

In Confidence

Office of the Minister for Social Development
Chair, Cabinet Economic Development Committee

ACTION PLAN TO DELIVER THE CONSTRUCTION SKILLS STRATEGY – EXPAND SKILLS FOR INDUSTRY

Proposal

1. On 23 May 2018, the Cabinet Economic Development Committee agreed in principle, subject to consultation with construction sector stakeholders, that Expand Skills for Industry be one of the five priority initiatives in the draft Construction Skills Action Plan [DEV-18-MIN-0094].
2. This paper provides the details of the Expand Skills for Industry initiative for inclusion in the final Action Plan.
3. This is Paper E of a suite of five papers, including a cover paper, seeking agreement to the Action Plan and details of four of the priority initiatives as follows:
 - 3.1. Paper A: Action Plan to Deliver the Construction Skills Strategy;
 - 3.2. Paper B: Leverage Government Procurement;
 - 3.3. Paper C: Establish Additional Jobs and Skills Hubs;
 - 3.4. Paper D: Growing Construction Careers and Credentials; and
 - 3.5. Paper E: Expand Skills for Industry.
4. The following two initiatives proposed to be included in the Action Plan have previously been considered by Cabinet:
 - 4.1. Mana in Mahi – Strength in Work [SWC-18-MIN-0084]; and
 - 4.2. Immigration Settings [DEV-18-MIN-0090].

Executive Summary

5. The Ministry of Social Development (MSD) Skills for Industry programme partners with industry (employers and training providers) to provide industry-specific training for MSD job seekers immediately prior to or in employment, across a number of sectors at a national, regional and local level.
6. The Expand Skills for Industry initiative included in the draft Action Plan comprised:
 - 6.1. prioritising construction-related Skills for Industry programmes within its current framework; and

6.2. expanding engagement to more industry partners.

7. These two aspects are being undertaken in the 2018/2019 financial year. I recommend that these are included in an Expand Skills for Industry initiative under the final Action Plan.
8. 9(2)(f)(iv) - Active Consideration
[Redacted]
9. Construction is a priority sector within Skills for Industry, making up 31.2 percent of forecast funding in the 2017/2018 financial year for 1,192 participants. MSD officials will continue to prioritise construction-related programmes within the current framework over the course of the 2018/2019 financial year, and will prioritise the creation of new partnerships in the construction sector.
10. As an indication of the priority that construction is being given within Skills for Industry, MSD's Industry Partnerships team (which is responsible for national Skills for Industry programmes) forecasts an additional 9(2)(b)(ii) expenditure for the construction sector in the 2018/2019 financial year. This funding is from within current baselines. This is expected to result in at least 150 additional Skills for Industry places (i.e. participants) in the construction sector in the coming financial year (subject to industry demand).
11. Additional Skills for Industry places cannot be assumed to result in one-for-one growth in the construction workforce, due to potential substitution and displacement effects. Also, not all MSD employment and work readiness places result in job seekers immediately obtaining sustainable employment.
12. 9(2)(f)(iv)
[Redacted]
13. 9(2)(f)(iv)
[Redacted]

Background

14. The construction sector is key to the Government's goals for KiwiBuild, transport, infrastructure (including health and education) and regional development, but it is facing constraints. The construction workforce does not have the size and skills to deliver New Zealand's growing pipeline of construction projects.
15. The Ministerial Group on the Construction Workforce developed the Construction Skills Strategy and draft Action Plan to address these issues. The vision of the Strategy is that Government collaborates with industry to drive a rapid and sustainable shift that delivers the right people, at the right time, with the right skills, to meet New Zealand's current and future needs.

16. The Cabinet Economic Development Committee agreed in principle on 23 May 2018 to, subject to consultation with construction sector stakeholders, Expand Skills for Industry as one of the five priority initiatives that make up the draft Action Plan [DEV-18-MIN-0094].
17. The description of the Expand Skills for Industry initiative in the draft Action Plan comprised:
 - 17.1. prioritising construction-related Skills for Industry programmes within its current framework; and
 - 17.2. expanding engagement to more partners through a government sector engagement strategy and other initiatives, such as government procurement.
18. 9(2)(f)(iv) [REDACTED]

Current Skills for Industry Programme

19. Skills for Industry allows for planned, strategic partnerships with industry and employers, to achieve long-term engagement with partners for the benefit of all parties, including job seekers. These partnerships create employment opportunities for job seekers, and help address skills and labour shortages in the industries it is involved with.
20. Skills for Industry training packages usually include:
 - 20.1. entry-level training (such as workplace safety training);
 - 20.2. industry-specific training (such as on-machine or on-tools training, or compliance-based training and licensing);
 - 20.3. help getting a job; and
 - 20.4. on-the-job training once people start work.
21. MSD rated Skills for Industry as an effective intervention in its Effectiveness of MSD employment assistance report for the 2014/2015 financial year (published in July 2017).
22. As at 31 May 2018:
 - 22.1. 1,192 people started in construction-related Skills for Industry places in the 2017/2018 financial year (28.4 percent of all Skills for Industry participants);
 - 22.2. total forecasted expenditure for Skills for Industry in the 2017/2018 financial year was 9(2)(b)(ii) [REDACTED]; and
 - 22.3. forecasted construction expenditure was 9(2)(b)(ii) [REDACTED] (31.2 percent of total forecasted Skills for Industry expenditure).

23. The level of construction-related Skills for Industry expenditure varies significantly across regions. These regional differences highlight the effect that industry demand can have on Skills for Industry expenditure. For example, as a proportion of Skills for Industry, in the 2017/2018 financial year it represented:
 - 23.1. 24.0 percent in Auckland;
 - 23.2. 54.6 percent in Waikato; and
 - 23.3. 3.4 percent in the East Coast.
24. Based on data for 2017/2018, as at 31 May 2018, construction-related Skills for Industry had the following characteristics:
 - 24.1. 9(2)(b)(ii) [REDACTED]
 - 24.2. rates of participants being off-benefit at eight weeks after the end of the Skills for Industry programme: 61 percent (57 percent average for all Skills for Industry);
 - 24.3. participants who were Sole Parent Support recipients (who are predominantly women): five percent (seven percent for all Skills for Industry);
 - 24.4. participants who were in the Job Seeker – Health Condition or Disability category: 11 percent (nine percent for all Skills for Industry); and
 - 24.5. Māori participants: 54 percent (44 percent for all Skills for Industry).
25. The current measure used to report on outcomes for Skills for Industry is the rate of participants being off-benefit at eight weeks after the end of the programme. A measure of sustainable employment outcomes would complement this. MSD officials are currently exploring opportunities for improving Skills for Industry reporting.
26. Skills for Industry is not the only MSD programme that provides support to MSD job seekers to enter the construction industry. For example, in the 2017/2018 financial year Flexi-wage (a wage subsidy paid to employers) was forecast to spend [REDACTED] 9(2)(b)(ii) in the construction sector (18.6 percent of total Flexi-wage funding) for 1,153 participants (18.6 percent of Flexi-wage participants).
27. MSD also facilitates ‘non-funded’ construction placements, i.e. matching its job seekers to listed vacancies. As at 31 May 2018, 1,422 non-funded placements were recorded in the construction sector for the 2017/2018 financial year.

Construction-related Skills for Industry programmes are being prioritised within the current framework

28. Further work since the draft Action Plan was developed has confirmed that the construction sector is a priority for Skills for Industry funding, with construction being the largest Skills for Industry sector. MSD officials will continue to prioritise the

construction sector within Skills for Industry, and to undertake any additional expansion that becomes possible within the 2018/2019 financial year.

29. As an indication of the continued priority that construction is being given within Skills for Industry, MSD's Industry Partnerships team (which is responsible for national Skills for Industry programmes and partnerships) forecasts an extra 9(2)(b)(ii) expenditure for the construction sector in the 2018/2019 financial year over the 2017/2018 financial year. This funding is from within current baselines.
30. The Industry Partnerships team has developed its purchase plan for the 2018/2019 financial year, which forecasts an increase from 9(2)(b)(ii) committed expenditure in the 2017/2018 financial year to 9(2)(b)(ii) forecast expenditure in the 2018/2019 financial year.
31. This funding is expected to be directed to places that reflect the current average cost for construction-related Skills for Industry. Subject to negotiations with partners, this additional 9(2)(b)(ii) could result in at least 150 additional places in the construction sector in the coming financial year (subject to industry demand).
32. There may be an opportunity to further increase the level of funding for construction-related Skills for Industry throughout the course of the 2018/2019 financial year, depending on:
 - 32.1. levels of construction-industry demand for Skills for Industry and the supply of suitable job seekers who want to enter the construction sector;
 - 32.2. factors external to the construction industry that will determine whether additional funding is available, including the industry demand for Skills for Industry in other sectors and other MSD funding requirements;
 - 32.3. the impact that reallocating funding across Skills for Industry sectors would have on existing partnerships and the ability to respond to future growth in different sectors; and
 - 32.4. the internal MSD resourcing for creating and managing construction-related industry partnerships: this resource will also be required to initiate Phase One of Mana in Mahi – Strength in Work over the 2018/2019 financial year, which will create additional pressure.
33. MSD officials will prioritise construction-related Skills for Industry programmes when considering further funding over the 2018/2019 financial year, but I note that decisions will reflect the need for MSD generally, and the Skills for Industry programme specifically, to provide a comprehensive service to its job seekers.

Expanding engagement to more industry partners

34. MSD continuously engages with the construction industry, and there may be opportunities in the 2018/2019 financial year to form new partnerships with more employers or training providers. The majority of the additional construction-related 9(2)(b)(ii) funding for MSD's Industry Partnerships team is expected to respond to demand from current key partnerships in the 2018/2019 financial year. However, MSD officials will also seek opportunities for new partnerships.

35. Leveraging government procurement (as discussed in Paper B of this suite of papers) may provide an opportunity to increase the number of Skills for Industry partnerships in the construction sector. This would allow Skills for Industry to be closely aligned to specific demand. It will be important that close consultation occurs between MSD and government agencies undertaking construction and infrastructure procurement once the leveraging government procurement initiative is implemented. Close consultation with industry will also be important.

9(2)(f)(iv) [Redacted]
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9(2)(f)(iv) [Redacted]

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Expand Skills for Industry sits within a broader package of initiatives

- 48. One of the key drivers for the number of places available in different sectors under the Skills for Industry programme is the industry demand for the programme. Other initiatives within the Action Plan are likely to affect this demand.
- 49. Mana in Mahi – Strength in Work could affect demand for Skills for Industry, depending on the final design of this programme. If Mana in Mahi – Strength in Work includes pre-employment training for certain participants, and employers use this new scheme for employees that would otherwise have been referred to Skills for Industry, this could reduce demand. Alternatively, Skills for Industry could act as a pipeline for Mana in Mahi – Strength in Work, in which case the new programme may increase demand.
- 50. Leveraging government procurement may increase demand for Skills for Industry, as it will provide an opportunity to encourage employers to engage with Skills for Industry. This could help MSD to expand Skills for Industry to more industry partners.
- 51. Further work is required to understand the impacts of the interaction of Skills for Industry with government procurement. MSD officials will continue this work with other Ministerial Group on the Construction Workforce agencies. 9(2)(f)(iv) [Redacted]
- 52. 9(2)(f)(iv) [Redacted]

Outcomes from sector consultation

53. Feedback from sector consultation workshops indicated that the construction industry would like to see Skills for Industry support (or similar services, including Mana in Mahi – Strength in Work) provided to other groups as well as beneficiaries (for example school leavers), and to provide a pathway for adults in the workforce who want to retrain. 9(2)(f)(iv)
54. Some industry feedback noted it is important that new employees, particularly those entering the sector from the benefit system, are those who want a career in the construction sector and are not entering the sector simply due to requirements to find work. MSD notes that this is a key aspect of the potential to expand Skills for Industry, because as noted elsewhere in this paper this will depend on the availability of job seekers who are not only suitable, but are also willing. Aspects of the Action Plan that promote construction careers are expected to support this supply of willing job seekers by improving perceptions of the construction sector as a career.
55. Other feedback included industry stakeholders noting that there is often a requirement for high levels of pastoral care associated with Skills for Industry, and that it is important to match the right people to the right roles. MSD agrees with these points, and notes that these are important aspects of the current Skills for Industry model. However, the feedback has highlighted that this is not widely known by those employers which do not already use Skills for Industry, and therefore highlights that consultation and communication of the details of Skills for Industry will be an important part of expanding to more industry partners.

Impact on the workforce

56. The additional 9(2)(b)(ii) funding for MSD's Industry Partnerships team this year is expected to lead to at least 150 additional construction-related Skills for Industry places in the 2018/2019 financial year when compared to the 2017/2018 financial year (subject to industry demand).
57. If current outcome rates continue, 150 additional places in the 2018/2019 financial year can be expected to result in around 90 participants being off-benefit at eight weeks after the Skills for Industry programme ceases. 9(2)(f)(iv)
58. It should be noted that additional places, and resulting employment outcomes, would not necessarily represent one-for-one growth in the construction workforce due to potential displacement effects (where subsidised labour reduces employment among competing firms) and substitution effects (where a participant takes a vacancy that would otherwise have been filled by someone else).

Implementation

- 59. The additional 9(2)(b)(ii) for MSD’s national construction-related Skills for Industry partnerships and programmes will begin to be used immediately. My officials may allocate further funding over the course of the 2018/2019 financial year.
- 60. 9(2)(f)(iv)

Constraints

- 61. There is a lead time for creating and expanding the partnerships necessary to increase the number of construction-related places through Skills for Industry. As previously noted, leveraging government procurement (another of the priority initiatives under the Action Plan) may provide a strong mechanism for creating these partnerships, but this is likely to be a longer-term change.
- 62. One of the major potential constraints on the extent to which construction-related Skills for Industry programmes can be further prioritised or expanded is the demand from the construction sector, as Skills for Industry is typically a demand-led programme. Expanding to more industry partners (enabled by the Action Plan) and close consultation with partners to ensure that Skills for Industry continues to support their needs are expected to mitigate the risk of a reduction in demand.
- 63. Another potential constraint on the prioritisation or expansion of construction-related Skills for Industry programmes is the supply of suitable MSD job seekers who want to enter the construction sector. This supply may vary by region and over time. Aspects of the Action Plan that promote construction careers are expected to support this supply of willing job seekers by improving perceptions of the construction sector as a career.

Monitoring and review

- 64. I will report back to the Ministerial Group on the Construction Workforce:
 - 64.1. 9(2)(f)(iv)
 - 64.2. 9(2)(f)(iv)
 - 64.3. 9(2)(f)(iv)
 - 64.4. 9(2)(f)(iv)
- 65. MSD is able to report on the outcomes achieved through Skills for Industry, and the recipients of funding through this programme. MSD also regularly reviews the

effectiveness of its employment interventions (including Skills for Industry) and publicly releases the results of these reviews.

- 66. However, there are currently limitations in reporting Skills for Industry funding by sector. This is a manual process, rather than being system-based. The reporting is resource intensive and this is likely to limit the frequency of the reporting that is possible. My officials are currently exploring improvements to this reporting, including outcome measures.

Consultation

- 67. The Ministry of Business, Innovation and Employment, the Ministry of Education, the Ministry for Pacific Peoples, the Ministry for Women, Te Puni Kōkiri, the Treasury and the Department of the Prime Minister and Cabinet were consulted on this paper.

Financial Implications

- 68. There are no direct financial implications arising from this paper.
- 69. Additional funding for construction-related Skills for Industry programmes in the 2018/2019 financial year will be undertaken within existing baselines.

70. 9(2)(f)(iv) [Redacted]

71. 9(2)(f)(iv) [Redacted]

72. 9(2)(f)(iv) [Redacted]

73. 9(2)(f)(iv) [Redacted]

74. 9(2)(f)(iv) [Redacted]

Legislative Implications

- 75. There are no legislative implications arising from this paper.

Impact Analysis

- 76. A Regulatory Impact Analysis is not required.

Human Rights

77. There are no human rights implications arising from this paper.

Gender Implications

78. Increasing construction-related Skills for Industry programmes relative to other sectors may reduce the average rate of Skills for Industry participants who are Sole Parent Support recipients (if current participation rates continue – currently five percent of participants for construction-related Skills for Industry, and seven percent for all Skills for Industry). Sole Parent Support recipients are predominantly women.
79. MSD will explore opportunities for targeting specific cohorts, including women, when expanding construction-related Skills for Industry.

Disability Perspective

80. Increasing construction-related Skills for Industry programmes relative to other sectors may increase the average rate of Skills for Industry participants who are in the Job Seeker – Health Condition or Disability category (if current participation rates continue – currently 11 percent of participants for construction-related Skills for Industry, and nine percent for all Skills for Industry).
81. MSD will explore opportunities for targeting specific cohorts, including disabled people, when expanding construction-related Skills for Industry.

Publicity

82. I will coordinate with the Ministerial Group on the Construction Workforce with regard to publicity related to the Action Plan.

Proactive Release

83. I propose to proactively release this paper. This release will be subject to redactions as appropriate under the Official Information Act 1982.

Recommendations

The Minister for Social Development recommends that the Committee:

1. **note** that on 23 May 2018, the Cabinet Economic Development Committee agreed in principle, subject to consultation with construction sector stakeholders, that Expand Skills for Industry be one of the five priority initiatives in the draft Construction Skills Action Plan [DEV-18-MIN-0094];
2. **note** this paper is one of a suite of papers, seeking agreement to the details of the initiatives that make up the Action Plan;
3. **note** that construction is currently the largest sector within Skills for Industry by funding, making up 31.2 percent of forecast expenditure in the 2017/2018 financial year;

4. **note** that MSD is investing an additional 9(2)(b)(ii) on construction-related Skills for Industry national programmes and partnerships in the 2018/2019 financial year compared to the 2017/2018 financial year, which can be expected to result in at least 150 additional construction-related Skills for Industry places (subject to industry demand and job seeker supply);
5. 9(2)(f)(iv) [Redacted]
6. 9(2)(f)(iv) [Redacted]
7. 9(2)(f)(iv) [Redacted]
8. 9(2)(f)(iv) [Redacted]
9. 9(2)(f)(iv) [Redacted]
10. 9(2)(f)(iv) [Redacted]

Authorised for lodgement
Hon Carmel Sepuloni
Minister for Social Development