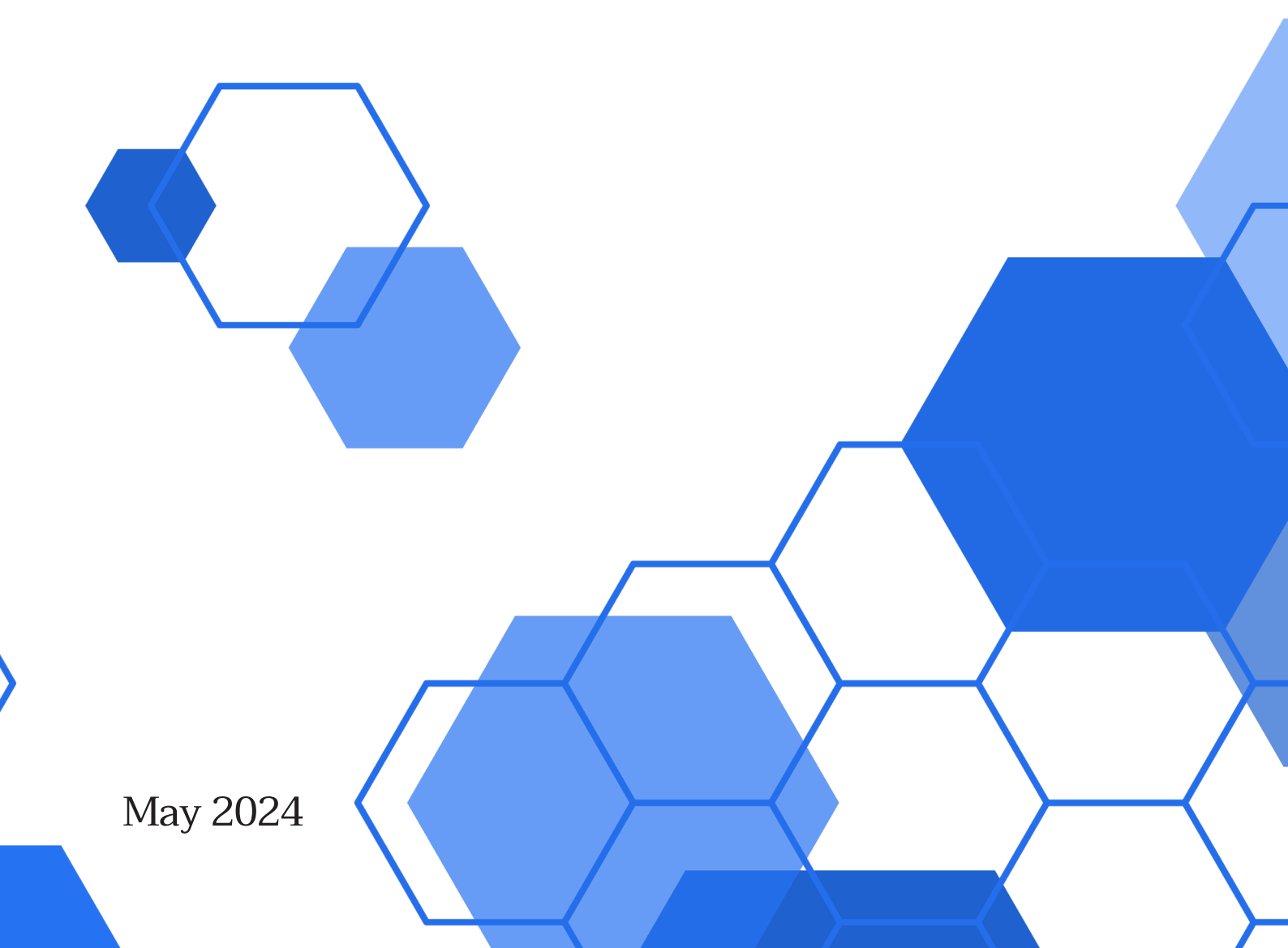


**BUSINESS  
NSW**

# **Submission to the Strategic Review of the Australian Apprenticeship Incentive System**

May 2024



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## Summary

Business NSW welcomes the opportunity to provide a submission in response to the review of apprenticeship support being undertaken by the Federal Government. Business NSW is the state's peak business organisation, with close to 50,000 member businesses. Tracing our heritage back to the Sydney Chamber of Commerce established in 1825, we work with businesses spanning all industry sectors, the majority of which are small or medium enterprises. Business NSW advocates for the interests and needs of business at a local, state and federal level.

Apprenticeship incentives form an important part of our national system for vocational education and training. We welcome the commitment of the Federal Government in ensuring an effective apprenticeship support framework - one that will be essential if Australia is going to be able to keep pace with evolving workforce needs.

Apprenticeships are central to building and sustaining a skilled economy. They support capacity building across a range of industries. An effective national apprenticeship support system serves a vital role in broadening and sustaining workforce participation, and the capabilities required to meet current and future industry needs. Our submission in response to this review considers issues pertinent to apprenticeships in Australia as we look ahead and see new and emerging industries, evolving skills needs and enormous opportunities for skilled workers in coming years.

Skills needs are becoming more sophisticated. Technical advances have led to a change in the type of labour required in certain industries: for example, the proliferation of pre-fabricated components in the construction industry means that there is a reduced demand for fully qualified builder tradespeople, but an increase in demand for tradespeople who can perform certain construction processes. Skills needs are also becoming more dynamic. Growth in advanced manufacturing, for example, has seen demand for tradespeople with a highly sophisticated and evolving skill set.

Apprenticeships should feature among a diverse range of learning pathways that are both viable and valuable. The availability of pre-apprenticeship programs, for example, remains an area in need of improvement. These programs provide aspiring apprentices with foundational knowledge and skills along with valuable industry workplace learning and professional networking opportunities. They also provide an economical means for building resilience into our ability to respond to current and future workforce needs.

The apprenticeship and traineeship system is a key incubator of the future workforce. This review provides an opportunity for implementing a more integrated approach to supporting Australia's apprenticeship system. A sustained shortfall in apprenticeships will have a lasting impact on business viability and future jobs. A continued commitment to creating jobs through apprenticeships is needed. Achieving this will require a collaborative

effort on the part of employers, training providers, support providers and government to drive an increase in commencements, support both retention and completion.

A handwritten signature in grey ink, consisting of several overlapping loops and a vertical stroke, positioned above the name David Harding.

David Harding

Executive Director, Business NSW

## Summary of Recommendations

<b>Recommendation 1:</b>	Invest in strategic initiatives with the aim of attracting, retaining and supporting apprentices and trainees for success, in partnership with industry.	8
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## **The social and economic benefits of apprenticeships**

Apprenticeships are instrumental in building and sustaining a vibrant and resilient economy. They are critical in anticipating and responding to both current and future workforce needs. They contribute to economic growth, promote social mobility and make a substantial contribution toward youth employment, providing a broad range of social and economic benefits, for individuals, employers and communities. Research shows that apprenticeships support a range of social and economic benefits. These benefits are shared by the individuals who dedicate themselves to learning their trade, the employers that support them, the governments that invest in strategies and resources in support of apprenticeship programs and the communities that flourish around centres of vibrant economic activity as a result.<sup>[1]</sup>

Australian apprenticeships and traineeships span more than 500 occupations. They are available to anyone of working age with eligibility to work in Australia, regardless of their level of education. They are a valuable source of job opportunities for young people entering the workforce. They also provide opportunities for experienced workers to upgrade their skills. Apprenticeships provide pathways to well-paid and secure employment.<sup>[2]</sup> Research from the UK has found the lifetime earning potential for a typical graduate apprentice is equal or higher than for higher education graduates from a comparable field. The average gap in lifetime earnings potential between apprentices and higher education graduates is just 1.8 per cent, with some fields showing substantially higher lifetime earning potential for apprentices than for their university-educated peers studying in similar fields.<sup>[3]</sup>

At the employer level, research shows that taking on apprentices provides a net productivity benefit for employers relative to their associated costs.<sup>[4]</sup> Studies in the United States have found that investing in apprenticeships provided an average return of \$1.48 for every \$1.00 invested, with firms investing in apprentices also benefiting through improvements in both productivity and quality as a result.<sup>[5]</sup>

Apprenticeships are instrumental in boosting workforce participation and enhancing productivity. Apprentices are the life-blood of the skilled trades, and make an invaluable contribution to bringing new people into industry. They are also instrumental in heading off skills shortages. Most of the top 20 occupations in demand rely on apprenticeships and traineeships. These include chefs, construction managers, motor mechanics, electricians, metal fitters and machinists. Investing in apprenticeships means an investment in easing skills shortages in key industries, supporting economic stability, growth and improvements in productivity.<sup>[4]</sup>

## **Participation in apprenticeships**

Apprenticeships and traineeships provide pathways from education to work. They combine structured learning alongside work experience, often accompanied by 'earn while you

learn' opportunities for the duration of their training (typically in the range of three to four years for apprenticeships, and one to two years for traineeships). Apprenticeships are a formal requirement for Trade certification in many fields including construction, automotive, engineering and hospitality. Most trade apprentices go on to work in the areas for which they trained on completion of their program, with periodic licencing assessment ensuring the ongoing quality and relevance of their training.

The completion of an apprenticeship program is rightly celebrated as an indication of success. It reflects the investment made on the part of the employer in engaging, developing and supporting the apprentice through to the successful completion of their program. It reflects the success of training providers in supporting apprentices in their learning. It also reflects the investment made on the part of the apprentice in their own development, their depth of engagement in their field of work, and their resilience in staying the course. Research shows that individuals who complete their apprenticeship show lower rates of unemployment, and tend to earn higher wages than those who commence but do not complete their training.<sup>[4]</sup> The successful completion of each apprentice is also rightly celebrated by trades in need of constant renewal, and by the families and communities that will enjoy the social and economic benefits associated with each success.

Not every commencement leads to a completion. Many apprentices discontinue their program before they are able to complete all of their requirements. Some may nevertheless still complete an apprenticeship in another field, while others may move on to other opportunities in education or work. It is important, therefore, to consider the completion of apprenticeships in this context. In 2023, 13.9 per cent of people undertaking an apprenticeship transferred from one program to another. Many of these will ultimately complete their apprenticeship, albeit in a different field to the one where they started.<sup>[6]</sup>

In circumstances where the demand for labour is high, a market-rate salary can be very appealing for those currently undertaking an apprenticeship. Those who move on to other opportunities will bring the benefits from a partially completed program with them, often accompanied by greater clarity of purpose in regard to the opportunities available to them. In 2023, close to 80 per cent of trade non-completers were satisfied with the skills they learnt while undertaking their study, and over 86 per cent were employed immediately after discontinuing their training.<sup>[6]</sup>

## **Supporting success**

A range of factors have been identified that reliably influence prospects for the successful completion of an apprenticeship program. Research into the predictors of success in apprenticeships has identified a range of factors that can influence an apprentice's ability to complete their training and thrive in their chosen field. These factors span personal, educational and workplace elements. Apprenticeships and traineeships are responsive to incentives. These incentives are particularly effective where tailored to employers. The



converse is also true. The reduction or withdrawal of incentives has been shown to have an immediate and direct impact on uptake and participation.<sup>[7, 8]</sup>

Factors contributing to attrition include a mismatch of expectations between apprentices and employers, poor working conditions, personal circumstances and a lack of available support.<sup>[9]</sup> Positive factors include perceptions of apprenticeships, having a positive relationship with work supervisors and colleagues, access to valuable on-the-job training experiences, the quality of training, and opportunities to participate in a range of relevant work tasks. They also include access to government incentives.<sup>[6]</sup>

Participation in apprenticeships and traineeships is especially vulnerable to economic shocks and industry downturns. This was clearly demonstrated during the early part of 2020, as pandemic measures accompanied by a sudden drop in economic activity saw participation plummet.<sup>[10]</sup> The COVID-19 pandemic also shows how apprenticeships and traineeships are highly responsive to incentives. Quick intervention by government to incentivise participation in apprenticeships had reversed this downtrend by the end of 2020. Commencements spiked dramatically between October and December of that year in response to the introduction of the *Boosting Apprenticeship Commencements* program (accompanied by a resurgence of industry activity as pandemic measures were eased). Commencements remained high throughout 2021, exceeding pre-COVID levels in most parts of the country.<sup>[7]</sup>

The *Australian Apprenticeships Incentive System* (AAIS) provides financial support to apprentices and employers. Combined with a range of other non-financial services and support, the AAIS is intended to encourage take-up and completion of apprenticeships and traineeships, to provide the skills required by industry, and provide employment opportunities that are secure, valuable and sustainable. The importance of this program in supporting success in Australia's apprenticeship system is considered in detail below.

## **Current incentive arrangements**

Apprenticeships in Australia are supported through a combination of incentives and support services. These are designed to encourage individuals and employers to participate in apprenticeships, and to support the successful completion of apprenticeship programs. State and federal governments provide various forms of financial support for apprentices to help cover the costs of training and living expenses. These include additional support for those in priority occupations. The main source of support for apprentices is the *Australian Apprenticeships Incentive System* (AAIS), supported by the Commonwealth Government. The AAIS replaced the *Australian Apprenticeships Incentives Program* (AAIP) 1 July 2022.<sup>[11]</sup> The AAIS includes hiring incentives and wage subsidies for employers, as well as direct payments to apprentices in priority occupations. The AAIS is being implemented in two phases. From 1 July 2022 to 30 June 2024, phase one of the AAIS provides:

- *A Priority Wage Subsidy* for eligible employers of apprentices training toward an occupation listed on the *Australian Apprenticeships Priority List*, which includes:

- 10% of apprentice wages for the first 24 months (up to \$1500 per quarter, or 6,000 annually);
- 5% of apprentice wages for the third 12-month period (up to \$750 per quarter, or \$3,000 annually).
- *A Phase 1 Hiring incentive* available to employers of apprentices undertaking a qualification in unlisted occupations. This incentive of up to \$3,500 is paid after 6 and 12 months of employing an apprentice (\$1,750 each payment for full-time and \$875 for part time apprentices).

From 1 July 2024, phase two of the AAIS will replace the incentives from phase one listed above. It provides:

- *A Phase 2 Hiring Incentive* of up to \$5,000 for employers of apprentices training toward an occupation listed on the *Australian Apprenticeships Priority List* from 1 July 2024 to June 30 2025, and up to \$4,000 thereafter (the difference reflecting the \$1,000 increase announced in the 2024-25 Federal Budget).<sup>[12]</sup>
- *Phase 2 Australian Apprenticeship Training Support* for apprentices training in priority occupations. Eligible apprentices can receive assistance of up to \$5,000 paid every six months for their first two years, with \$1,750 paid at 6 months and 12 months, and \$750 paid at 18 and 24 months.

While Business NSW welcomes the Commonwealth investment in apprenticeships outlined above, there remains substantial scope for investing in this critical part of our economy. This is particularly the case for employers of apprentices in fields that do not feature on the *Australian Apprenticeships Priority List*. While strategic responses in areas of skills shortage are always welcome, an over-reliance on priority lists will mean that policy measures will always be playing 'catch-up' given the lag effects evident in indicators for areas of skills shortage. Further, an undue emphasis on priority lists builds volatility into the system, as particular fields will continue to rotate on and off priority lists for any given year.

A strategic, broad-based policy response is needed if we are to build a sustainable skills base for our economy, one that involves employers, RTOs and government. Business NSW notes that this review comes at a time when arrangements under phase one of the AAIS are due to expire. We commend the Federal Government's efforts in moving to ameliorate the 'step down' effect through measures outlined in the 2024-25 Federal Budget. We also note the terms of reference for this review extend to include broader measures for recruiting, retaining and supporting apprentices to succeed. To this extent, we commend to the review panel the *Apprenticeship and Traineeship (A&T) Roadmap 2024-2026* recently released by the NSW State Government, the Interim Report of the *NSW VET Review* and our own submission to that review. These reflect a collaborative, broad-based and strategic approach to building and sustaining apprenticeships and traineeships in the broader context of renewal and reform of vocational education and training in NSW.

**Recommendation 1:** Invest in strategic initiatives with the aim of attracting, retaining and supporting apprentices and trainees for success, in partnership with industry.

**Recommendation 2:** Invest in strategic initiatives targeted to apprenticeships offered in regional areas, ensuring appropriate access to training, support and skills development opportunities.

## Getting off to a good start

Prospects for success can be significantly improved with adequate preparation. Apprentices who are poorly prepared for the demands of their apprenticeship, including lacking foundational skills or understanding of the industry, may struggle to complete their training.<sup>[13]</sup> Prospects for success can also be significantly improved where supportive supervision and guidance is available in the early stages of the apprenticeship, noting that about a third of apprentices and trainees leave in the first year of their contract.<sup>[14, 15]</sup>

Successful completion of the first six months of an apprenticeship correlates strongly with ultimate completion of the entire program.<sup>[16]</sup> Success is more likely when there is a good fit between the apprentice's interests, abilities, and the demands of the occupation. Pre-apprenticeship programs have the benefit of providing apprentices with a clear understanding of the trade at an early stage, and can be effective in helping to reduce mismatches in expectations between apprentices and employers.<sup>[17]</sup> Pre-apprenticeships can also play a role in screening and recruitment processes, assisting employers to find willing and capable candidates.<sup>[18]</sup> Evidence from research, consultations and previous reviews affirms that the major factor contributing to high non-completion rates is poor initial matching of employers and apprentices. Inadequate matching can lead to poor workplace experiences due to poor employer practices, or to underperformance by apprentices in the workplace or their studies, or both. A 2020 Canadian study found that apprentices who were already working in a field closely related to their trade as part of their apprenticeship were more likely to complete their program.<sup>[19]</sup>

'Pre-apprenticeship' or 'pre-traineeship' programs provide pathways to apprenticeships through entry-level training, and generally take between three and six months complete. Such programs provide 'try-it-and-see' opportunities for individuals interested in a particular field but unsure of their commitment to a four-year apprenticeship program. They also provide confidence-building opportunities for those looking to build a new set of skills. Pre-apprenticeship programs may lead to a formal qualification, such as a Certificate II, or might provide a more general orientation to working in a particular field, and the kind of skills and abilities associated with success in a given field of expertise. Programs of this kind provide a useful means for connecting aspiring apprentices with employers. These programs provide opportunities to explore various trades before committing to an

apprenticeship. They can also provide a 'head start' on an apprenticeship program by including occupational health and safety training and foundational skills development.

**Recommendation 3:** The Federal Government work with states and territories in developing a national approach to pre-apprenticeship programs, in partnership with industry.

**Recommendation 4:** Ensure appropriate policy and funding arrangements to support the development and delivery of pre-apprenticeship programs in areas of skills shortage.

## Ongoing support

There is significant variation in the capacity of employers to effectively support an apprenticeship, particularly at the early stages of an apprenticeship program. Apprentices are more likely to be retained by larger employers with dedicated human resource departments, employers experienced in employing apprentices, and employers exhibiting 'best practice'. Smaller and less experienced firms are less likely to do so, although some small firms with a strong commitment to apprenticeships have outstanding completion rates. Outcomes for both apprentices and employers can be enhanced by a variety of 'good practice' measures, including:

- Strategies for matching apprentices with employers;
- The provision of better information and advice for both apprentices and employers;
- Robust recruitment and induction practices;
- Industry relevant career advice for young people considering an apprenticeship;
- Effective screening services involving in depth interviews and other tools; and
- Ongoing information and support throughout the apprenticeship.

Access to support services, including tutoring, counselling, and financial aid, can help apprentices overcome barriers to completion. Services that address specific needs, such as digital literacy skills, language support for non-native speakers or accommodations for individuals with disabilities, are particularly important. Support services provided by AASNs is crucial for ensuring the success of apprenticeships and traineeships. This is particularly the case where providing assistance and support directly for both apprentices and employers. The services provided by the Australian Apprenticeship Support Network (AASNs) are a key part of the apprenticeship journey that could be further enhanced. There are a range of methods that should be deployed to optimise the role of support services to meet the current and future needs of apprentices and employers.

Extra support should be available to apprentices who face additional barriers to completion. Providing proactive and culturally appropriate support for women in non-traditional trades, apprentices with disabilities, First Nations apprentices, and remote apprentices, will improve completion rates among these vulnerable cohorts. Additionally,

this proactive support should be extended to employers to assist them in providing a suitable workplace environment. The provision of personalised assistance and mentoring throughout an apprenticeship, including more face-to-face contact, will help identify opportunities for early intervention and support. This assistance should focus on the first 12 months of an apprenticeship, when the apprentice-employer relationship is developing. AASNs need sufficient funding to deliver wrap-around mentoring services for the apprentices and the employer. Appropriate funding would also enable the scalability required to deliver these services.

**Recommendation 5:** Appropriate funding for the Australian Apprenticeship Support Networks to deliver support services and resources to assist employers, apprentices and trainees.

**Recommendation 6:** Ensure quality and consistency among support services tailored to apprentices and trainees, making it easy for employers, apprentices and trainees to navigate the services on offer.

**Recommendation 7:** Development of information and guides on good practice for practical strategies for attracting, retaining and supporting apprentices to succeed, in partnership with industry.

## **Aspirations for participation in apprenticeships**

Fewer young people are choosing an apprenticeship. This is attributable in part to the careers advice available to students. There is a consensus that more needs to be done to promote apprenticeships and traineeships as a sound career option among both high school students and job seekers. There needs to be improved information to careers advisers in schools about the benefit of an apprenticeship linked to the career education strategy. There is also scope for a greater engagement among existing workers and mature-age job seekers to encourage them to undertake and complete an apprenticeship. While there is a national effort already underway, there remains scope for a more coordinated campaign to promote apprenticeships and traineeships, and for better information on the benefits of participating in and completing an apprenticeship or traineeship.

Aspirations drive success. This is certainly the case for individual apprentices who see the benefits of investing themselves in their trade. They would typically have many opportunities to see these benefits first-hand as part of their apprenticeship. The Australian Universities Accord recommended lifting proportion of the working age population with a Certificate III qualification or higher from 60% to 80% by 2050.<sup>[20]</sup>

**Recommendation 8:** Government work with industry to better promote apprenticeship pathways as a high-value employment opportunity.

**Recommendation 9:** The development of attainment targets for apprenticeship that align with those described in the Australian Universities Accord.

## **Conclusion**

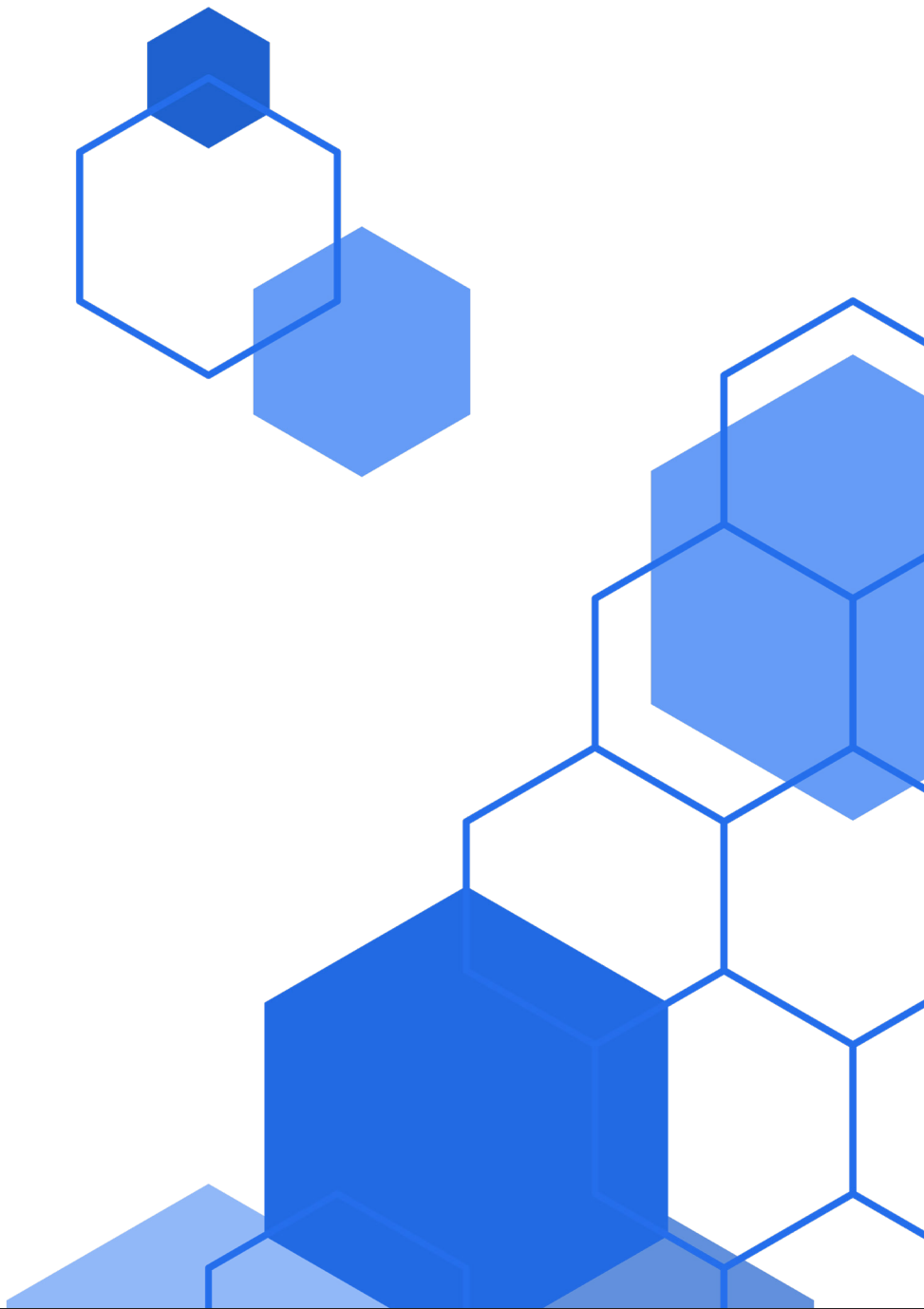
Apprenticeships are an investment in the future. The Federal Government's review provides an opportunity to consider the lasting contribution that apprenticeships make for individuals, employers and for the broader community. Through collaborative efforts and strategic initiatives, Australia can continue to leverage apprenticeships and traineeships as catalysts for inclusive growth, workforce development, and innovation in the years to come. We look forward to working with government and stakeholders across the education and training sector in supporting initiatives for enhancing participation in and outcomes from apprenticeships in Australia.

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