

In Confidence

Office of the Minister for Social Development and Employment

Cabinet Business Committee

Expansion of Flexi-Wage to support 40,000 New Zealanders into work or to start their own business

Proposal

- 1 This paper sets out my proposal for expanding Flexi-Wage to support up to an additional 40,000 New Zealanders into work or to start their own business.

Relation to government priorities

- 2 Expanding Flexi-Wage is signalled as a priority in the Labour Party's 2020 manifesto. This aligns with the Government's efforts to support New Zealand's economic recovery from COVID-19 by supporting people to enter work or to start a new business. The proposal will assist businesses in hiring up to an additional 40,000 New Zealanders. As part of this expansion, we will:
 - 2.1 invest an additional \$300 million to increase the average subsidy to \$7,500 and enable up to 40,000 people to take advantage of the programme (the maximum subsidy will remain \$22,000)
 - 2.2 amend the scheme to provide greater flexibility for employers and employees
 - 2.3 ring-fence \$30 million to support people to start a new business through Flexi-Wage Self-Employment.

Executive Summary

- 3 COVID-19 has had a major impact on the labour market with unemployment reaching 5.3% in the September 2020 quarter and expected to peak at 7.8% in the March 2022 quarter. There is a need to support those both already affected and those who will be affected by the economic impact of COVID-19.
- 4 The Flexi-Wage is an existing and proven employment support product that can be scaled up and enhanced quickly to offer support to struggling businesses and create a strong incentive to employ those most effected by the economic recession. The Flexi-Wage invests in job seekers who are at risk of long-term benefit receipt, by making a temporary contribution to their wages in the form of a wage subsidy¹. This intervention is designed to support those disadvantaged in the labour market by supporting employers to take them on until they meet entry level requirements for that job. It is expected that the participant will remain in employment when the subsidy ends.
- 5 This Government has committed to expanding Flexi-Wage to support up to an additional 40,000 people into work or to start their own business. I have

¹ This is different from the COVID-19 Wage Subsidies, which were to keep people in viable employment by supporting employers whose income had dropped due to COVID-19.

identified three changes needed for us to build on the existing Flexi-Wage and achieve this level of support to New Zealanders over the next two years:

- 5.1 introduce the ability to target key cohorts (for example, disadvantaged in the labour market; women; sectors most affected by COVID-19; and people who are under-utilised² in certain circumstances). This will enable Flexi-Wage to quickly respond to new evidence on the impact of COVID-19 on the labour market, with changes given effect through a new tailor-made welfare programme
 - 5.2 make it easier for employers to navigate and understand, by increasing certainty and consistency in how much they will receive through streamlining the Flexi-Wage, introducing set rates, while also maintaining flexibility through a discretionary band
 - 5.3 undertake a multi-pronged, multi-year media campaign to promote the support available and utilise what we know about good employers and sustainable employment.
- 6 As the number of people needing support is expected to increase, I am proposing a phased approach that enables us to support more people into work now while also building capacity to meet forecasted increases in unemployment. By December 2020, the Flexi-Wage will be more user-friendly and accessible, payments will be upfront rather than in arrears, and employers will be ~~be~~ more aware of what they may be entitled to.
- 7 This Government has also committed to ring-fence \$30 million to expand Flexi-Wage Self-Employment. I propose to use this funding to encourage innovation and entrepreneurship as part of the recovery from COVID-19, particularly for those disadvantaged in the labour market.

Background

- 8 Flexi-Wage has been in place since 2012. It can be paid for up to one year at up to the minimum wage for a person working 30 hours a week.³ In the 2019/20 financial year the average amount of Flexi-Wage was \$4,594.

Flexi-Wage is authorised by the EWRAP and targets those who are disadvantaged in the labour market

- 9 Currently, Flexi-Wage is authorised by MSD's Employment and Work Readiness Assistance Programme (EWRAP)⁴, which governs many of MSD's employment services. The only exception is Flexi-Wage Self-Employment, which is authorised by Minister approved criteria.
- 10 To be eligible for assistance under EWRAP, the existing criteria states that recipients must be either a young person or working age (including those over

² Underutilised in the labour market, in the context of Flexi-Wage, means those who are employed part-time (fewer than 30 hours a week) and who both want and are available to increase the number of hours they work.

³ For example, in 2018 the minimum wage was \$16.50 per hour setting the expenditure cap at \$25,740.

⁴ EWRAP is administered as a welfare programme for the purpose of granting special assistance, pursuant to s 101 of the Social Security Act 2018.

65 years who are not eligible for New Zealand Superannuation) and satisfy residency requirements. The criteria also require recipients of wage subsidies under the EWRAP to be at risk of long-term benefit receipt.

- 11 Job seekers must also meet the Flexi-Wage guidelines to be entitled to assistance⁵. These guidelines state job seekers must have a need for assistance and be disadvantaged in the labour market.
- 12 MSD's work brokers, who administer Flexi-Wage, assess the job seeker's need for assistance and whether they are at risk of long-term benefit receipt to determine if a Flexi-Wage is needed to support them into work.⁶ If the person does need support, the work broker will negotiate the subsidy rate and duration with the employer, by assessing the level of assistance required for the job seeker to reach the skill level required for that job.

This Government has already invested in Flexi-Wage to support New Zealanders into and to retain employment

- 13 COVID-19 has had a major impact on the labour market with unemployment reaching 5.3% in the September 2020 quarter. While this is significantly lower than initially forecast, there remains considerable uncertainty about how COVID-19 will impact the labour market in the longer term. Currently, the unemployment rate is expected to peak at 7.8% in the March 2022 quarter.⁷
- 14 In response to COVID-19, and to maintain a focus on mitigating the risk of high unemployment and an unfavourable labour market on those most disadvantaged, MSD budgeted an additional \$52.1 million to increase the number of New Zealanders Flexi-Wage can support into work. This was to both minimise the impact that long-term unemployment can have on people and help people newly unemployed transition quickly into other employment.
- 15 There are currently six different Flexi-Wage products used by MSD, supporting people in a range of different situations to enter and to retain employment (see Appendix One).

Flexi-Wage sits within a continuum of employment supports

- 16 Flexi-Wage, alongside other employment products offered by MSD, provides a continuum of support for job seekers at risk of long-term benefit receipt, and other people facing disadvantage in the labour market. This continuum falls into three broad-based categories, paid out at differing rates depending on the level and intensity of support required:

Category of support	Supports provided
Full wraparound supports	- Intensive support for jobseekers who may require a significant amount of upskilling to enter employment. This may include a payment to undertake training, a professional qualification, or other support to attain

⁵ The EWRAP allows for the creation of additional guidelines to target assistance to those who MSD considers at risk of long-term benefit receipt [Clause 6(2A)(a)].

⁶ Or other appropriate product.

⁷ The Treasury's Pre-election Economic and Fiscal Update (PREFU) 16 September 2020.

	<ul style="list-style-type: none"> employment (e.g. literacy and numeracy tuition costs). - Pastoral care (e.g. free coaching and mentoring services). - Payments to gain work readiness skills and overcome minor barriers to employment (e.g. payment for tools and transport costs). - A wage subsidy to encourage employers to employ job seekers.
Basic supports to enter employment	<ul style="list-style-type: none"> - Supports to enter employment, such as payments for training and incentive payments. - Funding to develop soft skills. - General work readiness skills to enter employment and overcome minor barriers to begin working (e.g. payment for tools and transport costs). - A wage subsidy to encourage employers to employ job seekers.
Post placement or in-work supports	<ul style="list-style-type: none"> - A wage subsidy to employers to retain their employees. - A transition payment to support individuals into temporary jobs to obtain more sustainable employment, or redeployment support.

Flexi-Wage Self-Employment is also available to support those disadvantaged in the labour market to start their own business

- 17 Flexi-Wage Self-Employment is a wage subsidy calculated on a client’s living expenses, needs, skills and expected cash flow of the business. It is paid for 30 hours per week, for up to 52 weeks and cannot be more than the minimum wage. It’s also a relatively small-scale programme - over the past year, 186 clients used the subsidy at a total cost of approximately \$2 million.
- 18 This subsidy is targeted at supporting clients who are both at risk of long-term benefit receipt and disadvantaged in the local labour market into self-employment. However, some groups are underrepresented as business owners, such as women, Māori and Pacific people, so are not accessing Flexi-Wage Self-Employment as much as they could be.
- 19 MSD also has two other forms of self-employment assistance⁸:
- 19.1 Self-Employment Start-Up: a payment for essential start-up costs such as leasing premises, paid for up to \$10,000 in a 52-week period
- 19.2 Business Advice and Training Grant: a payment for business advice and training including the development of a business plan, paid for up to \$1,000 in a 52-week period. Over the past year, 285 clients utilised the product at a total cost of approximately \$200,000.

Objective

The Flexi-Wage expansion will continue to focus on those in need and who can benefit from support ...

- 20 COVID-19 has already had a wide-ranging social and economic impact on New Zealand’s labour market, causing displacement and increased unemployment. This is expected to continue, although it is not clear how long the effects will last or what the longer-term, permanent implications will be.
- 21 We do, however, know the effects of COVID-19 are likely to impact groups known to be disadvantaged in the labour market pre-COVID. This includes:

⁸ There are several self-employment initiatives offered by other agencies that support people to establish and grow their own business. These initiatives predominately focus on the business growth, rather than establishment

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- 21.1 women, particularly sole parents seeking work – supporting sole parents, the majority of whom are women, to enter and retain paid employment is particularly important as children in sole parent households are more vulnerable to poverty
 - 21.2 displaced workers, including mid-career and mid-skilled people, youth, and older workers – many of these workers may need help to retrain and find new employment
 - 21.3 Māori and Pacific peoples who are concentrated in lower waged careers – analysis by Te Puni Kōkiri shows for Māori it can take three-to-six quarters longer to return to baseline levels of employment⁹
 - 21.4 people with health conditions and disabled people to retain and increase their employment – labour force participation rates for disabled people is persistently low.
- 22 An expanded Flexi-Wage needs to be adaptable enough to scale up and focus on those who are at need at the time they need it. It's also important to help people to stay or take on more work in certain circumstances. This includes people with a health condition or disability as well as women who are in work and ready and able to increase their hours.
- ...be flexible and support people in a range of different situations...*
- 23 The Flexi-Wage is used to support our people in a range of different situations, for example:
- 23.1 people at risk of long-term benefit receipt are supported into employment through a wage subsidy or other assistance (including training, mentoring, or in-work support)
 - 23.2 supporting clients to take on part-time work, such as those on Supported Living Payment and part-time work is supported by their health professional
 - 23.3 staircasing clients into further employment once they have completed Flexi-Wage Project in the Community.
- 24 This discretion is a strength of Flexi-Wage, as it can be used to support people in a range of different situations in to, or to retain, employment. This flexibility, however, can make it harder for employers to know what they are eligible for under Flexi-Wage. This may deter some employers from employing a person eligible for Flexi-Wage.

⁹ Te Puni Kōkiri, Data & Analytics Summary, Economic Impacts of COVID-19 July 2020.

...be built on what we know works

- 25 Wage subsidies, such as Flexi-Wage have been found to be effective, with commencing a subsidised job leading to significant employment and earning benefits for assisted jobseekers over several years.¹⁰
- 26 Flexi-Wage is an effective/promising employment assistance intervention, with positive impacts on employment and net-income.¹¹ For the 2019/20 financial year, 5,284 Flexi-Wage contracts were approved. Of these, 66% were for Jobseeker Work Ready clients, and 23% of these were for Jobseeker Work Ready clients who had been on benefit for three months or less.
- 27 Experience with the COVID-19 Wage Subsidies, Mana in Mahi, and Apprenticeship Boost have demonstrated that employers value certainty in how much they will receive, being paid in advance, schemes that have a clear purpose and legal framework, and when it's easy to identify eligibility and apply for payments.
- 28 An evaluation of Flexi-Wage Self-Employment found that it had a positive impact on time spent independent of the welfare system, but no effect on income or time spent in employment. However, this evaluation was based on less than two years of observed outcomes. Longer term impacts on income and employment are expected to become more evident in future evaluations. International evidence suggests that wrap-around supports and business mentoring can improve the effectiveness of self-employment programmes.

Flexi-Wage expansion proposal

- 29 In expanding Flexi-Wage, we need to strike a careful balance between moving at pace to achieve our goal of 40,000 people supported within two years, and making sure we do so in a way that continues to target the people that need the most support. Our expansion also needs to maintain the balance between a highly flexible and discretionary scheme with the service and operational changes needed for us to scale up.

- 30 I have identified three changes needed for the Flexi-Wage expansion.

Change one: Target and respond to people who need support through a new tailor-made welfare programme

- 31 Our expansion of the Flexi-Wage needs to respond to a changing and dynamic situation. It needs to:
 - 31.1 continue to support those at risk of long-term benefit receipt, but also support those who are new to benefit or at risk of coming onto benefit who are disadvantaged in the labour market

¹⁰ Crichton & Maré (2013). The Impact of Wage Subsidies on Jobseekers' Outcomes and Firm Employment. Motu working paper

¹¹ de Boer & Ku (2019). Effectiveness of MSD employment assistance: summary report for 2016/2017 financial year.

- 31.2 maintain the high level of discretion in who can be supported by a Flexi-Wage subsidy, but have the ability focus on specific industries to improve longer-term employment outcomes (for example, targeting support for viable businesses); this focus could be enacted through targeted communications or proactively reaching out and developing relationships with employers and people working in these industries
- 31.3 be able to better target and support people who are not working but may not be receiving a benefit (for example, their still-working partner's earnings are just over the income threshold for benefit receipt), and supporting people under-utilised to stay in work and increase their hours in the right circumstances (for example, a sole parent in work who is ready and prepared to take on more hours).
- 32 For a person to receive a Flexi-Wage under the EWRAP, they need to be assessed as being at risk of long-term benefit receipt. However, some of the key cohorts we want to support through the expanded Flexi-Wage might not meet this criteria but could benefit from a Flexi-Wage.
- 33 To address this, I will shift the Flexi-Wage (including Flexi-Wage Basic, Plus, Retention, Next Step, and Project in the Community) into a tailor-made welfare programme for the duration of the expansion. This welfare programme will provide us with the ability to target support towards key groups and adapt as evidence of who needs support becomes available and align to our COVID-19 recovery strategy. This arrangement will be reviewed in late 2022.
- 34 Ahead of the welfare programme being developed, I propose targeting the scale up towards key cohorts including women (and in particular sole parents looking for work), youth, disabled people or people with a health condition, Māori and Pacific peoples.

Change two: Increasing consistency and streamlining the payment for employers

- 35 Flexi-Wage is a bespoke product that provides a payment to an employer that is reflective of an individual's needs. This is the strength and value of Flexi-Wage. However, this lack of certainty can also deter employers from taking on an eligible worker, particularly for smaller employers.
- 36 I propose introducing set rates that are reflective of a person's needs but provide certainty for employers in how much they will receive. For example:
- 36.1 \$5,000 for employers who take on individuals who only need a small level of support to help them into sustainable employment, such as a person who has recently entered the benefit system
- 36.2 \$9,000 for employers who take on individuals who need more support to enter sustainable employment, such as a person who has been on benefit for six months or more.¹²

¹² Over recent years there has been a trend towards standardised use of the Flexi-Wage, with half of all contracts falling within a band of around \$3,000 to a little over \$6,000. Employers have also responded well to set rates following the introduction of Mana in Mahi and Apprenticeship Boost.

- 37 To maintain flexibility, Flexi-Wage will continue to have a discretionary rate set at a maximum of \$22,000. This will continue to be used to tailor support for those most in need, including any additional support that an individual might need to gain and/or retain employment (for example, training, mentoring or in-work support). A subsidy of this amount could, for example, be supporting a person with multiple convictions, a health condition, high entry and exit rates from benefit and living in a low employment location.
- 38 These rates will enable MSD to work with large employers to incentivise them to employ a cohort of people who are disadvantaged in the labour market.
- 39 MSD will provide advice to the Minister of Finance and Minister for Social Development and Employment, on the range of characteristics and core factors that can be used to identify eligibility for the set bands.

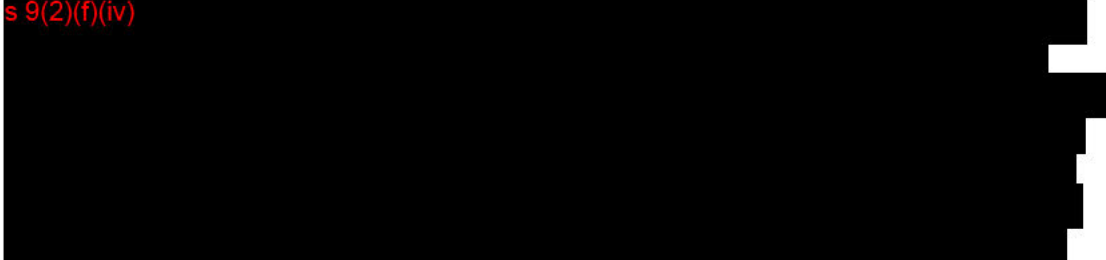
Change three: Undertake a significant multi-pronged and multi-year media campaign

- 40 Underpinning this proposal is the need to increase awareness of Flexi-Wage. This needs to capitalise on the success of the COVID-19 Wage Subsidies and other work we've done to support New Zealand's economic recovery.
- 41 To support the launch of the expanded Flexi-Wage, MSD will undertake a short-term media campaign involving specific Flexi-Wage campaign collateral and increased activity on social media and digital advertising platforms over the next three months.
- 42 This will be supported by increased communications activity through MSD owned channels, such as direct email, social media, resources for employment teams, and leveraging stakeholder channels.
- 43 Following this, MSD will undertake a broader over-arching employment campaign, encompassing the range of employment services and supports on offer. Flexi-Wage will be a key feature, but the campaign will need to focus on increasing awareness of other services available to support employers and job seekers. This will help raise awareness of MSD's range of employment support services and provide a better experience for New Zealanders.

Flexi-Wage Self-Employment proposal

- 44 \$30 million of the funding for the expanded Flexi-Wage will be ring-fenced for Flexi-Wage Self-Employment.
- 45 In recent years, MSD has partnered with several external bodies to pilot innovative self-employment programmes for a small number of MSD clients. For example, business accelerator training to assist clients to develop and test their ideas iteratively prior to developing a business plan, coupled with ongoing mentoring and business support for those that opt to establish a business following the course.
- 46 I propose to continue this approach and undertake further trials and pilots to test the right mix of pastoral care, mentoring and business support needed to support people to start their own business.

47 As part of this approach, we can align effort across other initiatives for small businesses, led by the Minister for Small Business, to ensure that our support through the Flexi-Wage Self-Employment intervention best enables those individuals and their firms to operate effectively in a digital first business environment. This may include work to lift digital literacy, digital connectivity and digital business capability.

48 s 9(2)(f)(iv) 

Implementation

Operational improvements are required for MSD to expand the Flexi-Wage

49 A key challenge to the expansion are limitations on how many applications can be processed, driven by the manual, time consuming and resource heavy process of applying and receiving a Flexi-Wage.

50 To address this, MSD will introduce an online channel enabling employers to contact and apply online when employing eligible workers, which will be in place by Christmas. This will reduce the time taken for eligible employers to apply and receive a Flexi-Wage.

51 This does, however, come at a cost and will take time to implement. As such, MSD has identified several improvements that can be undertaken within current settings to reduce compliance and barriers for employers and streamline processes, without compromising the existing high-level integrity and robustness of the Flexi-Wage.

Additional staff funding is needed for MSD to administer the expanded Flexi-Wage

52 More staff will be needed to support the expansion. MSD has identified that they will require additional 34 FTE over the next two years in order to expand the Flexi-Wage to support 40,000 people.

We will need to take a considered, but fast, approach to scaling up Flexi-Wage

53 I will be taking a phased approach to the expansion, with service improvements made to increase the number of applications while the welfare programme is drafted, and online service developed.

Milestone/Activity	Timeframe
Cabinet agreement	30 November 2020
Advice to Joint Ministers, Minister of Finance and Minister for Social Development and Employment on announcement and high-level design detail	3 December 2020

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Announcement	10 December 2020
Refreshed website presence and email form live	10 December 2020
System and process improvements	December 2020 ongoing
Stakeholder consultation, for example Business NZ, Chambers of Commerce, and Council of Trade Unions	December 2020 ongoing
Online channel fully implemented	Late January 2021
Welfare programme signed	Late January 2021
System improvements completed	June 2021

54 We expect the number of people needing support to grow over the coming months and years. The number of Jobseeker Support and Emergency Benefit recipients are expected to increase by 89,000 by 2020/21 FY compared with 2019/20 FY and then increase further in 2021/22 FY to peak at 279,000, before reducing to 246,000 recipients by 2023/24 FY, 84,000 more recipients than 2019/20 FY (an increase of 52%).¹³ The phased approach I am proposing will enable us to scale up and be prepared to meet that demand.

Risks

55 There are several risks to scaling the expansion of the Flexi-Wage.

55.1 *Non-viable employment:* Non-viable firms or employers who do not offer good employment experiences may be granted a Flexi-Wage.

55.2 *Substitution or displacement:* There is a risk that the employer would have hired another unsubsidised person (i.e. no additional job is created).

55.3 *Decay rates:* People not staying with their employer for the length of the Flexi-Wage subsidy and returning or entering benefit.

55.4 *Employer misuse:* Employers may take advantage of the subsidy and cease employment for some people once the Flexi-Wage subsidy comes to an end.


55.5 *Poor targeting:* Where a jobseeker would have found a job without additional support (this might be with the current employer or another).

56 Some of these risks already exist and are addressed through the existing checks and balances of the Flexi-Wage programme, including the contract signed between MSD, employers submitting their claim forms retrospectively every four weeks, and the welfare programme providing a legal framework. Our scale up will need to be done in a way that maintains this integrity.

57 I believe the proposed phased approach strikes the right balance between minimising these risks and enabling us to implement these changes at pace. It also gives time for MSD to best use business intelligence to maximise effectiveness by understanding outcomes of employers and industries.

¹³ Pre-election Economic and Fiscal Update 2020.

Evaluation and monitoring

- 58 s 9(2)(f)(iv)  This will form a part of regular reporting to update Ministers on the broad range of employment supports MSD is currently administering.
- 59 MSD will undertake an evaluation to provide information on the Flexi-Wage expansion, which will be used to inform both implementation processes and further policy development. An evaluation on the effectiveness of the expansion will also be undertaken, utilising the Integrated Data Infrastructure (IDI) to track early cohorts, see if the participants remain with the same employer after the subsidy ends, and examine the profile of employers using the programme (currently being tested with Mana in Mahi).

Financial Implications

Flexi-Wage has been funded from MSD's Multi-Category Appropriation (MCA)

- 60 MSD's employment services are funded through the Improved Employment and Social Outcomes Support MCA. The overarching purpose of the MCA is "to operate the benefit system and associated interventions... to improve client outcomes... with a focus on those at risk of long-term benefit receipt".
- 61 The MCA is divided into three output categories:
- 61.1 Administering Income Support
 - 61.2 Improving Employment Outcomes, which Flexi-Wage is currently paid out of
 - 61.3 Improving Work Readiness Outcomes.

A new category under the MCA so that we can start scaling up the Flexi-Wage now

- 62 Funding for the expanded Flexi-Wage will be ring-fenced through a new category, Flexi-Wage Employment Assistance, under the MCA. In total, \$311 million is sought across the years 2020/21 to 2022/23, including \$30 million which is ringfenced for Flexi-Wage Self Employment. A new appropriation supports improved transparency by being better able to track Flexi-Wage spending and ensure funding is exclusively retained for Flexi-Wage. This is being funded through the COVID-19 Response and Recovery Fund established as part of Budget 2020.
- 63 To deliver an additional 40,000 Flexi-Wage subsidies in the next two years, MSD will need approximately 34 additional FTE. The tailored IT solution to support this build will cost an estimated \$3.14 million, with the bulk of this cost

needed for the 2020/21 financial year. To ensure that we are positioned to learn from this expansion, \$0.422 million has been allocated for evaluation.

Legislative Implications

64 A new welfare programme will be approved pursuant to s 101 of the Social Security Act 2018 to enable Flexi-Wage to support people who may sit outside the scope of the current EWRAP, as well as to focus on specific industries and employers. Establishing the new welfare programme may also require subsequent amendments to the EWRAP.

Regulatory Impact Statement

65 No change to legislation or regulations are required.

Impact Analysis

Climate Implications of Policy Assessment

66 There are no climate implications of this proposal.

Population Implications

67 Over recent years, the Flexi-Wage has increasingly been used to support men into employment, with 3,670 contracts approved for men in the 2019/20 financial year while only 2,031 were approved for women. The proposals in the paper seek to shift the Flexi-Wage better support key cohorts who need additional support to enter and retain employment. This could include women and sole parents; sectors that are expected to be heavily affected over the medium term; people in certain circumstances who are under-utilised in the labour market; and disabled peoples at risk of poor employment outcomes. Progress on supporting these groups will be included in quarterly updates.

Human Rights

68 The expansion of Flexi-Wage is consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

69 The Treasury, the Ministry of Business Innovation and Employment, and Inland Revenue Department have been consulted. The Department of Prime Minister and Cabinet has been informed.

Communications

70 The expanded Flexi-Wage will be announced following Cabinet's agreement to the recommendations in this paper.

Proactive Release

- 71 We intend to release this Cabinet paper proactively in whole or in part, in the 30 business days following its announcement.

Recommendations

The Minister for Social Development and Employment recommends that the Committee:

- 1 **note** the Flexi-Wage is an existing and proven employment support product that can be scaled up and enhanced quickly to create a strong incentive to employ those most effected by the economic recession while also offering support to struggling businesses
- 2 **note** this Government campaigned on expanding Flexi-Wage to:
 - 2.1 increase the average subsidy to \$7,500, with a maximum of up to \$22,000 for people who need the most support to find and retain a job
 - 2.2 amend the scheme to provide greater flexibility for employers and employees
 - 2.3 invest an additional \$300 million to support up to an additional 40,000 people into work over the next two years
 - 2.4 ring-fence \$30 million of this funding to help unemployed people start their own business
 - 2.5 provide an additional \$10 million in operational funding for MSD to administer the expanded programme
 - 2.6 provide an additional \$1 million for business outreach to ensure businesses can consider whether it is right for them
- 3 **agree** the Flexi-Wage expansion will need to be flexible, adapt overtime, and also target people disadvantaged in the labour market who would most benefit from Flexi-Wage so they can access and maintain employment, with the ability to target key cohorts, such as:
 - 3.1 women (and in particular sole parents looking for work), youth, disabled people or people with a health condition, Māori and Pacific peoples
 - 3.2 people who worked in sectors that have been most affected by the economic impact of COVID-19 or are working in a sector which may be affected over the coming months
 - 3.3 people who are not working but may be on a benefit, as well as those who are under-utilised in certain circumstances
- 4 **agree** the Flexi-Wage expansion will include:

4.1 a small number of set rates for Flexi-Wage expansion to provide certainty to employers on the level of support available

4.2 a discretionary rate capped at \$22,000 that can be used when negotiating with employers to take on those most at risk

5 **note** I intend to approve and establish a welfare programme for the Flexi-Wage extension pursuant to section 101 of the Social Security Act 2018 by written notice

6 s 9(2)(f)(iv) 

7 **note** MSD will use the \$1 million allocated towards 'business outreach' to:

7.1 undertake a tactical campaign over the next three months to increase awareness of the Flexi-Wage from December 2020

7.2 run an over-arching advertising campaign that will encompass the range of MSD's employment services and supports from March 2021

8 **agree** \$30 million of the funding for the Flexi-Wage expansion be ring-fenced for Flexi-Wage Self-Employment and that a portion of the ring-fenced funding will be used to undertake pilots to ascertain the most effective mix of pastoral care, mentoring and business support to help people start their own business

9 **note** administration of Flexi-Wage is a resource intensive process and MSD will use the \$10 million allocated to "administer the scheme" to undertake necessary IT changes, and provide certainty, consistency and streamline the payment for employers and enable MSD to scale up, employ additional staff, and evaluate the expansion

10 **note** MSD will provide quarterly reports to the Employment, Education and Training Ministerial Group on outcomes, uptake and demographic characteristics of the expanded Flexi-Wage

11 **agree** to add the following category to "Improved Employment and Social Outcomes Support MCA":

Title	Type	Scope
Flexi-Wage Employment Assistance	Non-Departmental Other Expense	This category is limited to providing Flexi-Wage employment assistance, for eligible people to help them move into and retain sustainable employment, in accordance with criteria set out by Cabinet or approved by the Minister or in delegated legislation made under the Social Security

	Act 2018.
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- 12 **approve** the following changes to appropriations to provide for the administration and expansion of Flexi-Wage, with a corresponding impact on the operating balance and net core Crown debt:

Vote Social Development Minister for Social Development and Employment	\$m - increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
Departmental Output Expense: Data, Analytics and Evidence Services (funded by revenue Crown)	0.170	0.170	0.082	-	-
Multi-Category Expenses and Capital Expenditure: Improved Employment and Social Outcomes Support MCA:					
Non-Departmental Other Expense: Flexi-Wage Employment Assistance	26.338	131.360	142.302	-	-
Departmental Output Expense: Improving Employment Outcomes (funded by revenue Crown)	4.278	4.415	1.885	-	-
Total Operating	30.786	135.945	144.269	-	-

- 13 **agree** the proposed change to appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply
- 14 **agree** the expenses incurred under recommendation 12 above be charged against the COVID-19 Response and Recovery Fund established as part of Budget 2020
- 15 **agree** any underspends for the administration and expansion of Flexi-Wage, over the period of this funding, be transferred to the following financial year to ensure that funding is available for delivery of this expansion
- 16 **authorise** the Minister for Social Development and Employment and Minister of Finance jointly to agree the final amount to be transferred (as per recommendation 15 above), following completion of the relevant years audited financial statements of the Ministry of Social Development (or sooner if necessary), with no impact on the operating balance and/or net core Crown debt across the forecast period

- 17 **note** Cabinet approval will be required for any transfers into, or out of, the Flexi-Wage Employment Assistance category in the Improved Employment and Social Outcomes Support MCA
- 18 **note** the Minister for Social Development and Employment and the Minister of Finance will make detailed design decisions on the phased approach, with initial improvements in place by the end of the year, as well as minor policy decisions, including Flexi-Wage Self-Employment, as necessary.

Authorised for lodgement

Hon Carmel Sepuloni

Minister for Social Development and Employment

Appendix one – overview of Flexi-Wage

Flexi-Wage Basic	Flexi-Wage Basic is a wage subsidy that invests in job seekers, who are disadvantaged in the job market by making a temporary contribution to their wages so they can access and maintain employment. The amount paid and duration of the subsidy is based on a client's needs as well as barriers to employment and reflects the level of assistance the client needs to reach the entry-level requirements of the job. The expected outcome is that the job seeker remains employed well after the subsidy period has expired.
Flexi-Wage Plus	Flexi-Wage Plus is a wage subsidy with the option of using some funding for other assistance that employers need, such as training, mentoring or in-work support. The types of assistance funded through this programme are driven by what support employers tell us they need to employ clients. This helps clients reach the skill level required for the job by investing in on-the-job or external training.
Flexi-Wage Project in the Community	Flexi-Wage Project in the Community is a subsidy that allows a client to participate in project-based work where they can develop work habits, general on-the job skills and progress towards sustainable employment. This experience will assist individual people to progress towards sustainable employment. Flexi-Wage Project in the Community is primarily a wage subsidy.
Flexi-Wage Self-Employment	Flexi-Wage Self Employment is a subsidy to help clients overcome financial barriers associated with moving into self-employment. The weekly rate of subsidy is determined on the client's weekly living expenses and the expected cash flow of the business. Clients are required to prepare a business plan and have it independently assessed.
Flexi-Wage Retention	<p>Flexi-Wage Retention is a new wage subsidy for employers to support them in retaining and / or retraining employees who would otherwise be made redundant. The intention is to allow employers to move staff out of roles that are at risk of redundancy and into more stable parts of their business.</p> <p>This to assist an employee to temporarily transition into fixed term employment with another employer while waiting for business at their permanent role to return to levels that make the job sustainable again. Flexi-Wage Retention is available for up to 26 weeks.</p>
Flexi-Wage Next Step	<p>Flexi-Wage Next Step is a new wage subsidy created to support individuals in redeployment jobs to get more sustainable employment. This can be done by staircasing them to secure employment of 12 months or more with a long-term employer, before their temporary redeployment job ends.</p> <p>The goal is to support the temporary employee to reach the entry level requirements of a permanent position. Along with Flexi-Wage Retention, Flexi-Wage Next Steps will be available for up to 26 weeks.</p>