



Education and Social Development Report: further policy and implementation decisions for the Apprenticeship Boost initiative

To:	Hon Chris Hipkins, Minister of Education and Hon Carmel Sepuloni, Minister for Social Development		
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Drafter:	Lisa Sengelow	Tracking number:	REP/20/7/757:
Key Contact: (MOE)	Katrina Sutich	DDI:	s 9(2)(a)
Key Contact: (MSD)	Megan Beecroft	DDI:	
Messaging seen by Communications team:	Yes / No	Round Robin:	Yes / No

Purpose of Report

This paper seeks agreement to the detailed policy and implementation decisions needed for the Ministry of Social Development (MSD) to implement the Apprenticeship Boost Initiative (ABI) and start payments to employers from August 2020.

Summary

- 1 Cabinet agreed on 15 June to the main policy parameters of the ABI (CAB-20-MIN-0280 refers), which will pay a subsidy to employers of first and second year New Zealand Apprentices and Managed Apprentices. Cabinet also authorised the Minister of Education and the Minister for Social Development to make detailed decisions on policy and implementation of the ABI.
- 2 ABI payments may be claimed by employers of apprentices who are enrolled as a New Zealand Apprentice with a Transitional Industry Training Organisation (TITO) or in a Managed Apprenticeship with a provider, and have completed less than 24 months of their programme of study.
- 3 The ABI will run for 20 months, to support employers to keep apprentices employed during the first two years of their training, when they are less skilled and require more support from their employer and are therefore more vulnerable to losing employment during the expected economic downturn caused by COVID-19.
- 4 We seek policy decisions on determining the start date of a programme of study, as this affects how many months of 'year 1' and 'year 2' payments an employer can claim during the 20 months of the ABI. The start date of an apprentice's programme of study may be determined in a number of ways, as apprentices can move in and out of apprenticeship training over time.
- 5 This paper presents two options for determining the start date. Option 1 largely replicates how the programme of study was measured using the 15 June Cabinet paper costings, which were conservative and based on a year of high participation. It

means employers will not be eligible for any payments if an apprentice has previously done two years of apprenticeship training with the same TITO or provider, even if they are a new employee. We prefer option 1, but it may be perceived as at variance with the announcement, which focused on the broad-based support ABI would provide to employers.

- 6 Option 2 is an alternative that determines the start date in relation to an apprentice's current employment, and could make around 4,000 more apprentices eligible for ABI than option 1 (from the 2018/19 data modelling). Option 2 risks oversubscription of the fund, and of slowing down the TEC's verification of the apprenticeship and the start date of the programme of study through increased manual checking.
- 7 This paper also seeks agreement that Public sector organisations should not be able to claim ABI payments, which is consistent with the current Wage Subsidy scheme.
- 8 To enable MSD to make payments in line with Cabinet decisions, we seek agreement that a Welfare Programme be established under section 101 of the Social Security Act 2018 as the legal mechanism for payment of the ABI. A Welfare Programme can apply to any specified class or classes of people and enables access to the rules contained within the Act for reviews of decisions, information sharing, overpayments and recovery of debts. Bringing in existing rules would enable MSD to use existing processes making implementation of the ABI simpler and quicker.
- 9 If Ministers agree to establishing a Welfare Programme, MSD will undertake further work to determine the operational details for the Programme, with report back on those details by the end of July at the latest. Providing the 28 day period is waived, this will not interrupt the Apprenticeship Boost Initiative being available from August 2020.
- 10 This paper also details when employers can apply and how payments will be made, and seeks agreement that employers will reconfirm their circumstances each month to determine ongoing eligibility.
- 11 The time taken for TEC to verify an enrolment and start date will depend on a number of variables, including what information can legally be shared between MSD and TEC. TEC and MSD will continue to work out specifics of how TEC will verify eligibility.
- 12 Officials will report back with further advice by the end of July on content of the Welfare Programme, arrangements for information sharing, TEC's verification of eligibility, and publication of employers who are receiving ABI payments.

Recommended Actions

Hon Chris Hipkins, Minister of Education and Hon Carmel Sepuloni, Minister for Social Development

It is recommended that you:

Determining start date

- a. **Agree to:**

EITHER

Option 1 (recommended): that the start date of a programme of study will be the date of an apprentice's first training agreement with the TITO or provider they are enrolled with at the time their current employer applies for ABI payments.

Minister of Education

AGREED / NOT AGREED

Minister for Social Development

AGREED / NOT AGREED

OR

Option 2: that the start date of a programme of study will be the date of an apprentice's first training agreement with the employer who applies for ABI payments, unless the TEC determines that the start date should be earlier to include recent and relevant training.

Minister of Education

AGREED / NOT AGREED

Minister for Social Development

AGREED / NOT AGREED

- b. **Agree** that the TEC will have discretion to determine a start date that includes recent training with another employer in a 'same or similar' programme of study.

Minister of Education

AGREED / NOT AGREED

Minister for Social Development

AGREED / NOT AGREED

Eligibility of state sector organisations

- c. **Note** that approximately 1,000 apprentices employed by public sector organisations were included in the costings for the 15 June Cabinet paper (at 2018/19 participation levels).

- d. **Agree** that the following categories of public sector organisations will not be able to access ABI payments, as they are unlikely to face the same cost pressures from COVID-19 that would put apprentice's jobs at risk:

- a. Public Service
- b. Non-Public Service Departments
- c. Crown Entities
- d. Reserve Bank of New Zealand; and
- e. Offices of Parliament.

Minister of Education

AGREED / NOT AGREED

Minister for Social Development

AGREED / NOT AGREED

Interplay with Group Training Schemes

- e. **Note** that the purpose of the Group Training Scheme (GTS) funding is to keep these organisations viable as they have higher costs than apprentice wages, and may still fail with only wage subsidy funding.
- f. **Note** that Group Training Schemes can claim ABI payments for their eligible employees.
- g. **Note** that the TEC will take other funding such as ABI payments into account when determining GTS contracts, so that there is no double dipping.

Verification by TEC

- h. **Note** that the TEC is responsible for validating that the apprentice is enrolled in an active TEC-approved apprenticeship and confirming whether the apprentice is first- or second-year.
- i. **Note** that the speed with which TEC can verify an enrolment will depend on a number of variables, including the quality of the information provided in the application, what information can legally be shared between MSD and TEC and the timeliness of tertiary education organisations entering new enrolment information.

Implementation

- j. **Agree** that applications will only be accepted while the Apprenticeship Boost Initiative is active.

Minister of Education

AGREED NOT AGREED

Minister for Social Development

AGREED / NOT AGREED

- k. **Agree** that the first set of ABI payments will be paid one month in advance and monthly thereafter provided the employer and apprentice still meet the eligibility criteria.

Minister of Education

AGREED NOT AGREED

Minister for Social Development

AGREED / NOT AGREED

- l. **Agree** that employers must reconfirm their eligibility to MSD each month and payment will not be made until this is received and verified by TEC and MSD.

Minister of Education

AGREED NOT AGREED

Minister for Social Development

AGREED / NOT AGREED

- m. **Agree** that that unclaimed Apprenticeship Boost payments cannot be claimed after three months from the expiry of the initiative.

Minister of Education

AGREED NOT AGREED

Minister for Social Development

AGREED / NOT AGREED

- n. **Agree** that that the Minister for Social Development will approve and establish a Ministerial Welfare Programme under section 101 of the Social Security Act 2018, based on joint Ministers' decisions.

Minister of Education

AGREED NOT AGREED

Minister for Social Development

AGREED / NOT AGREED

- o. **Note** to ensure the Welfare Programme is in place as ABI payments begin, the 28 day rule would need to be waived.
- p. **Note** that officials will report back by the end of July with further advice on content of the Welfare Programme, arrangements for information sharing, TEC's verification of eligibility, and publication of employers who are receiving ABI payments.

Proactive release

- q. **Note** that it is intended that this Education and Social Development 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.
- r. **Agree** that that this Education Report is proactively released as part of the next publication.

Minister of Education

AGREED NOT AGREED

Minister for Social Development

AGREED / NOT AGREED


Katrina Sutich
Acting Group Manager Tertiary Education
Ministry of Education


Megan Beecroft
Manager, Employment Policy
Ministry of Social Development

08/07/2020

08/07/2020


Hon Chris Hipkins
Minister of Education


Hon Carmel Sepuloni
Minister for Social Development

21/ 7/ 2020

14/ 7/ 20

Background

- 1 On 15 June 2020 Cabinet agreed to the policy and implementation settings for the Apprenticeship Boost Initiative (ABI), as part of the Apprenticeship Support Programme (CAB-20-MIN-0280 refers).
- 2 The key objective of the initiative is to keep first and second year apprentices employed and training towards their qualification, training the skilled workforces we need to recover from the impacts of COVID-19.
- 3 Cabinet authorised the Minister of Education and the Minister for Social Development to take detailed decisions on policy and implementation of ABI. Annex 1 has further details of the Cabinet decisions for ABI.
- 4 This paper sets out the detailed policy and implementation decisions needed for:
 - a. TEC to verify to MSD that an employee is eligible to have ABI payments claimed by their employer, and the start date of the employee's programme of study, which will determine the number of year 1 and year 2 monthly payments that can be claimed for the employee over the course of ABI; and
 - b. MSD to implement ABI and start payments to employers from August 2020.
- 5 The detailed decisions in this paper have been developed in line with the broad policy settings agreed by Cabinet. The 15 June Cabinet paper discussed the impact of ABI on Māori, Pacific, and disabled learners, and additional detail has been included in this paper with the intention to improve outcomes for these groups.

Further policy and implementation decisions for ABI roll out

Start of a programme of study

- 6 The start date of an apprentice's programme of study may be determined in a number of ways, as apprentices (like other industry trainees) can move in and out of apprenticeship training. Determining the start date is complicated by fact that:
 - a. training may not be continuous; for example, an apprentice may restart with another employer after a redundancy; and
 - b. apprentices may change their programmes of study while with the same employer. Sometimes these are technical changes as programmes are updated on NZQA, or sometimes an apprentice may decide to change to a related or different industry area.
- 7 This flexibility is a feature of the wider industry training system, which is set up to allow for changes in employment and other life circumstances, and for changing learner choice.
- 8 This paper presents two options for consideration. Option 1 is based on the 15 June Cabinet paper costings, and is recommended. Option 2 is an alternative that determines the start date in relation to an apprentice's current employment.

Option 1: start date linked to training with the TITO or provider

- 9 Option 1 counts an apprentice's programme of study as starting from the date of their first training agreement with the TITO or provider they are currently enrolled with. This reduces apprentices' eligibility for ABI payments by the months they have been in apprenticeship training with the same TITO or provider, even if the training was with a different employer, as this would be expected to have increased the apprentice's experience and skills as an employee.
- 10 For example, an apprentice may have recently started with their current employer, but already had 12 months of training with a different employer. The current employer would only be able to claim 12 months of payments at the 'year 2' rate. An employer

who had signed up a new employee to an apprenticeship would not be able to claim ABI payments if the employee had already done more than 24 months of apprenticeship training with the same TITO or provider.

11 The key risks of this option are that:

- a. Some employers may view an apprenticeship as starting only when they sign up to a training agreement with the employee and the TITO or provider, and consider that a new employee with previous training still needs support for their first two years in their current job. This could disadvantage apprentices who had already experienced some disruption in their employment and training.
- b. If employers find they are eligible for fewer ABI payments than they expect, or for no payments for an unqualified new employee who had previous apprenticeship training, this may undermine the credibility of the announcement, which focused on the broad-based support ABI would provide.

Option 2: start date linked to current employer, and any recent and relevant training

12 Option 2 counts an apprentice's programme of study as starting from the date of their first training agreement with their current employer, or (in some circumstances) from the start of a recent and relevant training agreement with a different employer.

13 Recent training is defined as reasonably continuous, with a gap of no more than six months between the current and previous training agreement. To be relevant, the previous training would be in a programme of study that was the same or similar to the apprentice's current training. Determining whether previous training was 'the same or similar' would be at the TEC's discretion.

14 Option 2 would primarily benefit apprentices who would otherwise have been ineligible for ABI payments as they already had over two years of training before starting with their current employer. It is more likely to align with an employer's understanding of a first or second year apprentice.

15 We estimate this could impact around 4,000 apprentices (at 2018/19 participation levels). These additional apprentices were not counted in the approximately 36,000 apprentices estimated to be eligible for ABI payments in the 15 June Cabinet paper.

16 The key risks of this option are oversubscription and slowing down of verification for payments:

- a. Because this methodology differs from that used to estimate the cost of the ABI as set out in the Cabinet paper, there is a chance that it could result in an uptake exceeding the allocated \$380 million.
- b. The higher cost of option 2 could be offset by a lower uptake of ABI due to lower enrolment levels than in 2018/19. However, if uptake does approach 2018/19 levels, we estimate the potential overspend to be in the region of \$20 million to \$50 million. In that case, additional funding would need to be sought through Budget 2021.
- c. TEC would need to do more manual checking to determine if there was any continuous training in a same or similar programme of study, which risks slowing down the verification needed for MSD to start payments to employers.

Preferred option

17 Officials consider that on balance, option 1 is preferable as it meets the policy intent of keeping apprentices in jobs, does not create a fiscal risk, and does not risk slowing down verification for payments. Those apprentices who would not be eligible under option 1 will have already had two years or more of apprenticeship training in the workplace. If employers are surprised that an apprentice is not eligible for subsidy

payments, the reason for this (previous apprenticeship training with the same TITO) can be explained.

Eligibility of State Sector Organisations (SSOs) for ABI payments

- 18 The policy intent of ABI is to subsidise employers and firms that are affected by COVID-19 so that they can keep apprentices employed. Some SSOs (listed below) enrol employees in New Zealand Apprenticeships, but are unlikely to face the same cost pressures from COVID-19 that would put apprentice's jobs at risk, as they have government funding to pay employee wages.
- 19 We recommend that the following categories of SSO (as used by the State Services Commission) are not able to access ABI payments: Public Service, Non-Public Service Departments, Crown Entities, the Reserve Bank of New Zealand, and Offices of Parliament.
- 20 If these categories of SSO were not eligible, it would mean that the following state sector organisations who currently have some employees enrolled in New Zealand Apprenticeships through TITOs would not be able to receive ABI payments:
 - a. New Zealand Defence Force (including New Zealand Defence College, New Zealand Army, Royal New Zealand Air Force, Royal New Zealand Navy)
 - b. Department of Conservation
 - c. Department of Corrections
 - d. Ministry of Education
 - e. Ministry of Social Development
 - f. Ministry for Children
 - g. New Zealand Police; and
 - h. District Health Boards.
- 21 This would reduce the estimated apprentices supported by the ABI by about 1,000 from the estimated 36,000 in the 15 June Cabinet paper.

Further advice on the Group Training Schemes (GTS) interplay with ABI

- 22 Officials have been asked by Minister Sepuloni's office for further advice on these settings in relation to the risk of double dipping through GTS organisations getting both ABI payments and funding through the GTS initiative. Officials consider that there is not a risk of double dipping, as the purposes of the two initiatives are distinct and do not overlap.
- 23 On 15 June, Cabinet noted that employers would be able to access support from either ABI, Mana in Mahi, or the Regional Apprenticeships Initiative. Cabinet also noted that it has already agreed to the policy settings for the GTS support initiative [CAB-20-MIN-0219], and that this funding is different in design other initiatives within the Apprenticeship Support Programme.
- 24 Cabinet noted that the specific details of this support will be negotiated between the TEC and each GTS organisation, and that through these negotiations the TEC will ensure that other factors are taken into account, such as any other financial assistance received from Government (such as the ABI).
- 25 There are seven current GTS organisations, and these are the only organisations eligible for the GTS funding. GTS organisations employ multiple apprentices, placing them into host firms for part or all of their apprenticeship, and receive fees from the host employers covering the apprentice's wage costs to the GTS organisation, and other related services such as administration and pastoral support.

- 26 GTS organisations received wage subsidies during the lockdown period where eligible, but are receiving significantly lower fee income from host employers during this period due to lower demand from host employers, and have now used up accumulated reserves as a result. As GTS organisations' costs include services in addition to apprentices' wages, and generally operate on thin margins, this combination of factors means they are unlikely to last through the downturn without laying off significant numbers of apprentices, even with other wage assistance such as the ABI.
- 27 TEC will take any ABI payments into account when determining GTS contracts, so that GTS funding does not duplicate any subsidies received under ABI.

Implementation

Employers will be paid monthly in advance and asked to reconfirm their circumstances each month through a declaration

- 28 Applications will be open to employers from August 2020. A completed application and any supporting evidence must be provided while the programme is active in order to be granted. The commencement date for payment will be the application date or the date of eligibility, whichever is later.
- 29 The first set of ABI payments will be paid one month in advance. Payments will be made on the same date every month, provided the employer and apprentice still meet the eligibility criteria at the declaration point and the payment date falls within the programme period. Employers may be eligible for between one and twenty Apprenticeship Boost payments, depending on when they apply and their apprentice's year of study.
- 30 Payment will not be made until the declaration for the month is received by MSD. Any unclaimed payments will not be able to be claimed after three months from the expiry of the initiative.
- 31 Employers will be asked to confirm that they and all their eligible apprentices still meet the criteria at a declaration point each month in order to receive payments the following month. The declaration point will be scheduled a month after the employer's first application for the Apprentice Boost Initiative. Having a single declaration date for an employer is designed to reduce administration for large employers.

TEC will verify enrolments

- 32 The TEC is responsible for validating that the apprentice is enrolled in an active TEC-approved apprenticeship and confirming whether the apprentice is first- or second-year, based on the number of months currently or previously enrolled in an apprenticeship.
- 33 The TEC is only able to verify enrolment information. Employers will be responsible for confirming employment information.
- 34 The specifics of how TEC will verify apprenticeship information are still being worked through between TEC and MSD. At a high level, MSD will submit regular files to TEC, which contain application details. These details will be used to identify the apprentice, and confirm whether or not there is an active training agreement with the employer who submitted the application. TEC will provide data back to MSD to confirm the existence of the apprenticeship and determine the rate of payment.
- 35 The speed with which TEC can verify an enrolment will depend on a number of variables. These include the quality of the information provided in the application, the ability to verify this against data held by TEC, what information can legally be shared between MSD and TEC, and the timeliness of tertiary education organisations entering new enrolment information.
- 36 We understand that, as a result of the announcement, some employers have stopped signing up more apprentices until the ABI is available, creating a stockpile of training

agreements that cannot yet be reported. This is likely to create a delay in making these payments, due to a lag in being able to verify an active enrolment.

Employers are obligated to advise any changes in circumstances

- 37 Employers will be required to notify MSD of any changes that could impact their eligibility for the Apprenticeship Boost Initiative; for example, when an apprentice is no longer employed, takes a period of unpaid leave, or the apprentice withdraws from their apprenticeship.
- 38 When an employer advises of a permanent change in circumstances during the payment period (e.g. the apprentice ceases employment or withdraws from their apprenticeship), the employer would remain eligible for the ABI payment already received, but their next payment would be cancelled. This will ensure that where the employer provides information in accordance with their obligations a debt will not be created.
- 39 Where there is a temporary change in circumstance during the payment period (e.g. the apprentice goes on a period of unpaid leave), the employer would remain eligible for the ABI payment already received, but their next payment would be stopped. For example, if an employer declares they are eligible on 10 October for a payment due on 20 October, if they then advise on 24 October that the employee went on a period of unpaid leave, they would still be eligible for the payment they received on 20 October but they would not qualify for the 20 November payment whilst the employee is on unpaid leave.
- 40 When the apprentice meets the eligibility criteria again (e.g. apprentice returns to paid employment), ABI payments would restart from the next scheduled payment date (if this occurs within the overall period the ABI is available for). For example, if they return from leave on 5 December their payment would restart from 20 December.

Overpayments may occur if the employer provides the MSD with incorrect information

- 41 Where an employer provides MSD with incorrect information and they do not meet the eligibility criteria for a payment, MSD will need to review their payments and any payment they were not eligible for will be considered a debt to the Crown and subject to recovery. A Welfare Programme will enable MSD to use the rules under the Social Security Act 2018 to recover those debts.

We recommend creating a Welfare Programme to support delivery of the ABI

- 42 Officials propose a Welfare Programme is established under section 101 of the Social Security Act 2018 as the legal mechanism for payment of the ABI. A Welfare Programme is a form of tertiary legislation which can apply to any specified class or classes of people and enables access to the rules contained within the Act for review of decisions, information sharing, overpayments and recovery of debts. Bringing in existing rules enables MSD to use existing processes, making implementation of the ABI simpler, more transparent, and quicker. A Welfare Programme also allows the use of MSD's existing review of decision process which reduces the likelihood of judicial review or Ombudsman complaints.
- 43 If Ministers agree to establishing a Welfare Programme, MSD will undertake more work to determine the operational details for the Programme, with report back on those details by the end of July. This would include how information will be shared across relevant government agencies, including TEC, Inland Revenue, and MBIE, to verify eligibility for the ABI and ensure integrity of payments. Officials will also provide advice on whether the names of employers who receive the ABI subsidy will be published online (similar to the COVID-19 Wage Subsidy Scheme).
- 44 Should you agree, MSD officials will develop the Programme in line with the decisions agreed by Cabinet and, as set out in this paper, by the Ministers of Education and Social Development. To ensure the Programme is in place as ABI payments begin,

the 28 day rule would need to be waived. The Minister for Social Development is able to waive the 28 day rule.

Legislative Implications

- 45 The proposal to implement the ABI as outlined above would require a Ministerial Welfare Programme to be established under section 1010 of the Social Security Act 2018.
- 46 If Joint Ministers agree to the proposed policy and implementation, the Minister for Social Development will approve and establish a Ministerial Welfare Programme based on their decisions. The 28-day rule will need to be waived to ensure it can take effect in August 2020.

Risks

- 47 As discussed in paragraph 11 above, option 1 carries the risk that some employers may consider that a new employee with previous training still needs support for their first two years in their current job, could disadvantage apprentices who had already experienced some disruption in their employment and training. If employers find they are eligible for fewer or no ABI payments than they expect for an employee, this may undermine the credibility of the announcement, which focused on the broad-based support ABI would provide. This risk can be mitigated by explaining that the apprentice has had previous apprenticeship training with the same TITO or provider.
- 48 As discussed in paragraph 16 above, option 2 carries the risk that the ABI fund will be oversubscribed if uptake is close to 2018/19 levels, and payments may be slowed due to the requirement for more manual checking by TEC to verify start dates. This risk cannot be mitigated.
- 49 Officials are currently working through what information can be shared across government agencies to ensure timely and accurate validation of eligibility for ABI payments. The nature of information that can be shared across agencies may impact upon the timeframes and resources required to verify eligibility and, therefore, make payments to employers.
- 50 Officials will provide further advice on arrangements for information sharing and TEC's verification of eligibility at the same time as report back on the Welfare Programme in late July.

Financial Implications

- 51 The financial implications for the proposals in this paper were set out in the 15 June Cabinet paper and have been agreed by Cabinet.

Annexes

Annex 1: Cabinet-agreed policy settings for ABI]

Annex 1: Cabinet-agreed policy settings for ABI

Cabinet has agreed policy settings for Apprenticeship Boost Initiative (ABI)

- 1 On 15 June 2020 Cabinet agreed to the policy and implementation settings for the Apprenticeship Boost Initiative (ABI), as part of the Apprenticeship Support Programme (CAB-20-MIN-0280 refers). These Cabinet decisions included:
 - a. The key objective of the initiative is to keep first and second year apprentices employed and training towards their qualification, training the skilled workforces we need to recover from the impacts of COVID-19.
 - b. ABI payments may be claimed by employers of apprentices who are:
 - i. enrolled as a New Zealand Apprentice with a Transitional Industry Training Organisation (TITO) or in a TEC-recognised Managed Apprenticeship with a provider; and
 - ii. have completed less than 24 months of their programme of study.
 - c. Employers will be able to receive subsidies for eligible apprentices regardless of the impact of COVID-19 on the employer's revenue.
 - d. Apprenticeship subsidy payments will start after the Wage Subsidy extension finishes.
 - e. The subsidy rates will be:
 - i. \$12,000 per annum (\$1,000 per month) for apprentices in the first year (months 1-12) of their training programme; and
 - ii. \$6,000 per annum (\$500 per month) for apprentices in the second year (months 13-24) of their training programme.
 - f. Employers can apply for the subsidy in respect of both new and existing apprentices over the period of the scheme.
 - g. MSD will implement ABI and make payments to employers, with ongoing support from TEC.
 - h. The TEC will support MSD's implementation by verifying each apprentice's eligibility and confirming which rate applies, both at the outset and on an ongoing basis.