

In Confidence

Office of the Minister for Social Development and Employment

Social Wellbeing Committee

## **WELFARE OVERHAUL: WORK PROGRAMME UPDATE 2021**

### **Proposal**

- 1 This paper provides an update on progress made through the welfare overhaul work programme agreed by Cabinet in November 2019 and signals my priorities for progressing key initiatives this term through a renewed work programme to continue overhauling the welfare system.
- 2 An overview of the renewed welfare overhaul work programme is attached as Appendix One and an overview of key welfare overhaul milestones is attached as Appendix Two. The Welfare Expert Advisory Group's (WEAG) recommendations and progress to date in alignment with these recommendations is attached as Appendix Three.

### **Relation to government priorities**

- 3 The welfare overhaul work programme is the central component of laying the foundations to achieve the Government's vision of a welfare system that ensures people have an adequate income and standard of living, are treated with and can live in dignity and are able to participate meaningfully in their communities. It also plays an important role in supporting our economic recovery through a focus on employment, upskilling and training and contributes significantly to our commitment to reducing child poverty.

### **Executive Summary**

- 4 In 2017 the Government agreed to overhaul the welfare system, and in 2018 the WEAG was commissioned to provide advice to support this work. Following the WEAG's advice, Cabinet agreed to a detailed plan to achieve the Government's vision for welfare and endorsed the welfare overhaul work programme in November 2019.
- 5 Whilst the WEAG's report was not finalised until February 2019, work had already begun through the Families Package in 2018, and the Wellbeing Budget 2019. In 2020, the welfare overhaul work programme was adjusted to support the Government's response to COVID-19, playing a major role in providing relief to people in vulnerable circumstances and supporting people into employment opportunities. This meant some initiatives from the welfare overhaul work programme were brought forward, deferred, or have not been fully implemented.
- 6 The Government has reaffirmed its commitment to progressing the welfare overhaul this parliamentary term and continued with substantial investment

through Budget 2021. This investment included lifting main benefits to levels recommended by the WEAG, as well as other initiatives to support people into upskilling training and employment.

- 7 There is now an opportunity to renew the work programme to continue the welfare overhaul in line with the Government's vision and priorities for the welfare system and the recommendations of the WEAG. I seek Cabinet's endorsement of the renewed work programme, which includes areas of major transformational change for the welfare system.
- 8 These changes include initiatives that have not been fully implemented as part of the current short-term work programme or have been brought forward from the current long-term work programme. This is due to changes made over the past year and reprioritisation of work with a specific focus on initiatives that will continue to improve the overall wellbeing of children and vulnerable families. Consideration will need to be given to the Government's fiscal position and the capacity of the public service to implement these initiatives alongside other key priorities.

## **Background**

*The Government is overhauling our welfare system to improve wellbeing for New Zealanders, and we have already made significant progress in key areas*

- 9 In 2017, the Government committed to implement the Families Package and took action within its first 100 days. Through this package, we improved Working for Families, introduced Best Start and the Winter Energy Payment, extended paid parental leave, increased the Accommodation Supplement, and increased the rate of Orphan's Benefit, Unsupported Child's Benefit and Foster Care Allowance.
- 10 Initial findings from ongoing monitoring by the Ministry of Social Development (MSD) concluded that around 330,000 families with children benefitted from the Families Package in its first year, and parents have more income and more time off work caring for their child following the child's birth.

*Further changes were made to the welfare system through the 2019 Wellbeing Budget*

- 11 The 2019 Wellbeing Budget included:
  - the indexation of main benefits to average wage increases, to ensure the incomes of people needing to access main benefits do not fall further behind
  - the repeal of section 192 of the Social Security Act 2018, which reduced the sole parent benefit for parents who did not name the other parent of their child
  - raising abatement thresholds, and
  - an additional 263 work focused case managers.

- 12 Overall, these changes lifted the incomes of approximately 339,000 individuals and families and demonstrated immediate action towards addressing some of the WEAG's key recommendations.

*Cabinet endorsed a welfare overhaul work programme in November 2019*

- 13 In November 2019, Cabinet endorsed a short, medium, and long-term welfare overhaul work programme following the release of the WEAG's report earlier that year [CAB-19-MIN-0170 refers].<sup>1</sup>
- 14 The Government had noted, prior to this, significant alignment between the WEAG's approach and the Government's vision for the welfare system, and had undertaken immediate work which addressed some of the WEAG's recommendations through the Budget 2019 initiatives [CAB-19-MIN-0170].
- 15 Through the welfare overhaul work programme agreed by Cabinet in November 2019, we set out key focus areas to progress in the short-term, including:
- reducing barriers to employment and training
  - better support for parents
  - ensuring income support is accessible, and
  - better support for disabled people and people with health conditions.
- 16 As detailed below, we have been able to see tangible progress in each of these focus areas through investment across a number of Budget processes. We have also seen improvements in the lives of many New Zealanders due to changes we have implemented, as detailed in Appendix Two.

*The welfare overhaul work programme was adjusted to support the Government's response to COVID-19*

- 17 The COVID-19 pandemic caused major economic disruption, and the welfare overhaul work programme was adjusted to prioritise the Government's immediate response. This included a mix of permanent and temporary adjustments, with some occurring immediately in March 2020 in tandem with the public health restrictions coming into place to enhance support for people urgently. Other changes were funded through the 'Wellbeing Budget 2020: Rebuilding Together', which aimed to ensure affected people received the financial and social assistance required to get through an extraordinary period.
- 18 Several temporary changes were made to the welfare system. This included deferring annual reviews and reapplications, modifying identification and verification requirements, and temporarily removing initial income stand-downs. These changes softened the sudden impacts of COVID-19,

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<sup>1</sup> The 'Whakamana Tāngata: Restoring Dignity to Social Security in New Zealand' report is publicly available and can be accessed at: <http://www.weag.govt.nz/>.

immediately removing barriers to accessing the welfare system for those who needed support the most.

- 19 To provide income support for those families who were out of work or in vulnerable circumstances, the Government increased main benefits by \$25 per week through Budget 2020 and temporarily doubled the Winter Energy Payment. We also moved quickly to better support parents and assist those who faced variable hours by permanently removing the hours test from the In-Work Tax Credit. These changes softened the sudden impacts of COVID-19 by providing targeted fiscal stimulus and immediately removing barriers to accessing the welfare system for those who needed support the most.

*The welfare system played a major role in supporting people into employment*

- 20 Reducing barriers to employment and training was a key focus area for the Government in responding to COVID-19 and we invested significantly in this area. We improved and adapted existing policies to respond to the growing demand for employment services. Some examples include the Flexi-wage subsidy, which supports up to 40,000 New Zealanders get the skills they need to meet the requirements of a job, the work incentive payment to assist workers to relocate for job opportunities, and the Mana in Mahi programme to help people into long-term work with recognised industry qualifications.
- 21 The Apprenticeship Boost Scheme also provides subsidies to help keep apprentices in training and to find work, particularly in areas where there are skill shortages. There is also the all-of-government connected service, which connects employers, job seekers and people interested in training or retraining opportunities to government services.

**The Government is committed to progressing the welfare overhaul this term**

*The 2021 Wellbeing Budget has made significant progress in some key areas*

- 22 The Government is committed to continuing the welfare overhaul work programme aligning with the recommendations of the WEAG to improve the welfare system. The Prime Minister and I announced a significant package to increase main benefit rates in line with the levels recommended by the WEAG through their report in 2019. In total, weekly main benefit rates will increase by between \$32 and \$55 per adult by 1 April 2022.
- 23 This increases incomes for our most vulnerable, which supports our recovery from COVID-19 by adding targeted stimulus to the economy. This also helps address one of our most pressing long-term challenges of child poverty, with between 19,000 and 33,000 children projected to be lifted out of poverty on the after-housing-costs measure in 2022/23.
- 24 Over 100,000 sole parents and couples with children are estimated to be better off by an average of \$40 per week from the Budget 2021 changes. In total, these families will be on average \$175 per week better off since 2017 compared to the previous government settings. A further 263,000 individuals and couples without children are estimated to be better off by an average of

\$42 per week from the Budget 2021 changes. We're also supporting parents and caregivers to participate in the workforce by funding the indexation of childcare assistance income thresholds to increases in the average wage, which will benefit 1,000 families, or around 1,500 children.

- 25 The 2021 Wellbeing Budget also funded changes to abatement thresholds, which allow those receiving benefits to earn at least \$160 a week before their benefits are affected. This is the equivalent of eight hours of work at the minimum wage. We know that undertaking some work is an important step for people re-entering the labour market, and we are now providing far better incentives to do so.
- 26 The 2021 Wellbeing Budget also allocated resources to continue employment upskilling and training support products as well as reinstating the Training Incentive Allowance for higher level qualifications.
- 27 The announcement of these initiatives are in line with key recommendations of the WEAG, and represent major progress in our welfare overhaul work programme. Finally, we funded a new medical certificate process, which will allow for greater discretion, based on the recommendation of health practitioners, to better reflect individual circumstances, improve the client experience and reduce the frequency and cost of unnecessary medical reviews.

**I propose renewing the welfare overhaul work programme to reflect the changes in context since November 2019**

- 28 Whilst we have made good progress to date, there are initiatives in the November 2019 short-term welfare overhaul work programme that need to be progressed. This reflects other priorities that were funded to support the response to COVID-19 in 2020, which meant that some of the initiatives in the November 2019 short-term work programme could not be fully implemented. These initiatives, as categorised in the November 2019 welfare overhaul Cabinet paper, include:

*Better support for parents*

- s 9(2)(f)(iv) [Redacted]
- s 9(2)(f)(iv) [Redacted]

*Ensuring income is accessible*

- s9(2)(f)(iv) [Redacted]

s9(2)(f)(iv)

- [REDACTED]
  - [REDACTED]
- 29 The Government has also agreed to bring initiatives from the November 2019 long-term welfare overhaul work programme forward, which include consideration of the Accommodation Supplement as part of the Working for Families review and the review of Childcare Assistance. Work detailed in the November 2019 short-term work programme to better support disabled people, people with health conditions, and their carers is being considered alongside the Government's wider review of the health and disability sector.
- 30 The ongoing progression of the welfare overhaul has a crucial role to play to support New Zealanders to recover from the impacts of COVID-19 and enhance the welfare system's capability and capacity to deliver positive outcomes. As such, the remaining initiatives from the November 2019 short-term work programme will help form a renewed work programme for the welfare overhaul.

**The renewed work programme reflects the Government's key welfare overhaul priorities and aligns with the recommendations of the Welfare Expert Advisory Group**

- 31 I propose a renewed work programme to reflect the Government's key immediate welfare overhaul priorities, which will be progressed over the next several years. As part of the renewal, a refreshed long-term work programme will remain on the radar to address the most complex areas of the welfare system, and will continue to be informed by the progression and prioritisation of the medium-term work.
- 32 We are now arriving in the medium-term phase of the work programme, and I signalled my intention in November 2019 for this to be completed in two to four years (2021-2023). The renewed work programme is now intended to shape the progression of the welfare overhaul for the next several years. It reflects the Government's immediate key welfare overhaul priorities, which is based on the work programme endorsed by Cabinet in 2019 and includes progressing the recommendations of the WEAG.
- 33 I also acknowledge that some of these initiatives will take longer to progress than initially expected given their scale and complexity. Overall, the renewed work programme will continue to focus on:
- resetting the foundations of the welfare system
  - improving employment supports and services
  - improving supports and services for disabled people, people with health conditions and their carers, and
  - enhancing the community sector.

- 34 In addition, it will also focus on:
- improving the income support system and addressing debt
  - reviewing Working for Families and the Accommodation Supplement
  - reviewing Childcare Assistance, and
  - reviewing obligations and sanctions.
- 35 The renewed work programme includes areas of major transformational change for the welfare system. The renewed work programme will also continue to have a strong focus on improving the overall wellbeing of children and vulnerable families. These are complex policy and operational issues that take time to progress and, in many cases, require significant new funding. However, embedding the initiatives detailed in the renewed work programme is critical in guaranteeing the scale, impact and longevity of the structural transformation through the welfare overhaul, and realising the vision the Government has for the future state of the welfare system.

36 s9(2)(f)(iv) [REDACTED]

*Resetting the foundations of the welfare system*

37 I anticipate a central part of the work programme would be to look at the foundational settings of the welfare system, with a strong focus on improving outcomes for Māori, including a commitment to honour Te Tiriti o Waitangi/Treaty of Waitangi obligations, which the Government recommitted to in 2020 as part of its manifesto commitment. This work includes the development of a kaupapa Māori values framework to underpin the welfare system, and reviewing the purposes and principles of the Social Security Act 2018 (the Act).

38 Both workstreams seek to embed enduring and structural change to the foundations of the welfare system and are progressing well. s9(2)(f)(iv) [REDACTED]

*Improving employment supports and services*

- 39 I have been exploring options for improving MSD's Employment Service to achieve the Government's vision for the welfare system, and as part of the Government COVID-19 response.
- 40 MSD's Employment Service is primarily focused on providing a flexible mix of services and support to people on a main benefit or at risk of long-term benefit receipt who need help to get into or stay in employment. In response to COVID-19, MSD received time-limited funding to support a wider group of New Zealanders into employment, including low-cost initiatives to support

people affected by COVID-19 to return quickly to work, and more intensive supports such as Flexi-wage, which was expanded to support people who are not on a main benefit but are disadvantaged in the labour market.

- 41 I will continue to look at longer-term options to improve MSD's Employment Service to ensure that people get the support they need and to improve overall social and employment outcomes. This work will require time to build the foundations that will enable MSD to deliver better outcomes for its clients and to a broader range of New Zealanders. We will also need to consider interactions with work underway in other areas of government, including the social unemployment insurance scheme and the cross-agency review of active labour market policies.

*Improving supports and services for disabled people, people with health conditions, and their carers*

- 42 The primary focus of the health and disability workstream is on reviewing and improving financial support and employment services for disabled people, people with health conditions, and their carers. s9(2)(f)(iv)

- 43 We are committed to continuing work towards a more inclusive and accessible New Zealand, and addressing inequities in the health system. The renewed welfare overhaul work programme will consider the health and welfare systems interface in line with any changes made to the health sector as a result of the New Zealand Health and Disability System Review. This would also need to align with wider reforms that will impact the health and disability system, such as:

- Mahi Aroha (the Carers' Strategy Action Plan 2019-2023)
- the response to the Mental Health and Addiction Inquiry
- disability support system transformation, and

- s9(2)(f)(iv)

- 44 These reforms are likely to have flow-on impacts for the provision of welfare support to disabled people, people with health conditions, and their carers. Careful prioritisation and phasing of the health and disability work programme will likely be needed to ensure that these flow-on impacts are well integrated and that welfare system settings are designed to continue to meet the Government's objectives for the welfare overhaul.

*Enhancing the community sector*

- 45 Following consideration by the Social Wellbeing Cabinet Committee in late July 2020 (SWC-20-MIN-0015 refers), an update to the community sector through the 'Social Sector Commissioning: progress, principles and next



steps' report was released on 11 August 2020. This resulted in key actions to be progressed this term following progress of the medium-term initiatives such as work to improve the sustainability and transparency of funding, and strengthening partnerships through more joined-up approaches and capability building.

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s9(2)(f)(iv)

*Improving the income support system and addressing debt*

47 Increases to main benefits, which align with the recommended rates by WEAG in 2019, have improved income adequacy and adjusted some of the relativities between different payments rates, such as those received by single people and couples. s9(2)(f)(iv)

There is also a need to continue to improve the income support system to support the Government's child poverty reduction targets.

48 Other areas underway include the review of hardship assistance. This review includes the Government's manifesto commitment to increase emergency dental grants for implementation, and wider work on addressing debt to government agencies. A review to the settings that underpin financial assistance and eligibility, such as relationship definitions, remains on the work programme.

49 The Prime Minister, as Minister for Child Poverty Reduction, has taken on the role of lead Minister for the debt to government work. The Prime Minister has asked the Social Wellbeing Board to oversee the development of this work. This work programme involves using analysis from the Social Wellbeing Agency to examine where the areas of biggest impact for reducing debt for people in hardship are, as well as agencies continuing to progress their individual work programmes. For example, MSD is exploring the detailed drivers of overpayment debt, s9(2)(f)(iv) as part of the wider review of hardship assistance.

50 There is an opportunity to progress a range of other income support system improvements s9(2)(f)(iv)

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### *Review of Working for Families*

- 51 The review of Working for Families is a key priority for the Government this parliamentary term and we have committed to bringing the review forward. I have requested that the Childcare Assistance review be brought forward from the long-term work programme to this year to be considered alongside this work. Within the review, I expect further advice from officials relating to:
- s9(2)(f)(iv) [redacted] the Accommodation Supplement, and
  - s9(2)(f)(iv) [redacted]

52 s9(2)(f)(iv) [redacted]

### *Reviewing Childcare Assistance*

- 53 A review of childcare assistance settings will be brought forward from the November 2019 long-term work programme to be considered alongside the review of Working for Families. s9(2)(f)(iv) [redacted]

- 54 I have indicated that employment should continue to be the priority expectation of people who are able to work and I have asked officials to keep this in mind for the next phase of the review of the obligations and sanctions regime.

### *Review of obligations and sanctions*

- 55 We have committed to remove ineffective obligations and sanctions that negatively impact individuals and families. In particular, the impact on children is central to the review of obligations and sanctions, which is currently focussed on social obligations, pre-employment drug testing, and the warrant to arrest sanction. s9(2)(f)(iv) [redacted]

- 56 Alongside these, the review of work obligations and sanctions is underway. The objectives of this review include:

- ensuring the welfare system treats people with dignity based on mutual expectations and responsibilities between MSD and clients
- supporting those who are able to work into suitable and sustainable employment
- recognising the importance of learning and skills development to gaining long-term employment, and

- exploring how volunteering and responsibilities towards clients' communities can be considered when applying work obligations.

**Some initiatives may not be fully implemented over the next two to three years**

- 57 Our boost to benefit levels announced in the 2021 Wellbeing Budget committed to historical increases of up to \$55 per week, which aim to restore dignity for some of the lowest income New Zealanders and continue our quest to reduce inequality. As a result of this major investment, all benefit rates, when including support provided for all beneficiary families with children such as through the Family Tax Credit, would be higher on 1 April 2022 (in inflation adjusted terms) than before the benefit cuts 30 years prior 1991.
- 58 Looking ahead, the Government will continue to take a balanced and careful approach to expenses as outlined in our Fiscal Strategy. With future Budget allowances likely to be smaller than during COVID-19, consideration will need to be given to the Government's Fiscal Strategy and fiscal position in prioritising welfare overhaul initiatives.
- 59 The renewed welfare overhaul work programme represents areas of major transformational change to the welfare system, which will take time to progress due to their scale and complexity. I will continue to focus on investments that support the Government's priority areas and manifesto commitments, while maintaining essential services and servicing critical cost-pressures.
- 60 Alongside funding opportunities, we will need to consider the capacity of the public service, in particular MSD, to implement the initiatives on the renewed welfare overhaul work programme given their existing delivery bandwidth. Major initiatives, such as the Working for Families Review s 9(2)(f)(iv) [REDACTED] may have significant impacts on departmental resources and large fiscal implications overall for the Government.

**Details of what will be delivered in the long-term will be informed by progress made over the next two to three years**

- 61 In 2019, I indicated to Cabinet that the longer term work programme should focus on simplifying the income support system, aligning the welfare system with other support systems, and reviewing housing and childcare supports. These continue to be a long term focus of our welfare overhaul work. The renewed work programme progresses some of this work earlier than anticipated as set out earlier in this paper.
- 62 The longer term work programme will also be dependent on progression of the renewed welfare overhaul work programme which, by nature of its complexity and scale is likely to take longer to be fully implemented.

## Financial Implications

- 63 The welfare overhaul is taking place in the context of significant fiscal constraints. The recent increase to main benefit rates alone involved funding of \$3.3 billion across both the Budget 2021 and Budget 2022 allowances. Delivering on the Government's commitment to overhaul the welfare system will require prioritisation and sequencing.
- 64 There are no immediate financial implications resulting from the decisions in this paper. s9(2)(f)(iv)

## Legislative Implications

- 65 s9(2)(f)(iv)

## Impact Analysis

- 66 There are no regulatory proposals in this paper, and therefore Cabinet's impact analysis requirements do not apply.

## Population Implications

- 67 The renewed welfare overhaul work programme will have significant impact on various population groups, particularly Māori, young people, children, women, and disabled people and people with health conditions. I anticipate any advice on the progress of specific initiatives in the renewed welfare overhaul work programme would include a detailed analysis on the impact of various population groups.

## Human Rights

- 68 Officials will continue to have regard to consistency with the Human Rights Act 1993 and the New Zealand Bill of Rights Act 1990 as specific initiatives in the renewed welfare overhaul work programme progresses.

## Consultation

- 69 The following departments were consulted on this Cabinet paper: Department for Prime Minister and Cabinet; Inland Revenue; Ministry of Business, Innovation and Employment; Ministry of Housing and Urban Development; Ministry of Health; Oranga Tamariki—Ministry for Children; Ministry for Pacific Peoples; Ministry for Women; Ministry of Education; Department of Corrections; Ministry of Justice; Social Wellbeing Agency; Te Puni Kōkiri; the Treasury, and the Office for Māori Crown Relations – Te Arawhiti.

## Proactive Release

- 70 I intend to release this paper proactively, subject to redactions consistent with the Official Information Act 1981.

## Recommendations

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

- 1 **note** Cabinet endorsed, in November 2019, a short (one to two years), medium (two to four years), and long-term (four years and beyond) work programme
- 2 **note** that in 2020, the welfare overhaul work programme was adjusted to support the Government's response to COVID-19, and some initiatives were brought forward, or deferred, or have not been fully implemented
- 3 **note** the Government reaffirmed its commitment to progressing the welfare overhaul this parliamentary term and continued with major investment through Budget 2021
- 4 **note** the renewed welfare overhaul work programme balances the Government's immediate priorities for the welfare system, aligns with the recommendations made by the Welfare Expert Advisory Group, and includes areas of enduring and structural change to build the foundations for a different approach to welfare
- 5 **note** the renewed welfare overhaul work programme will continue to focus on:
  - resetting the foundations of the welfare system
  - improving employment support and services
  - improving supports and services for disabled people, people with health conditions and their carers, and
  - enhancing the community sector
- 6 **note** the renewed welfare overhaul work programme will also focus on:
  - improving the income support system and addressing debt
  - reviewing Working for Families and the Accommodation Supplement
  - reviewing Childcare Assistance, and
  - reviewing obligations and sanctions
- 7 **agree** to the renewed welfare overhaul work programme to reflect the changes in context since November 2019
- 8 **note** that progress in the medium-term will help inform a more detailed long-term welfare overhaul work programme, and that the Minister for Social Development and Employment will report back on this in due course
- 9 **note** the Working for Families review is a key priority for this parliamentary term

s9(2)(f)(iv)

Authorised for lodgement

Hon Carmel Sepuloni

Minister for Social Development and Employment