

Mr Colin Walters
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Dear Colin

I write in response to Minister Nelson's letter of 24 January regarding the Government's proposed Review of New Apprenticeships Employer Incentives.

The Minister states in his letter that he is seeking my views on the issues which I believe "should be considered in a review of employer incentives, and any views as to how such a review should be conducted." On behalf of Group Training Australia (GTA) I welcome this opportunity to pass these on to you.

My response is written on the understanding that this is not the end of the consultation process with GTA but merely the beginning. No doubt following discussions with the Minister sometime in April, a Draft Terms of Reference will be issued for consideration prior to the review beginning in earnest, at which point formal submissions will be called for.

GTA believes that it is very important that this review not be rushed. It is a chance to "get it right" and iron out some of the rougher edges. Clearly any recommended changes stemming from the review could not be implemented until Budget year 2003/04 given that the Expenditure Review Committee process for 2002/03 is already well under-way.

With regards to the conduct of the actual review, I would argue that it should be conducted by an external independent consultant rather than by the Department. This would engender greater confidence amongst all stakeholders that the review process will be an open and rigorous one.

By any measure, the Commonwealth's New Apprenticeships program has been a success. A record number of 333,000 New Apprentices in training, as at 31 December 2001, is testament to that.

Commonwealth Employer Incentives have played a significant role in the overall success of New Apprenticeships, but this is not to say that there is not room for improvement in their administration and in their application.

Incentives were introduced to assist employers defray the cost of taking on an apprentice or trainee. They were designed to influence employer behaviour. The incentives regime has also allowed Government to target specific policy areas, such as equity or particular disadvantaged groups.

While there can be no doubt that the current incentives regime has influenced employer behaviour to some extent, it has not been universal. I understand that some 15% of employers who take on an apprentice or trainee still do not claim the incentive payments that are available to them, despite the efforts of New Apprenticeship Centres (NACs). Clearly, there is no one single reason for this but one could speculate that the complexity of the system and the myriad of paperwork involved in claiming the incentives could be a factor, particularly for some in small business.

Simplification of a system that involves multiple categories and rates of employer incentives and the accompanying large quantities of paperwork, should be an issue to which this review should give serious consideration.

The issue of Prior Qualifications is one that also needs to be on the table. Clearly, in the eyes of many employers, a great deal of confusion and frustration has been created under the current application of the rules.

Examples have been brought to my attention (as they have to you) which indicate an often inflexible bureaucratic interpretation of the current rules is causing all sorts of unnecessary difficulties for employers and apprentices/trainees alike, fundamentally harming employment prospects in some cases. I would be more than happy to pass these examples on to you.

The simple fact of the matter is that due to changing labour market conditions, previous qualifications can often have little relevance to employment applied for. In these circumstances, consideration should be given to adopting a more flexible approach when administering these guidelines in the future.

In view of these considerations, I believe that the terms of reference should be wide ranging and include examination of the following issues:

1. What is the principal purpose of paying employer incentives? If it is to influence recruitment decisions, how effective have they been in achieving this?

2. Do they have a rationale other than to provide financial gain in return for providing employment? For example, are they meant to be a form of compensation to employers for:
 - the cost of recruitment and selection; and/or
 - the cost of providing on-the-job training during which the New Apprentice is less productive
3. What are some of the critical elements of an effective employer incentive regime? Are they designed to:
 - encourage retention and completion
 - encourage higher level training over lower level training on the AQF, particularly to higher levels not currently funded
4. Who should be eligible for employer incentives and on what basis? How should the incentives regime deal with:
 - an increasing number of individuals seeking a New Apprenticeship whose prior qualifications preclude them from incentive payments and who as a consequence are unattractive to employers
 - increasing numbers of students who achieve a qualification through an institutional pathway (school or TAFE) whose qualification limits their eligibility for incentive payments and are therefore less attractive to employers who are sceptical of the value of school based training, in any case

Should there be some new approach such as a whole of life entitlement that guarantees payment for all training undertaken under a contract of training at each level of the AQF?

5. How should the incentive regime respond to features of the New Economy such as casualisation and what this might mean for employment based training?
6. Is there scope for the incentives regime to facilitate greater application of RPL within the training system and the provision of accelerated training?
7. Finally, how can a regime be developed that addresses these issues yet remains relatively simple to administer?

I have not made reference to New Apprenticeship Centres at this point on the assumption that, as the administrative mechanism for the employer incentives, they are outside the scope of this review.

However, you would be aware of concerns that this organisation has expressed on numerous occasions about the role of NACs, their dealings with employers, their marketing activities and their interface with group training. GTA feels that all these issues warrant closer attention and we hope to have the opportunity to participate in any future review of the NACs.

I would however also like to take this opportunity to raise a number of issues relating to the employer incentives review that are of significance to group training in the context of the current national review of group training.

I have no doubt that you would agree that group training has played a critical role in the on-going success of New Apprenticeships. The review has highlighted various aspects of this achievement, including the fact that the group training network has experienced average annual growth of approximately 15% since 1996, increasing from 20,500 New Apprentices in training in 1996 to 40,000 at the end of 2000, representing some 14% of the national total.

Recent data also reveals that nearly 25% of all Indigenous apprentices and trainees, and those with a disability, are employed through Group Training arrangements, well in excess of its market share.

This success has been achieved whilst direct government support for group training has continued to decline and operating costs have increased.

The national review has highlighted this and work undertaken by William Buck Business Consultants as part of the review has confirmed the findings of previous reviews that many GTCs are under considerable financial pressure and most depend on the Joint Policy funds to remain viable.

Whilst the Review has focused primarily on Joint Policy Funding arrangements, it is likely that the Steering Committee will, as part of its recommendations to the ANTA MINCO, request that consideration be given to making not-for-profit group training companies eligible for the completion payment.

The issue of their ineligibility for this payment remains a major concern for many in the sector. GTA has consistently argued that there is no sound reason for this decision and sought to have the decision reversed.

In addition to the fact that it has put group training companies at a distinct disadvantage to other employers, and is often used by NACs in 'negative marketing' against group training, the simple fact is that it also represents another loss of financial support to the network. Prior to 1998, the total amount available to a GTC to support a traditional apprentice during the period of indenture was \$4,000, since reduced to \$2,500 but only for not-for-profit GTCs.

In this instance, the tax distinction between for-profit and not-for-profit is not only spurious when you consider what the money is used for, and how the net effect on the tax system can be shown, as per our earlier representations to your department, to be exactly the same, but the reduction has also exacerbated the financial difficulties of the group training network.

However, the completion payment is not the only incentive payment that resonates strongly with group training and is of particular relevance in the context of the review of group training.

I refer of course to the \$1100 special incentive payment for trainees employed through group training arrangements. There is no doubt that this special incentive has been a very successful lever for increasing the capacity of many group training companies to take on additional trainees.

Recent NCVET figures suggest that the percentage of trainees now employed through group training arrangements is probably in the order of 35% or some 14,000 trainees. There can be little doubt that this growth has been stimulated by the introduction of the special incentive in 1994/95.

Any loss of this payment will simply compound the financial difficulties outlined above in relation to completion payments. The special incentive is also an important source of support during the indenture. It enables GTCs to keep charge out rates at a level that makes the employment of trainees a reasonably attractive proposition to host employers, without which the rates would have to increase, the almost inevitable consequence of which would be a reversal of the increased uptake of trainees over recent years.

I bring these points to your attention because I do not expect that the review of employer incentives will have as a term of reference the impact of changes to the current regime on the operations of group training companies. Yet the current review of group training, central to which is the vexed issue of future funding arrangements, runs the risk of making recommendations on this subject in isolation from decisions being made in other quarters on matters affecting the financial viability of group training.

I hope that the issues I have raised are of assistance in defining the nature and scope of the review. I look forward to GTA's active participation in this process. If there is any other assistance I can provide please do not hesitate to contact me on 02 9299 6099.

Yours sincerely

Jim Barron
Managing Director

25 March 2002