



HOUSING INDUSTRY ASSOCIATION



Submission to the
Productivity Commission

**Productivity Commission Interim Report
National Agreement for Skills and Workforce Development**

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ABOUT THE HOUSING INDUSTRY ASSOCIATION

The Housing Industry Association (HIA) is Australia's only national industry association representing the interests of the residential building industry.

As the voice of the residential building industry, HIA represents a membership of 60,000 across Australia. Our members are involved in delivering more than 170,000 new homes each year through the construction of new housing estates, detached homes, low & medium-density housing developments, apartment buildings and completing renovations on Australia's 9 million existing homes.

HIA members comprise a diverse mix of companies, including volume builders delivering thousands of new homes a year through to small and medium home builders delivering one or more custom built homes a year. From sole traders to multi-nationals, HIA members construct over 85 per cent of the nation's new building stock.

The residential building industry is one of Australia's most dynamic, innovative and efficient service industries and is a key driver of the Australian economy. The residential building industry has a wide reach into the manufacturing, supply and retail sectors.

Contributing over \$100 billion per annum and accounting for 5.8 per cent of Gross Domestic Product, the residential building industry employs over one million people, representing tens of thousands of small businesses and over 200,000 sub-contractors reliant on the industry for their livelihood.

HIA exists to service the businesses it represents, lobby for the best possible business environment for the building industry and to encourage a responsible and quality driven, affordable residential building development industry. HIA's mission is to:

"promote policies and provide services which enhance our members' business practices, products and profitability, consistent with the highest standards of professional and commercial conduct."

HIA develops and advocates policy on behalf of members to further advance new home building and renovating, enabling members to provide affordable and appropriate housing to the growing Australian population. New policy is generated through a grassroots process that starts with local and regional committees before progressing to the National Policy Congress by which time it has passed through almost 1,000 sets of hands.

Policy development is supported by an ongoing process of collecting and analysing data, forecasting, and providing industry data and insights for members, the general public and on a contract basis.

The association operates offices in 22 centres around the nation providing a wide range of advocacy, business support services and products for members, including legal, technical, planning, workplace health and safety and business compliance advice, along with training services, contracts and stationary, industry awards for excellence, and member only discounts on goods and services.

1. INTRODUCTION

In May, the Productivity Commission released its interim report reviewing the National Agreement for Skills and Workforce Development (Interim Report).

HIA takes this opportunity to provide a submission in response to the Interim Report.

HIA supports the focus on reforming the national training system with the objective of improving the quality and responsiveness of the system, together with ensuring that training outcomes are both equitable and efficient.

The VET system underpins the skills capacity of Australia's construction industry, providing the competencies and qualifications to become skilled and licensed to build and renovate the homes of thousands of Australians every year. It is for this reason that HIA has a strong and vested interest in ensuring affordable and easy access to training for all persons wanting to pursue a career in the residential building industry.

Notwithstanding that the VET sector has already been the subject of a plethora of reviews, which, overwhelmingly recommended the need for change, the impact on the Coronavirus (COVID-19) Pandemic has brought to bear some of the key issues that plague the VET sector.

History tells us that during periods of economic volatility the risks associated with, for example, apprentice employment become evident. Workers with less work experience, primarily younger workers, are more likely to have insecure employment arrangements when compared with older more experienced workers. The disruption to the labour market during the COVID-19 crisis provides evidence of the challenges that younger workers face and highlights that the apprenticeship system can be a very precarious path. This is particularly the case in the residential building industry which is strongly influenced by the ebb and flow of housing activity which in turns influences the employment of apprentices in construction trades.

The Federal government focus on supporting the VET sector through this pandemic, as the first measure announced in March 2020, further shines a light on the need for establish a skills and workforce development framework that can offer stability, certainty and a future career.

The Supporting Apprentices and Trainees (SAT) wage subsidy, which saw \$1.3 billion targeted at apprentices and trainees employed by small business to limit the risks of redundancy for apprentices during COVID-19, along with the recent announcement to extend this wage subsidy through to March 2021, in conjunction with an expansion to include medium sized businesses with less than 200 employees, signals the critical need to support the apprentice system.

The additional announcements of a new JobTrainer fund, to be created from September 2020, to provide free, or low cost, training for up to 340,000 may also provide a practical option for many people. Whether that's reskilling or upskilling, looking at the opportunity to take on a building apprenticeship now offers a chance for workers to enter new careers and be paid while they learn.



While welcomed, these announcements have been necessary during this time of crisis. It is hoped that the new National Partnership Agreement may respond to some of the issues that sit below the water line to support the VET system into the future.

The interim findings, information requests, interim recommendations and options are broad ranging, as such, HIA's response focuses on:

- Funding, subsidies and competition.
- The need for the promotion of trades as a career.
- Skill shortages in the residential building industry.
- Supporting apprentices through pastoral and mentoring services.

2. FUNDING, SUBSIDIES AND COMPETITION

HIA supports a framework for VET funding that places high priority on industries that rely on VET qualifications as the primary means of verifying critical skills and competencies for business and occupational licensing, have a high demand for skilled labour to support productivity, provide career pathways and jobs for thousands of Australians each year, and provide a significant contribution to the national economy.

2.1 THE FUNDING FRAMEWORK

A successful funding framework must support an open and competitive market place that treats all training providers in the same way, regardless of whether they are publically or privately owned. An open and competitive market allows the user a choice of the course in which they participate and the training provider, and should not be distorted by limiting their ability to access Government funding.

It is HIA's position that the VET sector is best served by operating under a competitive market environment being a model based on the notion of contestability.

The term 'contestability' in relation to the VET framework, including the funding framework, should mean:

- Ensuring that the market place is open and competitive.
- Allowing all training providers whether publically or privately owned to be funded for a qualification, provided the qualification is on their approved scope of delivery.
- Allowing for genuine user choice i.e. a person is able to choose their training provider of choice.
- Focusing on the needs of the students and employers to achieve desired outcomes.
- Ensuring that industries with a demonstrable need for funding are appropriately funded, i.e. that funding would improve productivity, economic performance and lead to an increase in overall employment.

In tandem with supporting traditional apprenticeships, government policies must enable more flexible and affordable pathways into the residential building industry to facilitate opportunities for career progression and business growth.

This can be achieved through:

- Prioritising funding to small business owners to undertake training that will allow them to grow or change their businesses to meet the future customer demand and meet the ever changing regulatory environment.
- Providing incentives to employers to train and develop employees to meet the growth demands of their businesses and the broader industry.
- The development of pathways to redeploy the ageing workforce to complement industry activities and provide funding for businesses who support this initiative.
- Developing and funding intermediate qualifications which recognise defined skills sets as legitimate qualifications prior to completion of a full apprenticeship.

The cost of failing to adequately support businesses in the building industry to increase their capacity through a readily available trained and skilled workforce or attract new entrants is extraordinarily high. Failing to support vocational education in building skills is likely to lead to a substantial skills shortage and potentially impact the quality of building.

In an industry as highly regulated industry as residential building the support by all levels of government for adequate training funding is paramount to ensure all Australians have affordable housing and are able to contribute more effectively to the broader economy.

While the Interim Report identifies that the proportion of government funding that is contestable has increased, it is clear that public providers remain dominant and on a state by state analysis contestability has actually decreased.¹

This is of significant concern, as such HIA agrees with interim findings 2.2 and 2.3 that:

Key reforms under the NASWD — the national training entitlement and expansion of student loans (VET FEE HELP) — initially increased participation but incentives were later wound back because of escalating costs and roting. Overall participation rates are now at or below pre NASWD levels.

Early efforts to promote a 'more open and competitive training market' have stalled. Improving the efficiency of training markets is no longer an explicit priority for most governments.

Further work is required by governments on the policy settings that best facilitate a responsive and efficient training market. This includes a more clearly defined role for public providers.

¹ See p. 88

What role should competition play in meeting users' needs, including the quantity, type and quality, and regional accessibility of VET services?

Competition is of paramount importance for the VET sector and for meeting users needs. Competition should breed efficiency however it must be carefully balanced against funding options and the ease of delivery.

In order to do this a level playing field must be created in the VET sector. It is important that Registered Training Organisation (RTOs), Group Training Organisations (GTO's), TAFE's and other training providers have an equal ability to offer their services to train Australians from all backgrounds and ages. This has not been the case in recent year. For example, on account of a few unscrupulous operators that have been, quite rightly, identified and prosecuted, the entire GTO sector has been tarnished with the same, negative brush. There are a great many credible, profitable GTO's in Australia with decades of training experience who have not supported with a level playing field. This has been to the detriment of the efficiency of the operation of the VET sector.

Regional and equity issues should also be addressed via the funding model to ensure there are options for remote delivery including a greater focus on the development and delivery of online learning.

How should the efficiency of the VET market be measured?

In HIA's view retention and completions are the most objective measures. While HIA understands that these are already largely in place, due to variations in funding arrangements there is insufficient motivation towards retention. While this has improved in some jurisdictions in recent times, a lack of focus on retentions somewhat dilutes the ability to get a true sense of efficiency in the market.

HIA would favour a simpler model, universally applied, skewed towards the early stages of the program to attract students but then potentially a universally agreed mid-point and a completion point.

What is the appropriate (and exclusive) role of public providers, and why?

While there will always be a role for public providers this must be balanced with the need for competition in the VET sector i.e. to focus exclusively on public providers would be a significant and detrimental step.

Public providers can have an important role in being the 'trainer of last resort'. Where there are smaller student numbers making training costs higher, particularly in regional locations, the support of a public provider to offer such training would be appropriate.

Are additional consumer protection arrangements required to support a well functioning VET market? What are the costs and benefits of different models of consumer protection established by governments, including ombudsmans' offices?

No.

Each state and territory legislative framework that regulates training arrangements incorporates a comprehensive dispute resolution process to respond to a range of matters arising from the training contract. In fact, recent changes to the Queensland *Further Education and Training Act 2014* (Act) enhanced protections for students by making changes to ensure that an apprentice is not prevented from accessing employment rights, such as making an unfair dismissal claim, due to the operation of

the training arrangement. For example the Act now requires that 21 days pass before the termination of a training contract takes effect to allow for an unfair dismissal claim to be lodged and provides the ability to re-register a cancelled contract in particular circumstances, such as where the apprentice has been re-instated due to a successful unfair dismissal claim.

Equally, employment matters that may arise out of training arrangements can (and should most appropriately) be dealt with by the Fair Work Ombudsman.

The tension between the training arrangement and employment relationship has always been present, and to introduce further regulatory bodies into the VET sector would simply cause duplication and further complexity and confusion.

2.2 LEVIES AND GOVERNMENT SUPPORT FOR TRADES

As highlighted in the Interim Report, the construction sector is subject to a range of state based training levies. However, it also notes that it is unclear whether levies (alone) have been effective in encouraging investment in training, relative to other sectors where they do not exist.

The primary argument by industry against any type of levy is that levies are essentially another form of taxation. With increasing mandatory requirements being imposed on training providers and the reluctance of governments to fund training via tax revenue, there is a fear from industry that levies could be used to fund new (and potentially ad hoc) programs, including within areas for industry training.

However, HIA recognises and supports the benefits of ongoing training and professional development for people operating with the residential building industry.

As such HIA supports option 6.5:

Given the apparently poor effectiveness of employer incentives, the Australian and State and Territory governments could consider:

- *addressing barriers to hiring apprentices, including their foundational skills, work readiness and the minimum wages or other award conditions set by the Fair Work Commission*
- *reintroducing (better-designed) industry levies.*

Consideration of these options should take into account the effectiveness of any measures to strengthen pastoral, mentoring and other support services for VET students in general (options 6.6 and 7.3).

Residential building and construction is an identifiable sector with the building and construction industry, accounting for in excess of 50 per cent of the total value of work carried out each year. Given the significance of the sector and the funds collected from the sector where a training levy exists, it is considered reasonable that the residential building industry should be allocated the same proportion of funding expenditure they contribute.

There are a number of governance models utilised to operate training levies in the States and Territories where they currently apply. HIA supports a model where industry is involved in the governance to ensure there is a direct link to the industry providing funding and receiving meaningful training support. This is important so as to achieve outcomes that benefit the people that have contributed the funds. This is currently the case in South Australia, Tasmania and ACT.

Governance of training levies does not currently ensure that those industry's making contributions have a direct voice and role in the provision of strategic training advice and policy development.

HIA sees that there may be a place for training levies, provided that:

- governance structures are effective and provide the best outcome to address training needs for the housing industry;
- the housing industry is recognised within the structure of levy bodies with housing specific advisory committees informing the applicable state or territory levy body of the most appropriate disbursements of funds within the industry;
- HIA is represented at levy board and housing specific advisory committee level in both a participant and a leadership capacity so as to ensure positive training outcomes for HIA members, subcontractors and independent small businesses in the housing industry;
- funds expended for training in the housing industry are in proportion with the funds raised by the industry;
- businesses shall be exempt from the training levy where a comparable sum of contribution is directed to accredited entry-level training;
- funding is made available to entry level training as the highest priority, to meet long term industry needs and benefit the industry as a whole (including subsidising the cost to group training organisations of providing 1st and 2nd year apprentices);
- the proportion of levies spent on administration is minimised; and
- training levy administrators are not involved in training delivery but in ensuring the training levies are spent in an accountable and transparent way.

2.3 SUBSIDIES

HIA would support option 6.1 being that:

Australian, State and Territory governments should consider:

- *adopting a nationally consistent set of course subsidies, based on the efficient cost of delivery for groups of similar courses, with loadings to address higher delivery costs in some locations and to some student groups (as in the Joyce Review); or*
- *simplifying the large number of different subsidy rates for courses but otherwise leaving jurisdictions to set their own subsidy rates and their allocation.*

HIA would support interim recommendation 6.1 being that:

State and Territory governments should use common methods to measure costs and determine loadings.

HIA does not support option 6.3 which suggests the re-configuring of subsidies paid to RTOs as student vouchers, with the voucher value depending on the method used to calculate subsidies as specified in option 6.1.

HIA has some reservations regarding interim finding 3.2 which states that:

The use of subsidies in the university system provides a robust efficiency and equity rationale for subsidies in the VET system

However, given the public benefits and aims of the VET and higher education systems differ, subsidy rates do not need to be identical in the two sectors for all occupations and fields

3. TRADES AS A CAREER

Measures aimed at promoting trades as a career must be a priority. HIA would commend the following recommendation of the Apprentice Expert Panel to the Productivity Commission:

‘Implement a strategy to raise the status of apprenticeships and traineeships including promotion as a valued career choice for both males and females.’²

For residential building the VET ‘pathway’ continues to be the number one entry point for most industry occupations and is necessary if individuals are to attain occupational licenses under all current state licensing regimes.

In this regard there needs to be appropriate resourcing, promoting and support of the skilled labour required to construct Australia’s homes now and into the future. There seems to be a failure by Governments to recognise the integral role residential building plays in Australia’s economy when it comes to the vocational education framework and funding. University cannot and should not be seen as the only way to develop a career, engaging in a trade must be promoted and supported as a legitimate career path. The support from the current Australian government to this ideal is a welcome shift but much more is needed on the ground to support parents, students and businesses to showcase the opportunity that VET training offers as a genuine option for thousands of Australians each year.

What changes could be made to ensure school students have appropriate career information and advice?

HIA sees that there are a number of gaps in the provision of career information and advice to students regarding VET options including that:

- There is a need for greater education regarding the benefits of pursuing a skilled trade as a career option; and
- There is a need to pay more attention to the pre-apprentice and junior apprentice levels of the training sector.

² Expert Report - A shared responsibility - Apprenticeships for the 21st Century at p.15

The opportunities and diversity available through a skilled trade career pathway are under-recognised and under-emphasised.

In its role as a Group Training Organisation (GTO), HIA has a strong focus on education, inspiration and pastoral care. HIA apprentice teams in each region attend career information evenings which encourage parent as well as student participation. School-based career days have been found to be less effective as the students tend to walk round in 'a pack' and ask relatively few questions. That having been said it would be appropriate to see a greater recognition (on behalf of the schools themselves) of the benefits of following a career pathway in the residential building industry, and many other vocational careers, at school-based career days.

HIA also attends pre-apprenticeship courses and talks to students about the GTO option. HIA works each year to gain an audience with school students to outline the career pathways available in the residential building industry.

Such programs are obviously resource-intensive and outcomes can be slow to materialise. This is an area of huge potential and much more could be achieved with greater government recognition and resourcing.

4. SKILL SHORTAGES

HIA would, in principle agree with option 6.2 that adopting a consistent method for assessing skill shortages would be of benefit.

HIA is however aware that there is already a lot of work being done in this area and a significant barrier to any common approach is that it takes a long time to develop the data, it is generally anecdotal and not specific enough and the consultation required to achieve commonality takes time.

It would be undesirable that an attempt at commonality, via whatever agreed means of forecasting or the like across the country, actually added further delays to the ability of the VET sector to react quickly enough to meet the emerging needs of sectors.

While consistency is advantageous, the more important questions is what you do with that information.

What are useful ways of defining and measuring the skills shortages (and surpluses) relevant to the VET sector?

In principle, HIA accepts the observations outlined in the Interim Report regarding the problematic nature of determining a 'skill shortage'. It is a complex issue that demands attention given the flow on effect such a characterisation has on funding and other arrangements.

HIA suggests that in the residential building industry, such matters are not so obtuse. We know that the two most significant challenges to growing the labour force in the residential building industry are the large cohort of workers approaching retirement, and the high rate of attrition amongst new apprentices.



HIA has also observed that there is a robust inverse relationship between changes in the number of dwelling commencements and changes in the rate of apprentice attrition (apprentices discontinuing their training). When there is an increase in the number of new homes commencing the apprentice attrition rate declines, vice-versa when the number of dwelling commencements decline.

It is also interesting to note the relationship between changes in the volume of engineering construction activity and changes in the apprentice attrition rate. It is intuitive that an increase in the volume of construction activity should generate an environment that was conducive to apprentices successfully completing their training, although the data does not support this for all sectors. An annual increase in the volume of engineering construction activity has tended to coincide with an increase in construction apprentice attrition.

The current methods also fail to take an approach which expressly considers some form of 'future proofing', for example, in compiling the latest draft skills forecasts through the Construction, Plumbing and Services IRC, a process that has taken more than 2 years, there is really no future-orientated assessment. Equally, given the lagged nature of the exercise the data could also be outdated.

Notwithstanding this, even if there was an accurate and robust way of determining skill shortages, the current VET system is not flexible enough to react quickly to meet the identified gaps. Further this task is not as simple as concluding that, for example, 'we need more builders'. Necessary skills often emerge as a subset of the encompassing qualification, making it difficult to target.

To really hone in and get a better picture of skill shortages, funding, support and actions that expedite the units needed to meet the emerging skills is necessary. This would avoid wild swings into the "qualification of the moment" and stabilise the offerings but with the more flexible units within the qualifications to meet the shortages.

What factors are causing an apparently persistent shortage of skilled workers in some occupations, despite these occupations being a priority for government support?

HIA sees that the following factors are contributing to persistent skill shortages:

- The attractiveness of the work – building trades carry a reputation that needs to be redressed to generate a career of choice mentality;
- The availability of the work – building trades do suffer from the ebb and flow of construction activity, down to the workflow of the individual business employing the individual apprentice, unlike other careers;
- In residential building industry if there is already a shortage of employers then there is going to be limited options for apprenticeships in that field, for example in roofing or stone masonry.
- A lack of cohesiveness between school leavers and post-secondary providers to provide clear pathways for school leavers into the VET sector.
- A mismatch between the qualification and the jobs available.
- A lack of incentive to take on a young inexperienced person.

One potential reason for this in the residential building industry is the lack of rates of pay for junior (under 18) workers. Under the *Building and Construction General Onsite Award 2010* the choice for a young person, looking for experience on a construction site is to enter an apprenticeship or be

engaged as a labourer. For an employer the latter is not an attractive option given the rate at which a young inexperienced individual must be paid.

While HIA's view is that an apprenticeship is the most appropriate pathway to enter a trade, offering an alternative, through being able to engage someone on junior rates, balances the needs of the businesses with the desire of the individual to get a 'taster' of what working in the industry would "look and feel like.

Often an apprentice does not (and could not) understand the nature of work on a residential building site until they experience it, contributing to drop outs and cancellations for participants that are unable to readily learn the expectations and actual activities that occur on a building site daily.

To what extent are skills forecasts based on future industry growth a useful and reliable basis for providing course subsidies?

Useful but not reliable and certainly not for course subsidies. The system cannot and is likely never to have the capacity to adjust quickly enough to fill gaps. Long term trends in industry activity are available and are the most effective indicator to identify the future workforce needs, hence training needs. Given a vocational qualification takes up to 4 years and the historical cycle of the residential building activity is a 10 year cycle. Overlaid on this is the historical reality that as activity declines apprentice take up also declines in the residential building sector. Yet this is the exact time when support and focus on training should be the priority, as the natural cycle of the sector means demand will once again come. Funding for a skilled workforce should be a consistent, year on year, proposition to ensure that there is always a pool of new entrants moving into their career.

In what circumstances do skills shortages justify course and employer subsidies and at what level of granularity?

Notwithstanding that granularity can often led to a greater administrative burden HIA would see benefit in a system that largely funded the overarching qualifications but that was underpinned by supplementary funding they targeted at specific skills shortages. As stated above, when residential building activity is in decline is the time when most attention must be given to support new apprentices.

5. SUPPORTING APPRENTICES

HIA supports option 6.6 which provides:

Australian State and Territory governments could expand mentoring and pastoral services for VET students, including those undertaking apprenticeships.

Governments should also consider the wider uptake of tools for the upfront assessment of student needs — as used by the South Australian Government — to determine students' suitability for their chosen course and their need for any supports.

How should pastoral and mentoring services be funded, delivered and designed, taking into account the continuity of funding, scale, and effectiveness in improving outcomes for students?

GTO's should be recognised for their ability to administer funding and improving outcomes for students through pastoral care and mentoring. The recent development of the AASN has created a

further layer which is expensive and not needed. Funding could be managed directly by the government and support services when required could be offered by GTO's.

What should be their priority target groups?

First year apprentices are always a priority group. Providing the necessary care and support for this cohort to ensure that they manage the move from secondary education to vocational education is key. A good first year experience underpins a good experience over the full term of an apprenticeship.

For many students, support for literacy and numeracy is a key. Identifying needs and providing this support in first year can assist in that good experience and more broadly provides a person with confidence and learning that will go with them beyond the specific training being undertaken.