Chapter 5

Investing in local training to address skills shortages

5.1 As noted in Chapter 2, it is a requirement that businesses employing workers on temporary short stay (TSS) visas (as well as the previous 457 visa) make a contribution towards the training of Australian workers.

5.2 This chapter examines the introduction of the Skilling Australians Fund, the mechanism through which this contribution is currently made by employers. Broader issues relating to the training of Australian workers in order to address local skills shortages in the medium and long term are also considered.

The Skilling Australians Fund levy

5.3 Prior to August 2018, training benchmarks under the 457 visa program required sponsors to demonstrate expenditure on training Australians by:

- spending at least two per cent of their payroll in payments to an industry training fund operating in the same or related industry; or
- spending at least one per cent of their payroll on training to Australian citizens or permanent residents employed in the business.[1]

5.4 This requirement was replaced with the Skilling Australians Fund (SAF) charge in August 2018. The SAF requires sponsors to pay a levy upfront whenever they lodge a nomination application for a TSS visa. The levy cannot be recovered from or passed onto another person, including the sponsored employee.[2] It is designed to place a requirement on employers who sponsor overseas skilled workers to contribute towards the broader skill development of Australians.[3]

5.5 The SAF is used to train Australians and requires joint investment by state and territory governments. Allocation of resources from the SAF is prioritised towards traineeships and apprenticeships, with the objective of supporting Australia's future productivity, jobs and growth between 2017 and 2022 through this targeted training funding.[4]

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1 Department of Home Affairs, 'Temporary Skill Shortage (TSS) visa – Sponsorship obligations, monitoring and sanctions', https://archive.homeaffairs.gov.au/visas/supporting/Pages/482/sponsorship-obligations-monitoring-sanctions.aspx (accessed 25 February 2019).

2 Law Council of Australia, *Submission 36*, p. 6.

3 Department of Home Affairs, 'Employer Sponsored Skilled visas – Skilling Australians Fund (SAF) levy. Available at: https://archive.homeaffairs.gov.au/trav/work/empl/skilling-australia-fund (accessed 19 March 2019).

4 Department of Education and Training, *Skilling Australians Fund*, https://www.education.gov.au/skilling-australians-fund (accessed 25 February 2019).

5.6 A joint submission from the Department of Home Affairs, the Department of Jobs and Small Business and the Department of Education and Training (Joint Departmental Submission) described the effect of the SAF to date:

> The renewed focus on apprenticeships and traineeships is boosting the number of people who choose and succeed in this pathway and helping businesses to gain the skilled workers they need to drive innovation and growth and address skills shortages.[5]

5.7 The framework for the SAF is established by the *Migration (Skilling Australians Fund) Charges Act 2018* and the *Migration Amendment (Skilling Australians Fund) Act 2018* (the SAF Acts).

5.8 All businesses nominating overseas workers for employer-sponsored visas are required to pay the SAF levy. This applies to TSS visas, Employer Nomination Scheme (ENS)(subclass 186) visas and Regional Sponsored Migration Scheme (RSMS)(subclass 187) visas. The levy also applies to ENS and RSMS permanent visas.[6]

5.9 The Department of Home Affairs collects the levy, but the Fund itself is administered and allocated by the Department of Education and Training.[7] The levy amount is set at the following rates for employers sponsoring workers for a TSS visa:

- $1200 per nominated overseas worker per annum for small businesses with an annual turnover of less than $10 million.
- $1800 per nominated overseas worker per annum for businesses with an annual turnover of $10 million or more.[8]

5.10 Businesses must also pay a one-off SAF levy payment when lodging a nomination application for an overseas worker for the ENS and RSMS permanent visas. The payment rates for each nominated overseas worker in these circumstances are: $3000 for small businesses with an annual turnover of less than $10 million; or $5000 for businesses with an annual turnover of $10 million or more.[9]

5.11 Between its introduction in August 2018 and 31 January 2019, the Department of Home Affairs collected $90.3 million in SAF levy payments.[10] According to the Department of Education and Training, the levy-reliant budget for

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5 Department of Home Affairs, Department of Jobs and Small Business and Department of Education and Training (Joint Departmental Submission), *Submission 40*, p. 10.

6 Joint Departmental Submission, *Submission 40*, p. 10.

7 Joint Departmental Submission, *Submission 40*, pp. 6, 10.

8 Department of Home Affairs, *Employer Sponsored Skilled visas – Skilling Australians Fund (SAF) levy*, https://archive.homeaffairs.gov.au/trav/work/empl/skilling-australia-fund (accessed 25 February 2019).

9 Joint Departmental Submission, *Submission 40*, p. 10.

10 Department of Home Affairs, *Answer to questions on notice AE19/187*, 18 February 2019, provided to the Senate Legal and Constitutional Affairs Legislation Committee on 29 March 2019, p. 1.

the Skilling Australians Fund for the relevant year is $243.4 million,[11] indicating there will be a shortfall. This suggests that projections by the government indicating that the SAF levy will raise $1.2 billion in revenue over its first four years[12] may not be reliable.

5.12 The Australian Government invested around $187 million in the first year of the Fund, from a budget of $300 million.[13] The Joint Departmental Submission stated:

> In June 2018, the first year of the Fund, the Australian Government invested around $187 million to support approximately 50,000 additional apprentices, trainees, pre-apprentices, pre-trainees and employment-related training commencements. The additional training opportunities delivered in 2017–18 by the states included a range of innovative and successful employer and apprentice incentives across occupations in demand and sectors of future growth. State projects had matched funding and demonstrated engagement with, and support from, key industry and employer groups.[14]

5.13 Under amendments made by the Senate during the passage of the SAF Acts in 2018, the operation of the SAF will be the subject of an independent review. This review is due to commence in November 2019 (18 months after the SAF Acts received Royal Assent) and is to be completed within six months.[15]

National Partnership Agreement on the Skilling Australians Fund

5.14 Between 2018 and 2022, the Fund will be managed through a National Partnership Agreement on the Skilling Australians Fund (NPSAF, or the Agreement). The objective of the Agreement is 'to improve employment outcomes by supporting Australians to obtain the skills and training they need for jobs in demand through increasing the uptake of apprenticeships, traineeships and employment related training'.[16]

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11 Department of Education and Training, Answer to question on notice, *2018–19 Budget Estimates Question on notice no. 314*, provided to the Senate Education and Employment Legislation Committee on 12 October 2018, p. 3.

12 Commonwealth of Australia, *Federal Financial Relations: Budget Paper No. 3 2018–19*, p. 35.

13 Commonwealth of Australia, *Federal Financial Relations: Budget Paper No. 3 2018–19*, p. 35.

14 Joint Departmental Submission, *Submission 40*, pp. 10–11.

15 *Migration Amendment (Skilling Australians Fund) Act 2018*, s. 4.

16 Joint Departmental Submission, *Submission 40*, p. 11.

5.15 The Victorian and Queensland governments have not signed the NPSAF due to its instability and inadequacy.[17]

5.16 Through the Agreement and bilateral agreements with each state, states are able to develop projects which support additional apprentice, trainee and employment-related training in agreed priority areas including:

- Occupations in demand.
- Occupations with a reliance on skilled migration pathways.
- Industries and sectors of future growth that include, but are not limited to, the following priorities: tourism, hospitality, health, ageing, and community and social services, engineering, manufacturing, building and construction, agriculture and digital technologies.
- Trade apprenticeships.
- Rural and regional areas.
- Targeted cohorts.
- Industries and communities experiencing structural adjustment.[18]

5.17 The Joint Departmental Submission stated that projects funded under the Agreement must demonstrate that they have support from and will engage with industry and employers:

> Industry is a key partner in ensuring that training delivers the skills industry needs and that skills spending is targeted to jobs in demand.[19]

5.18 The Department of Education and Training provided evidence on how the Agreement is being implemented, specifically looking at:

- the number of project proposals submitted by the states and territories for funding under the Agreement;
- the number of project proposals approved, still being considered or rejected; and
- the nature and value of the proposed projects.

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17 See: Department of Education and Training, *Skilling Australians Fund*, https://www.education.gov.au/skilling-australians-fund (accessed 29 March 2019); The Hon Yvette D'Ath MP, Queensland Minister for Training and Skills, the Hon Susan Close MP, South Australian Minister for Higher Education and Skills, the Hon Gayle Tierney MP, Victorian Minister for Training and Skills, and the Hon Sue Ellery MP, Western Australian Minister for Education and Training, 'Turnbull's Budget a Disappointment for Training and TAFE', *Joint Media Release*, 11 May 2017, https://www.premier.vic.gov.au/turnbulls-budget-a-disappointment-for-training-and-tafe/ (accessed 28 March 2019).

18 Joint Departmental Submission, *Submission 40*, p. 11.

19 Joint Departmental Submission, *Submission 40*, p. 11.

5.19 The committee was informed that the Northern Territory submitted two project proposals, while other state and territory governments submitted one.[20] In terms of project approval:

> All project proposals submitted by signatory states as a part of the bilateral schedules under the NPSAF have been approved. Discussions were held with the states during the negotiation period to agree bilateral schedules to ensure the parameters of agreed projects met the requirements outlined in the NPSAF.[21]

5.20 The Department of Education and Training also provided high-level information on the projects in question, broken down by state and territory, as shown in Table 5.1.

Table 5.1 – Projects approved under the NPSAF

State	Project title	Commonwealth contribution in 2018–19
NSW	NSW Smart and Skilled Apprenticeship and Traineeship and Complementary Training programs	$93.8 million
WA	Jobs and Skills WA	$18.4 million
SA	Skilling South Australia Initiative	$20.3 million
TAS	Building Tasmania's Skills	$6.1 million
ACT	Skilling Australia's Capital Region	$4.9 million
NT	Project 1: Territory Workforce Program	$2.65 million
	Project 2: NT Pre-employment Training Program	$0.25 million

Stakeholder views on the Skilling Australians Fund levy

5.21 Views on the SAF levy varied among submitters and witnesses. Key issues brought to the attention of the committee included: the quantum and timing of the SAF levy payment; and the availability of SAF levy refunds.

The quantum and timing of the SAF levy payment

5.22 The quantum of the SAF levy was identified as a major concern for business, with some submitters arguing that it is excessive and only exacerbated by the upfront nature of the payment. This, the Australian Chamber of Commerce and Industry (ACCI) stated, only adds to the already considerable burden placed on small

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20 Department of Education, Answers to questions on notice, 6 March 2019 (received 15 March 2019), p. 1.

21 Department of Education, Answers to question on notice, 6 March 2019 (received 15 March 2019), p. 1.

business. ACCI called for the levy to be halved to $600 and $900 per year for each sponsored temporary migrant for small and large business respectively.[22]

5.23 Business SA described the SAF levy as 'hefty', and submitted that this cost was contributing to making it financially unviable for businesses to hire short-term workers when they are urgently needed.[23]

5.24 This view was echoed by Restaurant and Catering Australia (R&CA), which described the levy as a 'significant frustration'[24] for business owners:

> The cost impost, as well as the upfront nature of the SAF levy, have significantly disincentivised businesses' from attempting to hire foreign workers on skilled visas. In order to resolve this issue, R&CA believes that the quantum of the Skilling Australians fund levy should be reduced by 50 per cent to reduce the cost burden for businesses in sponsoring a skilled visa applicant.[25]

5.25 Like ACCI, R&CA did not support the requirement for SAF contributions to be made upfront, instead calling for the introduction of payment options:

> As is the case with many small businesses across a number of different sectors, cash flow is a significant issue and the upfront nature of the SAF levy is creates a cost burden that inhibits participation.[26]

5.26 While R&CA called for the levy to be halved, the organisation would nonetheless like to see existing funding for the SAF maintained at its current level through increased government contributions:

> R&CA believes that it is necessary for the Commonwealth Government to make a stated commitment to maintain funding at current levels for the Skilling Australians Fund regardless of the level of money generated from the SAF levy.[27]

5.27 Other submitters saw distinct benefits to the cost of the levy, however. The Migration Council of Australia submitted that ensuring employers pay more to hire a foreign worker has an protective effect for Australian job seekers:

> The contribution not only funds national training initiatives for Australians in areas of need, it also serves as an assurance that employers are willing to pay extra to hire a foreign worker. This is an important part of ensuring the programme achieves its objective of also protecting Australian job seekers.[28]

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22 ACCI, *Submission 12*, p. 14. See also: Business SA, *Submission 16*, p. 8.

23 Business SA, *Submission 16*, p. 16.

24 Restaurant and Catering Australia, *Submission 32*, [p. 19].

25 Restaurant and Catering Australia, *Submission 32*, [p. 18].

26 Restaurant and Catering Australia, *Submission 32*, [p. 19].

27 Restaurant and Catering Australia, *Submission 32*, [p. 19].

28 Migration Council of Australia, *Submission 7,* p. 6.

5.28 The committee explored issues around the cost of the SAF levy with witnesses from the Department of Home Affairs. The levy, the committee heard, was designed to find a balance between imposing a cost on bringing in workers from overseas and enabling business to meet skills needs:

> Some of the reforms have put a price into the marketplace, if you like, around the SAF levy. So if an employer brings in a worker on a TSS visa, they now make a contribution to the Skilling Australia Fund. That puts an additional price into the labour market. It sends a signal into the short-term labour market to say: if you have a genuine need to attract skills and you've done all the right things—you've done the labour market testing; you are going for an occupation that is identified as one of the areas we have a shortage in—then you will have to pay these costs to bring in the worker. It is a balance. It is not so onerous that it makes it impossible for business to get those needs met to grow the business but it is not free either, so it is striking a balance.[29]

5.29 The Department of Home Affairs also commented on the timing of the SAF levy payment, explaining the rationale for collecting the levy at the time the sponsor lodges a nomination as follows:

> Payment of the Skilling Australians Fund levy at the time of lodgement of a nomination seeks to minimise the administrative cost to sponsors and the Department of Home Affairs (the Department), by removing the need to go back to the sponsor for collection of any payable fees during the assessment process.[30]

Levy refunds and exemptions

5.30 Refunds of the SAF levy are only available in limited circumstances. Examples include where:

- the visa application is refused on health or character grounds;
- the visa holder fails to commence employment in their nominated position;
- (for applications lodged after 17 November 2018) the TSS visa holder ceases within the first 12 months of employment in their nominated role (if the visa was approved for a period of 24 months or more); or
- the nomination application is withdrawn from processing in certain circumstances.[31]

5.31 The Law Council of Australia submitted that nomination application refusal rates have increased, however the levy is not refunded if nomination applications are

29 Mr Richard Johnson, First Assistant Secretary, Immigration, Citizenship and Multiculturalism Policy Division, Department of Home Affairs, *Proof Committee Hansard*, 6 March 2019, p. 42.

30 Department of Home Affairs, Answers to questions on notice, 8 March 2019 (received 25 March 2019), p. 6.

31 Law Council of Australia, *Submission 36*, p. 6.

refused.[32] This is, in the Law Council's view, unreasonable considering that the employer receives no benefit from the employee in these circumstances:

> The SAF levy was intended to be a *quid pro quo* in exchange for being permitted to sponsor overseas workers. For employers whose nomination applications are refused, the Law Council submits that it is unreasonable to retain the SAF levy from an employer as they fail to derive any benefit from the TSS program.[33]

5.32 Industry representatives such as the Australian Chamber of Commerce and Industry (ACCI) agreed, recommending that refunds should be possible in all cases where an application has not been successful.[34]

5.33 It is currently unclear what quantum of funds has been raised through SAF levy payments where the visa nomination was rejected. When questioned on what percentage of funds raised by the SAF levy has been collected in such cases, the Department of Home Affairs stated that it does not sufficiently disaggregate data about the payments to be able to answer this question:

> The Department of Home Affairs Financial Management Information System…reports on aggregate revenue collected. It does not capture or report this revenue disaggregated by nominations and/or visa applications that have been rejected. A significant investment in resources would be required to build this capability[.][35]

Exemptions for essential service industries

5.34 The importance of public service industries such as hospitals and education institutions providing an appropriate level of service to all Australians was also brought to the committee's attention in the context of skills shortages and the SAF levy payment. The Migration Council of Australia suggested that industries providing essential public services could be made exempt from the SAF levy in order to ensure they can fill shortages more readily.[36]

Effect of the SAF levy on employers' training activities

5.35 A number of stakeholders cited concerns around the impact of the SAF levy on employers who already make a significant contribution to training staff. In the view of one specialist management consultancy, this amounts to paying for training twice and creates a distinct disadvantage for some employers:

> This 'double whammy' has created a disincentive for employers to train and engage apprentices as they will be required to pay again for each overseas

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32 Law Council of Australia, *Submission 36*, p. 6.

33 Law Council of Australia, *Submission 36*, p. 6.

34 Australian Chamber of Commerce and Industry (ACCI), *Submission 12*, p. 15. See also: Australian Pork Limited, *Submission 43*, p. 19; Fragomen, *Submission 50*, p. 8.

35 Department of Home Affairs, Answers to questions on notice, 8 March 2019 (received 25 March 2019), p. 5.

36 Migration Council of Australia, *Submission 7,* p. 6.

> skilled worker via a training levy under the SAF, anyway. The training levy under the SAF also puts these employers at a financial disadvantage compared to those employers who do not train, but are only required to pay the training levy.[37]

5.36 The Law Council of Australia suggested that this could be mitigated by modifying the SAF for businesses already contributing significantly to the training of local employees. In effect, this would enable sponsors to offset their SAF levy liability by demonstrating and claiming actual expenditure on employee training.[38]

5.37 The ACCI's submission also supported a mechanism that allows employers showing demonstrated training expenditure to be exempted from the SAF levy:

> Under the previous training benchmarks, there was an option for employers to demonstrate that they invested in training by proving that they spent equivalent of 1% of payroll (benchmark) or more on training. We support this avenue of demonstrating a commitment to training and that in these circumstances an additional levy is not payable.[39]

5.38 These views were echoed by Business SA, which described the levy as inflexible and argued that its real cost is borne by businesses which could previously demonstrate investment in training:

> Under the previous system, businesses had to either put the equivalent of two per cent of their payroll into an Industry Training Fund, or demonstrate that they were spending the equivalent of one per cent of their payroll to train workers who were Australian citizens or permanent residents. All businesses spend money on training their staff; it is a necessary expense to ensure staff have the correct accreditations and knowledge to perform their role. Now, under the new system (which calculates fees based on turnover rather than payroll), those businesses would have to pay an upfront training levy of $4,800 for a worker eligible for a four year subclass 482 visa, on top of the money they would already spend on training.[40]

Ensuring that SAF funds contribute towards local skills needs

5.39 Investment in training is crucial to ensure that Australian skilled workers enter and remain in industries experiencing skills shortages.

5.40 During the inquiry, the committee considered how to ensure that funds from the SAF contribute towards the development of targeted local skills that address labour market shortages. In particular, the committee examined what safeguards are in place to ensure that projects approved under the Agreement contribute to the alleviation of genuine skills shortages, ultimately decreasing businesses' need to

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37 Cross Cultural Communications and Management, *Submission 44*, p. 8. See also R&CA, *Submission 32*, [p. 19].

38 Law Council of Australia, *Submission 36*, p. 7.

39 ACCI, *Submission 12*, p. 14.

40 Business SA, *Submission 16*, p. 8.

employ overseas workers on temporary skilled visas. When questioned on this issue, the Department of Education and Training commented as follows:

> The National Partnership on the Skilling Australians Fund (NPSAF) requires the Commonwealth Minister to consider the consistency of each project with the objectives and outcomes of the NPSAF when assessing project proposals, and the extent in which the project has delivered additional training in agreed priority areas, including occupations with a reliance on skilled migration pathways as per clause 29 of the NPSAF.[41]

5.41 The committee further explored with the department the broader question of what accountability mechanisms the Commonwealth requires to ensure that state and territory training initiatives are being implemented in a way that addresses skills shortages. Representatives of the department stated that it is difficult for the Commonwealth to maintain oversight of whether the states are being responsible in balancing the need to bring in a temporary migrant workforce, with the need to actually addressing their long-term skills needs through training initiatives.[42]

Arguments that SAF funds should benefit industries proportionately

5.42 Some industry representatives submitted that the system for allocating SAF funding will not necessarily meet industry needs. As put by the Minerals Council of Australia (MCA):

> Noting industry investment to training and education and commitment to apprenticeships and traineeships, along with the significance of industry to regional employment, the policy perspective and parameters of the levy imposed to raise revenue for the Skilling Australians Fund fails to achieve the demand-driven and industry-led imperative proposed.[43]

5.43 The MCA added that, in its view, overseas workers are already seen as a last resort by the industry, and the contribution of temporary skilled visa holders to the minerals industry 'cannot be traded off to meet other governmental objectives'.[44] This is especially the case, the MCA submitted, when there is no guarantee that funds raised through the SAF system will be invested back into the relevant industries, such as mining.[45] To address this, the MCA suggested:

> With the challenges of practical application and allocation of the fund, in particular the perceived cross-subsidisation of other industry sectors, the MCA suggests funds be allocated proportionally to each industry's use of

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41 Department of Education, Answers to questions on notice, 6 March 2019 (received 15 March 2019), p. 2.

42 Ms Fiona Lynch-Magor, Acting Group Manager, Skills Market Group, Department of Education and Training, *Proof Committee Hansard*, 6 March 2019, p. 45.

43 Minerals Council of Australia, *Submission 3*, pp. 10–11.

44 Minerals Council of Australia, *Submission 3*, p. 11.

45 Minerals Council of Australia, *Submission 3*, p. 11.

> the temporary skilled migration visas to support skilling and upskilling for that and ancillary industries.[46]

5.44 The MCA concluded that although training outputs generated through the SAF have not demonstrated a direct effect on skills availability, the industry's investment in training would continue unabated.[47]

Other proposals for ensuring that training outcomes are achieved

5.45 The committee heard other suggestions about how to ensure that employers utilising temporary skilled visa workers are contributing to local training outcomes.

5.46 This issue was explored in some depth by the Construction, Forestry, Maritime, Mining and Energy Union (CFMEU) in its submission. The union submitted that the skilled visa scheme is in fact being used by some employers as an alternative to training and educating apprentices:

> Abella (2006) argued that employers will always have a need for foreign workers if they can lower their costs by doing so. If employers can meet their labour needs while reducing their costs (including training costs) by employing temporary overseas workers their incentive to invest in an apprentice is reduced.[48]

5.47 Other research cited by the CFMEU similarly found that:

> …increasing the ease by which temporary overseas workers can be hired creates an alternative supply of trade labour which incentivises employers to engage temporary visa holders rather than invest in educating locals.[49]

5.48 These findings, the union submitted, can also be seen in research conducted by the Productivity Commission:

> Even the Productivity Commission (2015) found that the supply of qualified workers, including migrant workers, affects employers' incentives to invest in training an apprentice or trainee, especially if employers can quickly and cheaply fill vacancies from overseas workers.[50]

5.49 The CFMEU stated that employers can only be incentivised to fill skills shortages by focusing more on training Australians—relying on workers from overseas as a last resort—in a limited number of ways:

> In order for employers to train locals rather than engaging overseas labour, it needs to be more profitable to invest in education, which is rarely the case. Failing this, the Government needs to place restrictions on the use of temporary overseas workers, or at a minimum impose additional

46 Minerals Council of Australia, *Submission 3*, p. 11.

47 Minerals Council of Australia, *Submission 3*, p. 11.

48 Construction, Forestry, Maritime, Mining and Energy Union, *Submission 38*, [p. 6].

49 Construction, Forestry, Maritime, Mining and Energy Union, *Submission 38*, [p. 6].

50 Construction, Forestry, Maritime, Mining and Energy Union, *Submission 38*, [p. 6].

requirements on employers utilising overseas workers to invest in education locally.[51]

5.50 The SAF levy, the union concluded, is an insufficient incentive for employers to invest in training Australian workers.[52] Accordingly, the CFMEU recommended:

> Employers who have a genuine need to sponsor overseas workers must be required to educate local workers to reduce their need to rely on temporary overseas workers in the future. Employers should be required to train workers and employ apprentices in the same occupations where they are using skilled overseas workers.[53]

5.51 The Australian Nursing and Midwifery Federation suggested similarly that the Commonwealth could implement a policy that if an employer is going to access a temporary skilled visa worker, they must also take on a graduate.[54] Representatives from the Australian Meat Industry Employees Union agreed that if businesses employ an overseas temporary worker, they should also be required to employ a local apprentice or trainee.[55]

5.52 Ms Adrienne Rourke, General Manager of the Resources Industry Network, told the committee at its Mackay public hearing that this kind of requirement could be used in place of the SAF levy, to ensure that local benefits are being realised:

> Another point that was raised by quite a few members [of the Resources Industry Network] is that they see the skills training levy as being a revenue-raising exercise. From our economic development and my perspective, I'm still to see how that's going to work to the benefit of our region and what actual funds are going to come back specifically to us. Our members are paying money towards that if they're bringing in people through that visa system. We're obviously always parochial about this, but we'd like to see that direct money coming back on the ground to help businesses here with apprenticeships. A solution that was put forward in this process was: would it not make more sense, when you bring in one overseas skilled worker, to have to match them with an apprentice within the business? In that way, the business itself is responsible for the apprenticeship.[56]

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51 Construction, Forestry, Maritime, Mining and Energy Union, *Submission 38*, [p. 6].

52 Construction, Forestry, Maritime, Mining and Energy Union, *Submission 38*, [p. 7.].

53 *Submission 38*, [p. 7].

54 Ms Annie Butler, Federal Secretary, Australian Nursing and Midwifery Federation, *Proof Committee Hansard*, 7 March 2019, p. 2.

55 Mr Ian McLauchlan, Assistant Secretary, Queensland Branch, Australasian Meat Industry Employees' Union, and Mr Bob Sutherland, Shed President, Thomas Borthwick & Sons, Australasian Meat Industry Employees' Union, *Proof Committee Hansard*, 5 March 2019, p. 22.

56 *Proof Committee Hansard*, 5 March 2019, p. 2.

5.53 The Australian Workers' Union argued more broadly that the current trend in TAFEs closing and the number of apprenticeships dropping to an all-time low should be actively reversed in order to shift focus back onto increasing local skills.[57]

Investing in programs to improve employment outcomes of other migrant cohorts

5.54 The committee heard evidence that it would be beneficial for the Commonwealth to proactively support and promote industry programs and partnerships that assist other cohorts of visa holders in Australia with work rights, for example permanent humanitarian entrants, to achieve better employment outcomes. While it appeared that some individual initiatives were working well in this space, there was support by industry for greater coordination and resourcing at a national level.[58]

Committee view

5.55 The committee notes that stakeholders have raised concerns relating to the SAF levy, particularly its payment structure and impact on businesses' other training activities. The committee recognises that the quantum of the SAF levy must be viewed in the context of competing interests, namely, the need to allow business the flexibility required to fill skills shortages quickly when necessary, and the need to ensure that their ability to do so does not indirectly act as a disincentive for adequate investment in training.

5.56 The committee further notes that the SAF levy was only introduced in August 2018. The committee therefore considers that the government should complete an evaluation of the effectiveness of the SAF levy parameters by the end of 2019, when enough time will have passed for the levy's initial impact on skilled visa uptake and industry concerns to be more accurately ascertained.

5.57 The committee notes that the government's National Partnership on the Skilling Australians Fund (NPSAF) is primarily reliant on levies collected under the SAF and that the budget for the NPSAF is not guaranteed. The government has stated that it will not top up any shortfall between SAF revenue and the NPSAF budget. The committee also notes that in the first six months of the levy, $90.3 million was raised, and that the government has budgeted for $243 million in levy revenue in the relevant year of the NPSAF. Based on those figures, $150 million would need to be collected in five months to meet that budget. As it stands, the revenue collected by the SAF levy is falling significantly short of the government's original projections.

5.58 Stakeholders in a previous Senate committee inquiry into the Migration Amendment (Skilling Australians Fund) Bill 2017 and the Migration (Skilling Australians Fund) Charges Bill 2017 were highly critical of the design of the NPSAF

57 Mr Zachary Duncalfe, National Legal Officer, Australian Workers' Union, *Proof Committee Hansard*, 6 March 2019, p. 6.

58 See, for example: Ms Carol Giuseppi, Chief Executive Officer, Tourism Accommodation Australia, and Ms Juliana Payne, Chief Executive Officer, Restaurant and Catering Australia, *Proof Committee Hansard*, 6 March 2019, pp. 31-32.

and its heavy reliance on an insecure and fluctuating revenue source. Many submitters, including the Australian Chamber of Commerce and Industry, the Business Council of Australia and the Australian Council of Trade Unions (ACTU), called for the NPSAF to have secure and sufficient funding guaranteed.

5.59 Perhaps unsurprisingly, the government has failed to secure agreement regarding the NPSAF with either the Victorian or the Queensland governments and both governments have refused to sign on to the NPSAF due to its flaws. Those two states account for 45 percent of current apprentice and trainee activity, leaving a large hole in the government's national funding for vocational education, apprenticeships and skills development.

5.60 The committee notes that education funding expert Professor Peter Noonan, professorial fellow at the Mitchell Institute for Health and Education Policy, has independently observed the contradictions inherent in the Skilling Australians Fund design, and predicted that the Fund design would pose a barrier to settling agreements with the state and territory governments:

> Revenue for the fund will be highest when skilled migration is highest, and lowest when employment of locally skilled workers is highest. That means the revenue stream for the fund will be counter-cyclical to the purpose for which is was established: [to] increase the proportion of locally trained workers and to lessen reliance on temporary skilled migration visas. Unless the Commonwealth guarantees funding levels and continues to make up any shortfall in the revenue, it will be difficult, if not impossible, for the Commonwealth to enter meaningful, bilateral agreements with the states through the fund.[59]

5.61 The committee is gravely concerned that the design and the revenue raised by the government's visa scheme will not be sufficient to meet the Skilling Australians Fund budgeted expenditure or the emerging skill acquisition demands of a modern economy.

Recommendation 11

5.62 The committee recommends that the Australian Government guarantee adequate, additional funding if the income from Skilling Australians Fund levies does not meet the needs of industry and the vocational education sector to provide high-quality training to apprentices and trainees.

5.63 The committee notes that it is the strong view of stakeholders and experts that there are serious flaws in the vocational education system that are limiting our national productive capacity.

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59 Professor Peter Noonan, *Opinion: The future of funding VET and higher education: a cohesive approach is needed*, 25 May 2017, p. 2, https://www.campusreview.com.au/2017/05/the-future-of-funding-vet-and-higher-education-a-cohesive-approach-is-needed/ (accessed 30 March 2019).

5.64 The Productivity Commission's *Shifting the Dial: Five Year Productivity Review* reported that 'the VET system is a mess' and that:

> Despite its important but complex role, the VET sector has been beset with a raft of problems leading to a sector characterised by rapidly rising student debt, high student non-completion rates, poor labour market outcomes for some students, unscrupulous and fraudulent behaviour on the part of some training providers. These outcomes report a range of problems in the VET sector.[60]

5.65 In contrast to assertions by the current Minister for Skills and Vocational Education, Senator the Hon. Michaelia Cash, and her predecessor the Hon Karen Andrews MP, that the vocational education system is world class and superior to the German system, a 2017 Organisation for Economic Cooperation and Development (OECD) report on skills and global value chains shows Australia is poorly positioned in terms of skills characteristics to capitalise on opportunities in global value chains, and would struggle to meet the requirements of the technologically advanced sectors.[61]

5.66 The Business Council of Australia (BCA) is calling for 'systemic and transformational change' across education, but in higher education and vocational education and training (VET) in particular.[62] The ACTU maintains that 'a significant wholesale reform of the VET sector is necessary to ensure the VET system can reliably deliver quality training for the jobs of the future'.[63]

5.67 The government has been incapable of properly assessing and developing the policies and systems that would reverse the decline and effectively deal with the concerns raised by stakeholders. Instead the government has introduced a flawed National Partnership Agreement, cut funding to vocational education by more than $3 billion since taking office and presided over a decline of 140,000 apprentices and trainees since taking office.

5.68 The committee believes that a comprehensive review of the sector is required to ensure that Australians are able to equitably access effective, relevant and high quality vocational education and training.

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60 Productivity Commission, *Shifting the Dial: 5 Year Productivity Review*, *Report No. 84*, 3 August 2017, pp. 86, 93, www.pc.gov.au/inquiries/completed/productivity-review/report/productivity-review.pdf (accessed 30 March 2019).

61 Organisation for Economic Cooperation and Development, *Skills Outlook 2017—Skills and Global Value Chains*, p. 108, www.oecd.org/education/oecd-skills-outlook-2017-9789264273351-en.htm (accessed 30 March 2019).

62 Business Council of Australia, *Future-proof: Protecting Australians through Education and Skills*, October 2017, p. 5, http://www.bca.com.au/publications/future-proof-protecting-australians-through-education-and-skills (accessed 30 March 2019).

63 Australian Council of Trade Unions, *Submission 12*, p. 12, Senate Education and Employment Legislation Committee inquiry into The Migration Amendment (Skilling Australians Fund) Bill 2017 and the Migration (Skilling Australians Fund) Charges Bill 2017.

5.69 The committee notes that after almost six years in government, the Coalition has appointed a former New Zealand National Party Minister to conduct a perfunctory and truncated review of VET system within an unacceptably short timeframe.[64] This review will have no prospect of dealing with the complex problems plaguing the system.

5.70 To improve immediate local training outcomes, the committee considers that overall funding for the TAFE and VET sectors must be increased, as this is the most expedient and effective way of addressing gaps in local training in the specific sectors experiencing skills shortages. Labor has already announced that at least two thirds of government funding will be guaranteed to TAFE.

5.71 Given that under the current government the SAF on its own is failing to provide sufficient funding for the workforce development effort, the committee believes that the government should provide guaranteed additional Commonwealth funding to immediately improve outcomes for vocational education and skills development.

Recommendation 12

5.72 The committee recommends that the Australian Government commit to increasing overall funding levels for TAFE and vocational education and support a comprehensive and thorough commission of inquiry into Australia's post-secondary education system.

5.73 The committee is also of the view that more can be done to encourage student uptake of courses relating to industries experiencing skills shortages, and that the Australian Government has a role to play in assisting in this area.

Recommendation 13

5.74 The committee recommends that the Australian Government consider ways in which to encourage better information sharing between industry, vocational education and training providers, and potential students in order to encourage student uptake and local employment in industries experiencing skills shortages.

5.75 In order to fulfil the stated purpose of the temporary skilled visa system, visa positions should be restricted to jobs where there is a genuine skills shortage in a particular area. Concurrently, clear and targeted mechanisms are needed to train local workers in these areas to address these shortages.

5.76 There are not sufficient accountability arrangements in place to ensure that local workers are trained up in areas of skills shortage. The committee heard that it is difficult for the Commonwealth to maintain oversight of whether the states and territories are being responsible in balancing the need to bring in a temporary migrant workforce, with the need to actually address their long-term skills needs through training initiatives.

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64 Department of Education and Training, *VET Review*, https://www.education.gov.au/vet-review (accessed 29 March 2019).

5.77 As such, the committee considers that there is a clear need to increase access to information on how states and territories prioritise training initiatives. This should include better communication and transparency between the states, vocational education providers, and the Commonwealth. The proposed independent authority in skilled migration matters outlined in Chapter 3 (see Recommendation 7 in that chapter) would have a role to play in ensuring that regional skilled migration needs are being matched with appropriate training initiatives.

5.78 The issue of accountability for the training of workers in areas of skills shortages is especially pertinent now that the National Partnership Agreement on the Skilling Australians Fund has entered the implementation phase. There must be public accountability about how funds delivered through the Agreement are genuinely achieving the outcome of addressing skills shortages in the Australian labour market.

Recommendation 14

5.79 The committee recommends that the Department of Education and Training be required to present a report to Parliament bi-annually on the progress of the National Partnership Agreement on the Skilling Australians Fund and the extent to which it is achieving the outcome of addressing skills shortages in the Australian labour market.

5.80 The committee notes employer concerns over declines in training taking place in enterprises. The committee also notes the absence of any national data source that describes the investment that employers make in vocational education and training at the workplace level.

Recommendation 15

5.81 The committee recommends that the Australian Government work with the Australian Bureau of Statistics and the National Centre for Vocational Education and Research to investigate and establish a research instrument to enable analysis of employer investment in the development and training of their workforces.