



19 MAY 2021

Tēnā koe

On 21 April 2021, you emailed the Ministry of Social Development (the Ministry) requesting, under the Official Information Act 1982 (the Act), the following information:

- *All reports, briefings, and other documents provided to MSD related to drug-testing sanctions since October 2019.*
- *All reports, briefings, and other documents provided to MSD related to the implementation of recommendations by the Welfare Expert Advisory Group regarding drug testing sanctions, since October 2019*
- *Data regarding the number of drug-testing sanctions imposed by MSD since Jan 2014, broken down by year, ethnicity, gender, and type of sanction*

The Ministry works closely with people receiving a benefit to support them into employment. In some cases, clients are required to take drug tests at the request and cost of a prospective employer. This policy aims to help people whose drug use was previously a barrier to gaining suitable employment access a full range of suitable jobs, including those that are drug tested.

The Ministry aims to support New Zealanders to be safe, strong and independent. This involves incentivising clients to comply with their benefit obligations. Sanctions are a last resort. People who have been identified as having a drug dependency will not be sanctioned under this policy and will receive support to help them stop engaging in drug use.

If people have dependent children and sanctions are imposed, their benefit may be reduced by up to 50 per cent. Sole parents with dependent children will continue to receive full supplementary assistance, including the Winter Energy Payment. Full payments are resumed once a person re-complies with their obligations.

Stopping or reducing someone's benefit for failing a drug test is a serious step and one the Ministry would only take after exhausting other options. As you may be aware, sanctions are a legal obligation and any changes to any sanctions would require changes to the Social Security Act.

A commitment to overhaul the welfare system was part of the New Zealand Labour Party's Confidence and Supply Agreement with the Green Party of Aotearoa New Zealand during the previous term of Government. On 11 November 2019, Cabinet made decisions on the plan for the Welfare Overhaul Work Programme.

Information on these decisions can be found here: [www.msd.govt.nz/about-msd-and-our-work/publications-resources/information-releases/welfare-overhaul-update-on-progress-and-long-term-plan.html](http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/information-releases/welfare-overhaul-update-on-progress-and-long-term-plan.html).

In regard to the first two aspects of your request, the Ministry has identified two documents and one attachment in scope. The following documents are attached to this response:

- REP/20/11/1049 – *Briefing on Welfare System and Income Support*, dated 6 November 2020.
- Attachment to REP/20/11/1049 – *Initial advice on employment and income support options*, dated 6 November 2020.
- REP/20/7/804 – *Proposed approach for reviewing obligations and sanctions*, dated 24 July 2020.

Please note, these documents have been previously supplied to you in response to your request of 19 April 2021. In the spirit of being helpful, the Ministry is providing you with copies of these documents again. Links to additional information on the reports you have requested have also been provided.

You will note that some information is withheld under section 9(2)(f)(iv) of the Act, as it is currently 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.

You will note that some information is withheld under section 9(2)(a) of the Act, as it is to protect the identity of Ministry employees.

Please note that the figure attributed to increasing abatement thresholds (\$244 million), in the document titled '*Initial advice on employment and income support options*', dated 6 November 2020, was a preliminary estimate. The following publicly available Cabinet paper and Beehive announcement provide more up to date figures:

- Cabinet paper: [www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/information-releases/cabinet-papers/2021/cabinet-paper-increasing-main-benefit-abatement-thresholds-on-1-april-2021-and-consequential-adjustment-to-the-minimum-family-tax-credit.pdf](http://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/information-releases/cabinet-papers/2021/cabinet-paper-increasing-main-benefit-abatement-thresholds-on-1-april-2021-and-consequential-adjustment-to-the-minimum-family-tax-credit.pdf)
- Beehive announcement: [www.beehive.govt.nz/release/government-delivers-promise-working-low-income-families](http://www.beehive.govt.nz/release/government-delivers-promise-working-low-income-families)

In regard to the second aspect of your request for data regarding drug-testing sanctions, please find the following four tables enclosed within **Appendix A**, showing the the number of sanctions applied which have at least one drug-test failure component. This is provided for the period of 1 January 2014 to 31 March 2021, with



2021 being an incomplete year), and is broken down by calendar year, ethnicity, gender, and type of sanction:

- **Table One:** The number of Sanctions applied which have at least one drug test failure component for the period 01 January 2014 to 31 March 2021, broken down by calendar year and age
- **Table Two:** The number of Sanctions applied which have at least one drug test failure component in the period 01 January 2014 to 31 March 2021, broken down by calendar year and gender
- **Table Three:** The number of Sanctions applied which have at least one drug test failure component in the period 01 January 2014 to 31 March 2021, broken down by calendar year and ethnicity
- **Table Four:** The number of Sanctions applied which have at least one drug test failure component in the period 01 January 2014 to 31 March 2021, broken down by calendar year and sanction type

In regard to Table Four, there are three types of sanctions: graduated (i.e. percentage reduction in benefit amount), suspended and cancelled. Not everyone who does not meet their commitments get sanctioned. A sanction can be withdrawn when a client re-complies or provides additional information.

In order to protect client confidentiality, the Ministry uses processes to make it difficult to identify an individual person or entity from published data. As such, the datasets provided to you have had random rounding to base three applied to the figures in the table. This means a value of one or two may be rounded to zero or three.

The impact of random rounding is that the columns and rows may not add exactly to the given column or row total however, the published figures will never differ by more than two counts and still allow trends to be identified.

Please note, ethnicity data is self-identified based on an individual's preference or self-construct. Clients are not required to provide the Ministry with their ethnicity, which is why an 'unspecified' option is included. In many cases, clients may choose not to disclose their ethnicity.

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 available to the wider public. The Ministry will do this by publishing this letter 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](mailto:OIA_Requests@msd.govt.nz).

If you are not satisfied with this response to your request for information regarding drug-testing sanctions, 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](http://www.ombudsman.parliament.nz) or 0800 802 602.

Ngā mihi nui

  
PP Bridget Saunders  
**Manager, Issues Resolution  
Service Delivery**



## Appendix A

**Table One: The number of sanctions applied which have at least one drug test failure component for the period 1 January 2014 to 31 March 2021, broken down by calendar year and age.**

Year / Age	16-24	25-34	35-44	45-54	45-64	Total
<b>2014</b>	36	9	9	9	3	<b>60</b>
<b>2015</b>	30	30	12	12	0	<b>84</b>
<b>2016</b>	45	24	12	21	3	<b>102</b>
<b>2017</b>	48	18	27	15	6	<b>114</b>
<b>2018</b>	21	24	12	15	6	<b>78</b>
<b>2019</b>	21	24	15	6	3	<b>69</b>
<b>2020</b>	12	12	6	6	3	<b>36</b>
<b>2021 (partial year)</b>	0	3	3	3	3	<b>12</b>

**Table Two: The number of Sanctions applied which have at least one drug test failure component in the period 1 January 2014 to 31 March 2021, broken down by calendar year and gender.**

Year / Gender	Female	Male	Total
<b>2014</b>	9	54	<b>60</b>
<b>2015</b>	9	75	<b>84</b>
<b>2016</b>	9	93	<b>102</b>
<b>2017</b>	24	87	<b>114</b>
<b>2018</b>	12	69	<b>78</b>
<b>2019</b>	9	63	<b>69</b>
<b>2020</b>	6	27	<b>36</b>
<b>2021 (partial year)</b>	0	9	<b>12</b>

**Table Three: The number of Sanctions applied which have at least one drug test failure component in the period 1 January 2014 to 31 March 2021, broken down by calendar year and ethnicity.**

Year / Ethnic group	Māori	Pacific Peoples	NZ European	Other	Unspecified	Total
<b>2014</b>	36	6	18	6	3	<b>60</b>
<b>2015</b>	39	9	30	3	3	<b>84</b>
<b>2016</b>	42	12	42	6	3	<b>102</b>
<b>2017</b>	60	6	39	6	3	<b>114</b>
<b>2018</b>	39	9	24	6	3	<b>78</b>
<b>2019</b>	24	9	30	3	3	<b>69</b>
<b>2020</b>	6	6	18	6	3	<b>36</b>
<b>2021 (partial year)</b>	3	0	3	3	0	<b>12</b>

**Table Four: The number of Sanctions applied which have at least one drug test failure component in the period 1 January 2014 to 31 March 2021, broken down by calendar year and sanction type.**

Year	Graduated	Suspended /Cancelled	Total
<b>2014</b>	36	27	<b>60</b>
<b>2015</b>	54	27	<b>84</b>
<b>2016</b>	75	30	<b>102</b>
<b>2017</b>	84	27	<b>114</b>
<b>2018</b>	63	18	<b>78</b>
<b>2019</b>	57	15	<b>69</b>
<b>2020</b>	24	9	<b>36</b>
<b>2021 (partial year)</b>	9	3	<b>12</b>

**Notes for Tables One, Two, Three and Four:**

- This contains a count of sanctions placed due to drug test related obligation failures.
- A sanction is a penalty imposed on a client's benefit for failure to fulfil their obligations.
- One client may have more than one sanction over the year
- There are three types of sanctions: graduated (i.e. percentage reduction in benefit amount), suspended and cancelled.
- Ethnicity data is self-identified and multiple ethnicities may be chosen by an individual as fits their preference or self-concept.
- Please note the ethnicity classification that is used to construct this table does not necessarily align with the current Statistics New Zealand classification of ethnicity.
- Ethnicity details recorded by the Ministry have been gathered under a variety of classification methods as clients come into contact with the Ministry.
- The ethnicity data may be self-identified based on an individual's preference or self-construct.
- Year 2021 commences from 01 January to 31 March.
- To protect confidentiality the Ministry of Social Development uses processes to make it difficult to identify an individual person or entity from published data.
- These data tables have had random rounding to base three applied to all cell counts in the table.
- A value of one or two may be rounded to zero or three.
- The impact of applying random rounding is that columns and rows may not add exactly to the given column or row totals.
- The published counts will never differ by more than two counts.



# Report

**Date:** 6 November 2020

**Security Level:** IN CONFIDENCE

**To:** Hon Carmel Sepuloni, Minister for Social Development and Employment

## Briefing on Welfare System and Income Support

### Purpose of the report

1. This report sets out key issues and strategic choices and opportunities within the welfare system and provides a roadmap for upcoming advice on the welfare system.
2. This briefing should be read alongside the attached A3 'Initial advice on employment and income support options' which provides more information on the key trade-offs across income support and employment. Together these papers build on earlier conversations and will be discussed at your meeting with officials on 9 November 2020 (to inform the upcoming work programme).
3. Further detailed advice on foreign nationals stranded in New Zealand will be provided separately.

### Executive Summary

4. As you know, income support is intended to help meet essential living costs and alleviate poverty. This income support system has evolved incrementally over time and now has a number of significant issues.

#### Key issues within the welfare system

5. While recent changes have provided significant improvements to the living standards of low-income New Zealanders, income adequacy issues remain for many low-income individuals and families, particularly single adults without children, and couples. These income adequacy issues disproportionately affect Māori and Pacific peoples, as they are over-represented in poverty, unemployment and benefit receipt statistics.
6. There is also an ongoing need to make progress towards the Government's ten-year child poverty targets under the Child Poverty Reduction Act (2018), which are to halve the 2017/18 rates. The size of the impact on child poverty rates of COVID-19 is not yet clear, but the pathway to achieving these targets is certainly now more challenging. The income support and employment related levers are significant factors in helping to achieve these targets, particularly levers focused on parents with children (such as Working for Families).
7. There are remaining issues with financial incentives to work that need to be considered. While there are generally strong financial incentives to work for people without children, there are weaker financial incentives to work for others. This includes sole parents, who face childcare costs while on a single income or Supported Living Payment recipients. Additional income support for working families targeted at certain groups (such as Childcare Assistance) could be an effective intervention to address this.
8. There are also design issues that need to be considered. The income support system can be difficult for clients and staff to navigate due to the large number of payments across the system that have overlapping objectives and different rules. Unnecessary complexity, time consuming application processes and lack of awareness of support



available can all contribute to low take-up of some payments, with evidence suggesting that take-up of some forms of assistance is low for people in work.

9. Some of these issues are relatively discrete, but others raise fundamental issues with the underlying structure of the welfare system. The income support system may no longer reflect how New Zealanders live and work. The changing nature of relationships and families, and the increasing number of people in temporary, non-standard and flexible work means that some settings in the welfare system are no longer fit-for-purpose. The impacts of COVID-19 have also raised the question of how well the system responds to displaced workers, particularly in the face of sudden economic shocks.

#### *Key strategic choices and opportunities*

10. To respond to these challenges, it is worth considering the opportunities to progress change, including large scale structural reforms, as part of the medium to longer-term work programme. There are opportunities across a range of areas in the welfare overhaul work programme, for example:
  - continuing to view the three-tiered structure of the income support system as broadly fit-for-purpose, and aim to make improvements within the current structure of payments—by rebalancing the levels of support and addressing some key issues within the system; and/or
  - resetting the foundations of the welfare system, including exploring amendments to the purpose and principles of the Social Security Act 2018 with a focus on developing a kaupapa Māori values framework; and/or
  - §(2)(i)(v)
11. We recommend you progress any further short-term changes within the context of your long-term objectives and vision for the welfare overhaul. We recommend more immediate changes are focused on:
  - improving income adequacy;
  - §(3)(i)(v)
  - improving fairness, people's experience of the system and ensuring people are treated with kindness, dignity and respect.
12. There are trade-offs between alleviating hardship, maintaining or improving incentives to work and managing fiscal costs, as it is not possible to achieve all of them at the same time. Reforming the welfare system to address all of the issues identified would be significant to implement and have substantial fiscal costs, particularly given the fiscal impact of COVID-19 on government revenue and expenses. Therefore, reforms would likely require prioritisation and phasing of changes over several years to help manage fiscal costs and to manage any implementation constraints.

#### *The welfare overhaul work programme*

13. Cabinet agreed to overhaul the welfare system to achieve its vision for a system that ensures people have an adequate income and standard of living, are treated with respect, can live in dignity, and are able to participate meaningfully in their communities [CAB-19-MIN-0578 refers]. On 6 November 2019, Cabinet endorsed a high-level short, medium, and long-term work programme to achieve this vision, but did not detail when work would be progressed.
14. The Labour Party manifesto (the manifesto) noted a commitment to continue the welfare overhaul and work towards implementing the recommendations of the Welfare Expert Advisory Group (WEAG). As you know, WEAG proposed a comprehensive package of substantial changes to income support focused on addressing a lot of the problems noted above, while broadly maintaining the existing structure of income support.
15. The manifesto also noted a focus on improving income adequacy through paid employment, with proposed changes to benefit abatement thresholds, expanding

flexi-wage and the Training Incentive Allowance. Changes focused on improving the financial incentives to work, active labour market policies and retraining programmes would contribute significantly to poverty reduction, particularly during times of higher unemployment. s(2)(i)(iv)

Further advice on active labour market policies and employment supports will be provided to you in a separate report.

16. In the context of the Government's vision for the welfare system and poverty reduction objectives, changes could also include a focus on ensuring adequate income support for those who cannot get work, particularly at a time when more people are reliant on income support. Our view is that increasing main benefits is the best lever to achieve this, with options to target increases to beneficiaries with the lowest after housing-cost incomes. s(2)(i)(iv)

17. There are also changes focused on improving client experience and fairness within the welfare system. These can be cheaper in cost but can have significant impacts on client outcomes and experiences of the welfare system. Over the last few years, we have strengthened our service culture to improve the experience for clients, but there continues to be some compliance-heavy processes and complex rules. s(2)(i)(iv)

#### Next Steps

18. Following your meeting with officials on 9 November 2020, we will provide you with detailed policy and implementation advice on increasing benefit abatement thresholds, and expanding flexi-wage by mid-November 2020 to help deliver on the manifesto commitments. s(2)(i)(iv)

19. We will provide you with a report in early 2021 on the next steps on the welfare overhaul work programme. s(2)(i)(iv)

A summary roadmap for the upcoming advice is provided in Appendix One.

#### Recommended actions

It is recommended that you:

- 1 **Note** to help deliver on specific manifesto, we will be providing you with detailed policy and implementation advice in mid-November 2020 on increasing:
  - benefit abatement thresholds;
  - s(2)(i)(iv)
  - expanding flexi-wage; and
  - s(2)(i)(iv)
- 2 **Note** the initiatives above could be implemented by 1 April 2021 if Cabinet and funding decisions (including any required Budget 2021 pre-commitments) for increasing the benefit abatement thresholds are made by 30 November 2020 s(2)(i)(iv)

3 [REDACTED]

4 **Note** immediate decisions or direction is required on several other initiatives, and we will be providing you with advice on these before the end of the year:

- [REDACTED]
- [REDACTED]
- potential bids for the 2021 Legislation programme, including progressing the removal of the subsequent child policy; and
- [REDACTED]

5 **Indicate** whether you want further advice before the end of the year on the COVID-19 Income Relief Payment, including updated advice on take-up and extending the payment (including any changes to eligibility settings).

Yes/No

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 **Note** we will be providing two additional reports before the end of the year, in collaboration with other agencies, with advice seeking direction from Ministers on possible areas for larger scale reforms related to:

- [REDACTED]
- a wider review of Working for Families.



12

s(2)(b)(iv)

- | [REDACTED]
- | [REDACTED]
- | [REDACTED]
- | [REDACTED]
- | [REDACTED]
- | [REDACTED]
- | [REDACTED]
- | [REDACTED]
- | [REDACTED]
- | [REDACTED]
- | [REDACTED]

- 13 **Note** we will provide you with a report in early 2021 on the next steps on the welfare overhaul work programme <sup>s(2)(b)(iv)</sup> [REDACTED] and this report will reflect the decisions made in this paper.

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Simon MacPherson  
DCE Policy

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Date

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Hon Carmel Sepuloni  
Minister for Social Development and Employment

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Date

# Part One: Key issues and opportunities in the welfare system and income support

## Background

20. In June 2020, there were 353,440 working-age people receiving a main benefit and an additional 77,000 non-beneficiaries receiving supplementary assistance. When including New Zealand Superannuation, \$29.5 billion was allocated to benefit assistance in 2020/21.
21. COVID-19 has caused major economic disruption, with the number of clients receiving benefits expected to peak in January 2022. The economic impacts of COVID-19 are expected to disproportionately impact Māori, Pacific people and disabled people who have additional barriers to accessing employment. Appendix Two provides more information on the impacts of COVID-19 on the income support system and some changes made in response to these impacts.

## There are some key issues in the income support system

*There continues to be income adequacy issues for some low-income people*

22. While the recent changes made to the welfare system—such as the implementation of the Families Package, the \$25 per week increase to main benefits and the indexing of these benefits to the average wage—will help to improve the living standards of low-income New Zealanders, income adequacy issues remain for many low-income people. Many beneficiaries may struggle to meet essential living costs, at the same time the 'working poor' also make up a sizeable group of those in financial hardship.
23. Historically high housing costs have put increasing pressure on family budgets, with almost half of beneficiary households spending half their income on housing costs. Single people (without children) and couples (with and without children), and people renting in the private market receiving the Accommodation Supplement have relatively lower benefit incomes compared to other family types.
24. Income inadequacy can impact people's spending decisions such as purchasing cheap and often unhealthy food, relying on food banks or going without food, avoiding doctor visits, foregoing children's involvement in activities, living in overcrowded housing of poor quality or borrowing from high-cost lenders.
25. Furthermore, COVID-19 will certainly increase poverty and hardship rates, although it is too soon to estimate the size of these impacts. The sudden loss of all employment income, or reduced employment income, can tip many into financial hardship, especially if they have limited cash or near-cash assets to maintain existing commitments (e.g. rent, mortgage and consumer debt).
26. The Child Poverty Reduction Act (2018) requires the Government to report annually using child poverty rates on a range of measures, and to set three-year and ten-year targets for child poverty reduction. The current ten-year targets are to halve the 2017/18 rates. The size of the impact on child poverty rates of COVID-19 is not yet clear, but the pathway to achieving these targets is certainly now more challenging.
27. Māori and Pacific peoples are also over-represented in poverty, unemployment and benefit receipt statistics which means they are disproportionately affected by income adequacy issues within the welfare system.

*The income support system is difficult for clients and staff to navigate...*

28. There are multiple payments across the system delivered by a range of different agencies, each with overlapping objectives, different rules and eligibility criteria. People may not be aware of what support they are entitled to, and they may not be aware of how their incomes will change if they work more or get pay rises.
29. Income support offers support for people in a multitude of circumstance and targets this support to people who really need it, the trade-offs for this is a highly complex system that can be difficult for people to understand and navigate. While it is possible

to simplify specific payments or certain requirements, it is not possible to make the system 'simple', because an element of complexity is required to maintain a targeted income support system.

*...which contributes to low take-up of some payments*

30. It is difficult to measure accurately whether income support payments are being received by everyone who is eligible for them. However, there is sufficient evidence to suggest that take-up of some forms of assistance is low, particularly for payments that are also available to people in work such as the Accommodation Supplement. Low take up can result from a range of factors, such as time consuming application processes and lack of awareness for different types of payments and support services.

*There are poor financial incentives to work for some groups*

31. Paid employment can lift incomes and living standards and enable people to experience better self-assessed health, life satisfaction, and social connectedness. Encouraging sustainable employment outcomes will play a significant role in reducing rates of poverty, as households with adults in full-time work are less likely to experience poverty.
32. Levels of income support can influence peoples' decisions to work, or work additional hours. The financial incentives to work are only one factor that affects work decisions. Other factors that can influence people's decisions to work include the availability and cost of suitable childcare and suitable employment.
33. For people without children, there are strong financial incentives to work, particularly single adults without children. This has been driven by the stronger growth in wages than benefits over a long period of time.
34. Sole parents currently have the smallest gap between benefit and full-time work as they have higher levels of support in the benefit system and may face childcare costs while on a single income. It is, however, important to note that sole parents have sole caregiving responsibilities and therefore lower levels of employment, such as part-time work, may be more appropriate. Therefore, increasing in-work supports (such as Childcare Assistance) may be a more appropriate intervention.
35. There are several levers we can use to support employment outcomes, in addition to increasing the financial incentives to work. This includes increasing employment support services, early intervention programmes, ensuring there are appropriate work obligations and upskilling and retraining people to meet current and future labour market demands.

*The income support system may no longer reflect how New Zealanders live and work*

36. The changing nature of relationships and families means that some settings in the welfare system are not fit-for-purpose. The welfare system is assessed using the core family unit, which means a person's relationship status can have an impact on their entitlement to, and the extent of, receiving financial assistance.
37. Further, the economic impacts of COVID-19 and the changing nature of work has resulted in some additional challenges for those on the margins of the labour market. The income support system plays an important role in making sure work pays and adequately supporting those in temporary, non-standard and more flexible forms of work. Our employment and training services will need to continue to adapt and expand to meet some of these challenges.
38. People transitioning between jobs, or in and out of the welfare system, may not always have smooth transitions in their income, particularly families with children who regularly switch between receiving support from MSD and Inland Revenue (IR). There are also questions around how well the system responds to displaced workers, particularly in the face of sudden economic shocks.



## Key strategic choices and opportunities within the welfare overhaul

39. As you know, Cabinet agreed to overhaul the welfare system to achieve its vision for a system that ensures people have an adequate income and standard of living, are treated with respect, can live in dignity, and are able to participate meaningfully in their communities [CAB-19-MIN-0578 refers]. On 6 November 2019, Cabinet endorsed a high-level short, medium, and long-term work programme for the welfare overhaul to achieve the Government's vision.
40. Your manifesto has a commitment to continue with the welfare overhaul work and to implement WEAG's recommendations to improve the welfare system. WEAG proposed a comprehensive package of substantial changes to income support focused on addressing the problems noted earlier, while broadly maintaining the existing structure of income support. The WEAG package had a particular focus on improving income adequacy and simplifying and rationalising the purpose of particular payments.
41. In terms of income support, increasing the benefit abatement thresholds and emergency dental limits are specific initiatives noted in the manifesto. More broadly, the manifesto notes the following broad areas of reform:
- removing ineffective sanctions that negatively impacts individuals and families;
  - increasing income support and addressing debt;
  - explore amendments to the purpose and principles of the Social Security Act 2018 with a focus on developing a kaupapa Māori values framework;
  - improving supports for disabled people and people with health conditions and their carers; and
  - ensuring the income support system continues to be fit-for-purpose and fair.

*Consideration is needed on the overall scale of change desired...*

42. To respond to the challenges noted earlier, it is worth considering the opportunities to progress change as part of the medium to longer-term work programme. There are different approaches you could take when considering your next steps on the welfare overhaul, including considering whether to make more fundamental changes to the design of the system or making improvements within the current system of payments. For example, you could consider:
43. **Improvements to existing settings:** This would retain the three tiers of support (i.e. main benefits, supplementary assistance and hardship assistance) but rebalance the levels of support to improve income adequacy and reduce complexity. The underlying foundational settings would remain broadly the same but with a focus on changes to existing settings that are the most problematic.
44. **Structural and foundational changes to the income support system:** Making more fundamental changes to the foundational settings of the welfare system could include the review of the definition and treatment of income, rules around relationships and a re-design of in-work payments. This would also include the work to reset the foundations of the welfare system, which includes the review of the purpose and principles and obligations and sanctions of the Social Security Act 2018 and development of a kaupapa Māori values framework to underpin the welfare system.

45. 9(2)(f)(iv)



*...and phasing and prioritisation is likely required in the short-term*

46. There are trade-offs between alleviating hardship, improving incentives to work or making work pay and managing fiscal costs, as it is not possible to fulfil all of them at the same time. This is often referred to as the 'iron triangle' and highlights the choices and trade-offs between raising the living standards of those on low incomes, encouraging work and ensuring fiscal costs to governments are affordable. This trade-off becomes more important given the fiscal impact of COVID-19 on government revenue and expenses.
47. The manifesto includes a short-term focus on improving income adequacy through paid employment, with proposed changes to benefit abatement thresholds, expanding flexi-wage and the Training Incentive Allowance. <sup>(2)(b)(iv)</sup>  
[REDACTED]
48. In the context of the Government's vision for the welfare system and broader poverty reduction objectives, short-term changes could also include a focus on ensuring sufficient income support for those who cannot get work. Our view is that increasing main benefits is the best lever to achieve this, with increases targeted to beneficiaries with the lowest after housing-cost incomes. There are also lower-cost and more targeted changes to hardship assistance, including increases to the dental emergency limits for Special Needs Grants (which is included in the manifesto).
49. There are also options focused on improving client experience and fairness within the welfare system. These are generally cheaper in cost but can have significant impacts on client outcomes and experiences of the welfare system. Changes to MSD's culture and service delivery model are already underway. <sup>(2)(b)(iv)</sup>  
[REDACTED]

## **Part Two: The welfare overhaul work programme**

### **Advice that require urgent Ministerial attention to deliver on the manifesto commitments**

#### *Increasing benefit abatement thresholds*

50. Funding was approved through Budget 2019 to gradually increase the abatement thresholds in line with the minimum wage over the next four years. Before this change, the abatement thresholds had previously remained the same since 2010.
51. The manifesto provides for further increases to benefit abatement thresholds to \$160 per week and \$250 per week to allow people to work for more hours before their benefit is reduced. This will improve incentives for part-time work and improve income adequacy for low-income working individuals and families.
52. We will provide further detailed policy and implementation advice, including advice on the flow-on implications to the Minimum Family Tax Credit (MFTC). <sup>(2)(b)(iv)</sup>  
[REDACTED]

#### *Increasing emergency dental grants*

53. Hardship Assistance is available to help people with immediate needs and essential costs that cannot be met from any other income or assets. There is a payment category within Special Needs Grants (SNGs) for emergency dental treatment.

54. Data from the Household Economic Survey shows that people in material hardship put off going to the dentist in order to meet other costs. In addition, the current maximum limits do not reflect typical emergency dental costs. Therefore, staff are commonly granting SNGs at the maximum of \$300 and meeting any remaining shortfall through an advance payment of benefit (Advances). Advances are always recoverable, which therefore results in client debt.

55. As you know, the manifesto commitment is to increase the SNG limits for emergency dental treatment from \$300 to \$1,000. This will ensure the support provided for emergency dental treatments more accurately reflect typical dental costs. (b) (2)(i)(v)

56. We are also undertaking a wider review of Hardship Assistance as part of the wider welfare overhaul work programme. (b) (2)(i)(v)

WEAG recommended that hardship assistance be reviewed to ensure it is adequate, appropriately designed and easy to access.

57. (b) (2)(i)(v)

**Advice that require Ministerial decisions before the end of 2020, including initiatives that require early Ministerial decisions or to meet existing policy and legislative requirements**

(b) (2)(i)(v)

58. (b) (2)(i)(v)

59. (b) (2)(i)(v)

60. (b) (2)(i)(v)

61. (b) (2)(i)(v)



62. s(2)(1)(iv)

63. s(2)(1)(iv)

64. s(2)(1)(iv)

65. s(2)(1)(iv)

*Advice on the legislation programme for 2021*

66. s(2)(1)(iv)

67. s(2)(1)(iv)

68. s(2)(1)(iv)

. The removal of the subsequent child policy from the Social Security Act 2018 will need to be given effect from November 2021 (SWC-20-MIN-0101). s(2)(1)(iv)

69. In addition, in May 2020 Cabinet agreed to fund a package of support for caregivers, including a \$25 increase to the base rates of the Foster Carers Allowance (FCA), Orphan's Benefit (OB) and Unsupported Child's Benefit (UCB) which was implemented on 6 July 2020. There are two further initiatives that have been agreed to, but are yet to be implemented:

- Making Birthday and Christmas Allowances available for children who live with caregivers receiving the OB or UCB, as are currently available for FCA.
- Extending eligibility for the OB or UCB to caregivers who may provide care for less than 12 months, by removing the '12-month rule'.

70. Implementing these initiatives requires amendments to the Social Security Act 2018. As the Minister for Children is responsible for OB/UCB, it was agreed they would take the Social Security (Financial Assistance for Caregivers) Amendment Bill (which seeks the required amendments) through the House. This Bill was introduced to the House before it rose for the election and needs to be passed by 1 July 2021 in order to meet agreed implementation timeframes. MSD is responsible for implementing OB/UCB as provided in the Social Security Act 2018. Therefore, we will work closely with Oranga Tamariki on this Bill and will advise you of any implications.

### *Other COVID-19 related advice*

71. Applications for the COVID-19 Income Relief Payment (CIRP) will close on 13 November 2020, with the last payments being made on 4 February 2021. Take-up has been relatively lower than forecast due to better economic conditions than expected and less than expected Jobseeker Support recipients being eligible for the payment.
72. The initial eligibility window was decided by Cabinet based on forecasts of unemployment at the time. These forecasts did not factor in the extensions to the Wage Subsidy, which has kept many people in jobs. You may wish to consider extending the eligibility window as the latest forecasts show that unemployment is expected to peak later than initially expected.
73. As you know, extending CIRP in its current form cannot be delivered before February 2021.<sup>1</sup> There are several elements of CIRP's eligibility criteria that we could consider changing if we were to extend CIRP, including:
  - allowing a small amount of part-time work when receiving CIRP;
  - changing the eligibility criteria from the last job lost to any job lost in the eligibility period; and/or
  - modify the 'due to COVID-19' requirement for reasons for job loss.
74. Further policy work is required to determine whether these changes would improve the existing programme. Any changes to the eligibility criteria of CIRP would likely add to implementation timeframes.
75. There are other options to provide short-term support to people affected by COVID-19, such as temporary one-off or on-going payments to low income people. Temporary time-limited changes have lower long-term costs and are useful tools to help soften the impacts of economic downturns and can provide targeted fiscal stimulus.
76. If you wish to receive further advice on extending CIRP or temporary income support options, we can provide more detailed advice before the end of the year on the legislative, financial and operational implications.

### *Enhancing support for displaced workers and other people who lose their jobs*

9(2)(1)(iv)

77. There are some persistent and emerging challenges that highlight potential gaps in our existing support for displaced workers and others who lose their jobs, such as:
  - some workers face significant drops in income following involuntary job loss, and existing income support does not significantly smooth this transition;
  - significant disparities in employment outcomes by population subgroup;
  - the changing nature of work along with cyclical labour market shocks means that labour market resilience and flexibility are growing in importance; and
  - relatively high levels of wage scarring compared to other OECD countries<sup>2</sup>.

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<sup>1</sup> This is largely due to IT requirements and the additional complexity from having a gap between 14 November 2020 (when applications close) and when the new application period starts.

<sup>2</sup> Where support for displaced workers is limited there is a greater risk of prolonged unemployment or poorer re-employment wages (often known as "wage scarring"). According to the OECD's 2017 *Back to Work New Zealand* study, "While not directly comparable with other OECD countries due to differences in data sources, wage losses in New Zealand seem to be large compared with OECD countries".

78. [REDACTED]
79. [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
80. [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
81. [REDACTED]
82. [REDACTED]

***Minimum Family Tax Credit thresholds for 2020/21 and 2021/22***

83. The purpose of the MFTC is to ensure families are always financially better off receiving the In-Work Tax Credit (IWTC) and MFTC than they would be receiving a main benefit. The MFTC is updated each year via Order-in-Council to reflect the latest levels of income and wage rates, and must be passed by 1 December 2020 to apply from 1 April 2021. To change the rate of MFTC after this date, a primary legislation change is required.
84. MSD, Inland Revenue and Treasury will be reporting to Ministers by 13 November 2020 to seek agreement on the setting of the level rate for the 2021/22 tax year. Officials

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<sup>3</sup> Displaced workers are those made redundant from their job. It is important to note that in New Zealand only a small fraction of people who leave a spell of employment each month are formal redundancies. Estimates are that, under normal economic conditions, about 30-40,000 employed people (out of a workforce of 2.2 million) are likely to be made redundant each year. By comparison, about 30,000 people per month experience sudden and substantial falls in earnings. Some of these income drops reflect voluntary exits from the labour market (resignations) but there are other reasons (e.g. leaving due to injury, illness or disability; the need to care for children or other dependents; the end of temporary work, dismissals).

will also present options to adjust the rate level for the current 2020/21 tax year to reflect the changes to main benefit rates in response to COVID-19.

§(2)(f)(iv)

*Ensure benefit levels are adequate and equitable*

85. §(2)(f)(iv)

86. §(2)(f)(iv)

WEAG recommended increasing main benefits by between 12 percent and 47 percent, with larger increases recommended for some family types.

87. §(2)(f)(iv)

88. In addition, on 1 April 2021 main benefits are due to increase by the growth rate in net average wages as part of the annual general adjustment process. Net average wages increased by 2.3 percent in the year to September 2020, while the Consumer Price Inflation increased by 1.2 percent over the same period (when excluding cigarettes and tobacco).
89. While annual wage growth is expected to remain higher than inflation in the December 2020 quarter (the quarter used for the annual general adjustment process), MSD can provide further advice on options to increase rates by inflation (or any other amount that is higher than wage growth) if wages increase by less than inflation. If needed for 2021, the recommended option to give effect to this is to use the existing Order in Council mechanism, and advice on a longer-term legislative option can be provided at a later stage.

*Review the financial support and eligibility settings for disabled people, people with health conditions and carers*

90. Disabled people, people with health conditions and their carers make up just under half of all people receiving a main benefit. The disability employment gap remains high (46.5 percent as of June 2019), and this cohort are more likely to receive income support long-term.
91. We are reviewing the financial support and eligibility settings for current benefit payments for disabled people, people with health conditions and carers.

§(2)(f)(iv)



92. s(2)(1)(iv)

92. WEAG provided a suite of recommendations to improve income support for people in the welfare system with health conditions or disabilities and carers of people with health conditions or disabilities.

#### *Reduce the impact of debt*

93. As of June 2020, former and current benefit recipients owe approximately \$1.105 billion in debt. Most of this debt falls under two main categories: overpayment debt (overpayments of benefit entitlement or money received); and recoverable assistance debt (one-off grants for immediate and essential needs that are expected to be repaid). The remainder of this debt is due to fraud.

94. High levels of debt repayment can exacerbate income adequacy issues and reduce the financial incentives to work. WEAG recommended prioritising a reduction in outstanding benefit debt through sustainable repayments, minimising the creation of overpayments, and reviewing recoverable hardship assistance to be more consistent with whakamana tāngata.

95. We will provide further advice on options to reduce debt, including building financial capability through a wide range of social services, improved information sharing with Inland Revenue, s(2)(1)(iv)

#### *Re-establishment grants*

96. Re-establishment grants are paid under SNG's to assist people in certain circumstances establish or re-establish themselves in the community, including refugees, sole parents leaving family violence situations or released prisoners.

97. From 9 November 2020, the refugee or protected person re-establishment grant will increase to a maximum grant of \$5,000 with a cap of \$3,500 for accommodation costs. Re-establishment grants had previously not been updated in over ten years, which had had an impact on the adequacy of maximum grants in real terms.

98. s(2)(1)(iv)

s(2)(1)(iv)

#### *Review of Working for Families*

99. Working for Families provides additional income support to low to middle-income families with children and has two broad objectives, which are to:

- support income adequacy and reduce child poverty; and
- improve financial incentives for low-income earners to participate in the labour market.

100. Working for Families has been broadly successful in improving income adequacy and improving the financial incentives to work. However, there are a number of concerns with the current settings.
101. To address some of these concerns, WEAG proposed a suite of changes to Working for Families, including increasing the FTC, changing income abatement settings to make Working for Families more universal and replacing the IWTC with a single Earned Income Tax Credit.
102. We are working with Inland Revenue, Treasury and the Department of the Prime Minister and Cabinet to review Working for Families to ensure settings continue to support the objectives above. <sup>s(2)(1)(iv)</sup> [REDACTED]  
[REDACTED] . Further advice on the scope for review of Working for Families will be provided to Joint Ministers in December 2020. <sup>s(2)(1)(iv)</sup> [REDACTED]
103. Changes to Working for Families are well targeted to your child poverty reduction and income adequacy objectives.

#### *Childcare assistance*

104. Childcare Assistance is provided to support labour market participation by helping low- and middle-income families to meet the costs of childcare. Some of the settings for Childcare Assistance are unnecessarily complex (e.g. the definition of income for Childcare Assistance is inconsistent with that for all other income assistance), do not reflect labour market realities (e.g. variable hours or casual work), and are insufficiently focused on child wellbeing. There is some evidence that clients find Childcare Assistance relatively difficult to apply for and that maintaining eligibility is time consuming.
105. <sup>s(2)(1)(iv)</sup> [REDACTED]  
[REDACTED]  
<sup>s(2)(1)(iv)</sup> [REDACTED]
106. People applying for a main benefit generally have an initial stand-down period for one or two weeks. The stand-down starts on the date they are entitled to a benefit with no main benefit payable during the stand-down period.
107. The initial income stand-downs encourages people to make provisions for themselves in case of short periods of unemployment, and to reinforce the expectation that people use their own resources before seeking income support. However, during the stand-down period individuals often require hardship assistance which suggests that many people are unable to financially support themselves, even if they had previous income. These hardship grants are often recoverable, which can mean clients have debt to MSD before their benefit has begun.
108. Anecdotal evidence suggests that some people may perceive stand-downs as a barrier from taking up employment for fear of future gaps in income if the job ends. Removing stand-downs would help support the removal of this perceived barrier and may result in people being more willing to seek short-term employment opportunities.
109. Stand-downs are temporarily removed until 25 July 2021 as part of the response to COVID-19. <sup>s(2)(1)(iv)</sup> [REDACTED]  
[REDACTED]  
<sup>s(2)(1)(iv)</sup> [REDACTED]

#### *Review of split and shared care*

110. The welfare system assumes that one parent should be available and looking for paid employment while the other takes primary responsibility for the care of the child or children. However, this often is not the reality for couples who separate and share the

custody of children. This means that the welfare system does not currently accommodate for differing custody arrangements such as split and shared care.

111. Split care is when parents with two or more children are living apart and each parent has the full-time care of at least one of their children. Currently, in a split care situation, MSD can only pay Sole Parent Support to one parent unless the care arrangement has the recognition, authority or approval of the Family Court. However, MSD has the discretion to pay the other parent an equivalent benefit rate. For example through the Emergency Maintenance Allowance. The current practice is administratively burdensome with the net result being that both parents receive a benefit paid at the same rate.
112. Shared care is when the parents of a dependent child live apart and both parents receive benefits, and each parent has the primary responsibility for the care of the child for at least 40 percent of the time. Currently, in shared care situations, MSD may only consider one parent as the principal caregiver. The other parent would be treated as not having a child and would likely receive a single rate of benefit and supplementary assistance and would likely have full time work obligations depending on their other circumstances. Current practice means the parent not deemed to be the principal caregiver is generally ineligible for any benefit assistance for the costs of the child which can lead to considerable differences in the level of financial assistance each parent is eligible for.

#### *Review of the definition of income and period of assessment for charging income*

113. Financial assistance for working-age recipients has always been targeted primarily through income testing. The current definition of income is very broad; if a type of income is not explicitly excluded from the definition, it is generally considered as income. This broad definition aligns with one of the purposes of the Social Security Act 2018, that where appropriate, people should use the resources available to them before seeking financial support.
114. While most clients have straightforward and regular income such as wages and salaries, some clients have a number of supports available in times of financial hardship, such as payments from trusts, family and other assets. In these circumstances, determining what is income can be very complex and time consuming for both clients and staff.
115. Income can also be assessed and charged in various ways. It can be assessed either weekly or annually, and can be charged against a past, current or future period. Both periods of assessment contribute to client debt (through overpayments) and unpredictability for clients in terms of how much they will receive. This is particularly true for clients who do not work regular hours or get paid at regular intervals.
116. We are reviewing our income test rules looking at what counts as income, periods of assessment, and charging to identify ways to reduce complexity, burden and uncertainty for people, as well as reducing barriers to taking up employment.

#### *The use of automation in the income support system*

117. We have been looking at how we can better use automation in the income support system to streamline application processes and help improve our services. Use of automation could make it easier and quicker for people to get the financial support they are entitled to, and free up staff capacity so they can focus more on providing meaningful engagement and tailored services to support clients' other needs.
118. Work is underway on making digital and process improvements to ensure the benefit application process simpler and faster (e.g. clients can now upload supporting documents through MyMSD).<sup>5</sup> We are looking at strengthening our verification regime

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<sup>5</sup> MyMSD is a service that enables people to apply and manage their information online.

using real-time data along with data matching technologies to improve accuracy of information and reduce the time it takes for clients to receive assistance.

119. 9(2)(f)(iv)

9(2)(f)(iv)

120. 9(2)(f)(iv)

121. 9(2)(f)(iv)

122. 9(2)(f)(iv)

9(2)(f)(iv)

123. 9(2)(f)(iv)

124. 9(2)(f)(iv)

125. 9(2)(f)(iv)

126. 9(2)(f)(iv)

9(2)(f)(iv)

127. 9(2)(f)(iv)

128. 9(2)(f)(iv)



*Identify a set of kaupapa Māori values that could underpin the welfare system*

129. The WEAG report noted the welfare system is not working for Māori and needs to be more values-driven. Māori make up approximately 36 per cent of all working age people receiving a main benefit and are at risk of long-term welfare dependency. The application of kaupapa Māori values has the potential to drive change within the welfare system and improve wellbeing outcomes.

130. [REDACTED]

131. [REDACTED]

*Review of the purpose and principles of the Social Security Act 2018*

132. You signalled your intention to amend the purposes and principles of the Social Security Act 2018; and a review of this is underway. Purposes and principles play specific and important roles in legislation; and must reflect the substantive provisions and administration of the Act. [REDACTED]

133. [REDACTED]

134. We are currently progressing the review through a cross-agency working group with the Treasury, Inland Revenue, and Oranga Tamariki. [REDACTED]

*Review of obligations and sanction of the Social Security Act 2018*

135. We are undertaking a review of obligations and sanctions of the Social Security Act 2018, which would lead to changes that reduce operational pressure and shift our system towards a mutual expectations framework. The administration of some obligation and sanctions are potentially diverting front-line efforts away from effective employment focused-case management. Employment continues to be a priority for people who are able to work.

136. [REDACTED]

137. For now, our initial focus is to review obligations and sanctions that impacts children, which include the Comprehensive Work Assessment (this is a compulsory part of the 52 week benefit reapplication process), pre-employment and pre-course drug testing for recipients that have part-time or full-time work obligations, social obligations (such as ensuring parents enrol their children in schools and ensuring children are receiving regular health checks) and warrant to arrest.

138. As noted earlier in the paper, we can provide you with advice on whether to remove, replace or retain the Comprehensive Work Assessment (as part of the 52 week benefit reapplication process), pre-employment drug testing obligation, social obligations and warrant to arrest before the end of the year. (b)(2)(f)(iv)

139. We will provide further advice in 2021 on next steps for reviewing other obligations and sanctions of the Social Security Act 2018 that supports the manifesto and the Government's vision for overhauling the welfare system.

### **Next steps**

140. We will provide you with detailed policy and implementation advice on increasing benefit abatement thresholds (b)(2)(f)(iv) by mid-November 2020 to help deliver on these manifesto commitments. (b)(2)(f)(iv)

141. We will provide you with a report in early 2021 on the next steps on the welfare overhaul work programme. (b)(2)(f)(iv)

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## Appendix One: Roadmap for welfare overhaul advice

<p>§(2)(f)(iv)</p>	<p>§(2)(f)(iv)</p>
<p>Delivering on your immediate manifesto commitments:</p> <ul style="list-style-type: none"> <li>• increasing abatement thresholds (1 April 2021);</li> <li>• §(2)(f)(iv)</li> <li>• Expanding flexi-wage (December 2020); and</li> <li>• §(2)(f)(iv)</li> </ul>	<p>§(2)(f)(iv)</p>
<p>Opportunities for immediate progress on initiatives that require relatively quick decisions or directions by Ministers:</p> <ul style="list-style-type: none"> <li>• §(2)(f)(iv)</li> <li>• progressing the 2021 legislation programme, including the removal of the subsequent child policy (November 2021);</li> <li>• §(2)(f)(iv)</li> </ul>	<p>Advice can be provided on these areas before the end of 2020.</p>
<p>§(2)(f)(iv)</p>	<p>§(2)(f)(iv)</p>
<p>§(2)(f)(iv)</p>	<p>Further advice on these initiatives to be provided in early 2021.</p>

Work on other medium-term welfare overhaul initiatives will continue to progress, including those relating to employment, housing, and the social / community sector.

## **Appendix Two: The impacts of COVID-19 on the income support system**

1. COVID-19 has caused major economic disruption and exacerbated some existing pressures in the income support system. The number of clients receiving benefits is around 350,000 and is expected to peak at 453,800 by January 2022.
2. The economic impacts of COVID-19 is expected to have disproportionately negative impacts on certain groups:
  - Māori, and particular sub-groups of Māori, are disproportionately affected and already face multiple concurrent disadvantages.
  - Pacific peoples are particularly overrepresented in overcrowding statistics and will be disproportionately affected by loss of income.
  - Disabled people have experienced longstanding barriers to accessing employment, which could be made more difficult to navigate in a post-COVID labour market.
  - The impacts of COVID-19 vary by industry, with disproportionate effects being felt by people with lower skills, lower incomes and working in areas that are reliant on tourism.
  - Women are also experiencing higher rates of underutilisation as they are over-represented in part-time and casual employment and may be more likely to come into the benefit system going forward.
3. A recent analysis on the immediate and medium-term social impacts of COVID-19 and job loss show increased risks in social disconnection, isolation and crowding, mental health and wellbeing, family violence and domestic violence, and child development and wellbeing.
4. Some key changes made to income support settings to help mitigate the negative impacts of COVID-19 include:
  - Main benefits increase—Main benefits were increased by \$25 per week from 1 April 2020.
  - Winter Energy Payment—This payment was doubled in 2020 to increase support for low-income individuals and families.
  - Income Relief Payment—This 12-week payment provides financial support for people who lost their jobs from 1 March 2020 to 30 October 2020 due to the economic impacts of COVID-19.
  - Medical certificates and reapplications deferrals—The need to provide subsequent medical certificates for clients receiving a main benefit and the 52-week benefit reapplication process has been deferred until 31 July 2021 and 29 March 2021 respectively.
  - Initial income stand downs were temporarily removed to ensure people had access to income support as quickly as possible, this temporary removal was extended until 24 July 2021.
  - Increases to food grants—Temporary operational changes were made on 1 April 2020 to Special Needs Food Grants to ensure that those who had an immediate and essential need for food, were able to easily access financial assistance due to the exceptional circumstances presented by COVID-19.



## Initial advice on employment and income support options

This slide pack provides an overview of potential objectives and trade-offs for any new initiatives and packages. This advice includes initial implementation timeframes for manifesto commitments and indicative costs (these will be refined over time).

### COVID-19 has caused major economic disruption and exacerbated existing pressures in the income support system

Both the scale and pace of people coming onto benefit has not been seen before. The number of clients receiving benefits has crossed 350,000. The number of working age beneficiaries is expected to peak at 453,800 in January 2022.

While recent changes made to the welfare system – such as the Families Package and the \$25 per week increase to main benefits – will help to improve living standards, income adequacy issues remain for many people, particularly single adults (without children) and couples. Māori are also disproportionately represented in the welfare system.

The impacts of COVID-19 vary by industry, with disproportionate effects being felt by people with lower skills, lower incomes and working in industries reliant on tourism. Women are also experiencing higher rates of underutilisation as they are over-represented in part-time and casual employment.

MSD is focused on mitigating the impacts of high unemployment, training and apprenticeship programmes, and using border closures as an opportunity to place local jobseekers. It will likely be significantly harder for those already unemployed to find work with increased competition combined with decreased demand for labour.

There is likely to be further entrenchment of disparities in the housing market which impact the ability of low income New Zealanders to access and maintain affordable housing. The number of Accommodation Assistance recipients is expected to peak at 420,000 in 2021/22.

### Work was already underway to overhaul the welfare system, and due to COVID-19 the speed of change was increased significantly

#### Initiatives implemented before COVID-19

**Families Package**  
Increased income support for 384,000 families with children by on average \$75 per week

**Budget 2019 changes**  
• Benefits were wage indexed  
• \$192 was removed  
• Benefit abatement thresholds were increased

**Additional case managers**  
Funding for additional staff was approved to provide additional case management services.

**Mana in Mahi**  
Mana in Mahi was launched in August 2018 to support employers to recruit, train and retain young people.

#### Time-limited, targeted support to mitigate the impacts of COVID-19

**Wage subsidies**  
Processed 950,000 apps, paid out \$14bn, supported 2.5 million employees of around 650,000 businesses

**COVID Income Relief Payment**  
Provides up to 12 weeks of support for people who have experienced a loss of work

**Doubling of the Winter Energy Payment**  
The WEP was doubled in 2020 to increase support for low-income individuals and families

**Increases to food grants**  
Food grants were temporarily increased by \$400 per week in response to COVID-19.

**Rent arrears assistance**  
Increased availability and amount of recoverable assistance for rent arrears (\$4k in a 52-week period)

#### Ongoing and enduring support to help deal with impacts of COVID-19

**Investment in redeployment and job creation schemes**  
• \$100m worker redeployment package  
• Projects funded through the Provincial Growth Fund  
• Jobs for Nature – 13,000 jobs over the next four years

**Click to enrol**  
Enabling clients to participate in remote employment services and self-referral

**Work and Income Online Recruitment Tool**  
• 27,000 registered jobseekers, 4317 Employers, 5,959 jobs listed,  
• a space where employers and jobseekers can connect.

**Rapid Return to Work**  
An early intervention, phone based employment service for up to six weeks, supports people with work readiness.

**Benefit increases**  
\$25pw increases to all main benefit rates.

**Job Expo**  
Innovative way for jobseekers and employers around NZ to connect with each other in an online environment – being piloted with MSD-based jobs.

**Apprenticeship Boost**  
Up to \$12k in the first year of the employees' apprenticeship and up to \$6k in the second year.

**Mana in Mahi**  
Extended length of support (up to 24 months) and increased wage subsidy up to \$16k in first year and up to \$8k in second year

### More can be done, but there are trade-offs

Trade-offs between improving income adequacy, improving incentives to work and managing fiscal costs are inevitable, as it is not possible to fulfil all of them at the same time.

Because of these trade-offs, there is a need to prioritise objectives in the short-term, particularly in the upcoming fiscal environment. Changes may need to be phased over several Budgets.

The Child Poverty Reduction Act (2018) requires annual reporting on child poverty rates and to set three-year and ten-year targets. The current ten-year targets are to halve the 2017/18 rates.

The pathway to these targets is certainly more challenging due to COVID-19, and income support and employment policies are significant policy levers in helping to achieve the targets.

- Paid employment not only lifts incomes and living standards, those in paid employment experience better self-assessed health, life satisfaction, and social connectedness. Households with adults in paid employment are less likely to experience poverty.
- Increasing the financial incentives to work, increasing employment support services, early intervention programmes, appropriate work obligations and upskilling and retraining can all support employment outcomes.
- Some groups, such as sole parents, have relatively weaker financial incentives to work so increasing in-work supports targeted at particular groups (such as Childcare Assistance) may be more appropriate.

- COVID-19 will increase poverty and hardship rates for a new group of households, although it is too soon to estimate the size of these impacts. The sudden loss of all employment income, or reduced employment income, can tip many new households into financial hardship.
- Reducing rates of poverty will likely require a system which supports financial incentives to work and effective employment supports, alongside sufficient income support to alleviate poverty for those who can't get work.
- Historically, high housing costs have put increasing pressure on family budgets, with almost half of beneficiary households spending half their income on housing costs. In particular, single people (without children) and couples have relatively lower benefit incomes than other family types.

- A lot of work has been undertaken to improve MSD culture and to ensure MSD is ready to deliver income support in a changing landscape.
- However, the welfare system continues to have complex rules that can make it hard for clients to understand what support is available or discourage clients from accessing support. Compliance-heavy application processes can be a barrier to accessing supports.
- Options that improve client experience / fairness within the welfare system are generally cheaper in cost but can have significant impacts on client outcomes and experiences of the system.

# Initial advice on employment and income support options

BUDGET SENSITIVE

## Expanding Flexi-wage (\$311m)

Place 40,000 people into employment by making a temporary contribution to their wages.

## Increasing benefit abatement thresholds (\$244m)

Supports income adequacy for low-income working families and movement into part-time work.

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### Employment focused options

- Benefit abatement thresholds \$244m
- Expanding flexi-wage - \$311m