

Briefing Paper



**National Australian
Apprenticeship Association**

Apprenticeships and the Recovery

Briefing Paper

May 2020

Background

Australia's response to the Covid 19 pandemic has been exemplary by international standards. The Federal government moved quickly to stay ahead of unfolding developments globally and designed health measures that quickly reduced the reproduction rate to below 1 and kept deaths at less than 5 per million people.

The economic stimulus packages have been well targeted and comparatively generous as a percentage of GDP. The National Cabinet arrangements have resolved jurisdictional differences and allowed for appropriate policy variation within a nationally consistent framework, that other federated systems have struggled to achieve.

Moving quickly and staying ahead of the exponential growth of the virus has allowed Australia to flatten the curve of infections. However, this means that in the absence of an effective vaccine, international travel restrictions, social distancing, tracking and testing measures will need to be in place for some time to avoid a second or third wave of infections occurring.

The Supporting Apprentices and Trainees and JobKeeper Stimulus measures have so far been largely effective at maintaining the stock of apprentices and trainees in training after the measures were announced. At the time of writing 4.7% of apprentices and trainees have been suspended or cancelled¹ since March 1st, mainly during the implementation of the social distancing arrangements prior to the stimulus announcements.

However, in April 2020 commencement levels were down 58% on prior years. So, the stock of apprentices and trainees will rapidly decline as the current cohort completes their qualifications.

This paper explores both the impact the looming recession will have on the apprenticeship market and the role apprenticeships can play in the recovery process.

We make six high level recommendations to optimise the role apprenticeships can play in the recovery process. They fall into three categories, those that can be achieved by:

- AASN contract variation
- Apprenticeship policy evolution
- National skills investment

The overall aim being to provide high quality school to work transitions for vocationally oriented students, support business activities through the recovery phase and in so doing ensure that Australia has the right mix of skills to underpin future growth and economic development.

This paper seeks support to remain a step ahead of unfolding developments and to stay on the front foot by maintaining positive momentum through the recovery period.

¹ This is the "known figure" and is an underestimate because some employers and apprentices do not advise the STA or ANP when they cancel and it may take several months to pick up in regular monitoring.

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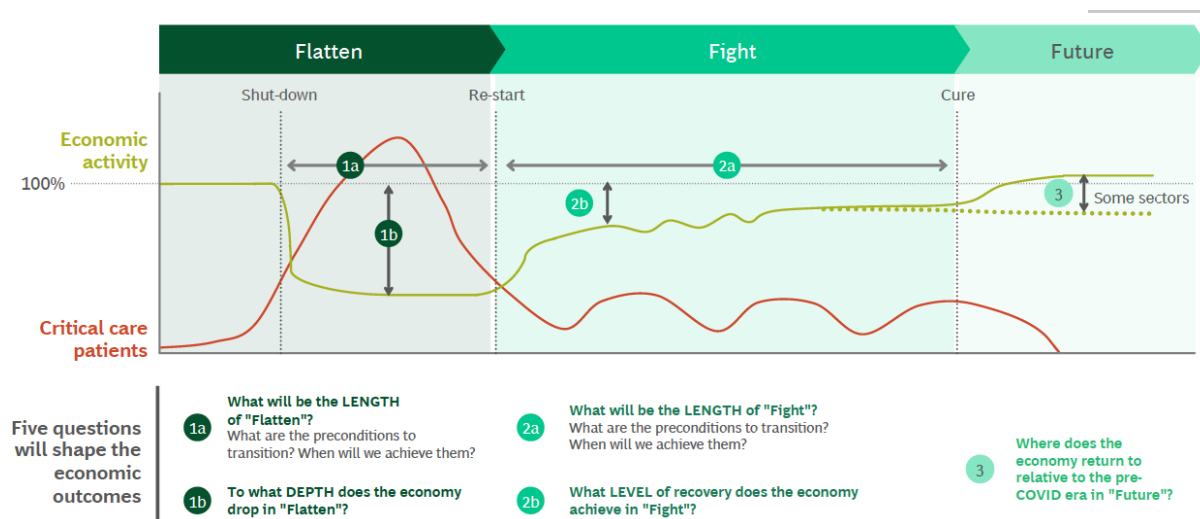
In this paper, the Association makes the following recommendations:

- Improve real time data reporting and undertake a June 30th census of the impact of Covid 19 on apprentices and trainee's employment status.
- Vary the AASN contract mix to meet the emerging needs of apprentices, trainees and their employers.
 - Formalise the expansion of In-Training places to support all recently suspended and cancelled apprentices.
 - Extend Gateway places to all school leavers seeking a vocational pathway.
- Radically reform the Australian Apprentice Incentive Program in light of the ATOs wage subsidy payment capabilities.
- Create a national pre-apprenticeship and traineeship micro credential program
- Create an Apprenticeship labour market program that provides a \$500 per week wage subsidy for the first year of a new entrant trade apprenticeship or traineeship.
- Offer a national program of post apprenticeship micro credentials to support the reskilling and upskilling of existing workers.

The combined aim of these measures would be an additional 100,000 apprenticeship commencements over the base case scenarios.

Scenarios

The Association has developed three scenarios to guide our advice to government. We use the Boston Consulting Group schema for understanding the interplay of health impacts on economic trajectories and the likely duration of the recovery process under each of the different scenarios.



We then extrapolate the impact on the apprenticeship market and the likely need for a range of labour market programs to address different levels of youth unemployment. We also assess the financial impact on support services in each scenario to ensure that the AASN has the capacity to rise to the challenge.

Scenario 1 – Snap back

Under this scenario the flattening phase of health measures are progressively relaxed between May and September, the virus remains contained, whilst international travel restrictions are maintained, business confidence rises as the stimulus measures take full effect. Apprenticeship commencements run at half their normal levels between May and October² but then snap back to normal between November and January when the fight back phase begins.

Under this scenario total annual commencements are down by 28% to 113,917.

Suspensions and cancellation rise to 38,080 affecting completion rates which fall to 47% for traineeships and 39% for trade apprenticeships.

This has a consequent flow on effect to AASN active caseload numbers. The financial effect on support services is a reduction of \$54m in fees, a 33% reduction on 2019 levels.

Unemployment reaches 10% and youth unemployment is 20%.

² April 2020 commencements are already below these assumptions

Scenario 2 – Second wave

Under this scenario the flattening phase of health measures needs to be extended because a second wave of infections occurs during the Flu season that peaks in August. The virus is then contained, international travel restrictions are redoubled and business confidence remains flat as the stimulus measures are wound back.

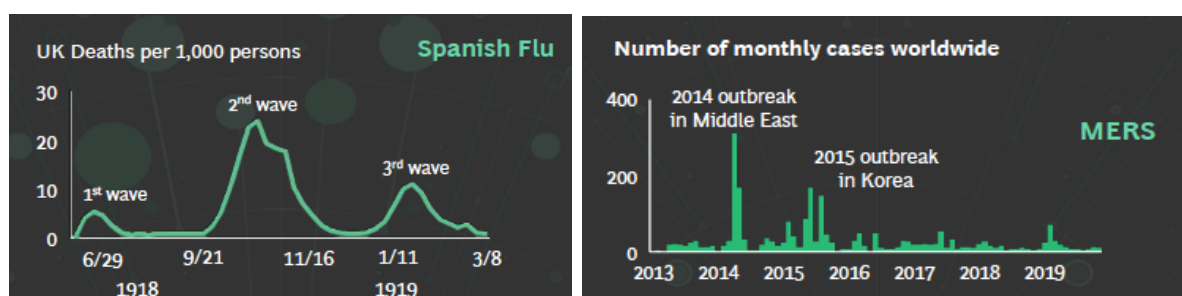
Apprenticeship commencements fall away to less than half 2018 levels between June and September, returning to near normal by the end of the year. With the second wave the flattening phase is extended and the fight back is delayed until the end of the year.

Under this scenario total annual commencements are down by 35% to 103,561.

Suspensions and cancellation rise to 47,600 affecting completion rates which fall to 45% for traineeships and 37% for trade apprenticeships.

The financial effect on support services is a reduction of \$68m in fees, a 42% reduction on 2019 levels.

Unemployment reaches 12% and youth unemployment is 24%.



Second and subsequent waves of infection are a common feature of viral respiratory diseases.

Scenario 3 –Deep global recession

Under this scenario the pandemic triggers a deep global recession that impacts on Australia's key export markets. China's demand for our goods is affected by a collapse in their key international markets. Inbound travel to Australia is severely restricted and this results in an 85% reduction in net migration for the 2020/21 financial year.

The flattening phase of health measures needs to be extended because a second wave of infections occurs during the Flu season that peaks in August. The virus is then contained, but business confidence collapses as the stimulus measures end, domestic demand is constrained and exports rapidly dwindle despite a low exchange rate.

Apprenticeship commencements fall away to a third of their 2018 levels between May and October, returning to 25% below normal by the end of the year. With the second wave the flattening phase is extended and the fight back is delayed until the next financial year.

Under this scenario total annual commencements are down by 50% to 79,662.

Suspensions and cancellation rise to 68,000 affecting completion rates which fall to 41% for traineeships and 34% for trade apprenticeships that were underway when Covid 19 hit.

The financial effect on support services is a reduction of \$93m in fees, a 57% reduction on 2019 levels.

Unemployment reaches 15% and youth unemployment is 30%.

Scenarios build a case for action

It's vital that governments maintain a positive momentum with measures that will support the recovery phase from Covid 19.

The scenarios demonstrate the significant downside impacts that could occur for the pipeline of skills, if policies don't stay ahead of the economic curve.

Strong action is required to avert high levels of youth unemployment and to support businesses as they adapt and rebuild.

It's also important to maintain the capability of the apprenticeship industry so that it can underpin the recovery phase.

The following proposed apprenticeship measures set out a roadmap for how this can be achieved through:

- AASN contract variation
- Apprenticeship policy evolution
- National skills investment

Taken together they outline the vital role Apprenticeships can play in the recovery.

Apprenticeship measures to support the Recovery

The following measures aim to tailor services to the needs of apprentices, trainees and their employers as well as prospective apprentices planning their school to work transition.

In doing this the measures will also stabilise arrangements for AASN providers as well as Registered Training Organisations (RTOs) offering apprenticeship training to ensure they have the capability and capacity to support the recovery process.

The pre-apprenticeship measures would stabilise revenues for Group Training Organisations (GTO) until commencement levels increase again.

Recommendation 1 - Improve real time data reporting and undertake a June 30th census of the impact of Covid 19 on apprentices and trainee's employment status.

A second pass business case to replace TYIMS will be presented to Federal Cabinet later this year. It will provide a detailed plan to replace the aging system that is no longer fit for purpose and is in danger of collapse. One of the consequences of still relying on TYIMS is that there is very limited real-time data about the changes in the apprenticeship market.

There are also significant data lags due to the federated nature of the system and the different software State Training Authorities use in each jurisdiction.

There are some immediate measures that can be taken to improve data reporting whilst the second pass business case is finalised, hopefully approved and then the new solution procured in 2021.

The Association recommends:

- Undertaking a complete census by June 30th of the current status of all apprentices and trainees in Australia. ANPs would initiate an SMS contact with all apprentices and trainees with a yes/no status request, plus a link to a more detailed survey that would automatically update filenote records. Non-responses would be followed up by phone calls.
- Create a cross provider reporting tool that draws data from JobReady Active that all ANPs use as their front end to TYIMS. This builds on the manual reporting tool initiated and coordinated by NAAA since mid-April. This can provide weekly reports by jurisdiction and industry of changing commencement, suspension, cancellation, completion and In- Training levels.
- Roll out an Apprentice App (that has been scoped by NAAA) that will allow for real time regular updates provided to all apprentices, trainees and their employers. Apprentices will use the App to receive information about their incentives, payments and any additional stimulus measures that may be targeted to them. It will also provide an opportunity for a one touch update function to advise of a change of circumstances or employment status. It will be a source of rich data analytics.
- Build a reporting function between the ATO one touch payroll records for apprentices and trainees and ANP front end software. This would alert Network Providers when an apprentice or trainee was no longer being paid and would initiate a follow up contact to determine their current status and provide the required assistance.

Recommendation 2 Vary the AASN contract mix to meet the emerging needs of apprentices, trainees and their employers.

- a. Formalise the expansion of In-Training places to support all recently suspended and cancelled apprentices.**
- b. Extend Gateway places to all school leavers seeking a vocational pathway**

Enhanced In-Training support

The first step in this initiative is already underway. To consolidate the process, clear service expectations should be established where recommencements or resumption occurs before the nominated 3 contacts occur.

All ANPs should be offered a contract variation indicating the additional places available over and above their current contracted levels. These allocations should be based on the plans each provider has to roll out In-Training places across the year. Agreed trigger points should activate the Contract Variation.

TYIMS reports on Targeted Services utilisation need to resume as soon as possible so there is a joint understanding of the balance of places available. Other technical issues may also need to be resolved prior to Contract Variations to identify and differentiate this cohort to tailor services to their specific needs.

This enhanced service should have a specific focus on the mental health and anxiety issues that have been created through the Covid 19 health emergency and the loss of employment experienced by suspended and cancelled apprentices.

Expanded pre-commencement advice

To help avoid high levels of youth unemployment there should be a significant expansion of Gateway places for all vocationally oriented students making the school to work transition this year. This would complement online advice from AATis and the National Careers Institute by providing a face to face service for all students leaving school who want it.

The pre-commencement advice will be enhanced to include suitability assessment for Apprenticeship labour market programs identified below.

It aims to engage school students and keep them linked with support services until they are in work or further study.

It would gear up to refer to expanded pre-apprenticeships and the proposed apprenticeship labour market program opportunities recommended below.

Fee for service payments may need to be recalibrated to meet the new requirements and additional business levels involved in this service.

Recommendation 3 Radically reform the Australian Apprentice Incentive Program in light of the ATOs wage subsidy payment capabilities

A streamlined incentive process that was due to occur in July 2020 has now been postponed to January 2021. We should take the opportunity afforded by the postponement to review the structure of incentives in light of unfolding events.

The Covid 19 crisis has required the deployment of new payment and transfer arrangements to employers and individuals. In addition, the second pass business case to replace TYIMS has identified that a business rules engine cannot feasibly be developed to cater for the complexity of the AAIP. The AAIP currently has over 120 pages of guidelines and the real-world exceptions require very experienced staff to administer them. The current proposed streamlining would not overcome this issue.

A better approach would be to make all transfers to employers associated with apprenticeship incentives via the ATO, using the same methodology as the Jobkeeper payments. This allows cross referencing with one touch payroll records so that payments can be auto reconciled and eligible payments made monthly in arrears. It would be complemented by a redesign of incentive arrangements to radically simplify them (in line with the recommendations below)

This would allow for different bands of support for employers based on updated criteria that would allow enhanced targeting based for example on:

- Businesses that are Covid 19 affected (currently JobKeeper eligible)
- On the National Skills Needs List as it evolves
- Are small businesses
- Operate in target postcodes
- Have apprentices and trainees currently employed
- Meeting additionality requirements

All payments to individuals (such as the Trade Support Loan, Living Away from Home Allowance and DAWS payments) can continue to be verified and approved through the current AASN arrangements.

There is potential for greater data sharing between the ATO and AASN to improve real time market intelligence and use of the ATO portal by apprentices and their employers.

Recommendation 4 Create a national pre-apprenticeship and traineeship micro credential program

There is significant variation between pre-apprenticeship programs availability in different jurisdictions. This would be a national program with common elements that include being 3 months in duration and include two-month work placements.

It would be available to Group Training Organisations and relevant RTOs to administer. It would aim to provide a pipeline of young people available to take up apprenticeship vacancies.

These programs are well regarded by employers and graduates often achieve much higher completion rates in the subsequent full apprenticeship.

In addition to pre-apprenticeships a more general preparatory training program would be targeted at school leavers who want to undertake a traineeship but are unsure of the industry they would like to join. These programs could provide a variety of work placements for students to undertake before making their Traineeship choice.

This could support priority occupations such as Aged Care and the NDIS where the workforce is rapidly expanding.

It would have the added benefit of stabilising the supply of apprenticeships training at a time where it has been disrupted.

Candidates would be referred through the enhanced Gateway arrangements.

Recommendation 5 Create an Apprenticeship labour market program that provides a \$500 per week wage subsidy for the first year of a new entrant trade apprenticeship or traineeship

This is a proposal for a training wage subsidy of \$500 per week paid to eligible employers that take on an apprentice or trainee over the next 12 months. It could be funded initially from any unspent Supporting Apprentices and Trainees (SAT) allocations³.

It is to avoid high levels of youth unemployment and enable businesses in the recovery phase to engage full time staff through apprenticeships and help build their skills on the job. It aims to prevent this year's school leavers becoming a "lost Covid 19 cohort" by engaging them immediately in the labour market.

It aims to de-casualise the workforce and provide high quality earn and learn opportunities for young people. It would cover the first year of a trade apprenticeship or traineeship.

It's a generous subsidy to the employer which could be phased from July 1st before the JobKeeper arrangements are wound back. The payment mechanism would be the same as the JobKeeper arrangements and cross referenced with One Touch Payroll records.

This is a labour market program that would provide real work for a real career for the young person and act as a transitional support mechanism for the business during the recovery phase. Crucially it will keep the flow of commencements strong so that the overall stock of apprentices is maintained.

It could be targeted at employers that are in receipt of JobKeeper or are on the National Skills Needs List.

It would aim to primarily assist the school leaver cohort and be targeted at new entrants to the labour market. In 2021, It could be co-funded through the Skilling Australians Fund and additionality requirements would be satisfied at an industry level as has occurred in the successful Australian Apprenticeships Wage Subsidy (AAWS) pilot program.

It can be administered through enhanced Gateway arrangements recommended above.

³ SAT is likely to be underspent because many employers will switch to the more generous JobKeeper measure.

Recommendation 6 Offer a national program of post apprenticeship micro credentials to support the reskilling and upskilling of existing workers.

In May 2020, the apprenticeship support network has been in operation for 22 years. During that time 4.5 million Australians have completed an apprenticeship or traineeship using the Commonwealth funded system of support.

This initiative is to provide a post apprenticeship micro credential to enable these workers to adapt to the post Covid 19 working environment. The micro credentials would draw on three units from the training package/s that best met the emerging business needs of a workplace.

The model would work in a similar way to Existing Worker Traineeships that were phased out by the previous Labor Government, where a training voucher would go to the employer to contract a Registered Training Organisation to tailor a training program for their existing staff under a Contract of Training. For this program, we propose a light touch national training contract to ensure appropriate oversight of the training arrangement by the AASN.

This initiative would enable existing staff to develop the new skills required in the post Covid 19 world, adapt to new technologies, new work patterns and new processes. It would be funded at \$1,000 per place with the employer able to make an additional contribution to enable the design of the program to meet their specific needs. It would use an integrated workplace learning model with skills primarily learned and confirmed on the job.

It would have the added benefit of stabilising the training markets and ensure continuity of training supply. Currently many RTOs are under threat of closure and this would extend a lifeline to them.

Initially these micro credentials could be fully funded by government during the recovery phase. But over time there could be a required co-investment by businesses and individuals, particularly where the units are at Diploma level or above. This could dovetail with revised VET student loan arrangements and the optimisation of the Unique Student Identifier to improve real time data.

Outcomes

As Australia navigates its way through the looming recession a multiplicity of policy responses across all government agencies will be required. A continued national focus to coordinate the responses across the whole of government will be essential.

Apprenticeships are one important part of the jigsaw that can be used to avoid high levels of youth unemployment, stabilise businesses through the recovery phase, upskill or reskill existing staff and optimise the skills base for the future.

The measures outlined above would achieve the following outcomes:

- Improve real time analysis and reporting
- Allow for regular “now casting” of economic impacts and the effectiveness of policy measures for apprentices, trainees and their employers
- Provide additional support to school leavers to engage with the labour market
- Reduce levels of youth unemployment and flatten the curve before it peaks
- Provide on-going tangible support for businesses as they rebuild and recover from the economic impacts of Covid 19
- Utilise the unspent Supporting Apprentices and Trainees (SAT) allocation to achieve its policy intent throughout the 2020/21 financial year
- Provide immediate training options in pre-apprenticeships and traineeships that are nationally consistent
- Stabilise the apprenticeship market supply and support mechanisms for ANPs, GTOs and RTOs.
- Keep the flow of apprenticeship commencements comparatively strong during the economic disruption and avoid future skills shortages as a result
- Allow previous graduates of apprenticeships and traineeships to upskill or reskill using a proven integrated workplace learning model that suits their learning style.

Were all the measures to be implemented the Association estimates that it would support an additional 100,000 commencements over the base case projections in the economic scenarios.

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