a number of arguments to support considering such an approach:

- There are widespread skills shortages across many industries.

In NSW at least, skills shortages in apprenticeship/traineeship pathway occupations are so widespread that a more straightforward question may be: "Which occupations are not in shortage?" instead of attempting to identify those that are.

- Employers will be guaranteed consistency of incentives

Having a consistent ongoing approach will provide employers, apprentices and training providers with the surety required to plan appropriately.

- Small and emerging occupations and other hard-to-measure occupations will automatically join the NSNL

New apprenticeship pathways will automatically be added to the NSNL following approval by State or Territory Training Authorities.

- Reducing red-tape

In line with the Australian Government's commitment to minimise the burden of regulation on businesses and individuals, there would be no requirement to review the NSNL, no requirement to develop complex methodology and no dispute over the inclusion or non-inclusion of occupations on the list.

- Rural and regional areas would benefit substantially

Such a move would see an expansion of eligibility for the Rural and Regional Skills Shortage incentive, thereby increasing training pathways for both young and mature people, particularly in rural and regional areas.

- There would be significant increases in the available human capital and ongoing social benefits as a result of an expanded list of eligible apprenticeships.

¹⁴ Australian Government. Australian Apprenticeships Incentives Program Guidelines. Retrieved from <https://www.australianapprenticeships.gov.au/sites/d8ausapps/files/2019-05/AAIP%20Guidelines.pdf> on 24 September 2019.

Impacts

Following the introduction of the Incentives for Australian Apprenticeships (IAA) from 1 July 2020, the NSNL will affect the eligibility for:

- existing worker eligibility for base incentives
- Apprentice eligibility for a Trade Support Loan
- access to the Adult Australian Apprentices incentive and
- the Rural and Regional Skills Shortage incentive.

Accordingly, the main impact of including all trade apprenticeships on the NSNL would be that Existing Worker apprenticeships not on the NSNL would become eligible for base incentives, and all trade apprentices would become eligible for Adult Australian Apprentice incentives, Trade Support Loans and rural and regional incentives.

Disadvantages

The drawback of such an approach is that, without a commensurate increase in the quantum of available funding, incentives might be targeted towards fewer apprenticeships than under the current system.

However, such an increase in funding could potentially be sourced from unallocated funds in the Skilling Australians Fund.

A revised NSNL methodology to focus on current and future shortages

Whilst the Chamber sets out the alternative above to prompt further discussion of the purpose of the NSNL, we recognise that a more pragmatic approach would be to develop the NSNL methodology further, as outlined in the Issues Paper.

The Chamber agrees that the current methodology for calculating the NSNL does not accurately reflect the current state of skills needs. There are many examples of this across many industries. Taking one example of civil construction, there has been significant investment in infrastructure across Australia, and particularly NSW. Concurrently, there has been an almost 12 per cent reduction in the number of trainees undertaking a Certificate III in Civil Construction in 2019 compared to the previous year.¹⁵

The Chamber therefore offers the following comments a revised NSNL methodology:

- Principle 1: There should be a single coherent approach to identifying occupational skills shortages

The Chamber agrees with the principle that a single coherent approach for the Commonwealth Government should underpin the identification of occupation skills shortages provided that the approach is flexible and timely enough to cater to changing workforce dynamics (see comments below).

¹⁵ *Supra* Note 2.

- Principle 2: The methodology should be forward looking but also address existing and emerging skill shortages (Chamber's edit to Principle)

The Chamber agrees that the current NSNL methodology is too backwards focused. However, solely focusing on future workforce projections can ignore the existing situation and could foreseeably result in a situation where existing shortages are overlooked. There should be some consideration of the existing labour market context, and ensure that current skills shortages are captured in the methodology, not just those anticipated in the future.

In line with the methodology detailed in Section 3.2 of the Issues paper, the Chamber agrees that there must therefore be a thorough understanding of the current state of the skilled worker demand/supply balance in each occupation.

However, whilst the stock and flow-type model for estimating workforce supply and the utilisation method for estimating workforce demand has previously been identified as the best fit-for-purpose workforce planning methodology¹⁶, there are many limitations of this approach.

The methodology does not cater well to small or emerging workforces; it is reliant on having available and accurate data; demand projections are unlikely to be perfect; the methodology is unlikely to be transparent nor fully understood across the sector; and the selected demand drivers may not be suitable for each occupation. Moreover, this approach to calculating Skills Needs would result in a significant resource impact on the Department.

Given these limitations, the Chamber proposes the methodology to calculate the Needs List be based on existing data sources and regular consultation with industry and sufficient flexibility to review occupations for inclusion on the NSNL outside the usual review cycle (see Principle 6 for further discussion).

- Principle 3: The methodology should be responsive to changes in skills shortages

The Chamber agrees with the need for the methodology to be responsive to changes in skills shortages. However, the Chamber is concerned that this result in a 'one-on, one-off' system whereby the inclusion of a new occupation on the NSNL results in the automatic removal of another occupation, which would not be supported.

A new methodology should be applied at most biennially, i.e. at most, every two years. Such an approach would enable employers to plan its future workforce and training providers to anticipate future training demand and plan accordingly. More frequent changes to the NSNL would ultimately reduce confidence in the apprentice/trainee system and would likely cause confusion across the sector.

Following each review, any potential removal of occupations from the NSNL should be flagged at least a year prior to its actual removal to ensure that employers and potential apprentices/trainees are able to plan accordingly.

¹⁶ Crettenden, I & McCarty, M & Fenech, Bethany & Heywood, Troy & Taitz, Michelle & Tudman, Sam. (2014). How evidence-based workforce planning in Australia is informing policy development in the retention and distribution of the health workforce. Human resources for health. Retrieved from: <https://human-resources-health.biomedcentral.com/articles/10.1186/1478-4491-12-7>

- Principle 4: the methodology should be transparent yet flexible

Whilst the NSNL should be reviewed biennially, it is recommended that there is flexibility to accommodate new or unforeseen skill shortages. The system should be able to conduct urgent reviews based on workforce changes but only for *the inclusion* of additional skills on the NSNL and not for removal, given the need for certainty for employers, apprentices and training providers.

For example: since the last review of the NSNL in 2011, the occupation of Cyber Security has emerged and is already in shortage with the need for almost 18,000 additional cyber security workers by 2026¹⁷ and losses of up to \$405 million in revenue for companies unable to fill vacancies.¹⁸

Accordingly, the Chamber proposes that the methodology allow for 'review triggers' to add occupations to the NSNL outside the normal review cycle.

Potential 'review triggers' could be:

- A significant increase (for example, a 10% increase or more over the previous month) in the number of visa applications for an occupation on an apprenticeship or traineeship pathway compared to the previous year.
- Inclusion of new projects on the Commonwealth's Infrastructure Priority List as a High Priority or Priority Project due to increased demand for particular trades but also impact supply in other trades.
- Feedback from the Australian Government's Entrepreneurs' Program around new or emerging occupations.
- Significant year-on-year fluctuation (both increases and decreases) in the number of apprentices/trainees in an occupation foreshadowing potential shortages.

Such a review would not necessarily warrant inclusion on the NSNL but consideration of the reasons for the changes, and consultation with relevant industries to gain further insight behind the change.

Such criteria could also be included in the regular ongoing review of the NSNL (discussed further below).

- Principle 5: The methodology should support informed decision making

Incentive eligibility should be determined at commencement of the apprenticeship and be consistent for the duration of the apprenticeship/traineeship i.e. a completion incentive should not be withdrawn as a result of the occupation being removed from the NSNL post-commencement of the apprenticeship/traineeship.

Any uncertainty in the availability of incentives throughout the lifespan of the apprenticeship/traineeship should be avoided as it would decrease business confidence and likely affect the number of apprentices and trainees being recruited.

¹⁷ Australia's Cyber Security - 2018 update. Retrieved from: <https://www.austcyber.com/tools-and-resources/sector-competitiveness-plan-2018> on 26 September 2019.

¹⁸ Australia's Cyber Security Sector Competitiveness Plan 2017. Retrieved from: <https://www.austcyber.com/tools-and-resources/sector-competitiveness-plan-2017> on 26 September 2019.

- Principle 6: The methodology should prioritise outcomes that deliver the greatest social and economic benefit

It is important to differentiate here between base incentives and additional (top-up) incentives. The Chamber firmly believes that base incentives should remain constant across all apprenticeships and traineeships and strongly opposes the expansion of skills shortage methodology, or the NSNL, to influence the availability of base incentives.

Additional incentives – which can be determined according to NSNL methodology - can then be directed towards short-term need and provide the opportunity for a more targeted approach.

A combination of indicators are recommended to determine these top-up incentives although it is important that the assessment indicators remain transparent and readily understood. Indicators should ensure a mix of both current and future workforce requirements.

To assess existing shortages, the Department undertakes a range of different activities. Whilst not perfect, vacancy data continues to be a good indicator of existing shortage. This should be used in combination with the Department's Survey of Employers' Recruitment Experiences (SERA)¹⁹. However, the identification of occupations in shortage should be expanded beyond the 80 occupations currently regularly assessed in order to give a complete picture of workforce shortages.

Forecast data is already available to support the identification of future shortages and should continue to be used. However, forecasts and projections are not always accurate and there have been examples where occupation forecasts have been incorrect.

Accordingly, for both existing and future workforce projections, it is strongly recommended that stakeholder and industry consultation becomes a key part of the methodology and the Chamber could support this process in partnership with Government.

In addition, the following indicators could be considered to provide further context:

- The number of visa applications for an occupation on an apprenticeship or traineeship pathway compared to the previous year.
- High Priority Projects on the Commonwealth's Infrastructure Priority List
- Feedback from the Australian Government's Entrepreneurs' Program.
- Significant year-on-year fluctuation (both increases and decreases) in the number of apprentices/trainees in an occupation foreshadowing potential shortages.

It is also understood that there is a significant amount of data used to inform the Skilled Migration List, such as graduate outcomes and apprenticeship outcomes.²⁰ Consideration should be given to incorporating much of this evidence into the methodology.

¹⁹ Department of Employment, Skills, Small and Family Business 2019, Skills Shortages Research Methodology. Retrieved from https://docs.employment.gov.au/system/files/doc/other/ss_methodology_0.pdf on 27 September 2019.

²⁰ Department of Employment, Skills, Small and Family Business 2019, Migration Occupation Lists – Update and Methodology. Retrieved from https://docs.employment.gov.au/system/files/doc/other/1710_methodology_approach_final.pdf on 27 September 2019.

Criteria for inclusion on the NSNL – ANZSCO Groups

The Chamber supports removal of the requirement that the NSNL is limited to occupations in Major Group 3 Technicians and Trades Workers. By limiting the NSNL in this way other skilled occupations in shortage are being ignored.

For example, the Australian Meat Industry Council (AMIC) recently reported that there were 3,780 vacancies in the industry, with high turnovers of staff.²¹ Concurrently, there has been a 14 per cent reduction in the number of apprentices and trainees within meat processing between 2018 and 2019 (as at 31 March 2019) and a more than 50 per cent reduction over the last five years.²² Despite this, many traineeship positions are not eligible for incentives through the NSNL as they are ANZSCO Major Group 8 occupations.

By removing the requirement for the trade to be in Major Group 3, it would also avoid situations similar to the introduction of the AAIP Priority Occupations to address shortages in Major Group 4 – Community and Personal Service Workers.

Criteria for inclusion on the NSNL – occupation numbers

The Chamber agrees that the methodology should not preclude occupations on the basis of size as it will preclude inclusion of new and emerging occupations from the NSNL.

Possible occupational analysis

The Chamber does not support the expansion of the requirement that an apprentice be additional to the employers “usual apprentice intake” to be eligible for an incentive. Such an approach assumes that there is a ‘usual intake’. Intakes can be affected by many factors – from prevailing economic conditions to the availability of suitable apprentices or trainees.

Moreover, such an approach would likely penalise those employers that have already been investing in apprentices and trainees.

Conclusion

Going forward, the Chamber reiterates its opposition to any expansion of the role of the NSNL to determine base incentives for apprentices and trainees and, given the critical need for more apprentices and trainees to address skills shortages, any reduction in the quantum or availability of incentives.

The Chamber strongly recommends that any future methodology or system is piloted and tested prior to rollout to ensure that there are no unforeseen results or impacts on the availability of the future workforce.

The results of this pilot should be made available for further consultation before a final determination is made on the future of the NSNL methodology.

²¹ Australian Meat Industry Council. Labour Discussion Paper. 2019. Retrieved from <https://amic.org.au/wp-content/uploads/2019/05/Discussion-Paper.pdf> on 18 September 2019.

²² *Supra* Note 2.