BUSINESS NSW

Skilling Australia for a better future

Supporting apprenticeships through COVID-19

July 2020

Contents

List of Tables

List of Figures

Foreword

Prior to the COVID-19 pandemic, over 250,000 apprentices[1] were in-training across Australia with the shared ambition of gaining the requisite skills needed to secure ongoing employment in their chosen field. In 2019 alone, over 150,000 Australians started an apprenticeship with the expectation that they would complete their apprenticeship and become valuable skilled employees working in businesses across the country.

The COVID-19 pandemic put paid to many of those ambitions. Businesses have closed and more than 850,000 jobs have been lost since March. A significantly larger number of people have become underemployed as businesses have shut their doors to save lives.

There has been a disproportionate impact on young people, with youth unemployment across Australia reaching an horrific 16.1 per cent. This figure doesn't account for historically low workforce participation rates, with many more young people disengaging, not seeking employment and not participating in education or training.

The impact of the COVID-19 pandemic has been particularly severe on apprentices and occurred at a time when apprentice numbers were already low or had stagnated compared to historic levels.

Without intervention, there will be significant impact on apprentice numbers for the foreseeable future. Fewer young people will gain skills and employment, and businesses will be unable to grow due to widespread skills shortages.

Now is a critical time to ensure that Australia has the skills it needs to build houses, upgrade public infrastructure, repair cars, offer excellent customer service and fulfil the many other occupations supported by apprenticeships. The potential of losing a third of this year's apprentice cohort will have impacts on the health of the economy for years to come, especially when combined with the reduction of skilled labour coming to Australia from overseas.

This is not something that can be fixed in five years' time when we suddenly realise the scale of the problem. Inaction on apprentice numbers now will see Australia accelerate towards a devastating skills cliff, which will, in turn, risk throttling an already fragile economy at just the wrong time.

This report presents the expected impact of COVID-19 on apprenticeships based on our analysis and makes informed recommendations to avoid our economy falling over that cliff.

Stephen Cartwright

Chief Executive Officer
Business NSW

[1] For the purposes of this report, the term 'apprentice' or 'apprenticeship' refers to apprentices *and* trainees except where specified.

Introduction

Australia has a long history of operating successful apprenticeship models as mutually beneficial partnerships between the public and private sectors. However, in recent years trade apprenticeship numbers have stagnated and traineeship numbers have fallen compared to historic highs.

Despite high youth unemployment rates prior to the pandemic, many businesses across Australia were reporting skills shortages. Funding for apprenticeships, and the Vocational Education and Training (VET) sector more broadly, has stagnated, with Governments expecting consumers – students or employers – to invest more in training. Fewer young people are choosing an apprenticeship as their primary option and fewer schools and careers advisors are promoting apprenticeships as preferred pathways.

Government data published by the NCVER[2] does not yet reflect the impact of COVID-19. Since the start of 2020, the global economy has been hit hard, with the Australian economy all but entering recession. This worsening of business conditions was believed to have had a significant flow-on effect on apprentice numbers.

To gain a better understanding of the impact of COVID-19 and the current trends in apprentice employment in real-time, Apprenticeship Support Australia NSW (ASANSW) undertook research with employers and apprentices. This report summarises the findings of this research, analyses the consequences of 'doing nothing' and puts forward a set of key recommendations to address the issues uncovered.

The recommendations proposed by Business NSW in this report are guided by our extensive experience within the Australian Apprenticeship Support Network (AASN). They are also guided by our independent policy research and advocacy, which represents more than 25,000 businesses.

Modelling in this report is undertaken on the basis that Australia is on the road to economic recovery. If this proves not to be the case, it is likely that the actual numbers will be far worse than our projections.

Methodology

ASANSW operational data from June 2020 was analysed to identify apprenticeship commencement patterns. Throughout May and June 2020, ASANSW surveyed almost one half of the in-training apprentice employers across NSW about the current status of their apprentices and the uptake and effects of the Supporting Apprentices and Trainees (SAT) and JobKeeper programs.

ASANSW also surveyed around 19,500 apprentices via SMS seeking information on their current employment status. The response rate was around 53 per cent.

During May 2020, Skillsroad completed a Youth Survey of more than 6,311 young people from across Australia. The key findings on youth employment from that survey are referred to in this report.

Modelling forecasts have been based on 20 per cent of apprenticeships being cancelled after 30 September 2020. The rationale for this approach is provided later in the report.

[2] National Centre for Vocational Education Research

Summary

Our research predicts that, without additional intervention beyond 30 September 2020, the number of apprenticeship commencements will reduce by around 36 per cent in 2020 compared to 2019. This equates to 54,000 fewer commencements across Australia in 2020 (97,000 compared to 151,000).

Our findings also indicate that the Supporting Apprentices and Trainees (SAT) and JobKeeper programs have been crucial in stemming the number of cancellations and suspensions of apprentices already in-training. However, more than 30 per cent of apprentices have still been negatively affected by the pandemic, with Year 1 and Year 2 apprentices bearing the brunt.

The combination of reduced commencements with a potential apprenticeship cancellation rate of around 20 per cent after the cessation of SAT and JobKeeper on 30 September will be catastrophic for the availability of skills in the future. Without significant intervention, we forecast that only around 180,000 apprentices will be in training in 2021, reducing Australia's skilled workforce pipeline to levels not seen since 1998.

This will have a lasting impact on business viability and future jobs. With the number of apprentices not recovering to pre-COVID levels until 2025, at the earliest, businesses will be left facing a significant shortfall in the availability of skilled workers at a time when the economy is likely to rebound.

Australia must take immediate steps to increase commencements and reduce the impact of COVID-19 on those already in training. In this report, Business NSW makes four recommendations to Government to focus on commencements and deliver a commensurate increase in completions.

RECOMMENDATION 1:

Government should offer employers a wage subsidy of up to 90 per cent of new apprentice wages (or $540 per week) for the first year of training to support apprentice commencements.

This approach would provide certainty to employers to invest in new staff and prompt an immediate uplift in commencements, particularly as first year apprentices are at their least productive. It would offer a tiered approach to ensure that demand for apprenticeships remained high through the next major intake in March 2021, when commencements are otherwise forecast to be subdued.

The estimated cost of this subsidy would be $1.1 billion[3] and could be partially funded through Government savings from unspent 2020 apprenticeship incentives. Savings would also be realised from a reduction in JobSeeker costs.

Recommendation 2:

Government should continue the SAT program from 1 October 2020, gradually phasing out by 30 June 2021.

Despite the introduction of the SAT and JobKeeper programs, our research has shown that suspensions and cancellations equate to around 10 per cent of in-training apprentices, with a further 20 per cent not currently gainfully employed.

[3] Based on apprentice wage of $600 per week.

Consequently, a further reduction of around 20 per cent of in-training apprentices is not unreasonable during the final quarter of 2020 without further support after the cessation of the JobKeeper and SAT programs on 30 September 2020.

A continuation of the SAT initiative, tiered over the remainder of the 2020/21 financial year, would support a significant proportion of that 20 per cent, or up to 30,000 apprentices, to maintain their training. The estimated cost would be $265 million[4]. Savings would be realised from a reduction in JobSeeker costs. Potentially, the program could be partially funded from Government savings from unspent 2020 apprenticeship incentives if not already expended by the subsidy in Recommendation 1.

Recommendation 3:

Government should offer Group Training Organisations a subsidy from 30 September 2020 to reduce the charge out rate for eligible apprentice or trainee commencements for six months from date of commencement.

Expanding the availability of support for Group Training Organisations (GTOs) following the cessation of JobKeeper payments on 30 September 2020 will support an increase in apprenticeship commencements. Group Training Organisations will play a critical role in managing risks associated with employing apprentices, particularly given employer concerns around the economic outlook and the risk of secondary outbreaks as already occurring in Victoria.

Increased Commonwealth Government support to GTOs would help mitigate these risks by pooling the risk associated with employing apprentices for four years. It is recommended that this initiative would last beyond the next major intake of apprentices in 2021.

Recommendation 4:

Government should develop, fund and deliver a national industry-led pre-apprenticeship program.

Pre-apprenticeship programs are currently poorly defined and lack recognition. The lack of a nationally accepted and applied definition of pre-apprenticeships means they operate in a training limbo. Too often, pre-apprenticeship programs are unable to deliver outcomes for students because they are developed and delivered without shared expectations and without industry engagement.

The pandemic offers an opportunity for the Commonwealth Government to address this failing. An industry-supported and nationally consistent pre-apprenticeship program would deliver a pathway into apprenticeships for many young people currently at risk of disengaging from the workforce.

[4] Based on apprentice wage of $600 per week

Part I

The impact of COVID-19 on apprenticeships

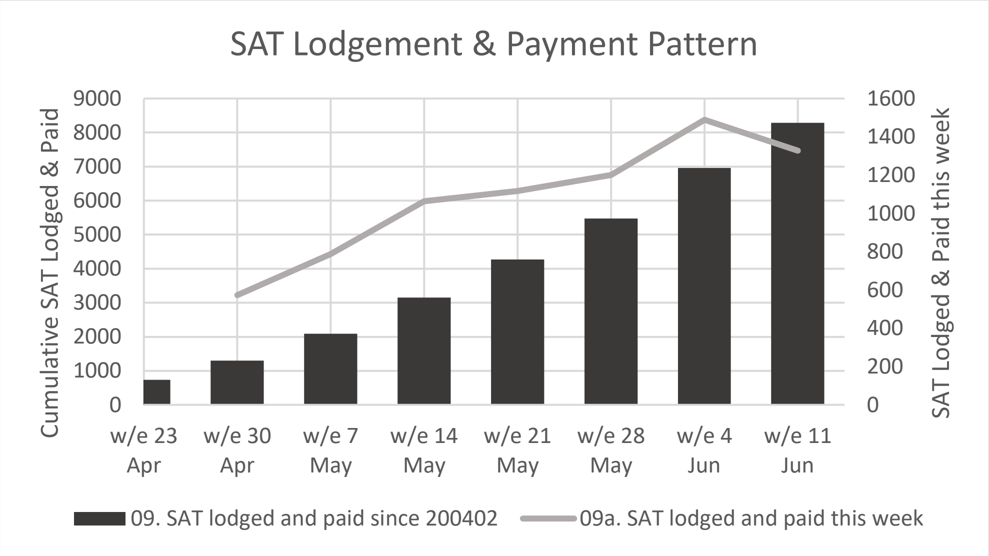
Policy responses

SAT and JobKeeper have been crucial for apprentices

A range of incentives have been quickly implemented by State and Commonwealth Governments in response to COVID-19 to complement the existing Australian Apprenticeships Incentives Program (AAIP). The most relevant of these are the Commonwealth Government's Supporting Apprentices and Trainees (SAT) program and the JobKeeper payments.

Business NSW's research has estimated that the SAT program has been particularly crucial, supporting around 20 per cent of all active apprentices (Figure 1).

Figure 1 – SAT lodgement and payment pattern



Source: ASANSW Operational Data June 2020

Importantly, both the JobKeeper and the SAT programs:

- required apprentices to be employed at 1 March 2020 to be eligible
- are due to cease on 30 September 2020.

State and territory responses have been less effective

State and Territory Government initiatives have generally been not specific to apprentices, such as payroll tax deferrals or reductions. Very few respondents to the ASANSW survey indicated that state/territory based initiatives had been critical in supporting in-training apprentices or commencements.

There has been a lack of consistency across jurisdictions, complicating the situation further, particularly for employers engaging apprentices across borders.

Impact on commencements

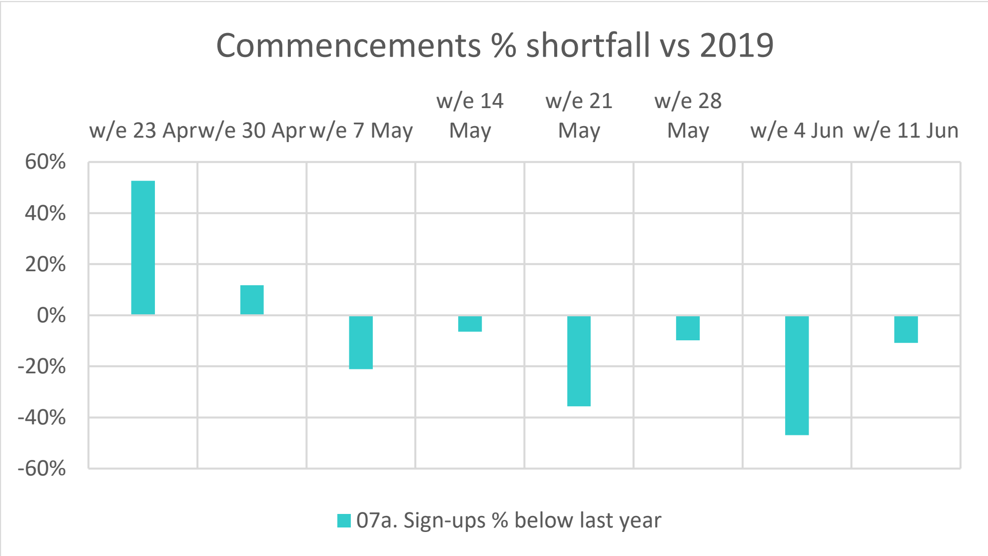
Commencements are well down compared to 2019

Given the cost of training apprentices, there has already been a significant reduction in the number of new training opportunities. Apprentice commencements have already significantly declined in the first half of 2020, particularly as new employees are not eligible for SAT or JobKeeper.

ASANSW operational data identifies that commencements in the March 2020 quarter were around 20 per cent lower year-on-year. However, there had been a large uptake in apprenticeship commencements in January and February prior to the full impact of COVID mitigating the effects.

More recent ASANSW data for the June 2020 quarter is tracking towards a 30-40 per cent drop compared to 2019.

Figure 2 – Commencements in 2020 as a percentage of commencements in 2019

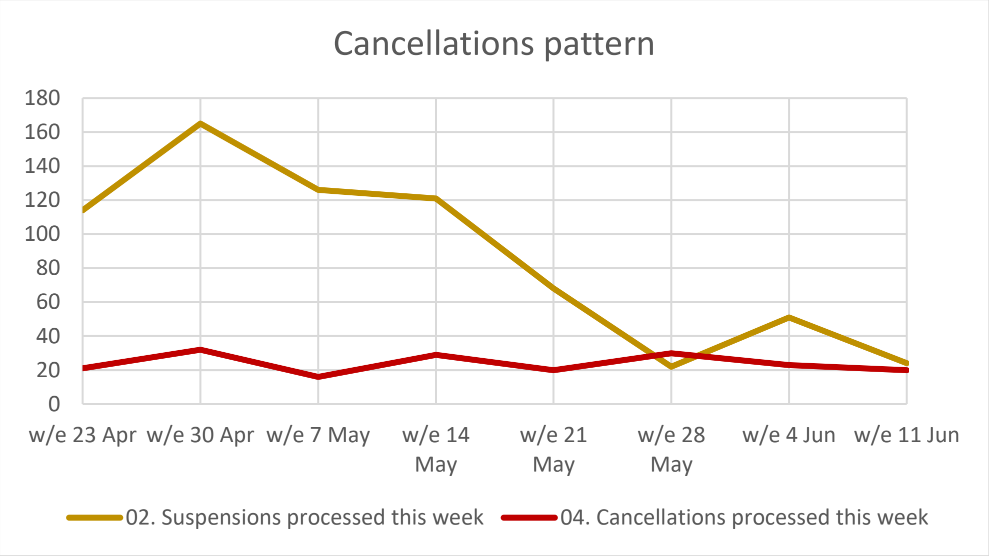


Source: ASANSW Operational Data June 2020

Impact on in-training

Apprenticeship suspensions were initially at very high levels at the start of the pandemic, and SAT and JobKeeper appear to have been effective in retaining the majority of in-training apprentices. Cancellations and suspensions since late April remain in check, with patterns of cancellations, suspensions and deferrals (Figure 3) in part reflecting ‘announcement’ and ‘cut-off’ dates for the two programs.

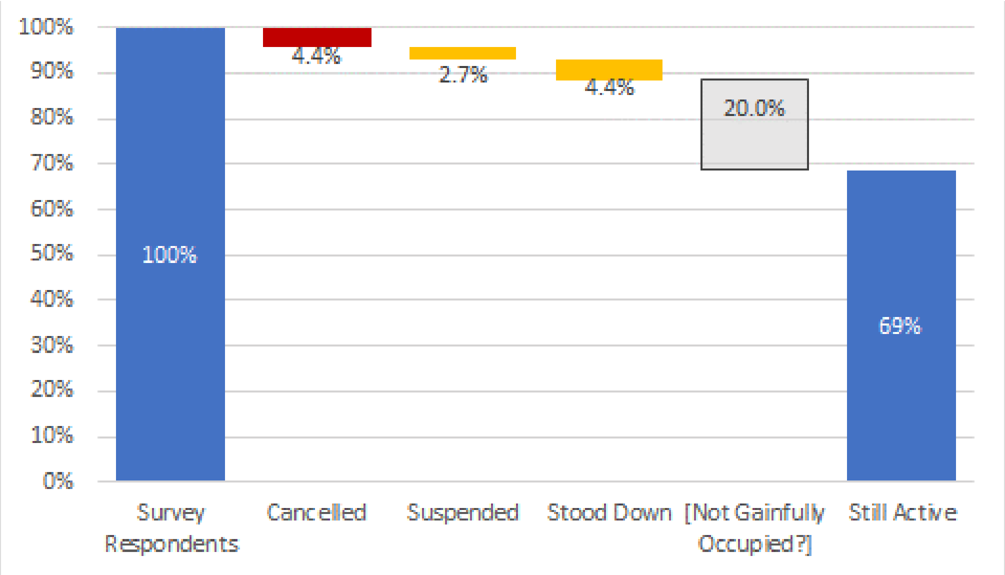
Figure 3 – Suspensions and cancellations from 23 April to 11 June



Source: ASANSW Operational Data June 2020

Responses to the ASANSW SMS survey indicate that only around 69 per cent of in-training apprentices have been unaffected by the pandemic. Around 4.4 per cent of apprenticeships have been cancelled, 2.8 per cent suspended and 4.4 per cent stood down, with a further 20 per cent not appearing to be gainfully occupied.

Figure 4 – Apprentice status as at 11 June 2020



Source: ASANSW SMS Survey of active A&T May-June 2020

Most cancellations have been in construction, electrotechnology and automotive, and most suspensions in construction, electrotechnology, automotive, hospitality and hair and beauty. As shown in Table 1, cancellations and suspensions are disproportionately affecting Year 1 and Year 2 apprentices.

Table 1 – Breakdown of year of apprenticeships affected by cancellations/suspensions

Year of apprenticeship	Year 1	Year 2	Year 3	Year 4
Cancellations	33%	33%	25%	9%
Suspensions	50%	25%	20%	5%

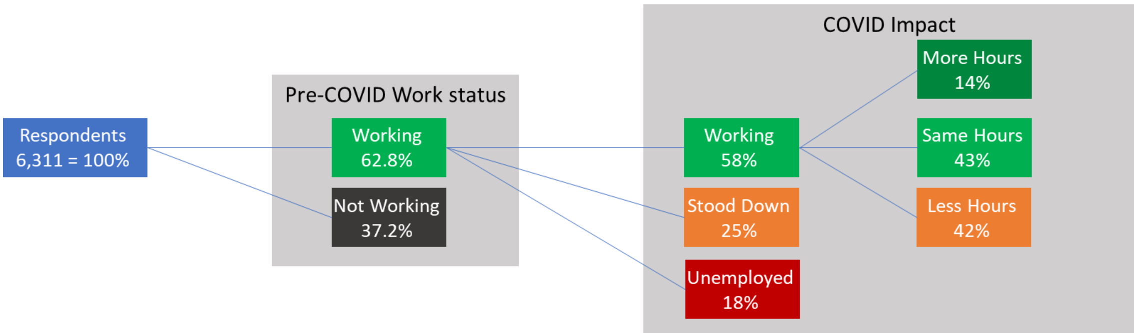
Source: ASANSW Operational Data June 2020

More than 40% of young employees have been negatively affected by COVID-19

The Skillsroad survey found that 43 per cent of young people working prior to COVID-19 had been either stood down or become unemployed as a result of the pandemic. Young people working in the hospitality industry had been worst affected, followed by those working in retail.

Of those still employed, the survey found that 42 per cent were working fewer hours. It is likely that a proportion of those are not 'gainfully occupied' and are turning up to work only because of SAT or JobKeeper support.

Figure 5 – Impact of COVID-19 on young people's employment status



Source: Skillsroad Youth Survey June 2020

Conclusion

Our findings regarding the proportion of young people affected, combined with the results from the ASANSW survey on apprentice employment, provide a set of lead indicators for what is likely to occur post-30 September once the SAT and JobKeeper programs conclude.

Based on this data, it is entirely possible that 30-40 per cent of in-training apprentices will lose employment before the end of 2020 without significant recovery in the economy and extension of existing employer supports.

Part II

The future for apprenticeships

No intervention means no recovery

Based on the current trajectory for 2020, Business NSW's modelling suggests that the current fall-off in commencements is not expected to auto-correct for the foreseeable future. Without intervention, any recovery in apprentice numbers is solely reliant on a return of business confidence and performance.

Accordingly, our projection is that there will be a 36 per cent drop in commencements in 2020 compared to 2019. Conservatively, this means commencements will fall from 151,000 in 2019 to 97,000 in 2020. The number could be even lower if the economy performs worse than expected for the remainder of the year.

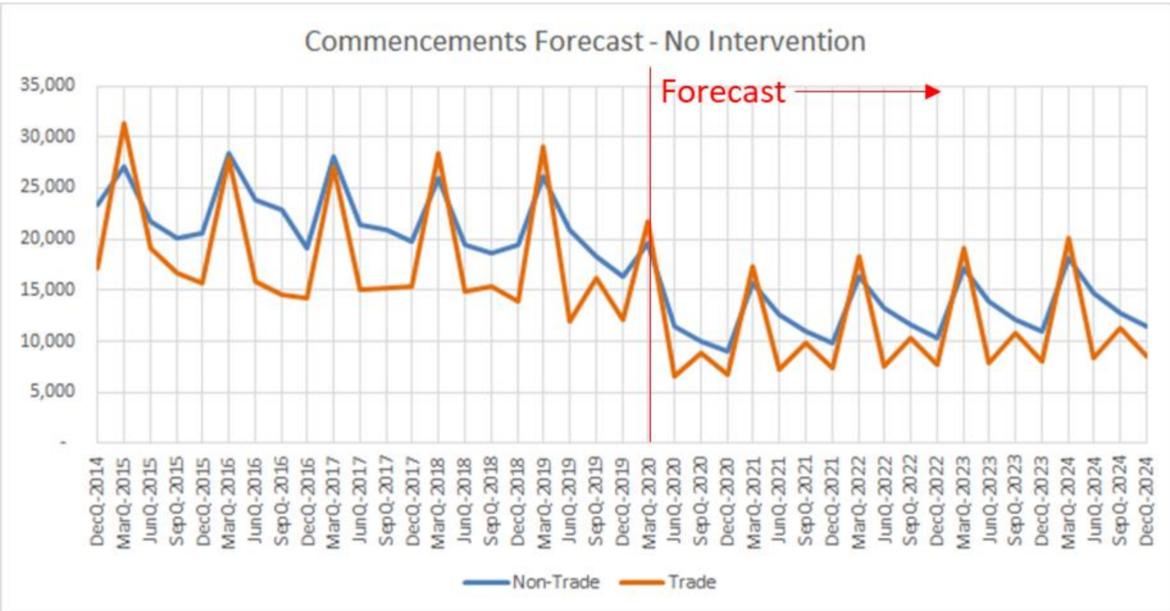
The result is that around 54,000 predominately young people will not have the opportunity to embark on a new career in 2020. There will be corresponding impacts on the future pipeline of skilled workforce in 2021 and beyond.

A major intake of new apprentices in 2021 – as would traditionally occur in the March quarter of any given year – is, at this time, entirely dependent on employers' appetite and capacity to support training. As the economy is extremely unlikely to have fully bounced back by that time, it is highly unlikely that businesses will be able to 'catch up' and support the 54,000 apprentices who did not commence in 2020.

It is even questionable whether the March 2021 commencements will match the March 2020 commencements given that March 2020 was only partially impacted by the pandemic.

Figure 6 shows the forecast for apprentice commencements until the end of 2024 based on the existing trajectory of commencements in 2021.

Figure 6 – Commencements forecast without intervention



Source: Simplified extrapolation of NCVER VocStats data – forecast based on COVID impacts to date

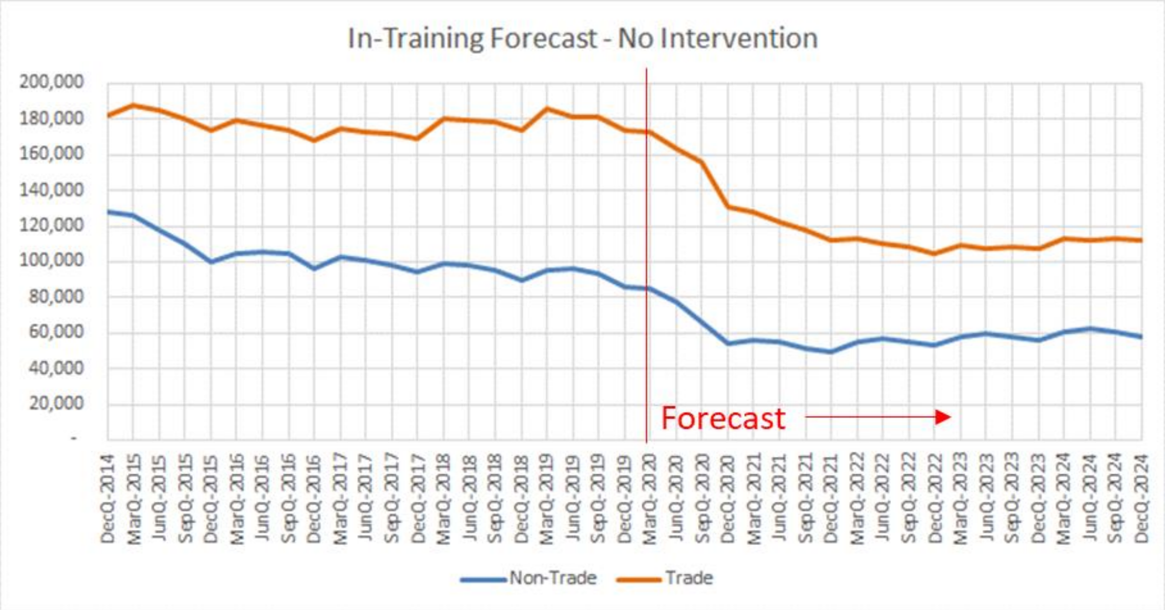
A 20 per cent drop in in-training numbers, primarily through cancellations, cannot be ruled out before the end of 2020 if economic and business conditions have not markedly shifted and no further intervention is provided beyond 1 October 2020. A worst-case scenario could see this number reach

40 per cent. ASANSW will continue to monitor employer sentiment throughout the remainder of 2020 to ensure that governments are aware of significant changes.

Failure to support the recovery of apprentice commencements in 2021 is likely to see in-training counts reduce to two-thirds of the levels achieved between 2015 and 2019, from around 270,000 to less than 180,000, until at least the end of the 2024.

In-training numbers translate directly to completions. Our forecast is that the reduction in commencements, combined with cancellations of in-training apprentices, will see Australia's skilled workforce pipeline reduced to levels not seen since 1998 and stay there for the foreseeable future.

Figure 7 – In-training forecast – without intervention



Why is this a problem?

Economic growth will be stunted when needed

Business NSW’s forecast indicates that it will take more than four years to stem the significant reduction in apprentice numbers and return to 2019 levels. Pre-existing skills shortages across a range of industries were evident prior to COVID-19 and will be exacerbated by a combination of a reduction of apprentices and a reduction in skilled overseas migration to Australia.

To support the economy to rebound, employers will need access to skilled labour and people will need access to training opportunities. This is not something that can be fixed quickly or addressed overnight. Governments must take a long-term view to training to support economic recovery post-COVID.

Higher youth unemployment will increase Government costs and deliver poor social outcomes

Apprenticeships improve the state’s social well-being. They are a valuable source of job opportunities for young people entering the workforce and a means for older workers to upgrade their skills. Without additional support, there will be an increase in youth unemployment rates, with far fewer young people reaching their full skills capacity or simply not engaging with the workforce.

Supporting people into employment has a tax benefit, not only from an employee’s income tax payments, but also from some businesses through payroll tax payments. Lower unemployment will also reduce Government costs through reduced JobSeeker payments.

No intervention will have unknown long-term effects

The lack of apprenticeship availability will likely impact young people’s choices for further education and training. That is, if they are unable to obtain employment as an apprentice in their chosen occupation, they may disengage from the workforce entirely or consider going to university and be lost to the potential apprentice pool. There are already reports of major increases in university applications for 2021 and it is likely that many of those applicants would have sought an apprenticeship if training positions were available.

What more needs to be done?

The scale of the reduction of commencements and in-training numbers requires bold action. Our recommendations are specifically tailored to supporting businesses to employ new apprentices and support existing first year apprentices after the expiration of JobKeeper and the SAT.

While employers making apprentices redundant will impact on in-training numbers, previous downturns have provided evidence that completion rates will increase due to a lack of employment alternatives. It is our view therefore that the focus of Government intervention must be on increasing commencements.

The following key recommendations are based on research findings and feedback from employers.

Recommendation 1:

Government should offer employers a wage subsidy of up to 90 per cent of new apprentice wages (or $540 per week) for the first year of training to support apprentice commencements.

Such an approach would enable employers to take on new apprentices and provide some certainty around investing in training for at least one year.

As forecast commencements for 2020 are so low, the approach could be staggered to promote demand for apprenticeships in the short-term. An example of how this could work is shown in Table 2.

Table 2 – How the apprentice wage subsidy scheme could be structured

Commencement period	Cap on commencements	Wage subsidy to employers
1 October 2020 – 31 December 2020	20,000	90% for first year of new entrant apprentices, or a subsidy rate of $540 per week if preferred
1 January 2021 – 30 March 2021	+20,000 (totalling 40,000)	60% for first year of new entrant apprentices, or a subsidy of $360 per week if preferred
1 April 2021 – 30 June 2021	+20,000 (totalling 60,000)	30% for first year of new entrant apprentices, or a subsidy of $180 per week if preferred

A flat rate instead of a proportion of wages would give businesses more cost certainty when employing mature-aged apprentices that are re-training or re-skilling.

Program design could ensure that employers are committed to completing the apprenticeship. For example, the subsidy program could:

- require employers to pay back the subsidy payment to government if the apprentice did not complete the second year (as such an approach would be hard to administer, this could be undertaken by AASN providers)
- pay employers a proportion of the subsidy in advance with a significant final balance payable once an apprentice completes the second year

- be capped at a certain number of commencements for each employer to ensure that all interested employers had the opportunity to access the program
- ensure that businesses that have not previously engaged an apprentice receive targeted support through the AASN.

The wage subsidy could be targeted to specific areas such as:

- businesses previously in receipt of JobKeeper
- businesses in regional areas
- businesses in bushfire or drought affected areas.

The estimated cost of this program would be $1.1 billion[5] and could be partially funded through already budgeted Government savings from unspent 2020 apprenticeship incentives.

Wage subsidies should be linked with appropriate supports for both prospective employees and employers to achieve higher completion rates and could be administered through the AASN. This will assist in ensuring that employers and employees in the scheme are provided enough support to plan for the period when subsidies are no longer available.

Recommendation 2:

Government should continue the SAT program from 1 October 2020, gradually phasing out by 30 June 2021.

The probability of a 'hard landing' after 30 September 2020 following the conclusion of the SAT and JobKeeper programs is very real, with the prospect of a 20 per cent cancellation rate of apprentices in 2020 not unreasonable, as shown in the previous section.

The continuation of a SAT-type program would see continued support for first and second year apprentices already in training who have been disproportionately impacted by COVID-19. It would also provide employers with surety around continuing to offer training with a phased-out approach to the SAT program offering a 'softer landing' allowing employers to plan accordingly.

Again, a flat rate might be preferred as it would give employers greater cost certainty for those employing mature-aged apprentices. The recommended approach is outlined in Table 3.

Table 3 – How the continued SAT program could be structured

Commencement period	Cap on number of apprentices	Wage subsidy to employers
1 October 2020 – 31 December 2020	10,000	50% for 12 months from date of approval, or $300 per week
1 January 2021 – 30 March 2021	+10,000 (totalling 20,000)	25% for 12 months from date of approval, or $150 per week
1 April 2021 – 30 June 2021	+10,000 (totalling 30,000)	10% for 12 months from date of approval, or $60 per week

[5] Based on apprentice wage of $600 per week

The estimated cost of this program would be $265 million[6]. However, savings would be realised from a reduction in JobSeeker costs. Potentially, the program could be partially funded from Government savings from unspent 2020 apprenticeship incentives if not already expended by the subsidy in Recommendation 1.

Similar program design as detailed in Recommendation 1 could be included.

Recommendation 3:

Government should offer Group Training Organisations a subsidy from 30 September 2020 to reduce the charge out rate for eligible apprentice commencements for six months from date of commencement.

There is, and will continue to be, significant variation in the capacity of employers to effectively support an apprenticeship, particularly in the early stage.

Expanding the availability of support for Group Training Organisations (GTOs) following the cessation of JobKeeper payments on 30 September 2020 will support an increase in apprenticeship commencements.

Increased Commonwealth Government support to GTOs would help mitigate employment risks to employers by pooling the risk associated with employing apprentices for four years and would promote additional take-up by employers.

It is recommended that GTOs are further subsidised to reduce the charge out rate for eligible apprentice commencements for six months from date of commencement. It is recommended that this initiative would last beyond the next major intake of apprentices in 2021.

Recommendation 4:

Government should develop, fund and deliver a national industry-led pre-apprenticeship program.

Pre-apprenticeship programs are currently poorly defined and lack recognition. The lack of a nationally accepted and applied definition of pre-apprenticeships means they operate in a training limbo.

Too often pre-apprenticeship programs are unable to deliver outcomes for students because they are developed and delivered without shared expectations and without industry engagement.

Lack of consistency and clarity about pre-apprenticeship program characteristics and outcomes can leave them without adequate government funding. These factors intersect, creating challenges with credit or advanced standing for higher VET qualifications, and industrial implications for pay arrangements.

The pandemic offers an opportunity for the Commonwealth Government to address this failing. An industry-supported nationally consistent pre-apprenticeship program would deliver a pathway into apprenticeships for many young people currently at risk of disengaging from the workforce.

[6] Based on apprentice wage of $600 per week

What would be the impact of the recommendations?

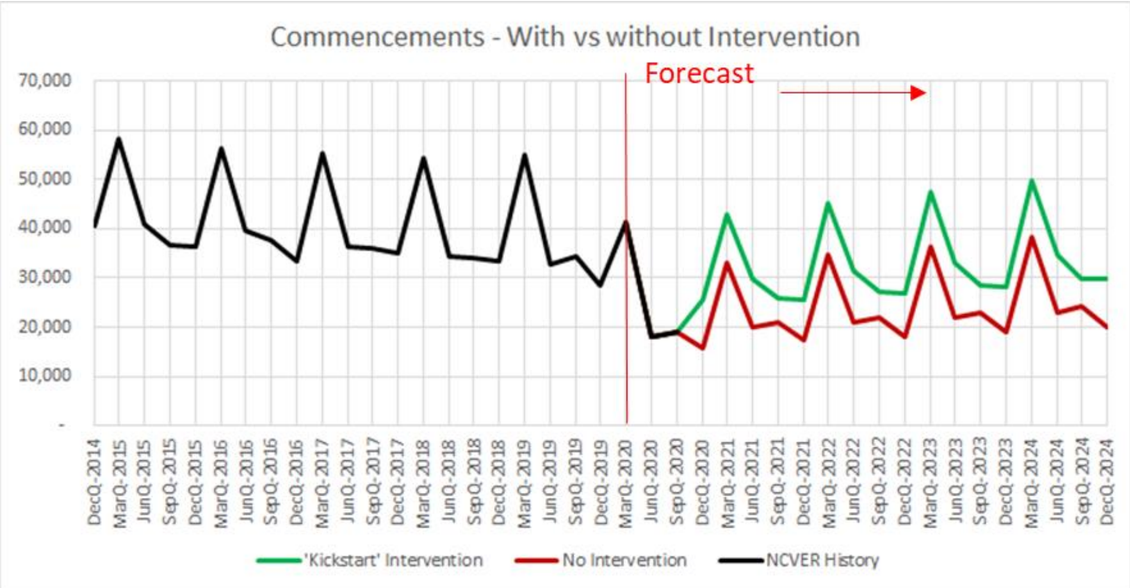
The ‘Kickstart’ style interventions that were introduced following the Global Financial Crisis in 2009 and 2010 provide an example of what can be achieved with a well-targeted incentive program.

Our forecasts are based on the assumptions that:

- commencements remain low through the September 2020 quarter
- the recommended interventions increase commencements
- the in-training intervention increases retention rates for first and second year apprentices
- the retention has a flow-through effect for the remainder of 2021
- subsequent years build on these retained numbers of apprentices
- interventions have similar impact to the ‘Kickstart’ intervention in 2009 and 2010.

Figure 8 provides an overlay of the difference in commencements between no intervention and with intervention.

Figure 8 – Commencements forecast – with and without intervention

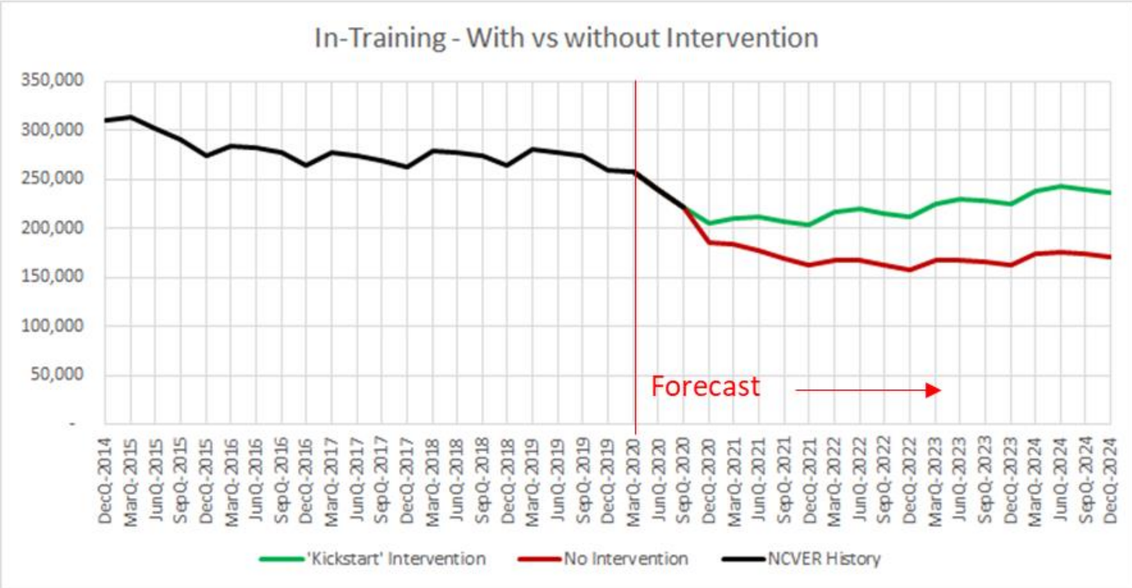


Source: Simplified extrapolation of NCVER VocStats data – intervention applies similar incremental improvement as proposed in recommendations

Similarly, Figure 9 sets out the forecast for in-training apprentices. Without intervention, our forecast is that the number of apprentices in-training will remain around half that of December 2014. Only with significant intervention will there be any closure of the gap.

While it is not anticipated that State and Commonwealth Governments will be able to fully address this shortfall, a difference of 90,000 apprentices will be critical in supporting Australia's future outcomes.

Figure 9 – In-training forecast with and without intervention



Source: Simplified extrapolation of NCVER VocStats data – intervention applies similar incremental improvement as proposed in recommendations

The apprenticeship model has served Australia well. Without further support at this critical and challenging time, many businesses will be unable to take on apprentices creating significant issues for the economic recovery of our nation.