


A photograph of two men in a workshop, overlaid with a blue tint. The man on the left is younger, wearing glasses and a dark shirt, looking down at a piece of wood. The man on the right is older, with grey hair and glasses, wearing a plaid shirt, also looking down at the wood. They appear to be in a collaborative learning or working environment.

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# Finding the truth in the apprenticeships debate

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Peter Noonan and  
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## About the authors

### **Peter Noonan**

Mitchell Professorial Fellow, Peter Noonan has played a major role in shaping tertiary education policy in Australia through 25 years' experience working as a policy adviser, senior executive and consultant to federal and state governments, universities and public and private VET providers. He was a member of the Expert Panel for the Review of Australian Higher Education (Bradley Review) in 2008, and in 2010 undertook a Review of Post-Secondary Education in Queensland for the State Government. Peter's work as a Mitchell Institute Fellow is focused on the future of tertiary education in Australia including its interface with secondary education and the labour market. He is a regular speaker at major conferences and a frequent media commentator on issues related to tertiary education.

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## Acknowledgements

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## About Mitchell Institute

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# Introduction

There are few issues which unite both sides of politics, employer organisations and the trade union movement. Yet these parties all suggest that there is a crisis in Australia's apprenticeship system.

In the 2016 election campaign **Leader of the Opposition Bill Shorten** claimed:

*The number of Australians in training for an apprenticeship is now at its lowest level since 2001. The Abbott-Turnbull Government has cut over \$2.5 billion from skills and training programs, and has seen apprentice numbers fall by more than 120,000 since the last election.<sup>1</sup>*

Traversing similar territory in May 2017, the **Assistant Minister for Vocational Education and Skills, Karen Andrews**, indicated that a key objective of the new Skilling Australians Fund in relation to apprenticeships was to:

*restore the number to 2012 levels, when Labor's withdrawal of employer incentives contributed to a massive decline.<sup>2</sup>*

The **Business Council of Australia**, the **Australian Chamber of Commerce and Industry** and **Australian Industry Group** have claimed that apprenticeships have declined by 45 per cent since June 2012, and called for Australian Governments to:

*take urgent action to avert an imminent crisis in our apprenticeship system, one that risks leaving young people without pathways to work and many businesses unable to access the skills they need to grow.<sup>3</sup>*

The **Australian Council of Trade Unions** has stated:

*The Abbott/Turnbull Government has ripped funding out of apprenticeship programs, skills training and TAFE – more than \$1 billion from apprenticeships alone since taking office. The resulting catastrophic drop in the number of apprentices learning their trade stands as a monument to the government's profound lack of vision for the future. There are now 122,000 fewer apprentices than when the government took office.<sup>4</sup>*

These are very serious claims. But is Australia's apprenticeship system really in crisis?

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<sup>1</sup> Hon Bill Shorten MP, Leader of the Opposition, Media Release 'More apprenticeships means more good jobs and real skills', 7 June 2016, <http://www.billshorten.com.au/more-apprenticeships-means-more-good-jobs-and-real-skills>.

<sup>2</sup> Hon Karen Andrews, MP, Assistant Minister for Vocational Education and Skills, Speech 'Skilling Australia Fund', 10 May 2017. <https://ministers.education.gov.au/andrews/skilling-australia-fund>

<sup>3</sup> The Australian Chamber of Commerce and Industry, The Australian Industry Group and the Business Council of Australia (March 2017) 'Coalition of Business Groups Calls for Decisive Action to Rescue Australia's Ailing Apprenticeship System' <http://www.bca.com.au/media/coalition-of-business-groups-calls-for-decisive-action-to-rescue-australias-ailing-apprenticeship-system>

<sup>4</sup> Statement from Ged Kearney, ACTU President on free-falling apprentice numbers, 28 June 2016 <http://www.actu.org.au/actu-media/media-releases/2016/statement-from-actu-president-ged-kearney-on-free-falling-apprenticeship-numbers>

## Defining apprenticeships

The Commonwealth Government uses the term *apprenticeship* to cover both traditional trade-based apprenticeships and what are more commonly referred to as *traineeships*.

Both apprenticeships and traineeships involve a combination of employment and a formal contract of training.

**Apprenticeships** are largely in the 'trades' - areas such as electrical, plumbing, construction, metal fabrication, printing, commercial cooking (chefs) and automotive repair. Most people still associate apprenticeship with training for these and other trades. Apprenticeships typically involve a four year contract of training, and in the licensed trades, such as plumbing and electrical, completing an apprenticeship or undergoing an equivalent trade test is required to work in the trade.

**Traineeships** in Australia have a very different and far shorter history. While operating on an apprenticeship model – combining employment and formal training – traineeships were conceived, designed and implemented as a Commonwealth Government program in 1985. They were primarily designed to address growing youth unemployment, by providing job and training opportunities for young people (mostly 16 and 17-year-olds) in occupations not covered by the traditional apprenticeships system, particularly in the services sector.

Traineeships now cover a wide range of occupations, mainly in the services (retail and hospitality) and personal care (aged care and child care) sectors, but have also been used for training in generalist areas including office administration, business services, information technology and management. They have also been used to train existing workers – whereby people already employed in firms are signed up as 'trainees'. Traineeships have also been used for higher level technician training in some industries.

## Differences between apprenticeships and traineeships

**Apprenticeships are mostly traditional trades**



Typically **4 year**  
'contract of training'

**Traineeships were developed to reduce youth unemployment**



Typically **1 year or less**  
'contract of training'

### Examples of apprenticeships



Commercial cookery



Carpentry



Hairdressing



Plumbing



Electrical

### Examples of traineeships



Retail



Hospitality



Administration



Childcare



Aged care

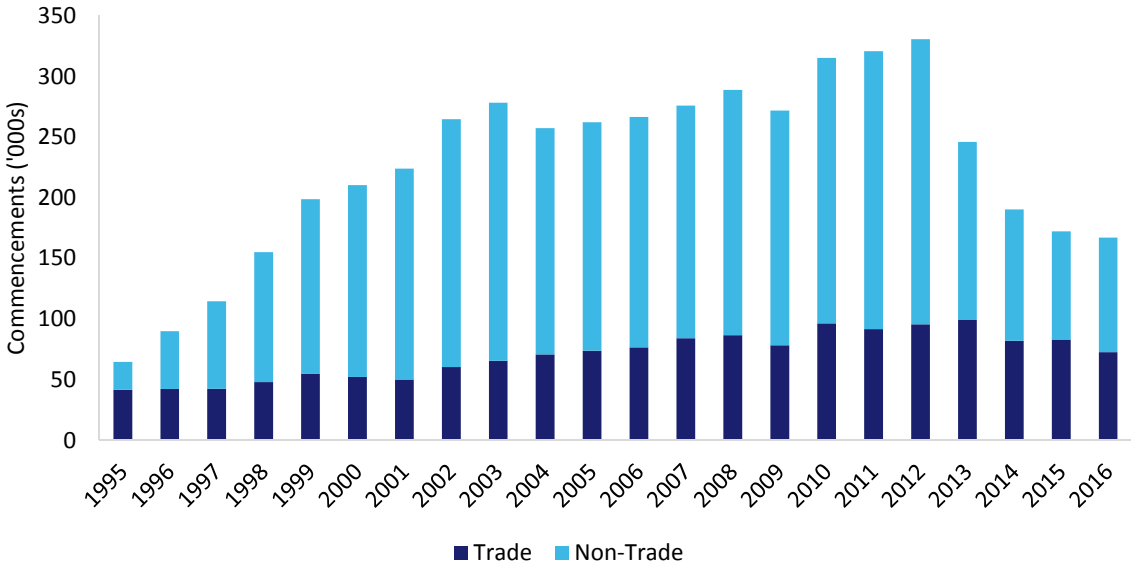
# The real story

The difference between apprenticeships and traineeships is widely understood in government, in the VET system and in industry. But data relating to commencements across the two schemes is often conflated and reported as apprenticeships, potentially creating a misleading picture about the state of the traditional apprenticeship system.

While nationally available data does not distinguish between apprenticeships and traineeships, National Centre for Vocational Education Research (NCVER) divides commencement data into *trade* and *non-trade*.<sup>5</sup> Given the dominance of apprenticeships in the trade sector, and of traineeships in non-trade sectors (such as services) these categories provide a close approximation of commencements in each system. This classification is applied throughout this paper to give a more accurate picture of separate trends in apprenticeship and traineeship commencements. The analysis below separates out commencements in trade (mostly apprenticeships) and non-trade (mostly traineeships).

What emerges is that if we look at the trades alone, the apparent decline in ‘apprenticeship’ commencements is not nearly as serious as the claims outlined in the introduction suggest.

**Figure 1: Trade (apprenticeships) vs. non-trade (traineeship) commencements 1995-2016**



Source: NCVER

<sup>5</sup> NCVER VOCSTATS data is used throughout unless otherwise referenced, <<http://www.ncver.edu.au/resources/vocstats.html>>, extracted on 15/7/2017, ‘Apprentices and Trainees Collection’.

Figure 1 clearly does not support claims of a 'crisis' in the traditional trade apprenticeship system (some of the decline in the trades is actually in traineeships in the trades sector). In fact, commencements in some trade apprenticeships have increased over this period.

Nonetheless the overall trend of declining trade commencements since 2013 can't be ignored and warrants closer consideration and explanation. Analysis later in this paper demonstrates that the decline is principally due to broader labour market factors, and other external factors. The decline in trade apprenticeships is not due to funding cuts, as they remain fully funded by the states and continue to attract Commonwealth Government employer incentives.

The substantial decline is in overall trade/non-trade commencements since 2012, principally driven by a fall in non-trade (traineeship) numbers following a change in Commonwealth employer incentives in 2012.

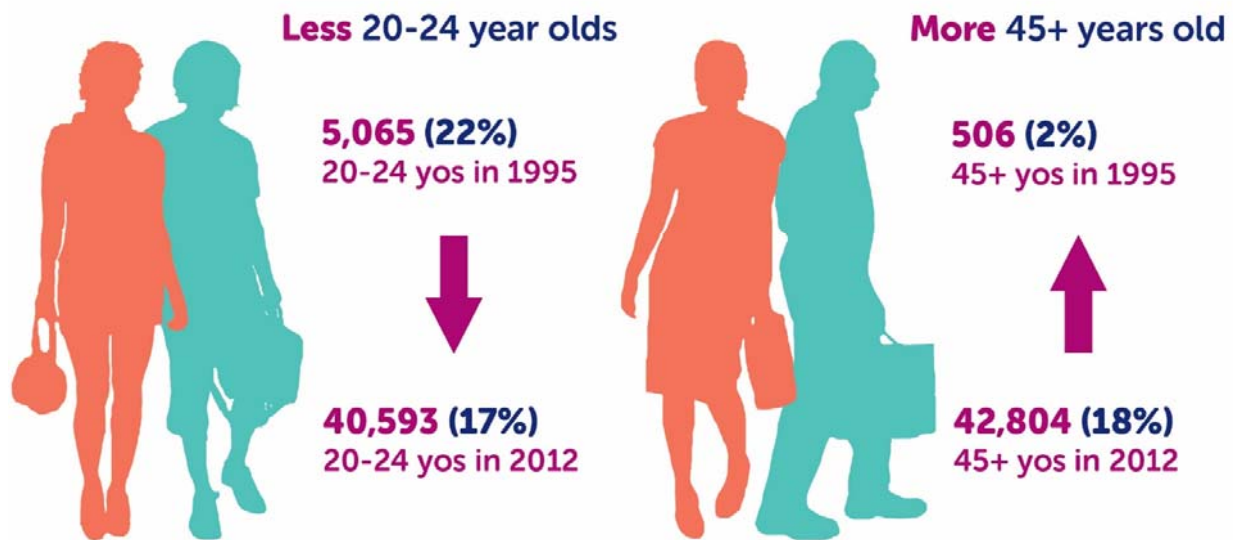
Should this decline in traineeship commencements be a cause for concern, particularly if young people - the original target of the traineeship system - are being denied pathways to work?

### Existing worker traineeships

Any concern about the decline in traineeships needs to be tempered by the fact that in 2012, when overall commencements were at their peak, over 130,000 'trainees' were not starting with a new employer. They were already employed when they were signed up as 'existing worker trainees'.

Nor are trainees necessarily young people. *In fact, in 2012 there were more trainees aged over 45 (42,804) than there were aged 20-24 (40,593) due to incentive driven growth in existing worker trainee commencements.*

### How government incentives affected trainee age groups

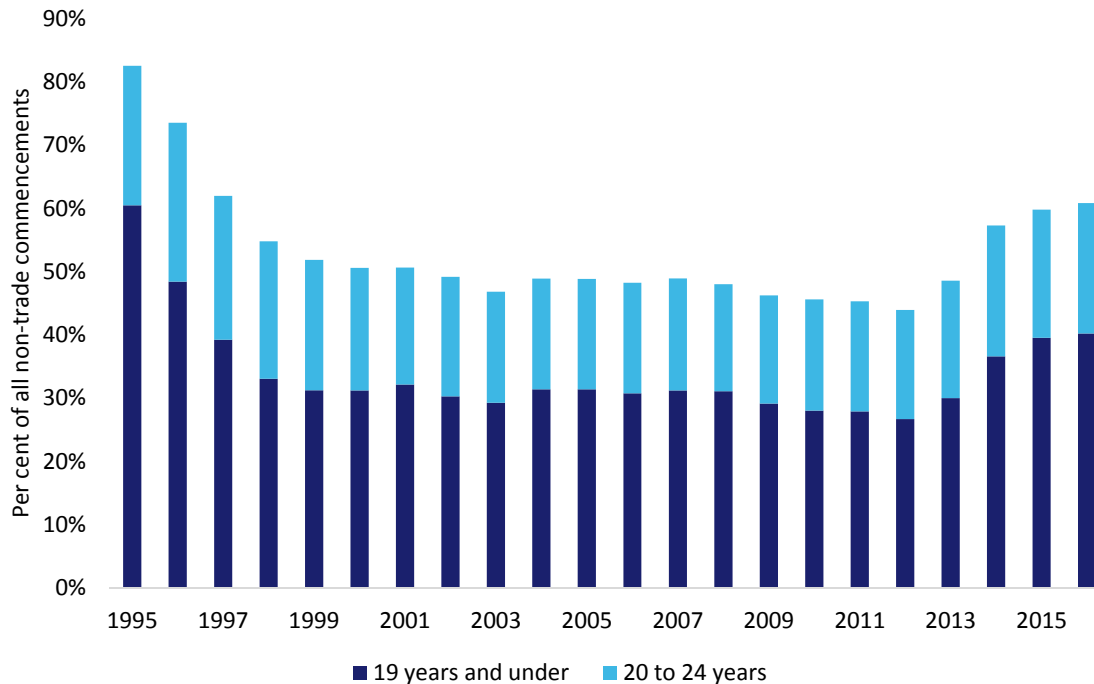


% = total trainee commencements



Figure 2 shows that between 1995 and 2012, the proportion of commencing trainees aged under 25 declined from over 80 per cent to 44 per cent. This reflects a substantial shift away from the age cohort for whom the traineeship system was developed, and is arguably a significant distortion of the scheme's original purpose.

**Figure 2: Non-trade commencements – 19 years and under to 24 years**



Source: NCVET

How did this distortion arise? As with other trends in VET, we have to look back at government incentives and their effect on the VET system, particularly the business models of Registered Training Organisation (RTOs) and employer responses to these models to understand this trend.

In 1998 the Commonwealth Government decided to abolish its long-standing requirement for trainees to have been employed for 3 months or less with the same firm to qualify for employer incentives. These changes had immediate effects on the number and age composition of trainees.

In Queensland, where training providers could access training subsidies for existing worker traineeships, and employers could access incentive payments, the effect on both commencements and the age profile of trainees was dramatic.

A Review of the Quality of Traineeships in Queensland found that the number of non-trade commencements aged between 40 and 64 ballooned - from 129 in 1994-95 to 7,087 in 1998-99<sup>6</sup>. The Review concluded that:<sup>7</sup>

*... the targeting of existing workers has led to widespread abuse of the training system without tangible benefits to many of the employees registered as trainees. For example, many national franchise organisations are using the traineeship system to fund in-house training programs for existing employees. The use of incentives for these groups has resulted in an expensive means of funding enterprise-specific in-house training.*

<sup>6</sup> K. Schofield (1999) Independent investigation into the quality of training in Queensland's traineeship system: Final report. 2 July 1999, Department of Employment, Training and Industrial Relations, Brisbane.  
<http://www.voced.edu.au/content/ngv%3A1123>

<sup>7</sup> Ibid.



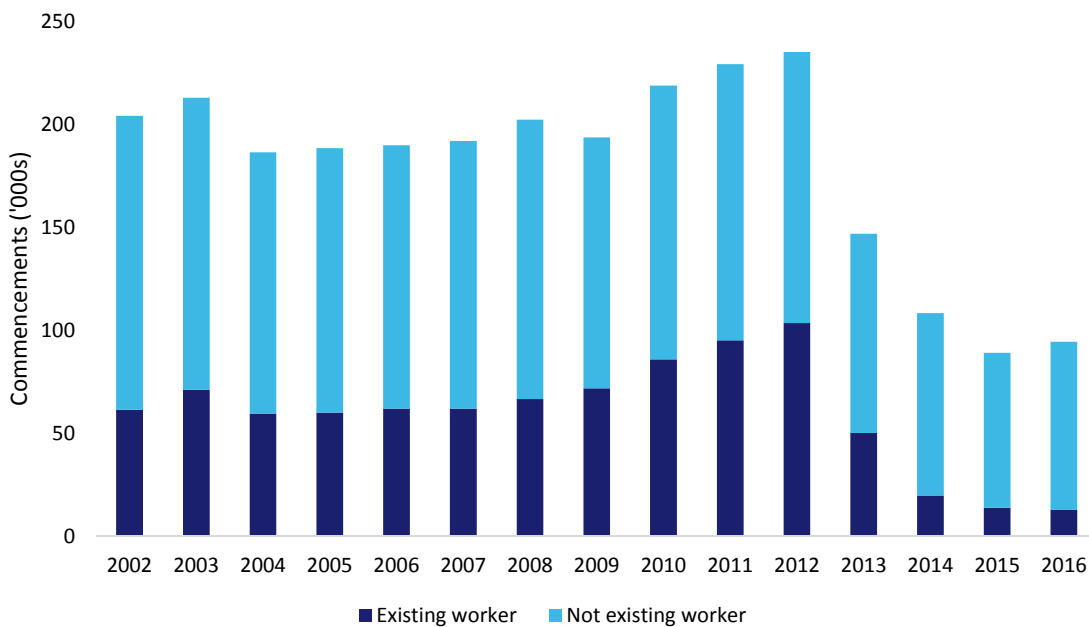
Most states did not provide training subsidies for existing worker traineeships but commencements increased anyway as RTOs, apprenticeships centres and brokers aggressively marketed existing worker traineeships through the availability of employer incentives. A business model emerged whereby employers would share the incentives with RTOs, who then delivered training, too often of questionable duration and quality.

By 2012, existing worker traineeships represented 44 per cent of all non-trade commencements.

In 2012, in response to concerns about the proliferation of existing worker traineeships and to effect budget savings, the Commonwealth Government significantly tightened the criteria under which they would support existing worker apprenticeships and traineeships (and part time and casual traineeships) by limiting employer incentives to occupations on the *National Skills in Demand List* or in areas of skills shortage. Incentives for full time, new entrant trainees in Certificate III and IV qualifications, and incentives for existing worker traineeships in priority areas such as child care and aged care were unaffected.

Figure 3 highlights the contribution existing workers made to traineeship commencement figures from 2002 (when relevant data became available). It shows the effect of the withdrawal of Commonwealth government employer incentives for existing worker traineeships in non-priority areas, highlighting the level of dependence on government subsidies. It suggests that rather than making a contribution to the cost of the traineeship, the system depended almost entirely on the availability of government incentives.

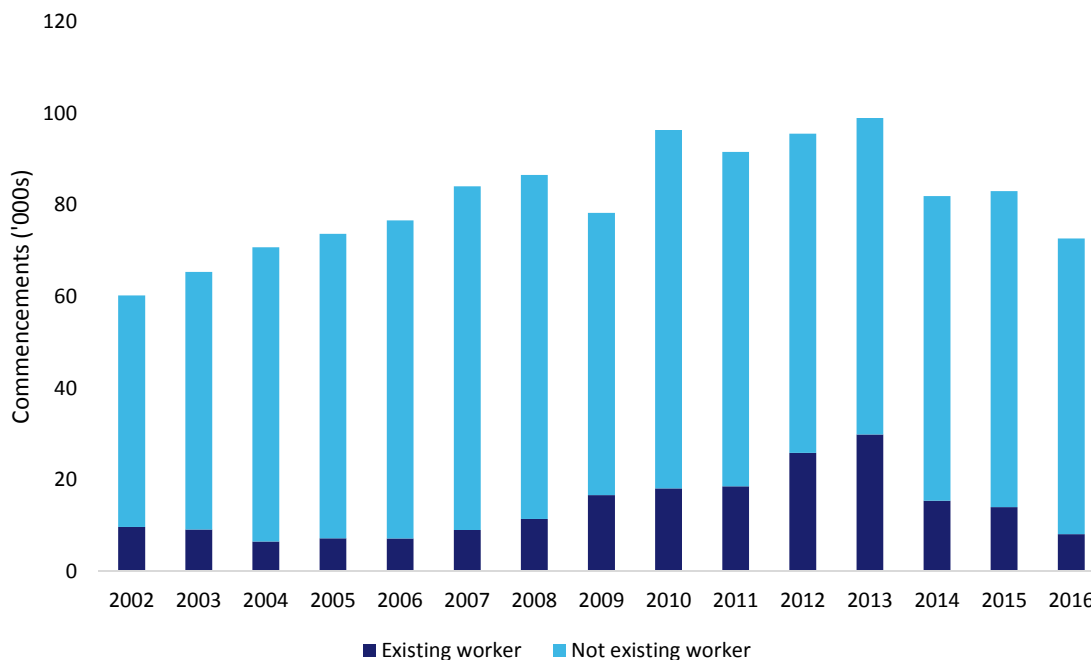
**Figure 3: Non-trade commencements – existing and not-existing workers**



Source: NCVET

By comparison, Figure 4 shows existing worker trade apprenticeship commencements remained low and stable during the same period, before rising steadily to 2013, (when existing worker traineeships also began to play an increasing role in higher level trade qualifications).

**Figure 4: Trade commencements – existing and not-existing workers**



Source: NCVET

## Part time traineeships

Part time traineeships and apprenticeships became available in 1998 (with employer incentives), reflecting the fact that many young (and older people) entered the workforce on a part-time basis, particularly in the services sector.

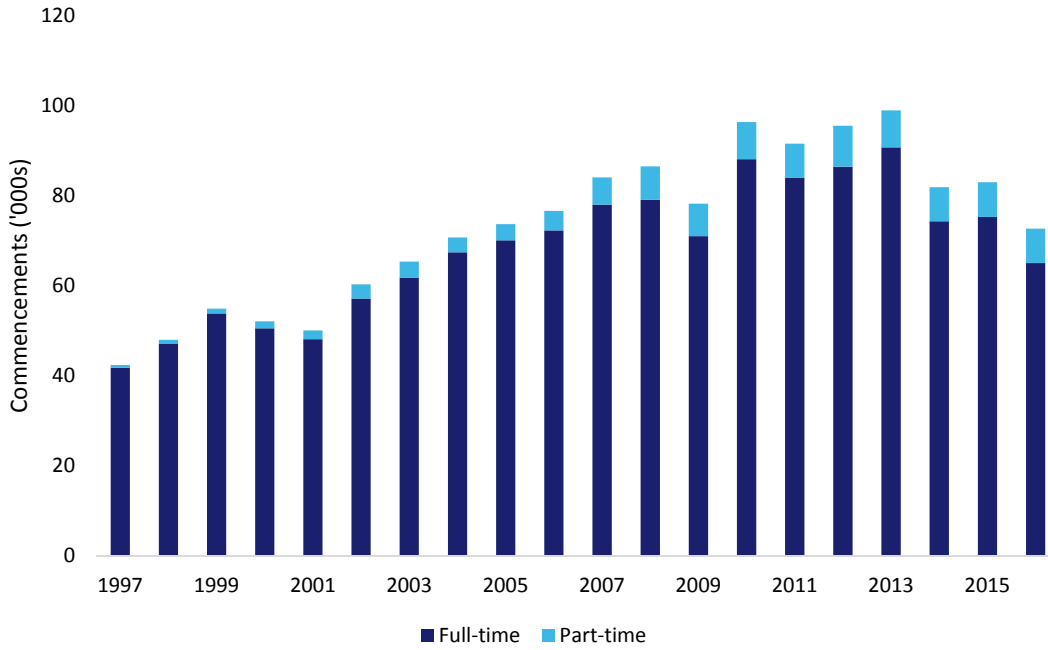
This decision – though fully consistent with the objectives of the traineeship system – also created a market in Commonwealth employer subsidies, through which firms could shift their part-time and casual youth workforces (including full time school and university students) into part-time traineeships.

This had a dual benefit for employers - they were able to pay trainees the National Training Wage (below the relevant award) while also claiming employer subsidies, with training provided fully on the job. Major retail firms and franchises, in particular in the fast food industries, took full advantage of these incentives.

Significant growth in part-time traineeships in low priority skill areas (such as retail) led to incentives in these areas being removed in 2012, although incentives for part-time traineeships are still available in priority areas (such as aged care).

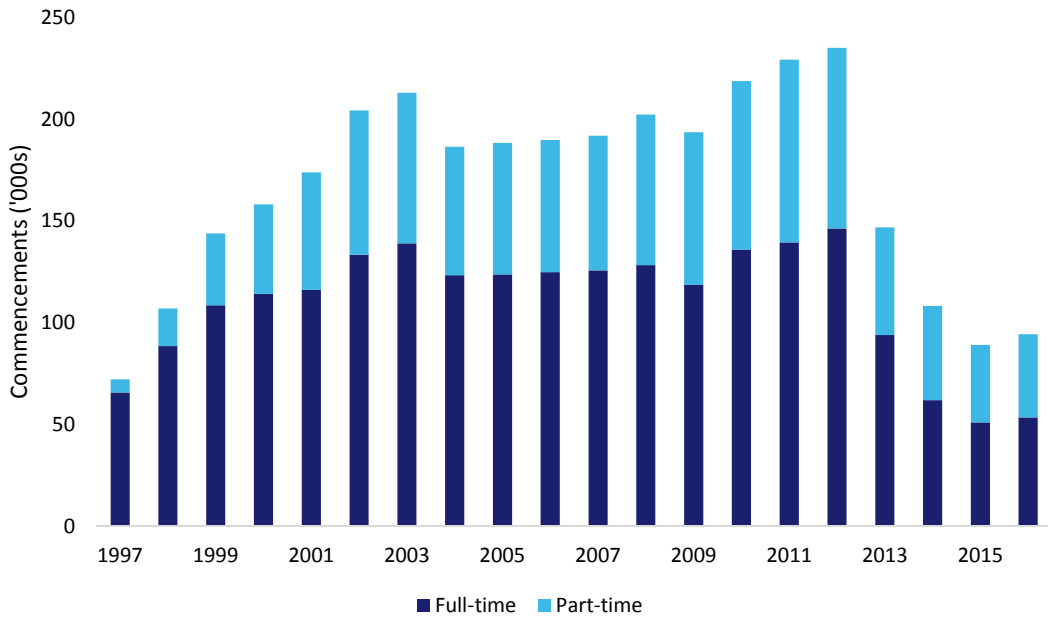
The effect of incentives for part-time apprenticeships and traineeships (and their withdrawal) across the traditional apprenticeship and traineeship systems is shown in Figures 5 and 6.

**Figure 5: Trade - Part-time and full-time commencements 1997-2016**



Source: NCVET

**Figure 6: Non-trade - Part-time and full-time commencements 1997-2016**



Source: NCVET

Figure 6 also highlights the sensitivity of traineeships to government incentives. Part-time traineeship commencements more than halved by 2015.

## Factors influencing commencements

In a *Review of the Economics of Apprenticeships and Traineeships* Karmel and Rice cite Cully who argues that:

*----- in many cases the traineeship acts as a wage subsidy to the employer, and, depending on the circumstances of the individual, a very sizable wage subsidy.*

Karmel and Rice go on to say that:

*This is consistent with McNaughton's data for retail, clerical and community services (disability) that suggest that some employers 'make a profit' from the employment of a trainee.<sup>8</sup>*

They conclude that argue that employer incentives, in conjunction with the National Training Wage reduces the cost of employing trainees, and that this has been 'instrumental in the growth and number of trainees'.<sup>9</sup>

On the other hand, they find that traditional trade apprenticeships are far more sensitive to changes in the economic cycle than traineeships, particularly as the decision to take on an apprentice involves a major long-term commitment, which financially constrained employers are unlikely to make during an economic downturn<sup>10</sup>.

## Commonwealth funding for apprenticeships and traineeships

Commonwealth funding for apprenticeships and traineeships comes in two parts:

- **Direct funding** for employer incentives, for the operation Australian Apprenticeship Centres and other programs where the Commonwealth is the direct funder; and
- **Indirect funding** for VET delivery with the states and territories, under National Partnership Agreements, and from 2018, the new Skilling Australians Fund.

The Commonwealth Government has not reduced funding to the states and territories for VET under the National Partnership Agreements struck by the previous Labor Government. However, as previous Mitchell reports have demonstrated,<sup>11</sup> weaknesses in those agreements have allowed state and territory governments to reduce their VET funding, while the Commonwealth has increased its share.

Despite this decline in overall VET funding by the states, trade apprenticeships remain fully and automatically funded in all states and territories, and Commonwealth incentives fully apply.

However, traineeships are not automatically funded by the states. Much like the Commonwealth, state and territory governments mainly direct their funding and/or subsidies to priority areas, or areas of skills shortage. Some states have never funded existing worker traineeships.

This increased reliance on Commonwealth employer incentives left some traineeships highly vulnerable when the Labor Government tightened employer incentives in 2012. The effect of that decision on direct Commonwealth outlays is reflected in Figure 7.

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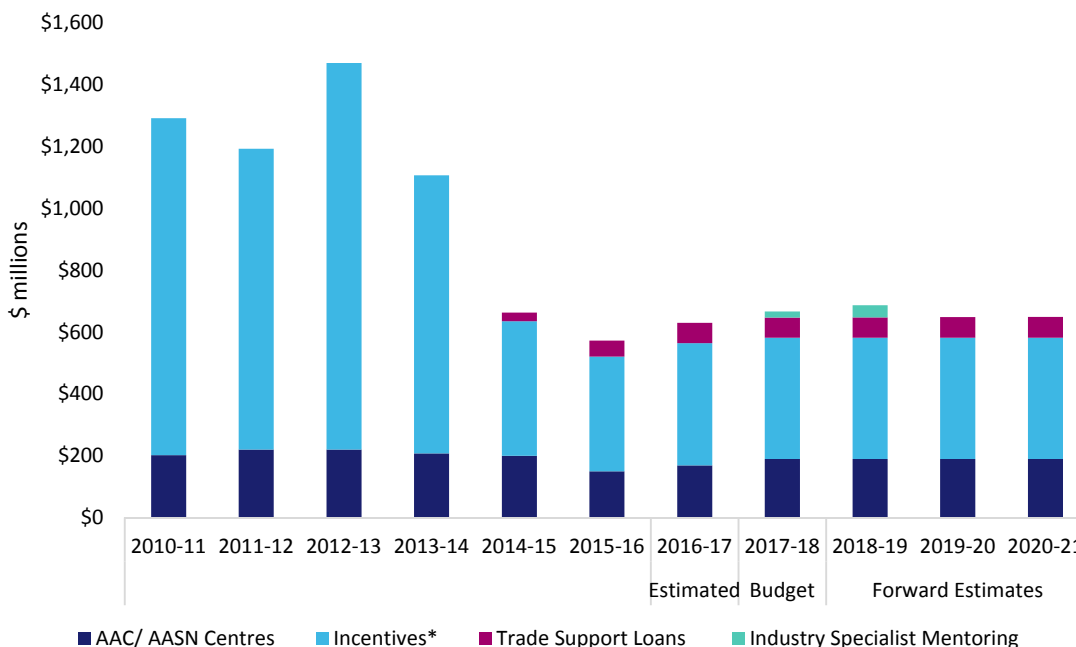
<sup>8</sup> T. Karmel and J. Rice (2011) *The economics of apprenticeships and traineeships*. NCVET Adelaide. P. 24

<sup>9</sup> Ibid.

<sup>10</sup> Ibid. p. 34

<sup>11</sup> See P. Noonan (2016) *VET funding in Australia: Background, trends and future directions* Mitchell Institute at Victoria University <http://www.mitchellinstitute.org.au/reports/vet-funding-in-australia-background-trends-and-future-options/>

**Figure 7: Breakdown of funding for apprenticeship/traineeships**



Source: Australian Treasury, Budget 2017-18, Budget Paper 2, Portfolio Budget Papers and Mid-Year Economic and Financial Outlook.

Outlays for employer incentives declined from \$1.25 billion in 2012-13 to \$371 million in 2015-16 - savings the Coalition Government has to date retained and factored into future budget estimates.

In 2014 the Coalition Government converted the former Tools for Trades payments for some apprenticeships to Trade Support Loans, but these payments are made to apprentices not employers, and whatever the merits of this decision it is not likely to have affected employer’s decisions to hire or not hire an apprentice.

## The relationship between funding and commencements

While commencements in trade apprenticeships have declined, this decline cannot be linked to reduced funding through either Commonwealth employer incentives or state VET funding.

Trade apprenticeships, including for existing workers, continue to attract Commonwealth employer incentives and are automatically fully funded by the states. In fact, some states provide a premium for apprenticeships relative to similar non-apprenticeship courses.

Traineeships, however, are a different story. The major reduction in outlays on employer incentives had a direct and significant effect on traineeship commencements. It disrupted the business model of Apprenticeship Centres, RTOs and brokers specialising in marketing existing worker and part-time traineeships.

The fact that these types of traineeships were so sensitive to government subsidies suggests they were, for the most part, not valued by employers beyond the level of the government subsidy.

Several key findings emerge from this analysis:

- There has been *no decline* in funding for trade apprenticeships and consequently no evidence that funding accounts for the decline in trade apprenticeships. Other possible factors leading to this decline are briefly explored below.

- The decisions the Labor Government took to tighten eligibility for employer traineeship incentives were soundly based, and in fact long overdue, particularly in relation to existing workers, which had significantly distorted the purpose and age profile of the traineeship system.
- Using the artificial peak of commencements in 2012 is not a sound basis for future decisions on funding apprenticeships and traineeships, particularly as commencements increased significantly in 2012 before the implementation of the changes in the incentives regime. Genuine labour market needs rather than access to government incentives should drive growth in both systems.

## Supporting workforce retraining

Supporters of existing worker traineeships argue that they are an important source of funding for workforce retraining. This is a flimsy argument.

Many firms have used existing worker traineeships to properly retrain and upskill their existing workforce. However, there is no clear rationale for the use of the traineeship system for this purpose.

There is not even a requirement for employer subsidies to be used to help meet the costs of training. As a result, firms can simply use the subsidy to offset the cost of wages. Unlike most apprenticeships, qualifications provided through traineeships can be provided through other forms of delivery, including on the job training.

There is no public policy rationale for state governments to be required to register, administer and regulate contracts of training for people who are already employed, or for Apprenticeship Centres to be paid to market and help administer the system.

Workforce retraining is an important policy objective.

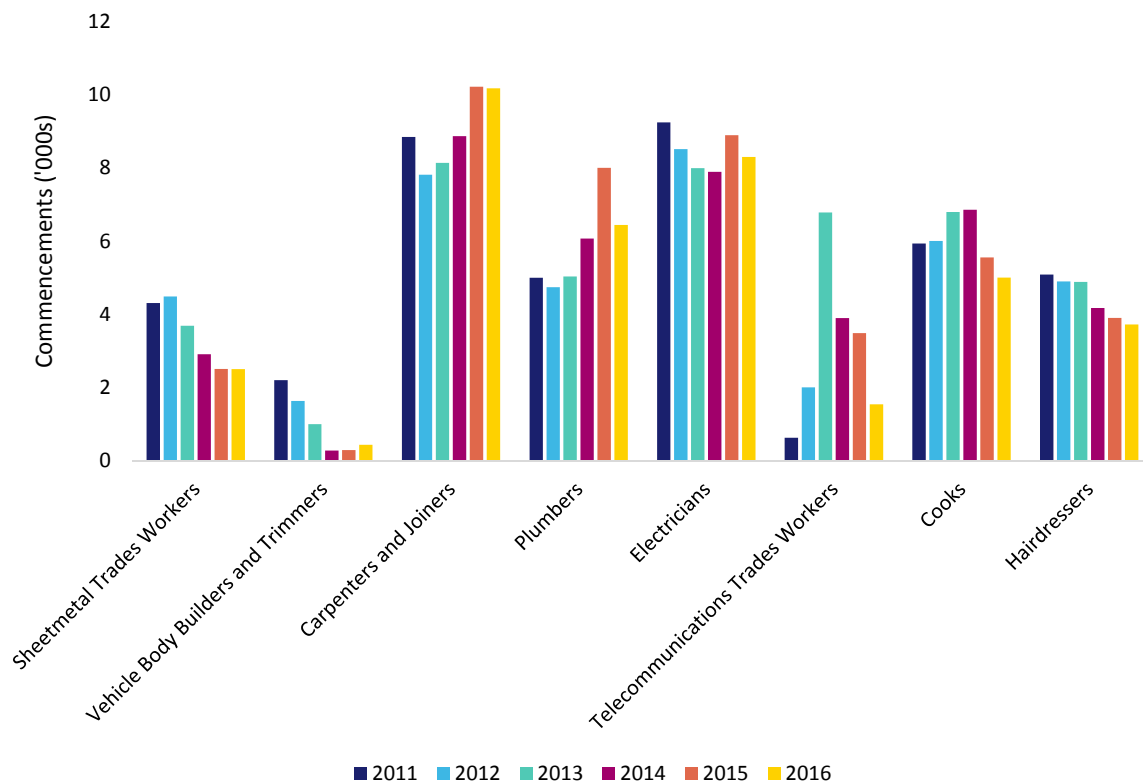
The former Labor Commonwealth Government established the National Workforce Development Fund for this purpose, under which training was co-funded with employers. In 2014 the Coalition Government abolished this fund and established an Industry Skills Fund as an alternative, but this fund was also abolished in 2016.

## Factors contributing to the decline in trade apprenticeships

The first point to make is that not all trade apprenticeships have declined since 2013, in fact as Figure 8 shows, some have grown and the extent of decline varies between occupations. Given that all trade apprenticeships are fully funded, there must be explanations for this variation in the pattern in commencements.

Secondly, not all of the decline in the trades category is in apprenticeships. The biggest single area of decline was in a higher-level traineeship in competitive manufacturing, largely taken by existing workers (not a four-year trade apprenticeship) which was affected by the change in employer incentives.

**Figure 8: Trade commencements by occupation 2011-2016**



Source: NCVER

If funding changes do not account for the decline in commencements, what other factors might explain it?

The most likely explanations for the decline in actual apprenticeships are:

- negative growth in full-time employment throughout 2013 -2014, and low growth in 2015-2016;
- ongoing structural change in the composition of the labour market particularly in trade occupations;
- the relevance of the current apprenticeship model in some occupations; and
- supply factors, including potentially a decline in the quality of the apprenticeship applicant pool.

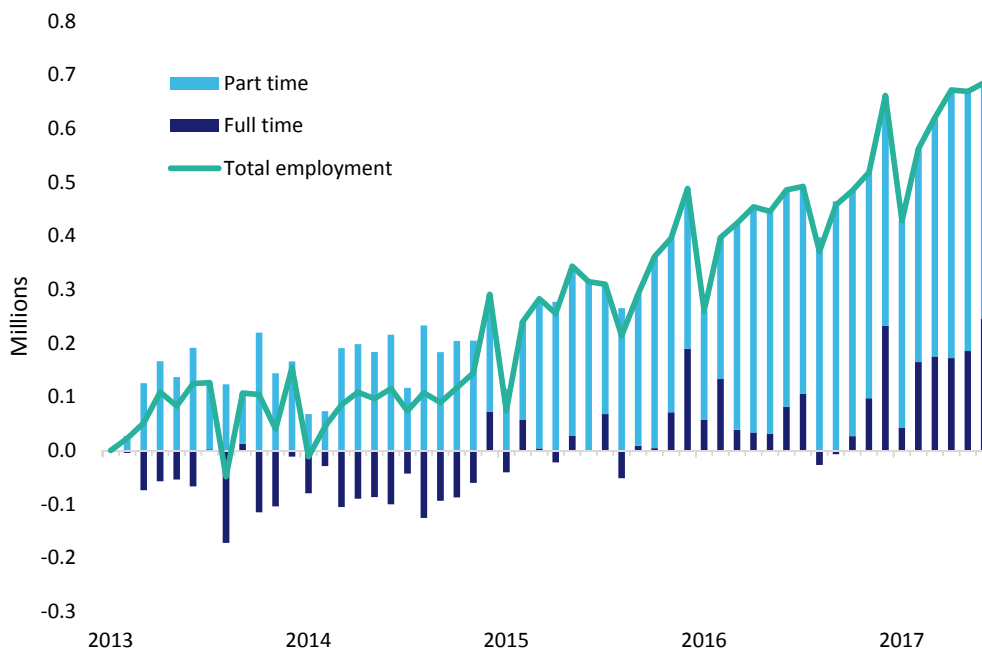
Figure 9 illustrates the trend in the composition of full and part-time employment growth between 2013 and 2017.

Given the sensitivity of the apprenticeship system to the broader labour market, it is not surprising that apprenticeship commencements have broadly followed the trend in full-time employment, noting that preliminary estimates by NVCER show an increase in trade commencements in the first quarter of 2017, consistent with the strong increase in full time employment in 2017, as evident in Figure 9 below.<sup>12</sup>

<sup>12</sup> NCVER (2017) Apprentices and trainees 2016 December quarter  
[https://www.ncver.edu.au/data/assets/pdf\\_file/0024/550158/Apprentices-and-trainees-2016-December-quarter.pdf](https://www.ncver.edu.au/data/assets/pdf_file/0024/550158/Apprentices-and-trainees-2016-December-quarter.pdf)



**Figure 9: Composition of employment growth: Part time vs full time**



Source: ABS Labour Force Survey

Another factor is that there were major increases in apprentice wages from 2014, under a decision by the Fair Work Commission, but no commensurate increase in employer incentives, resulting in an overall increase in the cost to employers of employing apprentices.

However, the variation in the time at which commencements began to decline in different trades, the fact that commencements actually increased in some trades, and that many employers already paid more than the previous apprenticeship award rate, led Karmel in a research paper for the Commission to conclude that:<sup>13</sup>

*This lack of uniformity in commencement trends suggests that if the decision made by the Full Bench had any impact on employer demand for apprentices it was only one of a number of factors.*

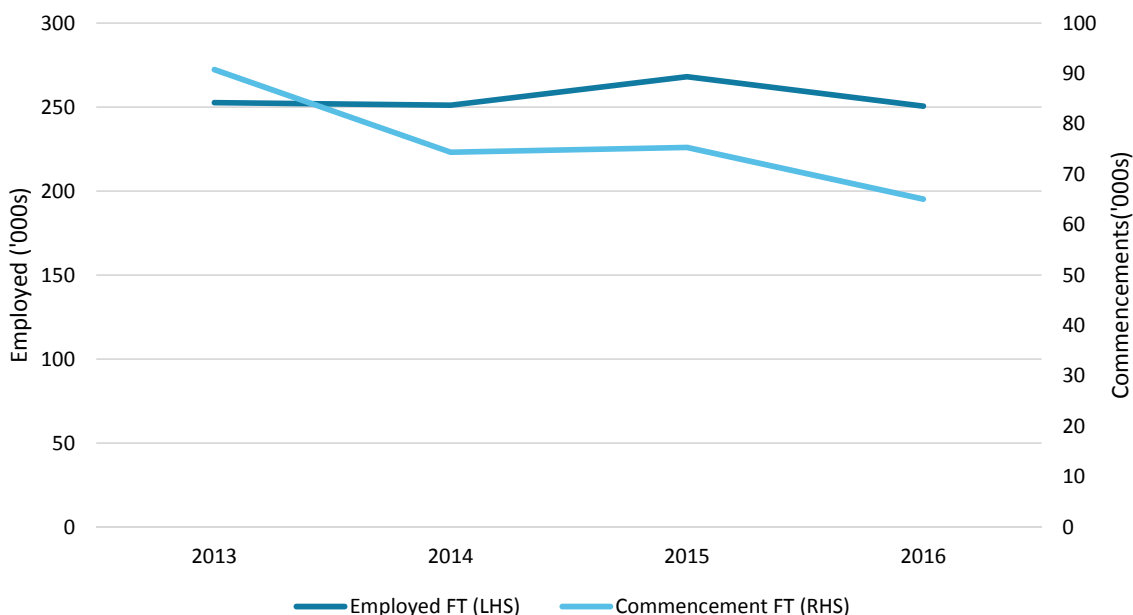
Karmel also found that demand, rather than supply factors, primarily account for growth in apprenticeship commencements.

As indicated above, there are major variations in the extent to which commencements have declined across occupations, with commencements in some occupations increasing.

Figure 10 illustrates the relationship between growth in new full-time employment in trades occupations and trade apprenticeship commencements. This analysis suggests that movements in trade apprenticeship commencement reflects wider employment activity – declines (and increases) in apprenticeship commencements are moving in the same direction as new employment growth in trades occupations.

<sup>13</sup> T. Karmel, Factors affecting apprenticeships and traineeships, research commissioned by the Fair Work Commission, Research Report 3/2017, Part II, February, 64.  
<https://www.fwc.gov.au/documents/sites/wagereview2017/research/apprenticetrainee.pdf>

**Figure 10: New fulltime employees (trades occupations) and trade apprenticeship commencements**



NB: *New full time employee* refers to persons being employed in current job less than 12 months.

Source: ABS, Microdata: Education and Work, 2013 to 2016.

The exceptions to this are cooking and hairdressing, where commencements have fallen despite growth in employment. This may reflect the difficulty employers have in filling apprenticeship vacancies in these trades, or the fact that the current apprenticeship model is no longer supported by many employers or attractive to prospective apprentices – this appears to particularly be the case with hairdressing.

Structural changes in the nature of work also affect the kinds of skills required in particular occupations. For example, specialisation and the proliferation of sub-contracting in the building and construction industry means that some large construction firms no longer employ large numbers of apprentices, and specialised contractors are reluctant to take on apprentices.

Major government initiatives or major changes in technology can also influence demand and commencements. There was a significant increase in commencements in electronics and telecommunications trades workers between 2010 and 2013 most likely associated with the construction of the National Broadband Network. However, commencements have declined since, as the relevant workforce’s skills base has increased.

Further, demand cannot be considered in isolation from supply. Increased levels of educational attainment, the raising of the school leaving age, growth in higher education places, parental and societal values and aspirations, and views of young people about entering into long term contracts of training may be affecting the quality of the applicant pool for apprenticeships.

Employers may only be prepared to offer an apprenticeship opportunity when they find someone suitable, rather than simply taking on the best option within a cohort, particularly as many apprenticeships are still filled through informal networks.

These demand and supply factors play out differently across different industries and occupations. They need to be fully researched and understood on an individual industry and occupational basis, recognising that there will never be a return to previous high commencement levels in some occupations, where overall employment has declined and remaining jobs have shifted to higher skill levels – such as in the shift from motor vehicle manufacturing to design and research.

# Conclusion

If we have learned anything about the VET system in recent years it is that government incentives should only be provided where there is a demonstrable public benefit, not to create a fully funded market in government subsidies.

Recent experience with the VET FEE HELP scheme and poorly designed training markets in some states show the risks of governments creating artificial and unsustainable VET markets.

Misleading claims based on the conflation of apprenticeship and traineeship commencements are not a sound basis upon which to make decisions about either the future of the traditional apprenticeship system or a more purposeful traineeship system.

Both systems have a critical role to play in building the skills base of the future Australian workforce and should be designed and funded solely with that goal in mind.

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