

# Employment & Labour Market

ACTIVE LABOUR MARKET POLICIES IN THE NEW ZEALAND CONTEXT

## Purpose

This paper provides context and background on active labour market policies (ALMPs) in New Zealand.

## Overview

This paper discusses the Government's vision for the welfare system as it relates to employment. The paper defines and describes the role of ALMPs generally and then briefly describes the New Zealand labour market. The paper then discusses the ALMPs managed by the Ministry of Social Development (MSD) with respect to funding, services offered, operating models, client outcomes, programme effectiveness, programme coverage, and international spending comparisons. The interfaces between ALMPs and complementary policy areas are noted. The paper describes steps MSD is taking to improve employment outcomes and identifies some potential areas of focus.

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## Summary

The Government's **vision is for a welfare system that ensures good transitions to meaningful and sustainable employment** and that improves outcomes for groups of people disproportionately impacted by negative social outcomes, such as Māori, Pacific People, youth, disabled people and people with health conditions. This aspect of the Government's vision concerns the welfare system in its role as a provider of public employment services, and active labour market policies/programmes (ALMPs) more generally. The three main types of ALMPs are: (1) job brokering, (2) labour market training (work readiness), and (3) direct job creation (or subsidisation). Those services and ALMPs need to be fit for purpose in the current and future labour market.

**ALMPs support people at risk of poor labour market outcomes**, such as unemployment, recurrent periods of reliance on welfare support, or being trapped in low-paid work. The best way of promoting an inclusive labour market is by addressing such problems before they arise. This points to the importance of the policies and government services that influence the flows into and out of unemployment and hence the demand for ALMPs. Significantly better performance in these sectors – especially health and education and training – would reduce the demand for ALMPs (and welfare) and boost the effectiveness of ALMPs for people who need them.

**These interfacing policy areas are subject to reviews similar to the welfare overhaul review by the Welfare Expert Advisory Group (WEAG)**. Those reviews have complementary objectives to the WEAG goal of supporting better labour market outcomes, such as enhancing school leavers' prospects of good transitions into education, employment, or training and supporting lifelong learning. These parallel reviews offer an opportunity for better performance across the social sector through coordinated reforms.

**The design and availability of ALMPs should match national and regional needs**. New Zealand's **labour market, in aggregate, performs well** in terms of high levels of participation by highly skilled workers and low unemployment. Most people transition successfully from the education and training system to employment, and there is a wide range of low-cost or free education and training support available, especially for young people who leave school without qualifications. People displaced from their jobs tend to be reemployed relatively promptly compared with other Organisation for Economic Co-operation and Development (OECD) countries.

The **labour market performs poorly in other respects**, notably New Zealand's weak productivity performance over many years and much higher levels of unemployment for Māori and Pacific People, especially young members of these two groups. The latter reflects a complex set of drivers beyond the direct reach of the welfare system, such as poor schooling outcomes. In an economy where skills are increasingly important, a lack of relevant skills exposes people to the risk of poor labour market outcomes. Poor labour market performance is especially concentrated in some regions. Many commentators are also concerned about precarious employment and the incidence of working poverty.

**ALMPs should be flexible to New Zealand's changing labour market conditions**. Labour markets change in response to many influences, some of which are poorly understood and very hard to predict. Those influences – such as changing industrial structure, population change, regulatory change, technological change, and levels of casualisation – can create opportunities for some groups of workers and risks for others. There is a role for ALMPs, alongside other tools, to help manage risks such as rising automation, although the response should be proportionate to the risk, which remains uncertain. The best response may be an education and training system that prepares future workers with relevant skills and employment and income support services that are flexible and able to expand easily to support greater numbers of displaced workers.

**MSD lead ALMP design and delivery**, which it tends to describe as “employment assistance” – a broader concept than ALMP. MSD’s employment services focus primarily on people who are also receiving income support (mostly unemployment related) from MSD, but there is also some support for people who are at risk of becoming reliant on income support, such as young people at risk of entering the benefit system or some employees who are facing redundancy.

**MSD invests in all three main types of ALMPs.** For the 2017/18 financial year, spending was divided between the three types in the following way:

- Job brokering (including wage subsidies) – \$145 million
- Labour market training (work readiness) – \$25 million
- Direct job creation – \$9 million.

MSD invests a further \$87 million in case management that directly supports employment outcomes, \$200 million in Childcare Assistance (CCA), and \$167 million in income support case management. Of MSD’s employment assistance interventions that could be rated for effectiveness in 2016/17, 72% were deemed “effective or promising”. The proportion of effective programmes has been falling over time.<sup>1</sup>

In MSD’s operating model, **employment services are closely integrated with income support services.** Case managers deliver both services, with support from work brokers and other specialists. While this offers the advantage of providing a “one-stop shop” for income support and employment services, a recent spike in client demand for income support has placed pressure on case managers’ time, leaving employment support as a poor cousin.

Relative to the Government’s vision, **employment services achieve very mixed results**, although this also reflects the inherent limitations of ALMPs and dependencies on the interfacing policy areas. A significant portion of the benefit population cycle in and out of the benefit system, and another significant portion remain in the system for extended periods. In some cases, this may reflect the system working as intended (i.e., providing a safety net). In other cases, the system may be failing to support people to achieve their employment and earning potential. Outcomes for Māori in the benefit system, particularly young Māori, are especially poor.

**New Zealand spending on ALMPs** as a percentage of gross domestic product (GDP) and in nominal terms **has been falling**. With 0.33% of GDP spent on active labour market policies, New Zealand ranks in the bottom third of OECD countries by spending levels. There is clear evidence that falling numbers of case managers, and increased demands on their time resulting from increased income and housing support pressures, have significantly reduced the availability of case manager time for employment-focused services. Given the importance of high-quality and intensive case management services, the falling service availability is likely to be adversely affecting employment outcomes.

**New Zealand spends less** on ALMPs than most comparable countries as a percentage of GDP, and our spending in this area has been falling. Direct comparisons are difficult, however and may understate our spending, for example spending also occurs through the Department of Corrections. We also have a much lower level of long-term unemployment, and hence a lower demand for ALMP spending. While there may be a case for higher spending, it should be based on the value to be gained from extra spending, and we should first be confident in the value delivered by the existing spending.

**Additional spending** should contribute to ensuring that the employment service moves closer to best practice. This would include earlier intervention to manage flows into the welfare system, high-quality case management and matching services, and post-placement support.

MSD is taking a number **of steps to improve its effectiveness as an employment agency**, such as increased attention and priority given to achieve sustainable employment outcomes.

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1 These funding amounts exclude indirect or overhead costs.

## Active labour market policies promote employment and higher wages

ALMPs are measures to support people into employment. Such policies usually focus on people who are currently unemployed or are at risk of becoming unemployed.

Calmfors defines ALMP as: “measures in order to improve the functioning of the labour market that are directed towards the unemployed”. He offers three subcategories of ALMP as follows:

- (1) *job broking with the purpose of making the matching process between vacancies and job seekers more efficient;*
- (2) *labour market training in order to upgrade and adapt the skills of job applicants; and*
- (3) *direct job creation, which may take the form of either public-sector employment or subsidisation of private-sector work.*<sup>2</sup>

Heckman, LaLonde, and Smith offer the following definition:

*Many government policies affect employment and wages. The “active labor market” policies we analyze have two important features that distinguish them from general policies, such as income taxes, that also affect the labor market.*

*First, they are targeted toward the unemployed or toward those with low skills or little work experience who have completed (usually at a low level) their formal schooling.*

*Second, the policies are aimed at promoting employment and/or wage growth among this population, rather than just providing income support.*<sup>3</sup>

From these standard definitions, there is a common focus on people who are unemployed, or at risk of being unemployed, mostly at the lower-wage end of the labour market, and there is a common goal of raising employment and income levels. This is the definition of ALMPs adopted by this note for the WEAG.<sup>4</sup>

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2 Calmfors, 1994.

3 Heckman et al, 1999.

4 In categorisations of MSD’s spending, wage subsidies have been included alongside job broking rather than job creation.

# Active labour market policies address market failures related to equity and efficiency

The broad rationale for ALMPs and services is that labour markets do not always work as effectively as they could. While labour markets are generally effective institutions for coordinating the exchange of work and income between a diverse and changing array of workers and employers, they are not perfect. Imperfections give rise to unemployment, low wages, and workplace injuries and disproportionately affect the low-wage labour market.

These market failures arise from such factors as uncertainty and risk, imperfect decision making; poor mental health; discrimination; constraints in accessing education, training, and health care; and macroeconomic instability. The logic behind ALMPs is that there are some simple things that government can do to make the labour market work more effectively, particularly for those with limited employment prospects.

This logic is particularly important from the perspective of welfare – the benefit system is a form of insurance against the risk of adverse events. Help with finding employment is part of the ‘insurance package’ just like income support, and it is also a useful counter to the moral hazard disincentives that are associated with the income payments.

Johri et al identify equity, efficiency, and macroeconomic rationales for ALMPs as follows:

*ALMPs have two objectives, which may be separated for analytical purposes. The first is the objective of **equity** or helping job seekers who are disadvantaged to more fairly share the amount of employment available in the economy. In this context, the aim of ALMPS is to shuffle work around more evenly across job seekers and those people currently employed. The main effects of ALMPs are around distribution of opportunities to help disadvantaged job seekers remain attached to the labour market so as to reduce their chances of long term dependence on benefits. In this case, ALMPS have value even if they have no impact on overall employment as long as they promote the government of the day’s equity goals.*

*The second objective is increasing overall employment by enhancing labour market **efficiency**. In practice, both equity and efficiency gains may be achieved, since work is shared more fairly by creating more work overall.*

*In other jurisdictions, ALMPs are also used to moderate the **effect of economic cycles** on unemployment levels. New Zealand does not use ALMPs for this purpose, but has done so as recently as the early 1980s.<sup>5,6</sup>*

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5 Johri et al, 2004.

6 Since this commentary, New Zealand used ALMPs during the global financial crisis to moderate the effects of the crisis on New Zealanders.

## International studies show the effectiveness of active labour market policies is generally modest and varies by programme type and population group

ALMPs are the subject of an extensive theoretical and empirical body of literature, reflecting the interest across many countries in delivering effective programmes. A number of the ALMP programmes have been properly assessed on the basis of trials, and this has enabled some credible evidence to be obtained on the causal impacts of different options. A recent meta-analysis<sup>7</sup> of over 200 evaluations from around the world shows that on average ALMPs have relatively small effects. The average short-run impacts on employment are close to zero but become more positive two to three years after completion of the programme.

The results of the meta-analysis are summarised in Figure 1 below. “Displacement” is the extent to which using ALMPs enables some people to get jobs, but other people miss out as a result.

**Figure 1: Alternative programmes – summary**

	<b>Job Search Assistance</b> Job search training; Counselling; Monitoring; Job clubs; Sanctions	<b>Training</b> Classroom training; Work practice; Basic skills training; Life skills training	<b>Private sector incentives</b> Wage subsidies; Self-employment assistance; Start-up grants	<b>Public employment</b>
<b>Government cost</b>	Low	Medium / high	High	High
<b>Short-run effect</b>	Positive	Negative	Positive	Positive
<b>Long-run effect (best case)</b>	Small positive	Large positive	Small positive	Zero to small positive
<b>Long-run effect (worst case)</b>	Small negative	Small negative	Negative	Large negative
<b>Displacement</b>	Medium	Low	High	High

The overall assessment of the evidence shows that the effectiveness and time profile of impacts depend very much on the type of programme. Whereas activating “work first” style job-search assistance and sanction/threat programmes tends to have larger short-term effects, human capital-style training and private-sector employment subsidies programmes have small short-term impacts but larger gains in the medium or longer run. Public-sector employment programmes have negligible or even negative programme impacts at all time horizons. Most countries struggle to provide effective programmes for young people or people with health conditions and disabilities.

The OECD supports the use of ALMP as a way of reducing unemployment, but it has a number of key findings that it recommends be considered when designing a programme. These are as follows:

- a. *Job-search monitoring and verification can have a considerable impact on re-employment rates*, and most OECD countries now have explicit job-search reporting procedures (and most are verifying job search as well).
- b. *Job-search assistance through intensive counselling interviews needs to be of high quality*. While early and frequent meetings with job seekers have been identified as an efficient way of assisting job seekers, a growing body of evidence emphasises the need for personalised services, a work-first approach but with a preference for stable jobs where possible, and selective referrals to full-time (e.g., training or job-creation) programmes.
- c. *Strong job matching services for employers are important*. A vacancy database, referrals of appropriate candidates, and specialist services for employers all help with job matching.
- d. *ALMPs that involve people in full-time activities play a constructive role when used judiciously*. Broadly targeted programmes can implement offers of places to all long-term unemployed, which can promote *motivation* and *opportunity*. Work experience and labour market training improve *employability*.<sup>8</sup>

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8 This is a summary of Chapter 3: Activation policies for more inclusive labour markets, OECD, 2015.

## Active labour market policies need to be well designed and implemented to avoid unintended effects

Johri et al also identify a number of adverse outcomes that may arise from poorly designed ALMPs (i.e., government failures). These are as follows:

**Distorting incentives:** *For example, providing wage subsidies to job seekers might encourage firms to hire the subsidised job seeker at the expense of another job seeker who would have gained the employment in the absence of the assistance (this is known as substitution). Assisting job seekers might also discourage them from retraining or moving to new locations even though in the long-run these would be better solutions.*

**Reducing efficiency:** *Competitive labour and product markets are assumed to lead to an efficient allocation of resources and jobs. ALMPs, by distorting price signals to encourage more equity, can reduce overall efficiency.*

**Targeting issues:** *ALMPs typically subsidise activities that many individuals would have undertaken on their own given that the most motivated (and employable) unemployed are the most likely to take up programmes such as those offering training.*

**Gross and net additionality of jobs:** *ALMPs do not necessarily result in a gross addition to jobs, although the evidence suggests that some programmes do get some participants into employment. At the net level, the 'lump-of-labour' concept (that ALMPS just shuffle job seekers among a fixed number of jobs) has now been rejected, with evidence that "the number of jobs responds quite quickly to the effective supply of labour".*

**Reducing cost effectiveness:** *Even if ALMPs lead to gross and net additionality, their fiscal cost can be very high, raising doubts about their overall effectiveness in a cost-benefit sense.<sup>9</sup>*

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9 Johri et al, 2004.

## Active labour market policies are usually part of a wider activation strategy

The consensus approach to ALMPs has shifted over several decades from a narrow focus on programme types to an integrated view of programmes, income support, and labour market/employment policy (“activation strategies”). Conditionality is the key policy link between ALMPs and income support. This is reflected in the OECD’s definition. According to the OECD, activation strategies aim to:

*...bring more people into the effective labour force, to counteract the potentially negative effects of unemployment and related benefits on work incentives by enforcing their conditionality on active job search and participation in measures to improve employability, and to manage employment services and other labour market measures so that they effectively promote and assist the return to work.*<sup>10, 11</sup>

This definition reflects a gradual conceptual widening to embrace not just ALMPs themselves, but also the design of income support payments (especially work incentives), and linking ALMPs and income support through conditionality (work obligations and sanctions).<sup>12</sup> The term “active” in ALMP is used in contrast to the so-called “passive” policy of providing income support.

The OECD proposes an ALMP framework with three key building blocks. These building blocks reflect the OECD’s multifaceted view of ALMPs:

*...activation policies draw on many tools that can be assembled in different ways, the overall package needs to maintain the motivation of jobseekers to actively pursue employment while also improving their employability and expanding their opportunities to be placed and retained in appropriate jobs. The implementation of these three elements – motivation, employability and opportunity – has to be managed by effective and efficient labour market institutions and policies, which are the keystone of any successful activation strategy.*<sup>13</sup>

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10 OECD, 2013.

11 The OECD uses a narrower definition for the purpose of measuring ALMP spending, but still with a clear focus on people who are out of work:

*Active labour market programmes includes all social expenditure (other than education) which is aimed at the improvement of the beneficiaries’ prospect of finding gainful employment or to otherwise increase their earnings capacity. This category includes spending on public employment services and administration, labour market training, special programmes for youth when in transition from school to work, labour market programmes to provide or promote employment for unemployed and other persons (excluding young and disabled persons) and special programmes for the disabled. (An Interpretive Guide to the OECD Social Expenditure Database (SOCX), OECD, page 15. <https://stats.oecd.org/glossary/detail.asp?ID=28> )*

12 Martin, 2014; Kluve, 2016; Roed, 2012; OECD, 2015.

13 OECD, 2015.

## Interfaces: Active labour market policies interface with other policy systems that also contribute to higher employment and higher wages

A number of significant policy systems and services beyond ALMPs promote higher levels of employment, and higher wages. These 'interface' areas include labour market regulation, tax policy, health services, housing, the education and training system, and the criminal justice system. How well these interfaces perform influences the flows into and out of unemployment, and hence the demand for ALMPs.

Significantly better performance in these sectors – especially health, education, and training – would reduce the demand for ALMPs (and welfare) and boost the effectiveness of ALMPs for people who need them. A more effective schooling system, for example, would mean people are much better prepared to engage in the labour market and less likely to need support from ALMPs or to become dependent on welfare benefits. Earlier mental health support could improve a person's prospects of remaining in employment.

Prevention is better for individual wellbeing and likely to cost society much less, especially given the modest effectiveness of ALMPs. The OECD's latest *Jobs Strategy* nests ALMPs within a larger employment paradigm focused on preventing labour market exclusion and protecting individuals against labour market risks. The *Jobs Strategy* describes its preventive philosophy as follows:

*The best way of promoting an inclusive labour market is by addressing problems before they arise. This means that a shift in emphasis is required from remedial to preventive policies. This enables workers to avoid many of the social and financial costs associated with labour market risks – such as unemployment, sickness and disability – contributes directly to economic growth by expanding opportunities for workers, and alleviates fiscal pressures by reducing the overall costs of social programmes. Such an approach could therefore boost efficiency and equity at the same time.<sup>14</sup>*

The key elements of the preventive approach include:

- *strengthening equality of opportunities so that socio-economic background does not act as a key determinant of success in the labour market*
- *tackling barriers to the acquisition of adequate levels of education and labour market skills by individuals from disadvantaged backgrounds, through targeted interventions during (pre-)school years and in the transition from school to work*
- *providing continuous opportunities to develop, maintain and upgrade skills through learning and training at all ages*
- *making it easier to combine work, care and social responsibilities and preventing the development of work-related health problems*

The income support function of the welfare system clearly has an important role to play in some of these elements.

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14 OECD, 2018.

In summary, prevention is much better than cure. As Calmfors concludes, “most countries in Western Europe could do better with more active programmes – if carefully designed – but not a lot better. The proper perspective appears to be to view ALMPs as only one ingredient of many in a general programme against unemployment. ALMPs can be a complement but not a substitute to other measures.”<sup>15</sup>

However, since prevention will not always work, the OECD’s 2018 *Jobs Strategy* notes that a critical role remains for ALMP. The OECD’s approach to ALMPs remains consistent with its earlier advice – namely a strong focus on incentives and expectations to work, combined with practical and financial support to do so:

*A preventive approach cannot avoid that some people fall through the cracks. As suggested by the 2006 OECD Jobs Strategy, activation measures, wage-setting rules and the tax-and-benefits system can be combined to make work pay and handle individual shocks by protecting workers rather than jobs, so that the required adaptability of the labour market is not jeopardised. In this way, the protection of workers against labour market risks and exclusion can be achieved by supporting and accompanying job-seekers towards new economic activities, conditional on individual commitment and job-search efforts (the so-called “mutual-obligations” framework).*

*Previous Jobs Strategies have pointed to the need to ensure that unemployment, disability and other social benefits do not unduly discourage active job search. Recent evidence suggests, however, that reaching a high coverage of unemployment, disability and social assistance benefits, conditional on the rigorous enforcement of mutual obligations, plays a pivotal role in the success of activation strategies, because it provides a key instrument for connecting with jobless people. This also means extending the reach of social protection to new forms of work as much as possible.*<sup>16</sup>

These distinctions between ALMPs on the one hand and a wider prevention-focused labour and employment policy on the other suggest one possible way of defining the specific roles of the welfare system and the roles of the public employment service within that.

In addition to the desirability of prevention, early response, and high-quality services, we could also add effective *post-placement support*. This appears to be a standard service offering among private employment agencies (who may hold government contracts),<sup>17</sup> but seems less common amongst public sector employment services (although there are examples within New Zealand’s ALMPs). The multiple work barriers faced by many beneficiaries, and their often tenuous links to the labour market, suggest that post-placement support could be particularly useful for this group of workers, especially those with a high probability of returning to benefit. The evaluation of MSD’s in-work support trial was relatively inconclusive (though highly valued by participants). There appears to be a good case to continue systematically refining and evaluating this service.<sup>18</sup>

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15 Calmfors, 1994.

16 OECD, 2018.

17 See for example: the Nelson employment specialist service Employable at: <http://www.workstar.co.nz/about-us> or the Australian-based WISE Employment at: <https://wiseemployment.com.au/post-placement-support/>

18 Ministry of Social Development, 2018b.

**There are choices about service design**

These interface policies and services, which are not part of the welfare system, are targeted towards a wider range of people than just those who are currently reliant on welfare for income support. At the same time, there can be choices as to where to place the interfaces between welfare and these other policy systems. For example, the scope of services offered by a public employment service can be wide or narrow (e.g., the public employment service could offer career services for anyone or only for people reliant on income support). There is also overlap between sectors. The public employment service could, for example, place an unemployed person into a mainstream tertiary education programme. The important point is to coordinate across government and others to ensure appropriate coverage and effective services for those who need them. The service also needs to decide carefully where and when to invest.

Annexes 2 and 3 discuss the interfaces with the welfare system in more detail.

## While the New Zealand labour market generally performs well, there are also significant weaknesses

The design and availability of ALMPs should match national and regional needs. High levels of long-term unemployment, for example, suggest a need for high levels of active labour market spending, targeted towards the needs of particular groups, in the regions where those groups are located.

### **New Zealand's labour market, in aggregate, performs well**

New Zealand has among the highest rates of participation and our workforce is highly skilled compared with other OECD countries.<sup>19</sup> Most people transition successfully from the education and training system to employment, and there is a wide range of low-cost or free education and training support available, especially for young people who leave school without qualifications.

New Zealand's labour market is usually considered to be highly dynamic with substantial movement between jobs and between industries, which has enabled those who become unemployed to regain employment, with the result that New Zealand has a very low proportion of long-term unemployed. Levels of up-skilling and retraining by those already in work are amongst the highest in the OECD, and New Zealand has an extensive and highly subsidised further education system that caters for people at all levels, including those who need to gain the equivalent of school-level qualifications.

The economy creates, and destroys, a large number of jobs each year. In the year ending September 2017, on average each quarter 153,193 jobs were created, and 136,373 jobs were destroyed.

### **But the labour market also performs poorly in important respects**

New Zealand's productivity performance has been weak over many years.<sup>20</sup> Many commentators are concerned about escalating levels of precarious employment (although as yet the statistics do not indicate this is rising) and the incidence of working poverty, particularly amongst low-skilled households.<sup>21</sup>

Participation rates, unemployment rates, and incomes for youth, Māori and Pacific People are poorer than for the rest of the population. The Māori and Pacific populations are on average younger and are growing more quickly than other ethnic groups. This is a concern not only because of the disparity of outcomes for this group, but, if this gap remains, their outcomes will increasingly influence the average labour market and economic outcomes of New Zealand. Poor labour market performance is especially concentrated in some regions (e.g., Northland, Bay of Plenty, Gisborne / Hawke's Bay).

People with disabilities have very much lower participation and employment rates. Growing numbers of people in the welfare system report health conditions and disabilities that affect their ability to work.

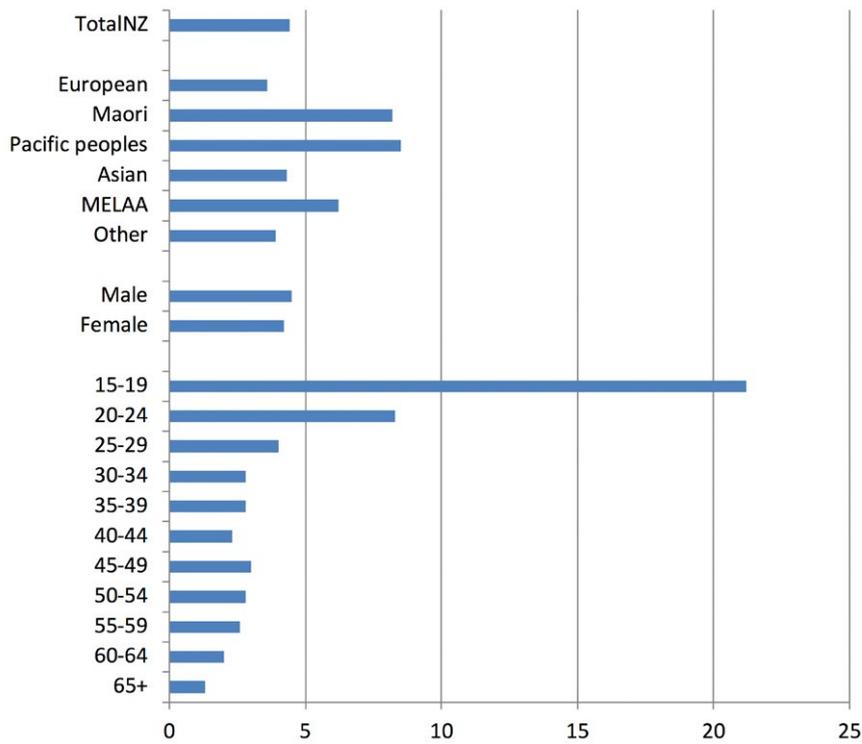
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19 Statistics New Zealand, 2018.

20 Conway, 2018.

21 See for example: Wilson, 2014; New Zealand Council of Trade Unions, 2013.

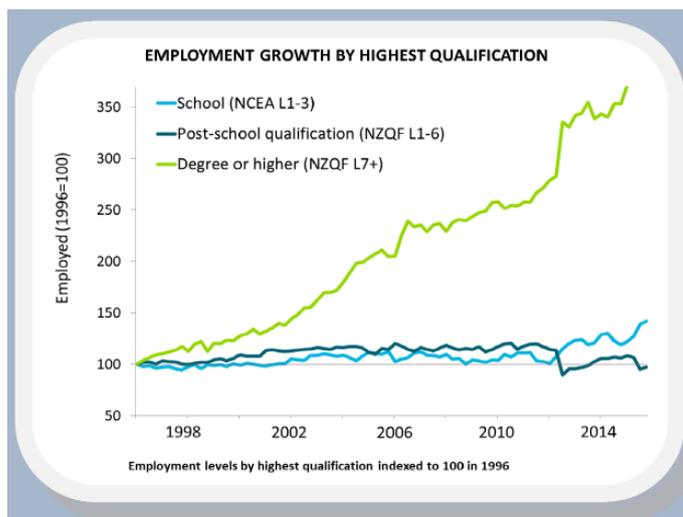
**Figure 2: Unemployment rates (%), December 2018**



The increased incidence of mental health conditions and the long-standing disparities in Māori and Pacific People employment reflect a complex set of drivers beyond the direct reach of ALMPs, although they can help.

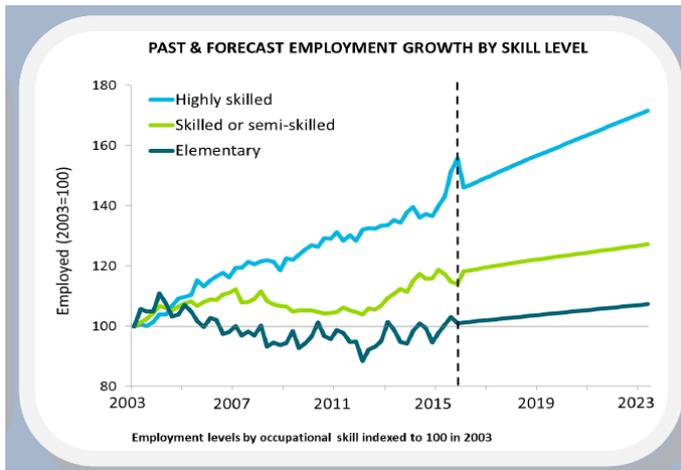
As Figure 3 below, and Figure 4 on the following page indicate, skills are increasingly important to labour market participation. This highlights the importance of an effective education and training system and the risks to people who do not succeed in education and training.<sup>22</sup>

**Figure 3: Employment growth by highest qualification**



22 Cleland, et al, 2016.

**Figure 4: Past and forecast employment growth by skill level**



**Source:** Cleland et al, 2016.

### **Government policy has a significant impact on the labour market**

The Government influences the supply of skills and labour principally through the education, immigration, and welfare systems. The Government also influences labour market performance through various regulatory interventions that affect conditions of work.

New Zealand’s policy settings encourage a high level of flexibility and labour market dynamism. The relatively high – and rising – minimum wage is one area where our employment protection is greater than most other OECD countries. The OECD has recently recommended that New Zealand enhance the availability of employment and welfare support for displaced workers.<sup>23</sup>

Government investments in economic development, such as the Provincial Growth Fund, influence the demand for labour, especially in the low growth / high unemployment areas that are the focus of economic development initiatives.

### **Active labour market policies should be flexible to changing labour market conditions**

Labour markets change in response to many influences, some of which are poorly understood. Those influences – such as the changing industrial structure, economic cycles, population change, regulatory changes, automation, levels of casualisation – can create opportunities for some groups of workers and risks for others.

Four global ‘mega trends’ are often identified. They are as follows:

- Technology – particularly digital technology, artificial intelligence (AI), big data analytics, automation
- Globalisation (and a recent surge of anti-globalisation sentiment)
- Demographics – ageing, urbanisation, mobility of younger skilled workers
- Climate change – impact of change itself and mitigation strategies.<sup>24</sup>

Globalisation and technological change are often cited as posing risks to the availability and stability of employment.

23 OECD, 2017a.

24 Ministry of Business, Innovation & Employment, 2018.

Over the 20-year horizon of the WEAG’s advice, the nature of work could change substantially as a result of the four mega trends. In the most dramatic scenario, adverse impacts arising from such changes could include increased displacement and structural unemployment, precarity, and income inequality. While these impacts are highly uncertain, some impacts are more likely than others. For example, partial job content change is more likely than the mass automation of jobs and consequent structural unemployment. Precarious employment may be more amenable to regulatory responses that protect workers.

There is little evidence of these trends occurring in New Zealand. We are not yet seeing a significant increase in non-standard employment or structural unemployment. However, that does not prevent us thinking about responses to these potential challenges and opportunities. Such responses should employ the most appropriate levers and should be proportionate to the risk.

For the welfare system, the possible adverse impacts of the changing nature of work suggest the desirability of:

- *income support systems* that are responsive to frequent, unpredictable changes in earnings; and
- *employment services* that are effective in enabling transitions.

In essence, if the future of work is more flexible, then the future welfare system needs to be more flexible, too. This is an evaluative criterion that can be applied across the WEAG’s recommendations more broadly to help test whether they are future-proof.

The range of *specific* response choices is wide. In a context of uncertainty, a pragmatic approach is to avoid predictions and matching policy responses and instead to adopt those responses likely to add value in any future work scenario (and that may improve income and employment security, as well as perhaps productivity, for today’s workers), while keeping more radical responses in reserve should they be needed.

Also desirable are policy options that create the maximum flexibility to address change. In particular, it is increasingly important that the school system address its underperformance with key groups so that no young people are entering adulthood with low literacy and numeracy skills.

# Active labour market policies in New Zealand: Funding and services, operating models, programme effectiveness, client outcomes

MSD leads ALMP design and delivery. MSD's ALMP services focus primarily on people who are also receiving unemployment income support from MSD, but there is also some support for people who are at risk of becoming reliant on income support, such as young people at risk of entering the benefit system. MSD deploys a range of ALMPs, with the core of its service focused on a range of case-management streams and contracted employment services.

MSD invests in all three main types of ALMPs. For the 2017/18 financial year, spending was broken down as follows:

- Job brokering (including wage subsidies): \$145 million
- Labour market training (work readiness): \$25 million
- Direct job creation: \$9 million.

MSD invests a further \$87 million in case management that directly supports employment outcomes, \$200 million in CCA, and \$167 million in income support case management.<sup>25</sup>

MSD offers a wide range of employment assistance programmes and services. Annex 1 shows intervention expenditure (in '000s) by financial year, including discontinued services. MSD's *Cost Effectiveness Report*<sup>26</sup> describes the nature of each specific intervention. Of the interventions that could be rated for effectiveness, 72% of those delivered in 2016/17 were deemed "effective or promising". The proportion of effective programmes has been falling over time. Annex 2 summarises the latest cost-effectiveness report.

The main parliamentary appropriation that funds employment services is the Improved Employment and Social Outcomes Multi-Category appropriation. This appropriation provided \$662 million in the 2017/18 financial year and \$688 million in the current financial year. This funding excludes benefit payments. These are appropriated separately.

As Figure 5 to follow illustrates,<sup>27</sup> the appropriation funds three categories of activity: administering income support (\$266 million), improving employment outcomes (\$309 million), and improving work readiness (\$86 million):

- Administering income support is limited to assessing, paying, reviewing entitlements and collecting balances owed by clients for income support, supplementary assistance, grants, and allowances.
- Improving employment outcomes is limited to supporting people who are receiving or are likely to receive working-age benefits or youth-support payments and are ready to move into sustainable employment.
- Improving work readiness outcomes is limited to addressing barriers to employment (such as poor literacy, numeracy, health, or skills; drug or alcohol use; or lack of confidence and motivation) for people who are receiving or are likely to receive working-age benefits or youth-support payments so they can become work ready.

Spending on the latter two categories is evenly split between internally provided services (such as most case management) and contracted services. MSD works with 940 providers.

MSD has a high level of discretion to apportion this funding to income support and employment services and to allocate clients to those employment services. The purpose of this high level of discretion is to enable MSD to allocate resources where they will have the best effect, based

25 These funding amounts exclude indirect or overhead costs.

26 Ministry of Social Development, 2019.

27 For the 2017/18 financial year.

on evidence of effectiveness. The apportionment of funding to services is influenced in part through the annual *Employment and Social Outcomes Investment Strategy*.<sup>28</sup> The strategy is informed by, inter alia, the results of programme evaluations (published in the annual *Cost Effectiveness Report*), and benefit population valuations (published as the annual *Benefit System Performance Report*).<sup>29</sup> Both provide a rich source of information on the effectiveness of MSD’s services and the clients for whom these services are provided.

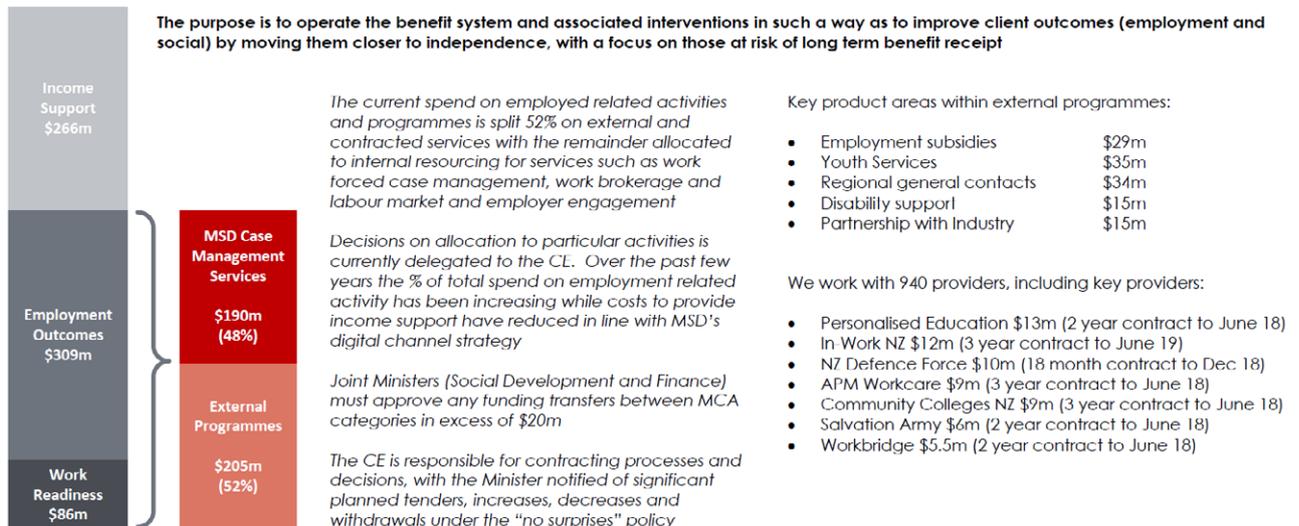
Experience both in New Zealand and overseas has shown that the effectiveness of these programmes is not primarily determined by the level of expenditure and that to create an effective system it is important to continuously monitor what works for different people and different groups and constantly adjust the programme towards more effective interventions.

MSD has invested substantially in trialling new approaches in recent years. A number of trials are currently underway, many of which are focused on specific client groups, especially people with health conditions and disabilities.

Annex 5 shows spending on ALMPs in New Zealand compared with in other OECD countries.

**Figure 5: Improved employment and social outcomes Multi-Class Appropriation**

**Improved Employment and Social Outcomes MCA \$662m**



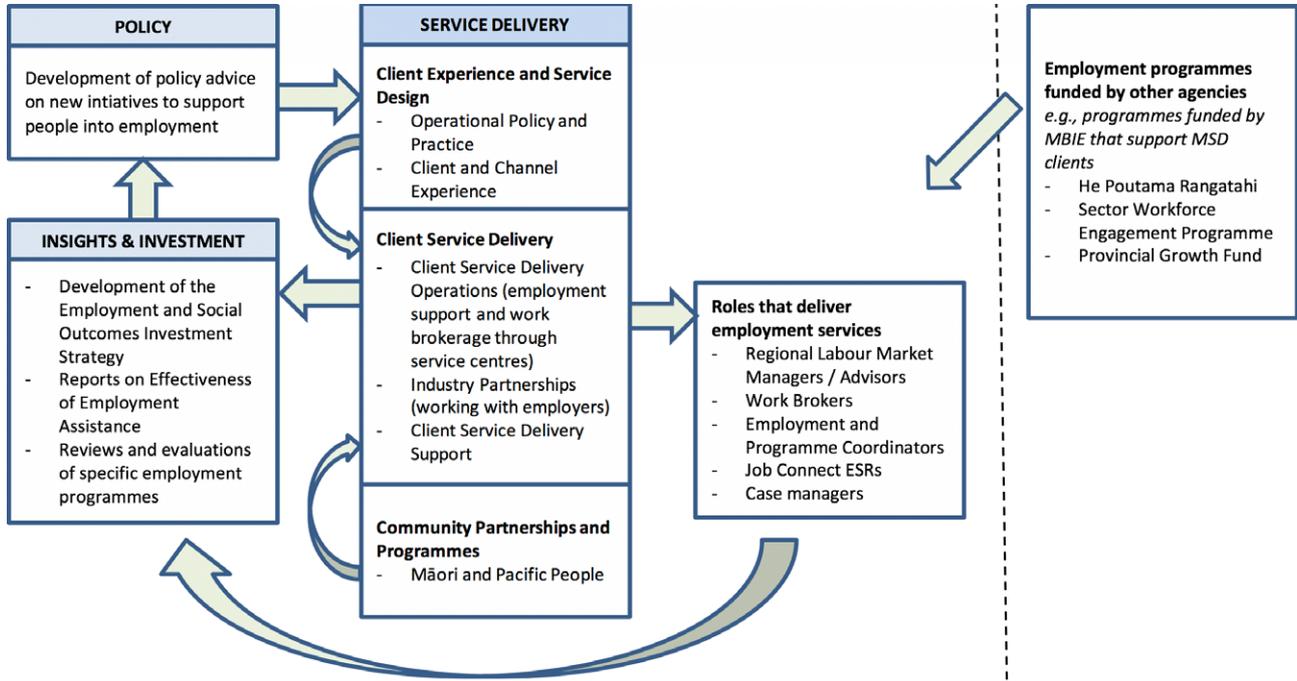
28 See Ministry of Social Development 2018a.

29 See Ministry of Social Development 2019 and 2018d respectively.

## The Ministry of Social Development's employment services operating model

Figure 6 illustrates MSD's employment services operating model.

**Figure 6: The Ministry of Social Development's employment services operating mode**



As the table below shows, MSD employs 369 staff in employment-specialist positions, in addition to more than 600 case managers.

Title and Description	Number
<b>Industry Partnerships</b> Industry Partnerships deliver an account management service to large employers for employment outcome training.	<b>10</b>
<b>Regional Labour Market Managers</b> <b>Regional Labour Market Advisors</b>	<b>10</b> <b>15</b>
Regional Labour Market Managers provide support to Work Brokers, case managers, regional staff, and contracted providers who support the local needs of clients and employers.	
<b>Work Brokers</b> Work Brokers support clients into employment through vacancies registered with Work and Income, profiling clients to employers and administering wage subsidies	<b>187</b>
<b>Employment Coordinator</b> <b>Programme Coordinator</b>	<b>39</b> <b>50</b>
Employment and Programme Coordinators provide support to clients with training and up-skilling needs through MSD funded contracts and/or externally provided courses.	
<b>Job Connect Contact Centre staff</b> The Job Connect Contact Centre is a centralised matching service for vacancies registered with Work and Income or jobs that are subject to a labour market test through Immigration New Zealand.	<b>58</b>
	<b>369</b>

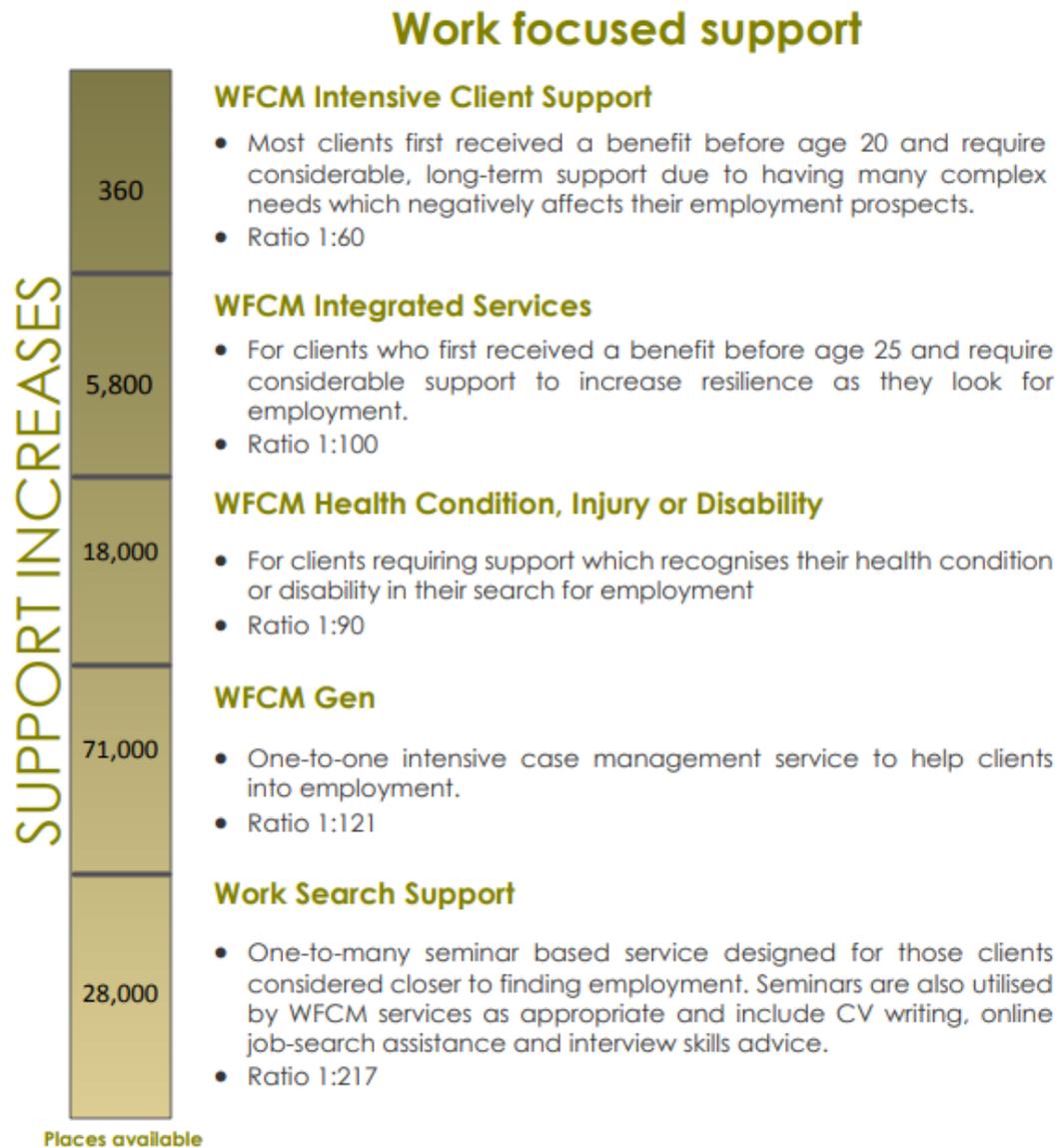
## **Employment services are closely integrated with income support services**

Since the merger of the former Income Support Service and the New Zealand Employment Service into the Department of Work and Income, employment and income services have been delivered together. Case managers deliver both services, with support from Work Brokers and other specialists. While this offers the advantage of providing a 'one-stop shop' for income support and employment services, a recent spike in client demand for income support has placed pressures on case managers' time, leaving employment support as a poor cousin. The Ministry's Deputy Chief Executive for Service Delivery leads the provision of both employment and income support services.

From July 2013, as part of the Government's investment approach, people receiving income support assistance have been allocated to a specific case management service. These services vary by both level and make-up of the caseload. Those who require a higher level of support receive a more intensive case management service, with some case managers specialising in delivering services to certain groups (e.g., those with a health condition or disability). Within each service, case managers are responsible for maintaining people's income support entitlements as well as helping people move into employment. Figure 7 to follow illustrates MSD's case management model. A very large group of clients – around 214,000 – are supported by MSD's General Case Management Service and do not have an assigned case manager, such as Supported Living Payment clients. People in this category are eligible for employment services but do not receive these proactively. Instead, the focus is on income support.

There is evidence that the increased demand for hardship services has resulted in case managers having less time to provide employment services and the numbers presented in Figure 7 are not currently being achieved. In some areas, work-focused case management general staff should, on average, spend 80% of their time on proactive case management. However, this has declined to around 20% in some locations due to the demand for more assistance around obtaining food and housing. It is difficult to assess the long-term impacts from this change, but MSD believes it will be significant.

Figure 7: Work-focused support



### General Case Management and customer service

- This service predominately supports clients with financial needs but also can help clients who would like support with their job search or referral to a more intensive service.

### Relative to the Government’s vision, employment services achieve very mixed results

The Government’s vision is for a welfare system that ensures good transitions to meaningful and sustainable employment and that improves outcomes for groups of people disproportionately impacted by negative social outcomes, such as Māori, Pacific People, youth, disabled people, and people with health conditions.

Relative to the Government’s vision, **employment services achieve very mixed results**, although this also reflects the inherent limitations of ALMPs and dependencies on the interfacing policy areas. People leaving the benefit system tend to exit into low-paying employment with poor

prospects. A substantial number of people cycle on and off benefit reliance, and an even greater number remain reliant on benefits for extended periods. Outcomes for Māori are particularly poor.<sup>30</sup>

Welfare policy has become much more focused on activation in recent years, especially following the strongly work-focused 2011/12 welfare reforms. While the reforms contributed to a substantial reduction in the number of sole parents receiving income support, they had little impact on other key groups, notably Māori, people with health conditions and disabilities, and especially Supported Living Payment recipients who comprise around a quarter of the beneficiary population and can be reliant on income support indefinitely. These are the key groups the Government has identified as priorities for better employment outcomes.

*It is useful to distinguish between people who spend brief periods of time reliant on benefits, people who cycle repeatedly on and off benefits, and people who spend extended periods reliant on benefits*

The 2017 *Benefit System Performance Report*<sup>31</sup> identifies three loose client groups who spend varying periods of time reliant on benefits. These groupings help to suggest where to focus employment interventions, and where interventions need to be more effective.

- **Short-termers:** People who have a short-term need for main benefit support, perhaps because they have been made redundant from their jobs or have a temporary health condition. They may need some support to find alternative employment but can broadly manage themselves. They have a relatively low likelihood of needing main benefit support again in the near future.
- **Cycling clients:** People who cycle in and out of the benefit system. They have, or will have, a number of spells receiving a main benefit. Their employment history may be characterised by relatively low-skilled employment through temporary or casual contracts. Or perhaps they have recurring health issues that limit their ability to work at times.<sup>32</sup>
- **Sustained-needs clients:** People who have a long-term sustained need for main benefit support, perhaps because of permanent health conditions and/or other significant barriers to employment.

As the table below shows, the short-termers are the largest category, but the cycling and sustained-needs categories are larger in aggregate. The so-called short-termers also spend a substantial period of time on benefit, on average.

**Table: Client numbers and future years on a main benefit by client groups**

Key Cohort	Client numbers	Future expected years on main benefit
Short-termers	223,292	3.6
Cycling	140,841	9.9
Sustained needs	173,411	11.2

30 This section draws heavily on the 2017 *Benefit System Performance Report* (Ministry of Social Development, 2018d).

31 Ministry of Social Development, 2018d.

32 The definition of cycling clients captures people whose current benefit spell is less than one year and who have had two other benefit spells in the last three years.

## **People may cycle in and out of the benefit system for a range of reasons, such as the nature of their employment, family commitments, or their health status**

Common examples of people who cycle in and out of the benefit system are as follows:

- Seasonal workers, who perhaps work consistent seasons (such as fruit picking or freezing works) each year and/or move from one type of seasonal work to the next
- Temporary workers, who work temporary and/or casual work contracts where the number of hours may be uncertain from week to week (noting that around 11% of all jobs are temporary)
- Displaced workers, who may have a long history in a particular industry and/or using particular skills that have declined in demand. They may struggle to hold down employment in industries they are not familiar with.

About 20% of JS-WR<sup>33</sup> clients, 10% of JS-HCD<sup>34</sup> clients and 5% of SPS<sup>35</sup> clients fit the cycling definition. As the *Benefit System Performance Report* notes, while it is understandable that people need income support when their temporary jobs come to an end, ideally they would receive employment support that leads to permanent and higher-paid work over time.<sup>36</sup>

The average spend on clients who cycle in and out of the benefit system is about twice that of other clients. While a certain amount of this spending reflects income support administration, the spending on employment-related services does not appear to be effective, or efficient.

Young, male Māori living in the East Coast, Bay of Plenty, and Southern regions are the people most likely to cycle in and out of the benefit system. Benefit history, criminal convictions, past interaction with child protection services, and education status are key factors in predicting re-entry into the benefit system.

## **People in the sustained-needs category are likely either to have complex needs or severe health conditions**

Sustained-needs clients comprise a range of people who have received welfare support for an extended period and are likely to continue to do so. Extended periods out of work increase the challenge of returning to work as skills atrophy. A significant number of such clients are recipients of the Supported Living Payment, whose health and disability conditions are such that they do not have any work obligations, and current policy settings create barriers for them to work. Other people in this group have highly complex needs and often span multiple government services. A high level of investment and coordination across government may be necessary to support these people to work.

## **Māori are over-represented in the benefit system and are expected to spend more time receiving a benefit than other ethnicities**

Māori also feature prominently in the 'cycling' and long-term client populations. They represent about 15% of the general population and about 35% of main benefit clients. The degree of over-representation has only increased since the global financial crisis. In 2007, 30% of main benefit clients were Māori, as was the case for many years beforehand.

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33 JS-WR means Jobseeker Support – Work Ready.

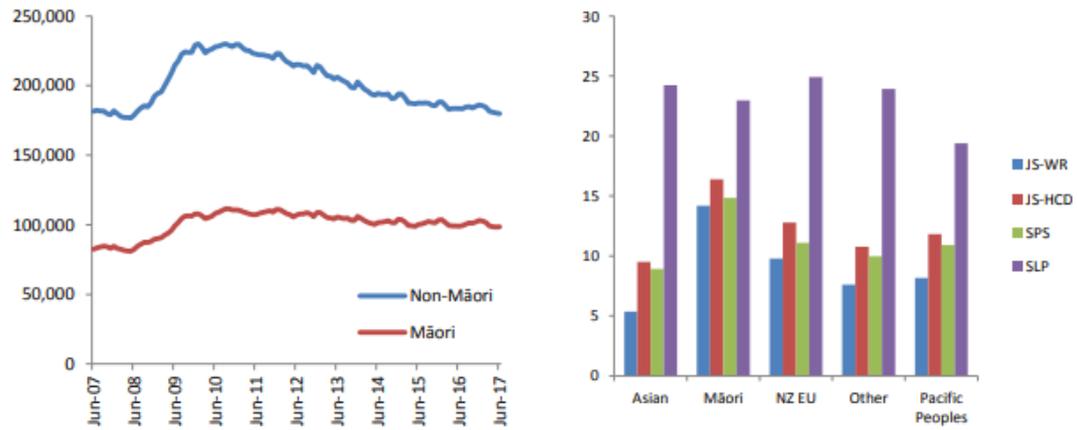
34 JS-HCD means Jobseeker – Health Condition or Disability.

35 SPS means Sole Parent Support.

36 Ministry of Social Development, 2018d.

As Figure 8 below indicates, since 2009, the number of non-Māori clients has fallen by 22%, while the number of Māori clients has fallen by only 9%. This suggests that MSD should consider innovative ways to support more Māori to enter and remain in employment.

**Figure 8: Māori representation in the benefit system**

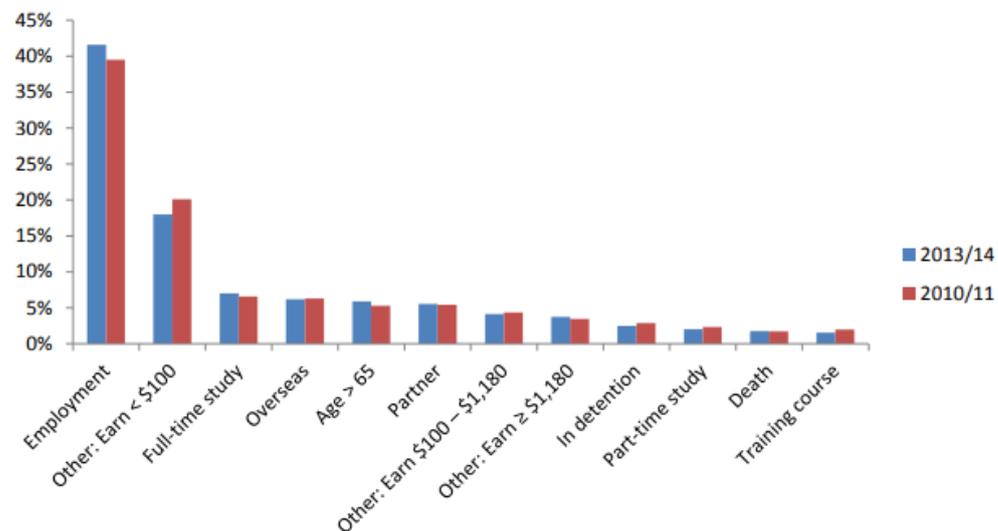


**Note:** JS-WR = Jobseeker Support – Work Ready; JS-HCD = Jobseeker Support – Health Condition or Disability; SPS = Sole Parent Support; SLP = Supported Living Payment.

**While most people who stop receiving a benefit enter employment, their incomes are generally low, and a high number return to benefit reliance. Similarly, a high number of people who exit a benefit to enter training or education also return to receiving a benefit.**

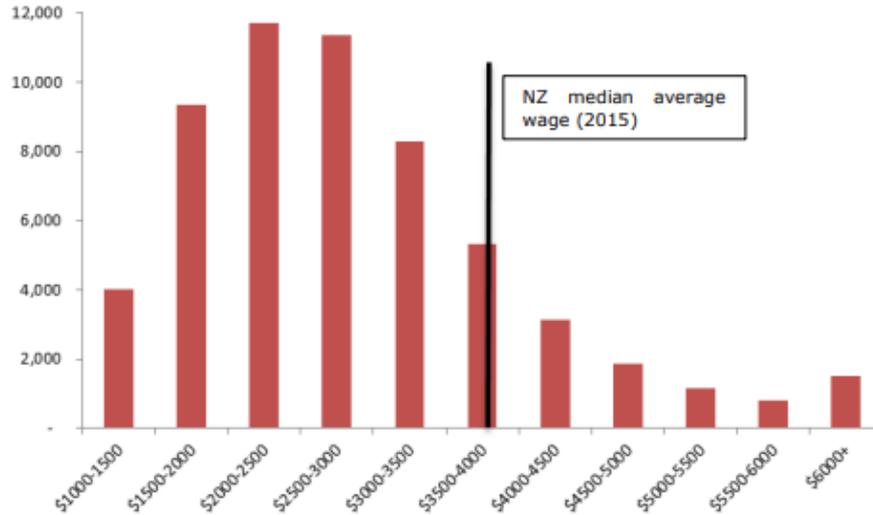
People stop receiving a main benefit for a variety of reasons. While employment is the most common reason, more than half stop for other reasons.

**Figure 9: Reason for ceasing to receive a main benefit**



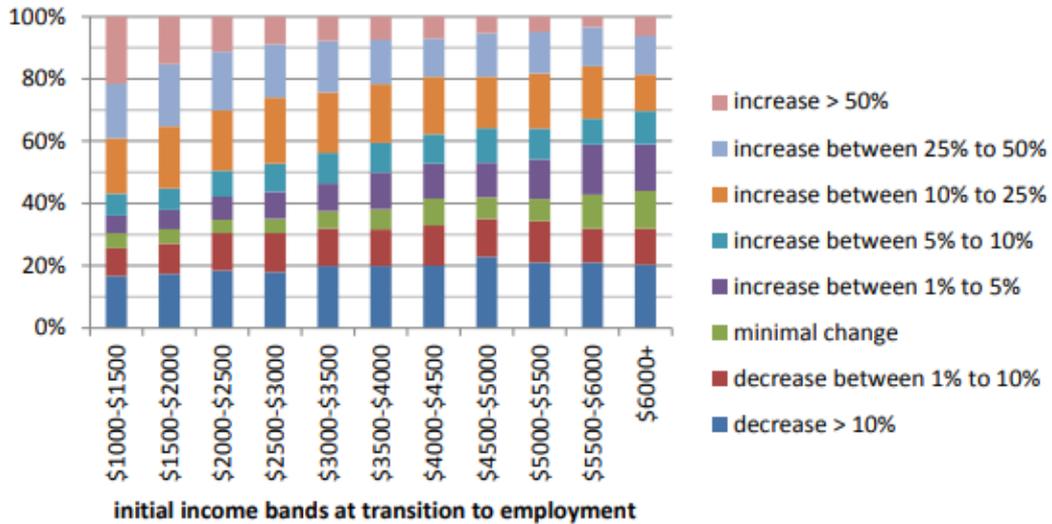
Former main benefit clients' taxable income is relatively low.

**Figure 10: Initial taxable monthly income for those ceasing to receive a main benefit due to employment**



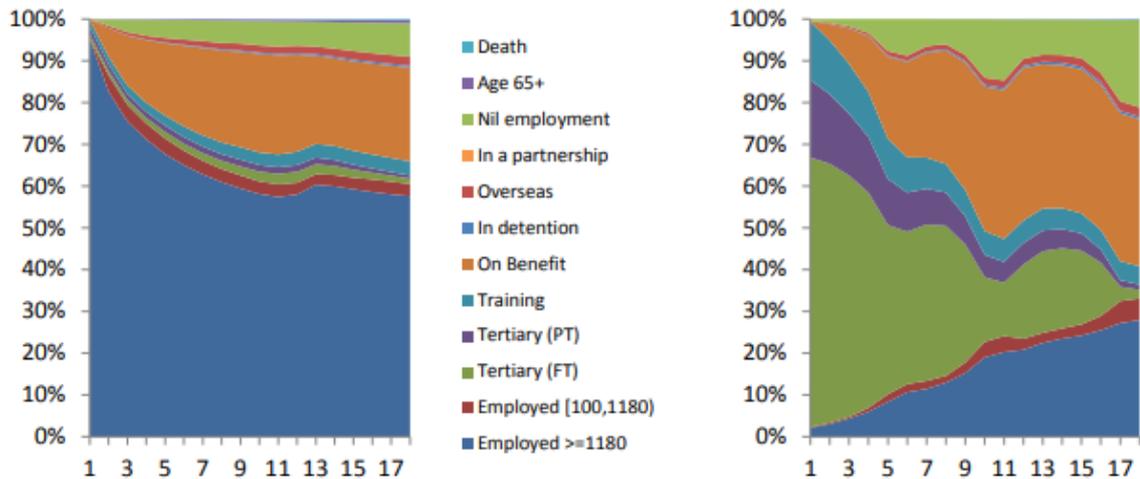
69% of those who sustain employment for the 18 months increased their taxable income in line with or by more than inflation.

**Figure 11: Taxable income growth over 18 months for those sustaining employment for the full 18 months (2013/14 exits), by initial taxable income band**



18 months after ceasing to receive a main benefit due to substantial employment, about 58% of people were employed and about 23% were receiving a main benefit.

**Figure 12: Main activity in an 18-month period after ceasing to receive a main benefit due to either substantial employment or study/training (2013/14)**



The right-hand chart in Figure 12 above shows that a substantial number of people who leave benefit for education or training return to benefit within 18 months.

# Strategic direction: The Ministry of Social Development is taking a number of steps to improve its performance as an employment agency

The Ministry of Social Development is taking a number of **steps to improve its role as an employment agency**. These include the following:

- striving to **raise the effectiveness of employment and social outcomes investment**
- embedding and maturing the Employment and Social Outcomes Strategy<sup>37</sup>
- increasing responsiveness to **Māori** and Pacific People through a new team and investment strategy
- increasing **partnerships** with community, iwi, and other providers to deliver employment services
- reviewing the **Youth Service** and trialling new approach to delivering the Youth Service
- increasing the attention and priority given to achieve **sustainable** employment outcomes
- improving connections with **economic development** initiatives (i.e., the demand side of the labour market in target regions).

## Key questions

The main purpose of this paper is to provide context and background on ALMPs in New Zealand. The following questions present possible areas of focus to improve labour market outcomes:

- What is the **appropriate range of employment services** for the welfare system to provide (or fund) relative to other institutions? (Focus only on core services of placement, information provision, other ALMPs or on arranging wider provision/coordination of services, such as health and housing for people facing multiple barriers.)
- What is the **appropriate population focus** for the welfare system relative to other institutions? (Should the core focus be on people who are out of work or should it be a wider focus on people who are at imminent risk of being out of work or an even wider focus on transition support (e.g., high school students/leavers)? Or does this responsibility lie elsewhere?) Are there significant gaps in the population coverage of our employment support system (e.g., displaced workers not receiving income support)?
- Where might there be **significant gaps in the coverage or effectiveness** of ALMPs?
- How effective are the current **organisational and operational arrangements** for the public employment service? (For example, integrated income support and employment services, with case managers providing both income and employment services and largely in-house case management; the level of national relative to regional management of employment strategies.)
- How well positioned are we **if the pace of work-place change were to increase rapidly**, leading to substantial worker displacement? And how great is the role for ALMPs relative to other tools?
- How can ALMPs more effectively support **the most disadvantaged New Zealanders** and especially place these people on a sustainable pathway to good work? Do we need to provide more end-to-end services, following people through to better outcomes? And is it clear what is a good outcome?
- Do the current welfare institutions have sufficient **labour market / employment expertise and information** to deliver effective ALMPs?
- What is the **optimal policy package** of active labour market support, financial support, and conditionality? How does this vary for people in different circumstances? And who decides what is appropriate in individual cases? Is the policy package sufficiently flexible for people whose circumstances (e.g., hours worked) vary often? Does the WEAG support the notion of mutual obligations or rights and duties, and how might the policy package need to change to ensure this support?
- Do we have **sufficient employment support resources** (including funding) for the currently eligible population, noting the rising numbers of people with health conditions and disabilities and relatively low levels of service for most Work and Income clients (i.e., case management services, specialist services for people with health conditions and disabilities, training), and do we have the right mix of support? If further funding were made available, what are the relative population or service priorities for the additional investment? Is there a supplier market ready to respond to increased investment?
- Do we have a sufficiently **clear menu of employment services** (especially those provided through Work and Income) and an understanding of how people become eligible for these services?
- Do we have the right **mechanisms to collect and use data** to inform employment service mix, allocation, and provider choices?
- Does MSD have the **institutional arrangements and discretion** to allocate (invest) resources to achieve the best possible employment and social outcomes?
- To what extent does New Zealand take a **coordinated approach** to welfare and income support policy; employment and labour market policy; and the education, skills, and training system? What tools could enhance coordination?

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## Annex 1: Ministry intervention expenditure (in 000s) by financial year, including discontinued services

Intervention	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
\$3k to Work							\$3,944
3K to Christchurch					\$4,918	\$2,927	
Activity in the Community	\$146	\$1,044	\$238	\$174	\$259	\$284	\$257
Be Your Own Boss	\$486	\$457	\$254	\$370	\$232	\$311	\$349
Business Training and Advice Grant		\$162					\$155
CadetMax	\$1,608						
Careers Guidance and Counselling	\$623	\$429	\$172	\$312	\$264	\$148	\$262
Childcare Subsidy	\$195,573	\$196,629	\$194,917	\$194,738	\$191,755	\$191,332	\$208,809
CommunityMax	\$20,782	\$146					
Course Participation Grant	\$2,480	\$2,557	\$2,904	\$3,504	\$3,279	\$2,886	\$2,649
Driver licence programmes				\$712	\$614	\$382	
Earthquake Support Subsidy	\$9,615						\$17,453
Employment Placement or Assistance Initiative	\$15,696	\$18,849	\$18,891	\$19,385	\$21,919	\$21,917	\$30,095
Employment Workshop	\$5,534	\$2,586	\$1,657				
Enterprise Allowance	\$1,147	\$1,698					
Flexible Childcare Assistance					\$311	\$376	\$334
Flexi-wage (Basic/Plus)			\$31,316	\$37,174	\$36,145	\$39,166	\$29,155
Flexi-wage Project in the Community (subsidy)						\$316	\$1,542
Flexi-wage Self Employment (subsidy)			\$488	\$1,512	\$2,610	\$598	\$2,040
Foundation Focused Training	\$69,225	\$54,695	\$54,825	\$23,003			
General Case Management			\$24,535	\$95,050	\$89,694	\$82,787	\$77,021
Health Interventions				\$104	\$902	\$902	\$1,184
Invalid Benefit Employment Trial	\$116	\$115	\$120				
In-work Support	\$727	\$654	\$240	\$1,199	\$1,013	\$146	\$203
Information Services Initiative					\$226	\$360	\$465
Job for a Local	\$559	\$3,614					
Job Opportunities with Training		\$16,794					
Job Ops	\$25,117						
Job Preparation Programme	\$290	\$1,387					
Job Search Initiatives	\$3,582	\$2,710	\$3,422	\$3,251	\$3,642	\$5,826	\$4,466
Jobseeker Support – Health Condition or Disability 52 week reapplication	\$579	\$5,181	\$5,791	\$7,145	\$7,440	\$7,551	\$8,020

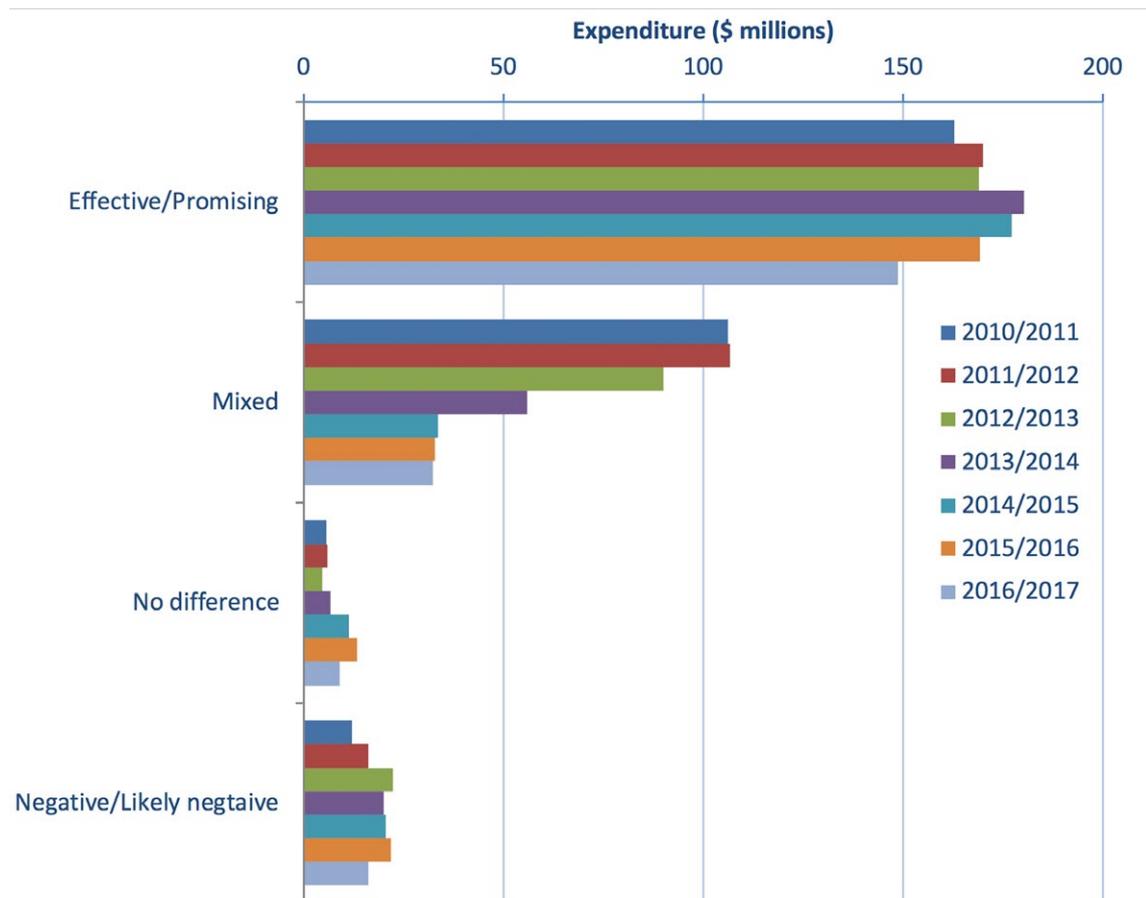
Intervention	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Jobseeker Support – Work Ready 52 week benefit reapplication	\$6,480	\$9,698	\$10,003	\$10,754	\$11,670	\$11,306	\$11,480
Jobs with a Future	\$1,743						
Limited Services Volunteer	\$11,453	\$10,325	\$7,975	\$8,787	\$8,726	\$5,060	\$5,482
Literacy/Numeracy	\$156	\$237	\$139				
Local Industry Partnerships	\$4,170	\$502	\$116				
Mainstream Employment Programme	\$3,583	\$4,189	\$4,521	\$3,573	\$385	\$573	\$3,034
Mental Health Coordination				\$749			
Mental Health Employment Service Trial				\$1,626	\$4,236	\$2,706	
Migrant Employment Assistance	\$762	\$764	\$723	\$764	\$782	\$782	\$725
New Employment Transition Grant		\$146	\$139	\$155	\$170	\$174	\$188
New Initiative	\$303	\$245	\$116	\$193	\$463	\$1,317	\$2,093
New Zealand Seasonal Work Scheme					\$148	\$393	\$325
Out of School Care and Recreation (OSCAR) Provider Assistance	\$17,764	\$19,125	\$16,795	\$19,396	\$18,188	\$18,124	\$17,779
Outward Bound	\$586	\$713	\$667	\$693	\$731	\$190	\$150
PATHS	\$3,250	\$3,689	\$3,157	\$2,036	\$2,030	\$1,442	
Preparing for Work		\$277	\$230				
Recruitment Seminar	\$579	\$1,243	\$1,308				
Seasonal Work Assistance	\$453	\$451	\$380	\$404	\$359	\$493	\$478
Self-employment Initiative	\$332	\$263	\$104				
Skills for Growth		\$2,303					
Skills for Industry			\$19,478	\$18,230	\$16,990	\$16,691	\$19,609
Skills Investment	\$10,391	\$29,287					
Skills Training	\$261	\$547	\$113				
Sole Parent Employment Service Trial				\$1,962	\$3,597	\$2,953	\$1,661
Sole Parent Support 52 week reapplication						\$3,260	\$13,235
Straight 2 Work	\$7,518	\$12,778					
Supported Living Payment Opt-in Service							\$700
Sustainable Employment Trial				\$134	\$145	\$138	\$137
Taskforce Green	\$1,705	\$4,199					
Training for Work	\$16,319	\$34,260	\$31,009	\$37,690	\$35,861	\$30,179	\$16,757
Training Incentive Allowance	\$10,387	\$6,863	\$5,482	\$4,027	\$3,440	\$2,495	\$1,790
Transition to Work Grant	\$13,640	\$29,470	\$27,283	\$28,726	\$20,961	\$21,082	\$22,138
Vacancy Placement, Full time	\$12,336	\$14,550	\$16,774	\$11,471	\$8,736	\$11,208	\$6,654
Vacancy Placement, Part time	\$4,789	\$5,041	\$7,258	\$5,372	\$3,355	\$3,905	\$2,303

Intervention	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Vocational Services Employment	\$35,219	\$34,919	\$34,379	\$32,176	\$31,894	\$31,856	\$30,980
Work Ability Assessment					\$400	\$659	\$942
Work and Income Seminar	\$4,723	\$5,074	\$4,770	\$1,701	\$1,981	\$1,903	\$1,953
Work Bonus				\$3,566	\$3,515	\$2,980	\$1,953
Work Confidence	\$2,109	\$2,386	\$2,043	\$867	\$1,909	\$2,776	\$1,349
Work Experience	\$477	\$593	\$678	\$310	\$690		
Work-focused Case Management (General)				\$159,453	\$141,910	\$139,692	\$121,462
Work-focused Case Management (pilot)			\$23,849				
Work-focused Case Management for Young SLP					\$109	\$275	\$417
Work-focused Case Management HCD				\$5,901	\$8,933	\$20,129	\$23,266
Work-focused Case Management ICS (Early entrants)						\$243	\$157
Work-focused Case Management ICS (Entrenched)					\$251	\$886	\$680
Work-focused Case Management Integrated Services (IS)				\$9,186	\$10,610	\$9,152	\$9,589
Work-focused Case Management Integrated Services (Nominated)							\$397
Work Preparation Services					\$187	\$275	\$242
Work Search Support				\$64,037	\$58,147	\$44,247	\$46,678
Work Search Support (pilot)			\$25,986				
Work to Wellness							\$1,897
WRK4U	\$5,385	\$5,472	\$5,800	\$5,522	\$5,373	\$5,353	\$5,908
Young Parent Childcare	\$244	\$310					
Youth Seminar		\$2,620	\$1,951	\$187	\$380	\$259	\$557
Youth Service (NEET)			\$18,636	\$20,111	\$20,636	\$21,723	\$16,160
Youth Service (YP)			\$4,267	\$8,570	\$10,295	\$10,271	\$10,641
Youth Service (YPP)			\$3,752	\$5,413	\$5,007	\$4,211	\$4,572
Youth Training	\$191	\$119					
Youth Transitions Services	\$11,816	\$13,175	\$229				

## Annex 2: Effectiveness of MSD Employment Assistance programmes

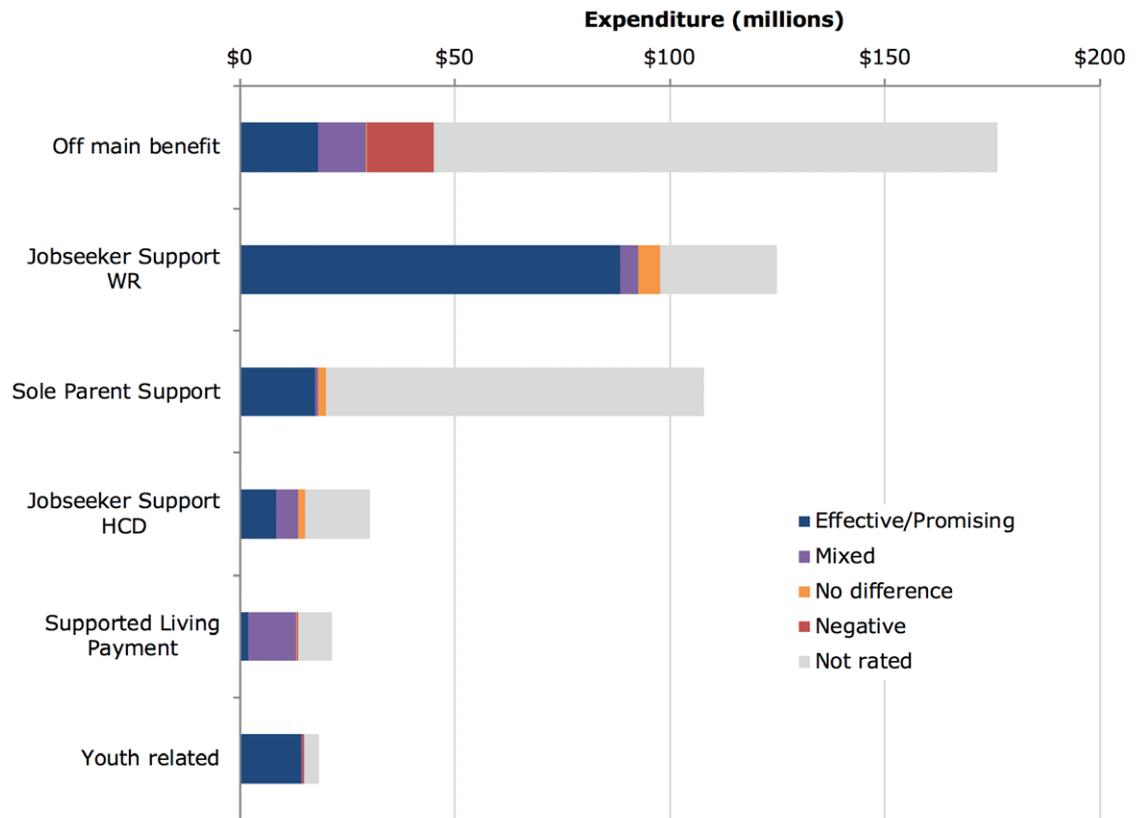
MSD reports annually on the effectiveness of the employment assistance programmes it administers. Employment assistance is a broader concept than the three categories of ALMPs defined by Calmfors, as used elsewhere in this paper.<sup>38</sup> The proportion of effective programmes has been falling.

Figure A2.1: Expenditure (\$ million) by programme type, 2010–2017



The allocation of employment assistance varies across client groups. The large portions of spending listed in Figure A2.2 below that are “not rated” consist mainly of child care support spending.

**Figure A2.2: Allocation of expenditure by benefit type**



## Annex 3: Policy interfaces with education and training; health; labour market policy; tax and income support; housing; and justice

**Education and training** provides people with the human capital and other skills to be more attractive to employers and to participate effectively in the labour market. The Government provides a broad range of free or highly subsidised education and training services, especially for young people. However, a significant proportion of those on working age benefits have obtained no or few educational qualifications.

Compared with other OECD countries, New Zealand has a high proportion of young people who leave school early and who do not achieve basic secondary school-level qualifications.<sup>39</sup> People displaced from work generally re-attach to the labour market, but they have poorer long-term outcomes than those who have not lost their jobs. This highlights the importance of the systems we have in place to re-attach people to the labour market and ensure that their skills remain relevant to employers.<sup>40</sup> Older clients on benefit typically spend a higher proportion of their future working life receiving a main benefit.<sup>41</sup>

A wide range of education reviews are underway, including as follows:

- Tertiary Education Strategy – Developing a strategy that sets out the Government’s long-term strategic direction and current and medium-term priorities for tertiary education and training
- Pacific Education – Developing a long-term approach to equitable outcomes for Pacific children and young people in the education system and embedding this approach across all developing strategies and reviews
- Māori Education – Developing a long-term approach to equitable outcomes for Māori children and young people in the education system and embedding this approach across all developing strategies and reviews
- Careers Action Plan – Developing and implementing a set of actions to improve the quality and effectiveness of careers advice in schools, under the new Tertiary Education Commission (TEC) Career Systems Strategy
- Fees-free Tertiary – Developing a long-term approach to the fees-free policy for tertiary education and training
- Review of vocational and education training – Ensuring New Zealand has a skills system that is adaptive and supports the changing world of work, and that we have healthy and effective public regional vocational education.<sup>42</sup>

**Health** status affects a person’s ability to participate in the labour market. The number of people on working age benefits with health conditions and disabilities is high. People with health conditions or disabilities and those caring for them are more at risk of entering the benefit system. Benefit numbers have fallen, but people with health issues or disabilities remain over represented. People on working age benefits with health conditions or disabilities make up the largest group of working age beneficiaries and the proportion is increasing.

Mental health-related conditions are the most common primary incapacity reason for people taking up Supported Living Payment (SLP) and Job Seeker – Health Condition or Disability (JS-HCD) benefits, and the proportion of clients with a mental health condition has been steadily growing over time. Mental health conditions are more prevalent at younger ages –

39 Agasisti, et al, 2018.

40 Hyslop and Townsend, 2017; OECD, 2017a.

41 Ministry of Social Development, 2018d.

42 Ministry of Education, n.d.

those with a primary mental health condition are, on average, eight years younger than others for JS-HCD<sup>43</sup> and four years for SLP-HCD.<sup>44</sup> The number of people on a benefit with a health condition or a disability is likely to be an underestimate. There are many people with health conditions claiming welfare benefits whose health issues are not recognised by the welfare system (e.g., sole parents).

Two key health reviews are underway or recently reported. They are as follows:

- Health and Disability System Review – “This review will identify opportunities to improve the performance, structure, and sustainability of the system with a goal of achieving equity of outcomes, and contributing to wellness for all, particularly Māori and Pacific peoples.”<sup>45</sup>
- Government Inquiry into Mental Health and Addiction (reported December 2018) – The inquiry aimed to identify unmet needs and develop recommendations for a better mental health and addiction system for Aotearoa New Zealand. It also aimed to set a clear direction for the next five to ten years that Government, the mental health and addiction sectors, and the whole community can pick up and make happen.<sup>46</sup>

The WEAG has established a dedicated health condition and disability workstream.

**Labour market policy** also impacts on who comes into and leaves the welfare system. There are links between labour markets and welfare through minimum wage policy (both in its impact on the number of low-paid jobs created and also in encouraging the unemployed into work through replacement ratios) and leave policies. If sick, care, or annual leave is insufficient to cover the time a person needs to recover from sickness or to care for someone, they may be required to leave work and rely on benefits. Other labour market policies around entry into work and new employees may also have an impact on a person’s ability to gain work (e.g., trial periods).

Migration policies, especially low-skilled temporary migration, can affect the availability of work for New Zealand citizens and residents by reducing employers’ incentives to offer attractive employment.

Employment protections, such as redundancy provisions, is also relevant. A highly flexible labour market is more likely to create opportunities for people at the lower wage end of the labour market, although higher levels of redundancy provisions are likely to reduce the need for income support.

Three working groups have been established to look at aspects of the labour market that influence the circumstances for those out of work or at risk of coming onto a benefit (e.g., seasonal workers, temporary workers, displaced workers). These groups are as follows:

- The Future of Work Ministerial Group is looking at how to improve the wellbeing and living standards of New Zealanders through productive, sustainable, and inclusive growth.
- The Future of Work Tripartite Forum “brings together the three key partners in the economy – government, business, and unions – to improve the use of technology, create more productive workplaces, and improve the skills and training of our workers.”<sup>47</sup>
- The Fair Pay Agreement Working Group has considered the scope and design for a system of bargaining to set minimum terms and conditions of employment across industries or occupations.

43 This has grown from 35% in 2006 to 47% in 2017. The growth has been particularly pronounced for under 30 year olds, increasing from 47% to 66%. For more details, see Ministry of Social Development, 2018d.

44 Taylor Fry, 2017.

45 New Zealand Health and Disability System Review, n.d.

46 See <https://mentalhealth.inquiry.govt.nz/> for more information

47 Scoop Independent News, 2018.

There are points at which the **tax and income support systems** interact. The structure of income taxes contributes to the profile of effective marginal tax rates. High effective marginal tax rates (EMTRs) discourage people moving into work and progressing to higher incomes. However, the contribution of the tax system to this is smaller than the abatement of transfer payments, particularly at very low incomes (the benefit system abates at 70%–100% compared with the top tax rate of 33%).

The Government's Tax Working Group is providing advice on a future tax system, but this advice excludes the personal tax system. The WEAG is exploring financial incentives through the adequacy, eligibility, and design workstream.

**Housing** is central to wellbeing and is a principal concern next to income. A case manager is unlikely to have productive employment conversation if a person is concerned about their access to affordable, quality housing. There is a shortage of affordable housing for low-income individuals and families, especially in the main cities, the towns and communities around these cities, and resort towns. The shortage of affordable housing has contributed to a significant increase in homelessness in recent years.<sup>48</sup>

The welfare system has a role to play in assisting those on low incomes into warm, dry, affordable housing (e.g., providing access to social housing and subsidising rental costs for those on low incomes). However, the drivers of high housing costs are largely outside the control of the welfare system (e.g., constrained supply of affordable housing in the face of increased demand).<sup>49</sup> The Government has a wide range of initiatives underway to improve supply of and access (including ownership) to affordable, good-quality housing for those on low incomes.

There are links between the **justice** system and the welfare system. For a variety of reasons, the New Zealand prison population is increasing and is one of the highest in the OECD at a time when crime rates are actually decreasing.<sup>50</sup> This has implications for the welfare system. Ex-prisoners are at risk of coming onto benefit when released from prison. Many ex-prisoners take up and remain on main benefits. They encounter difficulties securing jobs and stable housing, and they often have difficulty re-establishing relationships with their families or other social supports. A significant number of ex-prisoners reoffend, and often the most likely re-offenders are mutual clients of MSD and the Department of Corrections. Fines (e.g., infringement fines through local councils, the Police, and other prosecuting authorities) are easily administered but do not discriminate on the basis of a person's ability to pay, and a series of minor fines can easily mount up quickly from one initial offence. They can further compound problem debt for those on low incomes.<sup>51</sup>

The Government has launched the Hāpaitia te Oranga Tangata: Safe and Effective Justice programme of work on reforming the criminal justice system. "Te Uepū, the Safe and Effective Justice advisory group, will work alongside Justice Sector agencies on a prudent and realistic scope for effective criminal justice reform."<sup>52</sup>

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48 Johnson, et al, 2018.

49 Taylor Fry, 2017.

50 Gluckman, 2018.

51 Expert Advisory Group on Solutions to Child Poverty, 2012.

52 [Justice.govt.nz](https://www.justice.govt.nz), n.d.

## Annex 4: Agencies that contribute to active labour market policies

While MSD is the main provider of employment assistance, numerous other agencies provide complementary or related services. This annex presents an overview of those agencies and their roles. It provides a cursory scan based on annual reports, budget estimates, and statements of intent. A more robust review of the agencies' contributions would require a survey of agencies.

### Ministry of Social Development (MSD)

MSD is New Zealand's principal social services agency. MSD operates New Zealand's public employment service (Work and Income New Zealand), which both administers the benefit system and delivers or funds ALMPs – principally for people who are reliant on benefit support.

These services (excluding transfer payments) are mainly funded from the Employment and Social Outcomes appropriation of \$688m.<sup>53</sup> Of this appropriation, in 2017/18, MSD's spend on employment-related activities came to \$395m.<sup>54</sup>

MSD's Statement of Intent identifies the following employment services that MSD provides:

- Connecting clients to employers and job opportunities through intensive job search assistance, and offering employment workshops
- Up-skilling clients through industry-based recruitment partnerships, pre-employment training, and other services and programmes, e.g., drivers' licence programmes
- Responding to local labour market conditions by working with local employers and industry partners
- Supporting young people to gain the skills they need to work and have an independent future through the Youth Service and young people not in education, employment or training.<sup>55</sup>

MSD allocates funding for employment and social outcomes via an investment system that produces a regular investment strategy. The strategy is informed by various inputs, including assessments of the cost-effectiveness of MSD's employment services, which are the subject of an annual cost-effectiveness report. MSD streams clients into services based on both the suitability of the service for the clients and resource availability.

### Accident Compensation Corporation (ACC) – support for employment

ACC provides injury prevention and injury-related rehabilitation to enable return to work, retention in work, readiness for work, and compensation for lost income. In the 2017/18 year, ACC spent \$1,483m in financial compensation and vocational rehabilitation for people who were injured and were not able to return to work and helping people back into work.<sup>56</sup> Additional funding goes into treatment, emergency travel, and other forms of care and support for injured people.

While ACC works to keep a person in their current job or prepare them to return them to work, it does not offer employment placement services. It provides coverage to all New Zealanders and visitors regardless of whether or not they are in employment, although entitlements available vary according to employment status at the time of injury.

53 Vote Social Development, 2018/19, The Treasury, 2018.

54 Ministry of Business, Innovation & Employment and Ministry of Social Development, 2017.

55 Ministry of Social Development, 2018c.

56 Accident Compensation Corporation, 2017.

## Ministry of Business, Innovation & Employment (MBIE)

MBIE is the government's lead adviser on labour market performance and has regulatory and operational responsibilities. MBIE co-leads economic policy with The Treasury. Alongside the MSD, MBIE supports the employment portfolio.

MBIE roles relevant to ALMP include the following:

- Employment information and facilitation services (\$3 million)
- Employment policy advice (\$3.683 million)
- Regional/provincial economic development (widening employment opportunities) (around \$1 billion per annum)

MBIE supports a number of initiatives that promote better employment (and other) outcomes in specific sectors and regions, notably as follows:

- Sector Worker Employer Programme (SWEP) – SWEP is a joint-agency, industry-led initiative that aims to improve employers' access to reliable, appropriately skilled staff at the right time and place, giving priority to domestic job seekers, including beneficiaries. SWEP currently includes three jobs and skills hubs in Auckland, for example, the Ara jobs and skills hub was established by industry and government to connect South Auckland job seekers and trainees to job opportunities in the construction sector created by the Auckland International Airport expansion programme
- Construction Skills Strategy – a cross-agency strategy, led by MBIE, that aims to drive a rapid and sustainable shift and deliver the right people, at the right time, with the right skills to meet New Zealand's construction needs
- He Poutama Rangatahi/Youth Employment Pathways programme, \$13.275 million over 2017/18 and 2018/19, actively supporting communities to help their young people become ready for work
- Te Ara Mahi skills and employment funding through the Provincial Growth Fund (\$82.4 million), including \$13.275 million to expand He Poutama Rangatahi and \$8.8 million to expand the Ministry for Pacific Peoples Pacific Employment Support Scheme.

These initiatives are mostly directed towards regions and populations marked by relatively low incomes and high unemployment.

## Tertiary Education Commission (TEC)

The TEC is the government's key agency for investing in tertiary education, training, and careers services.<sup>57</sup> TEC's oversight of the careers system and education and training services to target populations at risk of poor labour market participation are the most relevant to ALMP.

The Tertiary Education Strategy<sup>58</sup> (which is currently under revision) comprises six priorities, including the following:

- getting at-risk young people into a career
- boosting achievement for Māori
- boosting achievement for Pacific People
- improving adult literacy and numeracy.

Notable spending areas include the following:

- improving access to tertiary education and training for Tertiary Education Strategy priority learners \$25m
- funding community education (literacy and numeracy) \$73m.

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57 Tertiary Education Commission, 2018.

58 Ministry of Education and Ministry of Business, Innovation & Employment, 2014.

## Department of Corrections (Corrections)

Corrections manages New Zealand’s corrections system, including the administration of custodial and community-based sentences and orders.

Amongst other roles, Corrections assists in rehabilitating offenders and supporting their return to the community through the provision of programmes and other interventions. Corrections administers an annual appropriation of \$231m for rehabilitation, education, employment, and reintegration activities. This includes \$38m for case management, \$5m for training, and \$59m for offender employment initiatives.<sup>59</sup>

## Ministry of Education

The Ministry of Education is the Government’s lead advisor on the New Zealand education system, shaping the direction for sector agencies and education providers.

In addition to funding and managing the school system, the Ministry of Education administers around \$87m for Trades Academies – programmes of learning at the secondary-tertiary interface intended to increase the number of school students moving into tertiary education. Some of this funding is dispersed through the TEC. The TEC also administers the Gateway programme (around \$19m a year), which enables secondary schools to arrange, manage, and assess part-time structured work-based learning placements for students in Years 11–13.

## Ministry of Primary Industries (MPI)

MPI oversees, manages, and regulates the farming, fishing, food, animal welfare, biosecurity, and forestry sectors of New Zealand’s primary industries. MPI is also a key partner with MBIE in delivering regional economic growth programmes, including initiatives to raise the skills of young people (“not in education, employment, or training” – NEETs) and support them into local industries, including the primary industries.

## Te Puni Kōkiri (TPK)

TPK works within government and communities to support Māori collective success at home and globally.<sup>60</sup> TPK has the following three key roles that aim to achieve the impacts the Government and iwi, hapū, and whānau want:

- leading work towards policy and legislative changes, as well as innovative approaches that will deliver improved outcomes for Māori
- influencing the work of others by working in partnership and bringing Māori voices to decision-makers
- investing with Māori to pursue opportunities, including through funding and partnerships.

TPK administers \$36 million for regional engagement and the design, delivery, and management of community investment programmes, including through a network of regional offices. It also administers a further \$11 million to promote Māori economic development.<sup>61</sup> One of TPK’s most successful employment initiatives, Cadetships, supports employers to recruit and develop capability, as well as supporting Māori cadets to gain confidence, employment experience, general and job-specific skills, formal qualifications, industry networks, and employment.

59 Vote Corrections 2018/19, The Treasury, 2018.

60 [www.tpk.govt.nz](http://www.tpk.govt.nz)

61 Vote Māori Development 2018/19, The Treasury, 2018.

Since it began in 2009/2010, the Cadetships initiative has directly supported a range of employment outcomes for over 2,100 Māori, either new recruits or existing Māori staff being supported into higher-level qualification pathways/roles. In 2017/2018, 62% of 'cadets' were existing staff, and 38% were new. The programme was evaluated in 2018 as improving outcomes for employers and participants.

### **Ministry for Pacific Peoples**

The Ministry for Pacific Peoples is the Crown's principal advisor on policies and interventions that improve outcomes for Pacific Peoples. The Ministry for Pacific Peoples administers \$1.263 million for purchasing services from third-party providers to support improved education, skills development, employment, and entrepreneurship in Pacific Peoples.<sup>62</sup>

### **Inland Revenue**

Inland Revenue raises government revenue and plays a key role in administering a range of transfer payments, including payments that are not work tested (such as the Family Tax Credit) and payments designed to "make work pay" (such as the Minimum Family Tax Credit and the In-Work Tax Credit).

### **Statistics New Zealand (StatsNZ)**

StatsNZ is New Zealand's national statistics office. StatsNZ administers an annual appropriation of nearly \$50 million for delivering data and statistical information services relating to child poverty, population, environment, household economics, social conditions, and the labour market.

The following table aims to show how ALMP functions are spread across New Zealand government agencies. Only some of these agencies focus principally on connecting people with the labour market (e.g., MSD). Some agencies aim to connect people with the labour market, alongside other significant roles (e.g., TEC). For others, enhancing employment outcomes is only an indirect outcome (e.g., the Ministry of Education). Some agencies are significant providers of employment services (e.g., MSD and Corrections), whereas others have a much more modest or indirect role (e.g., MPI).

Some agencies have both a broad population focus and a specific mandate to support at risk sub-populations (e.g., TEC and MBIE), and others are almost exclusively focused on at-risk populations (e.g., MSD and Corrections). Two agencies focus on particular ethnic groups (TPK and Ministry for Pacific Peoples), although they are small players.

The table does not capture policy and regulatory functions.

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62 Vote Pacific Peoples 2018/19, The Treasury, 2018.

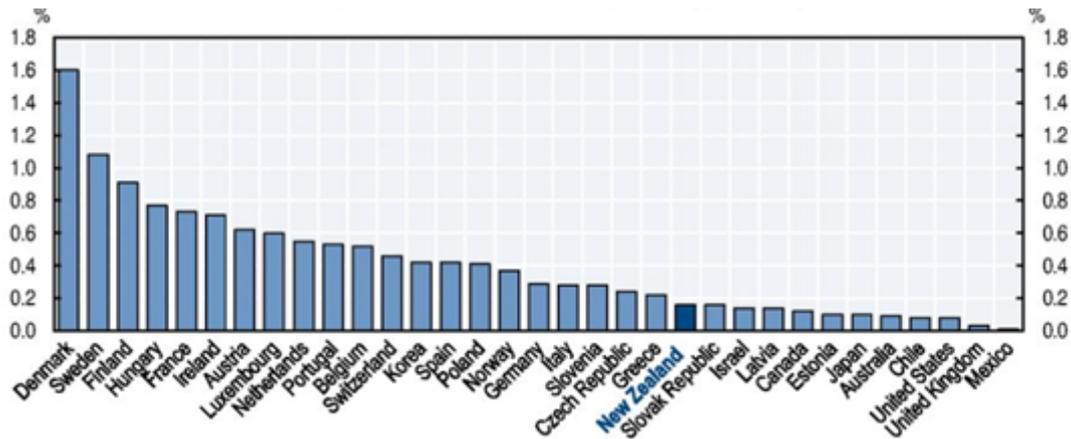
New Zealand government agencies										
Functions (as per Calmfors, 1994)	MSD	MBIE	ACC	Corrections	TEC	Ministry of Education	MPI	TPK	Ministry for Pacific Peoples	Inland Revenue
<b>Job broking</b> with the purpose of making the matching process between vacancies and job seekers more efficient	Case management, placement services, information provision, etc	SWEP Construction Skills Strategy Labour market data and analysis	-	Job broking for ex-prisoners	-	Transitions from school to education, employment, or training	-	-	-	-
<b>Labour market training</b> in order to upgrade and adapt the skills of job applicants	Various training schemes	He Poutama Rangatahi (regional NEETs)	Vocational rehabilitation for injured people	Offender rehabilitation and reintegration	Careers system and targeted services (e.g., foundational learning)	-	-	Skills and employment support	Skills and employment support	-
<b>Direct job creation</b> , which may take the form of either public-sector employment or subsidising private-sector work	Wage subsidies	Regional development	-	Working prisons	-	-	NEETs, sector strategies, regional development	-	-	-
<b>Income support</b> administration	Administration of the benefit system	-	Accident compensation	-	-	-	-	-	-	Working for Families and other payments

## Annex 5: International spending comparisons

Comparing New Zealand's ALMP spending against international spending levels and composition of that spending is one way of assessing the adequacy and effectiveness of our ALMP spending.

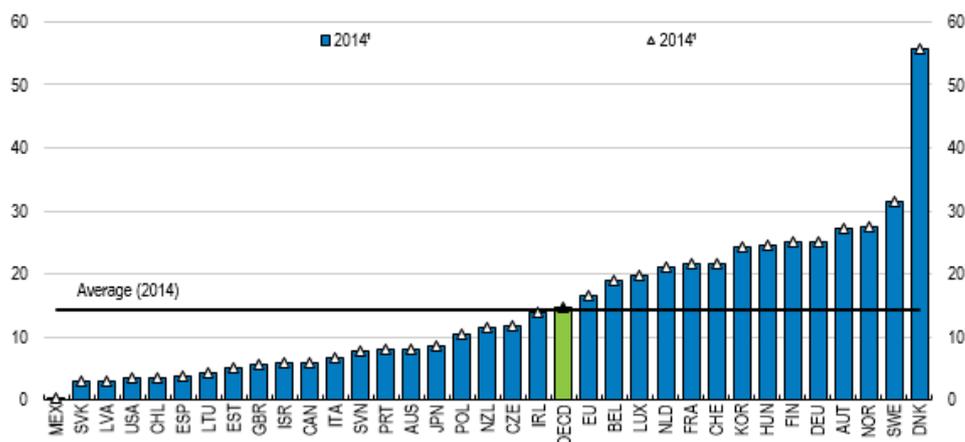
With 0.33% of GDP spent on ALMPs, New Zealand ranks in the bottom one-third of OECD countries by spending levels, as shown in Figure A5.1 below.<sup>63</sup>

**Figure A5.1: OECD country ranking by GDP spent on ALMPs**



But this comparison must be treated with caution. Countries' spending levels may vary for legitimate reasons, such as unemployment levels. New Zealand's position looks more favourable in the context of low levels of unemployment.<sup>64</sup>

**Figure A5.2: Public expenditure on active labour market policies per unemployed**

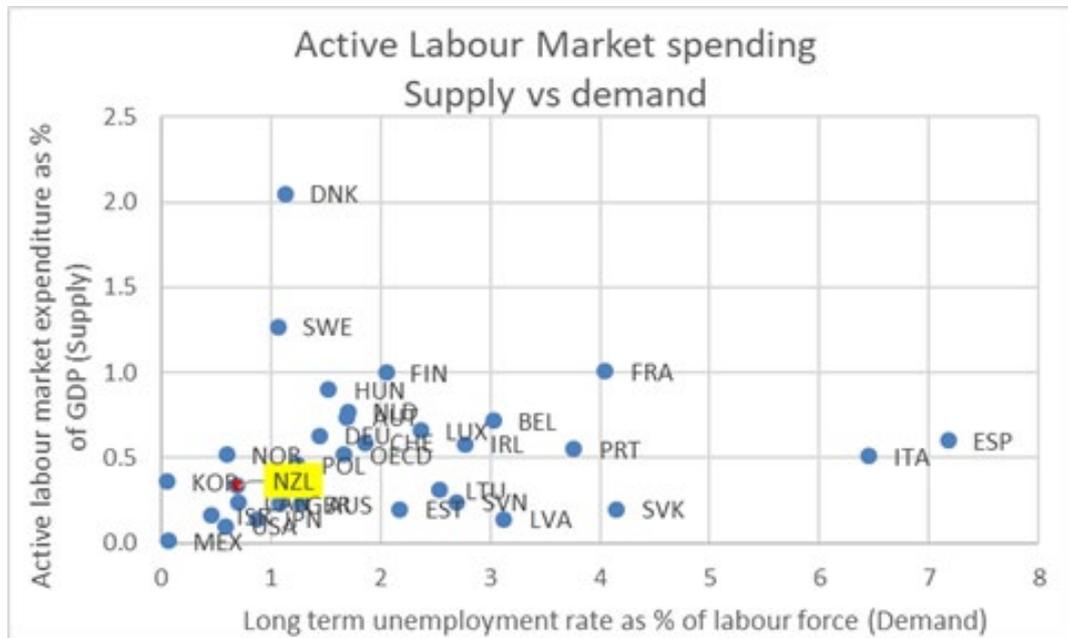


63 OECD, 2017a.

64 OECD, 2017b.

And New Zealand’s spending on ALMPs does not show us as an outlier in the context of long-term unemployment levels.

**Figure A5.3: ALMP spending in New Zealand**



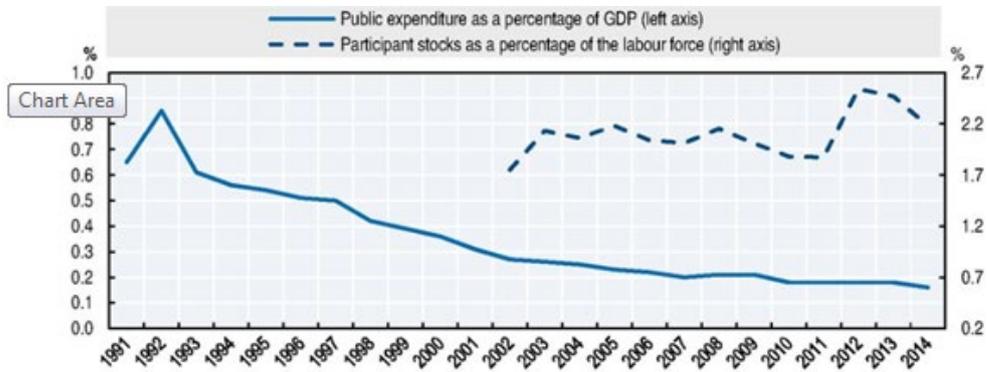
Countries may also be more or less efficient with their spending. A high level of spending could suggest a high level of waste.

The data underpinning the comparisons also need scrutiny. There may be significant elements of spending that could be included but are not. The New Zealand data supporting Figure A5.3 above exclude, for example, any of the \$231 million that Corrections administers for prisoner rehabilitation, education, employment, and reintegration activities. At least some of this spending is likely to fit OECD definitions.<sup>65</sup> The OECD definition also allows for some of the costs for benefit administration, where this is related to people who are receiving certain unemployment income supports. But it is not currently possible to isolate this spending in New Zealand, so it has been excluded. On balance, the OECD chart probably understates our spending, but that spending is still likely to be substantially below the average.

65 The data mostly comprises spending administered by MSD, with small amounts administered by TPK and TEC.

Another approach is to consider New Zealand's spending as a trend over time. This ensures a consistent year-by-year comparison. That shows a steadily declining level of spending, as seen in Figure A5.4 below.

**Figure A5.4: New Zealand's spending on ALMPs as a trend over time<sup>66</sup>**



Note: Data cover categories 2 to 7 of active labour market measures. They do not include data on public employment service (PES) and administration.

Source: OECD/Eurostat Labour Market Programme Database, <http://dx.doi.org/10.1787/data-00312-en>.

StatLink  <http://dx.doi.org/10.1787/888933437073>

