

The Auditor-General
Audit Report No.9 2007–08
Performance Audit

Australian Apprenticeships

Department of Education, Science and Training

Australian National Audit Office

© Commonwealth
of Australia 2007

ISSN 1036-7632

ISBN 0 642 80985 2

COPYRIGHT INFORMATION

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth.

Requests and inquiries concerning reproduction and rights should be addressed to the Commonwealth Copyright Administration,
Attorney-General's Department,
Robert Garran Offices,
National Circuit
Barton ACT 2600

<http://www.ag.gov.au/cca>



Canberra ACT
4 October 2007

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Education, Science and Training in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Australian Apprenticeships*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

For further information contact:

The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone: (02) 6203 7505
Fax: (02) 6203 7519
Email: webmaster@anao.gov.au

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

Audit Team

Dr Paul Nicoll
Mark Rogala
Sabrina Taylor-Cannon

Contents

Abbreviations.....	7
Glossary	8
Summary and Recommendations	11
Summary	13
Introduction	13
Audit scope and objective	16
Conclusion	16
Key findings by Chapter	19
Summary of agency response	25
Recommendations	25
Audit Findings and Conclusions	27
1. Introduction	29
Background	29
The national training system	30
Australian Apprenticeships	33
Commonwealth and State and Territory Government responsibilities for Australian Apprenticeships	35
DEST's funding for Australian Apprenticeships	36
Australian Apprenticeships Incentives Programme	37
Australian Apprenticeships Centres	37
Audit objective and scope	38
Audit methodology	40
Report structure	41
2. Performance Reporting	42
Introduction	42
DEST's contribution to reporting against the national objectives for Australian Apprenticeships	43
DEST's contribution to reporting on resourcing nationally for Australian Apprenticeships	47
Conclusion	49

3. Incentives Payments to Employers	51
Introduction	51
Use of data to support performance monitoring and reporting, and policy analysis and development	51
ANAO analysis of Incentives Programme data.....	52
Accuracy and timeliness of Incentives Programme payments	62
Conclusion	63
4. Financial Management of the Incentives Programme	65
Background	65
Processing of employer claims for incentives payments	66
Conclusion	69
5. Contract Management.....	70
Introduction	70
The contracts	71
Payments	72
Management of the contract	75
Performance measures.....	77
Performance monitoring.....	79
Planning for subsequent contracts.....	81
Conclusion	82
Appendices	85
Appendix 1: 2005–08 Commonwealth—State VET Funding Agreement.....	87
Appendix 2: Responsibilities of Australian Apprenticeships Centres	91
Appendix 3: Inclusion of Australian Apprenticeships in DEST’s planning.....	92
Appendix 4: Australian Apprenticeships Incentives Programme.....	94
Appendix 5: Performance monitoring	96
Appendix 6: Department of Education, Science and Training’s comments	97
Index.....	100
Series Titles.....	101
Current Better Practice Guides	102

Abbreviations

ANAO	Australian National Audit Office
ASCO	Australian Standard Classification of Occupations
Centres	Australian Apprenticeships Centres
DEST	Department of Education, Science and Training
Finance	Department of Finance and Administration
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
JCPAA	Joint Committee of Public Accounts and Audit
MCVTE	Ministerial Council for Vocational and Technical Education
MODL	Migration Occupations in Demand List
NCVER	National Centre for Vocational Education Research
TYIMS	Training and Youth Internet Management System
VET	Vocational Education and Training

Glossary

Australian Apprenticeships Centre	An organisation providing advice and assistance to apprentices, trainees and employers with training arrangements under the terms of a contract between the Centre and the Commonwealth.
Australian Apprenticeships Support Services	Support services provided to an apprentice, trainee, employer or other interested person under the terms of a contract between the Centre and the Commonwealth.
Australian National Training Authority (ANTA)	A former Commonwealth statutory authority that had responsibility for the development of national policy, goals and objectives for the vocational education and training sector; the development, management and promotion of the National Training Framework; the administration and funding of national programs; and the collection and analysis of national statistical data on the vocational education and training system. In 2005 ANTA's functions were transferred to the Department of Education, Science and Training.
Australian Qualifications Framework	A nationally consistent set of qualifications for all post-compulsory education and training in Australia. The Australian Qualifications Framework recognises the Certificate levels awarded in the vocational education and training sector.
Certificate I	A qualification that focuses on basic employment related skills. For example, with a Certificate I qualification, employment can be as a dry cleaner, factory hand, or florist.
Certificate II	A qualification that focuses on the ability to carry out a specific range of routine tasks with some complex or non-routine activities. With a Certificate II qualification, employment can be gained for example, as a bank officer, cleaner or farmer.

Certificate III	A qualification that focuses on relevant theoretical knowledge and the ability to perform a defined range of skills. With a Certificate III qualification, employment can be gained for example, as an electrician, motor mechanic, plumber, metal fabricator or commercial chef.
Certificate IV	A qualification that focuses on a broad knowledge base incorporating theoretical concepts and the skills needed for some technician-level and management occupations. With a Certificate IV qualification, employment can be gained for example, as an accounts clerk, an architectural drafter or a fitness instructor.
State Training Authority	The body in each State or Territory responsible for the operation of the vocational education and training system within that jurisdiction. Each State or Territory Training Authority participates in the formulation of national policy, planning and objectives, and promotes and implements the agreed policies and priorities within the State or Territory.

Summary and Recommendations

Summary

Introduction

1. Education and training contributes to Australia's economic growth by providing skilled, productive workers to enable Australian businesses to compete successfully in the global market.¹
2. Australian, State and Territory Governments have worked with industry to develop a national training system that provides the basis for high quality, industry developed and nationally recognised training. Through a national network of over 4000 public and private registered training providers, over 1.6 million Australians participate in vocational education and training each year.
3. Vocational education and training provides Australians with the skills needed to enter the workforce for the first time, to re-enter the workforce, to retrain for a new job and to improve skills for an existing job. Under the Australian Constitution, State and Territory governments have primary responsibility for vocational education and training. In addition, the Australian Government has a key role in vocational education and training including in developing policy, and in the provision of funding. The Australian Government contributes approximately \$2.8 billion annually to vocational education and training, which constitutes around one third of total government funding for this sector.²
4. A significant feature of Australia's vocational education and training system is Australian Apprenticeships, which is a cooperative arrangement between the Commonwealth and the States and Territories. Australian Apprenticeships include both apprenticeships and traineeships and participants represent approximately 25 per cent of the total numbers in vocational education and training.

¹ Department of Education, Science and Training, *Skilling Australia – new directions for Vocational Education and Training*, February 2005.

² Education, Science and Training, 2007, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra. The 2007–08 Budget allocated approximately \$2.8 billion in administered funding for vocational education and training related programmes. This includes: all of DEST outcome 3 as well as Australian Technical Colleges from DEST outcome 1; Careers Transitions and Partnerships, Career Planning and National Disability Coordination Officers from DEST outcome 4; and Assessment Fee for Overseas Trained Australian Residents from DEST outcome 6, <http://www.dest.gov.au/portfolio_department/dest_information/publications_resources/resources/budget_information/2007/pbs.htm>.

5. The Australian Government has developed a significant role in the vocational education and training sector because of its responsibility for national economic development, through funding State and Territory governments, and through other direct funding.

Australian Apprenticeships

6. Australian Apprenticeships commenced on 1 July 2006, replacing the former New Apprenticeships³, which in turn had replaced the Modern Australian Apprenticeship and Traineeship System.⁴

7. Australian Apprenticeships is designed to combine practical work with structured training, providing an individual with a nationally-recognised qualification and the experience needed to get a job. In June 2006, there were over 400 000 people engaged in Australian Apprenticeships. Australian Apprenticeships are available in a variety of certificate levels in more than 500 occupations across Australia, in traditional trades⁵, as well as in a diverse range of emerging careers in most sectors of business and industry. Training can be delivered on or off the job through a range of public or private providers at the choice of the employer. Training leads to a nationally recognised industry based qualification.

8. For 2007–08 the budget estimate for the Department of Education, Science and Training's (DEST) Australian Apprenticeships activities is \$1030 million⁶ distributed as follows: \$604.6 million for the Australian Apprenticeships Incentives Programme (the Incentives Programme); \$231.6 million for Australian Apprenticeships Workforce Skills Development; \$167.2 million for Australian Apprenticeships Centres (Centres); and \$26.9 million for the Australian Apprenticeships Access Programme.

9. State and Territory responsibilities for vocational education and training (including Australian Apprenticeships) include: state-level planning, regulation of training providers (registering training providers), allocation of

³ On 19 June 2006, the then Minister for Vocational and Technical Education, The Hon Gary Hardgrave MP, announced that the name Australian Apprenticeships would replace the scheme formerly known as New Apprenticeships, <<http://www.dest.gov.au/Ministers/Media/Hardgrave/2006/06/H001190606.asp>>.

⁴ In 1998, the Australian National Training Authority Ministerial Council agreed to the commencement of New Apprenticeships as a replacement for the Modern Australian Apprenticeship and Traineeship System.

⁵ Examples of traditional trades include: Baker, Bricklayer, Carpenter, Drainer, Fitter, Hairdresser, Panel Beater, Motor Mechanic, Tool Maker and Welder. There are approximately 40 traditional trades listed as part of the Migration Occupations in Demand List.

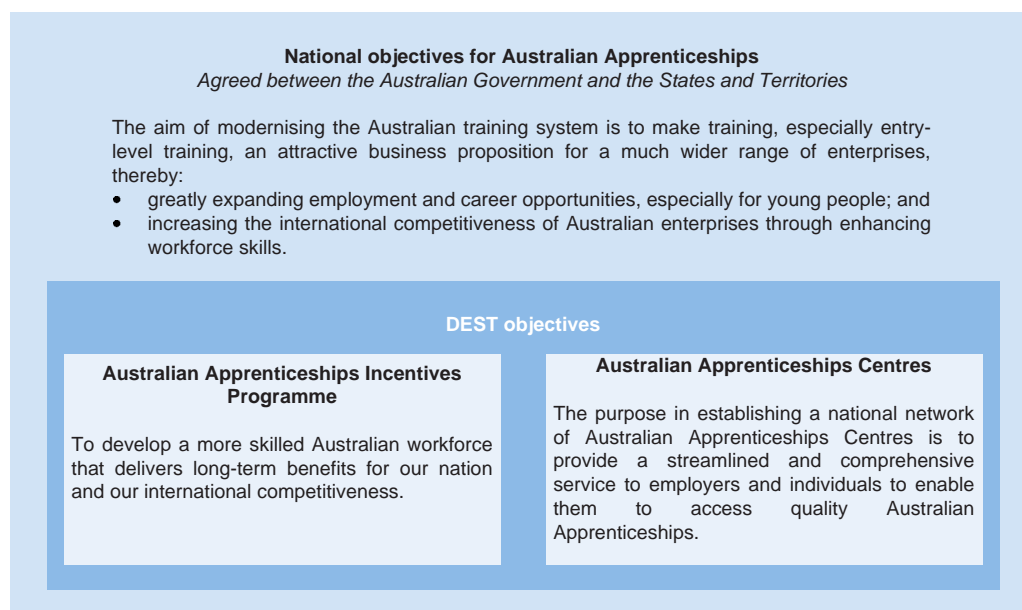
⁶ DEST, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra, p. 82.

funds to public and private providers, setting student fees and charges, managing the Technical and Further Education (TAFE) institutes and registering, monitoring and approving training contracts. The States and Territories are also responsible for: issuing qualifications and determining which qualifications are classified as Australian Apprenticeships; the registration of qualifications based on national training curricula; the accreditation of courses where training curricula have not yet been developed; and registering and auditing training providers that meet nationally agreed standards.⁷

10. Figure 1 shows the national objectives for Australian Apprenticeships agreed between the Commonwealth, States and Territories, as well as the objectives of two components of Australian Apprenticeships administered by DEST.

Figure 1

Objectives developed for Australian Apprenticeships at the Commonwealth, State and Territory level and by DEST for Australian Apprenticeships administered activities



11. The Incentives Programme is designed to encourage employers to employ an apprentice or trainee, and includes standard incentives as well as additional

⁷ Australian Education International, *Country Education Profiles Australia*, Commonwealth of Australia, 2006, p. 45, <http://aei.dest.gov.au/AEI/CEP/Australia_CEP_pdf.pdf>.

and special incentives. The Incentives Programme also provides personal benefits to apprentices and trainees including, for example, the 'Living Away From Home Allowance'.⁸ Incentives and personal benefits are paid subject to employers, and apprentices and trainees, satisfying eligibility criteria for the relevant payment.

12. The Centres are contracted by DEST to deliver Australian Apprenticeships Support Services including promoting, marketing and administering Australian Apprenticeships. The Centres also process employer claims for incentives payments.⁹ These Centres act as points of contact between DEST and employers, apprentices and trainees and State Training Authorities. DEST currently has 73 contracts with 29 organisations delivering Australian Apprenticeships Support Services in 22 regions across Australia. The Centres are paid on a fee for service basis, based on a unit price for each eligible apprentice or trainee.

Audit scope and objective

13. The audit objective was to assess the effectiveness of DEST's administration of its role in Australian Apprenticeships. To achieve this, the ANAO assessed DEST's performance to determine if DEST:

- monitored whether Australian Apprenticeships was achieving its objectives;
- effectively managed the Australian Apprenticeships Incentives Programme; and
- effectively managed its contracts with Australian Apprenticeships Centres.

14. The audit focussed on two of the three largest components of Australian Apprenticeships, being the Incentives Programme and the Centres.

Conclusion

15. Australian Apprenticeships is a mature, cooperative arrangement between the Commonwealth and the States and Territories. DEST works with a range of parties towards achieving the national objectives for Australian

⁸ See Appendix 4 for details of Incentives Programme payments.

⁹ See Appendix 2 for an outline of the services Centres are contracted to provide.

Apprenticeships. In 2006, there were 397 400 apprentices and trainees in training.¹⁰ This is an increase of over 200 000 since 1998.

16. The Ministerial Council for Vocational and Technical Education has overall responsibility for the National Training System, including for strategic policy, priority setting, planning and performance, and the achievement of the national objectives for Australian Apprenticeships.

17. The 2005–08 Commonwealth–State VET Funding Agreement known as *Skilling Australia's Workforce* identifies a national target for Australian Apprenticeships¹¹ focussing on skills shortages in traditional trades.¹² However, there are no performance measures and targets to assess the performance of the 60 per cent of apprenticeships and traineeships that are not in traditional trades. As well as this shortcoming in performance information, DEST does not aggregate and report financial information on Australian Apprenticeships activities administered by the Australian and State and Territory governments.

18. The absence of performance and financial information limits DEST's ability to support the Ministerial Council in managing and reporting performance against the national objectives for Australian Apprenticeships. Collecting this information and combining it with that already held, would enable DEST to undertake more comprehensive analysis of all data. This would assist the Government and the Ministerial Council with policy analysis and development, particularly in the current climate of skills shortages. Recognising DEST's national leadership role, there would be benefit in DEST consulting with the States and Territories to explore whether these gaps in performance and financial information on Australian Apprenticeships may be addressed. DEST could implement any agreed approach at the next available opportunity such as through the next Commonwealth–State VET Funding Agreement for the period 2009–2012.

19. The Incentives Programme administered by DEST has been the subject of review by interdepartmental committees (including DEST) on two occasions, in 2002 and 2004. These reviews have led to changes to the Incentives

¹⁰ NCVER, *Australian vocational education and training statistics: Apprentices and trainees, December quarter 2006*, p. 1, <<http://www.ncver.edu.au/statistics/aats/quarter/dec2006/dc07041.pdf>>.

¹¹ Details of this agreement are provided at Appendix 1.

¹² Specifically, the agreement specifies 10 000 additional places for Australian Apprenticeships commencements in skills shortages in traditional trade areas (Australian Quality Framework Certificate Level III and IV).

Programme including for example, a revised incentives payments structure and value, and additional (and special) incentives.

20. Our analysis shows that the Incentives Programme is well utilised by employers for apprentices and trainees in occupations in national demand; and the large majority of employers are not abusing the Incentives Programme by 'churning' apprentices and trainees. Since 1999–2000 the percentage increase in employer incentives expenditure (63 per cent) has resulted in approximately the same percentage increase in the number of Australian Apprenticeships completions (64 per cent). This indicates that the cost-effectiveness of the programme has remained broadly the same as it was in 1999–2000. Australian Apprenticeships has a non-completion rate of approximately 40 per cent. In light of this, performing a sensitivity analysis of incentives payments to employers compared with Australian Apprenticeships completions, is likely to assist DEST to better understand the influence of any potential policy variations on the cost-effectiveness of the Incentives Programme.

21. DEST contracts Australian Apprenticeships Centres to promote, market and administer Australian Apprenticeships.¹³ These Centres act as points of contact between DEST and employers, apprentices and State Training Authorities. DEST has sound processes and procedures for the day-to-day management of these contracts. DEST monitors the Centres' accuracy in assessing eligibility for employer incentives and the Centres' timeliness in processing incentives claims. Our analysis also shows that all employer incentives payments made between 2003–04 and 2005–06¹⁴ were for the amount specified in the Incentives Programme guidelines. No duplicate payments were detected.¹⁵

22. DEST's intention is that Centres will process, but not approve, employer claims for incentives payments. DEST's forms and processes for approving expenditure on employer claims for incentives payments should make DEST's role in approving claims clear. In response to matters raised during the course of the audit, DEST is consulting with the Department of Finance and Administration to improve the clarity of forms and processes for approving expenditure on employer claims for incentives payments. This will provide

¹³ See Appendix 2 for an outline of the full services Centres are contracted to provide.

¹⁴ The ANAO did not examine special claims where a DEST programme officer manually makes the payment based on documented evidence.

¹⁵ The ANAO's analysis did not include an examination of employers' eligibility for incentives payments.

DEST and the Centres with a better understanding of their respective responsibilities.

Key findings by chapter

Performance reporting (Chapter 2)

23. The national objectives for the Modern Australian Apprenticeship and Traineeship System were agreed in 1996 by the Australian National Training Authority Ministerial Council.¹⁶ The 2005–08 Commonwealth–State VET Funding Agreement identifies a national target for Australian Apprenticeships¹⁷ focussing on skills shortages in traditional trades.¹⁸ However, there are no performance measures and targets to assess the performance of the 60 per cent of apprenticeships and traineeships that are not in traditional trades. This limits DEST’s ability to support the Ministerial Council for Vocational and Technical Education in managing and reporting performance against the national objectives for Australian Apprenticeships.

24. DEST’s *Annual Report 2005–06* includes information on employment rates for graduates from Technical and Further Education (TAFE) institutes, the number of Australian Apprenticeships completions and the level of employer satisfaction with the Centres. DEST also produced the *Annual National Report of the Australian Vocational and Technical Education System 2005*. This report contained, among other things, information on the performance of the national vocational and technical education system in 2005, the achievements and outcomes against the annual national priorities for 2005, and is underpinned by examples and achievements of the State, Territory and Australian governments.

25. However, neither DEST’s *Annual Report 2005–06* or DEST’s *Annual National Report of the Australian Vocational and Technical Education System 2005* contain sufficient performance information to assist interested parties in understanding progress made in achieving the national objectives for

¹⁶ The Council was formerly the peak national decision-making body for vocational education and training. It consisted of Ministers from each State and Territory and the Commonwealth responsible for vocational and technical education, and it was chaired by the Commonwealth. In November 2005, the Ministerial Council for Vocational and Technical Education replaced the Australian National Training Authority Ministerial Council.

¹⁷ Details of this agreement are provided at Appendix 1.

¹⁸ Specifically, the agreement specifies 10 000 additional places for Australian Apprenticeships commencements in skills shortages in traditional trade areas (Australian Quality Framework Certificate Level III and IV).

Australian Apprenticeships. Nor is this information reported elsewhere. As a consequence there is incomplete reporting to inform analysis and understanding of whether the national objectives for Australian Apprenticeships are being met.

26. The ANAO considers that it would assist interested parties in understanding progress made in achieving the national objectives for Australian Apprenticeships, if DEST reported sufficient performance information in its Portfolio Budget Statements and Annual Report on the national objectives for Australian Apprenticeships.

27. The National Centre for Vocational Education Research (NCVER) reports financial information annually on Australia's public vocational education and training system. In its publication *Australian vocational education and training statistics: Financial information 2005*, the NCVER reported that for the calendar year 2005, operating revenues provided by the Australian Government were \$1.1 billion¹⁹ while the State and Territory governments²⁰ provided \$2.8 billion.²¹

28. Participants in Australian Apprenticeships constitute approximately 25 per cent of the vocational education and training system. However, the above-mentioned report did not include financial information on Australian Apprenticeships activities administered by the Australian and State and Territory governments. For example, DEST's Portfolio Budget Statements showed estimated actual expenditure for 2005–06²² and 2006–07²³ of \$752.1 million and \$798.8 million respectively for Australian Apprenticeships activities but these revenues were not included in the NCVER report. Further, DEST does not aggregate and report financial information on Australian Apprenticeships activities administered by the Australian and State and Territory governments. Such information would assist those advising the Government and the Ministerial Council for Vocational and Technical

¹⁹ These are entirely *Skilling Australia's Workforce Act 2005* revenues from DEST of a recurrent nature. They include components for base recurrent, additional recurrent and recurrent funds for vocational education and training in schools.

²⁰ State and Territory government includes appropriated State/Territory operating revenue, assumption of liabilities and resources received free of charge.

²¹ NCVER, *Australian vocational education and training statistics: Financial information 2005*, Revised 2 February 2007, p. 9.

²² DEST, *Portfolio Budget Statements 2006–07*, Budget Related Paper No. 1.5, Canberra, p. 67.

²³ DEST, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra, p. 82.

Education with policy analysis and development, particularly in the current climate of skills shortages.

Incentives payments to employers (Chapter 3)

29. The Incentives Programme administered by DEST has a Budget estimate for 2007–08 of \$604.6 million.²⁴ In 2004–05, approximately 97 per cent of the incentives paid under the programme were for employers of apprentices and trainees. The remaining three per cent of incentives was paid as personal benefits to apprentices and trainees. Payments made under the programme are grants and are not designed to directly defray employer costs.

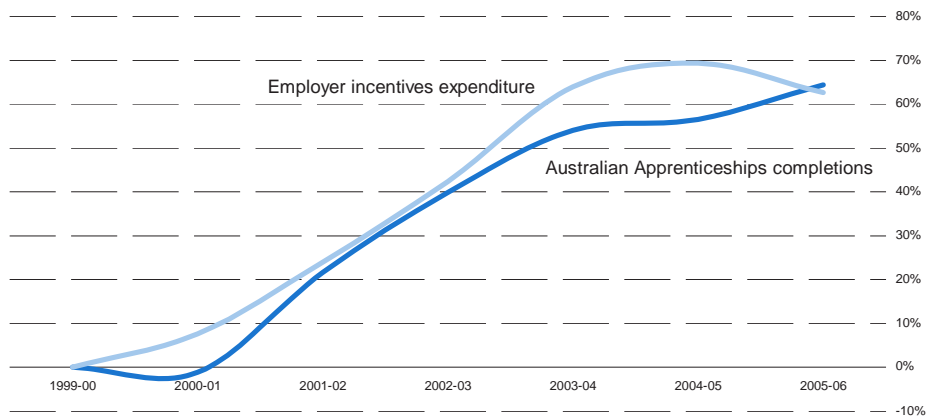
30. The Incentives Programme has been the subject of review by interdepartmental committees (including DEST) on two occasions, in 2002 and 2004. These reviews have led to changes to the Incentives Programme including for example, a revised incentives payments structure and value, and additional (and special) incentives.

31. The ANAO conducted analyses of DEST's Incentives Programme data. Figure 2 shows that from 1999–2000 to 2005–06, the total amount of employer incentives paid increased by 63 per cent while the number of Australian Apprenticeships completions increased by 64 per cent. That is, the percentage increase in employer incentives expenditure has resulted in approximately the same percentage increase in the number of Australian Apprenticeships completions. This indicates that the cost-effectiveness of the programme has remained broadly the same as it was in 1999–2000. Australian Apprenticeships has a non-completion rate of approximately 40 per cent. In light of this, performing a sensitivity analysis of incentives payments to employers compared with Australian Apprenticeships completions, is likely to assist DEST to better understand the influence of any potential policy variations on the cost-effectiveness of the Incentives Programme.

²⁴ DEST, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra, p. 82.

Figure 2

Percentage change in total employer incentives expenditure compared with the percentage change in the total number of Australian Apprenticeships completions



Source: ANAO analysis of NCVER statistics and DEST Australian Apprenticeships Incentives Programme estimates model.

Notes: Percentage change in programme expenditure for each financial year was calculated in constant dollars (2005–06) using the Consumer Price Index.

32. There was a low frequency of commencement incentives payments made to eligible employers that also had a high turnover of apprentices and trainees. Specifically, in 2004–05 and 2005–06 the number of eligible employers receiving commencement incentives payments, that also had a high turnover of apprentices and trainees, was relatively small and had declined from 2004–05 to 2005–06. This suggests the large majority of employers are not abusing the Incentives Programme by ‘churning’ apprentices and trainees.

33. ANAO analysis shows the Incentives Programme is well utilised by employers for apprentices and trainees in occupations in national demand. The percentage of employers accessing the Incentives Programme varies across States and Territories. DEST could monitor and analyse these variations to assist in optimising the programme’s national impact.

34. DEST monitors the Centres’ accuracy in assessing eligibility for employer incentives and the Centres’ timeliness in processing incentives claims. Of the 529 540 incentives payments made between 2003–06, all payments (excluding

some special claims²⁵) were for the amount specified in the programme guidelines. Additionally, no duplicate payments were detected. The ANAO's analysis did not include an examination of employers' eligibility for incentives payments.

Financial management of the Incentives Programme (Chapter 4)

35. DEST's intention is that Centres will process, but not approve, employer claims for incentives payments. DEST's forms and processes for approving expenditure on employer claims for incentives payments should make DEST's role in approving claims clear.

36. In response to matters raised during the course of the audit, DEST consulted with Finance on the incentive payment process. Overall, Finance's initial views were that, based on the information provided by DEST, the latter appeared to have processes that met the requirements of the *Financial Management and Accountability Act and Regulations 1997*. However, Finance considered that DEST could improve the clarity of its approval processes for employer claims for incentives payments. DEST is consulting with Finance to resolve these matters which will provide DEST and the Centres with a better understanding of their respective responsibilities. Finance also advised that it is developing advice to agencies on expenditure approval related matters.

Contract management (Chapter 5)

37. On 1 July 2006, new contracts were established for Support Services for the period 1 July 2006 to 30 June 2009. Under these arrangements, DEST manages 73 contracts with 29 organisations to deliver Australian Apprenticeships Support Services in 22 regions across Australia. The value of the 73 contracts is approximately \$507.3 million over three years.

38. DEST has contracted, on three previous occasions, Australian Apprenticeships Centres to provide support services. This experience has resulted in DEST having comprehensive contracts in place with the Centres for 2006–2009. DEST also has sound processes and procedures in place for managing contracts, including contract risk management. DEST's State Contract Managers are well supported in their role by the National Office.

²⁵ DEST advised that special claims are those where a DEST programme officer manually makes the payment based on documented evidence.

39. State Contract Managers have the delegation to approve both special claims and eligibility waivers regarding fees for service payments to Centres and incentives payments to employers. Although the guidance material available to the State Contract Managers provides details about the relevant processes, there are no documented instructions on how special claims and eligibility waivers should be assessed or the criteria to be applied in such circumstances. This gap in guidance could lead to inconsistency in the assessment of special claims and eligibility waivers across States because each State Office has its own forms and interpretation of the guidelines. The provision of instructions and criteria for the assessment and approval of special claims and eligibility waivers would assist State Contract Managers with their decision-making when processing such claims.

40. DEST's processes for making payments to Centres are clearly specified. DEST's monitoring of payments reduces the risk of it making incorrect payments. ANAO sampling of these payments did not identify an incorrect amount.

41. DEST has established a performance measurement system that includes five areas where the Centres' performance is monitored against the contract. Each performance area has one or more related performance measures. The use of a performance measure (or measures) to assess quality aspects of the Centres performance relating to retention and completion rates would enhance DEST's ability to measure performance against key services in the contract, in particular 'providing ongoing support to employers and Australian Apprentices to encourage the retention and successful completion of Australian Apprenticeships'.²⁶ This service requires Centres to engage in a number of activities designed to support employers and apprentices and trainees throughout their apprenticeship or traineeship.²⁷ The ANAO considers that by measuring these quality aspects, DEST will be able to better assess Centres' performance in contributing to the successful retention and completion of Australian Apprenticeships.

²⁶ Department of Education, Science and Training, *Australian Apprenticeships Support Services Contract 2006–2009*, Schedule 1.

²⁷ These activities include making ongoing contact with employers and apprentices and trainees throughout the duration of the apprenticeship or traineeship, ensuring employers and apprentices and trainees are aware of their rights and responsibilities and reporting any issues arising throughout an apprenticeship to the relevant State Training Authority.

Summary of agency response

42. Australian Apprenticeships are a mature co-operative arrangement between the Australian Government and States and Territories and a significant feature of Australia's vocational and education training system.

43. DEST welcomes the examination of two major Australian Government programmes supporting Australian Apprenticeships: employer incentives paid under the Australian Apprenticeships Incentives Programme and the contract management of Australian Apprenticeships Centres. Pleasingly the audit found that the incentives programme is well utilised by employers of Australian Apprentices in occupations in demand and increased expenditure has been consistent with increases in completion outcomes. DEST was found to have sound processes and procedures in place for managing contracts with Australian Apprenticeships Centres, including contract risk assessment.

44. DEST agrees to both recommendations. The first recommendation will be progressed during 2008 through discussions with State and Territory officials in the context of negotiations for the next Commonwealth-State Funding Agreement relating to Vocational Education and Training. The second recommendation has been timely for the on-going development of the programme and has already been actioned by the Department.

Recommendations

Set out below are the ANAO's recommendations. Report paragraph references and abbreviated DEST responses are also included.

Recommendation No. 1

Para 2.23

The ANAO recommends that DEST:

- in the context of the next Commonwealth–State VET Funding Agreement for the period 2009–2012, explore the development of performance measures and targets for the national objectives for Australian Apprenticeships, and the collection, consolidation and reporting of Australian and State and Territory government financial information on Australian Apprenticeships activities; and
- for the first reporting period after the commencement of the new Commonwealth–State VET Funding Agreement commencing on 1 January 2009, report performance and financial information on the national objectives in DEST's Portfolio Budget Statements and Annual Reports.

DEST's response: Agreed.

Recommendation No. 2

Para 3.31

The ANAO recommends that DEST strengthen its analysis of Incentives Programme data to improve performance monitoring and reporting, and policy analysis and development by:

- analysing programme usage by employers of apprentices and trainees in occupations in national demand; and
- performing a sensitivity analysis of incentives payments to employers compared with Australian Apprenticeships completions.

DEST's response: Agreed.

Audit Findings and Conclusions

1. Introduction

This Chapter describes the background to the audit and sets out its objective, scope and methodology, and the structure of the report.

Background

1.1 The Australian economy has experienced 15 years of economic growth, and it is expected that the Australian economy will grow by 3.75 per cent in 2007–08 and by 3.0 per cent in 2008–09.²⁸ Education and training contributes to Australia's economic growth by providing skilled, productive workers to enable Australian businesses to compete successfully in the global market.

1.2 Skill shortages are regularly reported across Australia and are most common at times of high economic growth and low unemployment. As the Prime Minister has said: 'when we have very strong economic growth we inevitably will run into some skill shortages'.²⁹

1.3 The decisions of the February 2006 Council of Australian Governments'³⁰ meeting included initiatives to reduce skill shortages. These included:

- training and apprenticeships are to be made more flexible by allowing apprentices to demonstrate competencies without having to wait out a set time; and
- processes for the recognition of skills are to be enhanced, with new funding to be provided to training organisations to develop or improve these processes.³¹

1.4 The Council of Australian Governments' skill shortages initiatives are being addressed through, among other things, Australian Apprenticeships. Targeted incentives, administered through the Australian Apprenticeships

²⁸ Australian Government, *Budget Paper No. 1 2007–08*, p. 3–3, <<http://www.budget.gov.au>>.

²⁹ The Hon John Howard MP, Prime Minister, *House of Representatives Hansard transcript*, 10 March 2005.

³⁰ The Council of Australian Governments is the peak intergovernmental forum in Australia. It comprises the Prime Minister, State Premiers, Territory Chief Ministers and the President of the Australian Local Government Association. The Council of Australian Governments was established in May 1992. The role of the Council of Australian Governments is to initiate, develop and monitor the implementation of policy reforms that are of national significance and which require cooperative action by Australian Governments.

³¹ Department of Transport and Regional Services, *Skill Shortages in Australia's Regions, Working Paper No.68*, July 2006, Canberra, p. 36.

Incentives Programme (Incentives Programme), and the provision of more funding for Australian Apprenticeships Centres (Centres), aim to increase retention and completion rates, particularly in occupations experiencing strong skill shortages.³²

The national training system

1.5 The national training system is a key to Australia's economic and social growth.³³ Australian, State and Territory Governments work with industry to develop a national training system that provides the basis for quality, industry developed and nationally recognised training. Through a national network of over 4000 public and private registered training providers, more than 1.6 million Australians participate in vocational education and training each year.³⁴

Vocational education and training

1.6 Vocational education and training is post-compulsory education and training, excluding degree and graduate programs.³⁵

1.7 Vocational education and training provides Australians with the skills needed to enter the workforce for the first time, to re-enter the workforce, to retrain for a new job and to improve skills for an existing job.³⁶ The demand for training is influenced by the changing industrial and occupational employment profile of the economy, the ageing workforce and the lifetime learning and career choices made by individuals. Employers purchase training from both public and private training providers, as well as offering their own internal training and developing training courses to meet their own training needs.

1.8 Under the Australian Constitution, State and Territory governments have primary responsibility for vocational education and training. In addition,

³² Commonwealth funding provided for Australian Apprenticeships also includes funding for the *National Skills Shortages Strategy*. Through this strategy, DEST works in partnership with key industry groups to address current and future industry skills needs, particularly in the traditional trades. Department of Education, Science and Training, *Annual Report 2005–06*, Canberra, 2006, p. 73.

³³ Department of Education, Science and Training, *Annual National Report of the Australian Vocational and Technical Education System 2005*, Canberra, 2006.

³⁴ Department of Education, Science and Training, *Annual National Report of the Australian Vocational and Technical Education System 2005*, Canberra, 2006, p. 12.

³⁵ National Centre for Vocational Education and Research, *A Glossary of Australian Vocational Education and Training terms*, 2000, p. 42, <<http://www.ncver.edu.au/research/core/cp9812.pdf>>.

³⁶ Department of Education, Science and Training, *Annual Report 2004–05*, Canberra, 2005, p. 68.

the Australian Government has an important role in vocational education and training including developing policy, and providing funding, for a range of administered activities. The Australian Government contributes approximately \$2.8 billion annually to vocational education and training, which constitutes around one third of total government funding for this sector.³⁷

1.9 Prior to 2005, the Australian National Training Authority had responsibility for the development of, and advice on, national policy and the development of a national strategy on vocational education and training.³⁸

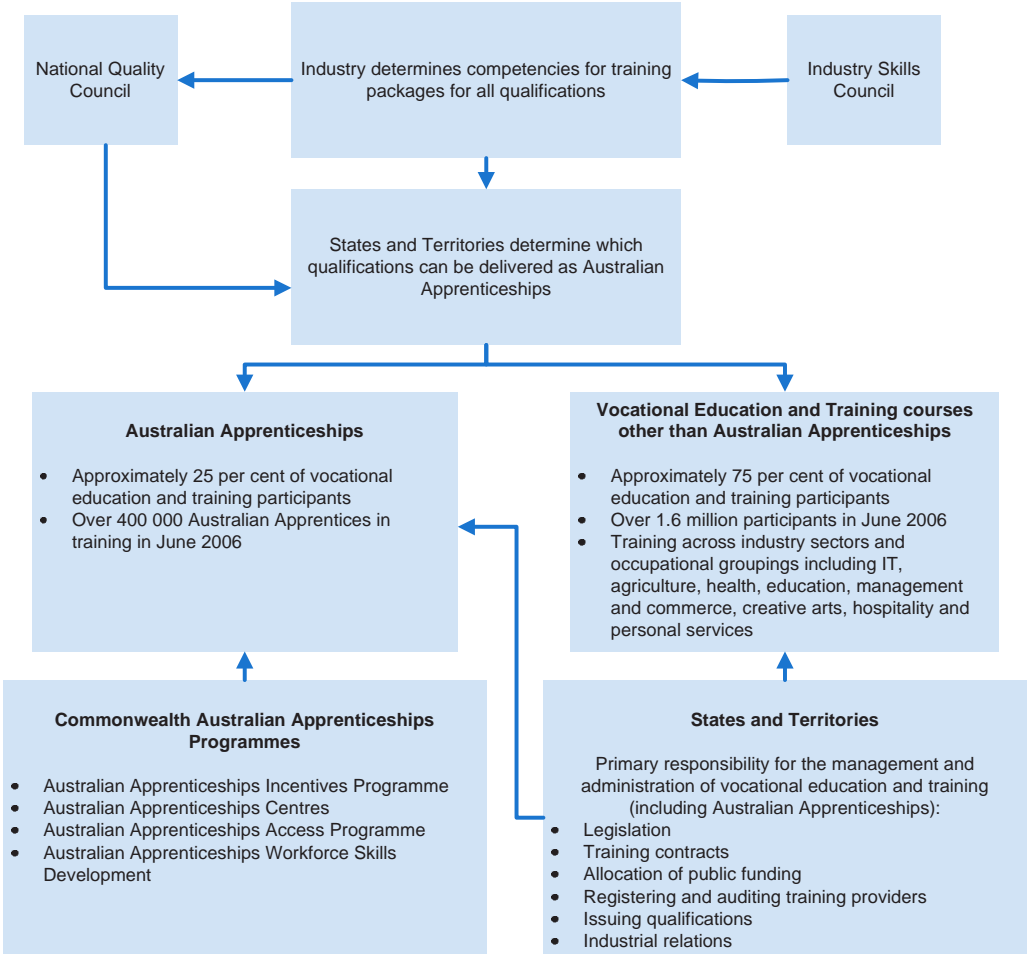
1.10 The *Skilling Australia's Workforce Act 2005* (the Act) implements the national training arrangements following the abolition, in July 2005, of the Australian National Training Authority and transfer of its functions to the Department of Education, Science and Training (DEST). The Act provides a new arrangement, the Commonwealth–State VET Funding Agreement known as *Skilling Australia's Workforce*. Details regarding this agreement are in Appendix 1.

1.11 A significant feature of Australia's vocational education and training system is Australian Apprenticeships, which is a mature, cooperative arrangement between the Commonwealth and the States and Territories. Australian Apprenticeships includes both apprenticeships and traineeships. Figure 1.1 shows how Australian Apprenticeships fit within the vocational education and training system.

³⁷ Education, Science and Training, 2007, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra. The 2007–08 Budget allocated approximately \$2.8 billion in administered funding for vocational education and training related programmes. This includes: all of DEST outcome 3 as well as Australian Technical Colleges from DEST outcome 1; Careers Transitions and Partnerships, Career Planning and National Disability Coordination Officers from DEST outcome 4; and Assessment Fee for Overseas Trained Australian Residents from DEST outcome 6, <http://www.dest.gov.au/portfolio_department/dest_information/publications_resources/resources/budget_information/2007/pbs.htm>.

³⁸ The Australian National Training Authority reported to the Australian National Training Authority Ministerial Council which consisted of the appropriate Minister from each State and Territory, and the Commonwealth Ministers for Employment, Education and Training, and Schools, Vocational Education and Training. The Commonwealth chaired the Council.

Figure 1.1
Vocational education and training system



Source: ANAO.

Australian Apprenticeships

1.12 Australian Apprenticeships form part of the national system of vocational education and training. They commenced on 1 July 2006, replacing the former New Apprenticeships³⁹, which in turn had replaced the Modern Australian Apprenticeship and Traineeship System.⁴⁰

1.13 Australian Apprenticeships combine practical work with structured training, providing an individual with a nationally-recognised qualification and the experience needed to get a job. In June 2006, there were over 400 000 people engaged in Australian Apprenticeships. Australian Apprenticeships are available in a variety of certificate levels in more than 500 occupations across Australia, in traditional trades⁴¹, as well as in a diverse range of emerging careers in most sectors of business and industry.

1.14 Traditionally, apprenticeships have taken three to four years to complete and a traineeship lasted for one to two years. However, Australian Apprenticeships, which include both apprenticeships and traineeships, are 'competency based', meaning that it may be possible for individuals to complete their training sooner once they have reached the required skill level.

1.15 Australian Apprenticeships are covered by agreements known as 'Training Agreements' (also called 'Contracts of Training'). These agreements set out the training and supervision an employer must provide for an individual as well as the apprentice's or trainee's obligations and rights.

1.16 Australian Apprenticeships in traditional trades⁴², as well as in a diverse range of careers, are available in most sectors of business and industry.

³⁹ On 19 June 2006, the then Minister for Vocational and Technical Education, The Hon Gary Hardgrave MP, announced that the name Australian Apprenticeships would replace the scheme formerly known as New Apprenticeships, <<http://www.dest.gov.au/Ministers/Media/Hardgrave/2006/06/H001190606.asp>>.

⁴⁰ In 1998, the Australian National Training Authority Ministerial Council agreed to the commencement of New Apprenticeships as a replacement for the Modern Australian Apprenticeship and Traineeship System.

⁴¹ Examples of traditional trades include: Baker, Bricklayer, Carpenter, Drainer, Fitter, Hairdresser, Panel Beater, Motor Mechanic, Tool Maker and Welder. There are approximately 40 traditional trades listed as part of the Migration Occupations in Demand List.

⁴² Examples of traditional trades include: Baker, Bricklayer, Carpenter, Drainer, Fitter, Hairdresser, Panel Beater, Motor Mechanic, Tool Maker and Welder. There are approximately 40 traditional trades listed as part of the Migration Occupations in Demand List. The Migration Occupations in Demand List includes occupations identified by the Department of Employment and Workplace Relations as being in national demand with sustained employment prospects. The Migration Occupations in Demand List has its basis in the Department of Employment and Workplace Relations' skills-in-demand research with account taken of some broader labour market information, <<http://www.migration.gov.au/skilled/general-skilled-migration/skilled-occupations/occupations-in-demand.htm#oc>>.

Training can be delivered on or off the job through a range of public or private providers at the choice of the employer, and training leads to a nationally recognised industry based qualification. Australian Apprenticeships offer a range of incentives⁴³ and personal benefits⁴⁴ to assist employers and apprentices and trainees.

Numbers of Australian Apprentices

1.17 In 2004, DEST completed an evaluation of New Apprenticeships. DEST reported that there were some 400 000 people engaged in New Apprenticeships, an increase of over 200 000 since its introduction in 1998. New Apprenticeships represented over four per cent of the workforce, up from around two per cent in 1998.⁴⁵

1.18 Australian Apprenticeships data from the National Centre for Vocational Education and Research (NCVER) is represented in Figure 1.2. It shows the trends over eight years for apprentices and trainees in training, commencements, completions and cancellations/withdrawals.

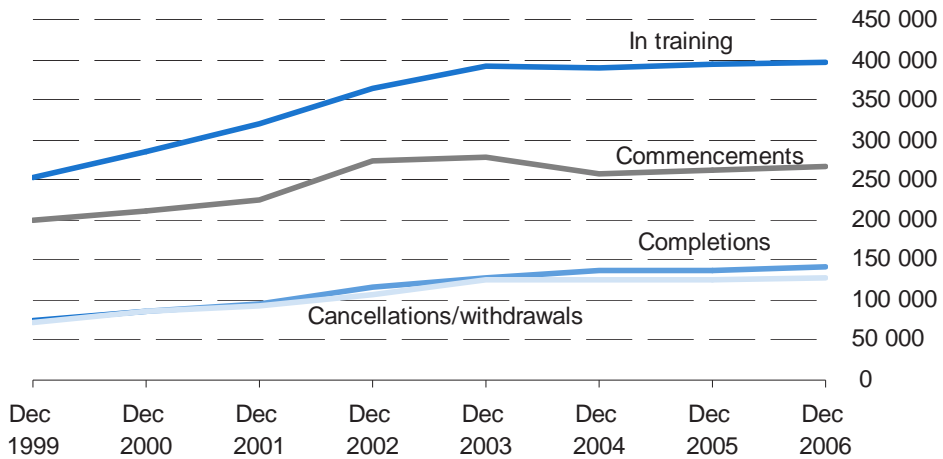
⁴³ Incentives are paid to eligible employers of Australian Apprentices who employ and train an apprentice or trainee. Standard employer incentives include commencement, recommencement and completion payments. These standard incentives are supported by additional and special payments which target priority areas, for example, mature aged apprentices and trainees. Refer to Chapter 3 for a detailed analysis of employer incentives and Appendix 4 for a full list of the incentives available.

⁴⁴ Personal benefits are paid to apprentices and trainees. These include the Commonwealth Trade Learning Scholarship and the Living Away from Home Allowance.

⁴⁵ Department of Education, Science and Training, *Skills at Work: Evaluation of New Apprenticeships*, December 2004, p. 6.

Figure 1.2

Numbers of apprentices in training, commencements, completions and cancellations/withdrawals: December 1999 to December 2006



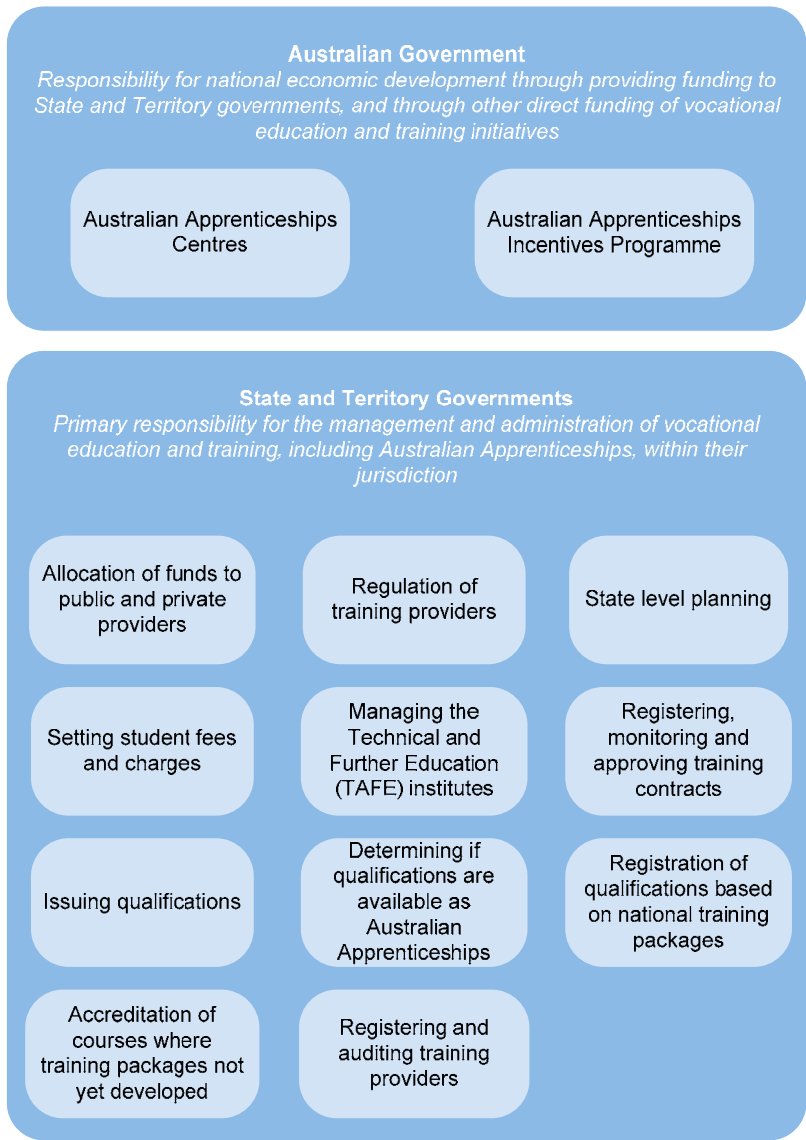
Source: National Centre for Vocational Education and Research, *Australian vocational education and training statistics: apprentices and trainees*, December quarter 2003, 2004, 2005 and 2006, <<http://www.ncver.edu.au>>.

Commonwealth and State and Territory Government responsibilities for Australian Apprenticeships

1.19 As outlined above, the vocational education and training system is a cooperative arrangement between the Commonwealth and the States and Territories. Figure 1.3 shows the Australian Government's responsibilities for vocational education and training, including Australian Apprenticeships, as well as the State and Territory Governments' responsibilities.

Figure 1.3

Commonwealth and State and Territory Government responsibilities for vocational education and training, including Australian Apprenticeships



Source: ANAO.

DEST's funding for Australian Apprenticeships

1.20 Within DEST's outcomes and outputs framework, Australian Apprenticeships appears under Outcome 3. In 2006–07, Australian Apprenticeships had an estimated administered expenditure of

\$880.6 million.⁴⁶ In 2007–08, the budget estimate for Australian Apprenticeships is \$1030.4 million.⁴⁷ DEST's Australian Apprenticeships funds are distributed between four main activities, shown in Figure 1.4.

Figure 1.4

Australian Apprenticeships activities administered by DEST

DEST Outcome 3			
Australian Apprenticeships			
Australian Apprenticeships Incentives Programme	Australian Apprenticeships Workforce Skills Development	Australian Apprenticeships Centres	Australian Apprenticeships Access Programme
\$604 562 000	\$231 618 000	\$167 229 000	\$26 965 000

Source: DEST, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra.

Note: Amounts shown are the 2007–08 budget estimate.

Australian Apprenticeships Incentives Programme

1.21 The Incentives Programme provides financial incentives to employers who employ and train an apprentice or trainee. Standard employer incentives include commencement, recommencement and completion payments. These standard incentives are supported by additional and special payments which target priority areas, for example, mature aged apprentices and trainees.

1.22 The Incentives Programme also includes a number of personal benefits payments for apprentices and trainees. These include the Commonwealth Trade Learning Scholarship and the Living Away from Home Allowance.

Australian Apprenticeships Centres

1.23 The Centres are the primary vehicle through which DEST pays employers and apprentices and trainees under the Incentives Programme. The Centres are contracted by DEST under an Australian Apprenticeships Support Services contract. Currently, DEST has 73 contracts with 29 organisations in 22 regions across Australia. In 2006–07 the Australian Government

⁴⁶ DEST, *Portfolio Budget Statements 2006–07*, Budget Related Paper No. 1.5, Canberra, p. 67. Administered expenditure is on administered items which are those 'assets, liabilities, revenues and expenses managed by agencies on behalf of the Commonwealth. Agencies do not control administered items'. DEST website <www.dest.gov.au>, *Portfolio Budget Statements 2007–08*, Glossary and Acronyms.

⁴⁷ DEST, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra, p. 82.

appropriated \$156.8 million for the Centres⁴⁸, while it appropriated \$167.2 million for the Centres for 2007–08.⁴⁹

1.24 The Centres provide information, administration services and support to employers, apprentices and trainees. They assist with the signing of training contracts, and also process payments to employers and apprentices and trainees. Appendix 2 outlines the full services the Centres are contracted to provide. DEST pays the Centres fees for their services, based on a price for each eligible apprentice or trainee.

Audit objective and scope

Audit objective

1.25 The audit objective was to assess the effectiveness of DEST's administration of its role in Australian Apprenticeships. To achieve this, the ANAO assessed DEST's performance to determine if DEST:

- monitored whether Australian Apprenticeships was achieving its objectives;
- effectively managed the Australian Apprenticeships Incentives Programme; and
- effectively managed its contracts with Australian Apprenticeships Centres.

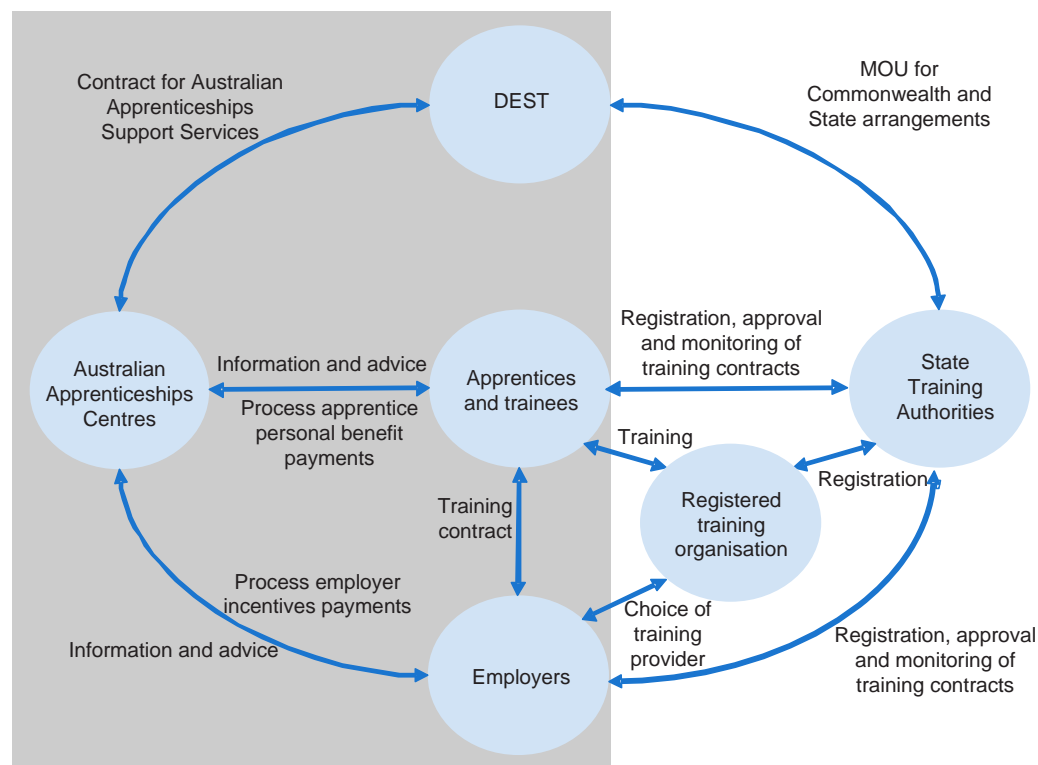
Audit scope

1.26 The audit focussed on two of the three largest components of Australian Apprenticeships, being the Incentives Programme and the Centres.

1.27 Figure 1.5 illustrates the scope of the audit (within the grey box), including DEST's interaction with key stakeholders.

⁴⁸ DEST, *Portfolio Budget Statements 2006–07*, Budget Related Paper No. 1.5, Canberra, p. 67.

⁴⁹ DEST, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra, p. 82.

Figure 1.5**Audit scope**

Source: ANAO.

1.28 The audit did not include examination of:

- the administration of training contracts between apprentices or trainees and their employers as these are responsibilities of State and Territory Governments;
- personal benefits payments to apprentices and trainees as these only constitute around three per cent of Incentives Programme expenditure;
- apprentice and trainee assistance payments administered through Centrelink (Youth Allowance, AuStudy, ABStudy);
- State and Territory apprenticeships activities and incentives;
- Australian Apprenticeships Workforce Skills Development or the Australian Apprenticeships Access Programme, as at the time of the audit these activities had relatively low budgets compared with the Incentives Programme and the Centres; and

- Australian Technical Colleges which cater for year 11 and 12 students who wish to study for their Year 12 Certificate and start an apprenticeship while still at school. The Australian Technical Colleges were the subject of a separate performance audit.

1.29 Although no previous ANAO audit specifically addressed DEST's administration of Australian Apprenticeships (or the former New Apprenticeships), three audits addressed aspects of the administration of Australian Apprenticeships:⁵⁰

- Audit No.51 1999–2000, Program Management in the Training and Youth Division of the Department of Education, Training and Youth Affairs;
- Audit No.27 2000–2001, Program Administration in Training and Youth Division – Business Process Reengineering: Department of Education, Training and Youth Affairs; and
- Audit No.33 2002–2003, Management of eBusiness in the Department of Education, Science and Training.

1.30 These three previous ANAO audits were considered in the design and conduct of the audit of Australian Apprenticeships.

Audit methodology

1.31 The ANAO conducted fieldwork at DEST's National Office in Canberra and DEST State Offices in New South Wales and South Australia. This included: examining policy documents, contracts, guidelines, procedures and operational documents; analysing three years of Australian Apprenticeships data from the Training and Youth Internet Management System; consulting with key stakeholder groups; consulting with Centres in two states and one territory; interviewing DEST staff in the relevant branches, DEST State Offices and National Training Directions Group; and reviewing, files, records and publications including evaluations and reports.

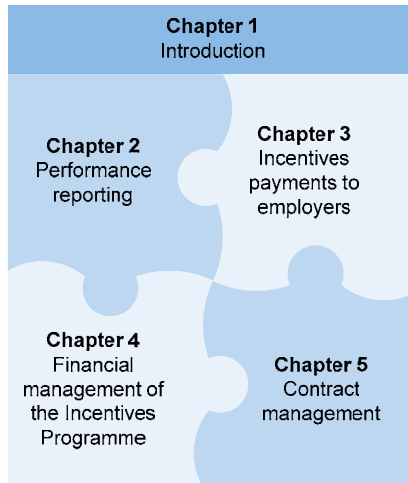
⁵⁰ All ANAO reports are available on its website <www.anao.gov.au>.

Report structure

1.32 The report consists of an introduction and four chapters outlining key elements of DEST's administration of Australian Apprenticeships against the audit criteria, as shown in Figure 1.6.

Figure 1.6

Report structure



2. Performance Reporting

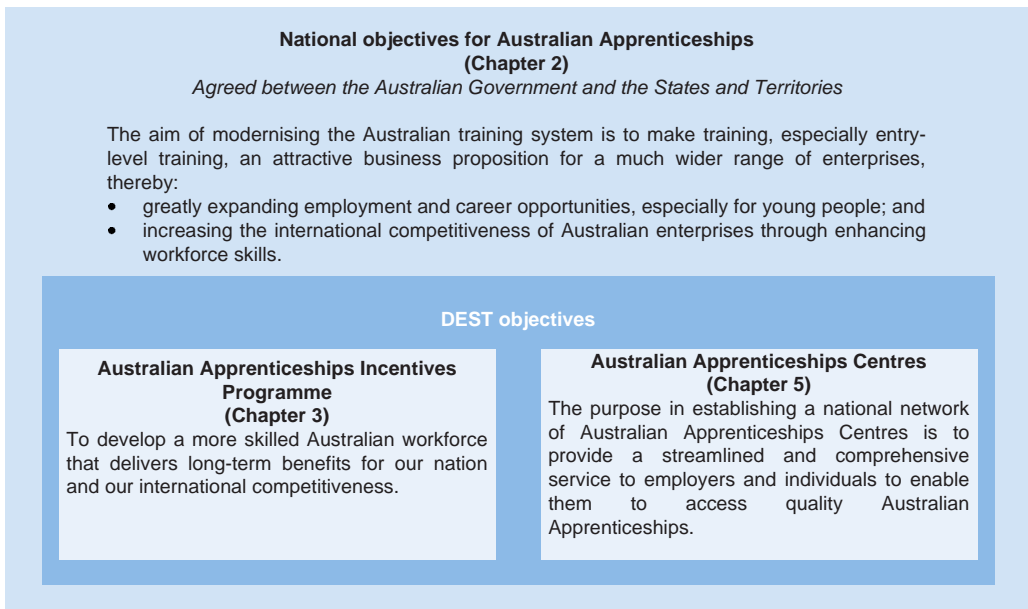
This Chapter examines the objectives set for Australian Apprenticeships and performance reporting against these objectives.

Introduction

2.1 Figure 2.1 shows the national objectives for Australian Apprenticeships agreed between the Commonwealth, States and Territories and the objectives of two of the three largest components of Australian Apprenticeships administered by DEST. Figure 2.1 also shows the Chapters of this report where these objectives are discussed.

Figure 2.1

Objectives developed for Australian Apprenticeships at the Commonwealth, State and Territory level and activities administered by DEST



Source: DEST.

2.2 This Chapter focuses on:

- DEST’s contribution to reporting against the national objectives of Australian Apprenticeships;
- ANAO analysis of business’ utilisation of Australian Apprenticeships; and

- DEST's contribution to reporting on resourcing nationally for Australian Apprenticeships.

DEST's contribution to reporting against the national objectives for Australian Apprenticeships

2.3 Australian Apprenticeships commenced on 1 July 2006, replacing the former New Apprenticeships⁵¹, which in turn had replaced the Modern Australian Apprenticeship and Traineeship System.⁵²

2.4 The national objectives for the Modern Australian Apprenticeship and Traineeship System were agreed in 1996 by the Australian National Training Authority Ministerial Council. The Council was formerly the peak national decision-making body for vocational education and training. It consisted of the Ministers from each State and Territory and the Commonwealth responsible for vocational and technical education, and it was chaired by the Commonwealth.⁵³

2.5 The Council agreed on national objectives for the Modern Australian Apprenticeship and Traineeship System as follows:

the aim of modernising the Australian training system is to make training, especially entry level training, an attractive business proposition for a much wider range of enterprises, thereby:-greatly expanding employment and career opportunities, especially for young people; and-increasing the international competitiveness of Australian enterprises through enhancing workforce skills; and

development and implementation of Modern Australian Apprenticeship and Traineeship System will need to be industry led and be a collaborative effort between the Commonwealth States and Territories.

2.6 Australian Apprenticeships has retained the abovementioned objectives.

⁵¹ On 19 June 2006, the then Minister for Vocational and Technical Education, The Hon Gary Hardgrave MP, announced that the name Australian Apprenticeships would replace the scheme formerly known as New Apprenticeships, <<http://www.dest.gov.au/Ministers/Media/Hardgrave/2006/06/H001190606.asp>>.

⁵² In 1998, the Australian National Training Authority Ministerial Council agreed to the commencement of New Apprenticeships as a replacement for the Modern Australian Apprenticeship and Traineeship System.

⁵³ In November 2005, the Ministerial Council for Vocational and Technical Education replaced the Australian National Training Authority Ministerial Council. The Ministerial Council for Vocational and Technical Education has the same membership as the former Australian National Training Authority Ministerial Council.

DEST's role in supporting the Ministerial Council for Vocational and Technical Education

2.7 The Ministerial Council for Vocational and Technical Education has overall responsibility for the National Training System, including for strategic policy, priority setting, planning and performance, and the achievement of the national objectives for Australian Apprenticeships.

National leadership

2.8 DEST's Strategic Plan 2005–08, identifies the following:

Over 2005–08 we will focus on offering national leadership in education, science and training. We will work well with people outside DEST to achieve our goals and we will ensure policies and programmes are relevant to current and future needs.⁵⁴

2.9 The ANAO examined DEST's contribution to reporting against, the national objectives for Australian Apprenticeships focussing on the development of performance measures.

Performance measures on the national objectives

2.10 Although the former Australian National Training Authority Ministerial Council developed national objectives, there were no national performance measures or targets.

2.11 The 2005–08 Commonwealth–State VET Funding Agreement known as *Skilling Australia's Workforce* between the Australian, State and Territory Ministers responsible for vocational education and training, identifies a national target for Australian Apprenticeships focussing on skills shortages in traditional trades. However, there are no performance measures and targets to assess the performance of the 60 per cent of apprenticeships and traineeships that are not in traditional trades. This shortcoming in performance information limits DEST's ability to support the Ministerial Council for Vocational and Technical Education in managing and reporting performance against the national objectives for Australian Apprenticeships.

⁵⁴ DEST, *Strategic Plan 2005–08*, p. 2.

Performance reporting

2.12 The ANAO examined both the *Annual National Report of the Vocational and Technical Education System 2005*⁵⁵ and DEST's *Annual Report 2005–06*, for performance information on the national objectives for Australian Apprenticeships. Specifically, the ANAO sought information on whether a wider range of enterprises was finding training, especially entry level training, an attractive business proposition; and if so, whether this had resulted in:

- more employment and career opportunities, especially for young people; and
- increased the international competitiveness of Australian enterprises.

2.13 The *Annual National Report of the Vocational and Technical Education System 2005*, contains information on the performance of the national vocational and technical education system in 2005 and annual national priorities for 2005. The *DEST Annual Report 2005–06* also contains performance information on the vocational education and training system specifically focussing on Australian Apprenticeships.

2.14 However, neither of the above-mentioned reports contains sufficient performance information to assist interested parties in understanding progress made in achieving the national objectives for Australian Apprenticeships. Nor is this information reported elsewhere. This means that there is incomplete reporting to inform analysis and understanding on whether the national objectives for Australian Apprenticeships are being met.

2.15 The ANAO asked DEST for advice on the most appropriate document for reporting progress on the national objectives for Australian Apprenticeships. DEST responded that it considered the most appropriate documents are its Portfolio Budget Statements and Annual Report. Consequently, the ANAO considers that DEST should report performance information in these documents to assist interested parties in understanding progress made in achieving the national objectives for Australian Apprenticeships.

⁵⁵ In accordance with *Skilling Australia's Workforce Act 2005*, DEST on behalf of the Minister for Vocational and Technical Education, produced the *Annual National Report of the Vocational and Technical Education System 2005*. The report provides an assessment of the performance of the national training system during the year and provides detailed information on the operation of the national system, its achievements and challenges, and the outcomes achieved for the systems clients.

ANAO's analysis of business' utilisation of Australian Apprenticeships

2.16 Measuring the extent to which business was finding training, especially entry level training, an attractive business proposition involves understanding whether businesses are increasingly utilising Australian Apprenticeships and if so, the reasons for this.

2.17 To assist in this regard, the ANAO analysed business' use of Australian Apprenticeships. The analysis compared the number of Australian Apprenticeships registrations from data in DEST's Training and Youth Internet Management System with Australian Bureau of Statistics data on businesses employing, in all industries, in each State and Territory at June 2004.⁵⁶ The aim was to identify the number of apprentices and trainees employed per employing business. The results of the analysis are in Table 2.1.

Table 2.1

Business' use of Australian Apprenticeships as at June 2004

State	Australian Apprenticeships registrations (a)	Number of businesses employing staff (b)	Average number of apprentices and trainees per employing business (a/b)
NSW ¹	75 777	308 972	.25
VIC	75 891	214 775	.35
QLD	54 530	157 628	.35
WA	21 195	79 169	.27
SA	18 768	55 380	.34
TAS	7 215	15 690	.46
NT	2 133	5 464	.39

Source: ANAO analysis.

Note: ¹ NSW data includes the ACT.

2.18 Table 2.1 shows that Tasmania employed the most apprentices and trainees per employing business, while New South Wales employed the least. Not all employing businesses employ apprentices and/or trainees. However, the analysis provides a useful guide to the extent to which business is utilising Australian Apprenticeships.

⁵⁶ Australian Bureau of Statistics, cat. No. 8161.0.55.001 Australian Bureau of Statistics Business Register, Counts of Business, June 2004.

2.19 By conducting a time series analysis and employer surveys, it would be possible for DEST to gain a perspective on whether businesses are increasingly utilising Australian Apprenticeships. This would go some way to understanding whether business was finding training, especially entry level training, increasingly attractive.

DEST's contribution to reporting on resourcing nationally for Australian Apprenticeships

2.20 The National Centre for Vocational Education Research (NCVER)⁵⁷ reports financial information annually on Australia's public vocational education and training system. In its publication *Australian vocational education and training statistics: Financial information 2005*⁵⁸, the NCVER reported that for the calendar year 2005, operating revenues provided by the Australian government were \$1.1 billion⁵⁹ while the State and Territory governments⁶⁰ provided \$2.8 billion.⁶¹

2.21 Participants in Australian Apprenticeships represent approximately 25 per cent of the total numbers of participants in vocational education and training. However, the above-mentioned report did not include financial information on Australian Apprenticeships activities administered by the Australian and State and Territory governments.⁶² Further, DEST does not aggregate and report financial information on Australian Apprenticeships activities administered by the Australian and State and Territory governments. Such information would assist those advising the Government and the

⁵⁷ The National Centre for Vocational Education Research (NCVER) is a not-for-profit company owned by the federal, state and territory ministers responsible for training.

⁵⁸ The *Australian vocational education and training statistics: Financial information 2005*, provides information on how public vocational education and training in Australia is financed and where the money is spent. The publication is based on 2005 data provided by the Commonwealth and State/Territory departments responsible for administering public funds for Australia's vocational education and training system. The financial information has been extracted from the accrual-based statements prepared by Australia's State and Territory governments and the Australian government.

⁵⁹ These are entirely *Skilling Australia's Workforce Act 2005* revenues from DEST of a recurrent nature. They include components for base recurrent, additional recurrent and recurrent funds for vocational education and training in schools.

⁶⁰ State and Territory government includes appropriated State/Territory operating revenue, assumption of liabilities and resources received free of charge.

⁶¹ NCVER, *Australian vocational education and training statistics: Financial information 2005*, Revised 2 February 2007, p. 9.

⁶² For example, DEST's Portfolio Budget Statements showed estimated actual expenditure for 2005–06 and 2006–07 of \$752.1 million and \$798.8 million respectively for Australian Apprenticeships administered activities but these revenues were not included in the NCVER report.

Ministerial Council for Vocational and Technical Education with policy analysis and development, particularly in the current climate of skills shortages.

2.22 Recognising DEST's national leadership role, there would be benefit in DEST consulting with the States and Territories to explore whether these gaps in performance and financial information on Australian Apprenticeships may be addressed. DEST could implement any agreed approach at the next available opportunity such as through the next Commonwealth–State VET Funding Agreement for the period 2009–2012.

Recommendation No.1

2.23 The ANAO recommends that DEST:

- in the context of the next Commonwealth–State VET Funding Agreement for the period 2009–2012, explore the development of performance measures and targets for the national objectives for Australian Apprenticeships, and the collection, consolidation and reporting of Australian and State and Territory government financial information on Australian Apprenticeships activities; and
- for the first reporting period after the commencement of the new Commonwealth–State VET Funding Agreement commencing on 1 January 2009, report performance and financial information on the national objectives in DEST's Portfolio Budget Statements and Annual Reports.

DEST's response

2.24 Agreed. DEST will commence discussions and negotiations with State and Territory officials in 2008 around the next Commonwealth–State VET Funding Agreement relating to Vocational Education and Training. The ANAO recommendations will be progressed through these discussions which will be finalised during 2008.

Conclusion

2.25 The national objectives for the Modern Australian Apprenticeship and Traineeship System were agreed in 1996 by the Australian National Training Authority Ministerial Council.⁶³ Australian Apprenticeships has retained these objectives.

2.26 The 2005–08 Commonwealth–State VET Funding Agreement identifies a national target for Australian Apprenticeships⁶⁴ focussing on skills shortages in traditional trades.⁶⁵ However, there are no performance measures and targets to assess the performance of the 60 per cent of apprenticeships and traineeships that are not in traditional trades. This limits DEST's ability to support the Ministerial Council for Vocational and Technical Education in managing and reporting performance against the national objectives for Australian Apprenticeships.

2.27 Neither DEST's *Annual Report 2005–06* or DEST's *Annual National Report of the Australian Vocational and Technical Education System 2005* contain sufficient performance information to assist interested parties in understanding progress made in achieving the national objectives for Australian Apprenticeships. Nor is this information reported elsewhere. As a consequence there is incomplete reporting to inform analysis and understanding of whether the national objectives for Australian Apprenticeships are being met.

2.28 The NCVER reports financial information annually on Australia's public vocational education and training system. In its publication *Australian vocational education and training statistics: Financial information 2005*, the NCVER reported that for the calendar year 2005, operating revenues provided by the

⁶³ The Council was formerly the peak national decision-making body for vocational education and training. It consisted of Ministers from each State and Territory and the Commonwealth responsible for Vocational and Technical Education, and it was chaired by the Commonwealth. In November 2005, the Ministerial Council for Vocational and Technical Education replaced the Australian National Training Authority Ministerial Council.

⁶⁴ Details of this agreement are provided at Appendix 1.

⁶⁵ Specifically, the agreement specifies 10 000 additional places for Australian Apprenticeships commencements in skills shortages in traditional trade areas (Australian Quality Framework Certificate Level III and IV).

Australian Government were \$1.1 billion⁶⁶ while the State and Territory governments⁶⁷ provided \$2.8 billion.⁶⁸

2.29 Participants in Australian Apprenticeships constitute approximately 25 per cent of the vocational education and training system. However, the above-mentioned report did not include financial information on Australian Apprenticeships activities administered by the Australian and State and Territory governments. Such information would assist the Government and the Ministerial Council for Vocational and Technical Education with policy analysis and development, particularly in the current climate of skills shortages.

⁶⁶ These are entirely *Skilling Australia's Workforce Act 2005* revenues from DEST of a recurrent nature. They include components for base recurrent, additional recurrent and recurrent funds for Vocational education and Training in schools.

⁶⁷ State and Territory government includes appropriated State/Territory operating revenue, assumption of liabilities and resources received free of charge.

⁶⁸ NCVER, *Australian vocational education and training statistics: Financial information 2005*, Revised 2 February 2007, p. 9.

3. Incentives Payments to Employers

This Chapter considers DEST's administration of the Australian Apprenticeships Incentives Programme.

Introduction

3.1 The Australian Apprenticeships Incentives Programme (the Incentives Programme) was introduced in 1998, bringing together apprenticeships and traineeships under an agreed national framework for training. The Incentives Programme is the means by which the Australian Government supports Australian citizens and permanent residents in traineeships and apprenticeships. This occurs through a system of financial incentives to employers of apprentices and trainees and personal benefits to apprentices and trainees. A summary of the incentives regime is in Appendix 4.

3.2 The Incentives Programme has a Budget estimate for 2007–08 of \$604.6 million.⁶⁹ In 2004–05, approximately 97 per cent of the Incentives Programme was paid as financial incentives to employers of apprentices and trainees. The remaining three per cent of the Incentives Programme was paid as personal benefits to apprentices and trainees. Payments made under the Incentives Programme are grants and are not designed to directly defray employer costs. The Incentives Programme is demand-driven, meaning there is no limit or target for incentives—all those eligible will receive a payment. These payments are administered by the Australian Apprenticeships Centres (Centres), as discussed in Chapter 5.

3.3 This Chapter focuses on how DEST:

- uses its Incentives Programme data to support performance monitoring and reporting, and policy analysis and development; and
- monitors the accuracy and timeliness of Incentives Programme payments.

Use of data to support performance monitoring and reporting, and policy analysis and development

3.4 DEST uses data from its Training and Youth Internet Management System combined with data from other sources, including from the NCVER, to support performance monitoring, reporting and policy analysis and

⁶⁹ DEST, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra, p. 82.

development for employer incentives payments. In particular, the Incentives Programme has been the subject of review by interdepartmental committees (including DEST) on two occasions, in 2002 and 2004. These reviews have led to changes to the Incentives Programme including for example, a revised incentives payments structure and value, and additional (and special) incentives.

ANAO analysis of Incentives Programme data

3.5 Although the impact of the Incentives Programme on employer behaviour is difficult to measure, a basis for measuring programme performance can be established by examining past performance and designing performance measures that encourage improvement. More comprehensive analysis of the available data would assist DEST to gain a better understanding of the Incentives Programme and also assist with programme management and reporting. As a result DEST would be better able to assess the impact of the programme, the impacts of changes to the programme, and to assist the Government in its on-going policy development.

Incentives Programme cost-effectiveness

3.6 To assist in understanding the cost-effectiveness of the Incentives Programme the ANAO analysed the following data:⁷⁰

- the percentage change in total employer incentives expenditure compared with the percentage change in the total number of Australian Apprenticeships completions from 1999–2000 to 2005–06;
- commencement incentives paid to employers with a high turnover of apprentices and trainees for 2003–04 to 2005–06; and
- the percentage of commencement incentives paid to eligible employers where their apprentices and trainees did not successfully complete their Australian Apprenticeship for 2003–04 to 2005–06.

Incentives Programme expenditure and completions

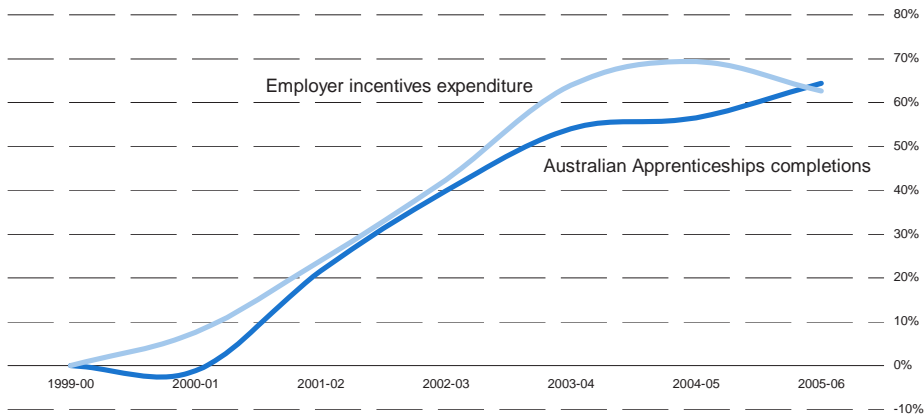
3.7 Figure 3.1 shows that since 1999–2000, the total amount of employer incentives paid has increased by 63 per cent while the number of Australian Apprenticeships completions has increased by 64 per cent. That is, the

⁷⁰ The ANAO analysed data from DEST's Training and Youth Internet Management System, and its Australian Apprenticeships Incentives Programme estimates model, the NCVER and the Australian Bureau of Statistics.

percentage increase in employer incentives expenditure has resulted in approximately the same percentage increase in the number of Australian Apprenticeships completions. This indicates that the cost-effectiveness of the programme has remained broadly the same as it was in 1999–2000.

Figure 3.1

Percentage change in total employer incentives expenditure compared with the percentage change in the total number of Australian Apprenticeships completions



Source: ANAO analysis of NCVER statistics and DEST Incentives Programme estimates model.

Notes: Percentage change in Incentives Programme expenditure for each financial year was calculated in constant dollars (2005–06) using the Consumer Price Index.

3.8 Given that there are programme lags, for example, employers may take up to 12 months to claim incentives, this means that there is not a direct relationship between completion incentives paid in a particular financial year and the number of completions achieved in that financial year. Nonetheless, the graph shows the movement in the two variables over time.

3.9 Australian Apprenticeships has a non-completion rate of approximately 40 per cent. In light of this, performing a sensitivity analysis of incentives payments to employers compared with Australian Apprenticeships completions, is likely to assist DEST to better understand the influence of any potential policy variation on the cost-effectiveness of the Incentives Programme.

Commencement incentives paid to employers with a high turnover of apprentices and trainees

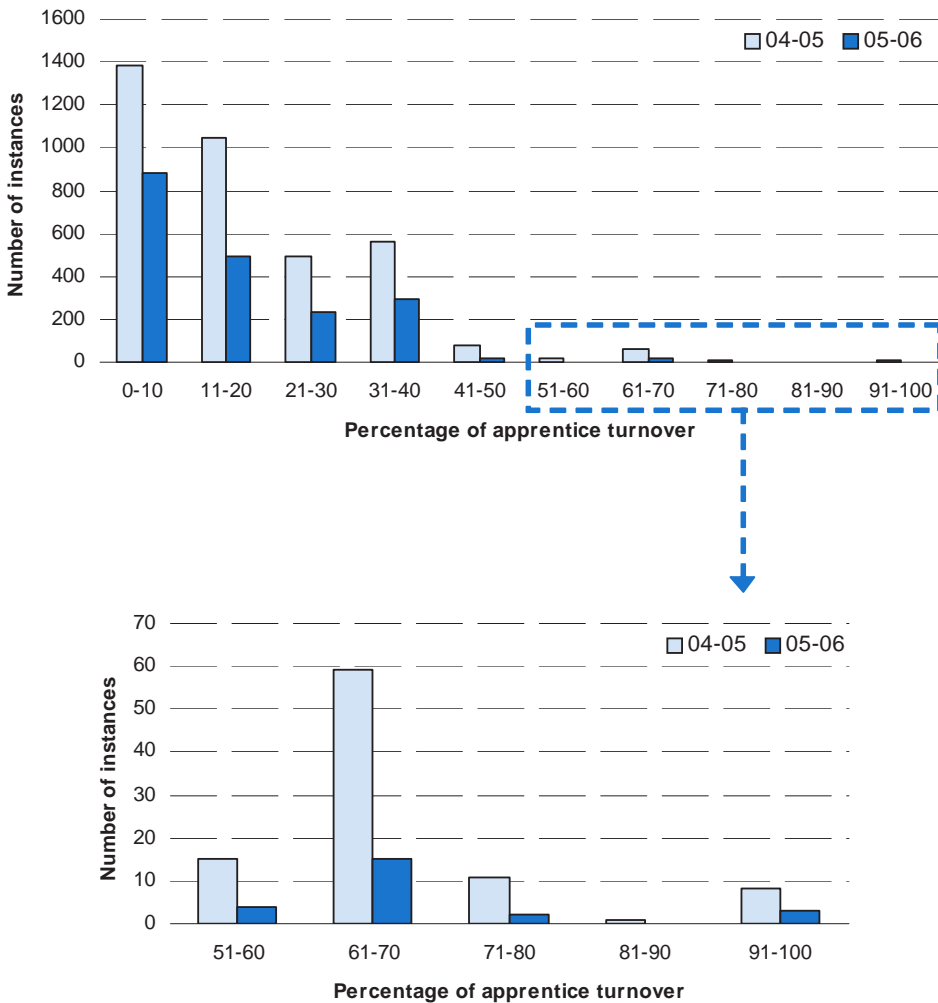
3.10 DEST advised that in 2005–06, 75 516 employers claimed incentives under the programme. Examination of this data would assist DEST in managing the risk of employers abusing the programme by ‘churning’ apprentices and trainees. The ANAO examined the frequency of payments of commencement incentives made to eligible employers that also had a high turnover of apprentices and trainees.

3.11 Specifically, the ANAO examined instances in 2004–05 and 2005–06, where:

- commencement incentives were paid to an employer; and
- the employer commenced three or more employees as apprentices or trainees in a financial year; and
- one or more of the apprenticeships or traineeships ended unsuccessfully within the first six months.

3.12 A summary of the ANAO’s analysis is provided in Figure 3.2. The horizontal axis shows the percentage of apprentices and trainees that did not complete their apprenticeship with their employer. The vertical axis shows the number of employers involved. For example, the second part of Figure 3.2 shows that in 2005–06, 15 employers (employing three or more apprentices and/or trainees) had 61–70 per cent of their Australian Apprenticeships end unsuccessfully within six months.

3.13 The number of employers identified in Figure 3.2 is relatively small compared with the total number of employers that claimed incentives under the programme, and has declined from 2004–05 to 2005–06.

Figure 3.2**Employers with high levels of unsuccessful completions**

Source: ANAO analysis of DEST Training and Youth Internet Management System data.

3.14 DEST intends to examine a number of instances identified by the ANAO. This work will include a report from the Australian Apprenticeship Centre (Centre) responsible for assisting employers.

3.15 DEST advised that it is currently developing the capability to compare employer commencement activity with retention and outcomes achieved. Additionally, DEST monitors employer activity in response to a number of triggers including the following:

- bi-annual performance monitoring (discussed in Chapter 5);
- investigations by its National Investigations Unit;
- complaints referred via the National Training Complaints Hotline, the Client Support Hotline and complaints received by the relevant Ministers' Offices;
- existing worker commencements⁷¹ where the numbers are in excess of 20; and
- referrals from State Training Authorities.

3.16 DEST further advised the ANAO that where employers were found to have accessed the programme inappropriately, incentives are recovered.

Criteria for examining employers with high turnovers of apprentices and trainees

3.17 To assist in identifying instances where employers have turnover rates that may constitute an abuse of the programme, the ANAO examined the following:

- whether DEST has criteria which, if met, would trigger an examination of an employer's behaviour relating to the risk of abuse of the programme through employers 'churning' apprentices and trainees;
- how any criteria are monitored;
- how many employers DEST has investigated; and
- the results of DEST investigations.

3.18 DEST has not set specific criteria and benchmarks in this regard. However, the Incentives Programme guidelines require Centres to report instances where they believe an employer is attempting inappropriately to maximise incentives under the programme. DEST's monitoring of the Centres' performance in reporting such instances, and the activities of DEST's Audit and Investigations Branch relating to Australian Apprenticeships, are discussed in Chapter 5.

⁷¹ The incentives under this Programme are aimed at encouraging employers to make a commitment to a skilled and flexible workforce – especially to skilling newly acquired workers. Incentives in relation to existing workers are mainly confined to encouraging long-term and high-level training or training in areas of special need. Existing workers are those with whom the employer has built up an employment relationship of more than three months full-time equivalent.

3.19 The ANAO concludes that although DEST currently monitors the programme for abuse, it can improve its performance.

Programme effectiveness

3.20 Chapter 2—Table 2.1, provided an analysis of the extent to which Australian businesses within each State are utilising Australian Apprenticeships. Additionally, this Chapter has reported that the number of Australian Apprenticeships completions has increased by 64 per cent since 1999–2000, while the total amount of employer incentives paid each financial year has increased by 63 per cent.

3.21 In addition to the above analyses, the ANAO examined:

- whether the programme was being well utilised by employers in occupations listed as being in national demand; and
- whether the programme was being utilised consistently across States.

Programme utilisation by employers in occupations listed as being in national demand

3.22 For 2003–04 to 2005–06, the ANAO compared the percentage of the average number of persons employed in occupations included on the Migration Occupations in Demand List (MODL)⁷² with the percentage of commencement incentives paid to employers of apprentices and trainees in occupations included on the MODL.⁷³

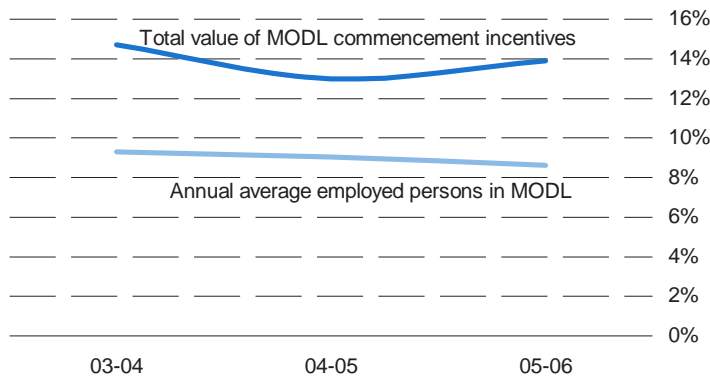
3.23 Figure 3.3 shows that, under the Incentives Programme, the percentage of commencement incentives paid from 2003–04 to 2005–06, to employers of apprentices and trainees in MODL occupations is greater than the percentage of the average number of persons employed in occupations included on the MODL. This means that proportionally more commencement incentives are being paid to employers of apprentices and trainees in occupations in national demand. Based on its analysis, the ANAO concludes that the programme is well utilised by employers of apprentices and trainees in occupations in national demand.

⁷² The Migration Occupations in Demand List includes occupations identified by the Department of Employment and Workplace Relations as being in national demand with sustained employment prospects. The Migration Occupations in Demand List has its basis in the Department of Employment and Workplace Relations' skills-in-demand research with account taken of some broader labour market information.

⁷³ In all representations of this data analysis, ANAO extracted occupations with an ASCO code to six digits (eg. 4212-11) while ABS data extracted occupations with an ASCO code to four digits (eg. 4212).

Figure 3.3

Percentage of commencement incentive payments to MODL occupations compared with the percentage of average persons employed in occupations included on the MODL



Source: ANAO analysis of DEST Training and Youth Internet Management System data and Australian Bureau of Statistics data.

3.24 DEST indicated that it had not performed this type of analysis previously and that it would consider performing this type of analysis in the future.

Programme utilisation across States and Territories

3.25 As an indication of the consistency with which the programme is utilised by employers across States and Territories, for 2005–06, the ANAO examined whether differences existed in the percentage of registrations⁷⁴ against which employers claimed commencement incentives. The ANAO also examined whether differences existed in the average amount of incentives paid to claiming employers. Where significant differences exist, it is important to understand the reasons to assist in maximising programme effectiveness in all States and Territories.

3.26 In considering the claim data it is important to note that there is a three month waiting period before an employer can apply for an incentive payment. Consequently, the claims data will not include claims against those registrations that had not seen out the waiting period by 30 June 2006. Also, employers are able to claim commencement incentives within 12 months from

⁷⁴ Registration refers to the validation and approval by a State or Territory Training Authority of a Training Agreement between an employer and an apprentice or trainee. An employer may be a party to more than one registration.

the date of commencement so claim data may not include claims against those registrations that were still within the 12 month claim timeframe by 30 June 2006. The ANAO's analysis is shown at Figure 3.4.

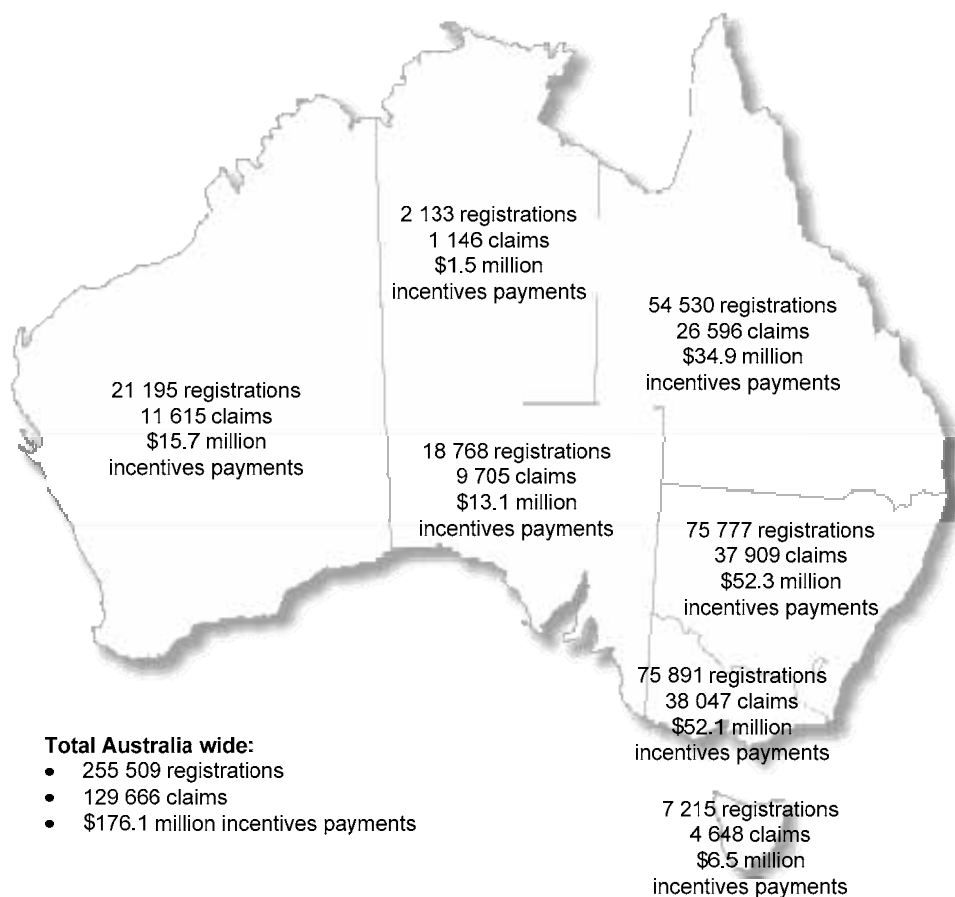
3.27 The percentage of registrations against which employers claimed commencement incentives was highest in Tasmania (64.4 per cent) and lowest in Queensland (48.8 per cent). The average incentive amount paid to employers claiming incentives payments was highest in Tasmania (\$1387) and lowest in the Northern Territory (\$1307).

3.28 DEST advised that there were a number of contributing factors which may have affected the claim rate in Tasmania. These included the small market in which the Centres operated and that employers will be aware of the process and consequently continue to access the programme. DEST also advised that historically, the Tasmanian market has traditionally been noted for having higher than the national average existing worker commencements. Existing worker apprentices and trainees undertaking training at Certificate Level III⁷⁵ tend to have higher completion rates. This higher completion rate means more completion incentives being claimed.

⁷⁵ For example a Certificate Level III in Plumbing.

Figure 3.4

Percentage of Australian Apprenticeships registrations claiming commencement incentives by State and Territory in 2005–06



State/Territory	Percentage of registrations claiming incentives (%)	Average claim (\$)
NSW	50.0	1 380
VIC	50.1	1 371
QLD	48.8	1 310
WA	54.8	1 355
SA	51.7	1 358
TAS	64.4	1 387
NT	53.7	1 307
Australia	50.7	1 359

Source: ANAO analysis of DEST Training and Youth Internet Management System data.

Notes:

1. NSW includes ACT.
2. Incentives payments are rounded figures.
3. Registrations is the total number of new registrations at Australian Quality Framework Certificate II, III or IV level on the Training and Youth Internet Management System for 2005–06.
4. Claims is the total number of commencement incentive claims for 2005–06 and includes the standard commencement incentive, innovation commencement incentive, mature aged commencement incentive, school-based apprentice commencement incentive, rural and regional commencement incentive and women in non-traditional trades incentive. Only employers who employ apprentices at the Australian Quality Framework Certificate II, III or IV level are eligible to receive these incentives.

3.29 Based on DEST's advice, the ANAO further analysed incentives payment data for 2005–06 to determine whether Tasmania had a higher amount of existing worker commencements than the national average of existing worker commencements. The ANAO concluded that it is unlikely that the higher average amount claimed per registration in Tasmania is owing to the number of existing workers registered.

3.30 Programme utilisation varies across States and Territories. DEST could monitor and analyse these variations to assist in optimising the programme's national impact.

Recommendation No.2

3.31 The ANAO recommends that DEST strengthen its analysis of Incentives Programme data to improve performance monitoring and reporting, and policy analysis and development by:

- analysing programme usage by employers of apprentices and trainees in occupations in national demand; and
- performing a sensitivity analysis of incentives payments to employers compared with Australian Apprenticeships completions.

DEST's response

3.32 Agreed. DEST has already actioned this recommendation. It is timely to strengthen data analysis on incentives paid in respect to occupations in national demand as several new Australian Apprenticeship initiatives that commenced on 1 July 2007 are linked to areas of national demand. DEST is conducting a quarterly sensitivity analysis of incentives payments.

Accuracy and timeliness of Incentives Programme payments

3.33 To maintain the credibility and integrity of the programme, it is important that payments are made by the Centres in a timely manner to eligible employers and apprentices and trainees, consistent with the programme guidelines provided by DEST to the Centres.⁷⁶ The ANAO examined how DEST monitors and reports on the accuracy and timeliness of incentives payments to employers.

3.34 To measure the Centres accuracy in assessing eligibility for incentives, every six months DEST examines 27 randomly selected files to measure and assess data accuracy and administration.⁷⁷ These 27 files are selected from those files that have either an incentive claim or a fee for service claim (discussed in Chapter 5) within the previous six months. DEST also measures the timeliness of Centres' processing of claims.⁷⁸ DEST has set a minimum benchmark for accuracy and timeliness of 90 per cent.⁷⁹ The results of each six monthly monitoring round are reported to DEST senior management.

Correctness of Incentives Programme payments

3.35 The ANAO assessed whether programme payments made to employers by the Centres were for the correct amount, as specified in the programme guidelines.⁸⁰ The ANAO examined DEST's data on commencement and completion incentives paid to employers of apprentices and trainees for the previous 2003–06 contract period. The ANAO's analysis did not include an examination of employers' eligibility for incentives payments.

⁷⁶ DEST, *Australian Apprenticeships Incentives Programme Guidelines for Australian Apprenticeships Centres, A Programme to develop a skilled Australian workforce, guidelines applying to commencements and recommencements from 1 July 2006*.

⁷⁷ DEST has consulted with the Australian Bureau of Statistics on an appropriate sample size.

⁷⁸ This is done by examining the percentage of claims from a sample received in each six-monthly monitoring period which are processed within ten working days.

⁷⁹ DEST, *New Apprenticeships Support Services, Performance Reporting and Quality Assurance Assessment for the Third Contract Period 1 July 2003 to 30 June 2006, Functional Specifications for Measuring Key Performance Indicators*, November 2003, p. 3.

⁸⁰ DEST, *Australian Apprenticeships Incentives Programme Guidelines for Australian Apprenticeships Centres, A Programme to develop a skilled Australian workforce, guidelines applying to commencements and recommencements from 1 July 2006*, p. 27.

3.36 Of the 529 540 incentives payments made between 2003–06, all payments (excluding some special claims⁸¹) were for the correct amount as specified in the programme guidelines. Additionally, no duplicate payments were detected.

Conclusion

3.37 The Incentives Programme has a Budget estimate for 2007–08 of \$604.6 million.⁸² In 2004–05, approximately 97 per cent of the incentives paid under the programme were for employers of apprentices and trainees. The remaining three per cent of incentives was paid as personal benefits to apprentices and trainees. Payments made under the programme are grants and are not designed to directly defray employer costs.

3.38 The Incentives Programme has been the subject of review by interdepartmental committees (including DEST) on two occasions, in 2002 and 2004. These reviews have led to changes to the Incentives Programme including for example, a revised incentives payments structure and value, and additional (and special) incentives.

3.39 ANAO analysis shows that the Incentives Programme is well utilised by employers for apprentices and trainees in occupations in national demand; and the large majority of employers are not abusing the Incentives Programme by ‘churning’ apprentices and trainees. Since 1999–2000 the percentage increase in employer incentives expenditure (63 per cent) has resulted in approximately the same percentage increase in the number of Australian Apprenticeships completions (64 per cent). This indicates that the cost-effectiveness of the programme has remained broadly the same as it was in 1999–2000. Australian Apprenticeships has a non-completion rate of approximately 40 per cent. In light of this, performing a sensitivity analysis of incentives payments to employers compared with Australian Apprenticeships completions, is likely to assist DEST to better understand the influence of any potential policy variations on the cost-effectiveness of the Incentives Programme.

3.40 DEST monitors the Centres’ accuracy in assessing eligibility for employer incentives and the Centres’ timeliness in processing incentives claims. Of the 529 540 incentives payments made between 2003–06, all

⁸¹ DEST advised that special claims are those where a DEST programme officer manually makes the payment based on documented evidence.

⁸² DEST, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra, p. 82.

payments (excluding some special claims⁸³) were for the amount specified in the programme guidelines. Additionally, no duplicate payments were detected. The ANAO's analysis did not include an examination of employers' eligibility for incentives payments.

⁸³ DEST advised that special claims are those where a DEST programme officer manually makes the payment based on documented evidence.

4. Financial Management of the Incentives Programme

This Chapter examines the approval of expenditure on incentives payments to employers.

Background

4.1 The *Financial Management and Accountability Act 1997* (the FMA Act) provides a legal base for the management of public money and property. It sets out the financial management, accountability and audit obligations on Commonwealth departments and agencies forming part of the general government sector. It includes the requirement to manage public resources efficiently, effectively and ethically, and to maintain proper accounts and records of the receipt and expenditure of Commonwealth money. As a department of state, DEST is subject to the requirements of the FMA Act.

4.2 Requirements relating to an approval to spend public monies are addressed by the *Financial Management and Accountability Regulations 1997*⁸⁴ (FMA Regulations) as follows:

- FMA Regulation 9—‘Approval of spending proposals—principles’⁸⁵;
- FMA Regulation 10—‘Approval of future spending proposals’⁸⁶;
- FMA Regulation 12—‘Approval to be recorded’⁸⁷; and
- FMA Regulation 13—‘Entering into Contracts etc.’⁸⁸

⁸⁴ Section 65 of the FMA Act provides for ‘Regulations’ for ‘ensuring or promoting’ the following: The proper use and management of public money, public property and other resources of the Commonwealth; and proper accountability for the use and management of public money, public property and other resources of the Commonwealth.

⁸⁵ Finance Regulation 9 provides for the following: (1) An approver must not approve a proposal to spend public money (including a notional payment within the meaning of section 6 of the Act) unless the approver is satisfied, after making such inquiries as are reasonable, that the proposed expenditure: (a) is in accordance with the policies of the Commonwealth; and (b) will make efficient and effective use of the public money; and (c) if the proposal is one to spend special public money, is consistent with the terms under which the money is held by the Commonwealth; and (2) Sub regulation (1) does not apply to a proposal by an intelligence or security agency to spend operational money within the meaning of section 5 of the Act as modified in accordance with Schedule 2.

⁸⁶ If any of the expenditure under a spending proposal is expenditure for which an appropriation of money is not authorised by the provisions of an existing law or a proposed law that is before the Parliament, an approver must not approve the proposal unless the Finance Minister has given written authorisation for the approval. The Finance Minister has delegated this authority to Chief Executives under the *Financial Management and Accountability (Amendments relating to Regulation 10) Delegation 2003*.

⁸⁷ If approval of a proposal to spend public money is not given in writing, the approver must record the terms of the approval in a document as soon as practicable after giving the approval.

4.3 The Australian Apprenticeships Incentives Programme (the Incentives Programme) is included in DEST's Portfolio Budget Statements as 'Support for Australian Apprenticeships' and has a Budget estimate for 2007–08 of \$604.6 million.⁸⁹ The *Australian Apprenticeships Incentives Programme Guidelines* are an internal DEST document available to DEST staff and the Australian Apprenticeships Centres (Centres), providing the policy and procedures of the Incentives Programme. The Incentives Programme guidelines are used in conjunction with the *Australian Apprenticeships Support Services Operating Guidelines* which provide details of the operating processes the Centres must adhere to over the life of the contract.

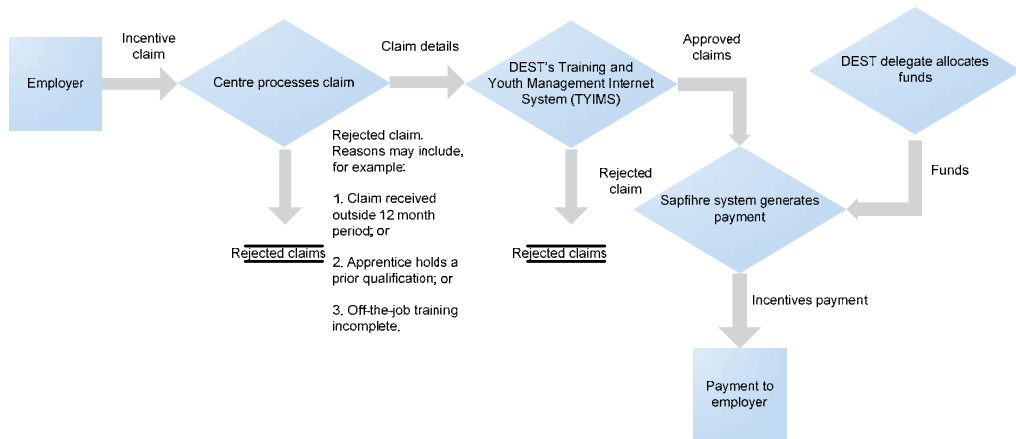
Processing of employer claims for incentives payments

4.4 The Centres provide information, administration services and support to employers and apprentices and trainees. They assist with the signing of training contracts, and also assess and process incentives payments to employers and apprentices and trainees.

4.5 DEST's intention is that Centres will process, but not approve, employer claims for incentives payments. However, DEST's forms and processes for approving expenditure on employer claims for incentives payments do not make it clear whether the Centres are involved in approving employer claims for incentives payments. Figure 4.1 illustrates the processing of employer claims for incentives payments.

⁸⁸ A person must not enter into a contract, agreement or arrangement under which public money is, or may become, payable (including a notional payment within the meaning of section 6 of the Act) unless a proposal to spend public money for the proposed contract, agreement or arrangement has been approved under Regulation 9 and if necessary, in accordance with Regulation 10.

⁸⁹ DEST, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra, p. 82.

Figure 4.1**Processing of employer claims for incentives payments**

Source: ANAO analysis.

4.6 Under the FMA Act⁹⁰ and FMA Regulations⁹¹ a contractor or a contractor's employee will be regarded as an official in DEST if they are performing a financial task⁹² for the department. FMA Regulation 11 provides that an official must not approve a proposal to spend public money unless authorised by a Minister or Chief Executive, or by or under an Act, to approve the proposal. Accordingly, it is important to identify whether the Centres are performing a financial task for DEST when processing employer incentives payments, and if so, whether the Centres are authorised to do so.

4.7 DEST advised the ANAO that:

In practice, the AACs [Centres] have a gate keeping function in that they can decide to enter, or refuse to enter, data on to the TYIMS system. But the entry of data onto TYIMS does not constitute the giving of approval or consent. Whilst AACs have a 'gate keeping' function they are not the approvers of employer incentive payments.

4.8 However, the Centres can reject or 'not approve' claims submitted by employers seeking incentives payments. The Centre does this by ticking the 'Not Approve' box on the claim. Where this occurs, the Centre does not enter

⁹⁰ Section 5 of the FMA Act.

⁹¹ FMA Regulations 3 and 4.

⁹² Financial task means a task or procedure (other than a task or procedure performed under an agreement or arrangement authorised under paragraph 12 (a), or mentioned in paragraph 12 (b), of the Act) relating to: (a) the commitment or spending of public money; or (b) the management and control of public money.

the claim details into TYIMS for further processing by DEST. It is important to identify whether by taking this action, the Centres are performing a financial task for DEST, and if so, whether the Centres are authorised to do so under the FMA Act and FMA Regulations.

4.9 Although DEST considers that the Centres are not the approvers of employer incentives payments, DEST recovers from the Centres any employer incentives claims that have been 'paid' incorrectly by the Centres. Specifically, DEST's guidelines on the processing of employer claims for incentives payments include the following:

DEST will recover from Australian Apprenticeships Centres any incentives or claims paid to employers or Australian Apprentices, where these have been paid incorrectly by the Australian Apprenticeships Centre, eg providing incorrect advice or failure to notify DEST of suspected fraudulent activity or activity designed to manipulate the Programme Guidelines in order to maximise incentives. Recovery will be actioned by withholding fee for service payments of an amount equal to that of the payment that was paid in error or incorrectly. Where DEST recovers an incentive from an Australian Apprenticeships Centre, the whole amount is recovered.⁹³

4.10 In April 2007, the ANAO met with the Department of Finance and Administration (Finance) and DEST to discuss the expenditure approval process for employer claims for incentives payments. Overall, Finance's initial views were that, based on the information provided by DEST, the latter appeared to have processes that met the legal requirements⁹⁴ for the approval of employer claims for incentives payments.

4.11 However, Finance considered that DEST could improve the clarity of its approval processes for employer claims for incentives payments. DEST agreed to implement the following measures, in order to clarify and fully document its processes:

- amend relevant documents for employer incentives payments and the Incentives Programme guidelines to make clear the role of the Centres in processing employer claims for incentives payments;
- review and, where indicated, modify key approval documents and processes in this and similar programs to more explicitly state their role in meeting FMA requirements; and

⁹³ Department of Education, Science and Training, *Australian Apprenticeships Incentives Programme Guidelines*, July 2006, p. 24.

⁹⁴ *Financial Management and Accountability Act and Regulations 1997*.

- document its approach for approval of employer claims for incentives payments.

4.12 DEST is consulting with Finance to resolve these matters. The ANAO considers that by adopting the above approach DEST and Centres' staff will have a better understanding of their respective responsibilities. Finance also advised that it was currently developing advice to agencies on expenditure approval related matters.

Conclusion

4.13 DEST's intention is that Centres will process, but not approve, employer claims for incentives payments. DEST's forms and processes for approving expenditure on employer claims for incentives payments should make DEST's role in approving claims clear.

4.14 In response to matters raised during the course of the audit, DEST consulted with Finance on the incentive payment process. Overall, Finance's initial views were that, based on the information provided by DEST, the latter appeared to have processes that met the requirements of the *Financial Management and Accountability Act and Regulations 1997*. However, Finance considered that DEST could improve the clarity of its approval processes for employer claims for incentives payments. DEST is consulting with Finance to resolve these matters which will provide DEST and the Centres with a better understanding of their respective responsibilities. Finance also advised that it is developing advice to agencies on expenditure approval related matters.

5. Contract Management

This Chapter considers DEST's management of the contracts with Australian Apprenticeships Centres, including contract payments, performance measurement and planning for subsequent contracts.

Introduction

5.1 DEST contracts Australian Apprenticeships Centres (Centres) to promote, market and administer Australian Apprenticeships.⁹⁵ These Centres act as points of contact between DEST and employers, apprentices and State Training Authorities. It is important for DEST to have good contract management practices to support the delivery of the contracted services. This ensures that participants in Australian Apprenticeships receive services in a timely and accurate manner to assist in completion of their apprenticeships and traineeships.

5.2 The purchaser of contracted services must establish and follow procedures to ensure contracts are legal and payments are timely and accurate. Robust contract management systems ensure that:

- goods or services are delivered according to the time, cost, quantity and/or quality standards specified in the contract; and
- the purchaser has sufficient information to enable it to make a timely decision about transition arrangements at the conclusion of the contract.⁹⁶

5.3 DEST contracts the Centres to provide Australian Apprenticeships Support Services across all States and Territories. The Australian Government's purpose in establishing a national network of Centres is to 'provide a streamlined and comprehensive service to employers and individuals to enable them to access quality Australian Apprenticeships'.⁹⁷

5.4 On 1 July 2006, new contracts were established for Support Services for the period 1 July 2006 to 30 June 2009. Under these arrangements, DEST manages 73 contracts with 29 organisations to deliver Australian

⁹⁵ See Appendix 2 for an outline of the full services Centres are contracted to provide.

⁹⁶ ANAO, *Better Practice Guide - Contract Management*, Canberra, February 2001, p. 23, <www.anao.gov.au>.

⁹⁷ Department of Education, Science and Training, *Request for Tender for the Provision of New Apprenticeships Support Services 1 July 2006 to 30 June 2009*, November 2005, p. 7.

Apprenticeships Support Services in 22 regions across Australia. The total value of the 73 contracts is approximately \$507.3 million over three years. Individual contracts range in size from around \$2 million for smaller contracts to over \$32 million for larger contracts.

5.5 The ANAO examined DEST's management of its contracts with the Centres, including whether DEST:

- has clearly documented contracts with all Centres;
- makes correct payments to the Centres;
- has processes and procedures to manage contracts, with particular regard to contract risk management and the role of State Contract Managers;
- has valid performance measures and reasonable targets to assess and monitor Centres' performance; and
- has planned for the introduction of new contracts.

The contracts

5.6 To protect the interests of the Commonwealth, it is important that DEST has sound contracts with the Centres for the delivery of Australian Apprenticeships Support Services. The ANAO examined DEST's contracts with Centres for 2006–2009. The ANAO found that the contracts:

- include standard terms and conditions that are clear;
- define the roles and responsibilities of both parties;
- define the services to be delivered and schedules for delivery;
- include performance measures and key performance indicators;
- specify reporting requirements;
- include all the agreed components of each Centre's tender;
- specify the payment process and the services due before a payment is made; and
- are supported by guidelines and other documentation.

5.7 The ANAO also found that the process for completing contract variations is well documented, and that there is adequate guidance to Centres, State Contract Managers and National Office staff on the process for completing contract variations.⁹⁸

Payments

5.8 In its *Portfolio Budget Statements* for 2007–08, DEST allocated \$167.2 million as Centres' fees for services.⁹⁹

5.9 The ANAO examined contract payments, including:

- whether payments to the Centres are for the correct amount and whether DEST monitors the Centres' eligibility for payments; and
- advance payments to the Centres.

Payments to Australian Apprenticeships Centres

5.10 Contract payments should only be made in accordance with the contract and only where the contract manager is satisfied that contract provisions have been met.¹⁰⁰ Primary guidance on fee for service payments to the Centres is available through DEST's *Australian Apprenticeships Support Services Operating Guidelines*.¹⁰¹

5.11 In assessing DEST's processes for paying fee for service payments to the Centres, the ANAO examined whether:

- payments are for the correct amount; and
- DEST monitors eligibility for payments.

Payments for the correct amount

5.12 The ANAO examined whether payments are for the correct amount from the data available for the previous 2003–2006 contract. The ANAO's

⁹⁸ Guidance is provided through various sources including the *Australian Apprenticeships Support Services Operating Guidelines*, *Contract Management Handbook*, direct communication between Australian Apprenticeships Centres and DEST State Offices and the *Checklist for Contract Variations* that National Office staff are required to complete.

⁹⁹ DEST, *Portfolio Budget Statements 2007–08*, Budget Related Paper No. 1.5, Canberra, p. 82.

¹⁰⁰ Ian McPhee, *Australian Government Procurement Conference: Contract Management in the Public Sector – an ANAO Better Practice Perspective*, April 2006, p. 11, <<http://www.anao.gov.au/uploads/documents/Contract%20Mgmt%20in%20Public%20Sector.pdf>>.

¹⁰¹ The *Australian Apprenticeships Support Services Operating Guidelines* provide details of operating processes that Centres must adhere to over the life of the Australian Apprenticeships Support Services contract 2006–2009.

analysis did not include an examination of the Centre's eligibility for fee for service payments.

5.13 The ANAO examined 527 410 fee for service payments from a sample of 20 contracts, across three years (2003–04 to 2005–06). There were no incorrect amounts.

Eligibility for payments

5.14 The primary method for monitoring fee for service payments is DEST's six monthly file review. For each monitoring visit, DEST officers examine 27 files from each Centre within each Region. In addition, DEST staff also examine another 50 files to ensure training contract and payment processing schedules are met.

5.15 The results of the six monthly file monitoring are reported to the Centres for follow-up and amendment where necessary, and to DEST's senior management. There was an improvement in the error percentage and dollar value of potential overpayments made to ineligible Centres over the 2003–2006 contract (Table 5.1).

Table 5.1

Fee for service eligibility checks

Monitoring period	Number of overpayments	Dollar value of overpayments (\$)	Dollar value of claims monitored (\$)	Error percentage (%)
1 January 2004 to 30 June 2004	100	22 480	454 994	4.9
1 July 2004 to 31 December 2004	93	23 634	492 890	4.8
1 January 2005 to 30 June 2005	71	17 603	469 057	3.3
1 July 2005 to 31 December 2005	54	12 303	463 000	2.7

Source: DEST.

5.16 In addition to the six monthly file review, DEST checks its computer system data and does targeted monitoring to assess the Centres' eligibility for fee for service payments claimed. This can include direct contact with the Centres, employers or apprentices as well as additional file monitoring or statistical analysis of the data in DEST's Training and Youth Internet

Management System (TYIMS).¹⁰² DEST State Offices also conduct additional monitoring when they are alerted to potential issues.

5.17 DEST's Audit and Investigations Branch audits the Centres, 'to form an opinion on evidence of eligibility of fee for service claims in accordance with the *Australian Apprenticeships Support Services Operating Guidelines*'. These audits review the systems and procedures in place at the Centre being audited and aim to identify fee for service payments that have not been legitimately claimed by the Centre. The results are presented in a final report with recommendations to the Centre to review claims and payments where issues have been identified. The Branch also analyses Australian Apprenticeships data to identify any potential issues with fee for service payments that need to be addressed by the Branch, other areas within DEST, or the Centres.

5.18 DEST's National Investigations Unit investigates suspected or alleged fraud and other criminal activity or malpractice. DEST informed the ANAO that in 2005–06, the National Investigations Unit had 301 cases that it was investigating.¹⁰³ Of the 49 new allegations received in 2005–06, 17 were Australian Apprenticeships cases.¹⁰⁴ DEST also advised the ANAO that over 80 per cent of the cases investigated by the National Investigations Unit do not result in prosecution. This can be for various reasons, including insufficient evidence or the Commonwealth Director of Public Prosecutions deciding not to proceed with a prosecution. Whether a case results in a prosecution or not, the National Investigations Unit advises departmental administrative staff of the results of cases and alerts them to any systemic issues. Any required follow-up action is then initiated by the relevant area within DEST.

5.19 The ANAO concludes that the work undertaken by DEST to monitor fee for service payments has reduced the risk of the Centres making claims or receiving payments when they are not eligible for a fee for service payment.

¹⁰² The Training and Youth Internet Management System (TYIMS) is the application supporting the payment of funds to the Centres, apprentices and employers. All payments are processed through TYIMS when the required information is entered into the system.

¹⁰³ The case management system used by the National Investigations Unit does not allow it to report how many of these 301 cases are Australian Apprenticeships cases. The National Investigations Unit is currently exploring this issue with the system manager.

¹⁰⁴ In 2005–06 75 516 employers claimed incentives and 74 Centres claimed fees for service. In comparison, the 17 new allegations for 2005–06 is a small number.

Advance payments

5.20 Efficient, effective and ethical management of Government resources includes making payments no earlier than necessary having regard to the programme and service delivery objectives. As such, prepayments and early payments should only be made where there is a benefit to the Australian Government after taking all costs and risks into account.¹⁰⁵

5.21 Under the contract, Centres that did not previously deliver services in the region may receive an advance payment of five per cent of the estimated total value of the contract.¹⁰⁶ This advance payment is designed to assist new Centres with initial costs including recruiting, employing and training staff, leasing accommodation, and establishing relationships with interested persons and organisations.

5.22 DEST completed a risk assessment for the five per cent advance payments, identifying risks associated with the Centres failing to acquit the advance payments, and the Government foregoing interest on the amount. However, there was no identification of the costs and benefits associated with the advance payment and how the risks that were identified related to the costs and benefits. The ANAO suggests that for the next contract round, DEST identify the costs and benefits associated with advance payments, including associated risks.

Management of the contract

5.23 The ANAO examined DEST's ongoing management of the contract having regard to two issues:

- contract risk management; and
- the role of State Contract Managers.

¹⁰⁵ Finance Circular 2004/14, <<http://www.finance.gov.au>>. In assessing whether the prepayment represents a justifiable use of Australian Government resources and represents value for money, Finance advises agencies to ensure that the benefits of prepayment outweigh all costs, including all associated risks.

¹⁰⁶ In the previous contract, all Centres were paid ten per cent of the contract value in advance. This has been reduced to five per cent for the current contract, and is only provided to new Centres.

Contract risk management

5.24 Once a contract is in place, attention needs to be given to contract management risks. The JCPAA's *Report 379 Contract Management in the Australian Public Service*¹⁰⁷ supports the ANAO's suggestion¹⁰⁸ that better practice in contract management requires the introduction of risk management policies and processes aimed at the entire contract lifecycle: starting from the pre-contract stage through to the contract management and performance monitoring phase and finally through to the contract transition phase.

5.25 The ANAO examined DEST's National Office risk assessment for the delivery of Australian Apprenticeships Support Services 2006–2009 and generally found it to be adequate. However, risks relating to the pre-contract stage were identified in a separate risk assessment which did not identify risks associated with transition to the next contract round.

5.26 The ANAO considers that DEST's contract risk management can be improved to include risks on transition planning for the next contract round. DEST recently identified 'learnings' from the tender process and transition between contract periods which will help to inform the identification of risks associated with the transition phase.

Role of the State Contract Managers

5.27 Although the overall delivery of Australian Apprenticeships Support Services is managed by the National Contract Manager, it is the State Contract Managers who are responsible for the day-to-day administration and monitoring of the contracts, including liaison with the Centres. The ANAO met with staff of four Centres who commented that there are good formal and informal communication mechanisms in place, and that there are good working relationships with DEST State Offices.

5.28 The ANAO met with State Contract Managers in two States who commented that DEST National Office informs them of their roles and responsibilities and provides them with adequate documentation and guidance on contract management issues.¹⁰⁹ State Contract Managers also have

¹⁰⁷ Joint Committee of Public Accounts and Audit, *Report 379 Contract Management in the Australian Public Service*, Parliament of Australia, Canberra, 2000, p. 83, <<http://www.aph.gov.au>>.

¹⁰⁸ ANAO, Audit Report No. 12 1999–2000, *Management of Contracted Business Support Processes*, p. 15.

¹⁰⁹ Primary guidance is provided through the *Contract Management Handbook*, *Australian Apprenticeships Support Services Operating Guidelines* and *Australian Apprenticeships Incentives Programme Guidelines*.

access to further legal, technical and other advice if required. However, there is limited information in guidance material provided to State Contract Managers on the processing of special claims¹¹⁰ and eligibility waivers.¹¹¹

5.29 State Contract Managers have the delegation to approve both special claims and eligibility waivers regarding fee for service payments to Centres and incentives payments to employers. Although the guidance material available to the State Contract Managers provides details about the processes to follow in such circumstances, there are no documented instructions on how special claims and eligibility waivers should be assessed or the criteria to be applied in such circumstances. This gap in guidance could lead to inconsistency in the assessment of special claims and eligibility waivers across States because each State Office has its own forms and interpretation of the guidelines.

5.30 To assist in achieving fair and equitable treatment, the practices that underpin contract management of fee for service payments and incentives payments should be consistent and standardised. Therefore, the ANAO suggests that DEST develop and distribute to State Contract Managers, standard instructions and criteria for the assessment and approval of special claims and eligibility waivers.

Performance measures

5.31 The ANAO examined whether the contract includes valid performance measures, including service targets. In examining the performance areas, related measures and targets in the contract, the ANAO took account of the need for DEST to collect performance information and analyse it cost effectively.

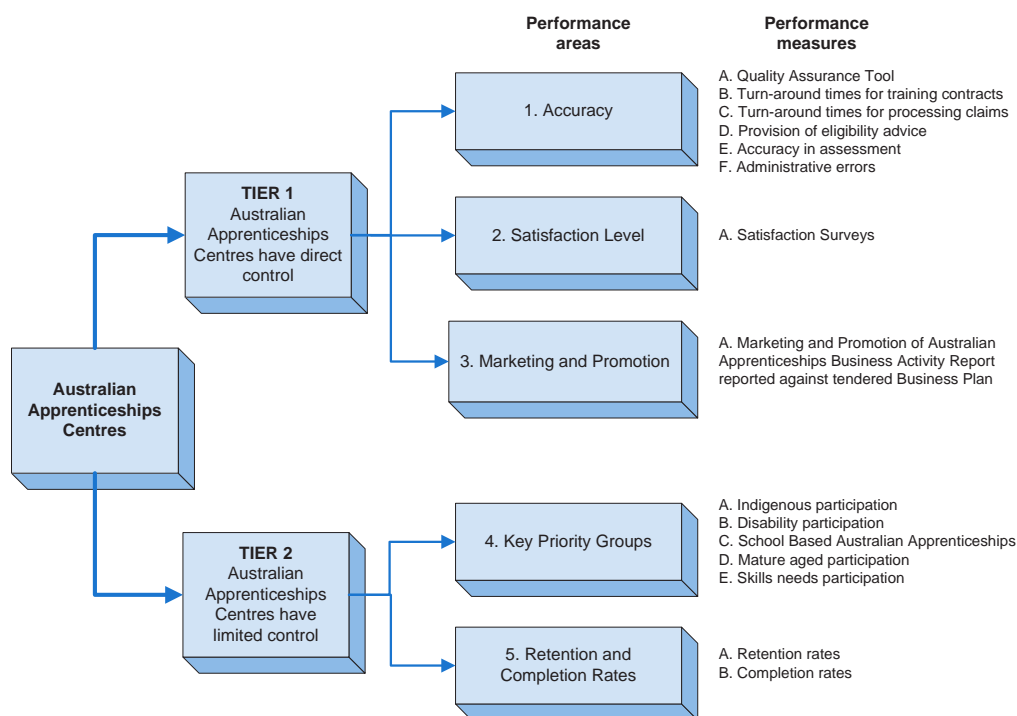
5.32 DEST has identified five areas in which it monitors Centre performance against the contract. Each performance area has one or more related performance measures (Figure 5.1).

¹¹⁰ Special claims occur where eligibility criteria are met, but the business rules in the Training and Youth Internet Management System prevent a standard claim being lodged. This may arise, for example, when a Centre has been unable to lodge an employer's incentive claim within the prescribed timeframe.

¹¹¹ Eligibility waivers occur where the claimant is not eligible for the payment, but for one reason or another, it is judged that they should be eligible. This may arise, for example, when a Centre attempts to make a contact visit with an employer or Australian Apprentice but is unable to do so until after the time has passed for them to claim a fee for service.

Figure 5.1

Australian Apprenticeships Centres performance areas and measures



Source: ANAO from DEST information.

5.33 The ANAO's examination of DEST's performance measures revealed that:

- performance measures are clear;
- all performance measures have targets for the Centres to achieve;
- each of the performance measures relates to at least one service as specified in the contract; and
- standard five, which addresses retention and completion rates only provides measures of quantity, not quality.

5.34 The use of quality measures to assess Centres performance relating to retention and completion rates would enhance DEST's ability to measure performance against key services in the contract, in particular 'providing ongoing support to employers and Australian Apprentices to encourage the

retention and successful completion of Australian Apprenticeships'.¹¹² This service requires Centres to engage in a number of activities designed to support employers and apprentices and trainees throughout their apprenticeship or traineeship.¹¹³ The ANAO considers that by measuring these quality aspects, DEST will be able to more fully assess Centres' performance in contributing to the successful retention and completion of Australian Apprenticeships.

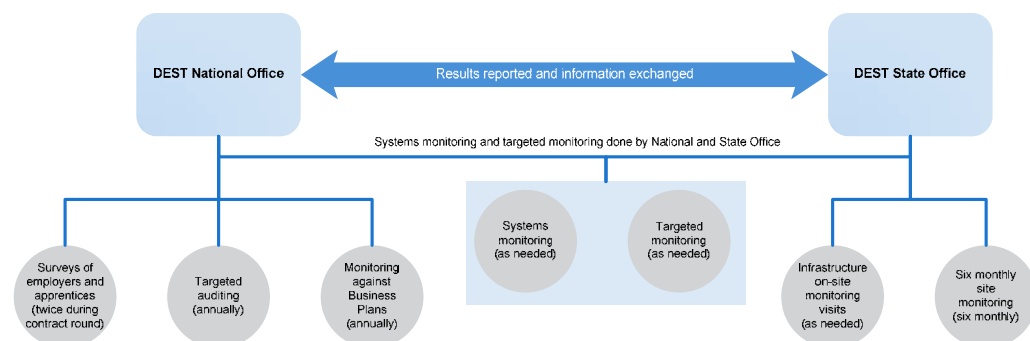
Performance monitoring

5.35 Contract monitoring is critical to the effective management of a contract and is central to agency accountability. Monitoring contractor performance is the chief means of ensuring that agreed outcomes are being delivered and public money is being adequately accounted for.¹¹⁴

5.36 DEST uses seven contract monitoring methods (Figure 5.2) to assess the Centres performance against the contract.¹¹⁵

Figure 5.2

Contract monitoring



Source: ANAO.

5.37 The performance measures outlined in Figure 5.1 align with the monitoring arrangements in Figure 5.2. To assess each Centre's performance

¹¹² Department of Education, Science and Training, *Australian Apprenticeships Support Services Contract 2006–2009*, Schedule 1.

¹¹³ These activities include making ongoing contact with employers and apprentices and trainees throughout the duration of the apprenticeship or traineeship, ensuring employers and apprentices and trainees are aware of their rights and responsibilities and reporting any issues arising throughout an apprenticeship to the relevant State Training Authority.

¹¹⁴ Joint Committee of Public Accounts and Audit, *Report 379 Contract Management in the Australian Public Service*, Parliament of Australia, Canberra, 2000, p. 65, <<http://www.aph.gov.au>>.

¹¹⁵ A description of each monitoring method is in Appendix 5.

against the performance areas identified in Figure 5.1, DEST used combinations of these various monitoring methods.¹¹⁶

5.38 DEST reports the results of its monitoring to the Centres. This reporting helps to improve performance and service delivery levels where there are short term problems, and helps longer term improvements. DEST also uses the results of its monitoring to identify areas for improvement.

Monitoring the Centres contract obligations

5.39 In addition to monitoring performance against the performance measures in the contract, it is important to monitor other contractual obligations. In this regard, the contract states that Centres must comply with the *Australian Apprenticeships Support Services Operating Guidelines* and *Australian Apprenticeships Incentives Programme Guidelines*.¹¹⁷ Both of these guidelines set out further roles and responsibilities of DEST and Centres in delivering Australian Apprenticeships Support Services.

5.40 In particular, the *Australian Apprenticeships Incentives Programme Guidelines* state that Centres have an obligation to report suspect claims by employers to DEST, as soon as practicable after becoming aware of the facts. The guidelines also provide that:

Australian Apprenticeships Centres should monitor employer recruitment and retrenchment patterns and advise DEST where an employer appears to be abusing the system.¹¹⁸

5.41 Chapter 3 identified a small number of instances where commencement incentives were paid to employers who had a high turnover of apprentices and trainees. The ANAO considers that DEST should monitor and measure the Centres' performance in monitoring and reporting claims where employers have a high turn over of apprentices and trainees.

5.42 DEST advised that suspect claims are most often identified through the six-monthly site monitoring, targeted monitoring, ministerial correspondence,

¹¹⁶ For example, to assess performance against the performance area of accuracy, DEST uses a combination of site monitoring and targeted monitoring. To assess performance against the performance area of key priority groups, DEST uses a combination of monitoring against Business Plans, systems monitoring and targeted monitoring.

¹¹⁷ The *Australian Apprenticeships Incentives Guidelines* are an internal DEST document, available to DEST National Office and State Office staff and the Centres. The guidelines provide the policy and procedures of the Australian Apprenticeships Incentives Programme.

¹¹⁸ Department of Education, Science and Training, *Australian Apprenticeships Incentives Programme Guidelines for Australian Apprenticeships Centres*, July 2006 [internal DEST publication].

complaints, requests for a waiver of the incentives guidelines and sometimes as a result of State Training Authority investigations. DEST also advised the ANAO that the Department is developing its capability to examine data from the Training and Youth Internet Management System to indicate employer commencement activity which appears to be unusual.

5.43 The ANAO considers that DEST's overall approach to examining the Centres' performance in monitoring and reporting suspect claims reduces the risk of Centres under-performing. Notwithstanding, DEST may also consider encouraging Centres to undertake more detailed statistical analysis to assist in identifying suspect claims. The new capability currently under development by DEST should assist the Centres with such analysis.

Managing underperformance

5.44 The contract sets out sanctions and action when Centres fail to meet the minimum standards or where performance is regarded as unsatisfactory.

5.45 Failure by Centres to meet minimum standards may result in DEST withholding payments. As a final resort, continued poor performance may lead to termination of the contract. Where a Centre is assessed as having underperformed, State Contract Managers are first required to commence remedial action. This provides the opportunity for the Centre and DEST to engage in a consultative process to assess the extent of the underperformance and to decide on action.

5.46 DEST informed the ANAO that the sanctions of withholding payments and contract termination are in place, although DEST has never had to take either course of action in addressing Centre underperformance. Anecdotal evidence suggests that, in instances of underperformance, the consultative process to identify strategies to improve performance and continued monitoring has addressed any problems satisfactorily.

Planning for subsequent contracts

5.47 The ANAO examined the adequacy of DEST's transition planning from the 2003–2006 contract to the 2006–2009 contract. The ANAO found that:

- DEST developed a transition plan outlining tasks to be completed and allocated responsibility for completion;

- the transition plan was supported by a physical file transfer plan for non-continuing Centres as well as a Training and Youth Internet Management System transition arrangements plan;
- DEST wrote to all Centres advising of the transition arrangements; and
- DEST commenced transition planning well in advance for the next contract period.

5.48 The ANAO also found that, because there were new Centres starting on 1 July 2006, there were many files to transfer. However, the transition plan, physical file transfer plan and the letters sent to the Centres did not make provision for the large number of files to transfer and in many instances there were delays in transferring them. This resulted in many Centres being unable to process claims. DEST had not identified strategies to manage this risk. DEST can improve its transition planning by identifying ways to manage this problem for the next contract round, and by informing the Centres of these approaches. This would assist in reducing the impact of delays on Centres, employers and apprentices and trainees.

5.49 Ideally, a transition provision should be documented in the contract rather than negotiating a plan during the contract.¹¹⁹ In both the 2003–2006 and 2006–2009 contracts there was no specific transition provision. As the uninterrupted delivery of services is the key to business continuity, a transition provision in the contract helps to manage the risk of interrupted service delivery, particularly if there is a change of providers. It also provides new and continuing contractors with details of their obligations during this period.

5.50 The ANAO suggests that DEST include a transition provision in the contract with Centres to assist in the smooth transition from one contract to the next and provide for the uninterrupted delivery of Support Services across contract periods.

Conclusion

5.51 On 1 July 2006, new contracts were established for Support Services for the period 1 July 2006 to 30 June 2009. DEST has contracted, on three previous occasions, Australian Apprenticeships Centres to provide support services. This experience has resulted in DEST having comprehensive contracts in place with the Centres for 2006–2009. DEST also has sound processes and procedures in place for managing contracts, including contract risk management. DEST's

¹¹⁹ ANAO, Better Practice Guide, *Contract Management*, Canberra, February 2001, p. 79.

State Contract Managers are well supported in their role by the National Office.

5.52 State Contract Managers have the delegation to approve both special claims and eligibility waivers regarding fees for service payments to Centres and incentives payments to employers. Although the guidance material available to the State Contract Managers provides details about the relevant processes, there are no documented instructions on how special claims and eligibility waivers should be assessed or the criteria to be applied in such circumstances. This gap in guidance could lead to inconsistency in the assessment of special claims and eligibility waivers across States because each State Office has its own forms and interpretation of the guidelines. The provision of instructions and criteria for the assessment and approval of special claims and eligibility waivers would assist State Contract Managers with their decision-making when processing such claims.

5.53 DEST's processes for making payments to Centres are clearly specified. DEST's monitoring of payments reduces the risk of it making incorrect payments. ANAO sampling of these payments did not identify an incorrect amount.

5.54 DEST has established a performance measurement system that includes five areas where the Centres' performance is monitored against the contract. Each performance area has one or more related performance measures. However, the ANAO considers that DEST will be able to more fully assess Centres' performance in contributing to the successful retention and completion of Australian Apprenticeships by developing quality measures to assess Centres performance in this regard.



Ian McPhee
Auditor-General

Canberra ACT
4 October 2007

Appendices

Appendix 1: 2005–08 Commonwealth—State VET Funding Agreement

1. The 2005–08 Commonwealth–State VET Funding Agreement known as *Skilling Australia's Workforce* of June 2006, between the Australian, State and Territory Ministers responsible for vocational education and training sets out the terms and conditions of the Australian Government funding appropriated under its new vocational education and training legislation 'Skilling Australia's Workforce' in respect of the period 1 July 2005 to 31 December 2008.
2. The Agreement identifies the National Priorities that the Australian, State and Territory governments will work cooperatively to address over the period of the Agreement. The Agreement also sets out agreed funding levels and the requirements that Australian, State and Territory governments will meet over the life of the Agreement.
3. Recognising the local diversity of States and Territories, the Agreement provides a framework for bilateral agreements between the Australian Government and each jurisdiction that will identify National Priorities and performance levels relevant to each jurisdiction. These agreements are in effect from 1 January 2006 to 31 December 2008.

National objectives

4. The 2005–08 Commonwealth–State VET Funding Agreement has national objectives as follows:
 - industry will have a highly skilled workforce to support strong performance in the global economy;
 - employers and individuals will be at the centre of vocational education and training;
 - communities and regions will be strengthened economically and socially through learning and employment; and
 - Indigenous Australians will have skills for viable jobs and their learning culture will be shared.

National priorities

5. The National Priorities for the 2005–08 Commonwealth–State VET Funding Agreement, are as follows:

- improving the system's responsiveness to rapid changes in demand for skills development and addressing skills shortages, especially in traditional trades and in emerging industries;
- delivering improved outcomes for employers, individuals and communities;
- improving quality;
- increasing participation and up-skilling mature age workers; and
- encouraging greater re-engagement in training by Australians who are not fully participating in the labour market.

State/Territory Vocational Education and Training Plans

6. Each State and Territory is required to provide a Vocational Education and Training Plan to the Ministerial Council for Vocational and Technical Education. The content of State/Territory Vocational Education and Training plans is a matter for each individual State/Territory to determine, however, it needs to meet certain requirements including:
 - the State/Territory's plans to meet the statutory requirements set out in the Commonwealth vocational education and training legislation 'Skilling Australia's Workforce', such as maximising choice for employers and new apprentices; and
 - the estimated number of Australian Apprenticeships commencements and Australian Apprenticeships in training.

National Targets

7. States and Territories are required to increase the number of training places nationally in certain areas over the life of the Agreement, the details of which are to be clarified in the bilateral agreements. For example, 10 000 additional places for Australian Apprenticeships commencements in skills shortages in traditional trade areas (Australian Quality Framework level III and IV), with details of specific trade areas in the bilateral agreements.
8. The agreement also specifies that States and Territories will have the flexibility to manage Australian Apprenticeships activity to enable these targets to be met. The targets may be achieved without an overall increase in Australian Apprenticeship numbers.

Bilateral funding agreements

9. The bilateral agreements underpin the collaborative intent of the new national training arrangements. They create the basis for a partnership between States and Territories, and the Australian Government to advance national and State priorities for vocational education and training, and are designed to ensure that the training sector performs at the highest possible level and meets the needs of industry, individuals and communities within States and Territories.
10. In the bilateral agreements, States and Territories, and the Australian Government establish those areas where they will work together, and the manner in which they will engage in a collaborative effort to improve training outcomes for clients of the national training system. The bilateral agreements also detail the State-specific elements of the Commonwealth-State VET Funding Agreement that will apply in the State or Territory.
11. The bilateral agreements apply in respect of the period 1 January 2006 to 31 December 2008. In recognition of the dynamic nature of industry and the training sector, the agreements will be reviewed annually to take account of changing local priorities.
12. The bilateral agreements include a focus on the following:
 - ‘up skilling’ and retaining mature-aged workers;
 - strategic directions for addressing the critical issues of skills shortages and building workforce capabilities;
 - identifying skills shortages initiatives; and
 - reaching national targets including ‘Additional Australian Apprenticeships commencements in skills shortages in traditional trades.’ For example, New South Wales has a target of 3 326 places in this regard.
13. Although the bilateral agreements include a performance measure and target level of performance relating to Australian Apprenticeships, it is clear that this performance measure relates to skills shortages in traditional trades only. While useful for the provision of performance information relating to Australian Apprenticeships, the ANAO considers the abovementioned performance measure to be insufficient

relating to the achievement of the national objectives for Australian Apprenticeships.

Shaping our Future

14. The vision, objectives and strategies for progressing the vocational education and training system to the end of the decade are established in DEST's *Shaping our Future: Australia's National Strategy of Vocational Education and Training 2004–2010*. *Shaping our Future* is a commitment by government ministers to continue to work in partnership with industry, providers and other parties to develop vocational education and training across Australia. It builds on two previous national strategies, *Towards a Skilled Australia* (1994–1998) and *A Bridge to the Future* (1998–2003). Each year the Ministerial Council for Vocational and Technical Education considers a progress report on the implementation of *Shaping our Future*.¹²⁰

¹²⁰ Department of Education, Science and Training, *Shaping our Future, Australia's National Strategy for Vocational Education and Training 2004–2010*, <<http://www.dest.gov.au>>.

Appendix 2: Responsibilities of Australian Apprenticeships Centres

1. Figure A2.1 provides a summary of the responsibilities of Australian Apprenticeships Centres.

Figure A2.1

Responsibilities of Australian Apprenticeships Centres

1. Marketing and promoting Australian Apprenticeships to employers, Australian Apprentices and other interested persons in the Region.
2. Providing accurate, current and comprehensive information and advice to employers of Australian Apprentices, particularly at the commencement of the Australian Apprenticeship.
3. Working with State and Territory Training Authorities to provide a streamlined support service for employers and Australian Apprentices.
4. Providing ongoing support to employers and Australian Apprentices to encourage the retention and successful completion of Australian Apprenticeships.
5. Administering the Australian Apprenticeships Incentives Programme (including processing applications and claims).
6. Establishing effective relationships with State or Territory Training Authorities, Job Network Members, Job Placement Organisations, Australian Technical Colleges, Group Training Organisations, Registered Training Organisations, schools and other organisations to encourage the commencement, retention and successful completion of Australian Apprenticeships.
7. Achieving better participation in Australian Apprenticeships for Indigenous Australians.
8. Achieving better participation in Australian Apprenticeships for people with a disability.
9. Achieving better participation in Australian Apprenticeships for mature aged workers.
10. Achieving better participation in Australian Apprenticeships for School-based Australian Apprentices.
11. Achieving better participation in Australian Apprenticeships in skills need occupations.

Source: Department of Education, Science and Training, *Australian Apprenticeships Support Services Contract*, 2006–2009.

Appendix 3: Inclusion of Australian Apprenticeships in DEST's planning

Table A3.1

Inclusion of Australian Apprenticeships in DEST's planning

DEST planning component	Relevance to Australian Apprenticeships
Outcomes and outputs framework	<p>Australian Apprenticeships is reported under Outcome 3 'Individuals achieve relevant skills from post school training'. Australian Apprenticeships planning relates to the DEST's Portfolio Budget Statements outcome effectiveness measures: trends in student participation in VET; trends in Australian Apprenticeship commencements; trends in student achievement in VET; trends in Australian Apprenticeship completions; employment outcomes – Increasing percentage of TAFE graduates employed at the end of May by year of completion of training; employer satisfaction with Australian Apprenticeships Centres; trends in number of all Indigenous students in the public vocational and technical education system by Australian Qualifications Framework level; trends in number of Indigenous Australian apprenticeship completions in the 12 months to December 2005; and VET outcomes for Indigenous Australians.¹²¹</p> <p>Administered expense:</p> <p>DEST's Portfolio Budget Statements describe the following performance measures relating to Australian Apprenticeships Centres and the Australian Apprenticeships Incentives Programme:</p> <ul style="list-style-type: none"> • Australian Apprenticeships Centres: number of Centres; number of Australian Apprentice commencements; and number of Australian Apprenticeship completions. • Australian Apprenticeships Incentives Programme: total number of employers assisted nationally; total number of Australian Apprentices assisted nationally through Personal Benefits; and number of organisations contracted to provide services.¹²² <p>Departmental expense:</p> <p>DEST's Portfolio Budget Statements describe the following performance measure: 'High quality delivery of Australian Apprenticeships Support Services, Australian Apprenticeships Centres as measured by satisfaction surveys undertaken in 2007 and 2008.'</p> <p>The target for this performance measure is as follows: 'At least 85 per cent satisfaction by employers and Australian Apprentices.'¹²³</p>

¹²¹ DEST, Portfolio Budget Statements 2007–08, Budget Related Paper No. 1.5, Canberra, p. 91.

¹²² DEST, Portfolio Budget Statements 2007–08, Budget Related Paper No. 1.5, Canberra, p. 92.

¹²³ DEST, Portfolio Budget Statements 2007–08, Budget Related Paper No. 1.5, Canberra, p. 94.

DEST Strategic Plan 2005–08	<p>In building National Capability, DEST's Strategic Plan 2005–08, identifies three areas to achieve success: Learning, Skills Acquisition and Building Australia's Knowledge. Against these three areas, DEST identifies seven goals and twenty four strategies to achieve its goals. Australian Apprenticeships relates to a number of these goals and strategies. For example, Goal 1: To Strengthen National Systems includes: Developing Workforce Skills and Participation by better responding to the demands of industry for a highly skilled workforce and increasing Australians' participation in work. Also, Australian Apprenticeships is specifically mentioned under 'About Our Programmes'.</p>
Risk Management Plan	<p>DEST has developed risk management plans for Australian Apprenticeships relating to the following:</p> <ul style="list-style-type: none"> • Australian Apprenticeships Support Services Contract 2006–09. This plan also includes consideration of risks to the Australian Apprenticeships Incentives Program; • New Apprenticeships Support Services Tender Process; and • Northern Territory New Apprenticeships Support Services Tender Process.¹²⁴ <p>DEST's contract risk management is discussed in Chapter 5.</p>
Group Business Plan 2006–07	<p>The National Training Directions Group Business Plan 2006–07, is linked to DEST's Strategic Plan 2005–08. The Group Business Plan identifies, against 'Strengthen National Systems—Develop workforce skills and participation, the following key deliverable:</p> <p>'A responsive New Apprenticeships Training System that meets the needs and expectations of industry, individuals and the community.'</p> <p>DEST has also identified 'mechanisms' and key performance indicators against this key deliverable.</p>
Section Business Plans 2006–07	<p>DEST Section Business Plans 2006–07 are linked to DEST's Strategic Plan 2005–08. Section business plans identify Australian Apprenticeships related projects and section deliverables relating to Australian Apprenticeships.</p>

Source: ANAO analysis of DEST corporate and business planning.

¹²⁴ The tender for New Apprenticeships Support Services was managed by DEST as a separate process for the Northern Territory.

Appendix 4: Australian Apprenticeships Incentives Programme

Table A4.1

Australian Apprenticeships incentives regime from 1 July 2006

Incentive / Allowance	Certificate II \$	Certificate III/IV \$	Selected Diploma/Advanced Diploma \$
Standard Commencement	1,250	1,500	1,500
Recommencement for employers recommencing a Certificate III or higher.	nil	750	750
Standard Completion 100%	nil	2,500	2,500
75%	nil	1,875	
50%	nil	1,250	
25%	nil	625	
Rural and Regional Skill Shortages Commencement	nil	1,000	nil
Group Training Organisations Completion for Certificate II Australian Apprenticeships	1,000	nil	nil
Declared Drought Areas:-			
additional commencement	1,500	nil	nil
special completion	1,500	nil	
Mature Aged Workers who are disadvantaged:-			
special commencement	750	750	750
special completion	750	750	750
Australian School-based Apprenticeships Commencement	750	750	750
Australian School-based Apprenticeships Retention	750	750	750
Innovation Commencement	nil	1,100	nil
Assistance for Australian Apprentices with a Disability - Disabled Australian Apprentice Wage Support (DAAWS)	Full-time AA: \$104.30 per week Part-time AA: Proportion of the full-time rate equivalent to proportion worked of full-time hours under the award.		
Assistance for Australian Apprentices with a Disability: Assistance for Tutorial, Mentor and Interpreter services	\$38.50 up to a maximum of \$5,500 per year (GST inclusive)		
Assistance for Australian Apprentices with a Disability: Workplace Modifications	A maximum amount of \$5,000. Costs in excess of \$5,000 require prior approval (GST exclusive)		

Living Away From Home Allowance (LAFHA)	First year rate \$77.17 per week Second year rate \$38.59 per week Third year rate \$25.00 per week
Commonwealth Trade Learning Scholarships (paid after first and second years)	First year - \$500 Second year - \$500

Source: Department of Education, Science and Training, *Australian Apprenticeships Incentives Programme Guidelines*, July 2006.

Appendix 5: Performance monitoring

1. Table A5.1 shows DEST's seven contract monitoring methods used to assess the Centres performance against the contract (see Figure 5.2 in Chapter 5).

Table A5.1

Contract monitoring methods

Monitoring method	Frequency	Description
Surveys of employers and apprentices	Twice during the contract round	The surveys are of Australian Apprentice and employer satisfaction with Australian Apprenticeships Centres.
Targeted auditing	Annually	DEST's Audit and Investigations Branch conducts compliance and performance audits of Australian Apprenticeships Centres.
Monitoring against Business Plans	Annually	As part of the tender, Australian Apprenticeships Centres were required to submit three Business Plans. Each year, Australian Apprenticeships Centres will be assessed against their achievements as stated in their Business Plans.
Systems monitoring	As needed	Systems monitoring is analysis of data from the Training and Youth Internet Management System.
Targeted monitoring	As needed	Targeted monitoring of Australian Apprenticeships Centres usually takes place in response to concerns about Australian Apprenticeships Centres compliance or performance issues.
Infrastructure on-site monitoring visits	As needed	Undertaken to ensure that Australian Apprenticeships Centres sites exists, and are of a suitable standard.
Six monthly site monitoring	Six monthly	Undertaken every six months to assess the accuracy and timeliness of Australian Apprenticeships Centres performance in administering Australian Apprenticeships Support Services and the Australian Apprenticeships Incentives Programme.

Source: Department of Education, Science and Training, *Australian Apprenticeships Support Services Operating Guidelines*, July 2006.

Appendix 6: Department of Education, Science and Training's comments



Australian Government

Department of Education, Science and Training

Secretary

Lisa Paul PSM

Mr Ian McPhee
Auditor-General
Australian National Audit Office
19 National Circuit
BARTON ACT 2601

Dear Mr McPhee

**Department of Education, Science and Training (DEST)
Response to Performance Audit: Australian Apprenticeships**

I refer to the letter of 17 August 2007 from Ms Sheila Bird containing the S.19 Report for the performance audit on Australian Apprenticeships.

The Department's formal response including a response to the two specific recommendations and a shorter response for the brochure are attached.

I appreciate the opportunity that your office has provided for the Department to comment on the S.19 Report.

Please contact Ms Linda White on 6240 5332 if you have any queries about the Department's response.

Yours sincerely

Lisa Paul

14 September 2007

DEPARTMENT OF EDUCATION, SCIENCE AND TRAINING RESPONSE

1. DEST welcomes the Australian National Audit Office performance audit of Australian Apprenticeships including the Department's management of the Australian Apprenticeships Incentives Programme and contracts with Australian Apprenticeships Centres.
2. As the report notes, Australian Apprenticeships are a mature co-operative arrangement between the Australian Government and States and Territories and a significant part of the vocational education and training system. While DEST provides both national policy leadership and a critical funding role for Australian Apprenticeships, setting objectives and achieving those objectives is the joint responsibility of the Australian, State and Territory Governments and industry.
3. Over the last decade the number of Australian Apprenticeships commencements has increased significantly with around 400 000 Australians currently training across a range of nationally recognised qualifications. There are now more than 500 occupations where training is available through an Australian Apprenticeships pathway. Australian Apprenticeships are also available under part time arrangements including through an Australian School-based Apprenticeship where training commences whilst still attending full time Secondary education and in higher skill levels at the Diploma and Advanced Diploma.
4. The report confirms that expenditure under the Australian Apprenticeships Incentives Programme supports Australian Apprenticeship completions and is well utilised by employers of Australian Apprentices in occupations in national demand. Since 2005, a number of new elements have been introduced to the programme to target occupations in national demand.
5. The ANAO analysis of more than 500 000 incentive payments made to individual employers under the programme shows that DEST has appropriate management and monitoring systems in place. All employer incentives payments made between 2003–04 and 2005–06 were for the amount specified in the Incentives Programme guidelines. Additionally, no duplicate payments were detected.
6. The Australian Apprenticeships Incentives Programme is administered through Australian Apprenticeships Centres under contract to DEST. As

DEST is commencing the planning phase for the next round of contracts from July 2009, the ANAO examination of contract management, payments, performance measures, performance monitoring and planning are timely. The ANAO reports that DEST has comprehensive contracts in place with Australian Apprenticeships Centres and has sound processes and procedures in place for managing the contracts. Consistent with the ANAO findings on payments made under the Australian Apprenticeships Incentive Programme, DEST notes that of more than 500 000 fee for service payments to Australian Apprenticeships Centres examined by the ANAO across three years no incorrect payment amounts were identified.

7. DEST acknowledges the ANAO concerns regarding the specific role of Australian Apprenticeships Centres in processing claims for incentive payments. Following meetings with the Department of Finance and Administration and the ANAO, DEST commenced strengthening internal documentation to more explicitly state the role of documents used in the approval process in meeting the *Financial Management and Accountability Act 1997* requirements. DEST will continue to work with the Department of Finance and Administration to ensure that processes and documentation used both in DEST and by Australian Apprenticeships Centres reflect best practice.

Index

A

- ANAO analysis – ‘churning’
 - apprentices and trainees, 22, 52, 54, 80
- ANAO analysis – cost effectiveness of the Incentives Programme, 18, 21, 52–53, 63
- ANAO analysis – occupations in national demand, 57
- ANAO analysis – State and Territory utilisation of incentives, 58
- Australian Apprenticeships Support Services, 8, 16, 23–24, 37, 62, 66, 70–72, 74, 76, 79–80, 82, 91–93, 96

C

- Commonwealth-State VET Funding Agreement, 31, 89

F

- Fee for service payments, 16, 62, 68, 72–74, 77, 99
- Financial Management and Accountability Act 1997, 7, 23, 65, 67–69, 99
- Financial Management and Accountability Regulations 1997, 7, 23, 65, 67–69

I

- Incentives programme payments, 6, 16, 18, 21–24, 26, 51–53, 59, 61–63, 65–69, 77, 83, 98

M

- Ministerial Council for Vocational and Technical Education, 7, 14, 17, 19, 21, 31, 33, 43–44, 48–50, 88, 90

N

- National leadership, 17, 44, 48
- National objectives for Australian Apprenticeships, 5, 15–17, 19–20, 26, 42–45, 48–49, 87, 90
- National training system, 5, 13, 17, 30, 44–45, 89

P

- Performance measures, 6, 17, 19, 24, 26, 44, 48–49, 52, 71, 77–80, 83, 92, 99
- Performance monitoring, 6, 26, 51, 56, 61, 76, 79, 96, 99
- Performance reporting, 5, 19, 42, 45, 62, 102

S

- Skill shortages, 29, 94
- State Contract Managers, 23–24, 71–72, 75–77, 81, 83

T

- Traditional trades, 14, 17, 19, 30, 33, 44, 49, 61, 88–89

Series Titles

Audit Report No.1 2007–08

Acquisition of the ABRAMS Main Battle Tank

Department of Defence

Defence Materiel Organisation

Audit Report No.2 2007–08

Electronic Travel Authority Follow-up Audit

Department of Immigration and Citizenship

Audit Report No.3 2007–08

Australian Technical Colleges Programme

Department of Education, Science and Training

Audit Report No.4 2007–08

Container Examination Facilities Follow-up

Australian Customs Service

Audit Report No.5 2007–08

National Cervical Screening Program Follow-up

Department of Health and Ageing

Audit Report No.6 2007–08

Australia's Preparedness for a Human Influenza Pandemic

Department of Health and Ageing

Department of Agriculture, Fisheries and Forestry

Audit Report No.7 2007–08

The Senate Order for Departmental and Agency Contracts (Calendar Year 2006 Compliance)

Audit Report No.8 2007–08

Proof of Identity for Accessing Centrelink Payments

Centrelink

Department of Human Services

Current Better Practice Guides

The following Better Practice Guides are available on the Australian National Audit Office Website.

Public Sector Internal Audit

An Investment in Assurance and Business Improvement	Sep 2007
Fairness and Transparency in Purchasing Decisions	
Probity in Australian Government Procurement	Aug 2007
Administering Regulation	Mar 2007
Developing and Managing Contracts	
Getting the Right Outcome, Paying the Right Price	Feb 2007
Implementation of Programme and Policy Initiatives:	
Making implementation matter	Oct 2006
Legal Services Arrangements in Australian Government Agencies	Aug 2006
Preparation of Financial Statements by Public Sector Entities	Apr 2006
Administration of Fringe Benefits Tax	Feb 2006
User-Friendly Forms	
Key Principles and Practices to Effectively Design and Communicate Australian Government Forms	Jan 2006
Public Sector Audit Committees	Feb 2005
Fraud Control in Australian Government Agencies	Aug 2004
Security and Control Update for SAP R/3	June 2004
Better Practice in Annual Performance Reporting	Apr 2004
Management of Scientific Research and Development Projects in Commonwealth Agencies	Dec 2003
Public Sector Governance	July 2003
Goods and Services Tax (GST) Administration	May 2003
Managing Parliamentary Workflow	Apr 2003
Building Capability—A framework for managing learning and development in the APS	Apr 2003
Internal Budgeting	Feb 2003
Administration of Grants	May 2002
Performance Information in Portfolio Budget Statements	May 2002

Some Better Practice Principles for Developing Policy Advice	Nov 2001
Rehabilitation: Managing Return to Work	June 2001
Business Continuity Management	Jan 2000
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Commonwealth Agency Energy Management	June 1999
Security and Control for SAP R/3	Oct 1998
New Directions in Internal Audit	July 1998
Controlling Performance and Outcomes	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997

