Education Report: Further advice on support for apprenticeships through Budget 2023

To:	Hon Jan Tinetti, Minister of Education		
Date:	2 March 2023	**Priority:**	High
Security Level:	Budget Sensitive	**METIS No:**	1305529
Drafter:	Clara Rowe	**DDI:**	9(2)(a)
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Messaging seen by Communications team:	No	**Round Robin:**	No

Purpose of Report

1. The purpose of this report is to provide advice on any long-term extension to the Apprenticeship Boost Initiative (ABI) 9(2)(f)(iv) The Minister of Finance requested this advice, to be discussed at the Budget Ministers meeting next Wednesday 8 March 2023.

Summary

1. Following the Budget 2023 bilateral discussion with the Minister of Finance on Thursday 23 February, the Minister of Finance has requested further advice from officials on the risks of extending the Apprenticeship Boost Initiative (ABI), 9(2)(f)(iv) for apprenticeships that Ministers could consider alongside, or instead of the ABI initiative in Budget 2023.

2. The Government currently invests significantly in apprenticeships through funding subsidies to providers that offer educational and learner support to apprentices and their employers. In addition, the Government implemented temporary measures to support apprentices to stay attached to employment through the uncertainties of COVID-19, such as a wage subsidy via the ABI and fees free provision via the Targeted Training and Apprenticeship Fund (TTAF). Current uncertainties, including the increasing cost of living, mean that it may be premature to remove all the additional supports if we want to maintain the current high level of apprenticeships.

3. There is a range of options for how Government could provide additional support to apprentices and the design of any intervention depends on the objectives Ministers are aiming to achieve, and the problem intended to be addressed. Typical barriers to investment in apprenticeships include the cost of fees being a restriction to learners entering apprenticeships, low economic return to employers due to the time and cost involved in training apprenticeships (especially given low productivity returns initially), and that learners are often not ready for work and training. We do not currently have a sufficient evidence base on whether further significant investment in apprenticeships is required.

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4. A proposal to extend the ABI is currently being considered through the Budget 2023 process and we understand that Budget Ministers will be considering the initiative outside the current package alongside manifesto commitments. We do not recommend that the ABI is embedded into the system as a long-term policy measure. If Ministers wished to extend the ABI, a one-year extension would be lower risk, and allow time for further work to be undertaken to develop alternative longer-term options that support a transition away from ABI.

5. 9(2)(f)(iv) [redacted]

6.

Recommended Actions

1. The Ministry of Education recommends you:

   a. **note** that included a proposal to extend the Apprenticeship Boost Initiative is currently being considered through the Budget 2023 process

   Noted

   b. **note** that there are risks to continuing the Apprenticeship Boost Initiative and that we do not recommend continuing this policy as a long-term measure as it creates perverse incentives to employers and could degrade the quality of apprenticeships and the effectiveness of the policy overtime

   Noted

   c. **note** that, on balance, we consider there is lower risk to extending the ABI by one year and that this would allow for work to be undertaken on longer-term options to transition away from the ABI

   Noted

   d. 9(2)(f)(iv) [redacted]

   ed

   e.

   Noted

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f. **agree** to discuss the content of this report, in particular the objectives Ministers are seeking to achieve with a policy supporting apprenticeships with the Minister of Finance

Agree / Disagree

g. **agree** to forward this report to the Minister of Finance ahead of the Budget Ministers bilateral scheduled for Wednesday 8 March

Agree / Disagree

h. **indicate,** following discussions with the Minister of Finance, which option you would like officials to continue to progress as part of Budget 2023:

i. Option One: Extension of Apprenticeship Boost
ii. 9(2)(f)(iv)
iii.

Option One / Option Two / Both

i. **agree** that this briefing is not published due to the contents being Budget sensitive

Agree / Disagree

Katrina Sutich
Group Manager, Tertiary Group
Te Pou Kaupapahere

02/03/2023

Hon Jan Tinetti
Minister of Education

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Background

1. You met with the Minister of Finance on Thursday 23 February to discuss the Education portfolio package for Budget 2023. There was a discussion on the supports available for apprentices through the Budget. Currently, the only initiative included as a Budget 2023 manifesto commitment that seeks to support apprenticeships is a proposal to extend the Apprenticeship Boost Initiative (ABI) by one-year, to the end of 2024. It was noted by officials at the meeting with the Minister of Finance that there are risks continuing ABI beyond the current end date of 2023.

2. The Minister of Finance has requested further advice from officials on the risks of continuing ABI, 9(2)(f)(iv) [redacted] This report provides initial advice on potential options, high-level policy questions for consideration, and information to support the Minister of Finance's discussion at the Budget Ministers meeting on Wednesday 8 March. We therefore recommend this paper is forwarded to the Minister of Finance.

3. We note that when we provided advice on this issue to Minister Hipkins in late 2022, he indicated that he would like to pursue an extension of ABI 9(2)(f)(iv) [redacted] for apprentices [METIS 1302092 refers].

Context

6. New Zealand has a long-standing apprenticeship tradition. Apprenticeships are the premium work-based training pathway for people to enter trades and other skilled occupations as practitioners below professional level. They are a 'learn while you earn' option which results in strong employment outcomes due to the immediate connection to employment and the world of work. Apprenticeships are particularly important in core trades (such as construction, electrical, plumbing, and hairdressing) but are also offered in smaller numbers in other industries (e.g. boatbuilding, retail and service industries). At a minimum apprenticeships are 120 credits (just under two years), but they vary according to the needs of industry. The typical length of apprenticeships is approximately four years and average 200 credits.

7. The Government invests significantly in the provision of apprenticeship learning. In the reformed vocational education system, apprenticeships are supported through funding subsidies to providers that offer educational and learner support to apprentices and their employers. Funding rates range from $5,000 per standard training measure[1] to $9,000, and average $7,000. Funding to providers is important to ensure the apprenticeship is well supported and educationally excellent. Funding is also provided to Workforce Development Councils to set skill standards for industry and endorse new programmes to ensure training is relevant and provides what industry needs.

[1] Standard Training Measures (STMs) are used to measure the amount of training delivered. Each STM represents the amount of training required for the equivalent of 120 credits to be attained, which is the equivalent of a full-time study load of a student enrolled at a tertiary provider. As apprentices balance training and employment, and usually train part-time, apprentices can generally be expected to undertake training that leads to up to 60 credits per year.

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8. Other support that is available to apprentices includes the current Fees Free policy scheme, which provides free fees to work-based learners for their first two-years, or up to $12,000. Current eligibility criteria mean that this support is only available to learners with no, or limited, prior learning which can restrict eligibility to the scheme (approximately 19 percent of apprenticeships in 2022 were eligible for Fees Free).

9. In addition, as a response to the demands of the COVID-19, the Government introduced time-bound initiatives in mid-2020 to support:

    a. Employers to meet the costs of hiring apprentices through the Apprenticeship Boost Initiative (ABI), currently scheduled to finish in 2023, which provided a time-limited wage subsidy to employers of first- and second-year apprentices; and,

    b. Learners to meet the costs of fees through the Targeted Training and Apprenticeship Fund (TTAF) that ended on 31 December 2022. TTAF paid fees to providers of all apprentices, as well as learners enrolled in industry training in targeted areas and learners enrolled in Level 3 to 7 sub-degree provider-based programmes in targeted industry areas. In some cases, the TTAF also subsidised employers because those employers paid learners' fees.

10. Funding employers, through the ABI, covers the costs of hiring an initially unproductive trainee and offsets some of the in-kind costs of training, making it more economic to commit to a multi-year training programme, or to retain an apprentice for longer if there is a downturn. Funding the fees of learners, through TTAF, made it easier for learners to commit to undertaking an apprenticeship, which comes with a cost in their own time and a financial cost which could be harder to bear on relatively low wages as costs of living increase. These initiatives, along with economic conditions not declining as expected after 2020, resulted in increases in apprenticeship numbers when there was a risk of numbers declining. There are now approximately 50,000 apprentices currently in the system at any one time.

11. It may be premature to allow the additional supports for apprenticeships to lapse, noting that TTAF finished at the end of 2022. The Government has recently signalled a focus on cost of living issues while relatively high inflation continues to affect New Zealanders. While qualified tradespeople can be well rewarded financially, apprentices just starting out, or people changing career, are likely to have fewer resources with which to withstand economic shocks, and the costs of entering a trade and training are likely to increase.

12. In the past, periods of economic downturn have seen apprentices (particularly if they are relatively new) vulnerable to labour market scarring. Key trades are also reporting skill shortages at the experienced (e.g. ten years) tradesperson level. In some cases, such people are also lost due to migration (and some are gained that way). However, industries collectively may struggle to maintain the flow of skills into trades industries so that there is a resource of experience and skills for industries to draw on during the coming decades, especially if smaller firms are forced to make short-term decisions in the face of uncertainty about the future operating environment.

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The design of Government intervention depends on what you are trying to achieve

13. There is a range of options when considering how Government could provide additional support to apprentices. The design of any intervention depends on the objectives Ministers are aiming to achieve, and the problem intended to be addressed.

14. The dynamics of apprenticeship learning are different to provider-based learning, as apprenticeship learning is work-based, which means employers also play a key role in outcomes for apprentices. Employers typically have significant power as a gateway into apprenticeships, due to the decisions to hire apprentices and participate in formal training.

15. Within apprenticeships, the typical barriers that exist and potential options for Government intervention are:
    a. **Cost to access.** The cost of apprenticeship programmes can often be seen as a barrier to entry for learners, including fees, and in some cases tools and even the need for a vehicle. As apprentices are not eligible for student loans under current settings, learners are faced with upfront costs when taking up apprenticeships.[2] Fees could also be seen as a barrier to learners switching fields of study or career choices (e.g. between work and provider-based learning given the cost in doing so, although the scope of Te Pūkenga as a training provider should help to manage this issue)[3].
        i. *Potential Government intervention*: Fees support (e.g. fees free policy, changes to student support settings).

    b. **Low economic returns for employers.** The costs involved with training apprentices and the associated period of relatively low productivity (although increasing over time) from apprentices, can be a barrier to employers taking on and investing in apprentices. Employers will seek an overall return in terms of productivity and graduates often qualify for higher wages and have more employment options available to them. This is particularly the case for smaller firms, who are not able to offer apprentices the same rewards that larger employers could upon completing the apprenticeship, and there is risk that learners change employers soon after completing their apprenticeships.
        i. *potential Government intervention*: Wage support to support lower financial cost for employer (e.g. ABI).

    c. **Learner readiness to train or be work-ready.** Employers often note that there is a lot of upfront investment (including time) at the beginning of apprenticeships to bring learners up to speed to be ready to start an apprenticeship (for example

[2] Some payment plans are in place with providers and employers, particularly for those learners that aren't eligible for the existing fees free policy.
[3] Te Pūkenga is a single institution overseeing approximately 80% of vocational education and training delivery in New Zealand. As part of its establishment work it is rationalising multiple programmes to create a single national network of provision that can allow learners to continue their study without unnecessary duplication if circumstances change. As learners are likely to continue with the same provider, there are opportunities for them to be retained and supported by Te Pūkenga to a greater extent as they shift between modes of learning or even different programmes.

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literacy or numeracy skills), which can further exacerbate the costs to an employer and may exacerbate existing inequities of access for learners.

i. *Potential Government intervention:* further investment in training programmes to bring people up to speed (e.g. Mana in Mahi, Māori and Pasifika Trades Training initiatives and secondary tertiary programmes where these link with industry).

16. Within New Zealand, investment by employers and learners in apprenticeships has typically been relatively high, particularly in steady state economic conditions. We do not yet have data that shows whether the ABI and TTAF has led to improved performance, for example, whether new firms have entered the training system without a strong history of training. We therefore lack strong evidence that would support further investment in the longer term to address these barriers, notwithstanding that current economic uncertainties may support a case for further support.

17. We recommend that Ministers discuss what the key objectives are of a policy aimed to better support for apprentices (e.g. whether it is to address cost barriers for learners, or to lower costs for employers) to ensure the policy design reflects these objectives.

Apprenticeship Boost Initiative in Budget 2023

18. A proposal to extend the ABI by one-9(2)(f)(iv) years, is being considered through Budget 2023 and we understand the initiative is being considered by Budget Ministers outside the current package, alongside manifesto commitments. The ABI was initially established as one of a suite of supports for apprentices in response to the uncertainties caused by COVID-19. ABI provided a time-limited wage subsidy to employers of first- and second-year apprentices to support job security during an expected recession, prevent economic scarring, and support the skills pipeline across all industries needed for the country's economic recovery. ABI was an alternative to the Government's broader Wage Subsidy Scheme (employers could not access both schemes) but was set to run longer to provide certainty for employers committing to the additional costs of training.

19. We consider that ABI has been successful in meeting its policy objectives of preserving existing apprentices' jobs and encouraging continued intake of new apprentices, however we also note that the expected economic conditions did not eventuate when the policy was introduced. In particular, employment stayed significantly higher, and apprenticeships did not drop as expected. Since ABI was introduced, along with other government support such as TTAF, New Zealand now has greater numbers of apprentices than ever before, and over 55,000 apprentices have been supported by ABI subsidies.

20. The ABI was designed to be a temporary measure and was not intended be a permanent feature of the tertiary system. We consider a measure like ABI would be less effective in the long-term. When ABI was set up, the intention was to mitigate potential perverse incentives of a wage subsidy by designing it as a temporary measure, initially from August 2020 to April 2022. However, continued extensions of the initiative have inherent risks, including the potential for:

    a. employers to take on apprentices for the subsidy without a strong intention to complete the apprenticeship training;
    b. overly generous assessment of skills by employers for credit achievement (where employers are the work-place assessors), diluting the value of apprenticeship qualifications;

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c. apprentices being let go after they become ineligible for the subsidy, and not competing their apprenticeship qualification (if employers are incentivised to hire new apprentices to continue the subsidy);
d. firms counting on wage subsidy for apprentices as part of their business models, (which has likely happened to an extent already through the extension to the end of 2023), which increase risks if the support is withdrawn; and
e. distortion of the Government contribution in the Unified Funding System, where the Government contribution to the cost of apprenticeship training is much higher through the ABI subsidy.

21. Currently, we do not have evidence that suggests the above risks have caused issues within the system. However, due to the timeframes for completing apprenticeships, we will only be able to begin analysing the outcomes of ABI and TTAF supporting apprentices in the coming year.

22. The Ministry would not recommend that the ABI, as it is currently designed, be embedded into the system as a long-term policy measure. However, if Ministers wished to extend the ABI until the end of 2024, we consider that an extension by one year would be lower risk and would allow time for further work to be undertaken to develop alternative longer-term options that support a transition away from ABI. For example, we could look at student loan settings, fees support or alternative support for employers.

23. If Ministers are interested in continuation of ABI or another form of wage subsidy support for apprentices beyond 2024, we would need to review the risks and regulatory safeguards within the system and reconsider the policy need and objectives in the current labour market conditions, as well as evidence of the educational outcomes from wage subsidy support using the ABI dataset.

9(2)(f)(iv)



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9(2)(f)(iv)



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40. There are options to off-set some of the costs of a new fees free policy with underspends in other areas, which are currently included as savings initiatives in the Budget 2023 process. For example, there is a proposal to reduce the Fees Free appropriation by $70 million per annum from 2023/24 onwards, which could be used to offset some of the cost of a fees free policy for apprenticeships.

41. Under the current timeframe of ABI ending in 2023, we are also currently expecting an underspend of $60 million in 2022/23 and $30 million in 2023/24. This underspend is currently being used to offset the cost of a one-year extension to the ABI, however if Ministers decided not to go ahead with an extension to ABI, this underspend could be directed to offset the costs of a fees free policy. This underspend is one-off and is not ongoing.

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Next Steps

42. We recommend you forward this paper to the Minister of Finance. We understand that the contents of this report will be discussed at the Budget Ministers meeting on Wednesday 8 March 2023. If Ministers wished to progress with a fees free policy for apprenticeships, officials can undertake work to provide further advice.

43. Following your feedback on the objectives and options, officials would look to provide further advice on options including options for deliver, policy parameters choices (eligibility and length of support), refined estimated fiscal costs, and advice on the potential interactions and implications for other parts of the tertiary system.

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