



16 MAR 2018

Dear [REDACTED]

Thank you for your recent request for copies of documents listed in the Minister of Education Hon Chris Hipkins' response to written Parliamentary question 7981 (2018). On 16 February, Minister's Office transferred responsibility for the following documents to the Ministry under section 14(b)(ii) of the Official Information Act 1982 (the Act):

- 1 *Briefing Note: Follow up on BERL report on benefits of apprenticeships compared with degrees*
- 2 *Briefing Note: Existing offences that are comparative to the proposed fees free offence provision*
- 3 *Aide Memoire: Excellent Education Limited*

As we have previously advised, the New Zealand Qualifications Authority will provide you with a separate decision regarding your request for **Document 3**.

I am releasing **Document 1** and **Document 2** to you. I have withheld contact information for Ministry staff members from both documents under section 9(2)(a) of the Act, to protect the privacy of natural persons.

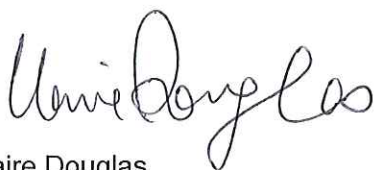
The BERL report referenced in **Document 1**, *Modelling costs v benefits of apprenticeship v degree: A lifetime net financial position approach* is available by going to the Industry Training Federation's website, at <http://www.itf.org.nz/news-and-publications/publications>.

Further information about the decision to create a new offence of making a false representation in relation to an application for fees-free education described in **Document 2** is contained in *Policy Proposals for updating the Education Act 1989*, which the Minister recently took to the Cabinet Business Committee. The paper is published on our website as part of a release of information about the Education Amendment Bill 2018, at: education.govt.nz/education-amendment-bill-2018-information-release.

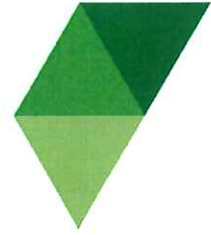
More information about the Bill is also available from Parliament's website, and you can find it by entering the phrase "Education Amendment Bill 2018" into the search box on the front page.

Under section 28(3) of the Act you have the right to refer this response to an Ombudsman. You can do this by writing to info@ombudsman.parliament.govt.nz.

Yours sincerely



Claire Douglas
Deputy Secretary
Graduate Achievement, Vocations and Careers



Briefing Note: Follow-up on BERL report on benefits of apprenticeships compared with degrees

To:	Hon Chris Hipkins, Minister of Education		
Date:	17 January 2018	Priority:	Medium
Security Level:	In Confidence	METIS No:	1099947
Drafter:	David Scott	DDI:	
Key contact and number:	Shona Ramsay OIA 9(2)(a)	Round robin:	No
Messaging seen by Communications team:	N/A		

Summary

- In December we briefed you on a recent report produced by BERL, commissioned by the Industry Training Federation, which found that the net financial position (assets minus liabilities) of an average apprentice exceeded that of an average bachelor graduate over most of their working life (METIS No. 1095632 refers).
- We offered to brief you further on this once we had had an opportunity to discuss the research with BERL, and were in a better position to interpret the findings in the context of existing research showing that earnings for apprentice-level graduates are consistently lower than those of degree holders.
- Our subsequent discussion with BERL highlighted a number of assumption choices that are important in understanding how this result can be interpreted, and the extent to which they represent an average learner. These are discussed below. In light of these, we think the average value of apprenticeships is likely to be overstated. The report does provide a useful addition to the research, and a good basis for future analysis, but we think the identified points would need to be explored further, before a sufficient basis could be established for concluding which types of pathways have the greatest long-term financial benefits.

Shelley Robertson
Acting Group Manager
Tertiary Education Group

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Background

What the report is about

1. The Industry Training Federation (ITF) commissioned BERL to model the costs and benefits of apprenticeships compared with those of degree graduates, and with those with school qualifications only.
2. BERL modelled the 'net financial position' (NFP) as the value of assets (such as house equity, Kiwisaver, net other savings) minus the value of liabilities (such as student loans, mortgages, and net other liabilities) and compared this for the three groups over their working lifetime (ages 18-64).

Main messages

3. The key result was that apprentices, despite lower earnings on average, enjoy a better NFP over most of their working life, in particular at the mid-career stage, around age 40. Degree holders catch up towards the end of their working life.
4. The main contributors to this result were the lack of student debt as an apprentice, the ability to buy and pay off a house sooner, the lower foregone earnings while training, and most significantly, the assumption that apprentices can start Kiwisaver contributions several years sooner than degree holders.
5. The report also found that the degree holder will have a lower NFP than the person going straight to work with no further study or training, and would not overtake them until around age 50.

Comment

6. BERL's approach of modelling net financial position using a large range of sources advances previous approaches to the analysis of the relative benefits of tertiary education, which look at income only, and which show that degree holders consistently earn more than Level 4 certificate and diploma holders.
7. The BERL research necessarily sets a range of assumptions, designed to represent average learners and conditions. The researchers also tested high and low scenarios to check the sensitivity of some of their assumptions. We wanted to discuss and confirm a number of questions with BERL, in order to better interpret the findings.
8. We met with BERL in late December. While most assumptions seem reasonable (such as average loan borrowings, degree completion times, interest rates, or rent while studying), the following raised some significant questions on the ability of the research to support the findings it did. Specifically:
 - the report does not take account of gender differences. The higher participation of men in apprenticeships, and higher average male employment and earnings, have not been adjusted for when comparing with degree graduates, which have a higher proportion of women. Comparing male apprentices with male degree holders and female apprentices with female degree holders would significantly reduce the benefits reported
 - all Level 4 to 6 graduates have been used to proxy apprentices. The majority of Level 4 to 6 graduates do not gain their qualification through an industry training apprenticeship programme. Provider-based programmes can cater to different fields and occupations than work-place based ones, and it is not necessarily safe to assume earnings for all Level 4-6 graduates would be a good proxy for those of apprentices, and to report the findings as such

- results are based on the assumption that everyone begins their 'choice' (to become an apprentice, do a degree, or go straight to work) directly after school. The majority of aspiring apprentices, even if they want to, are not able to begin an apprenticeship directly, and most don't start until they are aged 20 or over. The reported results would therefore apply to a minority of apprentices able to start directly and maximise their financial benefits, but would overstate the relative benefits of a typical apprentice compared with a typical degree holder
 - for this research, everyone is assumed to start Kiwisaver when they first start work. This gives a reported \$200,000 working life advantage for apprentices over degree graduates, one of the larger and more sensitive assumption impacts. The extent to which apprentices more typically start Kiwisaver compared with degree holders may noticeably affect the resulting relative lifetime benefits
 - the report assumes that training costs for apprentices are zero, whereas more typically, an average apprentice would have some training costs, which for some learners can be significant. The report also sets the earnings for degree students during their study at the minimum wage. This will understate what the average degree students typically earns. Together, both assumptions would further act to overstate the reported benefit of apprenticeship training
 - the report projects total working life earnings based on current labour market conditions. The current labour market for trade workers is positive, and their earnings difference relative to degree holders is smaller than it has been at other times. Research suggests changes in labour market cycle conditions do not affect groups equally, and that degree holders enjoy more protection from downturns than those less qualified, including apprentices. If this is the case, then not adjusting results for changing labour market cycles is likely to further overstate the projected lifetime benefits of apprenticeship training.
9. In light of these, we think the value of apprenticeships is overstated in the report. We think these points need to be explored further, before a sufficient basis could be established for concluding that apprentices on average are better off financially than bachelor holders.
10. The report does provide a useful addition to the research, and a good basis for future analysis. It is recognised that these results are intended to apply to an average learner, and that many people will choose the pathway that suits them best, and, for some, pursuing an apprenticeship is likely to be more profitable over their lifetimes than pursuing a degree.

Next steps

11. We have offered to assist BERL if they wish, with any future related work. We have also let the ITF know of our meeting and have shared our subsequent thoughts with them.
12. The Ministry has current and planned further analysis on measuring the benefits of education on its tertiary work programme. The relative benefits of industry training is current work due for completion later this year. The development of a tertiary returns analysis to advance existing earnings premiums analysis, and extending this to also look at lifetime or cumulative benefits has been planned as future work.



Briefing Note: Existing offences that are comparative to the proposed fees free offence provision

To:	Hon Chris Hipkins, Minister of Education		
Date:	26 January 2018	Priority:	Medium
Security Level:	In Confidence	METIS No:	1102704
Drafter:	Emily Harding	DDI:	
Key contact and number:	Julie Keenan, OIA 9(2)(a)	Round robin:	No
Messaging seen by Communications team:	N/A		

Summary

- At the Cabinet Legislation Committee meeting on Wednesday 25 January, the Committee asked for further information on what offences the Ministry of Justice compared the fees free offence provision to in making their recommendation for a \$5000 fine, rather than a \$10,000 fine. This note provides you with that information, to provide to Committee Members.


 Julie Keenan
 Policy Director
 Graduate Achievement, Vocations and Careers

26/01/2018

Key messages

1. The Ministry of Education initially proposed a fine of \$10,000 for the new offence provision, which was based in part on an analysis of the penalties for the similar offences in the Education Act 1989. For example, under sections 292 A and C of the Act, a person commits an offence who:
 - falsely represents, expressly or by implication, that a programme is an approved programme; or that a training scheme is an approved training scheme; or that a body is a registered establishment,
 - knowingly or recklessly issues an award that falsely represents, expressly or by implication, that a person has achieved a qualification listed on the Qualifications Framework.
2. Both offences are liable on conviction to a fine not exceeding \$10,000.
3. However, these offences typically affect tertiary education providers who are typically experienced business owners, who have a relatively greater ability to pay a significant fine and are less likely to be deterred by a small fine.
4. In this case, Justice suggested that the appropriate penalty for an individual student (having regard to the likely seriousness of the offence in its worst cases and degree of culpability required to be proved by the prosecution) is a fine of up to \$5,000.
5. Maximum penalties would normally be proposed with reference to comparable offences in the relevant statute. The offence in section 307AA of the Education Act, provides an example, as it concerns false information knowingly provided by a student for the purpose of claiming a student allowance or a loan and is punishable by up to \$2,000.
6. However, there are a few distinguishing features of the new offence proposed in the Bill that need to be considered:
 - a. On one hand, students may have fairly large financial motives for committing the offence (potentially up to \$12,000 free tuition for up to three years once the policy is fully implemented).
 - b. On the other hand, large financial penalties are unlikely to be necessary to deter students on top of the threat of criminal conviction and the fact that the tuition fees would be recovered from the student.
 - c. Thirdly, Justice is not aware of any offences involving the provision of false or misleading information that do not include a degree of knowledge as an element of the offence to be proved by the prosecution. This offence has been constructed in a way that reduces the burden on the prosecution to establish the *mens rea* (guilty mind) of the defendant. It only requires proof that the false representation was made in the application, unless the defendant can raise evidence of a "reasonable excuse" that the prosecution would need to rebut (to the usual criminal standard of beyond reasonable doubt). This made Justice particularly cautious about setting a maximum penalty in excess of \$5,000.