

1 June 2016

Members
Transport and Industrial Relations Committee
Youth Parliament 2016

Inquiry into the barriers to young people entering employment across New Zealand workplaces and how these can be addressed

The Transport and Industrial Relations Committee has been asked to conduct an inquiry into: “What are the barriers to young people entering employment across New Zealand workplaces and how can these be addressed?” on 19 July 2016. This paper has been prepared to assist the Committee with its examination. The paper identifies issues and provides possible lines of inquiry for the Committee to consider. The Committee may also wish to raise these matters with the witnesses who have been asked to appear before the Committee to give evidence on this inquiry.

Introduction

New Zealand sits around the Organisation for Economic Co-operation and Development (OECD) average for youth unemployment. In 2013 the youth unemployment rate for New Zealand was 16.3 percent, while the average OECD rate was 16.2 percent. Youth unemployment levels increased significantly from 2008 following the Global Financial Crisis (GFC).

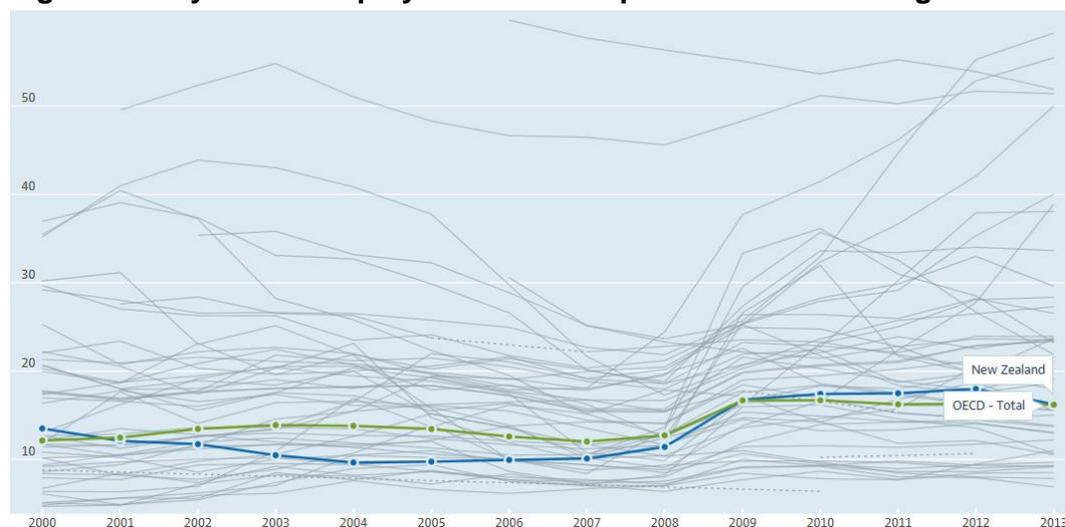
Evidence suggests that unemployment among young people can have negative effects on wellbeing and increase the risk of poor life outcomes. The OECD notes that periods of inactivity and unemployment can have a lasting negative impact on future employability and potential earnings.

The OECD also notes that inactivity can lead to poor life outcomes through:

- disengagement and isolation from society, and resultant effects on health, risks of criminal behaviours, and drug/alcohol abuse
- reductions in essential expenditure including food, housing and healthcare, which may impact health and wellbeing
- increased uncertainty leading to delays in developmental markers such as leaving home and starting a family.

Whilst there has been a small decline in the youth unemployment rate, youth unemployment is still significantly above pre-GFC levels in New Zealand (see Figure 1 overleaf).

Figure 1: NZ youth unemployment rate compared to OECD average 2000 to 2013



Source: OECD (2016), Youth unemployment rate (indicator). <https://data.oecd.org/>

What are the barriers to young people entering employment across New Zealand workplaces?

Some issues that may impact on young people's entry into the workforce in New Zealand include:

- adverse economic conditions impact disproportionately on young people
- young people with certain characteristics are more likely to have poor employment outcomes
- young peoples' skills may not match available jobs
- the types of employment young people enter are often less secure
- young people with a health condition or disability may experience challenges entering employment
- young people may be viewed differently by employers.

Adverse economic conditions impact disproportionately on young people

Young people tend to be hit harder by recessions than adults, both in terms of unemployment rate and the effects of unemployment on life outcomes. Research on the effects of financial crises for youth shows:

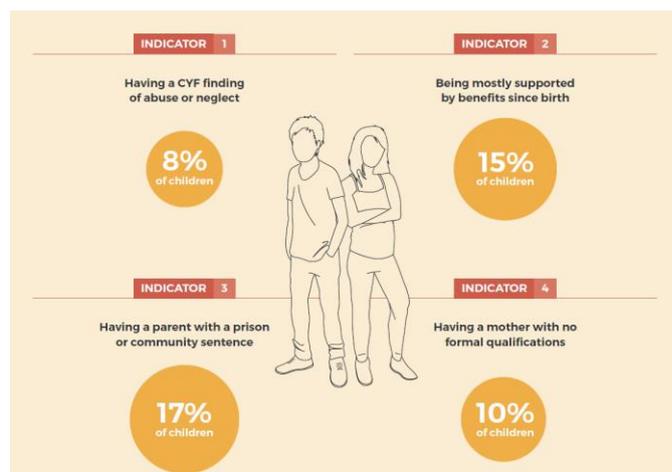
- that youth unemployment generally rises faster than overall unemployment rates
- increased rates of youth unemployment remain for longer, even after the economy recovers
- prolonged unemployment and spells of inactivity may permanently lower young people's employability, particularly for low-skilled and inexperienced youth.

Being less settled in occupational choices, in temporary employment or being more mobile are some of the reasons cited for why unemployment rates for young people are generally higher than that of the rest of the population.

Young people with certain characteristics are more likely to have poor employment outcomes

Those young people who are most likely to struggle to gain a place in employment are those who are at risk of multiple poor outcomes. The social investment approach work underway by Treasury has highlighted that certain characteristics are linked to young people at risk of being on benefit for at least 5 years from age 24-34. These risk factors are shown in Figure 2 below.

Figure 2: Indicators of young people at risk of poor outcomes



Source: Treasury, Characteristics of children at risk, <http://www.treasury.govt.nz/publications/research-policy/ap/2016/16-01/ap16-01-infographic.pdf>

Information from the valuation of the welfare system shows that those young people who enter the benefit system early are likely to have a high risk of remaining on benefit long-term. The valuation estimates that 75 percent of future welfare costs for current clients can be attributed to clients who first entered the benefit system under the age of 20.¹

Young peoples' skills may not match available jobs

The ease of finding skilled labour indicator (QSBO) provides a net rate by comparing the rate of firms finding it easy to gain skilled labour with the rate of firms finding it difficult. This indicator tracked closely with the unemployment rate indicator until 2009, from which time (despite a relatively high unemployment rate) employers have found it difficult to find skilled labour.

The skills young people develop in education need to be well matched to labour market needs. This includes addressing new and emerging shortages in specific areas, such as information and communications technology (ICT) and the science, technology, engineering and mathematics (STEM) skills needed for innovation and economic growth.

Young people may be viewed differently by employers

Employer attitudes can also be a barrier to employment. Young people have less work history for employers to rely on, and can be perceived as higher risk than experienced older employees.

¹ The welfare valuation can be accessed at <https://www.msd.govt.nz/about-msd-and-our-work/newsroom/media-releases/2016/2015-valuation-of-the-benefit-system-for-working-age-adults.html>

An Australian survey of employers (Australian Government, 2015) found that the key attributes that employers mentioned looking for in potential employees were positive, work-focused behaviours as opposed to a specific skill set. Employers also noted the importance of volunteer work, work experience and training as a way for young people to demonstrate to employers they are keen and willing to work.

Young people with a health condition or disability may experience challenges entering employment

A British study looking at employment opportunities for young people with chronic conditions (Work Foundation, 2013) noted that most young people with chronic conditions wanted to work but that they faced barriers to employment including:

- control over the course of the disease
- work related guidance and advice
- workplace support and culture
- confidence and self-efficacy.

The types of employment young people enter are often less secure

Young people are more likely to be in part time and temporary employment and be concentrated in industries that experience disproportionate job losses during recessions (hospitality, retail trade, communication services and construction). The majority of industries that employ young people are low-skilled and have a higher rate of part-time workers.

How these barriers can be addressed

The key areas of focus in the New Zealand social sector to address youth unemployment include:

- education
- case management and wraparound support
- training and skills subsidies
- employment regulation
- partnering with employers.

These are not the only levers available, and internationally other countries address youth unemployment very differently. However there are barriers and risks to looking at or using policies and programmes from other countries with different institutional, historical and political contexts. The risk of unobserved differences (ie. cultural) can limit how much these can be applied to the New Zealand context.

Education

Success in education is essential to building a productive and competitive economy and to help young people develop skills needed to reach their full potential. Early school leaving, together with low levels of educational attainment, increase the risk of poor labour market prospects in both the short and the long term.

Better Public Services Target² Five aims to 'increase the proportion of 18-year-olds with NCEA Level 2 or equivalent.' School is the best place to achieve the foundation and soft

² Better Public Service Targets are set to encourage whole of government improvements in addressing complex, long-term issues that affect New Zealanders.

skills that are necessary for success in later years. The 2014 NCEA Level 2 rate for 18 year olds was 81.2 percent, compared with 78.6 percent in 2013 and 77.2 percent in 2012. Māori and Pasifika achievement improved at a faster rate overall during this period.

For young people who leave school early, services that aim to re-engage youth in education make it easier for young people to step into education or training:

- The **Youth Service** for young people not in education, employment or training (NEET)³ provides support to address barriers to young people engaging in education or training. It is available to young people aged 16-18 years of age who are disengaged, or at risk of disengaging from education.
- The **Youth Guarantee** provides foundation education to achieve NCEA Level 2 or equivalent to enable young people to transition to further education and participate in the workforce. Fee-free courses allow students to achieve NCEA Level 2 within a tertiary setting.
- **Count Me In** is an initiative focussed at re-engaging 16-18 year old Māori or Pasifika students in education and to achieve NCEA Level 2.

While there is an increasing focus on young peoples' education and training, there is a need to ensure that these are happening in areas that are forecast to grow. Ensuring that young people are encouraged to focus on higher-skilled occupations, where there is demand for skills, is important for ensuring a good return on investment.

In recent years work has been done to improve the way tertiary education supports the labour market and students' study decisions. Publications such as *Moving On Up* and the *Occupation Outlook Report* have improved information about potential wages and employment opportunities from study, supporting students' choices.

Vocational Pathways are also an important tool which will help students to identify key industry groups within which they may want to work and the kinds of learning required for those industries. Vocational Pathways help teachers to plan coherent learning programmes and support students to make good learning choices in school and in tertiary education.

Case management and wraparound support for those at high risk of long-term benefit dependence

Changes have been made to the delivery of employment support through Work and Income to focus intensive support on those clients at high risk of long-term benefit dependency. Young people have been a particular focus group as early entry to benefit is a key predictor of high welfare receipt. Changes to the delivery of case management services have been shown to be particularly successful in ensuring that young people who are able to work are not dependent on a benefit.

Young people aged 16-17 or 16-18 with a dependent child who receive a benefit are some of the highest liability clients. To improve outcomes for these young people the Youth Service is contracted to provide intensive wraparound support to help young people achieve in education and transition into further study, or training or employment. Young people are required to engage with their youth coach, engage in full time education, and attend budgeting and parenting courses (where appropriate).

Young people in the Youth Service can receive incentive payments for successfully meeting their obligations, or can be sanctioned if they do not comply. As at the end of August 2015, there were 44 Youth Service providers across New Zealand. The Youth Service is showing

³ Not in Education Employment or Training.

promising results in helping young people gain NCEA level 2 and ensuring 16 and 17 year olds move off benefit and into employment or full-time tertiary study.⁴

The Social Security (Extension of Young Persons Services and Remedial Matters) Amendment Bill currently before the House, is looking at extending the Youth Service further. The Bill proposes to extend the Youth Service to include 19 year old beneficiaries with children and 18-19 year old Jobseekers without children who are considered to be at significant risk of long-term welfare dependency.

Training and skills

Training subsidies allow employers to put resources into training employees themselves and provide an incentive to employing young people. Some subsidies funded by the Government include:

- the Gateway programme which offers training subsidies to employers who are willing to take on high-school students. The programme provides a structured workplace based learning experience, giving selected students the chance to build their skills while still at school
- the Flexi-Wage subsidy is available to businesses that employ a young person on benefit and assists with their training costs.

Training subsidies which have a strong development component work best. If poorly designed, they can lead employers to create poorly paid positions which have high turnover, lack career focus and lock participants into poor labour outcomes.

Many training programmes targeted to the most disadvantaged have had modest results and, when not properly implemented, are criticised for being part of a 'training treadmill' of short term, low quality, generic training programmes.

Research has found that for these programmes to be successful they need to:

- be intensive, which is expensive, and recognise that the participants of such programmes have had negative experiences from traditional forms of education and/or training
- link with mainstream education so that young people can catch up on qualifications and further develop skills and abilities for future employment
- develop skills that are in demand in the current local labour market
- support participants through social services so that they may make the most of training opportunities on offer.

For young people of indigenous and ethnic minority groups, training programmes should be sensitive to the adverse labour market experiences that these groups encounter. They should also be mindful of the need for involvement from these young peoples' communities for the programme to be effective.

Internationally, apprenticeship systems that are institutionalised as a pathway from school into employments (such as in Germany, Austria, Switzerland and Denmark) have a good track record of keeping youth unemployment at low levels and quickly integrating a high proportion of new school leavers into jobs. *New Zealand Apprenticeships* are formal work-based training programmes leading to careers in a range of vocations. They are open to

⁴ An evaluation of the Youth Service is available at <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/evaluation/youth-service/index.html>.

anyone in New Zealand aged 16 years and over. Apprentices work towards gaining a Level 4 qualification on the New Zealand Qualifications Framework (NZQF).

Employment regulation

Trial periods

Trial periods are an initiative that is preferred by employers who see them as reducing the risk of hiring younger, less-experienced staff. Trial periods can last up to 90 days and allow employers time to see how a new person performs on the job and whether the applicant is the right fit for the business. The employee still has the right to protections against discrimination, sexual and racial harassment, duress, or unjustified action by the employer that may disadvantage the employee. Employees can still access mediation, and the principle of good faith still applies to the relationship.

Minimum wages

Minimum wages, specifically for young people, are a form of regulation that can lower the cost of hiring young people to incentivise employers to take a chance on a young person, enabling them to earn money, gain skills, and get the work experience they need.

However some employers are not supportive of having a youth minimum wage. These concerns include:

- they are not willing to pay young employees less than other employees
- paying a youth minimum wage means higher quality applicants do not apply
- the criteria for applying youth minimum wages may be not worth the saving they will make.

New Zealand currently has a minimum wage, called the starting-out wage available to young people aged 16 and 17, 18 and 19 year old who have been on benefit for six months or more, and 16-19 year olds who are training for at least 40 credits a year with an approved provider. Under the starting-out wage, employers are able to offer young people employment at a reduced wage of no less than 80 percent of the adult minimum wage for six months of continuous employment. The current starting-out wage rate is \$12.20 per hour compared to an adult minimum wage of \$15.25.

Of those employers surveyed in the 2013/14 National Survey of Employers who had hired someone aged 16 to 19 years in the last 12 months (46 percent), 11 percent said they were paying the starting out wage to one or more of these employees. This equates to roughly 3 percent of all employers who were paying one or more of their staff the starting-out wage.

Partnering with employers

MSD partners with employers to encourage businesses to take on unemployed young people. Some reasons that employers would want to work with MSD include:

- doing something positive for society
- they have entry level jobs suitable for the MSD client base
- conducting a search of registered jobseekers to ensure there are no suitable New Zealanders available prior to a work visa application
- financial incentives and support available from MSD (eg contracts and subsidies).

For those young people with a health condition or disability research suggests that partnering with employers can help support work opportunities through:

- tackling stigma and discrimination in relation to employees with a health condition or disability
- encouraging traineeships, apprenticeships, internships or mentoring schemes to shape the skills and career aspirations of young people with a health condition or disability
- identifying and establishing adjustments to workplaces that can support young people to enter and remain in employment.

In the state sector, change is taking place to increase the employment of people with a health condition or disability. The Government is taking the lead in order to support the employment of people with a health condition or disability.⁵

Report to the House

The Committee is required to report its findings on this inquiry to the House. The purpose of your report is first to inform the House and stimulate debate. In doing so your report should reflect both the oral and written evidence the Committee received, the issues the Committee considered in-depth, and the views of the members. From these the Committee should develop conclusions and recommendations to the Government.

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Youth Parliament 2016

⁵ More information on this project is available at <https://www.ssc.govt.nz/lead>.

Members may wish to ask:

1. What can be done to increase the relationship between schools and industries so that more young people leave school with a clear career path in mind?
2. What more can be done to increase the educational achievement of early school leavers and increase their short and long term labour market prospects?
3. Should we be encouraging early school leavers to return to school or should we offer more alternative education or training pathways?
4. How can we ensure that young people with higher needs are getting the case management, support and mentoring they need rather than just being moved into the labour market?
5. How can we ensure that young people are entering meaningful employment in growth areas?
6. What services are needed to support to those young people with a health condition or disability to enter employment?
7. How can we ensure 'buy-in' and cooperation from Government, employers, schools and trainers, and young people to ensure that a coordinated response to youth employment is being taken?
8. How can we engage and support employers to employ young people? What incentives/ support mechanisms can we put in place?
9. How can we prioritise support of at risk cohorts when providing employment support?

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Further Reading

Suggested keywords and phrases for internet search engines:

- Youth minimum wage
- NEET rate
- Youth unemployment, regional differences, ethnic differences, gender differences
- Active labour market policies and youth
- Better Public Services

As well as considering this background paper prepared for them, Youth MPs are welcome to undertake their own research on their committee topic (or on the Bill or any other aspect of Youth Parliament 2016). The Parliamentary Library has agreed to accept one question per Youth MP which they will endeavour to answer to inform your work. If you have not already done so, please contact jill.taylor@parliament.govt.nz to take advantage of this opportunity.