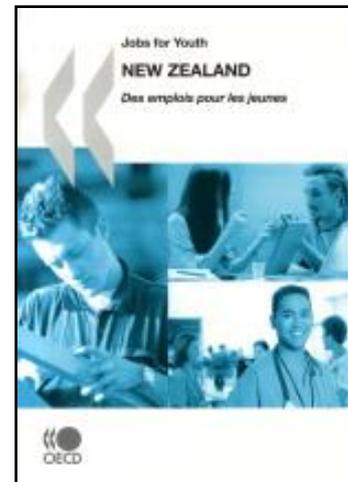


*Jobs for Youth/Des emplois pour les jeunes*  
**New Zealand**

*Summary in English*



### **The labour market performance of young people**

The recent performance of the youth labour market in New Zealand is very good compared with many other OECD countries. Sustained economic growth at a rate of 3% per year on average over the past decade and a very flexible labour market by international standards have contributed to rising employment rates and falling overall unemployment, including for youth. In 2006, the youth unemployment rate was 9.6% compared with an OECD average of 14.7% and the incidence of long-term unemployment was less than 3% compared with an OECD average of almost 21%. In addition, transitions from school to work are relatively smooth in New Zealand. Youth find a first job more quickly and at a younger age than their counterparts in most OECD countries and there is little or no evidence of temporary-work traps. Nevertheless, the current economic slow-down is likely to reveal some remaining weaknesses in the youth labour market that need to be addressed.

First, there is a hard-core of youth who are at high risk of poor labour market outcomes and social exclusion. Among them are most of the 11% of youth aged 15-24 who are neither in employment nor in education or training. This rate is in line with the OECD average, but it is still much higher than the best-performing countries – notably Denmark, Iceland and the Netherlands – where it stands at 6% or less. Among the hard-core group, Māori and Pasifika youth are more than twice as likely not to be in employment, education or training as Pakeha youth (those of European descent). There is evidence that some of the young people neither in employment nor in education or training in New Zealand find it very difficult to get a job or go back to education. About one-third of youth who were not working or studying in 2003 were in the same situation two years later.

Second, not enough young people pursue vocational studies despite excellent labour market prospects offered by many trade professions. At the same time, some tertiary institutions do not provide youth with the skills required in the labour market.

Finally, current labour market policies do not easily reach young people who have disengaged from school at an early age and are not entitled to welfare support. New Zealand presently devotes considerable efforts to trying to overcome this difficulty. However, coordination between the national and community levels requires further fine-tuning.

The purpose of this report is: *i*) to analyse these barriers to further progress in youth employment, in particular for the most disadvantaged; and *ii*) to put forward policy options to address these issues.

## Recent reforms

Over the past few years, efforts to encourage more youth to pursue vocational studies have been stepped up, particularly through the introduction of a work-based learning initiative in secondary schools – the Gateway programme – and the launch of an apprenticeship programme – the Modern Apprenticeship scheme. The Gateway programme, introduced as a pilot in 2001 and being progressively rolled out nationwide, is designed to strengthen the pathway from secondary school to workplace learning and vocational post-secondary education. The Modern Apprenticeship programme, launched nationwide in 2001, is meant to attract youth to professions in which they are underrepresented and help raise the profile of apprenticeship training. These initiatives have been accompanied by renewed emphasis on career guidance, particularly for youth making tertiary education decisions, through a number of initiatives launched by Career Services – an independent body providing career guidance and advice – and a reinforced role of both schools and StudyLink – the body managing student loans and student allowances for tertiary education.

The recognition of vocational learning experiences – including out-of-school ones – in the new qualifications system and the imminent introduction of a new curriculum more focused on work-relevant skills may also contribute to increased engagement of pupils at risk of early school leaving.

The New Zealand government has also recently adopted a new Tertiary Education Strategy for 2007-2012, expected to be fully operative in 2008. The Strategy is aimed at improving the quality and labour market relevance of tertiary studies. The crucial change concerns the shift away from a system in which funding was based on students' intake, to one based on labour market outcomes. Course provision will be linked to regional labour market needs assessed through closer cooperation between Institutes of Technology and Polytechnics, Industry Training Organisations and employers. The role of Institutes of Technology and Polytechnics is being redesigned in an attempt to improve the relevance of the class-based vocational training they provide *vis-à-vis* the requirements of local business.

Finally, Youth Transition Services were introduced in 2004 with the objective of reducing the share of youth neither in employment nor in education or training. This policy is implemented in cooperation with local communities to ensure coherence with regional labour market needs. The Mayor Task Force for Jobs – a nationwide network of mayors working on the issues of youth work and livelihood in their communities –

was created in 2000 and has played a key role in the organisation of Youth Transition Services.

## **Suggested recommendations in response to the remaining challenges**

The recent efforts made to strengthen the relevance of education to labour market needs and to tackle disengagement among disadvantaged youth are welcome. However, further rigorous evaluation of the impact of these initiatives, with particular attention paid to their role in improving labour market outcomes of the hard-core of youth who are at high risk of inactivity and social exclusion, is desirable. Some additional measures could also be put in place to complete a more comprehensive strategy.

The strategy would ideally comprise four main components: improving retention rates in secondary education; ensuring that tertiary education provides the skills required in the labour market and improving the quality and scope of vocational education at the tertiary level; monitoring potential demand-side barriers to youth employment; and improving the design and coherence of the current activation strategy for disadvantaged youth.

### ***Improving retention rates in secondary education***

In terms of the education system, the priority is, first and foremost, to reduce early school-leaving: only 80% of young people are still enrolled in school six months after their 16<sup>th</sup> birthday, compared with 89% on average in the OECD. In addition, retention rates in education vary significantly across ethnic groups, with only 60% of Māori enrolled in school six months after their 16<sup>th</sup> birthday compared with 83% of their Pakeha counterparts. Some early school leavers return to education later or acquire basic qualifications through work-based learning, but many continue to lack the basic literacy and numeracy skills needed to successfully integrate the labour market and participate in lifelong learning. Moreover, in 2005 18.4% of early school leavers were neither in employment nor in education or training, which exceeds the OECD average of 12.4%.

Participation in early childhood education, which helps reduce the risk of early school-leaving, has been increasing steadily in New Zealand over the past few years. In 2005, 94% of children starting school had received *some* early childhood education. However, in the same year, 10% of Māori and 15% of Pasifika children starting school had *never* participated in early childhood education. In addition, participation of children under age three was still below 60% in 2005.

A number of practices in secondary education have contributed to low retention rates. First, some young people are granted exemptions from attending the last year of compulsory education on the basis of education problems, conduct and the belief they will not benefit from attending school. Second, the practices of suspending difficult students from attending classes or of sending them to alternative education institutions have contributed to their early disengagement from education.

The lack of a vocational route in secondary education – for youth under 16 – may also contribute to the disengagement of those young people who are not interested in academic learning. The Gateway programme helps secondary students experience the workplace and make informed choices for their further education. However, the organisation of the programme is largely left to the individual school and this leads to

unequal provision across the country. In any case, only work-ready students are allowed to participate in Gateway, thus excluding from work placements those students who might benefit most.

In addition to Gateway, schools can also obtain funding for activities such as vocational courses, workplace visits and labour-market-related workshops through the Secondary Tertiary Alignment Resource (STAR). While Gateway and STAR were created to cater for different needs – STAR funding is intended to benefit *all* students while relatively few opt to participate in work placements through Gateway – some degree of overlap has emerged recently. Indeed, some schools have used STAR funds to organise pre-placement classes for students who would like to participate in Gateway but are judged to be not work-ready.

To improve retention rates in secondary education and ensure that youth have the basic skills needed to enter and progress on the labour market, the following measures could be envisaged:

- *Increase regular participation in quality early childhood education and care and ensure sustained intervention.* Early childcare services could benefit from greater involvement by the government, particularly in communities where availability of quality early childhood education and care is limited. Special attention should be paid to increasing participation in quality services among Māori and Pasifika children and in rural communities. To do so, it is important to work with the families to persuade them of the benefits of early childhood education. Monitoring the progress of the children once they enter primary education is also key to ensure that the benefits of early childhood interventions are sustained.
- *Abolish early-leaving exemptions.* Early-leaving exemptions have contributed to falling retention rates among 16-year olds over the past decade, particularly for Māori youth. The exemption mechanism was designed originally to deal with exceptional circumstances only, but it has worked against the official objective of combating school failure.
- *Consider raising the school-leaving age further,* possibly with a focus on retention until a qualification is obtained rather than on staying until a given age, as in the recent Dutch initiative to raise the school-leaving age. A change in this direction would require secondary education to be able to cater for a broader age range and provide diversified learning routes. This option could involve significant additional public spending and the expected returns would need to be compared with competing claims on scarce public funds, e.g. from expanding early childhood education and care services.
- *Extend the suspension reduction initiative to more schools.* Secondary schools have used suspensions as a tool to exclude difficult students. This contributes to explain the high early school drop-out rates that currently prevail in New Zealand. The suspension reduction initiative provides funding to selected schools with high suspension rates of Māori students for activities aimed at reducing suspensions. The initiative has proved very effective and should be extended to more establishments. Examples of good practice – including academic support, personal development for teachers and mentoring – should be shared more widely among schools as they may serve to reduce school failure more generally.

- *Improve the educational content of alternative schools.* In New Zealand, difficult youth who have not completed compulsory education are sometimes sent to alternative schools. Some of these establishments provide limited educational content, employ social workers rather than qualified teachers and tend to focus on preventing social exclusion rather than providing the basic skills needed to participate actively in the labour market. Overall, it is crucial that every effort is made to keep all youth in mainstream education. When the recourse to alternative schools is justified by the existence of complex needs, it is imperative to ensure that such schools provide sufficient educational support as well as needed social services. Teen Parent Units – special units for teenage parents with a strong focus on individualised educational support coupled with the provision of childcare facilities – provide an example of good practice from within New Zealand in this domain.
- *Ensure consistent implementation of the Gateway programme across schools.* The fact that the organisation of the Gateway programme is left to the initiative of individual schools has led to some deviation from the intended model whereby youth should spend one day per week in the workplace. In 2003, only 7% of students spent the full year in the programme and just below a third of participants were enrolled for a total of one week only. It is important to set clearer guidelines at the national level on how much time youth should spend in the workplace and with what frequency, and to ensure that such guidelines are followed.
- *Provide additional funding for Gateway preparation classes destined to the least work-ready students.* These classes are a key initiative as they ensure that those youth most at risk of dropping out of school can experience work-based learning. However, additional funding should be made available for their organisation so as to ensure that STAR funds are used for their original purpose instead of being diverted to support Gateway.
- *Carry out a rigorous evaluation of Gateway.* The Gateway initiative, as defined by tighter national guidelines, should be implemented in selected localities to determine whether it improves retention in secondary school in a cost-effective manner. This is essential before the programme is rolled out nationally.

### *Ensuring that tertiary education provides the skills required in the labour market and improving the quality and scope of vocational education at the tertiary level*

Participation in tertiary education in New Zealand has increased significantly over the past decade and the share of young people holding a tertiary qualification is much higher than among older generations. The share of Māori and Pasifika youth attending tertiary institutions has also risen considerably and these groups are now better represented among tertiary attendees. Such achievements have been possible thanks to a system of tertiary funding based on students' intake.

However, these positive developments have, in some cases, come at the cost of reduced labour market relevance of tertiary education. Some tertiary providers have attracted more funding by lowering entry requirements and creating courses that would attract more applicants. Over a third of the rise in enrolments between 1999 and 2005 was

accounted for by management and commerce and society and culture programmes, two fields of study with very poor completion rates. Returns to tertiary *versus* upper secondary education in New Zealand are among the lowest in the OECD – in terms of both earnings and employment/unemployment differentials. More research is needed to assess whether this reflects the generally low level of earnings dispersion in New Zealand, or more specifically the fact that some of the best students emigrate to work in countries where wages are higher or an oversupply of graduates in courses which do not match labour market needs.

The tertiary education reform adopted recently (see above) goes in the right direction by making funding more related to labour market outcomes. In the new system, funding decisions are informed by assessed course quality and by regional provision gaps and priorities. Course quality will be evaluated through self-assessment by tertiary providers and external appraisal, but evaluation criteria have yet to be defined. Institutes of Technology and Polytechnics have been given the crucial task – the so-called *regional facilitators* role – of developing regional statements setting out specific information on local tertiary provision and training needs.

The provision of vocational education for youth aged 16 or older may also need to be revisited. In the present institutional context, Institutes of Technology and Polytechnics should provide school-based vocational training for the needs of local businesses. However, over the past decade, both have deviated from their original mission and have an increasing tendency to imitate the traditional university sector by offering more general courses of limited relevance to the regional labour market.

Parallel to school-based learning, for youth wanting to engage in work-based vocational education, apprenticeship places are available under the Modern Apprenticeships programme – dedicated to youth aged 16-21. Since it was introduced in 2001, the Modern Apprenticeships programme has raised the participation of youth in work-based vocational education and helped re-establish a youth training culture in New Zealand firms. Unfortunately, it remains a *prestige pathway* limited to a chosen few: only 2.5% of 16-21-year olds were in a Modern Apprenticeship at the end of 2006. It is notable that women, Māori and Pasifika youth are underrepresented among Modern Apprentices relative to their population shares. Also, although some services are included in the Modern Apprenticeships programme, the share of trainees in service professions is below 6%.

Overall, ensuring that youth leave tertiary education with skills required in the labour market, as well as improving the quality and scope of vocational education at the tertiary level, are key to enhancing human capital. The following measures could help achieve these goals:

- *Set clear indicators for Quality Assurance and Monitoring of tertiary education provision.* Performance assessment and quality assurance will increasingly guide investment in tertiary education. However, the indicators to be used for internal and external assessment have not been defined yet. The following could be considered as possible evaluation criteria: completion rates, career progression post-completion, research output and teaching quality assessed through surveys. In addition, while self-assessment is important for providers, independent and thorough external evaluation will be crucial to ensure that the reform's objective of improving quality and relevance of tertiary provision is achieved.

- *Revisit the roles of Institutes of Technology and Polytechnics within the education system to support work-based learning.* The combination of class-based and work-based learning – the so-called dual system – has proved a winning model for the provision of vocational education/apprenticeships in some European countries. At present, in New Zealand, these two types of training are provided separately: apprenticeships are work-based and polytechnic education is exclusively class-based. The roles of Institutes of Technology and Polytechnics could be revisited to include the provision of a high-quality class-based component preparing youth for work-based learning. This is likely to be beneficial for at-risk youth who are not work-ready but would like to enter an apprenticeship. It may also encourage employers to take on more young apprentices. Indeed, the main objection expressed by employers at present is that youth tend to lack the basic trade-related knowledge needed to be hired as trainees.
- *Expand the Modern Apprenticeship programme to include more professions and encourage employers to take on more apprentices.* Expansion should be encouraged in two directions: i) the inclusion of all professions; and ii) an increase in the supply of apprenticeship places. This expansion will require overcoming employers' resistance to hiring more young people as trainees in some professions. At the institutional level, more involvement of the social partners may help employers better gauge the benefits of in-house training. Also, an increase in financial incentives may prove necessary, particularly in the current context of slower economic growth and weaker labour demand. Possible ways of achieving this could include reducing the share of overhead costs covered by employers (currently 30%) and/or lowering the minimum training wage (currently 80% of the adult minimum wage).
- *Strengthen the brokerage role of Modern Apprenticeship coordinators to ensure more gender and ethnic balance.* Among other roles, programme coordinators – often representatives of an Industry Training Organisations – are charged with recruiting potential Modern Apprentices by establishing links with schools and other institutions and with arranging work placements with employers. It is also their responsibility to ensure that disadvantaged groups in the labour market are aware of the programme and to promote their participation where necessary. However, there is evidence that coordinators have not fulfilled these institutional roles: only 18% of Modern Apprentices had found a placement through a coordinator in 2006, to the greatest disadvantage of the groups that should be receiving more support. To improve their performance, coordinators should be evaluated and remunerated based on the number of youth placed in apprenticeships and the share of under-represented groups among them.
- *Evaluate the programme's returns for young apprentices in terms of both earnings and employment prospects after the apprenticeship experience.* Any positive findings could be used to encourage more youth to enter an apprenticeship contract.

### *Monitoring potential demand-side barriers to youth employment*

In New Zealand, limited barriers exist to hiring even the least qualified youth. Wages paid to young people are higher than statutory minima, which illustrates the recruitment

difficulties experienced by firms in a buoyant labour market. In this context, past increases in the sub-minimum wage hardly affected the employment prospects of youth. However, the recent abolition of the sub-minimum wage for 16-17-year olds – because of its size and timing – may have negative consequences on youth employment prospects or education participation. According to the new legislation, starting 1<sup>st</sup> April 2008, the adult minimum wage will be extended to 16-17-year olds with at least 200 hours or three months of work experience, whichever is shorter. A so-called “new-entrant wage” equivalent to 80% of the minimum wage will apply to those 16-17-year olds who have less than the required work experience. This measure will bring about a significant rise in the wage floor for 16-17-year olds – from 43% to 54% of median wages – and would affect over half of youth in this age group. It also comes at a time when the economy is starting to slow down. Overall, not only is it possible that such a move may affect negatively the employment prospects of low-skilled youth but it may run counter to the government efforts to prioritise education over work for teenagers.

Temporary work is increasingly common among youth for their first job but, in contrast to the situation in other OECD countries, conversion rates into permanent work are high. It also seems that most youth appreciate the flexibility afforded by casual work arrangements. As employment protection legislation is among the lightest in the OECD, there seems little need for reform in this area to boost youth job prospects.

While there are few problems on the demand side, it would be desirable to:

- *Monitor the effects of the abolition of the sub-minimum wage for 16-17-year olds.* In particular, it is key to monitor participation in education as a higher wage floor for youth aged 16-17 may reduce secondary school retention rates further, particularly for the most disadvantaged.

### *Improving the design and coherence of the current activation strategy for disadvantaged youth*

New Zealand has successfully shifted from the passive to active management of unemployment benefits. Another positive move has been the unification of welfare benefits administration – including activation policies – under the responsibility of a single body: Work and Income. Finally, a mutual obligations principle drives most interventions for unemployed youth and benefit sanctions are applied when recipients do not comply with their individualised Job-Seeker Agreement. On the downside, recipients of other benefits – such as lone parents on the Domestic Purposes Benefit (DPB) – are still not submitted to this work-test approach.

As a general rule, unemployed youth aged 18 or older are entitled to unemployment assistance, which is independent of their contributory history. Net replacement rates are among the lowest in the OECD, thus benefits are unlikely to cause dependency if they are associated with requirements for job search and participation in active measures. For unemployed youth, training and education are considered a priority. And evaluations of training programmes organised by Work and Income through private providers have shown more positive outcomes than in other OECD countries.

With the youth unemployment rate falling to historical lows, focus has shifted towards policies to tackle youth inactivity more generally. The Youth Transition Services set up for this purpose focus on those young people who are inactive rather than unemployed.

Although the services provided are meant to help all youth, the government hopes that they will help reach the 15-17-year-old group in particular. Indeed, youth in this age group are rarely entitled to benefits, and thus are mostly unknown to Work and Income. This new policy initiative is a good start on preventing and tackling youth inactivity. However, the services require some fine-tuning – particularly in terms of coordination between the national and community levels, sharing of good practices and outcome measurement. Networking at local level between different actors, particularly schools, social assistance services, the Public Employment Service, and specialist youth outreach programmes, should be systematically promoted, with the aim of ensuring that youths currently not registered for any services are identified and that effective safety nets are in place.

For the hard-core group of youth at high risk of labour market and social exclusion, New Zealand may also want to consider the introduction of a *residential* programme with a strong accent on learning and employment assistance. The long-standing Job Corps in the United States is a good model for such an initiative; some, but not all, evaluations of it have shown positive benefit-cost ratios for very disadvantaged youth.

The following actions are recommended:

- *Extend the mutual obligations principle to DPB recipients.* It is key that an effective activation strategy is applied to single parents with young children in order to encourage their return to work. In New Zealand, this is an issue with a strong ethnic dimension: 14% of 18-24-year olds Māori receive DPB versus an overall average of just 4%. And, inactivity among single parents accounts for a large part of the difference in NEET rates between Māori and Pakeha youth.
- *Ensure some baseline service provision across communities.* At present, Youth Transition Services providers tend to be local NGOs already operating in the area. Those selected receive Youth Transition funding to continue and provide the same services as they did before for a given number of potential clients. As a result, what services are provided in a given area depends mainly on what was offered by NGOs pre-existing Youth Transition Services, thus creating considerable variation across local communities which does not match local needs. It is key to ensure a minimum set of services to be provided in all communities – including mentoring, guidance, training as well as job-search and interview skills.
- *Ensure better co-operation with schools to reach youth as soon as possible when risk of disengagement is detected.* Referrals from schools to Youth Transition Services are essential if youth disengagement is to be addressed at the earliest opportunity when success is most likely.
- *Introduce financial incentives to ensure youth's continuous engagement with Youth Transition Services.* A small allowance paid to youth attending Youth Transition Services could help ensure that a mutual obligations principle can be applied. An example of this mechanism applied to NEET youth is provided by the “activity agreement pilot” in the United Kingdom. Participating NEET youth agree to search for a job or an education/training opportunity in exchange for a small periodical payment which can be withdrawn if the search obligation is not fulfilled.

- *Set up a centralised register to identify the Youth Transition Services client group and measure participants' outcomes.* Data collection should be carried out by an independent body and should include: i) individual as well as family characteristics of youth that are referred to Youth Transition Services; and ii) labour market and education outcomes of Youth Transition Services participants. Measuring the same characteristics and outcomes for a control group of youth would be highly desirable. This information could constitute the basis for an evaluation of Youth Transition Services providers based on clients' positive outcomes – job placements or returns to education and training – similarly to what is done for providers of training services to unemployed youth.
- *Evaluate Youth Transition Services rigorously before rolling them out nationwide.* Youth Transition Services are expensive and it is essential that a rigorous evaluation of their cost-effectiveness is conducted before they are extended nationwide.
- *Consider the introduction of a residential-type programme to provide intense support for the hardest-to-place young people.* The hard-core group of at-risk youth is likely to include youth with complex needs who are very difficult to mobilise but also cumulate a number of problems ranging from behavioural difficulties to alcohol and drug abuse. For this group, a residential programme may well represent a new start in a proactive environment.

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