



FINAL REPORT

CONSTRUCTION INDUSTRY TRAINING FUND

FIFTY-SIXTH REPORT
OF THE
**ECONOMIC AND FINANCE
COMMITTEE**

Tabled in the House of Assembly and ordered to be published on 7 November 2005

Fourth Session, Fiftieth Parliament

TABLE OF CONTENTS

1	ECONOMIC AND FINANCE COMMITTEE	3
1.1	Membership	3
1.2	Functions	3
1.3	References.....	4
1.4	Ministerial responses	4
2	ADMINISTRATIVE ARRANGEMENTS	5
3	SPECIFIC REFERENCE	5
4	LEGISLATIVE OVERVIEW	5
4.1	Construction Industry Training Fund Act 1993.....	5
4.2	Background.....	7
4.3	2003/4 Levy Expenditure and Training Programs.....	7
4.4	Review of the Construction Industry Training Fund Act 1993	8
5	INQUIRY FINDINGS.....	10
5.1	Stakeholder Perspectives	10
5.2	Key Themes Emanating From Stakeholder Views	17
6	RECOMMENDATIONS	20
7	ATTACHMENTS.....	22
7.1	Written Submissions	22
7.2	Public Hearings.....	23
7.3	Group Training Schemes versus Labour Hire Firms.....	23
8	APPENDIX: MINORITY REPORT.....	25

1 ECONOMIC AND FINANCE COMMITTEE

1.1 Membership

The Economic and Finance Committee is established under Section 4 of the *Parliamentary Committees Act 1991*. Section 5 states that the membership of the Committee is to comprise seven members of the House of Assembly. A Minister of the Crown is not eligible for appointment to the Committee.

The fourth Economic and Finance Committee was appointed by the House of Assembly on 7th May 2002 following the State Election, held 9th February 2002. At its first meeting, the Member for Reynell, Ms G Thompson, was appointed Presiding Member.

The following members comprise the Fourth Committee:

Ms G Thompson MP (Presiding Member)
Hon I F Evans MP
Hon G M Gunn MP
Mr J Rau MP
Mr J Snelling MP
Ms Karlene Maywald MP (until 23 July 2004)
Mr M Hamilton-Smith MP (as from 14 September 2004)
Mr M O'Brien MP (until 22 March 2005)
Hon P White (as from 4 April 2005)

Secretary to the Committee:
Dr Paul Lobban

Research Officer:
Mr Andrew Blue

Members of the Committee are appointed pursuant to Section 20, and cease to be members pursuant to Section 21 of the *Parliamentary Committees Act 1991*.

1.2 Functions

The functions of the Economic and Finance Committee are set out in Section 6 of the *Parliamentary Committees Act 1991*. They are:

- (a) to inquire into, consider and report on such of the following matters as are referred to it under this Act:
 - (i) any matter concerned with finance or economic development;
 - (ii) any matter concerned with the structure, organisation and efficiency of any area of public sector operations or the way in which efficiency and service delivery might be enhanced in any area of public sector operations;

- (iii) any matter concerned with the functions or operations of a particular public officer or a particular State instrumentality or publicly funded body (other than a statutory authority) or whether a particular public office or a particular State instrumentality (other than a statutory authority) should continue to exist or whether changes should be made to improve efficiency and effectiveness in the area;
 - (iv) any matter concerned with regulation of business or other economic or financial activity or whether such regulation should be retained or modified in any area;
- (b) to perform such functions as are imposed on the committee under this or any other Act or by resolution of both Houses.

1.3 References

Pursuant to Section 16 subsection (1) of the *Parliamentary Committees Act 1991*, any matter that is relevant to the functions of the Committee may be referred to the Committee-

- (a) by resolution of the House of Assembly;
- (b) by the Governor, by notice published in the Gazette;
- (c) of the Committee's own motion.

Subsection (1) is in addition to and does not derogate from the provisions of any other Act under which a matter may be referred to the Committee.

1.4 Ministerial responses

Pursuant to Section 19 of the *Parliamentary Committees Act 1991*, if a report contains recommendations, the Minister with responsibility in the area concerned is required to respond within four months and include in the response statements as to –

which (if any) recommendations of the Committee will be carried out and the manner in which they will be carried out;

and

which (if any) recommendations will not be carried out and the reasons for not carrying them out.

The Minister must cause a copy of the response to a Committee's report to be laid before the Committee's appointing House within six sitting days after it is made.

2 ADMINISTRATIVE ARRANGEMENTS

On 1 September 1993 the CITF Act established the Construction Industry Training Board (CITB) to administer the imposition and collection of a levy for the purposes of a training fund and to co-ordinate appropriate training and for other purposes. The CITB is a tripartite group consisting of Government, employer and employee representatives.

The CITF Act currently provides for the collection of a compulsory training levy calculated at the rate of 0.25% of the value of most building and construction work in excess of \$15,000. The rate has remained at 0.25% since the levy's inception but after extensive consultation with stakeholders in 1999 the original \$5,000 threshold was raised to \$15,000.

The levy is paid by the end-consumer of construction services, either directly or on their behalf by the builder or prime contractor. The levy can be paid manually over-the-counter at local Council offices and the CITB, or on-line at the CITB website.

There are exemptions such as construction carried out on Commonwealth land, and facilities such as mining, petroleum processing and power generation. However in general the levy applies to everything from a home renovation to the building of a new hotel or major road developments such as the Portrush Road upgrade.

A key implied objective of the CITF Act is to reduce the cyclical vulnerability of training activity to reductions in available funding so that long-term objectives can be better met. Accordingly, the CITB builds up reserve funds in periods of buoyancy. This enables accumulated funds to be drawn against to maintain numbers in training against declines in revenue during cyclical downturns.

3 SPECIFIC REFERENCE

On 20 August 2003, on its own motion the Economic and Finance Committee resolved the following –

That the Economic and Finance Committee conduct an investigation into the Construction Industry Training Act 1993 and the administered Fund.

4 LEGISLATIVE OVERVIEW

4.1 Construction Industry Training Fund Act 1993

The CITF Act was enacted primarily to establish the CITB as the overarching body responsible for administering the imposition and collection of a levy for the purposes of an industry wide training fund and to co-ordinate appropriate training and for other purposes.

As specified in the Construction Industry Training Fund Act 1993, the functions of the Board are-

- a) To act as a principal adviser to the Minister and the Minister for Employment, Education and Training of the Commonwealth on any matter relating to training in the building and construction industry and in particular to provide advice in relation to:
 - i. skill requirements for the building and construction industry and the training arrangements to meet those requirements
 - ii. pre-employment and training programmes, and
 - iii. any other matter referred to the Board for advice by either of those Ministers
- b) To administer the Construction Industry Training Fund
- c) To prepare training plans in accordance with this Act
- d) To coordinate training and personal development within the building and construction industry
- e) To promote increased productivity, career opportunities, personal satisfaction and OH&S within the industry through training
- f) To review and evaluate employment related training programs to ensure that they meet the training and skill requirements of the industry
- g) To ensure a more equitable distribution of effort amongst employers in relation to employment-related training in the building and construction industry
- h) To initiate, carry out, support or promote research into the training and personal needs of the building and construction industry
- i) To liaise with educational, professional and training bodies (in either the public or private sectors) in relation to training and personal development within the building and construction industry
- j) To promote, undertake or support program designed to facilitate the international exchange of information relevant to training or personnel development within the building and construction industry
- k) To perform any functions that are necessary or convenient for or incidental to the performance of functions referred to above¹

¹ *Construction Industry Training Fund Act*, Part Three, Operations of the Board, Division One, Functions and Powers

4.2 Background

Mr Stephen Larkins, Chief Executive Officer of the CITB, informed the Committee that some 93 per cent of companies in the industry today employ fewer than five people as a result of 1980's public sector contraction and the entrenchment of specialist subcontractors.²

In essence, the cost driven, self employed nature of specialist sub-contractors, and the fact public organisations were no longer employing apprentices, in conjunction with the fact building and construction is intrinsically cyclical, all combined to motivate employer and union bodies to increasingly voice their concerns to Government during the late 1980's and early 1990's.

The following passage (taken from the Second Reading Speech by the Minister for Employment, Education and Training, the Hon. Susan. M. Lenehan) is instructive about the driving role played by industry and union bodies in lobbying Parliament to endorse the CITB and levy approach as the mechanism to address their concerns.

The levy and its associated fund have been proposed by the employers and unions in the building and construction industry, with the aim of improving the level of skills of new entrants and existing employees in the industry, with a resultant increase in productive efficiency within the industry.

Employer and union bodies in the industry recognise that building and construction activity is cyclical in nature over time, and have expressed concern at the impact this has on the stock of skilled labour available in periods of industry buoyancy, with the resultant loss of possible new contracts to the industry in this state.³

In response, the South Australian Parliament enacted the Construction Industry Training Fund Act (CITF Act) in 1993.

4.3 2003/4 Levy Expenditure and Training Programs

The CITB Annual Report provides the following information on levy expenditure and training programs for the 2003/4 year.

- i. The housing sector and the nation-wide residential real-estate boom largely drove construction activity in South Australia in 2003/4 and this level of activity was reflected in abnormally high levy collections this year.

² Mr Stephen Larkins, Chief Executive Officer, CITB, Wednesday 26 May 2004, p 19.

³ The Hon. S.M. Lenehan, House of Assembly, Hansard, Second Reading Explanation for the Construction Industry Training Fund Bill, 10 November, 1992, p 1286.

- ii. The CITB is responsible for contracting Registered Training Organisations to deliver the training. In 2003/04 the CITB provided funding to nine Group Training Organisations, which in turn provided apprentices and trainees with employment and access to high quality, well-supported training.
- iii. The CITB funded 24,558 training places, consuming over 240,000 hours of training at a cost of \$3.3 million. As at 30th June 2004, there were 1,382 Group Training apprentices supported by CITB funding, and 1,061 apprentices in receipt of Tuition Funding, at an all up cost of \$4.5 million.

(For a better understanding of the significant role played by Group Training Schemes see Attachment 7.3 - *Group Training Schemes versus Labour Hire Firms*”).

- iv. The CITB funds the Doorways 2 Construction (D2C) program, a Vocational Education and Training (VET) Schools program. D2C is seen as a major strategic investment of the CITB. Participating students, their families, the wider school community, tradespeople, industry organisations and suppliers, and local/regional development groups all play a vital part in supporting students in training, and the attainment of the target outcomes. D2C incorporates the nationally accredited Certificate I in Construction.
- v. D2C has expanded from its initial six programs to twenty-one program clusters covering 70 participating schools and groups. As at 30 June 2004, there were over 400 participating students.
- i. In specified skill areas, the CITB funds the provision of Recognition of Prior Learning and Current Competencies through the conduct of formal skills assessments.
- ii. In 2003/04 the ‘Greencard II’ generic Occupational Health & Safety (OHS) industry induction program commenced. The level of CITB funding per place has been reduced overall this year but nonetheless uptake has grown.

4.4 Review of the Construction Industry Training Fund Act

Background:

Section 38 of the Construction Industry Training Fund Act 1993 (CITF Act) provides for a review to be undertaken by an independent person as soon as practicable after 1 January 2003.

Unbeknownst to the Economic and Finance Committee a parallel review of the CITF ACT was undertaken by the Department of Employment, Training and Further Education. In March 2004, the Minister for Employment, Training and Further Education, the Hon. Stephanie Key, engaged private sector consulting firm KPA Consulting to conduct the Review.

In November 2004 the Minister tabled a copy of the Final Report in Parliament and forwarded a copy to the Economic and Finance Committee for its consideration.

Conduct of the Review:

The KPA Consulting Report was built around a comprehensive program of targeted consultations with individual members of the CITB and the Board's senior administrative staff, the Construction Industry Forum (a peak advisory body representing the construction industry and private and public sector industry clients), employer and employee groups and industry associations, State Government and Local Government Association representatives, local councils and other stakeholders, including representatives of training organisations, group training schemes, regional development bodies, individual employers and contractors from the industry and other interested individuals.

Review Findings:

The consultations pointed to an endorsement across the stakeholder groups for the legislated levy. The CITF Act was widely seen as presenting a powerful unifying influence and mechanism for the building and construction industry, with a common refrain that the arrangements bring 'some coherence to the different tribes' in the industry.

A number of commentators, however, criticized aspects of the operation of the arrangements under the Act, with the dominant weaknesses thought to lie with the presence on the Board of those with perceived vested interests; and the operation of aspects of the key Board policies and programs.

The Review also revealed mixed and strongly-held views about the requirement under the Act that the Annual Training Plan provide for the allocation of funding for training to each sector of the industry in approximately the same proportions contributed by the respective sectors to the Fund. Some groups considered the sector based allocation to be important because of the differences in work methods, culture and training needs and priorities between the sectors. Others opposed the current model on the basis that a sector based allocation doesn't account for the ebb and flow of the workforce between the sectors.

The Review concluded that the CIT Board has been substantially effective in carrying out its specific functions under the Act. The Review supports the Board's twin policy platforms, one directed to the existing workforce and the other to entry level training, as the foundation of a balanced policy mix.

Key Recommendations:

Notwithstanding broad support, the Review suggests that consideration be given to a more innovative use of the Fund, including its use for leveraging industry contributions to training.

The Review endorsed the key role for Group Schemes but considers more needs to be done to support the significant number of apprentices that are directly indentured to employers. To this end, the Review proposed the attachment of the bulk of the financial incentives to the relevant outcome, namely the completion of the apprenticeship, whether employed by a Group Scheme or an individual employer.

In relation to the composition of the Board, the review considers that it would be desirable for an independent member, in addition to the Chair, to be appointed. A single government member is proposed so as to directly link the Board to the Government's active agenda for workforce skills development. The review considered the option of streamlining the number of employer and employee representatives on the Board, but was unable to conclude that any of the associations presently represented should not be there for the purpose of ensuring coverage of all interested parties.

The review also proposed the removal of the 'veto' provision in the Act on the basis that it is an unnecessary protection for a mature Board whose decisions should reflect the majority position of Board members as a whole, not the majority position of each sectional interest.

5 INQUIRY FINDINGS

5.1 Stakeholder Perspectives

The following is a brief summation of the key themes espoused by stakeholders during Committee Hearings. In conjunction with the written submissions, these views assisted the Committee in reaching its final recommendations.

Home Australia Pty Ltd:

As Managing Director of Home Australia Pty Ltd, Mr Bob Day appeared before the Committee as a major employer in the industry.

Mr Day told the Committee he did not object to the training levy or spending money on training but he had been a long time advocate of changing operational aspects of the industry training levy.

The following extract summarises the views held by Mr Day.

MR DAY: We do not object to the training levy or spending money on training at all. Obviously, it is in our own interest. What I object to, is the fact that the housing industry, on its own, collects \$5 million in training levies which then goes into a centralised bureaucracy called the CITB and that is the last we see of it.

THE PRESIDING MEMBER: What do you think is a fair allocation of that funding between new recruits to the industry and upgrading of skills for existing employers and employees in the industry?

MR DAY: *I think a fair allocation would be 100 per cent going in to entry level training and zero going into up skilling. I do not see any justification for tradesmen who are on significant salaries—every dollar that goes to subsidising the up skilling of a tradesperson is a dollar less going into recruiting a young person who needs a start in life.* (Hansard, Wednesday 2 June 2004)

Housing Industry Association (HIA):

Brenton Gardener, Regional Executive Director, Housing Industry Association (SA/NT) and Robert Harding, Legal and Training Manager, Housing Industry Association (SA/NT) represented the HIA.

The HIA has 2,800 members in South Australia consisting of builders, contractors, manufacturers and suppliers, and some professionals. They also are a Registered Training Organisation (RTO) and operate a “not for profit” Group Training Scheme in South Australia.

The HIA told the Committee the CITB had implemented a number of positive changes since its inception. Just recently for example, the HIA had endorsed the CITB move to limit funding of up skill/cross skill programs to RTOs. The HIA suggested this would ensure training meets Australian Quality Framework standards.

Another good initiative the HIA believed the CITB had done in recent times was the establishment of key performance indicators (KPIs) for Group Schemes. For example, there is a KPI funding requirement not to lay apprentices off and this is reflected in the HIA retention rate of 95 per cent.

The Committee was told the HIA also agreed with recent funding reviews taken by the CITB to ensure expenditure was not likely to exceed income. However, concern was expressed about the specific approach taken on funding cutbacks.

MR GARDNER: *It appears that some of the measures taken are rather drastic in terms of entry-level training cutbacks. For instance, with HIA's group apprentice scheme—which is just one of many schemes that receive funding—the total effect over a period of years will be approximately to halve the amount of funding being received. To give an example, funding for a first-year carpenter would previously have been about \$7 000 but that would be approximately halved to about \$3 500. The overall impact in this first year has been about \$2 per hour per apprentice. So, it follows on that, to cover that, we would need to increase apprentice rates by about that amount plus award rate increases—a total amount of around \$3 per hour. That will have an impact on the industry, and we are concerned that, in a declining market, which will hit is at some stage in the future; we could have apprentices handed back.* (Hansard, Wednesday February 4)

The Committee was told that retraining is to be commended, but the HIA thinks there is perhaps a little too much emphasis on it, and that possibly reflects in the way the funding is allocated. The Committee also heard the HIA express the view that they disagree with the CITB approach to skills shortages in that they believe it is the key issue for the industry.

As Mr Gardener explained

MR GARDENER: *It (the CITB) recognises the fact that there are skills shortages but they have adopted a view that they cannot be held responsible for skills shortages and also cannot try to target that as an issue to be resolved. They believe that it has long-term implications, and it is true. Certainly, apprenticeships do take four years to come through the system. Any action put in place now will take at least four years and longer to address, but we believe it needs addressing because it is a key issue. We would prefer to see funds from CITB used to address skill shortages as opposed to retraining more crane drivers.* (Hansard, Wednesday February 4)

Concerns were also expressed by the HIA about the eligibility criteria for accessing the funding for those engaged in kitchen and bathroom manufacturing and furnishing. Under the current interpretation of the Act, trades in these areas do not fall under any category for CITB funding. The HIA told the Committee a positive direction needs to be taken by the CITB in order to include these trades in the system of funding.

Master Builders Association:

David Callan, Deputy Chief Executive Officer, represented the Master Builders Association of South Australia.

The MBA has approximately 2,000 members and many are commercial and residential subcontractors who work in both sectors. The MBA believes the CITB does a great deal of good work, but considers there are areas where the CITB could improve upon its performance. For example, Mr Callan told the Committee:

Mr Callan: *We do believe that the performance of the CITB is inextricably linked to the present labour shortages that we have. Those labour shortages, rather than being in a cyclical boom/bust situation are really to do with the systemic problems that issue from the system which training has provided, particularly entry level training within the industry. Preface to say, we do think that the CITB does a great deal of good work, but we do believe there are areas where the CITB can improve upon their performance. I know that in the previous discussion, entry level training is one of those issues that we feel is very important to address to attract good young people into the industry.* (Hansard, Wednesday 25 February 2004)

The MBA expressed concern also about the application of funding to group training schemes and stated that their group training scheme is capped at 212 apprentices by the CITB but if it was not for funding cuts they would increase that number.

The MBA is also calling for a removal of the right of veto voting arrangements in terms of CITB governance. Under current arrangements, the board is comprised of industry and employee (union) representatives. To have any resolution of the board it requires not only a majority of members of the board but also a majority of each sector, whether that is the employer or employee sector.

For example, with three employer representatives you would need to have two of those three voting to support the motion for it to be passed, irrespective of what the balance of the board voted. It is the contention of the MBA (although disputed by the Construction Forestry Mining and Energy Union) that the Doorways 2 Construction program and progression to Stage 2 of that Program is blocked by the right of veto:

MR CALLAN: *The Doorways to Construction program, which our CEO is the chair of, is a very important program that is running at stage 1 level in high schools. It is not running at stage 2 because of the right of veto, and that is an issue that we have. In our submission, we talk about the removal of the right of veto.*

MR RAU: *Who is vetoing it and why?*

MR CALLAN: *The union is vetoing it.*

MR RAU: *Why?*

MR CALLAN: *Basically, because they see that those stage 2 students in compulsory education coming onto site are working as unpaid labour and would, therefore, be affecting the jobs of their members. Of course, these are purely work experience—*

MR SNELLING: *If there is a shortage anyway, they are not taking anyone's jobs.*

MR CALLAN: *I agree with you.*

MR RAU: *They are not there full time anyway.*

MR CALLAN: *No, they are only there for a practical component of their course, which is a semester course run at stage 2.*

MRS MAYWALD: *It is like work experience.*

MR CALLAN: *It is a practical component of achieving stage 2 in their SACE certificate..... in our submission we say that we believe that the removal of the right of veto, which can be called upon by either employer or labour groups, should be removed in the government's model of the CITB. (Hansard, Wednesday 25 February 2004)*

The MBA also states there needs to be more rigour in examining commercial training activities to see whether they are meeting the industry need to fulfil training shortages.

United Trades and Labor Council:

Janet Giles, Secretary, and Graham Warren, Vocational Education and Training Officer, represented the UTLC. The UTLC was a strong advocate of the CITB but argued there was a need for a broader strategic approach, which would include Government and Industry (including unions) to take into consideration the views and recommendations of various agencies.

For example, the Economic Development Board, Social Inclusion Board, the Skills Inquiry outcomes, the Review of Employment Programs (SA Works) and SA Industry Advisory Bodies in the establishment of the proposed funds and levy arrangements.

The UTLC advocates a review of the current processes and procedures for Registered Training Organisations approval in South Australia, which should include new guidelines on “conflicts of interest” and performance standards. The UTLC raised concerns that there is a very high level of non completion in the vocational education and training field. Ms Giles told the Committee:

MS GILES: The actual non completion rate is something that needs lots of examination. Figures are only just beginning to be collected about completions. Figures have always been collected about commencements, but, until very recently, data was not even collected about completions. The next question we want to ask is: why at least 45 per cent of commencements in South Australia are not completing. Why are people not getting the qualifications they set out to get? We believe that is where traineeships are concentrated and what industries they are in. What people tend to do is move to maybe a higher wage, or what we call a 'real job', rather than a temporary traineeship to fill a space. In addition, our anecdotal evidence, through the young workers legal service (which we have recently established), through training apprenticeship management and the trainee advocate is that a large number of those non completions are due to employment related issues and disputes between employers and their employees. We have only anecdotal evidence, but we really need some proper research as to what is happening out there and why people are not completing, because we are putting money into their doing this training, so they should get a qualification at the end. (Wednesday 30 June 2004)

The UTLC is opposed to the introduction of sub-qualifications in the existing trade occupations and asserts that any actions to reduce the current trades qualifications is ill conceived, contrary to the public interest and completely at odds with expert opinion.

Construction Forestry Mining and Energy Union:

Martin O'Malley, State Secretary, represented the CFMEU. Mr O'Malley is also a member of the CITB and UTLC but was heard by the Committee on behalf of the CFMEU.

Mr O'Malley told the Committee questions have to be raised as to how licensing is done in the building industry and more lateral options need to be developed to shorten the length of apprenticeships without sacrificing quality.

Mr O'Malley stated that whilst funding for elevated work platform training is questioned by some, people need to understand that there is a legal obligation on employers to train people up in their work, and elevated work platform is part of that training. In contrast to the MBA, Mr O'Malley argued that the veto voting arrangements had only ever been used by industry groups.

The following exchange about group training schemes summarises a slightly different emphasis placed on the worth of these schemes by Mr O'Malley:

MR O'BRIEN: *My other question relates to upskilling. I think that we have heard some evidence that if you are in the industry and you have got a trade, upskilling should be at your own expense rather than at the expense of the fund. Say you are a carpenter, or whatever, and you perceive, as a self employed contractor, that there is an opportunity in another area because there is a skill shortage, do you really think that it is the responsibility of the fund to be putting in money to allow someone to take advantage of an emerging opportunity or do you think that that 35 per cent that is currently being allocated to upskilling should go into the group scheme? Do you have a feeling about that?*

MR O'MALLEY: *I do not believe that any more money should be going into group schemes. Quite frankly, I think that if that occurred it would be a travesty. The difficulty is that, as soon as there is a bucket of money, people will find ways to put out their hand and grab it. We have seen an increase in group schemes. I suppose I should have mentioned this. It used to be 35 per cent. At that time there were only about three group schemes and, now, there are about 12 group schemes; and we understand that, in a couple of years, there will be about 20.*

Eventually, if all the money goes to the group schemes and you end up with 50 group schemes and everyone gets a couple of bucks each the whole thing falls apart again. It is about getting some logic into the whole thing. Group schemes are great for a purpose, but there is a question mark as to whether group schemes and only group schemes are a good thing for the whole industry. I do not agree with that. I think that the group schemes do not bring any more apprentices into the building industry. The facts will show that what happens is that instead of having directly employed apprentices they shift from that mode to group schemes, but no more are coming into the industry. That is the difficulty with these types of things. (Hansard, Wednesday, August 4, 2004)

The CITB:

Stephen Larkins, Chief Executive Officer and Marcus D'assumpcao, Manager, Planning Research, represented the CITB. The CITB told the Committee of the challenges that lay ahead for the CITB.

MR LARKINS *By its very fragmented nature the industry has lost significant capacity to support traditional employment and apprenticeship arrangements and, against the background of the imminent retirement of large numbers of qualified tradesmen in the next few years, that is probably the principle challenge facing the industry.*

The other one is the fact that the industry is traditionally vulnerable to the economic cycles that we see and, in fact, we are currently dealing with the forecast of a 9.5 per cent decrease in levy revenue next year, which translates to \$1 million out of our training budget. So, we have a few issues on the plate. (Wednesday, 26 May, 2004)

The Board also advised the Committee that a focus on skills shortages would divert resources from areas where a greater marginal impact can be achieved per dollar invested.⁴ Furthermore on this issue the Committee was told,

MR D'ASSUMPCAO: *I would also like to add that the whole apprenticeship system is a very robust system. It has been around with us for a long time. I would caution making linkages between training people through the apprenticeship system and addressing skill shortages. There are a whole lot of timing issues that come into play. Skill shortages can arrive very rapidly in a matter of months or within 12 months, whereas the apprentice system is on average four years. So, we need to look at the apprenticeship system and whether the four year term is appropriate or whether shorter apprenticeship systems are better. In fact, Brendan Nelson has announced the national skill shortage strategy, looking at more flexible, alternative, shorter apprenticeship qualifications. I would simply reinforce that the method which we traditionally use to induct young people into the industry is an induction process, not a strategy to address skill shortages. (Wednesday, 26 May, 2004)*

The CITB advised that the levy is not paid by the industry itself as it often infers, but rather by the consumer and the revenue is more appropriately characterised as public funds entrusted to the industry.

The CITB also explained that interpretations about funding allocations are often secular and frequently draw criticism but the Board has to take a balanced approach and it does this through priorities established by sector committees.

MR LARKINS: *.....Like everything, we have to strike a balance. The need for elevated work platforms is a requirement, and if you go out to a place like Mawson Lakes you will see that for every second house now—unlike a number of years ago. Working off the ground these days is very heavily regulated, controlled and observed because of the high incidence of industrial injury in that environment. And the demand is a function of that circumstance. The other course that attracts attention is crane operations. Sitting around this table I am sure we all think of crane operations as Favcos or Hammerheads on the skyline, but the reality is that, if you go around Adelaide right now, you will see dozens of quite large, vehicle mounted cranes, because we are seeing a change in technology, with tilt up construction; they all rely on crane operations. So, again, it is demand driven as far as we can tell.*

THE PRESIDING MEMBER: *So, how is the priority for offering courses determined?*

MR D'ASSUMPCAO: *The sector committees that we are required to establish identify a number of priorities. However, at the end of the day, the system that we put in place is very much demand driven so that if there is no demand the course is not run. In fact, we have had*

⁴ Mr Stephen Larkins, Chief Executive Officer, Construction Industry Training Board, Inquiry into the Construction Industry Training Act 1993 and the administered Fund: Supplementary Information to the Economic and Finance Committee, 28 May 2004, p 4.

situations where the sector committees have identified priorities and we have had great difficulty getting people to attend those courses. So, again, it is demand driven as far as we can tell. (Wednesday, 26 May, 2004).

In response to concerns expressed by the Hon I.F. Evans about the CITB funding courses that are mandated (e.g. OHS&W), the CITB replied.

MR D'ASSUMPCAO: You are right. In a sense, it is a sort of philosophical argument, but it is a valid argument: why are we subsidising things that are compulsory when the industry could use those funds in other areas? That is essentially the argument, and that sort of notion has been put to us at committees that advise us, and also to the board and subcommittees. A few months ago I raised it again with the housing sector, and they specifically stated that they wanted to support training that is underpinned by legislation. So, we are actually doing what the people who have been established to advise us on the needs of the industry have advised. (Wednesday, 26 May, 2004).

In response to a question on the veto provisions within the CITB, the Committee heard the following response.

MR LARKINS: The big issue is getting a quorum, and whether or not an issue goes to a vote. To be quite frank, I have not seen evidence of it in the time that I have been in this role. There are certainly vested interests at play in the decision making, but, by and large, it is a consensus driven approach. The issue of longstanding vacancies can compromise our capacity to make decisions, because, effectively, the rules are that for a decision to be carried we have to have a majority of people in the respective three segments: employer, employee and government. The majority of those present have to agree with it. I will not go into details of the numbers, but, depending on the attendance at a particular board meeting, we can be in a position where we cannot actually make a decision if it comes to that. So, we then rely on a consensus outcome. (Wednesday, 26 May, 2004).

5.2 Key Themes Emanating From Stakeholder Views

Similar to the KPA Consulting Review of the CITF Act, the hearings and submissions revealed a number of different perspectives on the CITB and the levy scheme. It was clear from the evidence that the motivations, thought patterns and starting positions of each of the witnesses led them to have contrasting positions on the broader training agenda and future challenges for the building and construction industry.

Within these broad perspectives however, some key themes did emerge.

1. Endorsement of Levy:

The hearings and written submissions pointed to wide endorsement for a legislated levy, the purpose of which is to apply the levy proceeds for training in the industry.

The majority of witnesses considered that the CITB as an entity had done some good work since its inception and the industry was better off with a CITB than without one. Other than Home Australia Pty Ltd, all stakeholders agreed the levy spend was best directed by an industry-led Board.

In response to Home Australia Pty Ltd criticism, the CITB pointed to third party endorsements (e.g. the 'Schofield Report') to suggest the CITB was a leading example of how industry stakeholders can have a positive influence on skills formation and development.

2. Divergence of opinion over allocation of the training dollar:

Entry-level training was promoted by a few witnesses as most important because it represents the best form of investment to ensure a sustainable flow of new entrants to the industry. However, training for the existing workforce was also acknowledged to be important because it allows a more rapid response to skill areas that are in demand.

Accordingly, a divergence of opinion was heard vis-a-vis competition for the training dollar. Some witnesses were adamant more funds should be directed towards entry level training whilst others acknowledged that training across the whole spectrum of the industry was equally important and that judgements and disagreements would inevitably occur.

An adjunctive and inextricably linked issue in terms of the competition for the training dollar was evident in the disparate positions taken over whether or not to subsidise mandated courses such as OHS&W or elevated platform work. The CITB view on these debates of contention was that industry feedback itself suggested the contribution to the cost of running OHS&W courses was seen by industry sector committees as a core function of the CITB.

Another issue of divergence was that of funding Group Schemes. The MBA for example, was adamant Group Schemes are critical to the preservation of a strong and viable apprenticeship pathway in the industry. By contrast, the CFMEU questioned the true value of the assumed increased return from greater CITB investment in Group Schemes.

3. The issue of stakeholder interest on the CITB:

The hearings revealed a few concerns about whether the CITB is controlled by those with conflicting interests and questions were being raised as to whether members were sufficiently independent from the recipients of Board funding. For example, the HIA and MBA sit on the Board yet they both operate as Registered Training Organisations and both run courses that are funded by the CITB. However, the HIA and MBA state they are merely responding to their members needs and as key associations with the wherewithal to supply quality training, are well placed to respond to such demand.

Of note however was that whilst questions about the merits of a board

structure and operational system that potentially conditions negative attitudes across industry groups were evident during the hearings, no viable alternative model was forthcoming from the questioners of the current system.

4. The issue of the 'veto' provision in the Act:

The hearings brought to the Committee's attention the issue of the 'veto' provision in the Act. Basically, for a decision to be carried the CITB needs to have a majority of people in the respective three segments: employer, employee and government. Depending on the attendance at a particular board meeting, this could mean that the CITB would be in a position where it cannot actually make a decision. In such a situation the CITB suggests it would then rely on a consensus outcome.

The MBA in particular is strongly opposed to the veto arrangements arguing the veto enables a minority vested interest group to become a de facto policy maker by blocking supply of funds or blocking majority initiatives. In contrast the CFMEU says it has only ever been industry groups that have used the veto arrangements.

5. Skills Shortages:

The identification of skill shortages was a recurring theme in Committee hearings with many of the witnesses expressing the view that it was the role of the CITB to address skills shortages.

However, the CITB was adamant its charter was not to focus on skills shortages as this would divert resources from areas where a greater marginal impact can be achieved per dollar invested. It was clear from the CITB also that skills shortages cover a range of issues which may have a connection with training but which are not necessarily directly connected. For example, recruitment and retention and training are linked, but the capacity to influence them is variable.

A number of witnesses considered more funding into group schemes to be the self evident way to address skills shortages. Yet others argued that if all the money goes into group schemes, an increased demand for group schemes would likely bring in new suppliers of group schemes and this was not necessarily a good use of CITB funds. It was suggested that the administrative costs associated with sponsoring new entrants into the training market or having multiple suppliers of group training schemes does not actually ensure greater numbers of apprentices entering the system.

The issue of skills shortages is further compounded by the specialist subcontracting and cyclical nature of the industry itself. The industry is traditionally vulnerable to the economic cycles and, as the CITB told the Committee, they have forecast of a 9.5 per cent decrease in levy revenue next year, which translates to \$1 million out of their training budget.

6 RECOMMENDATIONS

The Committee recommends:

- 1. That the Minister consider advising the CIT Board to develop a widespread communication strategy to clearly explain the rationale for its training agenda and funding allocations in order to address any negative attitudes within industry groups about perceived conflicts of interest for those organisations associated with registered training organisations being involved in funding allocations.**
- 2. That the Minister consider jointly investigating with key stakeholders the potential for a more strategic approach to addressing skills shortages by linking all stakeholders and industry training and promotional activities via private/public urban regeneration projects.**
- 3. That the Minister consider facilitating a key stakeholder forum to reach consensus on how best to maximise outcomes from the levy and to ascertain the best approach to ensuring more apprentices come through the system.**
- 4. That the Board policy be changed so that as market conditions allow the majority of the Construction Industry Training Fund's training expenditure (including reserves when spent) be directed to:**
 - i. entry level training through Group Apprenticeship Schemes or Group Pre-vocational Schemes and individually indentured apprentices. This is to include up skill training during the term of apprenticeships; and**
 - ii. workers who have left the industry and who wish to re-enter at a later date.**
- 5. That the objects of the Act to be amended to indicate the Board's primary role is to provide training in the areas of skills shortage in the industry.**
- 6. That the Construction Industry Training Board develop a policy in regards to traineeships and the role traineeships may play in the training of new entrants in the industry.**
- 7. That the Act be amended so that the definition as to what the fund can be applied to, is amended so as to include employees and contractors in the installation of kitchen, bathroom and furnishing industries.**
- 8. That the Board look at finding more flexible ways and responsive training packages in the industry.**

9. That the Act be amended so that the Board submit its Training Plan to the Economic & Finance Committee of the Parliament each year and report annually to that Committee on the results achieved compared to the plan approved.
10. That the Minister commission regular reviews of the Construction Industry Training Fund and the training it provides and regular quantitative and qualitative analysis of the training provided.



**Gay Thompson MP
PRESIDING MEMBER
ECONOMIC AND FINANCE COMMITTEE**

7 / 11 / 2005

7 ATTACHMENTS

7.1 Written submissions

Housing Industry Australia, South Australia, *Inquiry into the Construction Industry Training Act 1993 and the administered Fund: Submission to Economic and Finance Committee*, 6 November 2003

Master Builders Association, South Australia, *Inquiry into the Construction Industry Training Act 1993 and the administered Fund: Submission to Economic and Finance Committee*, 7 November 2003

Engineering Employers Association, South Australia, *Inquiry into the Construction Industry Training Act 1993 and the administered Fund: Submission to Economic and Finance Committee*, 11 November 2003

Home Australia Pty Ltd, *Inquiry into the Construction Industry Training Act 1993 and the administered Fund: Submission to Economic and Finance Committee*, 11 March 2004.

United Trades and Labor Council, *Inquiry into the Construction Industry Training Act 1993 and the administered Fund: Submission to Economic and Finance Committee*, 30 June 2004

Mr Douglas Strain, *Inquiry into the Construction Industry Training Act 1993 and the administered Fund: Submission to Economic and Finance Committee*, 23 October 2003

Mr Terry Inglis, *Inquiry into the Construction Industry Training Act 1993 and the administered Fund: Submission to Economic and Finance Committee*, 7 November 2003

Supplementary Information:

The Centre for Research in Education, Equity and Work, University of South Australia and the South Australian Centre for Economic Studies, University of Adelaide, *Evaluation of Entry-level Training Arrangements in the Building and Construction Industry in South Australia*, March 1999

Construction Industry Training Board, *Annual Report 2001-2002*

Mr Stephen Larkins, Chief Executive Officer, Construction Industry Training Board, *Inquiry into the Construction Industry Training Act 1993 and the administered Fund: Supplementary Information to the Economic and Finance Committee*, 28 May 2004

Mr Stephen Larkins, Chief Executive Officer, Construction Industry Training Board, *Inquiry into the Construction Industry Training Act 1993 and the administered Fund: Supplementary Information to the Economic and Finance Committee*, 20 August 2004

7.2 Public Hearings

Wednesday 25 February 2004

Brenton Gardner - Regional Executive Director, Housing Industry Association (SA/NT)

Robert Harding, Legal and Training Manager, Housing Industry Association (SA/NT)

David Callan, Deputy Chief Executive Officer, Master Builders Association (SA)

Wednesday 26 May 2004

Stephen Larkins, Chief Executive Officer, Construction Industry Training Board
Marcus D'assumpcao, Manager, Planning Research, Construction Industry Training Board

Wednesday 2 June 2004

Bob Day, Managing Director, Home Australia Pty Ltd

Wednesday 30 June 2004

Janet Giles, Secretary, United Trades and Labor Council of South Australia

Graham Warren, Vocational Education and Training Officer, United Trades and Labor Council of South Australia

Wednesday 4 August 2004

Martin O'Malley, State Secretary, Construction Forestry Mining and Energy Union

7.3 Group Training Schemes versus Labour Hire

Differences between the operation of group training schemes and labour hire firms:

- i. Group Training Schemes have a greater focus on training. This is evident from factors such as the minimum placement time; efforts made to ensure that apprentices and trainees are working full time developing their skills and knowledge and constantly being updated on latest products and technology.
- ii. Group Training Schemes are not just brokers of employment. They have a key role to play in the pastoral care and training of apprentices and trainees. They are responsible for assisting the young people to develop a career in the industry.
- iii. Group Training Schemes are also responsible for determining whether an apprentice or trainee is competent and able to work as a tradesperson. This involves monitoring of training and liaison with off-site providers. Greater effort is placed on matching skill levels of apprentices and trainees with the requirements of the employer to facilitate the dual purposes of meeting apprentices' and trainees' learning needs and meeting the needs of employers to run a viable business.

- iv. Group Training Schemes have a wider responsibility to the industry to ensure the on-going supply of skilled labour for the industry. They have a long term focus rather than concentrating on “plugging holes”.
- v. Group Training Schemes do not provide skilled labour; they provide and support the training effort of the industry by employing only apprentices and trainees.
- vi. Many Group Training Schemes are run as not for profit bodies and they have greater contact with employers and have input into issues such as Occupational Health and Safety.⁵

⁵ The Centre for Research in Education, Equity and Work, University of South Australia and the South Australian Centre for Economic Studies, University of Adelaide, Evaluation of Entry-level Training Arrangements in the Building and Construction Industry in South Australia, March 1999, p 39.

APPENDIX

Economic & Finance Committee Report into the Construction Industry Training Fund

Minority Report **Hon I.F. Evans MP, Member for Davenport**

Recommendations:

1. That the Act be amended so that the person paying the levy is given a choice to either direct the money into a Group Apprenticeship Scheme (or a Group Pre-vocational Scheme) or to a scheme supporting individually indentured apprentices, or to the Construction Industry Training Fund.
2. That the segmentation of the fund is to be maintained.
3. That the Board veto be deleted.
4. That the Act be amended so that the Construction Industry Training Levy is charged on the cost of projects net of GST.