



06 JAN 2021

On 16 November 2020, you emailed the Ministry of Social Development (the Ministry) requesting, under the Official Information Act 1982 (the Act), the following reports:

- *REP/20/5/531 - Supports and incentives to encourage self-isolation*, dated 8 June 2020
- *REP/20/6/646 - Mangere Budget Service*, dated 9 June 2020
- *REP/20/6/615 - Amendment to the housing support assistance programme: rent arrears assistance*, dated 11 June 2020
- *REP/20/6/642 - COVID-19 Income Relief Payment - application process and reporting*, dated 11 June 2020
- *REP/20/6/629 - COVID-19 Response and Recovery Fund (CRRF) - Cost pressures for approval and other initiatives*, dated 11 June 2020
- *REP/20/6/648 - Unemployment insurance models and considerations for New Zealand*, dated 11 June 2020
- *3537 19-20 - Briefing the ongoing operation and impact of the Leave Support Scheme: Talking points and questions and answers for oral update*, dated 25 June 2020
- *REP/20/06/697 - Removing the additional dependent child work obligations of the Social Security Act 2018*, dated 24 June 2020
- *REP/20/6/738 - COVID-19 Leave Support Scheme Oral Update*, dated 29 June 2020.

The document *REP/20/6/615 - Amendment to the housing support assistance programme: rent arrears assistance* is refused under section 18(d) of the Act on the basis that it is already publicly available, and can be accessed at the following link: www.covid19.govt.nz/assets/resources/proactive-release-2020-july/H3-Report-Amendment-to-the-Housing-Support-Assistance-Programme-Rent-Arr....pdf.

Please find the remaining eight reports attached to this response.

Some information is withheld under section 9(2)(f)(iv) of the Act as it is under active consideration. The release of this information is likely to prejudice the ability of government to consider advice and the wider public interest of effective government would not be served.

Furthermore, some information is withheld under section 9(2)(j) of the Act to enable the Ministry to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations). The greater public interest is in ensuring that government agencies can continue to negotiate without prejudice.

You will note that the names of some individuals are withheld under section 9(2)(a) of the Act in order to protect the privacy of natural persons. The need to protect the privacy of these individuals outweighs any public interest in this information.

Further information concerning the removal of the subsequent child policy, which is referenced in *REP/20/06/697 - Removing the additional dependent child work obligations of the Social Security Act 2018*, is included in the proactively released Cabinet paper, available here:

www.msd.govt.nz/about-msd-and-our-work/publications-resources/information-releases/welfare-overhaul-removing-the-subsequent-child-policy.html.

More information can also be found in the Ministerial press releases here:

www.beehive.govt.nz/release/government-removes-another-punitive-child-policy-welfare-system-put-children-first.

Please note that some of the information contained in the reports were drafted in urgency and were estimates, as the Ministry faced unprecedented pressures to provide rapid support for New Zealanders during this time of uncertainty.

The principles and purposes of the Official Information Act 1982 under which you made your request are:

- to create greater openness and transparency about the plans, work and activities of the Government,
- to increase the ability of the public to participate in the making and administration of our laws and policies and
- to lead to greater accountability in the conduct of public affairs.

This Ministry fully supports those principles and purposes. The Ministry therefore intends to make the information contained in this letter and any attached documents available to the wider public. The Ministry will do this by publishing this letter and attachments on the Ministry of Social Development's website. Your personal details will be deleted, and the Ministry will not publish any information that would identify you as the person who requested the information.

If you wish to discuss this response with us, please feel free to contact OIA_Requests@msd.govt.nz.

If you are not satisfied with this response, you have the right to seek an investigation and review by the Ombudsman. Information about how to make a complaint is available at www.ombudsman.parliament.nz or 0800 802 602.

Ngā mihi nui


Hayley Hamilton
General Manager
Employment and Housing Policy



Report

Date: 8 June 2020

Security Level: IN CONFIDENCE

To: Hon Carmel Sepuloni, Minister for Social Development

Supports and incentives to encourage self-isolation

Purpose of the report

- 1 Cabinet directed officials to provide advice on the supports and incentives to encourage people to self-isolate, including whether Public Health Units (PHU) or the Ministry of Social Development (MSD) should be able to apply for the COVID-19 Leave Support Scheme on behalf of employees.
- 2 Officials subsequently clarified that this request stemmed from concerns regarding people who should be self-isolating not complying because they cannot access support.

Recommended actions

It is recommended that you:

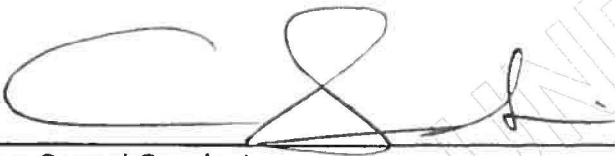
- a. **note** there are a range of supports currently available to support people to self-isolate, including but not limited to:
 - the COVID-19 Leave Support Scheme
 - MSD's Special Needs Grants
 - MBIE's Temporary Accommodation Service
- b. **note** that officials have not identified any specific barriers that prevent people from self-isolating
- c. **note** that officials have looked at whether PHUs or MSD can apply for the COVID-19 Leave Support Scheme on behalf of employees who need to self-isolate
- d. **note** that officials advise against PHUs or MSD applying for the COVID-19 Leave Support Scheme on behalf of employees as this may create issues regarding employment relationships, have tax implications and increase administrative demands
- e. **note** that MSD, with support from the Ministry of Health and Ministry of Business Innovation Employment (MBIE) will continue to monitor and advise on the supports that are needed to help people to self-isolate
- f. **note** that officials are due to report back to Cabinet on the ongoing operation of the COVID-19 Leave Support Scheme by the end of June

g. **forward** this report to the following for their information

- Rt Hon Jacinda Ardern, Prime Minister
- Hon Iain Lees-Galloway, Minister of Workplace Relations and Safety
- Hon Dr David Clark, Minister of Health

s 9(2)(a) OIA _____
Manager
Employment Policy
Ministry of Social Development

Date



Hon Carmel Sepuloni
Minister for Social Development

13/6/20

Date

Ministers requested advice on supports available for people required to self-isolate as a result of COVID-19

- 3 On the 22 April 2020, the Cabinet Business Committee (CBC), in accordance with the Power to Act authorised by Cabinet, directed officials to provide advice on whether other agencies, such as PHUs¹ or MSD, can access the COVID-19 Leave Support Scheme (previously known as the COVID-19 Essential Worker Leave Support Scheme) to assist those who should self-isolate [CBC-20-MIN-0047 refers].
- 4 Officials subsequently clarified that this request stemmed from concerns regarding people who should be self-isolating not complying because they cannot access support. This could be due to a lack of access to suitable accommodation, negative impacts on their income, employment, or family, or because of social stigma.
- 5 MSD and Ministry of Health have investigated whether there are barriers to self-isolation that need to be addressed. This includes the needs of those who are self-isolating, what kind of support is available to incentivise people to self-isolate and whether it is recommended that MSD or another agency apply for the COVID-19 Leave Support Scheme on behalf of workers.

There are a range of supports available to assist those who need to self-isolate

- 6 Across agencies there is always a wide range of support available to assist people to self-isolate by providing financial assistance and support.
- 7 This paper has outlined the financial assistance and support provided by MSD and MBIE. MSD's support is focused on Special Needs Grants, Recoverable Assistance Payments and Accommodation Supplement with MBIE focusing on the Temporary Accommodation Service.
- 8 The COVID-19 Leave Support Scheme is also available and specifically designed to support eligible workers to self-isolate as per public health guidance.

Support from the Ministry of Social Development

- 9 MSD always has a range of financial assistance available for those who meet income and cash asset tests:

- 9.1 Special Needs Grants (SNGs) provide non-taxable, one off recoverable or non-recoverable financial assistance to clients to meet immediate needs. SNGs include:

- *Emergency Housing:* is available for eligible people who need to self-isolate away from their families and need immediate emergency housing. A person would be assessed as having an immediate emergency housing need if they cannot remain in their usual place of residence and will not have access to other accommodation that is adequate for their needs and their immediate family.
- *Food grants:* MSD can provide a food grant for clients who are on low incomes or receiving a main benefit. Clients do not need to be receiving a main benefit to qualify for this help, although they do need to meet an income and asset test. As food grants are non-recoverable, they do not need

¹ Public Health Units is an umbrella term that covers 12 District Health Board owned public health units, Regional Public Health Services and a range of non-governmental organisations.

to be paid back. Some clients who are self isolating and have a reduced income because of this may be eligible to receive this assistance.

- *Temporary Additional Support:* This is a payment that can be paid for a maximum of 13 weeks. It is paid as a last resort to help eligible people with their regular essential living costs that cannot be met from their chargeable income and other resources.

9.2 *Recoverable Assistance Payments:* These provide non-taxable, interest free, recoverable financial assistance to eligible clients who are not receiving a main benefit to meet essential immediate needs for specific items or services such as bond, rent, electricity, gas and water.

9.3 *Accommodation Supplement:* This payment provides assistance towards a client's accommodation cost.

- 10 Eligibility criteria for these income support options involves, testing the person's current income and cash assets among other things. As a result, some people who could face a sudden drop in income for a few weeks due to needing to self-isolate may not be eligible. Furthermore, MSD's assistance may not cover all their normal living costs and therefore it may not provide a sufficient incentive to affected people to self-isolate.
- 11 However, the COVID-19 Leave Support Scheme was established to support eligible workers to self-isolate as per public health guidance and is a sufficient incentive to encourage people to self-isolate.

Support from the Ministry of Business, Innovation and Employment

- 12 Prior to COVID-19, MBIE's Temporary Accommodation Service (TAS) was initially set up to support people's homes that needed to be rebuilt following a natural disaster. As a result of COVID-19, the Temporary Accommodation Service is now available to support people displaced from their homes.
- 13 On the 3 April 2020, the group of Ministers with Power to Act on COVID-19 matters agreed to \$8.037 million in funding for MBIE's Temporary Accommodation.
- 14 Temporary Accommodation Service provides medium-term (e.g. for weeks or months) accommodation to people who are unable to self-isolate in their own home, for essential health and disability workers under a Memorandum of Understanding with the Ministry of Health, and for people who are unable to return to their home due to border restrictions or lack of available flights.
- 15 There are currently over 1,500 people registered for Temporary Accommodation Service, of which over 700 have been placed in TAS accommodation. People are requested to make a part-payment for TAS accommodation, however no one is turned away if they are unable to pay.

Support for those coming home from overseas

- 16 People coming into New Zealand are placed in a hotel under managed isolation for at least 14 days. These people do not need to pay for accommodation or meals. These people are supported by NZ Police, NZ Defence Force, MBIE, aviation security and National Emergency Management Agency (NEMA).
- 17 Managed isolation facilities are available for asymptomatic persons, to provide a controlled environment in which to complete their 14 days isolation. However, anyone with COVID-19 symptoms is taken to a different hotel for quarantine.
- 18 People will be required to stay in the hotel with strict conditions around access to the outdoors and interactions with others.

The COVID-19 Leave Support Scheme was introduced to help people in work, but unable to work from home, to self-isolate

- 19 The COVID-19 Leave Support Scheme (previously known as the Essential Worker Leave Support Scheme) currently ensures strong incentives and support for eligible workers and employers who need to self-isolate as per public health guidance.
- 20 The COVID-19 Leave Support Scheme is available for most New Zealand employers however, it does not generally include state sector organisations. To qualify:
 - Employers must meet the 30 per cent drop in revenue or have their ability to support their employee(s) negatively impacted.
 - Employees need to be at a higher risk if they get COVID-19; have come into contact with someone who has COVID-19 and need to self-isolate for 14 days; have tested positive to COVID-19 or have household members who are at a higher risk of COVID-19 as per Ministry of Health guidelines.
- 21 There have been fewer applications to the current COVID-19 Leave Support Scheme in comparison to the previous Essential Workers Leave Scheme. This is likely a result of the decrease of people entering New Zealand, the reduction of active cases of COVID-19 in New Zealand, and the subsequent shift down the COVID-19 Alert Levels. While there has been less demand for the COVID-19 Leave Support Scheme, it is important that the scheme remains available to support those who need it.
- 22 There is a risk that, if employers are not accessing the COVID-19 Leave Support Scheme on behalf of their employees, employees may not be able to self-isolate.
- 23 Many employers and workers have reached out to MSD regarding their eligibility for the COVID-19 Leave Scheme. The main concerns employers raise tend to be whether they meet the hardship test, particularly regarding the requirement that their ability to support their employee is negatively impacted by the COVID-19 public health restrictions.
- 24 Recently Cabinet confirmed that employers needing to pay employees so they can stay home, as well as funding replacement staff is sufficient for an employer to meet the hardship test. This addresses many of the concerns raised by employers and ensures that most employees who need to self-isolate can do so.
- 25 In addition, MSD has adopted a broad approach in administering the payment and update guidance frequently to make sure up to date information on who qualifies to meet the COVID-19 Leave Support Scheme is being provided.
- 26 We are unaware of any other barriers preventing employers accessing the COVID-19 Leave Support Scheme but, as part of the end of June report-back, we will provide advice if there is concern regarding eligibility that exists.

Cabinet has asked whether another agency (such as Public Health Units or MSD) could apply for the COVID-19 Leave Support Scheme on the employee's behalf

- 27 We have interpreted that Cabinet has asked this question to overcome any barriers that may prevent employers for applying for the COVID-19 Leave Support Scheme.
- 28 Enabling MSD or PHU's to apply for the COVID-19 Leave Support Scheme may overcome take-up barriers of employers, who would otherwise be eligible, but choosing to not apply for the scheme. However, officials have been unable to identify that any such barriers exist.
- 29 MSD also recommends against enabling agencies to apply for the COVID-19 Leave Support Scheme on an employee's behalf as:
 - it is likely to raise concerns with how the employment relationship operates and has tax implications. Employers may be discouraged from topping up their

Support and incentives to encourage self-isolation

employee's wages due to the understanding that another organisation is taking care of it for them

- paying employers is administratively easier compared to paying each employee, particularly given the significant increase in demands and operational pressures MSD is currently experiencing.

- 30 Employees who should be self-isolating but instead come into work or employers who require them to come into work when unwell with COVID-19 or required to self-isolate under the public health guidelines are likely to be in breach of the Health and Safety at Work Act 2015. Everyone who goes to work should come home healthy and safe, where both the employer and employee have a responsibility to ensure this.

Next steps

- 31 Officials will continue to monitor and advise the COVID-19 Leave Support Scheme as appropriate.
- 32 Officials are preparing a report-back to Cabinet by the end of June on the COVID-19 Leave Support Scheme.

File ref: 20/5/531

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Responsible manager: s 9(2)(a) OIA Policy Manager, Employment Policy

Appendix One

Who can be asked to self-isolate?

Self-isolation is voluntary, however, there are powers granted to medical officers of health under the Health Act 1956 to require people to be isolated or quarantined if it is necessary to prevent the spread of COVID-19.

People can be asked to self-isolate in three situations:

- *Confirmed cases:* People who have contracted COVID-19 are asked to self-isolate as per the Ministry of Health guidelines and advice from health professionals.
- *Close contacts:* People who have been in close contact with a confirmed or probable case of COVID-19 are asked to self-isolate for 14 days from the date of contact as per Ministry of Health guidelines. A close contact is defined as any person with exposure to a suspect, confirmed or probable case during the case's infectious period without appropriate personal protective equipment.
- *Probable or suspected cases:* People who are suspected or probable cases of COVID-19 are asked to self-isolate. There is no difference in the actions needed by someone who tests positive for COVID-19 and someone who is a probable case.

Where people are asked to self-isolate, they usually do so at home. Where a person refuses to self-isolate at home, separate from their household, a medical officer of health² can require³ a person to be self-isolated or quarantined as they see fit.

In addition, all people arriving into New Zealand from overseas (except exempt people such as aircrew and medical assistants) are required to isolate for 14 days in a managed facility.

People who have been asked to self-isolate by a Public Health Unit, should be reassured that there are supports available for them to do so, as outlined below and directed to these supports.

² Medical Officers of Health are public health physicians (doctors) who specialise in the health of groups or whole communities rather than working on individual healthcare. Medical Officers of Health are designated by the Director General of Health.

³ Medical Officers of health can exercise all the special powers set out in sections 70 and 71 of the Health Act while an epidemic notice is in force, without needing to be expressly authorised by the Minister of Health to do so. These special powers include the power to require that: People report or submit for medical examinations or testing if the spread of COVID-19 would be a significant risk to the public and/or people, places, buildings, ships, vehicles, and aircrafts be isolated and quarantined.



Report

Date: 09 June 2020

Security Level: IN CONFIDENCE

To: Hon Carmel Sepuloni, Minister for Social Development

File Reference: Ministry of Social Development: REP/20/6/646

Mangere Budget Service

Purpose of the report

- 1 This report updates you on how the Ministry has supported Mangere Budget Service as they searched for new locations for their building financial capability services and foodbank operation.

Recommended actions

It is recommended that you:

- 1 **Note** that Mangere Budget Service have found two new premises for up to six months: one for their BFC services and one for their foodbank operation.
- 2 **Note** that Mangere Budget Service have been advised of an approximate funding increase of \$300,000.00 for F21 and F22 with an official funding letter being sent to them on 15 June 2020.
- 3 **Note** that Mangere Budget Service have been given a one-off grant of \$50,000.00 from F20 to cover additional operational costs.


Mark Henderson
General Manager, Safe Strong Families &
Communities


Date


Hon Carmel Sepuloni
Minister for Social Development


Date

Background

- 2 In May 2020, we advised your office that Mangere Budget Service (MBS) were trying to find a new premises for their building financial capability (BFC) services and foodbank operation.
- 3 MBS were seeking a new premises in Mangere/Otara locality to ensure they could provide BFC services, maintain facilities to support their foodbank operation and meet their Ministry contractual obligations: specifically providing BFC services to clients in the Mangere/Otara locality.
- 4 On 16 May 2020 MBS featured on One News discussing their predicament at being unable to find a new premises within their budget. As a result, MBS received a number of offers to relocate their services.

Current state

- 5 MBS advised the Ministry that they have secured a temporary sublease of up to six months with the new tenant of their current premises for their BFC services. They plan to move to this new premises on 08 June 2020.
- 6 MBS also advised that they have found a temporary warehouse space to house the foodbank operation for six months.
- 7 While MBS have moved into their two new premises, because this is only a temporary solution up to six months in both, we anticipate that they may still need support from the Ministry to secure a permanent location.
- 8 MBS have expressed their gratitude and satisfaction with the outcome and support they received from the Ministry.

Ministry engagement with Mangere Budgeting Service

- 9 The Ministry have been working closely with MBS to try to resolve their relocation issues.
- 10 On 20 May 2020, the DCE Maori, Communities and Partnerships and GM Safe, Strong Families and Communities engaged with MBS to better understand their challenges. During this engagement, MBS also raised a previous matter we reported to your office on in March 2020 (CS/20/294): the funding request for their Tuakau office.
- 11 On 21 May 2020, the DCE Maori, Communities and Partnerships and GM Safe, Strong Families and Communities continued conversations with the CE of MBS. In light of the Budget 2020 announcement they advised MBS of the following:
 - We estimated BFC providers will receive at least a 50% cost pressure increase in their session rate in F21 and F22. This meant an increase to MBS's contract by approximately an additional \$210,000.00 per year. We also advised MBS that approximately \$125,000.00 of this per year amount is time-limited as part of the COVID recovery package and will expire 30 June 2022.
 - The number of sessions may also increase depending on the demand analysis that the Ministry have yet to work through. Mangere being an area of "high need" is highly likely to see some increase in session numbers as well as based on MBS previous years' reporting of over-delivery.
 - The main purpose of this additional funding is to address staff needs such as better pay and professional development. However, MBS were advised that if there are other costs that need to be taken into account they could do so with this additional funding.
- 12 During the conversation, MBS was also offered a one-off grant of \$50,000.00 within the F20 year to help meet some of their operational costs they have been facing to acknowledge their support to their communities.

Confirmed funding Mangere Budgeting Service will receive for F21 & F22

- 13 As well as the one-off grant of \$50,000.00 in F20 MBS will receive, the new funding allocation of Budget 2020 for MBS has been finalised as follows:
- MBS is currently funded for F20 \$420,492.80 (4256 sessions at \$98.80 per session) to deliver BFC services.
 - As a result of the Budget 20 Cost Pressure increase and the COVID recovery package funding for F21 and F22, MBS funding will be \$725,648.00 per year (4256 sessions at \$170.50 per session).
 - Assuming there is no further funding for F23 onwards, MBS baseline funding for BFC will be \$505,187.20 per year (4256 sessions at \$118.70 per session).
- 14 The number of sessions they are contracted to provide during F21 and F22 may also increase depending on the demand analysis that the Ministry is currently working through. Mangere is a locality of high need and MBS have reported over-delivery of session numbers over previous years, so it is highly likely MBS will benefit from the demand analysis.

Next steps

- 15 Once MBS are settled in their new temporary premises, the BFC Business Owner and SSFC Relationship Manager will organise a suitable date to visit the MBS service and observe their operations. This will also build and maintain the relationship between MBS and national office staff.
- 16 Because the new premises is temporary, it is anticipated that MBS may seek further support from the Ministry in the next six months. MBS have not advised the Ministry whether the offers to relocate their services (following the One News appearance) have eventuated into any signed agreements.
- 17 MBS will be advised their confirmed additional funding in writing on 12 June 2020. This new funding letter will not include the demand increases as these will not be confirmed until 30 September 2020.

File ref: REP/20/6/635

Author: s 9(2)(a) OIA Senior Advisor, Building Financial Capability

Responsible manager: s 9(2)(a) OIA Team Leader, Building Financial Capability



Report

Date: 11 June 2020

Security Level: IN CONFIDENCE

To: Hon Carmel Sepuloni, Minister for Social Development

COVID-19 Income Relief Payment - application process and reporting

Purpose of the report

- 1 This report informs you of the application process for the COVID-19 Income Relief Payment (the relief payment), including application and processing timeframes.
- 2 It also updates you on the monitoring and reporting that will occur for the relief payment.

Recommended actions

It is recommended that you:

- 1 **note** that the application process for the COVID-19 Income Relief Payment will depend on whether someone is an existing MSD client or not
- 2 **note** that there are several factors that could delay the application and processing timeframes for the COVID-19 Income Relief Payment
- 3 **note** that we will monitor and report on the COVID-19 Income Relief Payment through daily, weekly and monthly updates.

Viv Rickard
Deputy Chief Executive
Service Delivery

s 9(2)(a)
Policy Manager
Income Support Policy

Hon Carmel Sepuloni
Minister for Social Development

Date

The application process for the relief payment will depend on whether or not someone is already receiving MSD assistance

New clients need to be allocated a client number before they can apply for the relief payment

- 3 New clients (and their partners) with no prior history of MSD assistance need to go to the Work and Income website and complete the 'request a client number' form, which will take up to 48 hours to be processed. A client number will be sent to the applicant electronically (via text or email) so that they can access MyMSD and the application form for the relief payment.
- 4 After the applicant has a client number, they (and their partner) need to:
 - complete the financial assistance application form online – this is MSD's standard application form, which has been updated with questions to determine eligibility for the relief payment
 - agree to the declaration, which is how the applicant confirms they are eligible for the relief payment
 - upload their relevant documents (eg proof of identity).
- 5 Applicants are advised of their obligations while receiving the relief payment as part of submitting their application form. These obligations include informing us when they have a change in their circumstances and if they intend to travel overseas. These are the same obligations which apply to clients receiving other assistance from MSD, such as Accommodation Supplement.
- 6 Clients who are not currently receiving MSD assistance, but have received it in the past, do not need to request a client number – ie they only need to complete the steps in paragraph 4.

Phone applications will be available for those who are unable to apply for the relief payment online

- 7 MSD staff can complete applications on behalf of those who are unable to apply for the relief payment online. In these cases, clients will be asked to present any necessary identification and bank account details to their local service centre.
- 8 Staff will read out the declaration to the client (and where applicable, their partner) and ask them if they agree, and advise the client of their obligations when they are receiving financial assistance from MSD.

Current clients have a simpler application process for the relief payment, as we already have information about them on record

- 9 Current clients in receipt of a main benefit, Student Allowance or New Zealand Superannuation/Veteran's Pension can apply for the relief payment through the opt-in form. They can do this by going online, phoning the contact centre or going to a service centre.
- 10 The client (and their partner) need to complete both the opt-in form and agree to the declaration. The opt-in form is a simplified version of the financial assistance application form, with questions about a client's personal details, their current service, and their eligibility for the relief payment.
- 11 Current clients do not need to provide any documentation such as identification to apply for the relief payment, as MSD already holds this on their record.
- 12 In terms of supplementary and hardship assistance, if someone is not on a main benefit, Student Allowance or New Zealand Superannuation/Veteran's Pension but is receiving Accommodation Supplement, Disability Allowance or Temporary Additional Support, they can also use the opt-in form to apply for the relief payment. Generally, for anyone else receiving only supplementary or hardship assistance, they will need to complete the application process outlined in paragraph 4.

Better-off assessments will be completed to check whether clients are better off on benefit or the relief payment

- 13 Some clients will be eligible for both the relief payment and a main benefit. In these cases, it is the client's choice as to which assistance they want to apply for. MSD will help ensure that this decision is an informed one by doing a better-off assessment.
- 14 Better-off assessments consider the client's situation and the key differences between the relief payment and a main benefit. The assessments give an indication of which of these will make the client better off financially, though it should be noted that being 'better off' is about more than just how much money someone is entitled to. It also includes:
 - when payments start
 - the duration of payments
 - obligations of the respective payments
 - tax implications.
- 15 When clients contact MSD via the website, they complete their own better-off assessment. When contact is made via the contact centre or a service centre, clients have a better-off assessment completed for them.
- 16 While better-off assessments can add to the time it takes for the client to receive the relief payment (and/or other MSD assistance) after they apply, it is important to ensure that clients are aware of what assistance they are eligible for, and are sufficiently informed to make the right decisions for themselves.

There are several factors that could delay the application and processing timeframes for the relief payment

- 17 We expect that on average, applications for the relief payment will take a few working days (up to five, as per most other requests for financial assistance) for MSD to process. Once applications are approved, relief payments will come through in the following week for most people.
- 18 However, if MSD requires further information from people (such as their proof of identity, which is needed for verification purposes), this will likely delay the timeframes above. MSD staff will attempt to contact applicants in these situations, and their applications will be placed on hold until we can verify this information.
- 19 Further, the relief payment is a new payment that can be complex and time-consuming to process. It will take time for MSD staff to familiarise themselves with how to process the relief payment, and its unique policy settings.
- 20 So far, there has been significant demand for the relief payment. MSD is working to manage the increase in applications (for both the relief payment and other MSD assistance) so that any payment delays are minimised from Monday 15 June 2020 (ie the week when the first relief payments will be paid into clients' bank accounts).
- 21 It is also worth noting the wider context MSD is operating under:
 - changes to frontline systems and procedures (separate to the relief payment) were introduced on 8 June 2020, which will take time for staff to learn.
 - the client demand for existing services such as hardship and benefit applications remains high.
 - the Wage Subsidy Extension payment, introduced on 10 June 2020, will also contribute to demand.

The relief payment will be monitored as required, and regularly reported on

- 22 Starting from 9 June 2020, MSD provided daily information internally, as well as to Treasury and your office, on the number of current relief payments (split into the full-time rate and part-time rate) and new grants since the previous day.
- 23 The total applications for the relief payment will be included in the daily updates from 12 June 2020. MSD is also working on providing the number of people who have transferred from a main benefit onto the relief payment through these updates.
- 24 Further to this, the publically available Income Support and Wage Subsidy Weekly Update will incorporate new reporting on the relief payment from the release on 19 June 2020. This will include:
 - visual displays of the number of relief payment recipients (split into full-time and part-time rates)
 - supporting data – for example, benefit grants and cancels, transfers.
- 25 Data on the relief payment will also be included in MSD's Monthly Benefits Update, another publically available resource.
- 26 Officials note that as data on the relief payment is new, it will take a few weeks to develop a meaningful time-series for this data. As time progresses, additional reporting measures will be added as needed, to aid understanding of the flow of applications and uptake of the relief payment.
- 27 The reporting on the uptake of the relief payment should be considered alongside reporting on the uptake of existing benefits, as many of the relief payment applicants will opt-in from main benefits.

File ref: REP/20/6/642



Report

Date: 11 June 2020

Security Level: BUDGET-SENSITIVE

To: Hon Carmel Sepuloni, Minister for Social Development

COVID-19 Response and Recovery Fund (CRRF) – Cost pressures for approval and other initiatives

Purpose of the report

1. This report seeks your agreement to submit the following cost pressure initiatives for Vote Social Development to the Minister of Finance by 5pm Monday 15 June 2020 as part of the next round of funding for the COVID-19 Response and Recovery Fund (CRRF).
2. This report also outlines other potential initiatives for consideration under the economic stimulus stream and the wave 3 stream as part of this round of funding.

Recommended actions

It is recommended that you:

3. **Agree** to submit each cost pressure initiative for Vote Social Development as requested.
4. **Note** the other initiatives for consideration under the economic stimulus stream and the wave 3 focus areas stream as part of this round of funding.



Mark Frew
Manager
Strategy, Performance and Budget

11/6/2020

Date

Hon Carmel Sepuloni
Minister for Social Development

Date

Background

The Treasury has set guidelines for departments to request additional funding for COVID-19-related expenditure

5. Under the Wave 2 "*Positioning for recovery*" CRRF funding round and the Budget 2020 cost pressures, Vote Social Development received funding of \$4.6 billion (including the Wage Subsidy of \$3.2 billion).
6. The Minister of Finance announced to you in a letter dated 4 June 2020 there will be a further round of funding for the CRRF.
7. This round of funding has three streams, cost pressures related to COVID-19, economic stimulus and wave 3, "*Resetting and revitalising the economy (supporting significant and long-term change)*", is for initiatives that fall under specific focus areas.
8. Under the cost pressure stream, the cost pressure initiative must be cost pressures that have arisen as a result to COVID-19.
9. Under the economic stimulus stream, there are discussion ongoing with Treasury to consider what initiatives that could be relevant.
10. Under the wave 3 streams, the focus areas that are potentially relevant to Vote Social Development are Business Support and Housing and Urban Development.
11. To provide flexibility around funding COVID-19 related expenses the Government is managing the response and recovery costs outside of the usual Budget allowance framework.
12. The Treasury has released guidelines and templates for this process submissions for funding sought in relation to COVID-19 through this process.
13. In addition, there are new requirements for reporting on initiatives currently being developed by the CRRF Implementation Unit in Treasury.
14. The Minister's Office will be responsible for providing information including communicating how the initiative is generating its outputs, when these are delivered and by whom to the CRRF Implementation Unit in Treasury.
15. Any funding sought will need to meet the following criteria:
 - 15.1 funding is needed as a direct result of COVID-19
 - 15.2 funding is needed outside of the normal budget cycle to support the response and/or recovery from COVID-19
 - 15.3 the additional costs cannot be managed from existing baselines.
16. As part of the submission process departments are required to upload COVID-19-related cost pressure initiatives submissions to Treasury's CFISnet system no later than 5pm Monday 15 June 2020.
17. *Vote Social Development CRRF Cost pressures and other initiatives*
18. MSD is experiencing an immediate demand surge for services as for a much wider group of clients as a result of COVID-19.
19. The economy and labour market will see substantial adjustment in the next 12 months. A wider group of communities are now likely to require support to cope with the long-lasting impacts of the crisis.
20. MSD has already taken short- and medium-term practical steps to respond to the crisis and to continue to deliver support for New Zealanders.
21. MSD needs additional funding for cost pressures as a result of COVID-19 across four areas (shown in Appendix A) to continue to deliver critical support for New Zealanders:

BUDGET SENSITIVE

- 21.1 Temporary extension to manage demand: to respond to the significant increase in demand by simplifying processes and removing stand down periods
 - 21.2 Community: to fill current service gaps, support NGOs to meet increased demand, investing in resilience and recovery of communities and providers,
 - 21.3 Youth: to fill current youth service gaps, with services that delivered by youth for youth while providing employment opportunities
 - 21.4 Other: to address cost pressures in MSD's employment programmes ^{s 9(2)(j) OIA} and to support the Better Later Life Strategy including the digital divide for Seniors.
- 22. MSD also has some initiatives that are being considered under the economic stimulus stream and some initiatives that currently have no clear alignment to the three streams.
 - 23. MSD is currently engaging with the Minister of Finance and Treasury led process for the economic stimulus stream.
 - 24. The cost pressure initiatives include confirmed costing where applicable. We will keep your office informed of any updated information.

Today we are seeking your approval for Vote Social Development CRRF Cost Pressure Initiatives

- 25. MSD is providing you with the details of the cost pressure initiatives seeking funding as a result of COVID-19.
- 26. We seek your approval for this suite of cost pressure initiatives.


Temporary extension to manage demand: to respond to the significant increase in demand by simplifying processes and removing stand down periods

- 27. In March 2020, as a response to COVID-19, temporary changes were made to a range of processes to create capacity for MSD to manage through the lock-down and meet increasing demand. The temporary changes included suspension of a range of reviews and reapplication requirements until the end of September 2020.
- 28. Initial income stand-downs were also temporarily removed until 23 November 2020 to ensure people had access to income support as quickly as possible. The temporary removal also reduced operational pressure for MSD.
- 29. Most of the proposals have significant funding and operational implications for MSD. We note that if agreement and funding to extend and reset these processes is not found, MSD would need to revert to the status quo on 1 October 2020, at a time when demand for MSD services will still be rising. Stand-downs would also resume on 24 November 2020, which could create further hardship due to delayed access to income support for people coming on to benefit.
- 30. Further advice on these initiatives will be provided next week with further detail on the initiatives, refined costings and implementation timeframes.
- 31. **Extending the March 2020 temporary measures to manage demand.** Funding is sought for MSD to continue some of the temporary measures that were put in place in March 2020 in response to COVID-19 and the Alert Level measures. These measures are: suspension of the 52-week reapplication requirement; suspension of the Temporary Additional Support reapplication requirement; suspension of the subsequent work capacity medical certificate requirement; deferral of annual and housing reviews and the temporary removal of the initial income stand-downs.
- 32. If stand-downs resume on 24 November 2020, there will be an operational cost of approximately \$928,000 (TBC).


BUDGET SENSITIVE

33. Extension of these measures will allow MSD to manage the immediate unavoidable demand stemming from the impacts of COVID-19 and time for MSD to reset some of the policy settings for further efficiency and outcome gains.


s 9(2)(f)(iv) OIA




Agreed/Not agreed

34. s 9(2)(f)(iv) OIA
- 

Agreed/Not agreed

35. s 9(2)(f)(iv) OIA
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Agreed/Not agreed

36. s 9(2)(f)(iv) OIA
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Agreed/Not agreed

39. s 9(2)(f)(iv) OIA

Agreed/Not agreed

Community: to fill current service gaps, support NGOs to meet increased demand, investing in resilience and recovery of communities and providers

40. **Responding to existing gaps in intervention and prevention services for perpetrators of family violence (Minister Williams).** This initiative will address increased demand from non-court mandated perpetrators of family violence for support services by filling identified geographical gaps and expanding service coverage that existed prior to - and has been exacerbated by - the impact of COVID 19. It also fills a gap in current service delivery by supporting young people seeking help for their own harmful behaviours before they escalate and provide the information, advice and support needed to develop healthy relationships and prevent unhealthy and abusive relationships from occurring.
41. This funding will increase the current capacity of the family violence system to respond to non-mandated perpetrators of family violence and young people who are at risk of perpetrating family violence to stop their behaviour before it escalated further, by
- Creating additional capacity over four year to provide non-mandated family violence perpetrator support services in areas of New Zealand where there is currently no access to services
 - The implementation of a comprehensive, evidence-informed suite of reinforcing activities for young people that need to address harmful behaviours before they escalate further and align with the NZ Curriculum, as well as the Mates and Dates school-based programme
42. **Funding sought** is \$47.817 million over 4 years to meet existing service gaps.
43. **Scaling options** are still being developed
- a) Agree to submit the proposed initiative totalling **\$47.817 million over 4 years**

Agreed/Not agreed

44. **Strengthening Existing Debt Solution Services and Developing a National Approach to Address Problem Debt.** This initiative supports the scale-up of existing specialist Debt Solution services in the short-term while a comprehensive National Debt Solution approach is being developed. This service supplements and increases the effectiveness of the Building Financial Capability (BFC) network. It immediately expands existing Debt Solution services to meet the increasing demand from clients. These services maximise the flow of potential payments to creditors while sheltering indebted individuals and whānau from the financial, health and social impacts of overwhelming debt.
45. This funding responds to volume and personnel pressures and will enable rapid scale-up of existing specialist Debt Solution services to supplement and increase the effectiveness of existing BFC support for clients and creditors. The aim is to salvage a 'win-win' from COVID-19 crisis debt by expanding services that can continue potential payments to creditors while sheltering indebted individuals and whānau from the financial, health and social impacts of overwhelming debt.

BUDGET SENSITIVE

46. Funding will provide:

- Specialist Debt Solution services which existing BFC providers can access free of charge to develop safe, ethical debt restructuring and repayment agreements between debtors and creditors
 - Debt consolidation loans for clients who would be able to repay their debts if it were restructured into safe, low-cost or interest-free loans.
47. Through the Safer Credit and Financial Inclusion Strategy (SCAFI) we have identified two suitable providers of Debt Solution services and two providers of debt consolidation loans. All are able to adapt and scale-up current services to meet existing and anticipated COVID-19 induced demand and have interim services in place within three months.
48. While services are scaled up, this initiative will also support co-design with the sector of ongoing debt solutions for New Zealanders, informed by the economic impact of COVID-19 and Debt Solution services over the two years.
49. This initiative has been developed in consultation with the Ministry of Business Innovation and Employment (MBIE) and Te Puni Kōkiri and it strongly relates to their objectives of reduced harm from problem debt and increased Māori economic resilience.
50. **Funding sought** is \$4.322 million over 2 years to meet volume and personnel pressures for four existing providers to scale up their specialist debt support, and debt consolidation microfinance initiatives and to implement this initiative.
51. **Scaling options** could include not funding one or more of the four providers in either financial year, restricting funding to one year only. Neither of these are recommended due to the low amount of investment. We also would not recommend removing funding for MSD staff as this would mean that there is no opportunity to develop a long-term service delivery pathway that can be rolled out across the country.
- a) Agree to submit the proposed initiative totalling **\$4.322 million over 2 years**

Agreed/Not agreed

Youth: to fill current youth service gaps, with services that delivered by youth for youth while providing employment opportunities

52. **Responding to the increased demand from young people to lead youth-led enterprise recovery solutions due to COVID-19 (Minister Henare).** This initiative provides funding to implement the increased demand for community-based youth-led enterprise solutions to accelerate recovery for up to 800 young people aged 17 to 24 years, as a result of the social and economic impact of COVID-19.
53. Over the COVID-19 alert phases, there was an estimated 30 percent increase in young people seeking access to opportunities to realise their innovation and entrepreneurship capabilities as they looked to recover from an increasingly reduced job market.
54. Current support services funded by MYD only meet the demand of those aged 12-16 and there is currently a service gap for the young adult population that are aged 17-24 due to reduced opportunities for employment as a result of employers downsizing, making staff redundant, permanently closing, and the wider economic downturn across the hospitality and tourism industry and other occupations usually reliant on casual and low skilled roles filled by young people.
55. **Funding sought** is \$8.800 million over 2 years to meet the cost of supporting up to 800 young people, aged 17 to 24 years, (based on an average investment of

BUDGET SENSITIVE

approximately \$10,000 per person) to implement youth-led innovation and enterprise solutions to create, revitalise and reframe the future economy of Aotearoa New Zealand.

56. **Alternative/minimum viable scaled option** is \$6.600 million over 2 years to address the current service gap for 17 to 24-year olds only and to implement the initiative. The risks with this option is a reduction in funding to support increasing demand and the absence of an evaluation strategy.

a) Agree to submit the proposed initiative totalling **\$8.8 million over 2 years**

Agreed/Not agreed

57. s 9(2)(f)(iv) OIA

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Agreed/Not agreed

Other: to address cost pressures in MSD's employment programmes, s 9(2)(f)(iv) OIA

61. **Additional Funding for Employment Services Response.** In Budget Wave 2 MSD secured \$150m over two years to scale up its employment services to respond to forecasted increased service demand. The initiative was modelled on benefit forecasts based on Treasury Scenario 1 and the BEFU and requested \$417m over four years. This request represented a proportionate scaling up of employment services factoring in funding for other employment initiatives being separately progressed. \$150m of this amount was secured through Wave 2 and Treasury indicated that we should submit again through Wave 3 with more detail on where funding would be allocated. The

BUDGET SENSITIVE

initiative can be characterised as a cost pressure as more funding is required to maintain service levels in the face of increasing benefit numbers.

62. The initiative retains the original logic of a proportionate scale up of employment services based on forecasted benefit numbers (less funding for Mana in Mahi which is expected to be funded through the Apprenticeship Support Scheme subject to Cabinet approval).
63. This initiatives also includes funding for two other components:
- Some employment focussed FTEs were not funded in the wave 2 *Employment and Financial Support response to COVID-19* (FTE) initiative as the wave 2 *Employment service response to COVID-19* (Programmes) initiative did not receive funding for 2022/23 and 2023/24. This initiative requires additional FTE for implementation costing \$11.69 million.
 - Capital funding of \$7.2 million was inadvertently left off the *Employment and Financial Support response to COVID-19* (FTE) initiative during the CRRF wave 2 process and Treasury has agreed that we could submit it through the wave 3 process.
- a) Agree to submit the proposed initiative totalling **\$237.3 million over 4 years**

Agreed/Not agreed

64. s 9(2)(f)(iv) OIA

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Agreed/Not agreed

67. s 9(2)(f)(iv) OIA

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BUDGET SENSITIVE

a) Agree to submit the proposed initiative totalling **\$18.9 million over 4 years**

Agreed/Not agreed

Other initiatives – Non cost pressures initiatives

s 9(2)(f)(iv) OIA

Economic Stimulus: Minister of Finance led process

71. s 9(2)(f)(iv) OIA

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Report

Date: 9 June 2020

Security Level: IN CONFIDENCE

To: Hon Carmel Sepuloni, Minister for Social Development

Unemployment insurance models and considerations for New Zealand

Purpose of the report

1 This report provides an overview of:

- the current best-practice thinking on social insurance models for unemployment – hereafter referred to as unemployment insurance (UI) schemes
- the closest parallels to a UI scheme in the New Zealand context
- the potential cost of a UI scheme in New Zealand.

Executive summary


- 2 Where support for displaced workers is limited, as is the case in New Zealand, there is a greater risk of prolonged unemployment and/or poorer re-employment wages. One way of improving support for displaced workers is to enhance financial support so the income is “smoothed” from displacement to re-employment.
- 3 Adopting a UI scheme is one way of smoothing income. UI schemes provide a “first tier” of relatively generous time-limited, individualised benefits for eligible people who have involuntarily lost their jobs. By offering a replacement rate linked to prior incomes UI schemes explicitly aim to smooth incomes and minimise the income drop arising from job loss, and to share costs between employers, workers and Government. Because UI benefits enable households to maintain consumption, they can act as important economic stabilisers in an economic downturn.
- 4 Most OECD countries operate systems that include UI benefits and means-tested social assistance benefits. Welfare support is available if displaced workers cannot find employment after they reach their UI benefit time limit and to those not eligible for UI benefits at all.
- 5 The performance of UI schemes varies internationally depending on their design and operation. Accident compensation is the closest parallel to a UI scheme in New Zealand. Lessons learned from the operation of the accident compensation scheme could inform the development of a UI scheme in New Zealand.
- 6 The cost of any UI scheme will depend on the design. The replacement rate, the duration of payments and the coverage criteria have a significant impact on the cost of UI schemes. Generally, a scheme with a higher replacement rate, longer duration of payments and broader coverage will be more expensive.
- 7 The financing of the benefits and administration costs of UI schemes are covered collectively by workers, employers and governments through work-related contributions or taxes.
- 8 During a year of low unemployment in New Zealand, the maximum amount of revenue from all sources needed may be \$451.5 million, whereas in a year of severe

unemployment the amount needed would be much higher – \$5.16 billion. These are rough estimates of the total revenue needed to support a UI scheme and much more work would need to be undertaken to get a robust costing.

- 9 A UI scheme is an option for supporting displaced workers in New Zealand, but it is not a straightforward decision. There are a wide range of potential impacts depending on the design. The principal trade-off with UI schemes is between the generosity of UI payments and the maintenance of work incentives.
- 10 A UI scheme would have significant implications for the welfare system. Developing a UI scheme is not the only option for supporting displaced workers. Consideration could be given to including elements of a UI scheme within the current welfare system.
- 11 Introducing a UI scheme would represent a large change to New Zealand's policy settings and would therefore take some time to be fully introduced.

Next steps

s 9(2)(f)(iv) OIA

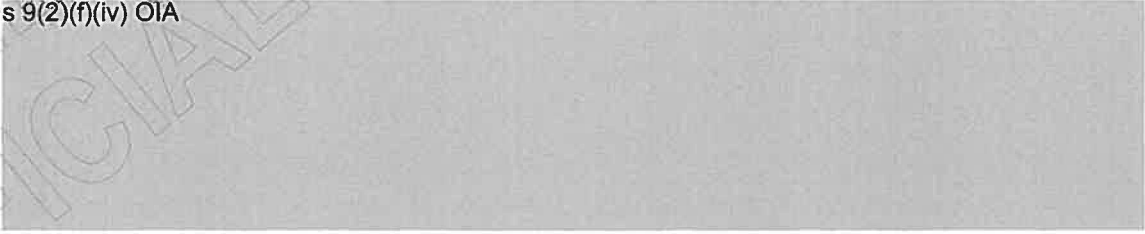


Recommended actions

It is recommended that you:

- 1 **Note** an unemployment insurance scheme is an option for supporting displaced workers in New Zealand, but it is not a straightforward decision as it would represent a large change to our policy settings and take some time to be fully introduced.

2 s 9(2)(f)(iv) OIA



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Fiona Carter-Giddings
General Manager, Policy Group

Date

Hon Carmel Sepuloni
Minister for Social Development

Date

Background

- 15 The Ministry of Social Development's (MSD) leadership team commissioned Strategy and Insights to develop an evidence brief on unemployment insurance models and identify considerations for New Zealand (attached in Appendix 1). The Government has been interested in options for how New Zealand can better support displaced workers.
- 16 The rapid increase in displacement arising from the COVID-19 pandemic has further heightened the interest in this support. The Government recently announced that work is underway on the possibility of a more permanent UI scheme in New Zealand. Overseas models could have useful lessons for current policy development on smoothing income, even though a full UI model would realistically take several years to implement.

Support for displaced workers in New Zealand could be improved

- 17 The evidence brief highlights that where support for displaced workers is limited, as is the case in New Zealand, there is a greater risk of unemployment and/or wage scarring¹. The OECD has observed that wage scarring effects appear to be particularly large in New Zealand. Moreover, an increasing amount of evidence suggests that the effects of job loss are felt long beyond reemployment, including effects on earnings, health and child outcomes.
- 18 In New Zealand (and Australia) displaced workers only have access to means-tested social assistance benefits. These payments are not linked to prior earnings. For many workers who lose their jobs, there is a sharp drop in income for their earnings from paid employment to that provided by a means-tested benefit – if they are even eligible. New Zealand's inclusion of a partner's income in means-testing of benefits means many displaced workers are ineligible².
- 19 Private income insurance is not a significant source of income security in New Zealand.

UI schemes provide a "first tier" of relatively generous time-limited, individualised support to displaced workers

- 20 One component for improving support is looking at options to enhance financial support through periods of displacement. From a worker's perspective, the most effective financial support "smooths" income from displacement to re-employment, thereby ensuring a worker can maintain their standard of living.
- 21 One way of smoothing income is adopting a UI scheme. UI schemes provide a "first tier" of relatively generous time-limited, individualised benefits for people who have involuntarily lost their jobs and who meet certain contribution requirements. The key element that distinguishes UI from welfare is that UI offers a replacement rate linked to prior incomes and, thereby, explicitly aims to smooth incomes and minimise the income drop arising from job loss, and to share costs between employers, workers and Government.
- 22 Because UI benefits enable households to maintain consumption, they can act as important economic stabilisers in an economic downturn.
- 23 Most OECD countries operate systems that include UI benefits and means-tested social assistance benefits. Welfare support is available if displaced workers cannot find

¹ This is the marked fall in income that many displaced workers experience once they are re-employed.

² As an example, a person with no children and a partner earning over about \$31k (gross) per year would not be eligible for support. In 2015, about 43% of displaced workers did not qualify for support because of their partner's income. <https://www.productivity.govt.nz/futureworknzblog/it-doesnt-pay-to-lose-your-job/>

employment after they reach their UI benefit time limit and to those not eligible for UI benefits (e.g. those who are unemployed because they have a health condition or a disability, have caring responsibilities, or do not meet the UI minimum earning or duration of employment criteria). Social assistance payments, in contrast to UI payments, are typically means-tested, and eligibility is based on family rather than individual income.

Current best-practice thinking on social insurance models for unemployment

24 The performance of UI schemes varies internationally. Good practice includes:

- being clear about the purpose and the limits of the UI scheme
- having wide coverage (most schemes are compulsory) to pool the risk of displacement
- having a replacement rate that smooths income but is not so generous it disincentivises job seeking
- having time-limited UI payments
- having effective policies to support re-employment
- offering short-time work compensation schemes
- ensuring UI schemes are complemented by non-contributory schemes that allow a minimum income security level.

25 In some areas UI scheme best practice is less clear:

- Having a time limit to UI payments is important but the optimal duration of payments is unclear, except to state that considerations of adequacy and cost will inevitably have to be balanced.
- We need to understand better how UI schemes interact with welfare assistance and other policies and programmes to support displaced workers.
- Further work is needed to understand the economic impacts of UI schemes on individuals and firms.

26 Accident compensation is the closest parallel to a UI scheme in New Zealand. Lessons learned from the operation of the accident compensation scheme could inform the development of a UI scheme in New Zealand.

The cost of any UI scheme will depend on the design

- 27 The financing of the benefits and administration costs of UI schemes are covered collectively by workers, employers, and governments through work-related contributions or taxes. In many countries, the Government supplements the UI funds from general tax revenue, either regularly or during economic downturns.
- 28 The cost of any UI scheme will depend on the design. The replacement rate, the duration of payments and the coverage criteria have a significant impact on the cost of UI schemes. Broadly, a scheme with a higher replacement rate, longer duration of payments and broader coverage will be more expensive.
- 29 During a year of low unemployment in New Zealand, the maximum amount of revenue from all sources needed may be \$451.5 million³, whereas in a year of severe

³ Assuming a replacement rate of 60%, all pre-unemployment earnings being equal to the median wage after tax (\$43,228 pa) a maximum duration of 3 months UI, and 70,000 unemployed the maximum revenue needed would be \$451.5 million.

unemployment the amount needed would be much higher – \$5.16 billion⁴. These are rough estimates of the revenue needed to support a UI scheme and much more work would be needed to get a robust costing.

A UI scheme is an option for supporting displaced workers, but it is not a straightforward decision

- 30 New Zealand, along with many other countries, is experiencing a rapid increase in displacement arising from the COVID-19 pandemic. The disruption is calling attention to the adequacy of support available to displaced and at-risk workers. New Zealand is already introducing new financial and employment support for displaced and at-risk workers. These new interventions are recognition of the gaps in our system.

In deciding whether to develop a UI scheme there are several key policy considerations

- 31 The principal trade-off with UI schemes is between the generosity of UI payments and the maintenance of work incentives. Generous UI benefit payments may support displaced workers but dampen their incentives to engage in job search, leading to increased unemployment. Mitigating the risk that UI benefit recipients will not return to work whilst receiving a UI payment is vital. UI benefits also need to be teamed with an appropriate scale and mix of active labour market policies to support the re-employment of claimants.
- 32 Achieving a balance between flexibility for employers and security for individuals is a central labour market challenge. The balance is fragile. If, for example, income or employment security declines, it may have negative consequences for labour market flexibility and vice-versa.
- 33 UI schemes alleviate poverty, but not for the most impoverished as UI schemes only support those who recently had an established employment relationship and involuntarily lost their job. While UI schemes smooth consumption for eligible households this may come at the cost of lower wage growth as employers pass on the cost of mandatory contributions. However, UI schemes have wider economic benefits (e.g. economic stabilisation in a recession).
- 34 A key policy question is how to treat those who are often excluded from or do not take up UI schemes (e.g. non-standard workers, the self-employed). A UI scheme covers those displaced from employment but the 'unemployed' are not just people who have lost their jobs. The unemployed also includes those not in work because they have a disability or a health condition or caring responsibilities, and new entrants to the labour market. The inclusion of such groups may have implications for the cost and sustainability of the scheme but excluding them may create inequities.
- 35 The design of UI schemes has a significant impact on fiscal costs. In general, the broader, the lengthier, and more generous the coverage, the higher the fiscal costs.
- 36 Whether or not to create a two-tier system of support is a difficult choice. A UI scheme would improve support for eligible displaced workers. It may be challenging to argue for more generous, individualised UI benefits relative to all other benefit recipients with family-based entitlement.

There are particular considerations for the welfare system

- 37 Developing a UI scheme is not the only option for supporting displaced workers. Consideration could be given to including elements of a UI scheme within the current welfare system (e.g. changing the family income test to allow displaced workers with an earning partner to receive a time-limited benefit).

⁴ Assuming a replacement rate of 80%, all pre-unemployment earnings being equal to the median wage after tax (\$43,000 pa) a maximum duration of 6 months UI, and 300,000 unemployed the maximum revenue needed would be \$5,160 million.

- 38 How a UI scheme or a more generous, time-limited payment within the welfare system interacts with other forms of income support is a key consideration; as is who is impacted. Coordination across the system of support is needed to avoid unintended consequences.

Introducing a UI scheme would be a significant change to policy settings

- 39 UI schemes sit within specific local contexts that influence how they operate. Along with welfare institutions, industrial relations systems, the countries' political economy, and stakeholders' attitudes and interests all play a role in shaping each particular UI scheme.
- 40 A UI scheme would represent a large change to New Zealand's policy settings and would therefore take some time to be fully introduced. It would also require wide consultation with stakeholders.

Next steps

41 s 9(2)(f)(iv) OIA

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File ref: REP/20/6/648

Author: s 9(2)(a) OIA Principal Analyst, Welfare System and Income Support Policy
Responsible manager: Fiona Carter-Giddings, General Manager, Policy Group

Appendix 1: Evidence brief – Unemployment insurance models and considerations for New Zealand