

Joint social partners' memo on support for displaced workers



Memo

To: Future of Work Tripartite Forum members
From: Richard Wagstaff, Kirk Hope
Date: 25 February 2020
Subject: Our view on support for displaced workers
Required: For discussion by Ministers and at FoW Tripartite Forum on 23 March 2020

Purpose

This memo sets out those areas in which the New Zealand Council of Trade Unions and Business NZ have a common view on steps that should be taken to improve the support for displaced workers, which is one of the priorities of the Future of Work Tripartite Forum.

Background

Substantially improved support for displaced workers is a vital part of preparing New Zealand for the Future of Work. The evidence is that New Zealand's current support for displaced workers is one of the weakest in the OECD and that it has led to workers experiencing significant and ongoing loss of income (wage scarring) and employment following involuntary loss of their jobs.

Improved support would also be an important step in improving New Zealand's productivity. It helps ensure that workers do not bear the costs of changes firms need to undertake in order to improve their productivity, such as adopting new technology, and when firms go out of business as a result of competitive pressures or the changes needed to combat climate change.

While the focus so far has been on the important issue of income replacement, we are firmly of the view that financial support must be accompanied by good quality active labour market programmes. Such programmes include availability of education and training opportunities for workers to acquire new skills and capabilities, assistance with career planning, job search and job placement, relocation assistance and quick reaction capability to work with employers and unions when a redundancy situation is notified to help workers avoid unemployment.

Income replacement

We support proposals for a "social insurance" type of model to provide income replacement for displaced workers. It should include an income replacement rate that is a significant improvement on current social welfare entitlements and in line with other OECD countries. It would be subject to expectations that those receiving income replacement would be actively searching for work, assisted by the above support programmes as needed, or in education or training. The income replacement would be available for a defined period in line with good practice among other OECD members, sufficient to allow displaced workers a realistic opportunity to find good work that matches their

skills and experience, followed by access to the support provided by the social welfare system. Tripartite governance of such a scheme would assist in its success.

When considering income replacement alternatives, we consider that it is important that they are available to all, particularly those who most need it because of the insecurity of their jobs. The design of schemes should not disadvantage any group, should not incentivise undesirable layoffs and should be portable between employers. We therefore do not support schemes based on individual accounts (such as broadening the use of KiwiSaver accounts, tax credits, or loan schemes) because they may disadvantage low income earners such as Māori, Pacific peoples and many women, and may be viable or available only for those with regular income. Individuals are of course free to use such schemes if they wish.

How such a social insurance scheme fits alongside redundancy payments is a matter for future discussion.

There are a number of options for funding such a social insurance scheme, including by the state, by employers, or on a tripartite basis. Consideration could be given to phasing it in to smooth cost increases, and to consider the phasing alongside changes to the tax system that the Government may be considering. Phasing could include level of support and breadth of coverage.

Actions

We propose that the Government should undertake further analysis to

1. demonstrate how such a scheme would address the known labour market challenges;
2. recommend practical measures as to how it can be delivered alongside the existing social welfare system;
3. model fiscal and economic costs and benefits of the proposal; and
4. describe a pathway for its implementation.

The Government and social partners should develop Terms of Reference for this analysis. In parallel there needs to be work on active labour market policies and services. We would like to participate in the current review of such policies and in their future development. Effective policies should be introduced at the same time as the social insurance scheme.



Richard Wagstaff

CTU President



Kirk Hope

Chief Executive, BusinessNZ

Joint social partners' memo on skills and training



Memo

To: Labour market Ministers, Minister of Education
From: Kirk Hope, Business NZ; Richard Wagstaff, CTU
Date: 30 April 2020
Subject: Skills response to Covid-19
Action Required: Note and discuss

This paper explores opportunities to support companies and workers facing rapid redeployment and retraining needs.

Comment

Economic data show that New Zealand is facing rapid changes in the labour market. Not only is unemployment likely to rise in the short to medium term, but restrictions to immigration channels for skills, disruption to education pipelines and ongoing disruption to the workforce from the health situation is all foreseeable.

This paper puts forward some concepts to support greater agility in the labour market and policy directions to incentivize better skill, income and employment outcomes as New Zealand goes through a period of recovery. They are designed with two imperatives in mind: urgent short term needs as work resumes and the impacts of high unemployment hit home; and the longer term objective of raising education and skill levels and productivity. Programmes meeting short term needs should also further our longer term aspirations.

Looking ahead, a strategic approach should be taken to defining the education and training needs of an industry. While Workforce Development Councils will play an important role in this, it is desirable that industries should develop their own specific skills strategies within an Industry Transformation Plan process in consultation with WDCs. Such strategies are likely to include many of the elements below.

Current system challenges with existing mechanisms are covered in Appendix One.

Mobilising the skills and workforce response will require speed and new ways of working

The key principle is to keep people attached to the labour market, in jobs or in education and training. Where those jobs are no longer available, the challenge is to mobilise a comprehensive response that reflects the needs and aspirations of workers and businesses to provide opportunities for people to increase their skills and education and prepare for the jobs that are coming. This will ensure that economic recovery efforts are not hindered by lack of skilled workforces where they are needed, as has been an ongoing problem for New Zealand.

This note proposes a package of initiatives to incentivize work and training retention, and to enable a co-ordinated skills response that positions New Zealanders and the economy well for the future.

Wage and training subsidies to support retention and training for underutilized workers, and boost new employment outcomes.

To support the retention of people in the labour market, it is proposed the next iteration of a wage subsidy scheme incentivizes up-skilling for under-utilised staff still in employment, and incentivises companies in growth mode to over-employ and train at the same time.

Allowing firms to retain flexibility to incorporate training opportunities that will generate longer term benefits for productivity, and also strengthen individuals' skill bases to be able to progress to higher skilled and higher paid jobs will have a long term net positive effect for New Zealand.

It is also proposed to ensure those who are out of work are able to engage in education and training.

All the education, training, recognition of prior learning and recognition of competencies supported in these schemes must be quality assured. Often this will be through the NZQA framework, but universities have their own quality assurance system and there may be other industry-recognised courses and qualifications that could be eligible. The basic principle should be that learners will be acquiring nationally recognized skills and qualifications that are transferable between employers.

Retain existing Apprentices through extension of the wage subsidy scheme

It is suggested that Apprenticeships are funded through an extended wage subsidy, as evidence from other economic shocks show that young people and lower skilled people are most at risk of losing employment.

To retain Apprentices in the system (currently estimated at 50,000 workers across a range of industries), it is suggested that a 50% wage subsidy is extended to existing Apprentices for a further 12 week period. This mirrors the incentives that have been

put in place in Australia, that provides a 50% wage subsidy from 1 January 2020 to 30 September, up to \$21,000 per firm (or \$7,000) per quarter.

A similar approach in New Zealand, modelled on the existing wage subsidy scheme of \$585.80 for 50,000 active Apprentices, would cost a further \$351.48 million per quarter, and would likely support a number of small and medium sized businesses, particularly in the construction and infrastructure trades. Where apprentices are not covered by a collective agreement, they should be paid at a rate no less than the minimum wage and their pay rate should rise as they progress towards their qualification to a rate commensurate with rates paid to qualified tradespersons.

The situation of Apprentices who lose their jobs should be carefully monitored. While there are existing provisions to continue their apprenticeships by finding a new job or group schemes, these may come under pressure with high unemployment and additional measures may be required.

The tertiary education sector has a range of programmes of monitoring and guiding learners who are doing on-job and off-job training. Successful programmes of career and training advice could be invested in through the RoVE programme and scaled up. Individual learning plans for apprentices who lose their jobs could be developed and include keeping them in the education system while searching for new employment.

Incentivise over-employment with a training component in critical and growth industries

There is an economic and skills imperative to boost skill pipelines in areas where New Zealand has had skill shortages in the past, and in industries that can lead to growth in decent jobs. With unemployment projected to increase, incentivizing business to undertake a 'two-for' – essentially hiring two people for the equivalent of one FTE, with an increase in job sharing and skill development while businesses may not be able to perform at full production. This has the potential to increase the employment outcomes and create a solid skills pipeline for these industries in the future.

This would require much greater flexibility in the skill system, with providers being required to work around the business imperatives and workflows, rather than the traditional mechanisms of semester dates or fixed block course dates. Funding systems should enable and incentivise this. This would apply to all parts of the tertiary sector, essentially prioritizing an education and training model that would support individuals to have higher levels of income than if they choose to undergo full time institutional training only (and take student allowances).

Initially, it is suggested that targeted engagement is undertaken in network critical services and growth industries that could mobilise quickly, have the flexibility in ways of working to make job-share arrangements and training work or can scale up existing training schemes, and are strategically targeted to New Zealand's network and growth priorities.

In terms of employment incentives, Australia has launched an Apprenticeships incentive scheme to come into effect from 1 July 2020, with subsidies over and above

the wage subsidy of between \$4,000 and \$15,000 payable on benchmarks on recruitment and retention.

A New Zealand version of an incentive scheme needs to take into account the New Zealand context, and the need to increase skills in areas that may not have been served by the traditional Apprenticeships model, including ICT.

An incentive scheme in New Zealand could provide a 50% wage subsidy for the first twelve months during the next phase of recovery, based on maximizing employment outcomes and robust training outcomes, with staged incentives similar to the Australian scheme for developing people to a level where they have greater ability of navigating a changing labour market.

It would be subject to quality requirements for mentoring, training and qualifications. Where the trainees concerned are not covered by a collective agreement, they should be paid at a rate no less than the minimum wage and their pay rate should rise as they progress towards their qualification to a rate commensurate with rates paid to qualified workers.

Removing financial barriers to in-work training

New Zealand has existing incentives to support people to engage in education, significantly, the fees-free scheme provides access for people that have not engaged in tertiary education previously.

While the fees-free scheme will continue to work for school leavers and other first-time learners, there will be a need to increase support for skill development and training for those in the workforce who may need to upskill or retrain, and also for those who have lost their jobs.

Public investment to support in-work, online or on-campus education and training opportunities for those who become unemployed could be an important component of economic stimulus, helping to maintain employment while also contributing to the skill needs for business recovery and growth in challenging circumstances.

We propose three components of this. They could be put in place quickly to meet current circumstances, on the understanding that they will in the medium term require tripartite engagement by industries to develop industry skills strategies which will set the direction for the future. This engagement should begin as soon as possible but as soon as it becomes practical should coordinate with WDCs and RSLGs to ensure consistency with other developments in the vocational education system. Firstly, we suggest that any form of income support or job subsidy for workers which maintains their attachment to their job include an option for that income support plus any costs of training to be also available to workers to engage in quality-assured training on days when work is not available.

Secondly, we suggest that targeted financial support be made available through firms, in consultation with their employees, to source the right mix of training and skill development they identify as needed to meet agreed skill shortages. We expect that

cost savings could be made by combining existing funding mechanisms into a coordinated scheme.

Thirdly, we suggest financial support including income replacement and tuition costs for off-job training, including for those who may wish to completely retrain, to enable career changers to undertake more substantive vocational education and training. This should be available to both people who have become unemployed and to those wishing to take time off work for the purpose.

We suggest that in the short run, these forms of support be targeted to fill identified skill shortages and in the long run should be guided by industry skills strategies (which may be developed through Industry Transformation Plans). They should be supported by robust advice and support for learners and employers to ensure good employment outcomes.

Increasing the responsiveness of the skills system

If greater purchasing power and incentives are tied to workers and firms with the view of more direct links to employment, there will need to be a significant shift from the whole skills system to be able to respond adequately.

At a technical level, this involves greater flexibility from the central education agencies to enable the tertiary sector to be more responsive to learning needs, for example being able to deliver greater numbers of short courses (currently capped at 5% of total provision); mitigating risks to qualification achievement where some technical requirements have been disrupted by the social distancing requirements; making more use of simulated work spaces on vocational education and training campuses (which may require additional investment); and relaxing site delivery requirements to enable more utilization of businesses as learning sites.

Building support for skills recognition

There is an opportunity to work with firms and individuals to more accurately assess core skills and build this in to the way that firms recruit and train. Currently, the funding system disincentivizes the skill system from recognizing existing skills, and incentivizes continuing to push people up to higher levels of learning. If the labour market in recovery is geared around skills rather than qualifications and the traditional long-form learning requirements, it would be possible to undertake more rapid fire skill assessment at the point of exit from a firm or entry to a company utilizing existing adaptive technologies. Skill recognition is currently unsubsidized by Government.

Utilising processes like Recognition of Current Competencies and Recognition of Prior Learning picks up on skills that people have developed both through work and education, and would enable people to be fast tracked through training that is better suited to their levels of training need, rather than generic and standardized long-form training courses.

These processes applied at both exit and entry points could help with conversations with individuals to refocus their plans for next steps for employment and training, as

while transferrable skills are in high demand from firms, the way these skills are recognized and the ability of people to articulate the broad range of skills that they may bring to a job is patchy.

Building capacity and equitable access to quality assured Recognition of Current Competencies and Prior Learning along with individualised lifelong learning and career advice would be an important contribution to Just Transition approaches where industries are disrupted, as well as promoting good learning and employment outcomes under business as usual.

We propose introducing public funding and coordination of in-work assessment for Recognition of Current Competencies and Recognition of Prior Learning.

Changing delivery models to focus on industry relevance and employment outcomes

There will need to be a significant shift in thinking about how to re-engineer delivery models to be more closely linked to industry and communities. This includes networking all parts of the system more efficiently.

Opportunities such as co-locating industry and education expertise, managing through physical restriction both on worksites and on campus, and working with employers to adjust modes of delivery around industry needs will be a significant shift for education providers and businesses. There will be an important role for the both WDCs and Interim Regional Skills Leadership Groups (RSLGs) to promote coordination and cooperation nationally and within regions. Both WDCs and RSLGs are in development now, so interim measures will need to be put in place to provide the leadership needed in this space.

Similarly, building capability in firms, such as Learning Representatives, to be able to assist their workers to navigate new opportunities both within and potentially outside of their businesses, will require some significant up-skilling as well. Companies and unions have indicated they are up for the challenge however.

We propose funding for the development assistance within firms for workers (eg learning representatives) to navigate opportunities for learning.

Utilising technology to create greater labour market mobility

Technology has clearly been signalled as part of the response across a range of industries impacted by the current economic and social crisis, and the employment response is likely to require the same. Traditional methods of outplacement, CV development, skills recognition, learning delivery and the need to connect these all together more effectively will be critical.

One product for consideration and support which is already in use by MSD in its Youthhub platform but could be scaled up (and has high endorsement from the company that piloted it) allows for a virtual networking that could more efficiently connect people with prospective jobs, and also to people like learner representatives

within companies. With support from major companies, and wrapping it in to a broader service offering for businesses and workers, this could assist with improving some of the traditional services that MSD offers given they are also limited in their operational capacity currently.

Appendix One: comment on current labour market mechanisms to support employment

Traditional ways of addressing unemployment through MSD mechanisms will not be sufficient for the size of the challenge.

With the pace of economic decline the country is now facing, a more proactive approach is needed to co-ordinate employment outcomes for individuals and develop the skills of the workforce to meet the labour market needs of recovery.

The existing process, for people to register with MSD, and undergo a targeted training approach or placement into employment, needs urgent improvement:

- MSD is currently not equipped to deal with the potential scale of people that may need to apply for benefit;
- Move from MSD's traditional operating model has focused on low/no skill jobs (ANZSCO level 4/5) and which could inadvertently contribute to income hollowing of skilled workers through job placements that underutilize skills to one which addresses the needs of workers with a broad range of skill levels;
- Raise the quality of MSD's active labour market policies which have less than 5% successful placement and retention, move its training offerings to ones much more connected with the full range of industry skill needs and encourage their support and utilization by community partners.
- Make MSD a first stop for workers and for employers looking for staff, raising their confidence in MSD's performance in being able to effectively match reliable, work-ready people with the jobs available.

Some workforce matching has already been undertaken, and early warning signs are evident that the priority for finding work without any new collective approaches to redeployment and retraining runs the risk of perpetuating the skills mismatch we have in the current labour market (estimated at 40%), and there may be high individual and societal opportunity cost of relying on a welfare system primarily for job matching. MSD's role has already changed to a certain extent, with administration of the wage subsidy scheme showing early signs of being done effectively in terms of distributing funds quickly, with minimal additional compliance costs. For a significant number of workers, the scheme has kept them attached to the labour market while unable to work. This is critical, given that long term employment outcomes for those on benefit for longer than 6 months can be poor, and there has not been further advice on how MSD will change its approach to operational issues for those needing to go on benefit during this time.

The skills system is slow to respond to rapidly changing labour market needs and training investment from companies will be restrained.

The types of programmes and qualifications, and how they are delivered will need to adapt to more widespread in-work training. While longer qualifications are still relevant to provide the underlying skill base needed for an occupation, to develop general 'soft' skills needed for successful employment and life, and to develop New Zealanders as citizens, there is an identified need for more short courses, on-the-job, and 'just in time' training and skill development anchored in industry relevance, which may build to a full qualification should the learner wish to do so.

The RoVE reforms are aimed at meeting such needs in vocational education but at this point are still in development. The reforms will need to address complexity, incentives and highly siloed ways of working between sub-sectors and agencies which make the skills system difficult to mobilise quickly and adapt to rapidly changing needs. Both employers and workers need to be confident that the reforms will indeed achieve these objectives so that lifelong learning which enables New Zealanders to continually learn and develop their skills can become a reality. Ongoing participation of their representatives in the reforms is essential, as is collective and collaborative action with businesses and workers to deliver programmes that suit their needs.

Immigration is not a reliable channel for the skills and people we may need to support recovery activities.

With closed borders, reduced airlines and availability of transit routes, potentially an increased global war for talent in areas like health care, and a shifting global landscape, immigration will not be a reliable source of skills for the next few months or years. This makes the skills response domestically more critical, as significant changes to immigration and border controls in the form of the signalled 'world's smartest border' will provide opportunities in the longer term to think about immigration policy strategically. Although provisions have been made for essential workers to be able to come in to New Zealand, this is the only work being undertaken by INZ at the moment, and the transport routes will heavily influence the ability to bring in skills that may be essential. INZ will be faced with some major operational challenges to resume operations, clear the backlog, and assess whether the current systems are fit for purpose moving forward.