

Chair
Cabinet

EXTENDING THE JOB SUPPORT SCHEME TO EMPLOYERS WITH 50 TO 100 WORKERS

Proposal

- 1 This paper proposes to extend the existing Job Support Scheme for large employers with over 100 workers to medium-sized employers with 50 to 100 workers from 27 April 2009.

Executive summary

- 2 When the Prime Minister announced the Job Support Scheme (the Scheme) on 11 March 2009 he noted that 'the Government is also looking at how small businesses might be able to benefit from a similar scheme'.
- 3 This paper proposes that, as the second phase in the response to the economic downturn, the Scheme be extended in its current format to employers with 50 to 100 workers. Feedback from employers and the Job Summit partners suggests that these employers and their workers would benefit from access to the Scheme.
- 4 Research shows that medium-sized employers with 50 to 100 workers generally have in-house payroll and personnel staff. This means that managing the agreement with workers to reduce their hours and save jobs should not impose a disproportionate administrative burden.
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- 6 Subject to Cabinet approval, I propose to implement the next stage of the Scheme from 27 April 2009. The terms and conditions of the extended Scheme and the delivery mechanism would be identical to the Scheme agreed by Cabinet on 16 March 2009 [CAB Min (09) 9/12].

Background

- 7 When the Prime Minister announced the Scheme on 11 March 2009 he noted that 'the Government is also looking at how small businesses might be able to benefit from a similar scheme'.
- 8 The Scheme was implemented on 27 March 2009 to provide an allowance to full-time workers of large employers (more than 100 workers) who have negotiated a voluntary agreement to reduce their workers' hours by up to ten hours a fortnight as an alternative to making people redundant.

- 9 The Scheme was initially restricted to employers with more than 100 workers as these employers were more likely to be able to implement the Scheme quickly (larger employers have separate personnel staff and are more likely to be unionised).

Previous Cabinet Decision

- 10 On 16 March 2009 Cabinet agreed to establish a Job Support Scheme that allowed the Ministry of Social Development to administer an allowance to large employers with over 100 workers who meet the terms and conditions of the Scheme [CAB Min (09) 9/12].

Employer eligibility for the Scheme

- 11 Cabinet agreed that every employer in New Zealand with more than 100 workers is eligible for the Scheme, with the exception of:
- central and local government;
 - incorporated and unincorporated societies and associations;
 - charitable trusts;
 - all education institutions;
 - district health boards.
- 12 Local Authority Trading Enterprises and State Owned Enterprises are also excluded, except in individual circumstances where exclusion would lead to an unfair commercial situation (for example if a direct competitor was using the Scheme).
- 13 Employer eligibility for the Scheme is determined on the basis of separate legal entities so where a parent company is split into separate legal entities, these legal entities may each be eligible to participate in the Scheme provided they meet all of the other terms and conditions.
- 14 Cabinet agreed that the Scheme be made available to employers on the following terms and conditions:
- the employer has negotiated a voluntary agreement with unions (where applicable) and full time workers that:
 - reduces the hours of work for the workers who are party to the agreement by up to ten hours a fortnight provided the reduction does not take the hours of work to less than 30 hours per week;
 - includes no more than ten times as many workers as the number of jobs that are being saved;
 - includes a commitment by the employer to not make any workers participating in the Scheme redundant during the period that they are receiving allowances under the Job Support Scheme;
 - provides that the allowance that is received by the employer under the Job Support Scheme be paid to any worker who has reduced their hours as part of the voluntary agreement.

Worker eligibility for the Scheme

15 To be eligible for the Scheme a worker must be:

- employed full-time, that is for at least 37.5 hours per week or 75 hours per fortnight;
- part of a voluntary agreement with their employer to reduce their hours of work by no more than ten hours a fortnight or to not less than 30 hours per week;
- a New Zealand citizen, permanent resident or on a valid work permit.

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- 16 Cabinet agreed that the Scheme allowance will be paid to any eligible employer who has a funding agreement with the Ministry of Social Development at the rate of the adult minimum wage (\$12.50 per hour) for up to five hours per fortnight for each worker who has reduced their hours by agreement.
- 17 The Scheme allowance can be paid to an eligible employer for such time as they meet the terms and conditions of the Scheme, once, and in any case for no longer than six months.
- 18 The government retains the discretion not to agree to pay a Scheme allowance to any employer if the Ministry of Social Development believes the benefits to government do not make it worthwhile to do so, or may impose additional terms and conditions for providing assistance.

Take-up of the Job Support Scheme for employers with more than 100 workers

- 19 The Scheme for employers with more than 100 workers began on 27 March 2009. Take-up of the Scheme to date is as follows:
- three employers have applied for, and been accepted into, the Scheme;
 - approximately 400 workers will be receiving the Scheme allowance from the start of May;
 - the three employers report that 123 jobs will be saved as a result.
- 20 The Ministry of Social Development has received a total of 58 enquiries from employers interested in the Scheme.
- 21 The Scheme was funded on the basis of 25,000 workers receiving the allowance over the period for which the Scheme is available. The Scheme has been in place for less than a month. It should be noted that as employers may only enter the Scheme once for a period of six months, some employers may delay entering the Scheme for as long as possible.

Rationale for expanding the Scheme to employers with between 50 and 100 workers

- 22 Workers in smaller enterprises experience the same or greater risk of redundancy during a downturn, and their employers may have fewer resources with which to weather a downturn. Evidence from the Department of Labour suggests that people who lose their jobs from smaller employers are likely to take longer to find another job than people from larger employers.

- 23 Research shows that employers with 50 to 100 workers generally have in-house payroll and personnel staff, meaning that negotiating revised agreements would not be a significant administrative burden. Discussions with Job Summit partners indicate that these employers could also benefit from the Scheme as they have scope to negotiate a reduction in hours with their workers to save jobs.
- 24 Expanding the Scheme to employers with 50 to 100 workers will include an additional 2,000 employers with approximately 140,000 workers at the same or greater risk of redundancy as those currently covered.

Ratio for determining maximum number of workers taking part in the Scheme from a single employer

- 25 The existing Scheme uses a ratio of ten to one because if ten workers each work a nine-day fortnight then the employer is saving wages equivalent to the wages of one full-time worker. The money that is saved can then be used to save one job.
- 26 The ratio is a maximum and is designed to limit the number of workers that can take part in the Scheme, particularly in large employers. The ratio limits the cost to the Government and prevents workers on reduced hours from using the Scheme where these reduced hours do not contribute to saving jobs. There is no minimum number of workers that have to be willing to take part before an employer can participate in the Scheme.
- 27 I consider that the same ratio should apply to the Scheme for employers with 50 to 100 workers as the Scheme would be implemented in the same way for them.
- 28 For example, if an employer with 75 workers was under pressure to make five people redundant then up to 50 (5 x 10) workers from this employer could take part in the Scheme. If the same employer was under pressure to make 10 people redundant then all of the employer's workers would be eligible (the theoretical maximum in this case would be 100 workers but as the employer only has 75 workers they would all be eligible).

Rate of the allowance

- 29 Under the terms of the existing Scheme, people who earn below the adult minimum wage (for example the youth or training minimum wage which is currently \$10 an hour) will receive an allowance equivalent to the adult minimum wage (currently \$12.50 an hour) for up to five hours a fortnight.
- 30 I recommend keeping this arrangement to make it easier for employers and the Ministry of Social Development to administer. The cost to the Government is low – if 1,000 people were receiving the youth or training minimum wage and took part in the Job Support Scheme, paying them at their current wage instead of the adult minimum wage would save \$160,000 in total.

Risks of expanding the Scheme to employers with between 50 and 100 workers

- 31 There are a number of risks associated with the existing Scheme which would also apply to the extension of the Scheme to employers with 50 or more workers.

Risk of employers 'gaming the Scheme'

- 32 An employer wishing to join the Scheme has to negotiate reduced hours with its workforce (and unions where applicable), make the relevant changes to collective and individual employment agreements, and complete all the documentation required by Work and Income.
- 33 If the Scheme is extended to employers with 50 to 100 workers, it will be monitored in the same way as the Scheme for employers with more than 100 workers. Under the existing Scheme, once every four weeks a participating employer must provide:
- written confirmation that the employer continues to comply with the conditions of the Scheme;
 - an invoice detailing the amount of allowances that have been paid to participating workers for the previous four weeks, and a list of the participating workers.
- 34 Employers must contact Work and Income immediately if their circumstances change while they are participating in the Scheme. The funding agreement between the Ministry of Social Development and the employer also allows the Ministry of Social Development to audit the employer's financial records relating to the Scheme.
- 35 The Government also retains the discretion not to pay a Scheme allowance to any employer if the Ministry of Social Development believes that the benefits to the Government do not make it worthwhile to do so.
- 36 The Scheme helps employers experiencing difficulties to reduce their wage costs in the short term, but any rational business will maintain its workforce at full hours if it has the work to do so. It is difficult to see the incentive for employers to enter the Scheme other than on a genuine basis as the only financial assistance paid under the Scheme supports the workers rather than the employer. I therefore consider that the risk of employers 'gaming the Scheme' is low.

Implementing the Scheme in non-unionised employers

- 37 Workers do not have to belong to a union to take part in the Scheme. Workers who are not part of a union should have written individual employment agreements they have negotiated with the employer. If these workers wish to take part in the Scheme they will need to agree to change their individual employment agreements to reflect the reduced working hours that they agree with their employer.
- 38 Where a workforce is unionised, it may be easier to implement the Scheme because the union can negotiate on behalf of all the workers it represents. However, as employers employing between 50 and 100 workers generally have in-house payroll or personnel staff who can provide administrative support for the Scheme, the absence of a union should not be a bar to extending the Scheme.

Extending the Job Support Scheme to employers with between 50 and 100 workers

- 39 I propose that the Scheme be extended to employers with 50 to 100 workers from 27 April 2009. The Scheme is set to expire on 31 December 2010. Business New Zealand and the Council of Trade Unions support this proposal.

- 40 The terms and conditions of the extended Scheme and the delivery mechanism would be identical to the Scheme agreed by Cabinet on 16 March 2009 [CAB Min (09) 9/12]. Should any operational issues emerge which mean the Scheme needs to be adjusted in line with its overall intent, I propose that these changes be agreed by the Minister of Finance and the Minister for Social Development and Employment.
- 41 If Cabinet agree, the Ministry of Social Development could implement the extended Scheme from 27 April 2009.

Support for employers with fewer than 50 workers

- 42 Discussions with Job Summit partners indicate that the Job Support Scheme is unlikely to be appropriate for employers with fewer than 50 workers because they tend to lack the infrastructure to easily participate in the Scheme, for example, dedicated in-house payroll and personnel staff. Their view was that these smaller employers would also have less scope to agree a reduction in hours to save jobs.
- 43 The Government has already announced a substantial package of support to help employers and workers during the economic downturn. This support includes:
- the Small Business Relief Package, which includes a suite of 11 tax changes costing \$480 million over the next four years;
 - the 90-day employment trial, targeted at employers with fewer than 20 workers;
 - the ReStart package, which provides support to people who are made redundant to help them adjust to their new circumstances.

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Consultation

- 48 The Department of the Prime Minister and Cabinet, the Treasury, the Ministry of Economic Development, the Department of Labour, the Inland Revenue Department and ACC have been consulted on this paper.

Financial implications

- 49 The total cost of the existing Scheme for employers with more than 100 workers is to cover 25,000 workers participating in the Scheme. This includes the expenditure forecast for the current 2008/9 year.
- 50 There are about 2,000 employers with between 50 and 100 workers. These companies together employ around 140,000 people. On the same basis as the costs for the original Scheme were estimated, the estimated cost of extending the Scheme to employers with 50 to 100 workers would be
- 51 The strict criteria which employers have to meet to qualify for the Scheme make it more difficult than usual to forecast the number of workers that will take up the Scheme, and therefore how many workers will receive the allowance, at any point between now and 31 December 2010.

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The Minister of Finance and Minister for Social Development and Employment receive monthly reporting of the numbers taking up the Scheme and the cost against forecast which will provide early warning if there is a risk of the funding allocation not being sufficient.

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Human rights implications

- 54 None.

Legislative implications

- 55 None.

Regulatory impact and compliance cost statement

- 56 Not prepared.

Gender implications

- 57 None.

Disability perspective

58 Not relevant.

Publicity

59 Publicity for the Scheme will be managed by the Office of the Minister for Social Development and Employment in consultation with the Office of the Prime Minister. Business New Zealand and the Council of Trade Unions have advised that the publicity should be minimal because larger firms have reported being discouraged from applying by the media hype surrounding the Scheme.

Recommendations

60 I recommend that Cabinet:

The Job Support Scheme for employers with 100 or more workers

1. **note** that on 16 March 2009 Cabinet agreed:

1.1. *to establish a Job Support Scheme that allows the Ministry of Social Development (MSD) to administer an allowance to large employers with over 100 employees who meet the terms and conditions of the Scheme;*

Employer eligibility for the Scheme

1.2. *that every employer in New Zealand with more than 100 staff is eligible for the Scheme, with the exception of:*

1.2.1. *central and local government;*

1.2.2. *incorporated and unincorporated societies and associations;*

1.2.3. *charitable trusts;*

1.2.4. *all education institutions;*

1.2.5. *district health boards;*

1.3. *that Local Authority Trading Enterprises and State Owned Enterprises are also excluded from the Scheme, except in individual circumstances where exclusion would lead to an unfair commercial situation (for example, if a direct competitor was using the Scheme);*

1.4. *that employer eligibility for the Scheme will be determined on the basis of separate legal entities so where a parent company is split into separate legal entities, these legal entities may each be eligible to participate in the Scheme provided they meet all of the other terms and conditions;*

1.5. *that the Scheme be made available to employers on the following terms and conditions:*

1.5.1. *the employer has negotiated a voluntary agreement with unions (where applicable) and full time workers that:*

1.5.1.1. *reduces the hours of work for the workers who are party to the agreement by up to ten hours a fortnight provided the reduction does not take the hours of work to less than 30 hours per week;*

1.5.1.2. *includes no more than ten times as many workers as the number of jobs that are being saved;*

1.5.2. *includes a commitment by the employer to not make any workers participating in the Scheme redundant during the period that they are receiving allowances under the Scheme;*

1.5.3. *provides that the allowance that is received by the employer under the Scheme be paid to any worker who has reduced their hours as part of the voluntary agreement;*

Worker eligibility for the Scheme

1.6. *that a full-time worker is a worker who is employed for at least 37.5 hours per week or 75 hours per fortnight;*

1.7. *that, to receive a Scheme allowance, a full-time worker must be part of a voluntary agreement with their employer to reduce their hours of work by no more than ten hours a fortnight or to not less than 30 hours per week;*

1.8. *that the Scheme will be open to New Zealand citizens and permanent residents and those people who are on valid work permits;*

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1.9. *that an allowance will be paid to any eligible employer who has a funding agreement with MSD at the rate of the adult minimum wage (\$12.50 per hour) for up to five hours per fortnight for each worker who has reduced their hours by agreement;*

1.10. *that the Scheme allowance can be paid to an eligible employer for such time as they meet the terms and conditions of the Scheme, once, and in any case for no longer than six months;*

1.11. *to establish the Job Support Scheme from 27 March 2009 to 31 December 2010;*

1.12. *that the government retain the discretion not to agree to pay a Scheme allowance to any employer if MSD believes the benefits to government do not make it worthwhile to do so, or may impose additional terms and conditions for providing assistance;*

[CAB Min (09) 9/12]

2. **note** that when the Job Support Scheme was announced the Prime Minister stated that the Government was also looking at how small businesses might benefit from a similar scheme;

Extending the Job Support Scheme to medium employers with 50 or more workers

3. **note** that workers employed by smaller enterprises experience the same or greater risk of redundancy during a downturn, and their employers may have fewer resources with which to weather a downturn;

4. **note** that employers who have 50 to 100 workers generally have in-house payroll and personnel staff, so negotiating revised agreements would not be a disproportionate administrative burden;
5. **EITHER** [supported by the Ministry of Social Development]
 - 5.1. **agree** that, from 27 April 2009, the existing Job Support Scheme, noted in recommendation 1 above, be extended to include employers with 50 to 100 workers who meet the terms and conditions of the Scheme;
6. **note** that no changes to the terms and conditions of the Job Support Scheme are proposed in extending the Scheme to this group;
7. **note** that eligible workers who are currently paid an hourly rate that is less than the adult minimum wage rate, for example the youth or training minimum wage, will receive an allowance rate equivalent to the adult minimum wage for up to five hours per fortnight under the Job Support Scheme;
8. **authorise** the Minister of Finance and the Minister for Social Development and Employment to approve any further policy or operational changes to the Job Support Scheme that are consistent with the broad direction agreed to in CAB Min (09) 9/12, in consultation with other Ministers as appropriate;

Support for employers with fewer than 50 workers

9. **note** that discussions with Job Summit partners indicate that the Job Support Scheme is unlikely to be appropriate for employers with less than 50 workers because these employers tend to lack the infrastructure to easily participate in the Job Support Scheme;
10. **note** that there is already a substantial package of support in place for small employers, including the Small Business Relief Package and the 90-day employment trial;
- 11.

Financial implications

12. **note** that 2009/2010 and 2010/2011 funding for the Job Support Scheme for employers with more than 100 workers was confirmed
- 13.
- 14.

Vote Social Development Minister for Social Development and Employment	\$m – increase/(decrease)				
	2008/09	2009/10	2010/11	2011/12	2012/13 & Outyears
Non Departmental Other Expense:					
Employment Assistance		-	-	-	-
Job Support Scheme		-	-	-	-
Total Operating		-	-	-	-

15. **agree** that the proposed changes to appropriations above be included in the 2008/2009 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

16. **EITHER** [supported by the Ministry of Social Development]:

16.2. **note** that the Ministry of Social Development and the Treasury are providing monthly reports on the uptake and cost of the Job Support Scheme to the Minister of Finance and the Minister for Social Development and Employment, which will provide early warning if there is a risk of the funding allocation not being sufficient;

OR [supported by Treasury]



Hon Paula Bennett
Minister for Social Development and Employment

Date 16 April 09