



AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

Paying Apprentices – The Market Responds

The *ACCI Survey of Apprentice Wages* highlights that many employers pay apprentices above award wages and the majority of employers voluntarily provide apprentices with benefits in addition to their wages, to reward and retain apprentices that are performing well. Our increasingly dynamic labour market is responding to the emerging labour and skill shortages being experienced by industry. Based on their business circumstances and a desire to increase productivity, many employers are now moving beyond the traditional award framework and finding better ways to reward the skills and performance of individual employees, including apprentices.

Apprentice wage levels have been identified as an important issue in the context of attracting and retaining apprentices in the traditional trades. Some argue that apprentice wage levels are contributing to declining apprenticeship rates in the traditional trades. The argument has long rested on an assumption that employers will only pay the base award rate – an assumption this survey proves wrong. ACCI has long had feedback from employers that indicated that this was not the case and that many employers paid apprentices more than the award wage. However, no research had been undertaken into the prevalence of over-award wages for apprentices.

In response to anecdotal evidence and in co-operation with its member organisations, ACCI undertook a *Survey of Apprentice Wages* during October and November 2004. In the first comprehensive study of this type undertaken in Australia, 732 employers from a cross-section of Australian industry and who employ more than 4,200 apprentices, responded to the survey. The survey targeted employers of apprentices in the following occupational groups that are experiencing skill shortages: Metals; Specialty Manufacturing; Automotive Retail & Repair; Electrical; Building & Construction; and Hospitality & Personal Services.

The purpose of the survey was to measure the level of apprentice wages relative to the minimum wage rates prescribed in federal or State industry awards. Information collected included: whether apprentices are paid above award wages; the reasons why employers pay apprentices above award wages; and whether other benefits or assistance are provided in addition to wages.

Skill shortages are a significant barrier to the growth of Australian business. It is a complex problem requiring a considered and coordinated national response. ACCI has been active in developing responses and strategies on this issue on behalf of Australian employers.

The survey results demonstrate that flexibility and agreement making at an enterprise level is delivering higher wage outcomes for apprentices. Further labour market reform, with an increased emphasis on direct agreement-making between employers and employees, may further unlock productivity gains that will enable employers to investigate additional ways to increase wages for their employees.

SURVEY RESULTS

Over half (52 per cent) of the employers surveyed pay some or all of their apprentices above award wages. Of the apprentices they employ, 45 per cent are paid above the minimum wage rates prescribed in the relevant federal or State industry awards.

Apprentices are more likely to be paid above award wages in the later years of the apprenticeship (see Figure 1). This is likely to be in an effort to retain more qualified apprentices and in recognition of the higher net cost of training in the earlier years of the apprenticeship.

Figure 1

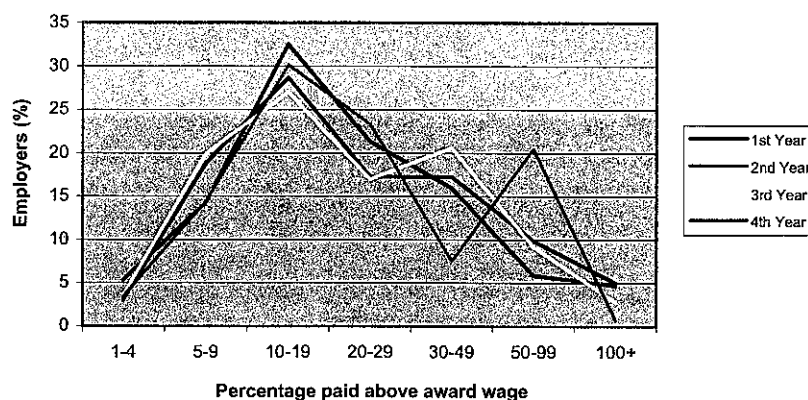
	Proportion of Apprentices Paid Above Award Wage	Median Increase Above Award Wage
1 st Year	41%	18%
2 nd Year	43%	18%
3 rd Year	48%	20%
4 th Year	56%	20%

The amount employers reported that they paid their apprentices above award rates ranged between 1 and over 100 per cent.

The median percentage paid above the award wage rate, however, is 18 per cent for 1st and 2nd year apprentices and 20 per cent for 3rd and 4th year apprentices. Figure 2 shows the distribution of employers against the percentage they pay their apprentices above award.

Significantly, over 20 per cent of employers that pay their 4th year apprentices above award, pay more than 50 per cent above the award rate of pay.

Figure 2
Employers Who Pay Apprentices Above Award
by Level of Increase



SIZE AND LOCATION OF THE EMPLOYER

Larger organisations are more likely to pay apprentices above award wages (see Figure 3).

Figure 3

Size of Employer	Proportion of Employers that Pay Apprentices Above Award Wage	Median Increase Above Award Wage
Small (0-19 Employees)	51%	13%
Medium (20-99 Employees)	54%	21%
Large (100+ Employees)	62%	28%

The location of the organisation was not a significant determinant of whether an employer was likely to pay above award wages – 54 per cent of employers based in a metropolitan area paid above award compared to 52 per cent of employers in a regional area.

However, employers in metropolitan areas paid their apprentices more – 20 per cent above award compared to regional employers paying 13 per cent above.

OCCUPATION

The extent to which employers pay above the award wage differs across the occupational groups (see Figure 4).

Figure 4

Occupational Group	Proportion of Employers that Pay Apprentices Above Award Wage	Median Increase Above Award Wage
Metals	62%	18%
Electrical	61%	31%
Building & Construction	57%	13%
Automotive Retail & Repair	36%	14%

When comparing the results for the occupational groups of apprentices, the type of industrial coverage predominantly used is a significant determinant of the level of wages. In the areas that are more award reliant (i.e. do not engage in formal bargaining and are more likely to rely solely on the award or a combination of the award and informal agreement making to determine wages and conditions) such as Automotive Retail and Repair, employers are less likely to pay apprentices above the award and when they do, they pay less than the median for all occupational groups.

In comparison, the Electrical occupations that have significantly higher enterprise agreement coverage are most likely to pay apprentices above award and pay more than the median for all occupational groups.

WHY DO EMPLOYERS PAY ABOVE AWARD WAGES?

Granting affordable wage increases that reflect reward, performance, experience and market conditions are a core activity for employers, and an essential part of operating a successful enterprise.

The reasons employers choose to pay their apprentices above award wages centre on attracting and retaining good apprentices.

- 57 per cent of employers reported they pay more to retain good apprentices;
- 36 per cent pay more to maintain relativities with tradespersons' wages in their enterprise agreement;
- 15 per cent pay more to attract applicants for apprenticeships;
- 14 per cent pay more to respond to market forces; and
- 16 per cent pay more for other reasons.

The survey results highlighted that an employer's decision to pay apprentices above the award wage is made on a case-by-case basis reflecting business conditions and the skills and

capabilities of individuals. Some employers do not have the capacity to pay more than the current award rate of pay and this also needs to be recognised.

Employers reported that the factors that influenced their decision to pay an apprentice above the award wage included the age and education level of the apprentice, the ability and experience of the apprentice and the quality of their work. It was also noted that employers pay higher wages to older apprentices in recognition of their maturity, ability to use initiative and leadership qualities.

Reward, incentive and motivation were also reported as common reasons for paying apprentices more. Employers reported that apprentices are rewarded for performance, ability, effort, attitude towards work and general behaviour. Higher wages are also used to encourage good apprentices, provide incentive for continued high performance and gain company loyalty. These wages are therefore tools used by employers to retain and reward employees in an open, competitive labour market.

OTHER BENEFITS

A significant majority (87 per cent) of employers voluntarily provide apprentices with benefits and other forms of assistance in addition to their wages:

- TAFE/Registered Training Organisation fees – 57 per cent of employers;
- Tools/Equipment/Clothes – 57 per cent;
- Bonus Program (for example, safety or productivity) – 30 per cent; and
- Other – 8 per cent.

Employers reported that they provide a diverse range of additional benefits or forms of assistance voluntarily to apprentices in addition to wages and award conditions (e.g. tool allowances as provided for in many awards).

Benefits included: use of vehicles and mobile phones; travel expenses; accommodation & living away from home allowances; meals; and other training-related costs in addition to TAFE fees. Assistance with the purchase of a tool kit is also common with many employers providing apprentices with a loan or access to finance to purchase the kit.

RECRUITING APPRENTICES

Almost a quarter (24 per cent) of employers surveyed experienced difficulties in attracting applicants for apprenticeships over the past 12 months.

Of the employers that experienced difficulties recruiting apprentices, 56 per cent reported they paid above award. In contrast, of the employers that did not experience difficulties, 51 per cent reported they paid apprentices above award. However, attracting applicants for apprenticeships was not commonly reported as a reason for paying higher wages (only 15 per cent of employers paid more to attract applicants for apprenticeships).

The difficulties experienced by employers differed markedly between occupational groups. Typically the occupations that are more likely to pay above award wages reported less difficulties in attracting applicants for apprenticeships – 13 per cent of employers of apprentices in Electrical occupations experienced difficulties in attracting applicants for apprenticeships as compared to 20 per cent of employers in Building and Construction, 33 per cent of employers in Metals, and 37 per cent of employers of apprentices in Automotive Retail and Repair occupations.

“Paying higher wages encourages apprentices to stay and not be tempted by offers from our competitors.” Employer, Automotive Retail and Repair.

Smaller businesses are slightly more likely to have experienced difficulties – 25 per cent of organisations with less than 20 employees experienced difficulties compared to 22 per cent of organisations with 20 to 100 employees, and 22 per cent of organisations with 100 employees or more.

Employers in regional areas were less likely to have experienced difficulties – 19 per cent of employers in regional areas experienced difficulties compared to 27 per cent of employers in metropolitan areas.

Over one third (35 per cent) of employers use a group training company or a combination of direct hire and group training companies to employ apprentices. Group Training Companies employ apprentices and then place them with host employers. This can be an attractive option particularly for small and medium businesses that may require greater flexibility to meet peaks and troughs in workload or may be reluctant to employ an apprentice in their own right.

AGREEMENT MAKING

The workplace relations system should strongly support employers in their efforts to provide training and employment for young people, including providing current minimum wages and conditions for trainees that properly reflect their age, work and education balance, and experience. ACCI’s Workplace Relations Policy Blueprint.¹

Australia’s workplace relations system is based on agreement making as the primary means for setting terms and conditions of employment with an underpinning safety net of minimum wages and conditions. The shift from a centralised model of wage fixing provides employers and employees with greater flexibility to negotiate pay and conditions at the enterprise level and for wage levels to be linked to productivity.

The survey results clearly show that employers are using the agreement-making framework to provide wages and conditions above the award minima, which are tailored to the needs of the employee and the business.

Flexibility and agreement making at an enterprise level is delivering higher wage outcomes for apprentices where business circumstances permit.

APPRENTICE WAGE LEVELS

A healthy economy is a precondition for wages growth. Growth is not however assured at all times. The system therefore needs to provide flexibility for wages to respond to cyclical periods of downturn either at an enterprise, industry, regional or whole of economy level. Minimum wages for apprentices should not be set at a level where they are a disincentive for employers to provide apprenticeship training opportunities. The fact that some employers can make out a business case for increasing apprentice wages does not provide a rationale for increasing the apprenticeship wages floor.

Apprentices are paid a training wage to reflect their level of productivity and output as they gain the skills of their trade. In the award system apprentice wages are typically set as a proportion of the qualified tradespersons wage rate. As the productivity of the apprentice increases the wage rate increases. The theory is that by accepting low wages apprentices are investing in their own education.

A study undertaken in 1997 highlighted that there is a considerable net cost to employers in training an apprentice over a four-year duration, particularly in the first and second years of the apprenticeship.² However, many employers look to the longer-term return on investment in their decision to employ apprentices.

"...employers incur a considerable cost and bear a large portion of the cost of training apprentices but most employers think that the benefits exceed the cost." Centre for Labour Market Research.²

A number of employers that responded to the *Survey of Apprentice Wages* expressed concern that the cost of training an apprentice was too high in relation to the benefits gained and in many cases this led to the decision to cease apprenticeship training as the wages and on-costs did not provide value to the business.

Feedback also highlighted that some employers, particularly small businesses, simply do not have the capacity to pay above award wages.

It is important, in any consideration of apprentice wage levels, that fundamental wage capacity issues such as this are not overlooked. Consideration should be given to how employers such as small contractors that do not have the capacity to pay more than the award wage can be assisted, to further encourage the employment of New Apprentices.

RECENT GOVERNMENT INITIATIVES TO DIRECTLY ASSIST APPRENTICES

ACCI strongly supports the Australian Government's recently announced initiatives to increase the number of apprentices in traditional trades. These policy announcements include:

- Eligibility for Youth Allowance will be extended to New Apprentices;
- Apprentices in skill shortage trades will be provided with a tool kit;
- Residential support to assist New Apprentices with the cost of living away from home will be extended to the third year of an apprenticeship; and
- Apprentices in skill shortage trades working for small and medium sized employers will receive a \$500 payment at the end of the first and second years of the apprenticeship through the Trade Learning scholarship.

"We expect more from our apprentices than other employers, so we pay them more."
Employer, Construction.

These initiatives will directly reduce the cost of training borne by apprentices and therefore assist in attracting more young people to the traditional trades.

CONCLUSION

Employers are responding to the market, and good economic conditions are allowing employers to provide wages and conditions to attract and retain apprentices. However, this should not provide an argument to increase minimum wages across the board, as higher wage costs will lead to inflationary pressure. Increases in award rates without productivity offsets will impact on the willingness of businesses to employ.

It is also clear from the survey that employers are increasing wages in order to better compete in their industry and in order to differentiate themselves from other businesses. The human resource benefits employers currently derive from paying higher apprentice wages will be lost if award wages are increased.

"Apprentice wages reflect the standard of personnel we demand and reward the flexibility required in the business." Employer, Manufacturing.

ACCI and member organisations will continue to work with governments to advocate a comprehensive national approach to address skill shortages. This approach must involve continued improvements to the training system, innovative ways to attract enthusiastic young people into the trades early through such initiatives as the Australian Technical Colleges, and enhanced skilled migration programs.

Greater flexibility is required in the workplace relations system to support the New Apprenticeship system.

Reducing workplace relations barriers to part-time work and an increased range of New Apprenticeship pathways, such as School-based New Apprenticeships, will increase commencement rates in the traditional trades apprenticeships. Further reform in these areas is critical.

NOTES

- ¹ ACCI *Modern Workplace: Modern Future. A Blueprint for the Australian Workplace Relations System 2002 – 2010* is available at www.acci.asn.au.
- ² Dockery A, Koshy P, Stromback T, Ying W. (1997) "The Cost of Training Apprentices in Australian Firms". Centre for Labour Market Research.