



# **MAINTAINING TRADE APPRENTICESHIP NUMBERS DURING THE DOWNTURN**

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For more information, please contact  
Abby Duruz, Policy Advisor – Workforce Skills  
NSW Business Chamber  
Telephone 02 9458 7267  
Email [abby.duruz@nswbc.com.au](mailto:abby.duruz@nswbc.com.au)

140 Arthur St, North Sydney, NSW, 2060  
Locked Bag 938, North Sydney, NSW, 2059  
Telephone 13 26 96, Facsimile 1300 655 277  
[www.nswbusinesschamber.com.au](http://www.nswbusinesschamber.com.au)

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## ***Recommendations***

### **The NSW Business Chamber recommends that the Australian Government**

1. Significantly increase financial incentives available to small businesses to reflect the length of contract and long-term benefits to the Australian economy of trade apprenticeships
2. Weight incentive payments towards the first two years of an apprenticeship to reflect the higher supervision cost and lower productivity during the early years
3. Provide an additional short term “investment bonus” to employers at the end of the second and third years of an apprenticeship to reinforce employer retention of trade apprentices
4. Reduce paperwork and provide incentive payments by direct deposit to employers at 3 monthly intervals to reinforce employer retention of trade apprentices
5. Provide a short term wage subsidy in addition to New Start Allowance to laid off apprentices that is explicitly linked to continuation of structured apprenticeship training and job search activities in the same industry as their apprenticeship
6. Fund brokered employment and training models that connect employers, training providers and other intermediaries to jobseekers and prevocational graduates to meet local skill needs
7. Expand public sector employment of trade apprentices, prioritising apprentices who have been laid off
8. Publicise the benefits of existing employees undertaking an Australian Apprenticeship
9. Remove the stipulation that Australian Apprentices not in areas of skills shortage do not attract incentives if they have a ‘prior qualification within the last 7 years’ to encourage more existing workers and re-entrants to undertake an Australian Apprenticeship
10. Publicise availability of Support for Adult Apprentices payments for apprentices aged 25 and over

**The NSW Business Chamber recommends that the New South Wales Government**

11. Promote flexible employment arrangements available to retain Australian Apprentices' connection to the workplace on a part time basis
12. Publicise the full range of intermediaries such as Group Training Organisations available to connect employers and laid off apprentices
13. Prioritise Australian Apprentices who have been laid off in selection under the NSW Government's Public Sector Apprenticeship Strategy
14. Reinstate payroll tax exemption for new entrant traineeships and trade apprenticeships to reduce paperwork associated with employing an Australian Apprentice
15. Extend payroll tax exemption to cover existing worker traineeships to encourage more existing workers to undertake an Australian Apprenticeship
16. Extend workers' compensation exemptions to cover traineeships in identified skill shortage sectors as well as apprenticeships
17. Streamline State Training Services' procedures and requirements for the early completion of trade apprenticeships in NSW
18. Commit to approve or reject applications for early completion of trade apprenticeships and traineeships within 4 weeks of application
19. Retain employer and apprentice consent as mandatory requirements of early completion of a trade apprenticeship
20. Target jobseeker Productivity Places Program qualifications to traineeship level only
21. Significantly increase its allocation of prevocational training places to match the NSW Government's commitment to employ 4,000 additional apprentices and trainees in the public sector over the next 4 years
22. Require work placements as mandatory inclusions of prevocational and Productivity Places training to support jobseeker transitions to employment
23. Commit to provide significant numbers of work placement opportunities within the public sector to support prevocational and Productivity Places student transitions to employment
24. Prioritise applications for funding for training that demonstrate evidence of brokered solutions between employers, training providers and other intermediaries to meet local skill needs

## Introduction

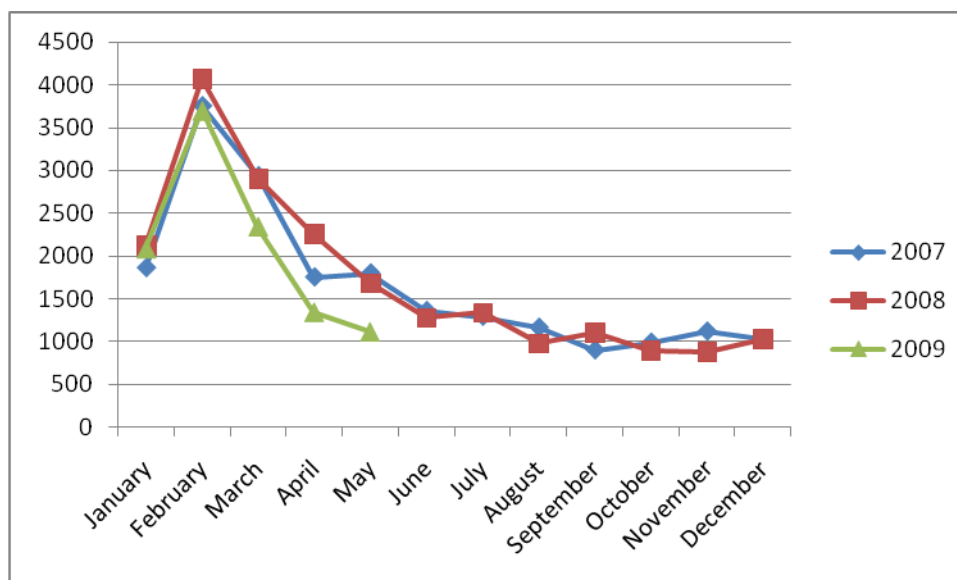
Prior to the economic downturn, NSW faced a significant shortage of skilled workers in many sectors. Even with the current decline in skilled vacancies, many tradespeople are ageing and expect to retire or move on in the next few years.

Australia is still facing a significant shortfall in trade and higher level skills in the medium to long term. Our future economic capacity will rely on securing a supply of skilled tradespeople to take their place, retaining and upskilling workers in the middle and later stages of their working life.

Government needs to do more to reduce the burden on business associated with taking on an apprentice, in recognition of the improved outcomes achieved through the integration of paid work and structured training for both new employees and existing workers.

## Declining trade apprenticeship commencements in NSW

While traineeships continue to increase, the number of trade apprentices being signed up in New South Wales on a monthly basis has steadily declined since February 2009. Commencements in the month of May 2009 were 19% less than those of the preceding year. This translates to **almost 2,000 less trade apprentices in NSW** commencing during the first 5 months of 2009 compared to the two preceding years.



According to the recent discussion paper produced for the NSW Apprenticeship Future Taskforce, the decline in trade apprenticeships from January to April 2009 was concentrated in

- Building and Construction sector (-26.5%), particularly carpentry and plumbing apprenticeships
- Utilities and Electro Technology (-12.6%), particularly Electrical Electrician, Electrotechnology Electrician and Refrigeration/Air Conditioning Mechanic apprenticeships
- Automotive (-12.2%), primarily in Light Vehicle – Mechanical apprenticeship
- Manufacturing Engineering (-15.6%), primarily in Engineering Fabrication and Engineering Mechanical Certificate III apprenticeships

It should be noted that most of these sectors consist of a high proportion of small businesses.

A decline in trade apprenticeship commencements is understandable in the short term given the past few months' rapid reduction in the skilled vacancies and heightened business uncertainty.

However given that it can take up to four years to complete a trade apprenticeship, a further fall in apprenticeship commencements will exacerbate skill shortages in the next few years and reduce business' capacity to respond when the market recovers.

Every effort must be made to encourage businesses to continue to employ and train trade apprentices now to avoid heightened skills shortages in the future.

### ***Future apprentice uptake by employers***

Anecdotal evidence suggests that the recent exposure to the impact of skill shortages has caused many employers to resist retrenching their existing apprentices while they can, however many businesses are choosing not to take on any new apprentices, raising the spectre of looming skill shortages in future years.

NSW Business Chamber recognises the contribution of the NSW Government in committing to employ an additional 4,000 apprentices and trainees over the next four years as part of the NSW Public Sector Apprenticeship Strategy.<sup>1</sup>

Nevertheless, businesses in the private sector and small business in particular play an essential role in employing and training the majority of trade apprentices and more needs to be done to bolster this essential supply of the State's future skilled tradespeople.

Substantial public support is required to offset the significant costs of engaging a trade apprentice in order to invest in Australia's future economic and skills base. These payments will be recouped many times over in both improved productivity and taxes paid by gainfully employed tradespeople in the long term.

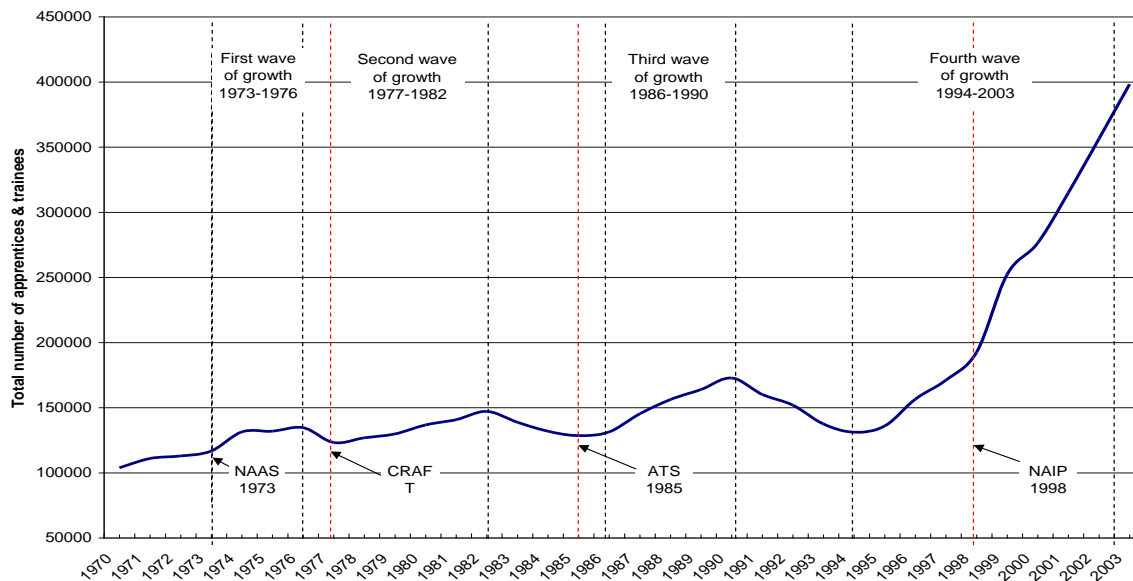
Substantial increases to Australian Apprenticeship uptake have always had a strong correlation to financial support provided to employers. Since 1970, four significant waves of growth in apprenticeship numbers have occurred.

As the following graph illustrates, the first wave coincided with the introduction of national subsidies for employers to take on apprentices while the second wave of growth followed an enhanced national employer incentive scheme. The third corresponded with the introduction of the Australian Traineeship System in 1985 and the fourth and largest wave in 1998 was supported by the New Apprenticeships Incentives Programme.<sup>2</sup>

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<sup>1</sup> Premier of NSW, Media Release: *6000 new jobs for young people to boost NSW economy*, 17 February 2009

<sup>2</sup> Department of Education, Science and Training, *Skills at work: Evaluation of New Apprenticeships*, December 2004

*Periods of Growth in Apprenticeships, Traineeships and New Apprenticeships, 1970-2003*

Sources: DEIR (1986); DETYA (1990) NCVET (1998); NCVET (2000a); NCVET (2000b); NCVET (2003) and unpublished data<sup>3</sup>

### ***Traineeships and apprenticeships are not created equal***

Commonwealth assistance to employers of apprentices first became widespread with the introduction of the National Apprenticeships Assistance Scheme in 1973; financial incentives were introduced in 1987 and provided employers with two payments of \$1,500 each paid at commencement and at completion. Career Start Traineeships were introduced in 1992 and incentives were raised to \$2,000. The apprentice subsidy rate increased to \$4,000 in 1994. From late 1996, incentive payments for apprenticeships and traineeships were increasingly brought into line.<sup>4</sup> All traineeships above Certificate II level and apprenticeships now attract identical standard commencement and completion incentives totalling \$4,000.

As this summary demonstrates, incentives for the employment of apprentices have not changed in dollar terms in 15 years. Clearly the value of this incentive in real terms has diminished to a nominal payment at best.

An employer receives the same \$4,000 incentive whether they employ on a young person on a 12 month traineeship, or a three to four year commitment in the case of an apprenticeship.

During the economic downturn, many businesses are considering how to reduce costs and their business' exposure to financial risk. Without strong financial incentives to do so, a four year employment contract that impacts strongly on the productivity of existing trade qualified staff will continue to be identified by business as an area of savings.

Put simply, the significant skill and employment outcomes of apprenticeship and an apprentice's value to the Australian economy are not adequately reflected or supported by providing the same level of employer incentives as a traineeship.

Incentive payment frameworks must recognise the fact that an apprenticeship is 3-4 times the commitment, cost and value of a traineeship both to business owners and the national and state economies.

<sup>3</sup> *ibid*

<sup>4</sup> Commonwealth Department of Education, Science and Training, *New Apprenticeship Incentives Programme (NAIP) Review, 2002*

### ***Costs of taking on a trade apprentice***

The National Centre for Vocational Education Research found employers and apprentices agreed on early apprentices' contribution to the business, with both parties identifying a first year as roughly 30% of the productivity of a skilled tradesperson and a second year at roughly 45%. This estimate corresponds extremely closely to actual apprentice wages.<sup>5</sup>

However wages are only part of the cost associated with employing a trade apprentice. The same NCVER study identified that a major cost of an apprenticeship for employers was providing intensive supervision by a qualified tradesperson and the associated loss of workplace productivity of this staff member, particularly during the first two years.

Incentive payments currently occur 13 weeks into the trade apprenticeship and on completion almost four years later. Many employers of trade apprentices have suggested that a more regular payment of incentives, weighted towards the first two years when the apprentice's productivity is at its lowest, would assist business uptake and retention of trade apprentices.

Research and anecdotal evidence has shown that by the 3<sup>rd</sup> or 4<sup>th</sup> year, an apprentice is a high value contributor to the business and does not require the same levels of support.

Trade apprenticeships in skill shortage occupations do attract some additional payments in the early years such as Support for Adult Apprenticeships and/or the Tools for Your Trade; however the majority of these payments go to the apprentice themselves and do not play a significant role in supporting employer uptake.

A range of employer organisations have estimated the cost of employing apprentices to business. A study by the Illawarra Business Chamber's Apprenticeship Committee showed that the impact on a small business could be as high as \$10-\$12,000 per year to employ an apprentice, particularly in the early years. The Master Builders Association of Australia has estimated that an apprenticeship in construction may cost an employer an average of \$33,000 per year.

The heavy burden of cost in the early years may be able to be absorbed by big business, but for many small businesses such costs act as a major disincentive to employ an apprentice. As the most numerous employers of tradespeople, NSW Business Chamber believes that small businesses require significantly more support to continue to employ trainees and apprentices in these tough times.

### **Recommendations**

The NSW Business Chamber recommends that the Australian Government

1. Significantly increase financial incentives available to small businesses to reflect the length of contract and long-term benefits to the Australian economy of trade apprenticeships
2. Weight incentive payments towards the first two years of an apprenticeship to reflect the higher supervision cost and lower productivity during the early years
3. Provide an additional short term "investment bonus" to employers at the end of the second and third years of an apprenticeship to reinforce employer retention of trade apprentices

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<sup>5</sup> Lisa Nechvoglod, Tom Karmel, John Saunders, *The cost of training apprentices*, National Centre for Vocational Education Research, 2009

### ***Streamlining payment of incentives***

The high level of paperwork associated with an Australian Apprenticeship also creates major disincentive to small businesses as costly, awkward and inconvenient. Paperwork prevents businesses from accessing support that they are entitled to, an issue that has even been recognised in the Australian Government's May 2009 Budget:

*"The new Budget announcements streamline existing initiatives to eligible Australian Apprentices and employers and aim to address the low take-up rates along with simplifying the administrative processes associated with the management of some of these initiatives."*<sup>6</sup>

#### **Recommendation**

The NSW Business Chamber recommends that the Australian Government

4. Reduce paperwork and provide incentive payments by direct deposit to employers at 3 monthly intervals to reinforce employer retention of trade apprentices

### ***Flexible employment options to retain existing trade apprentices***

Not all businesses will be able to afford to retain their current trade apprentices on a full time basis. Although a number of initiatives have been instigated to support apprentices who have already been laid off, little support has been provided to date to companies who are struggling to continue to employ their existing apprentices.

The NSW Business Chamber supports the proposal raised in the Australian Apprenticeships Taskforce Discussion Paper to investigate payment of an investment bonus to employers at the end of the second and third years of their apprenticeship to encourage ongoing employment.<sup>7</sup>

Increased flexibility is also needed to accommodate business' changed circumstances and retain existing trade apprentices' connection to the workplace on reduced hours.

Flexible options may include

- Reduced work hours to part-time for a specified period
- Reduced work hours to 1 day per week for a specified period (similar to an Australian School-based Apprenticeship)
- Temporary stand downs
- Transfers to fulltime training for a specified period
- Transfers to other employers/Group Training Organisations

#### **Recommendation**

The NSW Business Chamber recommends that the NSW Government

11. Promote flexible employment arrangements available to retain Australian Apprentices' connection to the workplace on a part time basis

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<sup>6</sup> Australian Government, *Budget 2009-2010 Initiatives*, May 2009

<sup>7</sup> Council of Australian Governments Australian Apprenticeships Taskforce, *Australian Apprenticeships Taskforce Discussion Paper*, June 2009, Section 5.2 Retaining apprentices through the downturn

### ***Supporting laid off apprentices***

The longer an apprentice is out of work, the less likely they are to re-engage in their chosen field. Australian Apprentices must be supported to search for a new employer in the same occupation and continue to undertake structured training during this vulnerable period.

The Australian Government has committed to provide extra funding for RTOs to cover the cost of training out of work apprentices; however this measure does nothing to encourage out of work apprentices to continue to undertake their training unless they are already motivated to do so.

#### **Recommendation**

The NSW Business Chamber recommends that the Australian Government

5. Provide a short term wage subsidy in addition to New Start Allowance to laid off apprentices that is explicitly linked to continuation of structured apprenticeship training and job search activities in the same industry as their apprenticeship

### ***Connecting laid off apprentices to a new employer***

NSW Business Chamber recognises the efforts of the Australian Government in allocating additional incentives to encourage employers to take on apprentices who have been laid off.

The NSW Government has also established a Continuing Apprentices Placement Service and has committed to provide a \$2500 relocation payment to enable laid off apprentices to relocate to continue their apprenticeship with another employer in NSW.

NSW Business Chamber supports the suggestion that intermediaries such as local government and community projects should be strengthened to support apprentices to complete training and continue to seek work in their chosen sector.<sup>8</sup>

Other bodies such as peak and sector-specific industry associations, Group Training Organisations, Australian Apprenticeships Centres, employment and labour hire agencies, local government, training providers, State and Territories' services are also able to assist in connecting laid off apprentices to employment opportunities.

Private sector models such as Alliance People Solutions and TAFE working with Bakers' Delight in the Hunter region of NSW showcase the role of employment agencies and industry bodies in creating brokered programs that connect tailored training, work placements, employment opportunities and motivated candidates.

#### **Recommendations**

The NSW Business Chamber recommends that the Australian Government

6. Fund brokered employment and training models that connect employers, training providers and other intermediaries to jobseekers and prevocational graduates to meet local skill needs

The NSW Business Chamber recommends that the NSW Government

12. Publicise the full range of intermediaries such as Group Training Organisations available to connect employers and laid off apprentices

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<sup>8</sup> Council of Australian Governments Australian Apprenticeships Taskforce, *Australian Apprenticeships Taskforce Discussion Paper*, June 2009, Section 5.3 Supporting out of trade/retrained apprentices

### ***Public sector employment of apprentices***

More apprentices are expected to be laid off as the economic downturn continues to affect business sustainability. It is critical that existing apprentices who have already had time and resources invested in them do not slip through the cracks.

Rather than focusing on building supplies of new entrants, Governments should prioritise people who have already demonstrated their commitment to the trades by expanding public employment of trade apprentices and targeting these opportunities to apprentices who have already been laid off.

#### **Recommendations**

The NSW Business Chamber recommends that the Australian Government

7. Expand public sector employment of trade apprentices, prioritising apprentices who have been laid off

The NSW Business Chamber recommends that the NSW Government

13. Prioritise Australian Apprentices who have been laid off in selection under the NSW Government's Public Sector Apprenticeship Strategy

### ***Tax and workers' compensation to support uptake***

It is significant that traineeships have not suffered the same decline in commencements during the economic downturn. Traineeships with a shorter term of 1-3 years represent a less onerous burden on business and can form a pathway into the trades where the traineeship qualification articulates into an apprenticeship.

The NSW Government needs to recognise the role of traineeships in providing employers with a shorter term option to train and employ staff in the early stages of a trade occupation and reduce the cost and red tape associated with employing both apprentices and trainees.

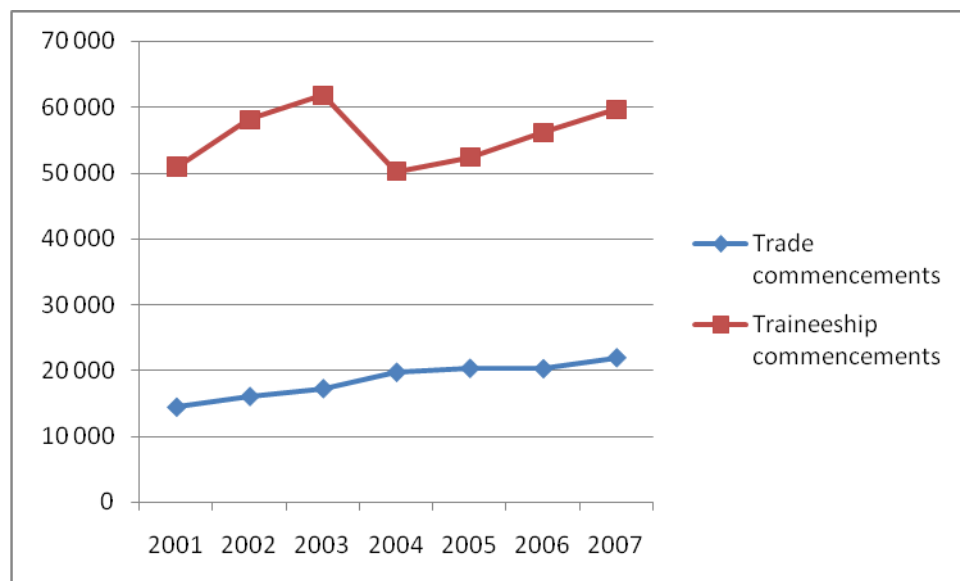
Recent changes to workers' compensation exemptions illustrate how sensitive commencements are to changes in employment conditions. The payment of workers' compensation premiums by the NSW Government could be considered one of the contributing factors of a dramatic increase in trainees in NSW between 1997 and 2003, quadrupling to 56,000 trainees.

The NSW Government ceased to pay workers' compensation premiums for trainees from 1 January 2004. While the Government cited a rise in the rate of workplace injuries among trainees and a few high profile examples of poor practice among a small number of employers, the primary argument was one of cost to the NSW Government with workers' compensation for trainees ballooning from \$4 million in 1997-8 to \$47 million in 2003-4.<sup>9</sup>

The retraction of workers' compensation support saw a drop of almost 20% in traineeship commencements in NSW in a single year. New South Wales has only recently regained the same level of traineeship commencements as in 2003. As the diagram below demonstrates, trade apprentices which were not affected by this change continued to grow steadily during this time.

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<sup>9</sup> The Hon Michael Egan, *Hansard, Workers' Compensation Legislation Amendment (Trainees) Bill, Second Reading*, 4 December 2003

*NSW Apprenticeship and Traineeship Commencements, 2001-2007*

Source: National Centre for Vocational Education Research<sup>10</sup>

The intimate relationship between increased employer incentives and Australian Apprenticeship uptake illustrated in the graph on page 7 also highlights the introduction of incentives or subsidy initiatives as crucial pressure points for government in encouraging employers to take on Australian Apprentices.

### **Recommendations**

The NSW Business Chamber recommends that the NSW Government

14. Reinstate payroll tax exemption for new entrant traineeships and trade apprenticeships to reduce paperwork associated with employing an Australian Apprentice
15. Extend payroll tax exemption to cover existing worker traineeships to encourage more existing workers undertake an Australian Apprenticeship
16. Extend workers' compensation exemptions to cover traineeships in identified skill shortage sectors as well as apprenticeships

### ***Maximising existing worker uptake of trade apprenticeships***

In a contracting economic climate, businesses are more likely to consider signing up existing staff to a trade apprenticeship than taking on a new staff member, particularly if the existing worker has prior experience working in a trade sector and could progress more quickly through the apprenticeship with skills recognition.

However the rules governing eligibility for Commonwealth incentives prevent workers who may already hold a prior qualification from attracting employer incentives unless the new apprenticeship is listed on the National Skills List.

The Council of Australian Government has set a target to halve the proportion of people aged 20-64 without a qualification at Certificate III level or higher by 2020.

<sup>10</sup> Australian Government, 2008, *Apprentices and trainees 2007 – Annual, Australia, State and Territory data tables for Training, Completion and Attrition*

In this context, making existing workers with prior training ineligible for employer financial incentives creates unnecessary barriers to the acquisition of higher level skills and effective reskilling of the existing workforce.

### **Recommendations**

The NSW Business Chamber recommends that the Australian Government

8. Publicise the benefits of existing employees undertaking an Australian Apprenticeship
9. Remove the stipulation that Australian Apprentices not in areas of skills shortage do not attract incentives if they have a 'prior qualification within the last 7 years' to encourage more existing workers and re-entrants to undertake an Australian Apprenticeship
10. Publicise availability of Support for Adult Apprentices payments for apprentices aged 25 and over

### ***Early completion***

NSW Business Chamber recognises that a range of reasons exist for employers to apply for "early completion" of a trade apprenticeship. According to NSW Business Chamber research, a number of employers are prepared to pay significantly more than the mandated minimum to apprentices that demonstrate high levels of productivity, and this extends to supporting applications for early completion of a trade apprenticeship.

While the NSW Government advises apprentices and their employers of the *possibility* of early completion during the final year, administrative systems associated with early completion can obstruct early completion of even form a disincentive to employers recognising that an apprentice has achieved the required level of workplace competence in less than four years.

Processing of early completion applications in NSW can often take longer than the time it was supposed to save, particularly where an apprentice and their employer agrees that the apprentice has demonstrated competency at a level equivalent to their peers more than a year ahead of them.

Delays are often caused by a lack of familiarity with the process of early completion by NSW State Training Services' front line staff, lack of clarity about what constitutes legitimate supporting evidence and hesitancy to accept applications at face value if granting early completion would reduce the apprenticeship by more than 12 months.

### **Recommendations**

The NSW Business Chamber recommends that the NSW Government

17. Streamline State Training Services' procedures and requirements for the early completion of trade apprenticeships in NSW
18. Commit to approve or reject applications for early completion of trade apprenticeships and traineeships within 4 weeks of application
19. Retain employer and apprentice consent as mandatory requirements of early completion of a trade apprenticeship

## ***Non-apprenticeship training***

### **Productivity Places Program**

The NSW Business Chamber welcomes the NSW Government's National Partnership with the Australian Government to deliver 175,000 Productivity Places qualifications in NSW over the next four years.<sup>11</sup>

The Productivity Places Program has potential to build the capacity and employability of jobseekers and workers who have been laid off, while deferring the need for an immediate employment commitment from businesses during this difficult financial period.

However, NSW Business Chamber does not consider the Productivity Places Program's insistence of funding full qualifications, largely through classroom delivery, to be a suitable source of new entrants into the highly regulated trade occupations. Without a consistent and long term engagement in the workplace as occurs during an Australian Apprenticeship, classroom training will not produce the required competence and employability skills to gain employment in a trade occupation.

Apprenticeships may demand greater financial and time commitments from an employer, but the advantage is that the participant is engaged in the workplace from the start. Skills learned in training are practised, recognised and utilised on the job as they are acquired.

By the conclusion of an Australian Apprenticeship, experience and technical skills have been consistently integrated into the apprentice's workplace performance in a way that could never be achieved by a 2 week work placement or a course taught predominantly in the classroom.

### **Recommendation**

The NSW Business Chamber recommends that the NSW Government

20. Target jobseeker Productivity Places Program qualifications to traineeship level only

### **Prevocational training**

By contrast, prevocational training (also known as a "preapprenticeship") is a model that is well regarded and recognised by business as an acceptable pathway into a trade. Prevocational training enables a jobseeker to complete the equivalent of first year of the structured training prior to entering the workplace.

At a time when apprenticeship completion rates hover around 50%, completing prevocational training has been demonstrated to have a significant influence on the likelihood of a person successfully completing a full trade apprenticeship.

Other benefits include

- Increased skill / knowledge / preparedness of candidates prior to entering the workforce
- Exposure of candidate to the sector prior to commencing employment
- Option for early completion of the apprenticeship

Both Federal and NSW Governments have committed to increase the number of prevocational training places available. However the NSW Government has only committed to fund prevocational 100 places in NSW in 2009, despite its stated intention to employ an additional 4,000 apprentices and trainees in the next four years.

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<sup>11</sup> The Hon Julia Gillard MP, Joint Media Release: *175,000 new training places to boost NSW skilled workforce*, 26 February, 2009

### **Recommendation**

The NSW Business Chamber recommends that the NSW Government

21. Significantly increase its allocation of prevocational training places to match the NSW Government's commitment to employ 4,000 additional apprentices and trainees in the public sector over the next 4 years

### **Connecting non-apprenticeship training to the workplace**

Good practice indicates that prevocational training is most effective at generating successful transitions with the inclusion of 1-2 weeks of work placement with a local employer immediately on completion of structured training.

This experience enables jobseekers to get a sense of what it is like to work in a particular occupation, enables employers to "try before you buy" and builds graduate employability skills, while nurturing the graduate's new connection to the sector.

Ideally, prevocational training should not be offered in a region unless there is a guaranteed work placement available, as training without this critical connection to the sector is unlikely to lead to successful employment opportunities.

Work placements need to be consistently supported by brokered solutions negotiated between employers, training providers and other intermediaries to address identified local skill needs.

Governments need to take a lead role in building Australia's skill base by committing the public sector to provide both more work placements and full apprenticeships.

### **Recommendations**

The NSW Business Chamber recommends that the NSW Government

22. Require work placements as mandatory inclusions of prevocational and Productivity Places training to support jobseeker transitions to employment
23. Commit to provide significant numbers of work placement opportunities within the public sector to support prevocational and Productivity Places student transitions to employment
24. Prioritise applications for funding for training that demonstrate evidence of brokered solutions between employers, training providers and other intermediaries to meet local skill needs