

Master Builders Australia

SUBMISSION TO Department of Employment, Skills, Small and
Family Business

National Skills Needs List

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Master Builders Australia Limited

ABN 68 137 130 182

Level 3, 44 Sydney Avenue, FORREST ACT 2603

T: +61 2 6202 8888, F: +61 2 6202 8877, enquiries@masterbuilders.com.au, www.masterbuilders.com.au

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1. Introduction

Master Builders Australia is the nation's peak building and construction industry association. Federated on a national basis in 1890, Master Builders Australia's members are the Master Builder State and Territory Associations. Over 129 years the movement has grown to over 33,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three construction sectors: residential, commercial and engineering.

This submission to the Review of the Australian Apprenticeships National Skills Needs List (NSNL) represents the views of Master Builders Australia and is informed by our experience and the experience of our member associations and the building and construction businesses we collectively represent.

This review presents an opportunity to strengthen Australia's occupational needs analysis by developing a robust methodology based on forward-looking quantitative analysis and international best practice.

Master Builders Australia is supportive of incentives – over and above base funding – that encourage employers to hire more apprentices and people to undertake apprenticeships. We note, however, that broader economic and market conditions play a far greater role in an employer's decision to increase their workforce. In this regard Master Builders Australia strongly encourages the government to fast track the infrastructure pipeline and to provide stimulus to the residential housing market.

2. Employment in building and construction industry

Department of Jobs and Small Business 2018 employment projections anticipate that the workforce across the Australian economy will increase by 886,100, or 7.1 per cent, between May 2018 and May 2023. Above average employment growth is forecast for the building and construction industry, with indicative growth of 10.5 per cent to May 2023.

Total employment in the building and construction industry is anticipated to reach 1,301,300 by May 2023, up 118,800 on May 2018 figures. The required growth in the building and construction industry workforce will be the 118,800 plus replacement of workers who exit and/or retire. As at the 2016 Census, 74,117 workers in the building and construction industry were aged 60 or over – equivalent to 8.1 per cent of the total construction workforce at that time.

The workforce expansion anticipated in the building and construction industry means that a stronger focus on training and skills resources is required. This is particularly acute for apprenticeships.

Apprenticeships are a key pathway into the building and construction industry. Over the year to March 2019, there were 35,631 apprenticeship commencements in the construction sector. This is significant when we consider that total employment in the construction sector increased by 5,560 over the year to May 2019. The building and construction industry is a significant user of trade apprenticeships in Australia, with the construction industry accounting for 43.6 per cent of all trade apprenticeship commencements over the year to March 2019.

It is vitally important to the future of the building and construction industry that Australia has a vocational education and training (VET) system that meets current and future workforce needs and delivers outcomes for employers, employees, the community and the economy.

3. Providing options to business

Master Builders Australia is supportive of additional financial support, above base funding levels, for new apprentices and their employers. We note, though, that there are other options and incentives that can help to address business skills needs in occupations on the NSNL.

The VET sector in Australia is a competency based learning system with qualifications made up of sets of skills. Over time, the requirements within a skill set are updated, as are the sets of skills that make up a qualification. This occurs for a variety of reasons such as updated regulatory requirements, digitisation and automation.

Michael Brennan, Chair of the Productivity Commission, recently highlighted in a speech to TAFE Directors Australia that “it will be individual tasks, rather than entire jobs, which are most likely to be automated in the future... [suggesting] demand for training in the future could be up-skilling by workers in order to keep doing their existing jobs”.

Master Builders Australia encourages the review to consider incentives for skill sets. Linking the financial incentives for occupations on the NSNL to the skill sets that make up the apprenticeship qualification for a listed occupation would add flexibility and choice to the system by enabling businesses to select the most appropriate option to address their skills needs.

Incentives for skill sets would be particularly beneficial for small businesses. Many small businesses in the building and construction sector do not have the pipeline of work for an additional employee, but do have skills needs within their business. This option would incentivise the business owner to upskill their workforce, enhancing the overall capability of the business. This may improve productivity and enable the business to compete for larger projects and to tender for government work.

In regard to eligibility for incentives (**Question 15**), Master Builders Australia agrees with the issues paper that incentives over the life of an apprenticeship should be determined at commencement.

We note though that there are additional circumstances in which eligibility for incentives should be considered. In the case of apprentices that have previously dropped out but want to recommence, eligibility should be linked to the year of recommencement and the incentive reduced pro rata.

In relation to training in individual skill sets, the aim of an incentive would be to motivate employers, particularly small businesses, to upskill their workforce to meet evolving business and training needs. In this situation, the financial incentive should only be for the employer. We note that additional training may impact pay rates and employers would need to factor this into their decision making.

Recommendation 1.

Help small businesses meet their workforce skills needs and add flexibility and choice to the system by linking financial incentive eligibility to the skill sets that make up an apprenticeship qualification for an occupation on the National Skills Needs List.

4. Apprenticeship ready

Master Builders Australia's *Towards 2020: Policy for Australian Apprenticeship Reforms* provides an analysis of building and construction industry skills and training needs to 2020 and beyond. The report identifies one of the key challenges employers face is the lack of work-ready apprentice candidates. This issue was recently reiterated to Master Builders Australia by members at the September 2019 National Jobs and Skills Committee meeting.

In 2016 Master Builders Australia received funding from the Australian Government under the Innovative Arrangements for Apprenticeship and Trade Training Delivery Pilot Project to trial pre-apprenticeship delivery and support arrangements. In relation to work readiness, the pilots found employers consistently described similar attributes that they seek in commencing apprentices, those being: motivation and interest in the industry; work ethic; communication and basic social skills; a good understanding and attitude to safety; willingness to observe and learn; a sense of self-responsibility; realistic expectations; and a driver's licence. Separately, employers have also identified a lack of literacy, numeracy and time management skills as key issues for many apprentice candidates.

Following the successful pilots, the final report in 2018 recommended the development of a work-readiness continuum and associated assessment tool. This would detail the attributes, skills and knowledge required by industry for various apprenticeships and would enable candidates, training providers and employers to assess a candidate's readiness to work. If a candidate is not sufficiently work-ready the assessment tool would be able to identify the areas for development to increase employability. Master Builders Australia is currently looking into funding options to progress this project.

Apprentices that commence before being work ready are far more likely to drop out. To maximise the effectiveness of the financial incentives under the NSNL Master Builders Australia recommends that the government incentivise apprentice candidates that are not yet work ready for listed occupations to undertake pre-apprenticeship training, such as foundation skills or certificate I and II qualifications. We note that there may need to be a mechanism to provide assurance that the student then goes on to an apprenticeship in a listed occupation.

Recommendation 2.

To lift apprenticeship completion rates for listed occupations and therefore maximise the effectiveness of the financial incentives under the National Skills Needs List, the government should incentivise apprentice candidates that are not yet work ready for listed occupations to undertake pre-apprenticeship training, such as foundation skills or certificate I and II qualifications.

5. The Need to Review the NSNL

The issues paper identified the NSNL as being out of date and backward looking, with limited occupational scope and a subjective methodology based on the ease with which employers can fill vacancies. In regard to **Question 1**, Master Builders Australia agrees that these are issues and that the current methodology is flawed.

This is evidenced (**Question 2**) as the key methodology for assessing skills shortages is a survey of employers who have recently advertised vacancies about their hiring experience. This method is subjective, backward looking and not necessarily reflective of actual skills shortages. For example, one employer's perception of a difficult hiring process may not align with another employer's, or hiring challenges may reflect the pay and conditions offered rather than be indicative of shortages. Additionally, this methodology does not capture the hiring experience of employers that do not formally advertise vacancies, for example positions that are filled by word of mouth or through social media.

Whilst there is value in qualitative and subjective analysis, this methodology should be additional to quantitative and objective data on skills needs and occupational shortages.

In relation to **Question 3**, Master Builders Australia identifies that the current methodology does not weight the economic impact or risk of shortages in different sectors or occupations. Given funding constraints, priority should be given to occupations with the greatest potential economic impact.

6. Principles for a new approach

Master Builders Australia is broadly supportive of the design principles listed in the Issues Paper (**Question 4**), but would like to see two additional design principles added (**Question 5**):

- *A methodology that leverages the expertise, models and methodologies that already exist in Australia and overseas; and*
- *Draws on industry intelligence through meaningful collaboration.*

There are a wide range of existing methodologies across the country for assessing skills needs, as noted by the OECD in their 2018 report *Getting Skills Right: Australia* these include employer surveys, surveys of graduates, quantitative forecasting models, sectoral studies, qualitative methods, and labour market systems.

On quantitative forecasting models, the OECD paper also mentions that the Department of Education and Training recently engaged Deloitte Access Economics to develop a macroeconomic modelling framework to forecast Australia's medium and long-term demand and supply by industry, occupation and nationally, by state and territory, and at a regional level.

Recommendation 5.3 of the Expert Review tasks the National Skills Commission to develop and update clearly linked national, state, territory and regional skills demand forecasts with direct input from states, territories and local jurisdictions and industries.

Given the quantum of methodologies already in use by governments to assess the skills needs Master Builders Australia encourages the government to leverage these rather than reinvent the wheel.

In addition, we note a number of countries already forecast national skills needs, with the OECD highlighting the Canadian, United States and New Zealand models as presenting options for Australia to leverage.

The methodology for determining the NSNL should be informed by collaboration with industries whose primary occupational training paths are apprenticeships. Industry is often aware of emerging sectoral trends, drivers and skills needs which may not yet appear in the data and as such are a valuable source of intelligence not only to identify potential shortages, but also to help target incentives.

In Victoria, Industry Advisory Groups have been recently established to advise the Victorian Skills Commissioner on matters such as skill demand pressures and future industry skills needs. The Victorian Skills Commissioner sees the preparation of training and labour data as a responsibility of government with that data to be validated by industry to produce skills demand profiles. Feedback from Master Builders Victoria has been positive about the reforms, level of industry involvement and the outcomes to date.

Recommendation 3.

The inclusion of two additional design principles:

- A methodology that leverages the expertise, models and methodologies that already exist in Australia and overseas; and
- Draws on industry intelligence through meaningful collaboration.

7. Looking forward

Question 8 of the discussion paper asks about forecasting timeframes, Master Builders Australia suggests a two timeframe approach to incorporate both long and medium term forecasting:

- Long-term (8-10 year) projections will indicatively identify skills needs whilst providing sufficient time for new courses to be developed, training capacity to be increased, incentives to be appropriately adapted to ensure they are targeted and effective, etc.
- Medium-term (4-5 year) projections will provide more reliable forecasting than longer term projections and should be the basis for the occupations listed on the NSNL. Given that an apprenticeship pathway typically takes 3-4 years to become fully qualified in a trade, forecasting skills needs and targeting incentives at the medium-term timeframe will be critical in making sure there is a sufficiently skilled workforce when the needs are anticipated.

Question 9 asks about key limitations of a forward looking methodology. The current methodology for identifying skills needs is based on employer surveys and is consequently subjective. In developing a forward looking methodology to forecast skills needs it will be critical to overcome this subjectivity by introducing more objective data sources. As Master Builders highlighted earlier in this submission, there is a wide range of skills needs forecasting activities that already take place in Australia and overseas. The review should incorporate the lessons learnt from these approaches to overcome the key limitations.

Another key limitation will be the ability to capture information on skills needs for emerging occupations and those with smaller workforces. As mentioned earlier when we proposed a design principle around industry collaboration, industry is often aware of emerging sectoral trends, drivers and skills needs which may not yet appear in the data and as such is a valuable source of intelligence Master Builders Australia recommends that identified skills needs are validated by industry to overcome these limitations.

Additionally, Master Builders Australia recommends that forecasting be developed in collaboration with the states and territories in order to leverage their methodologies and models for identifying state-by-state and regional differences in skills needs. If occupational needs at state and local level are not analysed we are likely to end up with an incentives system that works sporadically and is not able to meet the needs of diverse locations and occupations.

Recommendations 4.

Forecasting should be undertaken to assess medium-term (4-5 years) skills needs as the basis for occupations listed on the National Skills Needs List to ensure that workers can complete an apprenticeship and be fully trained in time to meet workforce needs. To support this, long-term (8-10 years) forecasting is also necessary to ensure the training system is adequately prepared with the necessary courses, qualifications and trainers.

Recommendation 5.

Collaborate with industry to better understand the nuances of their circumstances and to draw on their intelligence to validate analysis of skills and occupational needs, capture the on the ground experience, identify emerging occupations, and improve contextual understanding of the business, employment and workforce conditions across the country.

Recommendation 6.

Occupational analysis should be undertaken at the state, territory and regional level, in collaboration with state and territory governments, to ensure that skills shortages in apprenticeship-based occupations at the jurisdictional and regional level can be addressed.

8. Responsive and informed

Master Builders Australia is concerned with the suggestion in the issues paper that the skills shortage methodology be updated annually (**Question 12**). Instead, the methodology should be applied annually to ensure the occupations listed reflect skills shortages based on the most up-to-date data and analysis.

There may be potential to tweak minor aspects of the methodology within defined areas, for example to adjust for data quality issues (see section below – transparent and flexible). However, major reviews and updates to the methodology underpinning the NSNL should be infrequent and subject to extensive industry consultation. For example, the Commonwealth Grants Commission is able to tweak how it assesses state and territory revenue and expenditure in determining annual GST relativities, but only undertakes a major review of the methodology every five years.

Master Builders Australia notes that at present, NSW, Victoria and Queensland update their priority skills lists every six months. At the national level, Canada, the United States, New Zealand and Sweden undertake forecasting of labour needs every two to three years.

In relation to **Questions 13 and 17**, regarding the timing of updates to the NSNL, we note that the amount of time that will be required for notification of changes to the NSNL will vary by industry and location, as well as between different training providers, businesses and apprentice candidates.

Should the government proceed with applying the methodology annually to update the occupations on the NSNL then this should occur well in advance of the new calendar year, which is when majority of apprentices commence training. Apprentices may be employed directly with businesses or through group training organisations. Group training organisations, in particular, tend to undertake recruitment well in advance of training commencing. As such, Master Builders Australia recommends the annual update be announced by 30 June each year and apply to the following calendar year.

Recommendation 7.

The methodology be applied annually to update the National Skills Needs List, with the updated list publicly announced by 30 June each year and applicable for incentives in the following calendar year.

Recommendation 8.

The methodology underpinning the National Skills Needs List be reviewed every five years and that the review process require extensive industry consultation.

9. Transparent and flexible

Master Builders Australia agrees that it will be important to get the right balance between transparency and flexibility to ensure trust in the system whilst not being so rigid that it cannot respond to shocks.

To maximise transparency the methodology to identify occupational need should as far as possible be based on publicly available quantitative data. The analysis and identified occupations should then be validated by industry to ensure a wider set of information on emerging issues, occupations and skills needs are considered.

Additionally, to maximise transparency whilst ensuring flexibility, government could develop and publish methodology risk guidelines that identify risks and set out appropriate mitigation options. For example, the guidelines may identify the potential for quality issues with a data set, recommend managing the risk through quality assurance processes and identify alternative sources of information that could be used if necessary. The guidelines may also identify external risks, such as natural disasters. Whilst not able to mitigate this risk, the guidelines may provide the flexibility to add particular skill sets to the NSNL to enable existing workers to upskill quickly in order to boost workforce capability.

10. Delivering economic and social benefit

The economic impact of a skills shortage will depend on the type of activities which are obstructed by the shortage. When it comes to inclusion on the NSNL, priority must be given to those skills whose shortage would be most costly to the Australian economy.

The latest Master Builders Australia forecasts for new home building activity to 2023-24 indicate that we are on course to fall short of requirements when it comes to accommodating future population growth and replace obsolete stock. We have faced this issue before with significant deterioration in housing affordability for both prospective home buyers as well as renters. As the recent Australian Infrastructure Audit identified, we have also struggled to deliver on our infrastructure needs over recent years with congestion worsening and Australia failing to fully achieve its economic and productive potential.

The chances of a repeat would be lessened by ensuring a plentiful supply of suitably skilled workers in the building and construction sector. More generally, the occupations selected for inclusion on the NSNL should be prioritised according to the economic costs that would be suffered if there were to be shortages of those skills.

Recommendation 9.

The occupations selected for inclusion on the National Skills Needs List should be prioritised according to the economic costs that would be suffered if there were shortages of these skills.

Summary of recommendations

Master Builders Australia recommends:

1. linking financial incentives to the skill sets that make up an apprenticeship qualification for an occupation on the National Skills Needs List to add flexibility and choice to the system by enabling businesses to select the most appropriate option to address their skills needs;

 2. extending financial incentives to pre-apprenticeship courses that provide a pathway to apprenticeship qualifications in occupations on the National Skills Needs List to enable apprentice candidates that are keen, but do not meet work-ready criteria to build their capabilities through completion of foundation skills or certificate I and II qualifications (rather than entering the system and dropping out as currently happens);

 3. two additional design principles:
 - *A methodology that leverages the expertise, models and methodologies that already exist in Australia and overseas; and*
 - *Draws on industry intelligence through meaningful collaboration;*

 4. forecasting be undertaken to assess medium-term (4-5 years) skills needs as the basis for occupations listed on the National Skills Needs List to ensure that workers can complete an apprenticeship and be fully trained in time to meet workforce needs. To support this, long-term (8-10 years) forecasting is also necessary to ensure the training system is adequately prepared with the necessary courses, qualifications and trainers;

 5. **collaborating with industry** to better understand the nuances of their circumstances and to draw on their intelligence to validate analysis of skills and occupational needs, capture the on the ground experience, identify emerging occupations, and improve contextual understanding of the business, employment and workforce conditions across the country;

 6. occupational analysis be undertaken at the state, territory and regional level, in collaboration with state and territory governments, to ensure that skills shortages in apprenticeship-based occupations at the jurisdictional and regional level can be addressed;

 7. the methodology be applied annually to update the occupations on the National Skills Needs List, with the updated list publicly announced by 30 June each year and eligible for incentives in the following calendar year;

 8. the methodology underpinning the National Skills Needs List be reviewed every five years and that the review process require extensive industry consultation; and

 9. the occupations selected for inclusion on the National Skills Needs List be prioritised according to the economic costs that would be suffered if there were shortages of these skills.
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