



Education Report: Extending the Group Training Scheme Fund

To:	Hon Chris Hipkins, Minister of Education		
Date:	7 April 2021	Priority:	High
Security Level:	In Confidence	METIS No:	1254420
Drafter:	Kate Wynands	DDI:	9(2)(a)
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Messaging seen by Communications team:	No	Round Robin:	No

Purpose of Report

Following a meeting with Master Plumbers and Masterlink on 18 March 2021, you requested advice on extending the time-period for Group Training Schemes (GTS) to use their allocated GTS Funds. This report provides you with options for extension.

Officials are considering long term options for GTSs in the context of the Reform of Vocational Education and will provide you with advice on this in the near future.

Recommended Actions

The Ministry of Education recommends you:

- a. **note** that the GTS Fund expires on 30 June 2021.

Noted

- b. **agree** to either:

- a. retain the original GTS Fund expiry date of 30 June 2021 to ensure GTSs move to their future business model without government support, allowing any unspent funding to be considered for other priorities

Agree / Disagree

- b. extend the time-period for GTSs to use allocated GTS Funding to 31 December 2021 or until allocated funds are exhausted

Agree / Disagree

- c. extend the time-period for GTSs to use allocated GTS Funding to 30 June 2022 or until current allocated funding is exhausted, and only for specified priorities

Agree / Disagree

- c. **note** that this Education Report will be proactively released with any information which may need to be withheld done so in line with the provisions of the Official Information Act 1982 and your expectations.

Noted



Katrina Sutich
**Group Manager Tertiary
Te Ara Kaimanawa**

07/04/2021



Hon Chris Hipkins
Minister of Education

8/4/2021

Background

- 1 GTSSs are primarily not-for-profit industry-based organisations that employ apprentices and place those apprentices with 'host' employers. The GTS bills the 'host' employers for the apprentice's wages as well as a margin for training and operating costs. GTSSs make it easier for employers to take on apprentices and most GTSSs provide pastoral support for apprentices.
- 2 After the 2020 COVID-19 lockdown, many 'host' businesses were temporarily unable to afford the fees that cover the GTS costs. In response, the 2020 Budget included a \$19.36 million GTS Fund to support GTSSs to continue to employ apprentices.
- 3 The GTS Fund is one of four initiatives approved by Cabinet as part of the Apprenticeship Support programme [CAB-20-MIN-0280 refers]. The Employment, Education and Training Ministers are due to receive an uptake report on these initiatives in April 2021.
- 4 The purpose of the GTS Fund was to ensure apprentices continued in employment and training following the COVID-19 lockdown and enable a quick restart of training once business opportunities improved for host businesses.
- 5 The GTS Fund was designed to ensure GTSSs continued to operate in light of the higher cost business model they have, which includes providing pastoral care to apprentices hosted and trained by firms. GTSSs employ apprentices, and thus are eligible for other support, including Apprenticeship Boost payments, to support wage costs of apprentices.
- 6 The GTS Fund expires on the 30 June 2021 and any unused allocated funds are set to be recovered from the GTSSs by the Tertiary Education Commission (TEC) at this date.
- 7 Your delegation letter to the TEC specified that the TEC must seek to encourage GTSSs to be sustainable using other forms of income as soon as possible, and to work towards reducing reliance on the GTS Fund.

Conditions and provision of the GTS Fund

- 8 The TEC was delegated to administer the GTS Fund in the following order of priority:
 - *Priority A:* Maintain current apprentices employed by the scheme.
 - *Priority B:* Reconnect with apprentices that have been let go since the impacts of COVID-19 (i.e., they must offer those apprentices their places back if possible).
 - *Priority C:* Employ any additional apprentices necessary to bring them up to a viable level, not exceeding their usual level, as long as training arrangements are in place for the additional apprentices, and the GTS can show a viable pathway to in-work training.
- 9 To align with the delegation, the TEC funded priorities at different rates. For instance, all priority C initiatives, and any new staff positions were funded at 75%. On the other hand, priority A initiatives were funded at 100% (except staff positions).
- 10 Master Plumbers and Masterlink claim that a delay in the provision of their allocated funding prevented them from using their total allocated funds. They also state that there is a continued need for the allocated funds following the June expiry date.

- 11 To date, \$13.7 million of the total \$19.36 million has been paid to the GTSSs. The GTS Fund was paid in two tranches:

Tranche 1 (2019/2020 financial year)

- A payment of \$3.06 million was made to the seven GTSSs on 1 July 2020. Tranche 1 funding was not tagged to a priority area. The intention was to provide the funding to the GTSSs to provide support as soon as possible following the COVID-19 lockdown.

Tranche 2 (2020/2021 financial year)

- The initial tranche 2 payments were made when the GTSSs returned their contracts, with all except one GTSS receiving their initial tranche 2 payment on 18 November 2020. Tranche 2 funding was tagged to the priority areas listed above.
- Subsequent tranche 2 payments have been made after GTSSs submitted their milestone reports. A total of \$15.9 million was allocated for the tranche 2 payments.

Use of the GTS Fund and number of apprentices in GTSSs

- 12 The GTS Fund has supported GTSSs to retain and increase the number of apprentices in employment following the COVID-19 lockdown.
- 13 The main areas GTSSs sought funding for were:
- Host employer fee waivers or subsidies
 - Extended wage subsidies for apprentices not with host employers, or on reduced hours with host employers
 - Additional training for apprentice downtime to keep them employed and engaged
 - Costs associated with hiring and paying for some new pastoral care and relationship management positions over the funding period
 - Marketing and other similar costs to attract new apprentices or host employers.
- 14 Overall, the total number of apprentices employed by GTSSs has remained relatively stable with a small overall increase.

Table 1: number of apprentices employed by GTSSs.

Before GTS Funding		After GTS Funding	
August 2019	March 2020	August 2020	March 2021
1,735	1,764	1,762	1,895

- 15 9(2)(b)(ii)

[REDACTED]

[REDACTED]

[REDACTED]

17

9(2)(b)(ii)

Likely underspend of allocated GTS Funds

18 The table below provides additional information on the total funding allocated and the current likely underspend of each GTS by 30 June 2021.

Table 3: total funding allocated and likely underspend to date by each GTS

Group Training Scheme	Summary Totals				
	Total funding allocated	Tranche 1 funding not tagged to priority area	Total funding paid to date	Total funding spent by each GTS reported to date	Current likely underspend
The Electrical Training Company	9(2)(ba)(i)				
Southern Group					
Masterlink					
Apprentice Training New Zealand Limited (ATNZ)					
Apprenticeship Training Trust					
Catsby Investments Limited – T/A NZA Apprenticeships					
For Trades Training Trust					
	\$19,033,412.49	\$3,068,491.00	\$13,556,275.00		(\$6,463,071.02)

**Note that the total spend for the GTS Apprenticeship Training Trust is incorrect due to an error in the milestone report. The breakdown provided by For Trades Training Trust was also incomplete. The TEC have requested updated milestone reporting.*

Note that a total of \$13.7 million was allocated to the GTSs in 2020, with \$13.55 paid so far.

Note that the total funds paid to the GTSs to date includes the tranche 1 funding not tagged to a priority area.

Note that the current likely underspend has not been adjusted to account for the latest payments scheduled for the end of March 2021.

Note also that the total likely underspend for the GTSs also excludes the GTS For Trades Training Trust.

19 The cause of the likely underspend is unclear. However, the economic impact of the COVID-19 event is not as severe as initially predicted when the funding for the GTS Fund was calculated for Budget 2020. It is also possible that the time required to ensure equitable funding between the GTSs contributed. Notwithstanding this, the GTS believe there is an ongoing need to use their unspent allocated GTS Funds past the June 2021 GTS Fund expiry. Treasury analysis indicates that there remains economic uncertainty until the end of 2021.

Options analysis for the GTS Fund

20 We have considered options to extend the GTS Fund taking into account the purpose of the GTS Fund and the long-term financial sustainability of GTSs.

Option 1: Retain the status quo

21 This option retains the original GTS Fund expiry date of 30 June 2021. The GTSs will be required to return any unused allocated funds to the TEC as of this date.

22 The benefit of this option is that it is aligned with current settings for GTSs to be financially independent from the government. It encourages GTSs to reduce any

potential reliance on the GTS Fund leading up to the June 2021 expiry date. The funding delegation required that the TEC encourage GTSs to reduce reliance on the funding via this delegation and to become sustainable using other forms of income as soon as possible.

- 23 This option also provides an opportunity for the recovered GTS Funds to be invested in other initiatives that support apprentices such as Mana in Mahi or the Apprenticeship Boost Initiative. This would likely require a Cabinet decision.
- 24 However, this option may result in some apprentices supported by GTSs losing their employment. For instance, Master Plumbers and Masterlink have used the GTS Fund to retain apprentices through new initiatives such as supporting businesses to take candidates on free trials.

Option 2: Extend the period for GTSs to use allocated funds to 31 December 2021 or until allocated funds are exhausted.

- 25 This option extends the period for GTSs to spend their allocated funding for a further six-month period beyond the original expiry date of 30 June 2021 to 31 December 2021 or until allocated funds are exhausted. No new funding will be provided. Any allocated GTS Funds unused at 31 December would be recovered by the TEC.
- 26 The benefit of this option is that it ensures GTSs can continue to keep apprentices in employment and also employ additional apprentices. GTSs can continue any new GTS Fund initiative as long as their allocated funding remains. This option provides GTSs the ability to use their allocated GTS Funds in a way that provides flexibility to operate in an economically uncertain environment.
- 27 As many apprentices in GTSs are in the construction sector extending the time-period for GTSs to use allocated funds also supports wider government aims to strengthen the construction sector as New Zealand recovers from the COVID-19 event.
- 28 However, this option may create an incentive for GTSs to spend their total allocated funds rather than adapt their operating model for the post-COVID-19 economic environment and could increase GTSs reliance on government funding.

Option 3: Extend the period for GTSs to use allocated funds for another fiscal year to June 2022 or until allocated funds are exhausted, for specified priorities only.

- 29 This option extends the time-period for GTSs to use their allocated funds until 30 June 2022. However, it limits the scope for the use of their allocated GTS Funding to specified priorities only.
- 30 The benefit of this option is that it supports GTSs to retain apprentices in employment. It also reduces a possible reliance on the GTS Fund and encourages GTSs to move to an operating model suited to the post-COVID-19 economic environment.
- 31 As with option 2, this option also supports the strengthening of the construction sector in the COVID-19 recovery, but by specifying priorities, option 3 provides additional direction on the best way to support the sector (i.e., the GTS Funds could be restricted to retaining apprentices in employment but not for GTS marketing initiatives).
- 32 This option also provides the GTSs with an additional year to spend their unused allocated GTS Funds and provides GTSs with increased economic certainty. Any allocated GTS Funds unused at the 30 June 2022 would be recovered by the TEC.
- 33 We can provide you further advice on the details of this option if requested including possible prioritisation.

Financial Implications

- 34 The TEC is due to recover all unspent allocated funding from GTSs at the expiry of the GTS Fund on the 30 June 2021. Any unused allocated funding remaining at the end of the extension periods for options 2 or 3 would also be recovered by the TEC at their respective specified expiry dates.
- 35 No total underspend has yet been reported. The forecasted underspend will help determine the anticipated dates a GTS would exhaust funding for different GTS Fund extension options, as well as the scope of specific priorities if option 3 is chosen.
- 36 If you agree to extend the GTS Fund, we will provide advice about the process required and will work to forecast the total likely underspend at the end of June 2021.

Proactive Release

- 37 It is intended that this Education Report is proactively released as per your expectation that information be released as soon as possible. Any information which may need to be withheld will be done so in line with the provisions of the Official Information Act 1982 and your expectations.