

**Review of the Commonwealth
New Apprenticeships Incentives Program
A Group Training Perspective**

Group Training Australia Ltd

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Introduction

Group Training Australia Ltd (GTA) welcomes this opportunity to comment on the review of Commonwealth New Apprenticeship Employer Incentives.

We are pleased to see that the department has included in the key issues overview paper a number of issues that were identified by GTA in our response to the department's invitation earlier this year to comment on possible terms of reference for the review.

GTA believes that all of the questions your paper canvasses under the broad headings of *policy*, *administration* and *financial* are important ones to be resolved to ensure maximum efficiency and equity in the way the program is administered and in the outcomes being achieved.

However, as you are aware, we also hold the view that Group Training Organisations (GTO) are not employers like any other and that as a consequence, the employer incentives do not serve the same purpose for GTOs as they arguably do for any other employer. We will revisit this contention later in our submission and will have recourse to the findings and recommendations of the recently completed national review of group training in doing so.

Finally, GTA expects that a number of our State and Territory associations will also lodge submissions into this review. Being closer to the day to day operations of the member organisations, their submissions may also be able to provide you with more intelligence from the field (host employers) than we are able to do at the national level. It is also possible that you will receive submissions directly from Group Training Organisations.

Group Training Organisations versus Other Employers

In our earlier submission on the terms of reference, we suggested that it might be useful to explore a number of key questions relating to the purpose of the incentives such as:

1. is an incentive payment meant to be anything more than a financial inducement to an employer to employ? or
2. is it also meant to have some other purpose such as to compensate an employer for the costs associated with the provision and supervision of the on-the-job training that is a feature of employment based training? and
3. if so, does the Commonwealth have any method for measuring those costs and for determining the level of its contribution towards them?

We do not have answers to these questions. We suspect however that whatever the origins or intentions, over time the payments have largely become a simple financial inducement to employers, with the actual amount being adjusted as the Commonwealth budget permits. We understand that a

significant number of employers of apprentices and trainees still do not claim their entitlement and so presumably their employment decisions are not influenced by the availability of incentives. It may be of course that these employers are simply unaware they have such an entitlement.

As you would imagine, no Group Training Organisation would be so indifferent to these entitlements. Indeed, GTOs are generally anxious that the incentives be paid to them by their New Apprenticeship Centre as quickly as the entitlement falls due. This is because the employer incentives are not an inducement to Group Training Organisations, as they may be to other employers, to employ more staff. Rather they are one of the major sources of income, along with both the Joint Policy funds and charge out fees, that the GTO relies on to meet running costs and help remain financially viable.

No other employer would rely on employer incentives for such a purpose because no other employer, not even the largest, would build their business plans, their budgets and cash flow statements around income derived from this source. If they had to, the Commonwealth would have cause for concern about their viability but for a GTO, the employment of apprentices and trainees **is** the business, and one that governments have traditionally supported in the interests of industry and social policy.

It is precisely for this reason that representations are often made to your department about cash flow problems created for many GTOs as a result of what they perceive to be inordinate tardiness on the part of some NACs in processing their incentive payments. You would also be aware of their sensitivity to cash flow from our representations to you on other matters such as the obligation that many of them have to remit GST levies to the ATO before the funds have even been collected from host employers.

Finally, the significance of the incentive payment to the financial well being of group training, as opposed to its significance for any other employer, large or small, is in reality just another aspect of the debate about the level of government support for the work of group training. It is also the reason for the many representations to your department over the years about the reductions in the value of some of the incentive payments and the endless difficulties that have ensued since the decision to deny GTOs eligibility for the completion payment at AQF levels III and IV. More on that subject later.

The vexed question of the level of support for group training is one that was prominent in the debates that occurred during the recent national review of group training. While the debate was essentially about the way in which the Joint Policy funding should be administered, it soon became apparent that the debate was hampered by uncertainty about the future of other sources of support, such as the employer incentives. It is difficult to make sensible decisions about changes to one source of financial support, namely the Joint Policy funds, in isolation from decisions being taken in another quarter about another critical source of funding.

We do know from the financial analysis of group training undertaken by William Buck Business Consultants as part of the national review that:

- the overall level of government support for group training has declined over the years with reductions in the real value of both Joint Policy funds and employer incentives
- this has occurred in an environment where costs have been increasing, some due to government decisions such as changes to the tax system
- a significant number of GTOs are dependent on income derived from other commercial activities to cross-subsidise their core group training function
- these other commercial activities are often unreliable being themselves subject to the vagaries of government decision making
- a majority of GTOs rely on the Joint Policy funding to break even or to minimise the size of their operating deficit
- in the absence of government willingness to increase its level of financial support, the only other way to improve the bottom line is through more efficient business practices and/or by increasing the charge out rates
- labour is price sensitive and charge out rates cannot always be increased without risking a loss of business
- improved business practice may mean cutting costs which in turn may affect the level of 'pastoral care' that is able to be provided.

Given these findings, it is hardly remarkable that incentives are seen as crucial operating income, reductions in the value of which only add to the difficulty of managing in a high cost, low margin industry.

Suggestions that some GTOs rebate the employer incentives to host employers, rather than keep it, which is often used to refute the argument that the incentives are essential operating income, are meaningless in accounting terms. It may be a clever or even necessary marketing ploy by some to make a show of rebating the incentive but ultimately an incentive payment forgone simply means that the charge out rate is higher than it would otherwise have to be.

The problem of course is that the value of the incentives has decreased, at the same time as the value of Joint Policy support on a per capita basis has been declining, in an environment in which operating costs have been increasing. The situation is becoming untenable for many as a result, a fact we have known since 1998 as a result of work undertaken by Dench McClean Associates as a precursor to the introduction of the Group Training Loan Guarantee Scheme.

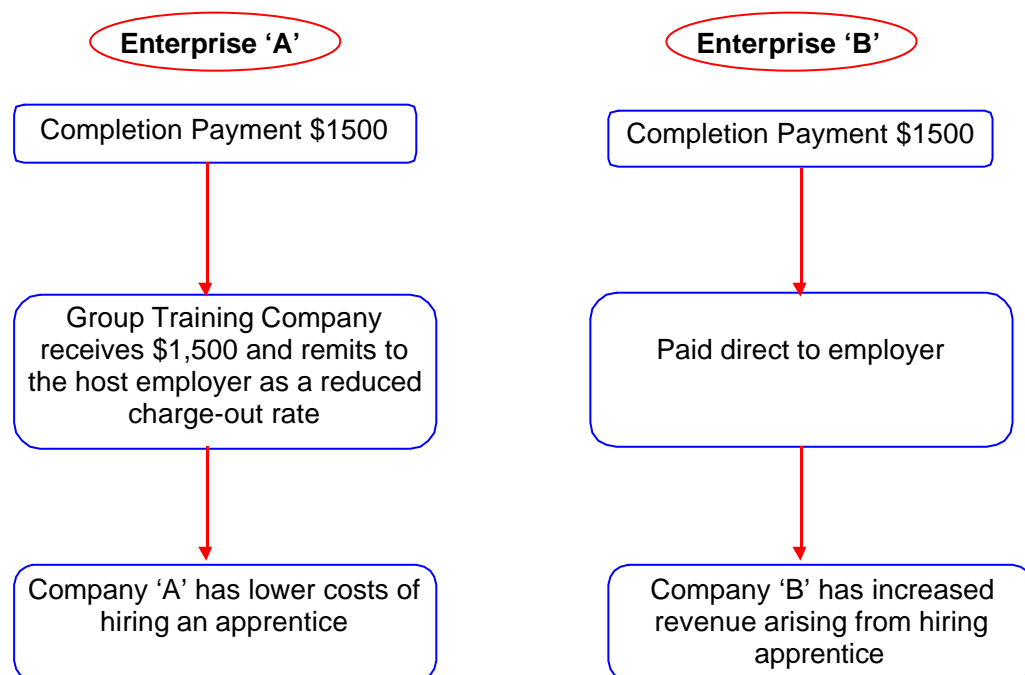
Prior to 1998, the value of the total incentives paid in respect of traditional apprenticeships was \$4,000 for all employers which was subsequently reduced to \$2,500. When the government realised that its decision to make these payments taxable would confer an apparent advantage on not-for-profit GTOs, it introduced a \$1,500 completion payment, payable only to for-profit employers, to ensure both parties effectively received much the same amount once tax had been factored in.

As you are well aware, GTA has made numerous representations about the adverse impact this decision has had on the group training network since its introduction. We have consistently expressed concern about four things, these being:

1. the loss of financial support from \$4,000 to \$2,500 for traditional apprentices who still constitute 65% of the group training business to the great benefit of the national skills base
2. the misuse by our competitors of the for-profit/not-for-profit distinction to market against group training;
3. the fact that GTOs are the only not-for-profits not eligible for the completion payment; and
4. the rationale for discriminating between for-profits and not-for-profits while, prima facie, might be understandable, does not appear to withstand closer scrutiny.

On this last point we have argued that the impact of a taxable completion payment on the costs and revenue of a 'for profit' company can be represented in the following illustration, in which:

- enterprise 'A' uses a Group Training Company to recruit an apprentice; and
- enterprise 'B' recruits an apprentice direct.



In the two scenarios, Group Training Australia believes that the net effect of the completion payment on the taxable income of the two companies is identical in dollar terms; the only difference being that 'A's taxable income is increased through lower costs and 'B's taxable income is increased through higher revenue.

Group Training Australia has always asserted that the real losers in the Federal Government decision to deny a completion payment to Group Training Organisations are the many small businesses that are not in a position to employ apprentices without the support of a GTO.

In other words, the process of Federal Government decision-making which has arrived at the current incentives regime has had the reverse effect to that which was originally intended.

How can these issues be resolved?

This submission has so far tried to make two essential points, these being:

1. employer incentives are a de facto form of operating support for GTOs, despite the fact that they are largely paid on the same basis as they are to any other employer; and
2. the reduction in the real value of incentives for traditional apprentices and subsequent creation of a distinction between for-profits and not-for-profits to redress an apparent inequity, has deprived GTOs of much needed financial support, at a time when the value of funding from the only program that could truly be described as group training specific, the Joint Policy, is declining.

To some degree, changes to the administrative arrangements of the kind debated during the department's recent consultations, where a completion payment was mooted for each level of the AQF, are somewhat academic to GTOs, if they are not made financially better off as a result, even if only to improve cash flow.

If however some GTOs are made worse off as a result of abolishing some incentives and restoring others, the arguments about the level of funding from government will still be at issue. We are referring of course to suggestions being made during the course of the review that GTOs be eligible for the completion payment but not for the traineeship special incentive.

Many GTOs have been established to work in, or have also moved into, industries which have not had a tradition of structured entry level training based around the indenture. These GTOs have enjoyed the additional support of the \$1,000 group training special incentive, without which they would have struggled and without which there would be fewer trainees. The abolition of this particular incentive would have serious repercussions for a number of GTOs, unless compensated from some other source such as Joint Policy funding.

In fact, many GTOs find themselves out-of-pocket because of the extension of the probation period for trainees from one to three months before incentives are payable. Many trainees who have been through recruitment, selection, placement and induction procedures will abandon their traineeship, for a variety of reasons, before probation is completed, thus denying the GTO an

incentive payment, despite considerable expense having been incurred in getting the trainee to that point.

While the \$1,000 special incentive has been a critical form of financial support to those GTOs employing trainees, an anomaly has now been created in the incentives regime with the decision to reduce the value of the incentive paid in respect of traditional apprentices from \$4,000 to \$2,500.

By this we are referring to the imbalance between the support available for a four year traditional apprenticeship compared to a one year traineeship. A GTO will attract a total \$2,500 (exc GST) comprised of commencement and progression payment, for a four year apprentice and \$2,250 (exc GST), just \$250 less, comprised of commencement and special incentive for a one year trainee.

This does not make sense when numbers in the traditional trades are arguably being maintained by GTOs; when there is evidence that many of them are under financial pressure in doing so and when there is no financial recognition for the most important event during the indenture, its completion. The final payment in this cycle is now the progression payment which occurs a full two years prior to completion.

There is a need for the GTO to subsidise the early years of the traditional apprenticeship to make the unproductive 1st and 2nd year apprentice attractive to employers. But to do so with just \$2,500 when there are four years of support needed to ensure they complete is absurd.

Should different incentives be available for different types of employers?

This clearly brings us to the need for a solution to these issues and to one of the questions posed in the department's issues paper.

In view of our contention that more financial support is critical to the welfare of the network, GTA believes that there is a case for treating GTOs differently to other employers.

What should the difference be? It is our view that there are two ways in which this difference might be recognised. In brief these would involve:

1. increasing the level of support for GTOs over the amount paid to other employers in recognition of their unique role in skills formation; or
2. as a minimum, altering the basis on which the funds are released to GTOs to improve their cash flow.

GTA argued for an increase in the level of financial support for GTOs in debate on future funding arrangements that occurred during the recent national review of group training. The steering committee was unwilling to recommend an increase, though as indicated earlier, it recognised the complication created by the incentives review and the possibility that some

GTOs would suffer a loss of income as a result of the recommendations of that review.

Nonetheless, new funding principles were recommended to Ministers under what is now to be known as the Joint Group Training Program. These new principles will see some GTO apprenticeships and traineeships being 'defunded' altogether, on the basis that they are not deemed to be in priority categories during a particular funding period, to enable the limited funds to be directed to those apprenticeships and traineeships which are deemed by government to have a priority.

GTA has already made it clear that this is another measure by government that will potentially undermine the foundations of the network. This of course effectively puts greater pressure on the incentives to provide additional support, given the potentially radical impact that the Joint Group Training Program will have on GTO finances. In fact one of the recommendations of the national review of group training was that GTOs be made eligible for the completion payment, possibly in mitigation of the effect of a loss of funds from the Joint Group Training Program.

We were advised however during the recent consultations on the review of incentives that this review is largely about improved administrative and eligibility arrangements and that the outcome of the review is to be expenditure neutral. However, given that for the past few years there has been a significant 'underspend' in the New Apprenticeships Incentives budget allocation, principally due to up to 15% of eligible employers not making a claim, additional support for GTOs could surely be provided out of the existing budget allocation for such a demand driven program.

GTA would argue that this additional support should take two forms:

1. make GTOs eligible for the existing completion payment; and
2. extend the \$1,000 GTO incentive for trainees to apprentices so that all New Apprentices employed by GTOs attract additional support in recognition of their unique role in national skills formation.

There can be little doubt now about the significance of the contribution made by group training to national skills formation. This contribution is multi-faceted and has been well documented in recent public reports and in our own submissions to you on various matters over the years. Broadly, the group training network has been identified as:

- providing an array of commercial activities that come the closest to creating the much vaunted one stop shop concept preferred by employers
- acting as an effective conduit for government industry and fiscal policy into the small and medium business sector
- having extensive and growing involvement with the federal government's VET in schools agenda as a mechanism for improving school to work transition; and most importantly
- playing an integral part in the life and well being of their communities.

Surely some aspect of government funding policy needs to ensure that GTOs remain equipped to fulfil these functions.

Cash Flow

We suggested earlier that, if no other action can be taken to benefit group training as a result of this review, consideration should at least be given to altered payment arrangements that would enhance cash flow for GTOs. Such an arrangement would again represent differentiating between a GTO and any other employer and would represent a tailored solution to a unique problem.

The proposal that has been suggested to us by group training operatives for improving cash flow would involve a payment mechanism something along the lines of the following:

1. estimate the total value of incentives that a GTO would be entitled in a particular year, based on current or revised eligibility requirements as well as the likely number of commencements and numbers in training during that year;
2. release a significant percentage, say 50-60%, of the calculated total entitlement in a lump sum, up-front payment at the beginning of the year; and
3. make an adjusting payment based on actual entitlement for the year, at the end of the year

There are obviously various ways in which a scheme of this kind could be constructed and GTA would be pleased to enter into more detailed discussions about alternative approaches should the department see merit in this proposal.

Conclusion

GTA's principal purpose in this submission has been to demonstrate that, contrary to recent assertions, GTOs are not like any other employer and that this should be reflected in the employer incentives regime. To some extent this position is the consequence of decisions being made elsewhere in government about support for group training.

We have referred to the Joint Group Training Program and to the new funding principles recently agreed by Ministers. It is our view that this program should be the preferred method of providing adequate levels of operational support for GTOs. Governments have seen differently, however, and we will soon see this diminishing pool of funds being used to purchase targeted outcomes, to use the prevailing terminology, rather than as a contribution to GTO running costs.

As a consequence, group training looks to the review of employer incentives for some amelioration of this situation.

We therefore recommend:

- 1. making GTOs eligible for the \$1,500 completion payment for AQF level III and IV programs**
- 2. extending the \$1,000 special traineeship incentive to cover all New Apprentices employed by GTOs**
- 3. implementing new arrangements for the payment of incentives to GTOs to improve their cash flow and the availability of working capital**

We would be pleased to explore options in more detail should you so desire and look forward to the release of your draft proposals.

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