

NATIONAL SKILL SHORTAGES – A DISCUSSION PAPER

Part 1: Incentives and Obligations - An Agenda for Reform

A. Overview

The shortages of skilled labour currently experienced in many industries and regions in Australia represent a failure by Government to effectively intervene and regulate the system of Vocational Education and Training. The national skills shortage is arguably the greatest challenge facing the Australian economy today costing billions of dollars in lost production and much more in flow on effects to industry into the future. The Howard government has been ideologically unwilling to address this market failure and therefore has failed to develop the skill base of the Australian economy.

This paper argues for an overhaul of the funding and financing models for VET programs such as apprenticeships and traineeships. Other factors associated with the structure and content of those programs and funding of the program delivery systems themselves will be the subject of other papers being prepared as part of this series.

In this paper, several options will be identified for reform including:

- Incentives to employers through targeted subsidies to take on apprentices,
- Enforceable quotas for apprentice/trainees at the workplace level through ratios with other 'fully trained' staff,
- A skills growth levy (as distinct from the former Training Guarantee Levy) applicable to all enterprises that may not meet their industry quota of apprentices/trainees at their workplace
- A blanket ban on employers utilizing international labour where they have not met apprentice/trainee quotas - in addition to stringent local and national advertising requirements prior to international recruiting.
- Revamping of tripartite industry training bodies including new workplace learning representatives to oversee and implement a new training agenda.

A key consideration in this reform agenda is to avoid an opportunistic tendency by some policy makers to selectively weed out the "sticks" and leave only the "carrots" for business in the package. This may result in a simple transfer of taxpayer's money from the Government's pockets to that of employers as subsidies for wages that they may have already been committed to. It may also result in no significant change in the behaviour of other employers who are not pulling their weight in terms of their commitment to fund training.

The conceptual framework for selling this agenda for reform is critical to the adoption and implementation of these proposals. Reform allows Government to act in the national interest and intervene in a market that has failed and which has no prospect of fixing itself. It also allows the Government to broaden the notion of mutual obligation to many employers who reap the benefits of skilled labour but are not compelled to contribute to the costs of the training.

B. Options for Reform

1. Reforming Subsidies for Employers and Incentives for Apprentices

1.1 Illawarra Apprenticeship Committee Research

In 2001 a significant research project was undertaken by Judy Stubbs in association with the Illawarra Apprenticeship Committee. This is a multi-stakeholder group chaired by Jennie George MP, addressing barriers to apprenticeship and traineeship opportunities in a region where one in three young people in the labour market are unemployed.

The report focused on several training strategies from prevocational programs through to apprenticeship pathways in smaller enterprises. Of particular significance is the comparative analysis of public expenditure on unemployment benefits versus subsidies to employers for apprenticeship wages.

The research demonstrated, amongst other things, that diverting public money away from unemployment benefits to apprenticeship subsidies was cost effective to the taxpayer, even if the level of the subsidy matched the level of unemployment benefit. (See attachment).

Apart from offering a massive incentive to employers to take on apprentices and alleviating the cyclical effects of skill shortages, this approach also allows public policy to be used to address an important social objective, alleviating unemployment, particularly youth unemployment. Whilst this should not be seen as a panacea to unemployment it may well form an integral part of a broader strategy incorporating additional resources for prevocational, preapprenticeship and mature worker programs.

The points below explore options and rationale for levels of subsidy that may be offered to take on apprenticeship candidates.

1.2 Long Term Unemployed

Despite the current official unemployment rate estimates of five to six percent and the cyclical fluctuations of the unemployment rate over the last two decades, there are two important labour market indicators that remains a concern. They are, underemployment, characterised by casual and irregular employment and the 'stock' of long term unemployed i.e. those unemployed for more than one year. Put simply, in the down times the ranks of the long term unemployed grow larger and in the boom times the jobs are soaked up mainly by those out of work for a shorter period of time, making it more difficult to alleviate the levels of long term unemployment.

For this reason, it would make sense in both economic and social terms to offer subsidies up to the full level of the unemployment benefit to employers who take on the long term unemployed as apprentices up to the full duration of the apprenticeship.

1.3 Increased subsidies for first two years of Apprenticeship

It is widely accepted in most industries that the first two years of an apprenticeship are the least 'productive' from the employers' perspective. This has the effect of, firstly, constituting a major disincentive for many employers to employ apprentices to begin with, and secondly, resulting in poaching practices by some employers who simply take on third or fourth year apprentices after another employer has done the hard yards over the first two years of training.

Options for government include:

- a) An increased subsidy for the first two years, eg 50% of the apprentice wage, or alternatively;
- b) A sliding scale of subsidy over the length of the apprenticeship

2.4 Boosting Retention/Completion Rates of Apprentices/Trainees

Apprenticeship completion rates remain an area of concern with some industries recording more than 20% of apprentices dropping out prior to completion. Whilst there are many factors affecting retention, the following incentives (or removal of disincentives) should be considered;

- a) TAFE fees should be reduced to affordable levels, and removed in the first instance for apprentices and trainees. The underlying principle being that costs of vocational education and training should not be shifted by governments to individuals, especially in terms of initial education.
- b) Boosting apprentice wages as a condition of increased subsidies to employers.
- c) Introducing a significant apprenticeship completion bonus as an added incentive. Consideration should be also given to applying the bonus mid apprenticeship eg, at the end of year two if this can be demonstrated to be a critical point for retention.

2. A Skills Growth Levy

A key concern regarding the current funding and financing approach to Vocational Education and Training is the lack of uniformity and equity in contributions made by employers to skill formation in their respective industries. VET policy has been largely confined to incentives for employers to take on apprentices and trainees rather than emphasizing their obligations to the national economy and broader social objectives.

A skills growth levy would provide some equity across employers and much needed resources to the VET system. It would also allow contributions to be made by all employers, particularly those that do not contribute through the Apprenticeship or

Traineeship programs. In this way, a targeted levy linked to and offset by levels of apprentices and trainees would differ markedly from the former Training Guarantee Levy introduced by previous Governments.

Considerations for a skills growth levy would include:

- a) Basis for the levy eg on business turnover or alternatively on payroll or equivalent full time employment (FTE) levels.
- b) Levy to be set at appropriate level, eg 2 % of turnover or 5% of payroll with the aim of encouraging apprentice/trainee take up
- c) Levy to be offset by employment of apprentice/trainee positions at a greater rate than actual cost to employer to act as an incentive to boost apprenticeship/traineeship levels.
- d) Further discounting of levy for target (at risk) Groups eg Long Term Unemployed, NESB jobseekers, youth at risk, retraining of workers etc.
- e) Mechanisms for smaller/specialized employers to participate in Apprentice/Traineeship programs and off set levy eg flexible group training schemes to increase viability of program in those industries.
- f) The introduction of 'Workplace Learning Representatives' (see Buchan: From 'Skill Shortages' to Decent Work, BVET, 2006) to assist in implementation of levy and skill formation programs/strategies at the workplace level.

3. Quotas of Apprentices/Trainees based on ratios with Fully Trained Workers

The proposal for apprentice/trainee quotas based on a ratio with fully trained workers needs to be considered in tandem with the proposal for a skills growth levy. Enforceable or legislated ratios of apprentices/ trainees to fully trained staff are not without precedent in Australia where industrial agreements have often included enforceable clauses requiring a minimum ratio eg one apprentice to five tradespersons. The benefits of this approach are that it delivers an almost immediate, effective and measurable boost to skills formation and it is an equitable way to ensure that the training costs and obligations are borne by all employers.

Whilst this approach may be contentious particularly with some employer organizations who may view it as prescriptive, unworkable or as an intrusion in the rights and workings of corporations, there is a persuasive counter-argument with reference to another piece of interventionist legislation amending Corporations Law that has been enacted recently at the behest of many employer advocates – Workchoices.

Key issues that need to be addressed in developing and implementing such a model include:

- a) Introducing a quota and determining a ratio by industry /occupation
- b) Enforcing skills quotas and regional/rural labour market considerations
- c) International precedents and working models
- d) Consideration should be given to the application of ratios/quotas of apprentices in the public sector initially.

4. Restriction on and Conditions for Use of International Labour

The integrity and effectiveness of these reforms to the VET system could be compromised unless reforms are also considered to international labour policy including the following:

- a) Workplace VET program must be implemented - No apprentice no start.
- b) New stringent Domestic Labour Test to be introduced before international recruiting is permitted.
- c) 'One Strike and Your Out' policy for employers who abuse international labour program.
- d) New fee paying training visas to be scrapped. Visa categories 456 and 457 should be reviewed to ensure that they cannot be used as a 'guest labour' strategy.
- e) International labour programs to be monitored and implemented by tri-partite industry training bodies.

C. Conclusion

The mantra of mutual obligation has been used as an effective tool by Governments of all persuasions to sell and implement universal regulatory policies in the area of 'welfare to work' transition. By focussing on the obligations to society of individuals who rely on or who have benefited from the welfare and education systems funded by taxpayers, governments have legitimised a range of costs and a regime of sanctions against some of the most economically and socially vulnerable groups in the community. This paper argues for an extension of the mutual obligation principle to the employer sphere, and that 'corporate welfare handouts' through the publicly funded training system should also carry enforceable obligations on employers who receive them, particularly given the consequences of the skills 'crisis' for the national economy.

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14 February, 2007