

Inquiry into Inhibitors to Employment for Small Businesses and Disincentives to Working for Individuals

A Submission from Group Training Australia Ltd

April 2015

Introduction

1. On behalf of the national network of group training organisations (GTO) Group Training Australia (GTA) Ltd welcomes the opportunity to participate in this inquiry. GTOs are not-for-profit enterprises that employ apprentices and trainees and hire them out to host businesses for varying periods until the training has been completed and the qualification achieved.
2. Micro and small businesses represent the major users of this service because it provides the flexibility that enables small business owners to opt in and out of employing apprentices and trainees according to circumstances, particularly as business activity waxes and wanes. GTOs effectively carry all the risk associated with employment-based training, and provide a handy source of credit for small business in the process. There are currently up to 30,000 apprentices and trainees hired out to a network of some 100,000 hosts. Given the relationship between the group training network and small business GTA would argue that government policy that adversely affects the well-being of our network, particularly reduced financial support, will ultimately be to the detriment of small business and very often to the prospects of jobseekers who might have been employed by small businesses.
3. In its 2015-16 budget submission, and in other submissions, GTA has called for a number of measures to improve the capacity of GTOs to deliver services under increasingly difficult economic conditions. The cumulative impact of the loss of government funding in recent budgets, the growing level of resourcing needed to support many apprentices and trainees through to completion of their training and the inevitable reluctance of small businesses to bear these increased costs, especially when training can often be sidelined if costs have to be cut, are all taking their toll on the development of skilled labour. We believe the following issues affecting our network are those most likely to affect small business's propensity to employ or deter individuals from seeking employment much of which would occur through small business.

Implications of Policy Changes

Reduced employer incentives and abolition of the Joint Group Training Program

4. The Commonwealth pays a wide range of incentives to employers of apprentices and trainees generally in the form of a commencement and completion payment. The commencement payment of \$1,500 for a

Certificate III listed on the National Skills Needs List, which includes most traditional trades, was traditionally paid after the contractual three month probation period had been served but after a recent decision of government this payment is now not paid until the six months mark.

5. Like any other employer of apprentices and trainees GTOs are paid these incentives and they represent an important source of income which serves largely to make the GTO's charge-out rate to host businesses lower than it would otherwise have to be. The change in payment eligibility now leaves GTOs vulnerable to the loss of substantial funds if apprentices and trainees withdraw anytime within six months of starting. This leaves the GTO to carry all the costs associated with the recruitment, placement and support of a jobseeker for the first six months with the loss of any support if, despite everyone's best efforts, the apprentice or trainee fails to last the full six months. These costs ultimately have to be borne by host businesses.
6. Situations like this also represent a potential loss of opportunity for many jobseekers. If a GTO is now uncertain about a prospective apprentice's or trainee's commitment or aptitude, even with the support that's available through group training, they are much less likely to take the risk that the candidate will withdraw from training before the six months has elapsed. The net effect of course is that a person who may have been placed with a small business and achieved a qualification will now find a door closed. A small business owner who might employ such a jobseeker directly will make the same assessment that their investment in their training and supervision will not be recouped or offset
7. All of this is arguably the result of one-size-fits-all policy making. However, an understandable attempt by government to put an end to the practices of some employers who have been taking advantage of the discounted wages available under contracted-training by employing to the three month payment milestone, dismissing the employee and starting again with a new employee, has had unintended consequences. It has created cash flow problems for GTOs and made them and employers, including their own hosts, wary of the employment relationship.
8. Much the same issues arise from the recent decision by the Commonwealth and some States to abolish the Joint Group Training Program. This program, under which the Commonwealth matched State and Territory funding to an agreed limit, subsidised GTOs for costs associated with the placement of jobseekers from specific priority groups or into specific priority apprenticeships and traineeships, as determined from time to time by State and Territory governments. The withdrawal of these funds means that, unless funding can be obtained from alternative sources, jobseekers needing higher levels of support to progress through their course will invariably have

little chance of being placed in apprenticeships or traineeships, and small business will certainly not be willing to accept higher charges to make up the difference.

9. It is of course not only jobseekers with high support needs disadvantaged by these policies. GTOs operating on thin margins, especially but by no means exclusively, in rural and regional Australia will have to cut costs and will struggle to find candidates for apprenticeships and traineeships who need minimal care and support. They cannot easily increase charge out rates, unless the local economy is booming and employers need skilled workers including apprentices, in which case they will be more willing to pay. The GTO will have little spare income to do the many other things it is usually engaged in with the local community, including working with schools and on community projects, and more importantly it becomes increasingly difficult to carry any kind of risk on behalf of small business or, for that matter the jobseekers who might not so easily access an apprenticeship or traineeship were it not for the ability of a GTO to rotate them through multiple work placements so that the full training component can be achieved.

Fair Work Commission increases apprentice wages

10. The Fair Work Commission's (FWC) decision to increase award wages quite significantly for first and second year apprentices from 2014 also works against GTOs placing jobseekers into apprenticeships with small and micro-businesses. It is true that many apprentices are already paid above award rates and receiving in excess of the new minima though most of these are employed by medium to large enterprises under certified agreements. Most small and micro-businesses would pay according to the terms and conditions specified in modern awards notwithstanding the above comment about employers' willingness to pay more if economic conditions are favourable.
11. While increasing the wages of apprentices during what are in effect their two most unproductive years is a disincentive for small and micro-businesses to employ apprentices, either directly or through group training arrangements, at the same time the decision of government to abolish the Tools for Your Trade payment from 1 July 2014 saw the loss of a significant grant to apprentices paid over the course of the apprenticeship. This program was replaced by the Trade Support Loans (TSL) scheme which provides a loan of up to \$20,000 payable over the course of the apprenticeship and repayable, like other government student loan schemes, through the tax system once income reaches a certain threshold. Yet another example of a disincentive, on this occasion to jobseekers, who will be unlikely to saddle themselves with a TSL debt unless they can be confident of an apprenticeship placement where above award wages are paid. As we have explained this is not likely to be the case in small and micro-businesses.

Abolition of the Australian Apprenticeships Access Program

12. The Australian Apprenticeships Access Program (Access) had been in existence for over 20 years in one form or another before being abolished in the 2014 federal budget. It was designed to provide jobseekers classified as disadvantaged in the labour market with training and other support services that would prepare them for an apprenticeship or traineeship thereby improving their chances of being able to deal with the demands of their on and off-the-job training and so completing their qualification. Participants in Access generally stayed on income support during their course and until they were placed in an apprenticeship or traineeship at which point they would receive the appropriate wage rate. The loss of this program has meant that GTOs, and other service providers, have lost another cohort of candidates who could eventually find work with small and micro-businesses.
13. The only alternative for many of these jobseekers are programs like Work for the Dole. GTA believes the best answer to welfare is to get a job. The provision of welfare and income support should sustain someone while engaging in genuine and meaningful job search or pre-vocational training where necessary. However it cannot and should not be an 'alternate pathway' to work like Work for the Dole which, like other labour market programs has, according to recent research from Professor Peter McDonald at the ANU, been largely ineffective in getting the disadvantaged into sustainable jobs.

Preferred Creditor Status in Bankruptcy

14. The ability of the group training network to assist small and micro-businesses with their employment and training needs is being severely compromised by the frequency with which GTOs are caught out when host employers declare bankruptcy.. This is a matter about which GTA has made numerous representations to government over the last 10 years.
15. The order of precedence in respect of bankruptcies in Australia is that the 1st priority creditor is the Australian Taxation Office (ATO) followed by salary and wages, though these two may rank equally. Thereafter all other creditors would be rated as 'unsecured' unless there were specific legal relationships determining priorities.
16. The majority of GTOs invoice host employers for wage and entitlement recoveries which include contributions to superannuation and PAYG tax. In the event that a host employer declares bankruptcy, the monies due to GTOs have no ranking other than that of an unsecured creditor.

17. While the incidence of bankruptcy varies across industries, it is unfortunately higher in the small and micro-businesses which GTOs traditionally service. Indeed, group training is targeted into this area of somewhat shaky financial performance where it is vulnerable and where it is effectively extending significant lines of credit. This situation is compounded when operating in very cyclical industries such as hospitality, and building and construction, and in rural areas where the prosperity of business is subject to the vagaries of the weather.
18. GTA believes that there is a need for a change in the legislation to ensure that the component of the GTO invoice that represents recovery of wages and Crown debt is treated as a preferred creditor and ranked equally with other payments of wages and Crown debt which are required to be made as a priority by the organisation in financial difficulty or its receiver.
19. The unwillingness to date of governments to bestow preferred creditor status in bankruptcy on GTOs has only increased the wariness of many in the group training network, particularly those who have had to write off significant debts of this kind, again reducing opportunities for both business and jobseekers.

Australian Apprenticeships Support Network

20. The government recently announced the results of its tender for the provision of services under the banner of the Australian Apprenticeships Support Network (AASN). GTA tendered to provide these services in a joint venture with over 40 of its member GTOs in all States and Territories with the exception of the NT but was advised it was unsuccessful. A number of other smaller group training consortia were also unsuccessful.
21. As the name suggests these services are provided to apprentices and trainees and their employers by a national network of providers selected by open tender, usually every three years. In addition to the provision of general administrative services associated with the processing of training contracts and paying incentives and subsidies to eligible employers and their apprentices and trainees, contractors will now also have to provide specialist services, the purpose of which is to improve apprenticeship completion rates currently languishing at around 50%.
22. These services include, at the recruitment end, better matching of prospective apprentices and trainees with employers, providing careers advice to jobseekers as well as improving their levels of literacy and numeracy where these are identified as a potential barrier to their ability to undertake an apprenticeship or traineeship. Contractors must also provide mentoring and support to apprentices and trainees throughout the duration

of the apprenticeship or traineeship.

23. All of these services mirror those provided under the traditional group training model. Having lost financial support under the range of programs discussed above, GTA had reason to expect that it would secure government support for much of the network by winning an AASN contract. Failure to do so now leaves many GTOs with little working capital at a time when the economy is sluggish at best. The expectation that group training organisations can continue to service the needs of small business and provide career opportunities for young people by pooling risk is becoming increasingly unrealistic.

Conclusion

24. Small business is collectively the largest employer and the foremost generator of jobs in this country. It is the engine room of the economy. Similarly, when it comes to apprentice and trainee employment small business is the principal player and group training predominantly places apprentices and trainees with this sector.

25. For all these reasons GTA believes it is time for government to invest in and support measures to incentivise small business and group training to help jobseekers commence, progress and complete traineeships and apprenticeships.

30 April 2015