Review of the Australian Apprenticeships National Skills Needs List

CCIWA Submission to the Methodology Issues Paper

October 2019

Introduction

CCIWA welcomes the opportunity to provide input into the updated Apprenticeship National Skills Needs List (the List) methodology. Our submission includes responses to the critical issues raised in the discussion paper, including the current List's lack of responsiveness, initial arbitrary exclusion of broad occupation categories and reliance on the outdated Australian and New Zealand Standard Classification of Occupations (ANZSCO) taxonomy.

CCIWA's submission[1] to the Expert Review into the National Vocational Education and Training (VET) system recommended that:

> "State and Commonwealth agencies responsible for VET delivery reconsider the way they design VET market incentives, ideally with a focus on demand-driven and user-centric models as tools to incentivise training activity."

Our recommendation was based on the premise that businesses have the most intimate understanding of their workforce needs. This approach also acknowledges that labour market forecasting techniques can provide general insights into the labour needs of businesses, but this is unlikely to have the required level of detail to inform highly specific policy settings.

CCIWA therefore recommends the following approach to the List Methodology:

1. Employer incentive payments should be decoupled with current or predicted assessments of national skill shortages. Employer facing apprenticeship payments should be framed as 'support', rather than incentive payments.
2. Investigate new methods to evaluate skill shortages that are geographically based and specific to a particular industry or industries.
3. Ensure that any new approach is highly iterative and incorporates a robust evaluation and monitoring framework, while also providing certainty for business decisions.

A New Rationale

The intent of the List is to enhance the likelihood of employers providing apprenticeship opportunities in occupations that are currently or predicted to be in shortage within the next three years.

While employers highly value targeted incentives, there is limited evidence to suggest they are useful in driving an uplift in apprenticeship numbers. It is also possible that the current skills shortage approach could "lead the market". This is a situation where businesses shift training activity in order to align with available incentives, rather than

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[1] 2019 *CCIWA Submission to the Expert Review of the VET Sector*:
https://www.cciwa.com/CMSPages/GetAzureFile.aspx?path=~\cciwa\media\advocacy\20190201_-_cciwa_submission_-_expert_review_into_the_vocational_education_and_training_sector-1.pdf&hash=8abb788f0878dd41c965c84765d989403e77d76eec375c267a8974d4832b37d3

undertake training activity that directly meets their current or prospective workforce needs.

While the concept of "leading the market" can be seen as critical to effectively alleviating skill shortages, this view is based on the assumption that skills shortage forecasts can accurately and effectively account for regional differences. It is CCIWA's view that this is not the case. As a result, there is a risk of businesses engaging in unnecessary training activity. This then limits the social and economic good that can be derived from the policy.

The current national focus of the List is unlikely to ensure the effective targeting of incentives at the regional level due to the unique labour market needs and cost of training in individual states and regions. For example, the 10 occupations identified as eligible for an additional *Identified Skills Shortage* (AISS) payment are not experiencing shortages in Western Australia according to the Commonwealth Department of Employment, Skills, Small and Family Enterprise own analysis. Due to this lack of alignment between incentives and the local labour market, the AISS payments are unlikely to be useful in the WA context.

Problems with ANZSCO

As noted in the issues paper, the ANZSCO, on which skill shortages and the List is based, is no longer fit for purpose. This is for two reasons. First, updates to the classification system occur seldomly (the last update occurred in 2013). Second, it fails to respond to the rapid nature in which occupations and the wider labour market is evolving. This means that the taxonomy is unlikely to provide the level of responsiveness required to support policies grounded in labour market needs assessments. This is not a contemporary issue. A 2003 Senate Reference Committee for Workplace Relations and Education noted that the outdated nature of the current occupation classification system (ANZSCO) that underpins labour market and occupational shortage information limits the value of such information as a planning tool[2].

Limitations of Labour Market Forecasting

While the discussion paper notes that the current methodology for determining the List is not appropriate for determining skill shortages in the future, it is CCIWA's view that the proposed forward-looking approach is not technically feasible.

This position is supported by research undertaken by the National Centre for Vocational Education Research (NCVER), where Richardson and Tan concluded that:

"the MONASH[3] model for projecting future skills needs is of high quality by international standards, but the complexity of the economy is such that it is not possible to make

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[2] Employment, Workplace Relations and Education References Committee (2003) Bridging the Skills Divide. Pp 21.
[3] The MONASH model is a powerful economy wide forecasting tool which is run out of the Centre of Policy Studies at the University of Victoria.

accurate projections of future skill needs in any detail, or for more than a few years into the future."[4]

The fallibility of labour market forecasting, the inadequacies of the ANZSCO taxonomy, the risk of incentives leading the market, and the limited understanding of the efficacy of incentive payments in reducing skill shortages suggests the current policy approach needs reassessing.

The Case for Employer Incentives

There is, however, a strong public good argument that supports the provision of payments to employers who engage an apprentice. The provision of an apprenticeship opportunity by a business enables an individual to gain skills that will help drive business productivity in the long run, enhance an individual's earning capacity and reduce the likelihood of the individual relying on government support.

Employer incentive payments should be decoupled with current or predicted assessments of national skill shortages.

Framing employer-facing apprenticeship payments as 'support' rather than incentive payments will enable the Commonwealth to take a broader approach when seeking to allocate incentives. This will reduce the program's reliance on granular level labour market forecasts. In turn, this will reduce the risk of overlooking specific industry requirements or changing market trends.

To underpin this broader approach, it is recommended that the following design principles apply:

1. Apprenticeship support payments assist in offsetting the cost of an employer engaging an apprentice, they are not designed to relieve skill shortages.
2. The level and payment schedule for the incentives should be underpinned by evidence and supported by a robust evaluation framework.
3. Incentive payments should be made to the broadest number of apprenticeship-based qualifications as possible.
4. Incentive payments should be scaled up based on the location of the business and characteristics of the person undertaking the apprenticeship.

Policies Still Required to Reduce Skill Shortages

As outlined above, there is a clear need to shift from employer facing incentives as a tool to reduce the severity and/or occurrence of skill shortages.

However, there is value in having a robust program that seeks to understand and interpret labour market trends and communicate that information to a wide range of audiences. Potential audiences include policy makers, young people trying to engage in

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[4] Richardson S & Tan Y (2007) *Forecasting future demands: What we can and cannot know* NCVER, Adelaide.

their first post-secondary course of study and people seeking to transition into new careers.

Users of this information must understand its limitations. For example, high level, centrally collected information is only one source and may not reflect the needs of businesses in specific locations. As such, labour market forecasting should not be relied on as tool to underpin highly specific policy interventions. Uncoupling employer incentive payments from skill-shortage policies will be essential to driving a more nuanced and collaborative approach to addressing labour issues.

To this end, it is recommended that the Commonwealth explore geographically-based, industry-led models to understand local labour needs and develop tailored strategies to address these.

An Iterative Approach is Required

Due to the current lack of evidence surrounding the efficacy of employer facing incentives in enhancing apprenticeship and traineeship numbers, the new policy settings should allow for an iterative approach.

To achieve this, the policy from the outset should embed practical evaluation and feedback mechanisms. These mechanisms should be designed to gain a better understanding of the policy's impact. Further to these mechanisms, the system should provide a degree of certainty to businesses but retain enough flexibility to respond to insights around the policy's effectiveness.