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MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI



TE TAI ŌHANGA
THE TREASURY

Joint Report: Future of Work Ministers' Meeting – 12 March 2020

Date:	5 March 2020	MBIE Report No.	BR 2334 19-20
Security classification:	In Confidence	Treasury ref:	T2020/414 SH-11-1-10-3

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Note the agenda and advice for the Future of Work Ministers' Meeting on 12 March 2020. Agree that this briefing and its attachments can be forwarded to Future of Work Ministers.	10 March 2020
Hon Phil Twyford Minister for Economic Development	Note the agenda and advice for the Future of Work Ministers' Meeting on 12 March 2020.	12 March 2020

Contact for telephone discussion

Name	Position	Telephone	1st Contact
Tom Bayliss	Policy Advisor, Transitions Strategy, Ministry of Business, Innovation and Employment	Privacy of natural persons	
James Soligo	Manager, Transitions Strategy, Ministry of Business, Innovation and Employment		✓
Nick Carroll	Manager, Skills and Work Team, Treasury		
Blake Shepherd	Senior Analyst, Skills and Work Team, Treasury		

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Minister's Office actions

Return the signed report to the Ministry of Business, Innovation and Employment.
Notify the Treasury that this joint report can be circulated to the other Ministers attending the Future of Work Meeting on 12 March 2020.

Enclosure: **Annex One:** Agenda for the Future of Work Ministers' Meeting – 12 March 2020.
 Annex Two: Agenda for the Future of Work Tripartite Forum – 23 March 2020.
 Annex Three: Background for Ministerial Discussion on Displaced Workers.
 Annex Four: Memo from CTU and BusinessNZ on support for displaced workers.

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Joint Report: Future of Work Ministers' Meeting – 12 March 2020

Executive summary

This report provides you with an agenda and background material for the Future of Work Ministers' Meeting on Thursday 12 March. The agenda items and proposed actions are:

Agenda item	Suggested action
Update on actions from previous meetings	<ul style="list-style-type: none">• Ministers to note the progress on actions since the previous Future of Work Ministers Meeting
Agenda for 23 March Forum	<ul style="list-style-type: none">• Ministers to note the shape of the March Forum agenda
Support for displaced workers	<ul style="list-style-type: none">• Ministers to agree the work programme on mechanisms to provide better support for displaced workers (including income smoothing), to be discussed at the March Forum. Pending Ministers' views, officials will provide further analysis of policy packages for supporting displaced workers, with preliminary advice for the July Forum• Ministers to discuss preferred ways for social partners to participate in the development of advice.

The substantive item for discussion relates to support for displaced workers (Agenda Item 3). CTU and BusinessNZ have jointly recommended progressing work on a social unemployment insurance scheme, and highlighted the importance of complementary non-financial support. Officials have been developing possible options for financial support, which Ministers (Finance, Economic Development, Social Development, Workplace Relations and Safety) discussed on 18 February.

This report outlines a potential work plan and next steps for Future of Work Ministers to consider, covering:

- strengthening non-financial active labour market policies, training and employment interventions;
- exploring statutory redundancy payments; and
- exploring social insurance models.

The work would involve analysis of alternative "packages" of measures to support displaced workers, including possible implementation pathways and impacts on various target populations. Officials anticipate preliminary advice would be ready for the July Forum.

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Recommended Action

We recommend that you:

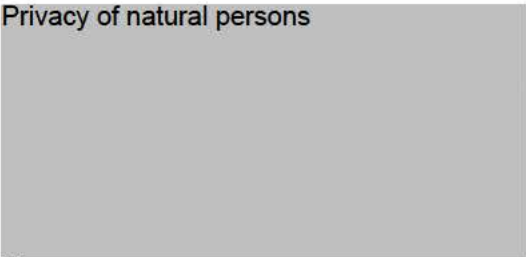
- a **note** the agenda and advice for the Future of Work Ministers Meeting on 12 March 2020.

Noted

- b **agree** that this briefing and its attachments can be forwarded to other attending Ministers.

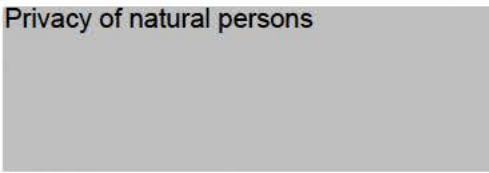
Agreed/not agreed

Privacy of natural persons



✓ James Soligo
**Manager, Transitions Strategy
Ministry of Business, Innovation, and
Employment**

Privacy of natural persons



Nick Carroll
**Manager, Skills and Work
The Treasury**

Hon Grant Robertson
Minister of Finance

Hon Phil Twyford
Minister for Economic Development

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Joint Report: Future of Work Ministers' Meeting – 12 March 2020

Purpose of Report

1. This report provides you with an agenda and the background material for the Future of Work Ministers' Meeting on Thursday 12 March. The meeting will be attended by standing Ministers in the Future of Work Ministers group¹. The meeting is being held in room 2.1 EW in the Beehive at 5.15 – 6.00pm.

Overview

2. The purpose of the Future of Work Ministers' Meetings is to ensure relevant Ministers maintain an overview of the Future of Work Tripartite Forum's work programme as a whole, monitor progress with the work, and strengthen the Government's positioning on cross portfolio Future of Work agenda items. The Future of Work Ministers meetings also provide a vehicle for regularly testing the priorities and level of ambition of respective Ministers for particular pieces of work.
3. There are three agenda items for the Future of Work Ministers' Meeting (agenda attached as Annex One):
 - a. Update on actions from the 12 December 2019 Future of Work Ministers' Meeting.
 - b. Future of Work Tripartite Forum March agenda items.
 - c. Support for displaced workers.

Agenda Item 1: Update on actions from the 12 December 2019 Future of Work Ministers' Meeting

4. Ministers are asked to note progress on two actions arising from the previous Future of Work Ministers' Meeting on 12 December 2019:
 - a **The Government's response to the Business New Zealand (BusinessNZ) and the New Zealand Council of Trade Unions (CTU) digital skills memo.** This item has been closed. The Minister for Government Digital Services has sent a response, which notes the initiatives that are underway to improve digital access and inclusion. In particular, the response mentions the investments into digital infrastructure to connect rural communities and create community hubs where people can access the network and build their digital skills. The Future of Work Governance Group discussed the digital skills response on 13 February 2020, and BusinessNZ and the CTU agreed to work directly with officials to identify possible pilots into the impact of technology on specific sectors.
 - b **The Government's response to the Skills Shift in Manufacturing report from the Manufacturers' Network.** During the November 2019 Governance Group Meeting it was agreed that because the Skills Shift project was initiated by the Forum, the

¹ Finance; Economic Development; Research, Science and Innovation; Education; Social Development; Small Business; Workplace Relations and Safety; Government Digital Services; Seniors; Employment; Climate Change.

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response should come from the Forum collectively. The response has been drafted by the Ministry of Business, Innovation and Employment in collaboration with the Ministry of Education and has been sent to social partners to invite their feedback. Once the feedback from social partners has been incorporated into the Skills Shift response, it will be signed by the Minister of Finance on behalf of the Future of Work Forum. The Skills Shift response indicates the range of initiatives that are intended or underway to address the issues raised in the Skills Shift report. The responses also encourage further engagement with the Manufacturers' network on the Review of Vocational Education, the design and establishment of the Work Development Councils, and the Forum's efforts to expand and improve in-work training opportunities.

Agenda Item 2: Future of Work Tripartite Forum March agenda items

5. The next Future of Work Tripartite Forum (the Forum) meeting is on Monday 23 March 2020. This Forum meeting is being chaired by the CTU. The attached agenda (Annex Two) has been developed by the CTU, and agreed at the February Future of Work Governance Group meeting.
6. There are three agenda items for the Forum:
 - a. Update of action items from the previous Forum;
 - b. Industry Transformation Plans (ITPs); and
 - c. Support for displaced workers.
7. Ministers attending the Forum will receive a pack of supporting material in advance of the Forum (early in the week of 16 March).

Update of Action Items from the Previous Forum

8. The Forum will begin with a brief discussion of progress on actions from the last Forum meeting. The intention of the update is to increase the visibility of the work that is underway to address items from the previous Forum meeting.

Industry Transformation Plans (ITPs)

9. The Forum agenda item on ITPs will give an overview of what ITPs are, the progress that has been made on ITPs, the lessons learned from the progress so far, and the preliminary work that has been done to develop an industry planning handbook.
10. The Ministry of Business, Innovation and Employment has been working with the CTU and BusinessNZ to develop the scope of the handbook, which will be tested with a wider group of employer and worker representatives at the Forum. We expect the social partners will also wish to discuss the next tranche of ITPs.

Support for Displaced Workers

11. The Forum will provide an opportunity for a substantive tripartite discussion on options to enhance financial and non-financial support for displaced workers. The Forum session comprises two presentations (one from Government and one from the social partners), followed by an open discussion of the intended outcomes and available options.

Agenda Item 3: Support for displaced workers

Objective of the discussion

12. This is the substantive agenda item for this Future of Work Ministers' Meeting. Enhancing support for workers who are displaced or at risk of displacement is one of the Forum's priorities, alongside industry transformation planning, facilitating in-work training, and protecting non-standard workers.
13. The objectives of this agenda item are for Future of Work Ministers to:
 - a. discuss and agree on the Government's next steps for considering better support for displaced workers. These next steps would involve further work to produce packages on a subset of three options (incremental changes to improve the level of support for displaced workers, statutory redundancy payments, and social unemployment insurance).
 - b. consider their response to the recently circulated the CTU and BusinessNZ memo on the issue.

Social partners' perspective on improving support for displaced workers

14. On 25 February 2020, the CTU and BusinessNZ circulated a memo setting out their common view on improving support for displaced workers.
15. The memo outlines social partner's view that:
 - a. New Zealand's current support for displaced workers is one of the weakest in the OECD
 - b. improved support would help improve New Zealand's productivity (for example by lowering resistance to the adoption of new technologies)
 - c. financial support must be accompanied by active labour market programmes, such as education and training opportunities for workers to acquire new skills, assistance with career planning, job search and job placement assistance, and relocation assistance.
16. CTU and BusinessNZ support proposals for a "social insurance" model to provide income replacement for displaced workers. They note the model would need to:
 - a. include an income replacement rate that is a significant improvement on current social welfare entitlements and in line with other OECD countries

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- b. be subject to expectations that those receiving income replacement would be actively searching for work
 - c. provide income replacement for a defined period in line with good practice among other OECD members
 - d. 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.
17. The CTU and BusinessNZ do not support schemes based on individual accounts (such as broadening the use of KiwiSaver accounts, tax credits, or loan schemes) because they believe these may disadvantage low income earners, Māori, Pacific peoples and many women, and may only be viable or available for those with regular income.
18. The CTU and BusinessNZ propose that the Government should undertake further analysis to:
- a. demonstrate how such a scheme would address the known labour market challenges
 - b. recommend practical measures as to how it can be delivered alongside the existing social welfare system
 - c. model fiscal and economic costs and benefits of the proposal
 - d. describe a pathway for its implementation
19. They propose that the Government and social partners should jointly develop a Terms of Reference for this analysis, and note the need for work on active labour market policies to be undertaken in parallel to work on a "social insurance model".
20. Social partners are planning to give a joint presentation indicating their preference for exploring social insurance model (and potential cost-sharing arrangements) at the March Forum.

New Zealand's labour market generally produces good outcomes for workers, however, relatively high wage scarring is a potential issue

21. New Zealand has relatively flexible labour market settings that support ease of contract (entry and exit). This can be an advantage for workers and employers who need flexibility in their contracts. This flexibility may contribute to New Zealand's relatively high re-employment rates and low levels of long-term unemployment. The downside of these flexible labour market regulations is that the costs of economic restructuring largely falls onto individual workers.
22. An initial scoping paper² identified that some studies indicate that displaced workers in New Zealand may experience a relatively high level of wage scarring. Wage scarring generally refers to marked falls in income and poor re-employment outcomes. There are also other forms of scarring from displacement (such as poor mental health) and other causes of involuntary job loss.

² MBIE (2019), *Exploring social insurance and other options to enhance financial support for displaced workers*.
BR 2334 19-20 Joint Report: Future of Work Ministers Meeting 12 March 2020

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23. Some workers are better placed to support themselves through such a transition by drawing on personal savings, assets, private insurance, borrowing or family support. Other workers may need additional financial support. The welfare system provides some financial support to displaced workers, but short-term income replacement rates are low relative to other OECD countries. The welfare overhaul is reviewing the benefit system.
24. It is important to note that financial wage scarring may be an expected aspect of displacement, especially where skills are becoming redundant. It is not yet understood what scale of problem we have or whether it is a problem that would respond well to financial interventions. Further work is necessary to fully understand the scope of wage scarring impacts on different population groups, including how investment in mechanisms to support displaced workers is balanced with mechanisms to support people who are not well attached to the labour market (including some disabled people, some people with health conditions, and sole parents for example).

Income smoothing is one way to help workers avoid wage scarring but should be complemented by other forms of non-financial support

25. Enhanced income smoothing could better support workers through job changes and improve labour market outcomes, for example by achieving better labour-market skills matching. Income smoothing is just one component of effective support for displaced workers, and (as noted by the CTU and BusinessNZ) financial support should be accompanied by active labour market programmes, and training and employment interventions.
26. The Government can play an important role in each of these areas to help displaced workers resume good employment, and a range of work programmes are making relevant contributions. These include the Reform of Vocational Education, the Career System Strategy, the first principles review of active labour market policies and the welfare overhaul. The scope of the welfare overhaul includes both the income and employment support roles of the welfare system, both of which support displaced workers.
27. Several other factors influence the ease with which displaced workers are able to get back to work. These include the availability of affordable housing near jobs, transport and infrastructure around jobs, and economic development that supports job growth.

Officials and Ministers are considering a number of income smoothing mechanisms

28. On 18 February, the Ministers of Finance, Economic Development, Social Development, and Workplace Relations and Safety held an initial discussion on the options for smoothing the incomes of displaced workers that were considered in the scoping paper (Annex Three). These include:
 - a. Changes to existing arrangements, primarily through the welfare system
 - b. Enabling displaced workers to access KiwiSaver accounts, up to a cap
 - c. Regulating for statutory minimum redundancy payments
 - d. Creating a government lending facility

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- e. Developing a Social Unemployment Insurance scheme.
29. There are close connections between the proposed further work on displacement and the overhaul of the welfare system.
 30. The welfare system, in its employment and income support functions, plays an important role in addressing worker displacement. The welfare system also responds to many other causes of hardship and unemployment, and so the scope of the overhaul is correspondingly broad.
 31. Enhancing support for displaced workers is an aspect of the overhaul. This welfare overhaul work aligns with and complements the additional work that officials propose on financial and non-financial support for displaced workers.
 32. Officials will ensure Ministers receive comprehensive advice, with clear choices between options. Those options will comprise packages of support. The packages will include different combinations of enhanced support from the welfare system and the additional tools that we propose to explore (such as statutory redundancy, or unemployment insurance, and non-financial forms of support).

Potential work plan and next steps

33. At the meeting on 18 February, Ministers indicated a preference for further work on:
 - a. strengthening non-financial active labour market policies, training and employment interventions
 - b. exploring statutory redundancy payments
 - c. exploring social unemployment insurance
34. Further work can be conducted on a desired subset of these options. This work would include:
 - a. alternative "packages" of measures to support displaced workers – these could include a combination of financial and non-financial measures
 - b. a clear specification of the objectives each package would aim to achieve
 - c. indicative cost-benefit analysis for financial measures
 - d. possible implementation pathways
 - e. impact analysis for various target populations
35. Officials expect to have preliminary advice ready for the July Forum. The packages will be designed in such a way as to be considered as independent options (such as no/low cost options with no further commitment) or as complementary stages of a larger scale, coherent change package.
36. This recommended work plan includes the analysis recommended on social insurance by the CTU and BusinessNZ in their recent memo. It would also include assessing the costs and benefits of a broader set of income smoothing options policies.

37. The upcoming March Forum provides an opportunity to engage with social partners, test the refined list of options and the proposed work plan outlined above. Officials have had preliminary discussions on the scope of this work and can provide a verbal report at the meeting.

Key points for discussion

38. We suggest Ministers discuss the following points:

- **Work plan:** Does the Future of Work Ministerial Group wish to endorse or modify the proposed work plan/next steps proposed in paragraphs 33-37?
- **Collaboration with social partners:** How do Ministers wish to engage and work with social partners as the work progresses? Do Ministers support more frequent consultation with social partners as the work reaches significant milestones? Are social partners well placed to provide external input and advice on the cost benefit analysis, in stages, or at the end of the analysis and/or alongside Ministers?

Next Steps

For Agenda Item 1:

- Ministers to note the progress on actions since the previous Future of Work Ministers Meeting.

For Agenda Item 2:

- Ministers to note the shape of the March Forum Agenda.

For Agenda Item 3:

- Ministers to agree the work programme on mechanisms to provide better support for displaced workers (including income smoothing), to be discussed at the March Forum.
- Pending Ministers' views, officials will provide further analysis of policy packages for supporting displaced workers, with preliminary advice for the July Forum
- Ministers to discuss preferred ways for social partners to participate in the development of advice.

Next Ministers' Meeting

- The Future of Work Ministers' Group will meet again on 28 May 2020 at 5.30pm.

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Annex One: Agenda for the Future of Work Ministers Meeting – 12 March 2020

Draft Future of Work Ministerial Group Meeting Agenda

12 March 2020
5:15-6:00pm
Room 2.1 EW in the Behive

Chair:

Hon Grant Robertson Minister of Finance

Attendees:

Hon Chris Hipkins Minister of Education
Hon Phil Twyford Minister for Economic Development
Hon Iain Lees-Galloway Minister for Workplace Relations and Safety
Hon Carmel Sepuloni Minister for Social Development
Hon Tracey Martin Minister for Seniors
Hon Willie Jackson Minister of Employment
Hon Dr Megan Woods Minister for Research, Science and Technology
Hon Stuart Nash Minister for Small Business
Hon James Shaw Minister for Climate Change

Apologies:

Hon Phil Twyford Minister for Economic Development

Agenda Items

	Time	Item	Decisions or actions sought
	5:15pm	Welcome	N/A
1	5:20pm	Update on the actions from the Future of Work Tripartite Forum on 25 November	N/A
2	5:25pm	Agenda for the next Future of Work Forum on 23 March (see Annex Two)	Note the proposed agenda: are Ministers comfortable with the topics proposed for discussion at the 23 March Future of Work Forum?

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3	5:35pm	Displaced workers initiative	<p>Confirm the proposed work plan: Does the Future of Work Ministerial Group wish to endorse or modify the proposed work plan/next steps proposed in paragraphs 36-37 of this briefing?</p> <p>Discuss how government should collaborate with its social partners on this initiative. Key questions are:</p> <ul style="list-style-type: none">• Do Ministers support more frequent consultation with social partners as the work reaches significant milestones?• Are social partners well placed to provide external input and advice on the cost benefit analysis, in stages, or at the end of the analysis and/or alongside Ministers?
4	5:55pm	Any other business	N/A

Annex Two: Agenda for the Future of Work Tripartite Forum – 23 March 2020

Future of Work Tripartite Forum Meeting

DRAFT AGENDA

Monday 23 March 2:30pm - 5pm

Grand Hall, Parliament

Chair: Richard Wagstaff

Theme: Industry Transformation Plans and displaced workers		
Time	Item	Who
2:30 – 2:45	Networking	All
2:45 – 2:55	<p>Introduction and update on Forum work</p> <p><i>Attachments:</i></p> <ul style="list-style-type: none"> • <i>Minutes of November 2019 Forum</i> • <i>Agenda and attendees list</i> • <i>Work Programme Status Report</i> • <i>Meeting schedule 2020</i> • <i>Engagement with social partners on Forum work programme</i> 	<p>Richard Wagstaff (Council of Trade Unions)</p> <p>Minister Robertson</p>
2:55 – 3:10	<p>Industry Transformation Plans (ITPs) – update and progress</p> <ul style="list-style-type: none"> • Background on what ITPs are • Progress with ITPs • Lessons learned • Scope of an ITP handbook <p><i>Attachments:</i></p> <ul style="list-style-type: none"> • <i>Presentation slides</i> • <i>Draft ITP handbook outline</i> 	Minister Twyford
3:10 – 3:40	<p>Discussion on making ITPs work for industries and workers</p> <p>Possible discussion questions:</p> <ul style="list-style-type: none"> • What experience have 	Open discussion led by chair

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	<p>stakeholders had in industry planning?</p> <ul style="list-style-type: none"> • What has worked well and not so well with ITP process so far? • What guidance would be useful for stakeholders wanting to initiate industry planning? • What other industries are a priority for advancing planning? 	
3:40 – 3:55	<p>Displaced workers – issues and responses</p> <ul style="list-style-type: none"> • Outcomes sought • Possible options and their likely impacts <p><i>Attachment:</i></p> <ul style="list-style-type: none"> • <i>Presentation slides</i> 	Minister Lees-Galloway
3:55 – 4:10	<p>Social partner perspective</p> <p><i>Attachment:</i></p> <ul style="list-style-type: none"> • <i>Presentation slides</i> 	Dr Bill Rosenberg
4:10 – 4:55	<p>Discussion on issues and responses to displaced workers</p> <p>Possible discussion questions:</p> <ul style="list-style-type: none"> • What does a successful response look like? • What options for income replacement are worth exploring further? • What complementary policies are required? 	Open discussion led by chair
4:55 – 5:00	<p>Wrap up and summary of actions</p>	Richard Wagstaff

Next Forum: Monday 27 July, 2:30 – 5:00pm

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Attendees list:

GOVERNMENT	BUSINESS	UNIONS	OTHER ATTENDEES
– Hon Grant Robertson Minister of Finance	– Kirk Hope Chief Executive, BusinessNZ	– Richard Wagstaff President, Council of Trades Union	– Andrew Sweet Commissioner, Productivity Commission
– Hon Phil Twyford Minister for Economic Development	– Rachel Simpson Manager, BusinessNZ	– Rachel Mackintosh Vice President, Council of Trades Union	
– Hon Dr Megan Woods Minister of Research, Science and Innovation	– Brett O'Riley CEO, Employers and Manufacturers Association	– Syd Keepa Rūnanga representative, Council of Trades Union	
– Hon Chris Hipkins Minister of Education	– Leeann Watson CEO, Canterbury Employers' Chamber of Commerce	– Bill Rosenberg Future of Work Director, Council of Trades Union	
– Hon Carmel Sepuloni Minister for Social Development	– John Milford CEO, Business Central	– Bill Newson National Secretary, E tū	
– Hon Stuart Nash Minister for Small Business	– Virginia Nicholls CEO, OSEA	– Paul Tolich Senior National Industrial Officer, E tū	
– Hon Iain Lees-Galloway Minister for Workplace Relations and Safety	– Wayne McNee CEO, Livestock Improvement Corporation	– Dennis Maga General Secretary, FIRST Union	
– Hon Kris Faafoi Minister for Government Digital Services	– Simon Bennett CEO, AWF Madison Group Ltd	– Kerry Davies National Secretary, Public Service Association	
– Hon Tracey Martin Minister for Seniors	– Mika Joronen CEO, Fujitsu NZ Ltd	– Memo Musa Chief Executive, New Zealand Nurses Organisation	
– Hon Willie Jackson Minister of Employment	– Mike Smith CEO, IBM	– Paul Goulter National Secretary, New Zealand Educational Institute	
Apologies:	– Vicki Caisley Chief People and Strategy Officer, Southern Cross Health Society	– Sharn Riggs National Secretary, Tertiary Education Union	
– Hon James Shaw Minister for Climate Change	– Andrew Jefferies CEO, NZ Oil and Gas Ltd		

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Annex Three: Background for Ministerial Discussion on Displaced Workers

Financial security for displaced workers: Work programme choices for Future of Work Ministers

1 Purpose

- For Future of Work Ministers to provide direction about the ambition and scope for a policy programme on financial security for displaced workers.
- Officials could provide an indicative cost-benefit analysis of a selection of the options (overleaf) by June to inform next steps.

2 Context

- The Government aims to help workers find and keep decent jobs, and to identify priorities to support workers who are displaced or at risk of displacement. This is especially relevant in a future of work context, where displacement may become more common.
- "Displacement" usually describes when workers lose their jobs due to economic or structural reasons (ie redundancy).
- Displacement is one of many reasons why people involuntarily cease work. Other reasons can include poor health, disability, the completion of temporary, seasonal, or fixed-term contracts and trial periods, and dismissal. Self-employed people can also find themselves without work.
- A key objective is reducing the effects of "wage scarring" - the reduction in wages that workers often experience upon re-employment. Wage scarring appears to be a relatively greater problem in New Zealand than other OECD countries.
- Income smoothing is a further objective that may also help reduce wage scarring. Income smoothing provides a wage-related replacement income while workers search for work.

4 What would effective financial support look like?

- Effective financial support for displaced workers needs to:
 - smooth incomes through a period of unemployment,
 - help minimise wage scarring effects,
 - complement active labour market programmes and education and training,
 - share costs fairly between government, workers, and employers, and be fiscally sustainable,
 - support, not undermine, labour market dynamism,
 - avoid unduly extending unemployment spells.
- The scoped options are presented on the following page, with suggestions for further work.

3 Key elements of a system for supporting displaced workers

- Effective support for displaced workers needs to include access to:
 - employment opportunities,
 - advice and brokerage services,
 - education and training,
 - financial support.
- The Government can play an important role in each of these areas to help displaced workers resume good employment. One rationale for government intervention is that "market failures" mean that purely private provision creates inequitable population coverage gaps (eg - gaps in income insurance markets, gaps in private employment services).
- This suggests that the Government's role could be to ensure better coverage by market-based services (eg - ensuring better access to income insurance for displaced workers, complemented by employment support from recruitment firms). Government-provided services are possible too.
- The RoVE, Careers Strategy, welfare overhaul, and industry transformation plans are making important contributions to help displaced workers resume good employment.
- This advice on financial security addresses a gap in this work programme (MBIE's December 2020 report: *Exploring social insurance and other options to enhance financial support for displaced workers*, 1954-19-20 refers).

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5 Work programme choices to consider, depending on Ministers' appetite for change and cost...

incremental change...

more substantive change...

Current state

Key Features

- low & tightly targeted welfare benefits
- redundancy payments by negotiation
- could make incremental changes to status quo - eg weak tax credits, improve take-up of existing support

Impacts

- rapid returns to work

But...

- high incidence of wage scarring
- not well-placed for rapid increase in displacement (Future of Work)
- employment support closely linked to welfare receipt

Access to KiwiSaver

Key Features

- enable displaced workers to access KiwiSaver accounts, up to a cap
- could establish rapidly

Impacts

- depends on level of worker's savings, and age profile

But...

- diminishes retirement savings (unless a worker can repay through remaining career)

Statutory redundancy

Key Features

- regulate for statutory minimum redundancy payment
- could finance via a national fund (with employer and government contributions)
- could establish basic scheme rapidly

Impacts

- cushion immediate blow of redundancy for all workers

But...

- increased cost for firms (and perhaps fiscal impacts)
- may have chilling effects on employment/firm dynamism
- payment not linked to need
- insolvent firms may be unable to pay (unless national fund established)

Displaced worker loan scheme

Key Features

- government lending facility (like student loans)
- could establish rapidly

Impacts

- cushion immediate blow of redundancy

But...

- indebted workers & higher effective marginal tax rates through repayment period
- fiscal impacts

Social Unemployment Insurance

Key Features

- auto-enrol all workers (with opt-out)
- pay 50-80% of prior wage up to fixed duration (cap for high earners)
- obligations, incentives and support to return to work
- multi-year programme to assess, design and establish

Impacts

- improved income smoothing for all participants
- may reduce wage scarring if well-designed (for higher wage earners especially)
- may lead to wider economic benefits (Productivity Commission arguments)

But...

- new levies on firms and workers
- new fiscal cost (mpt, via tax increases or trade-offs)
- overall annual cost of around \$1B?
- risk of delaying returns to work interactions with tax and welfare systems need care

Note - a future support system for displaced (and other) workers could combine several of these financial supports (eg multi-layered support comprising a minimum redundancy payment and time-limited social unemployment insurance, followed by minimum welfare safety net). Further, these supports could be complemented by labour market regulations (such as notice periods), improved access to education and training, and coordinated industry/economic development policy (eg through Industry Transformation Plans).

6 Next steps...

Further work

- Officials propose that Future of Work Ministers identify which of the options above warrant further analysis.
- This analysis would include providing a sharper problem definition, and indicative cost-benefit analysis. With support from relevant agencies, this work could be completed by June 2020.
- Better understanding the full economic and social costs of wage scarring will be an important aspect of the proposed further work.

Population scope choices

- Work so far has focussed on displaced (redundant) workers. The proposed additional work could also consider other groups of workers who involuntarily cease work - such as people who develop health conditions and disabilities not covered by the ACC scheme.
- Do Ministers wish to expand the scope of work? This would increase the scale and complexity of the policy work (and potentially delay further advice), but allow for a much more comprehensive consideration of support for workers at risk of job loss.

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Annex Four: Memo from CTU and BusinessNZ 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
Action 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,

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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.

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persons

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