VACC Submission:

Review of the Australian Apprenticeships National Skills Needs List

27 September 2019

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About VACC

The Victorian Automobile Chamber of Commerce (VACC) is Victoria's peak automotive industry association, representing the interests of more than 5,500 members in over 20 retail automotive sectors that employ over 50,000 Victorians.

VACC members range from new and used vehicle dealers (passenger, truck, commercial, motorcycles, recreational and farm machinery), repairers (mechanical, electrical, body and repair specialists, i.e. radiators and engines), vehicle servicing (service stations, vehicle washing, rental, windscreens), parts and component wholesale/retail and distribution and aftermarket manufacture (i.e. specialist vehicle, parts or component modification and/or manufacture), and automotive dismantlers and recyclers.

VACC is also an active member of the Motor Trades Association of Australia (MTAA) and contributes significantly to the national policy debate through Australia's peak national automotive association.

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Response to Issues Paper Discussion Questions

1. **Do you agree with the identified issues with the NSNL as it currently operates?**

   VACC broadly agrees with the issues identified concerning the NSNL in the Department's Issues Paper. In particular, the reliance on the Survey of Employers who have Recently Advertised (SERA) for skill shortage research is problematic for the automotive industry, in that on-line job advertisements are not typically used by most automotive employers as a means for filling skilled vacancies. Consequently, the use of SERA both underestimates and omits many skilled automotive occupations that are in shortage within the economy.

   VACC believes that supplementation of the SERA model with appropriate industry intelligence gained through a process of effective industry engagement, would help alleviate many of the gaps and inconsistencies observed with the current methodology.

2. **What evidence or examples can you highlight in support of your position?**

   VACC research indicates that apprenticeships are the primary pathway for entry within the automotive industry. Recruitment of automotive apprentices is usually undertaken informally by word of mouth or through community networking and local club sponsorship by employers. This is particularly the case amongst small employers which account for the majority of businesses within the automotive industry. Unadvertised employment pathways are also created for school-based trainees and apprentices and these roles are generally created by Group Training Organisations (GTOs) or school work experience coordinators. It is very rare for automotive apprenticeship positions to be advertised on-line or in the media, and this remains a unique cultural characteristic of the industry. Hence the use of SERA is largely inappropriate as an indicator of automotive skills shortages and remains only a partial indicator at best. It is also likely that there may be similar nuances across other related industries.

3. **Are there other issues with the NSNL that should be considered?**

   A major issue observed by VACC relates to anomalies in the determination and listing of NSNL skill shortages, that are often questioned by employers. A key example relates to Vehicle Painters, which are contained on the NSNL, as well as the list for the AISS Payment, yet are excluded from regional skilled migration lists. It is inconceivable to industry how such a critical skill shortage is excluded from regional skill migration lists, particularly when there is an acute shortage of Vehicle Painters in both regional and metropolitan areas.

   The fact that an occupation doesn't need to appear on the NSNL to be eligible for the AISS Payment is problematic to industry, in that it shows an overall lack of transparency with illogical end results that are questioned by industry.

4. **Are the design principles outlined in this section the right ones for a methodology to identify occupations in skills shortage and to allocate apprenticeship incentives?**

   Whilst the six new design principles identified in the Issues Paper are well intentioned, VACC believes that overall, the current system is not significantly broke that it requires a major redesign from scratch. It is quite feasible that the current system can be significantly improved through supplementation of the SERA methodology with grass roots industry intelligence.

   This can be achieved through a closer engagement with industry involving the systematic sharing of quantitative industry data and employer survey data, as well as access to qualitative

information on skill shortages through employer and focus group interviews. This would significantly augment the quality of skill shortage information and allow for the better allocation of apprenticeship incentives.

5. **Are there other design principles that should be considered? If so, please describe them and outline the rationale for their inclusion?**

   VACC believes that a 'reinvention of the wheel' is not necessary and that the current system could be significantly improved through the incorporation of a tighter engagement model with industry that better assists government to target current and emerging skill shortages across the economy.

   Nuances relating to specific industries and finer-level skill shortage data can only be reliably ascertained through an appropriate industry engagement program with a focus on the collection of grass roots information at the business level. This would vastly improve the accuracy of the current system through the supply of real-time information and provide for a more forward-looking methodology.

6. **Which of the design principles would you rank as being of greatest importance?**

   Of the six design principles, principle 6 which states that, *'the methodology should prioritise outcomes that deliver the greatest social and economic benefit',* is considered by VACC as being most important. All skill shortages should be quantifiable and prioritised in terms of their contribution to GDP and their overall benefit to the community. This would support more informed decision making and would help facilitate a more efficient and effective allocation of apprenticeship incentives by government.

   By not prioritising skills outcomes based on the benefits to the economy and society, there is a significant risk of a misallocation of resources resulting in added costs and inefficiencies to both businesses and consumers, resulting in poorer economic growth outcomes.

7. **Do you agree that a single coherent approach should underpin the identification of occupational skills shortages? If not, what is/are the alternative/s?**

   VACC research shows that there is no single coherent indicator that effectively identifies skills shortages in the economy. However, a systemic industry and sector labour market analysis based on a partnership with industry that facilitates the provision of finer-level skills data from businesses, will significantly improve the quality of data relating to occupational skills shortages.

8. **What timeframe into the future should be used when identifying occupational skills shortages for the purpose of targeting skills shortage incentives? Why?**

   Two to three years would be optimal for identifying skill shortages into the future. This would allow for a more flexible response to skill shortages incentive payments, based on observed outcomes from changes in technology, education and training and other factors influencing the demand and supply of skills within the labour market.

9. **What are the key limitations, if any, of a forward looking methodology? How can these be addressed or managed?**

   All forward looking methodologies and estimates contain a margin of error, and this error probability is amplified in the outer years of the estimates. Therefore, the longer the time

period of a forward looking methodology, the more unreliable are the estimates due to unforeseen shocks to the economy/ labour market over the period. It is suggested that forward looking methodologies be limited to the short to medium term (2-3 years) rather than the longer term.

10. **Are the core components of a possible forward looking methodology outlined above appropriate? If not, why and what are the alternatives?**

    VACC believes that the core components of a forward-looking methodology as identified in the Issue Paper are sound and appropriate.

11. **Are there objective means of assessing skills shortages in small and emerging occupations for which there is no primary data?**

    VACC believes that this is only possible through a systematic consultation and engagement model with industry. The outcomes of this strategy can include the development of targeted industry labour market and skills surveys, that are designed to capture small and emerging occupations within each industry. This can also be supplemented by intelligence gathered from employer interviews, focus groups and industry associations.

    This engagement with industry needs to be regular, incorporating a dedicated program with checks and balances, that allows for the accurate collection of information in small and emerging occupations for which there is no primary data.

12. **Do you agree that the skills shortage methodology should be updated annually?**

    Ideally, a skill shortage methodology that is representative of all industries and sectors and is designed appropriately to capture the necessary detail, including the economic and social dimensions, should only be updated on an as-needs basis.

13. **Should the occupational skills shortage list be updated with the same frequency? If not, why not?**

    The design of the methodology should be statistically robust to estimate both real-time and future skills demand and supply. Consequently, trends in the data should be monitored and skill shortage lists updated as indicated by the data and verified through consultations with industry. Industry should not be limited, through rigid review cycles, where quickly emerging skills shortages threaten the productivity and operations in an industry sector.

14. **What is the right balance between transparency and flexibility? How might a formulaic approach to identifying skills shortages be made more flexible without compromising transparency?**

    As indicated, an integrated methodology that combines formulaic elements with a tighter industry engagement model would significantly improve the quality of current and future skill shortage estimates.

    This model would provide greater certainty and transparency and be far more acceptable to the business community, with the knowledge that they have been appropriately consulted as part of the skills forecasting process by government.

15. **Do you agree that eligibility for skills shortage incentives over the life of the apprenticeship should be determined at the commencement of the apprenticeship?**

VACC believes that there may be significant benefits to be gained through reform of the current system of skill shortage incentives payments.

A key problem affecting automotive and other industries is the high level of attrition amongst apprentices. More than one quarter of all automotive apprentices withdraw within the first 12 months of enrolling within an automotive qualification, and only around half of all apprentices go on to complete their qualification over the four-year training period. This high attrition rate contributes to an enormous waste of time, money and resources for all parties involved.

To help reduce this problem, VACC proposes that a new model of skill shortage incentive payments be considered that is based upon incentivising the retention of apprentices, and the completion of their training. Key elements to this model would include allocating actual training payments to RTOs at the start of an apprenticeship, combined with a staggered system of rising apprentice retention payments for employers over the life of the apprenticeship.

This system would support employers that look after, develop and retain their apprentices over the course of the training period, ultimately leading to lower apprentice attrition levels and better skills outcomes in the economy.

16. **Would volatility in the availability of skills shortage incentives impede their uptake? If so, what type of stabilising mechanism would help to address this issue?**

VACC research indicates that automotive employers are sensitive to skill shortage incentives, and any volatility in the availability of skills shortage incentives will directly impede their uptake. Consequently (as outlined in Q15), VACC believes that apprentice training should be funded at the start, with employers receiving a staggered stream of rising incentive payments based on the retention of the apprentice over the training period. This would result in a stable and more beneficial incentive based system for allocating skill shortage payments.

17. **How far in advance of the effect date should changes in the skills shortage list be announced, given the need to balance business planning and distortions to commencement patterns?**

VACC believes that an announcement period of at least six months in advance, would allow for sufficient time for businesses to adjust to changes in the skills shortage list. Consideration needs to be made for the administration of apprentices through Group Training Organisations as these are, in some cases, the largest employer of apprentices in a particular industry sector. It is possible some level of transition support will be required for GTOs given they generally predict income and expenditure for apprentice intakes some years in advance.

18. **What criteria should be used to target apprenticeship incentives to deliver the greatest economic and social benefit?**

As detailed in Q15, VACC believes that the principle of an upfront apprentice training payment in conjunction with a staggered incentive payment based on apprentice retention for employers, would deliver greater economic and social outcomes based on an anticipated reduction in the high attrition rates observed for apprentices across many trades.

VACC also believes that there should also be an economic and social evaluation attached to identified skill shortages in the economy, based on industry value-added or contribution to

Gross Domestic Product (GDP) per capita. This would help to objectively quantify the relative impact of each occupational skill shortage in the economy, thereby creating a better-informed policy basis for the targeting of apprenticeship incentives.

19. **What type of occupational analysis should be undertaken in support of the objective of addressing skills shortages in apprenticeship-based occupations?**

    As described throughout this submission, VACC believes that there is a need for better metrics around the collection and quantification of occupational skill shortages, including an evaluation of their relative value to the economy and society.

    VACC believes that the targeting of apprentice-based skill shortages that contain a large value-added component to economy, will efficiently deliver the greatest economic and social benefit to the community.