

Chair
Cabinet Social Wellbeing Committee

ESTABLISHING THE WELFARE EXPERT ADVISORY GROUP

Proposal

- 1 This paper asks that the Cabinet Social Wellbeing Committee:
 - agrees to establish a Welfare Expert Advisory Group (WEAG), to advise the Government on the overhaul of the welfare system
 - agrees to the proposed two-phased approach to the overhaul
 - notes the attached draft Terms of Reference (ToR) for the overhaul, and that the Minister for Social Development will report back to Cabinet with the final version for approval.
- 2 I have submitted a companion paper to the Appointments and Honours Cabinet Committee noting my intention to appoint the WEAG Chair and their fees.

Executive summary

- 3 The Government, with its confidence and supply and coalition partners, are committed to overhauling the welfare system to ensure it is fair and accessible for all New Zealanders.
- 4 In addition to ensuring the welfare system better supports New Zealanders, the economic, social and technological changes experienced over the last few decades have been significant. We need to ensure the system can respond to these changes now and in the future, so it remains fit for purpose and is fiscally sustainable.
- 5 The welfare system is complex with interacting parts and implementing change will take time. I want to ensure we set an achievable task for November 2018 and I propose a phased approach to ensure this, with phase one delivering advice to Ministers on:
 - recommendations to amend the legislative purpose and principles of the welfare system
 - priority areas to consider for reform, for example:
 - review of Working for Families
 - the delivery of full and correct entitlement
 - eligibility
 - abatement rates
 - sanctions and obligations
 - housing assistance
 - third tier assistance such as the Disability Allowance and special needs grants

- child support subsidies
- support and assistance for higher needs groups
- recommendations, including costings on a priority change/s that could be progressed through Budget 2019
- further work needed on priority areas for change in phase two.

6 Phase two would:

- build on phase one priority areas and recommendations, focusing on detailed and considered advice and recommendations on how the proposed Social Security Act (SSA) purpose and principles should be enacted system wide
- develop further advice on priorities that were not able to be progressed in phase one
- provide investment-ready advice in November 2019, to support decisions on Budget 2020.

7 I am proposing to establish a WEAG to provide advice to Ministers for phase one of the overhaul. The WEAG would report to Ministers with an interim report in October 2018 and final advice in November 2018. I intend to work closely with the Chair, Ministers, and, our coalition, and, confidence and supply partners to finalise the Terms of Reference (ToR) (draft ToR is attached) to ensure a feasible programme of work.

8 I propose that phase two begins with a review of the ToR and Ministerial decisions on how phase two will be led.

9 I will report back to Cabinet shortly to confirm the final ToR for the welfare overhaul and the remaining appointments to the WEAG.

10 I intend to establish a Ministerial Oversight Group to maintain oversight of the WEAG work programme and alignment across other Government work programmes such as the Tax Working Group, the Child Wellbeing Strategy and the Housing Strategy.

Background

11 The Government, with its confidence and supply and coalition partners, are committed to overhauling the welfare system to ensure it is fair and accessible for all New Zealanders.

Why an overhaul of the welfare system is needed

12 Change is needed to ensure our welfare system better supports New Zealanders and is fit for purpose.

13 We have heard from stakeholders, including clients, that changes to the welfare system are needed to ensure people are treated with and can live in dignity, can participate in their communities, have an adequate income and standard of living, and, the skills and training to secure meaningful sustainable employment. I want our welfare system to provide New Zealanders with the support they need to live in dignity and reach their potential.

14 This Government has signalled a commitment to significantly reduce child poverty. We know that children in benefit-dependent households are more likely to experience hardship. An

overhaul of the welfare system has substantial potential to achieve significant reductions in measured child poverty rates.

- 15 The system also needs to reflect and respond to the significant social, economic, and technological changes that have occurred and be flexible enough to adapt to the significant changes expected in the future.
- 16 New Zealand society has become more diverse over the last few decades but some populations are still over-represented in poor social and economic outcomes. For example, Māori and disabled people continue to have lower rates of employment and higher rates of poverty and hardship than others. I want a welfare system that can better respond to New Zealand's diversity and deliver assistance and services that better meets the needs of all New Zealanders.
- 17 The welfare system was built on the premise of a labour market that provided full-time permanent employment in traditional industries requiring one set of particular skills and training for life. Automation, digital platforms, and other innovations are changing the fundamental nature of work. This means we need a system that is fit for purpose, can respond to the opportunities and shocks that the changing of nature of work presents and equips people with the skills and training they need to participate in meaningful work. People increasingly need to continue to re-train throughout their lives to keep up with the changing types and patterns of work.
- 18 Through a range of policy settings and employment assistance the welfare system equips people with the training and skills they need to gain employment and subsequently contributes to a productive labour market. I want to ensure the welfare system continues to align with labour market demand and equips people with the skills and training they need to gain meaningful and sustainable employment.
- 19 Our welfare system has not adequately kept up with what family means to New Zealanders. While family and whānau are increasingly diverse, including single households and extended and blended families, our system remains based on the two-parent nuclear family. We need a welfare system that can effectively respond to families and whānau irrespective of their form and without influencing their choices about relationships and family structure.
- 20 Technological changes are also changing people's expectations about what type and how they receive information and we have also seen the advancement, for example, of technologies that support disabled people to participate in their communities and employment. I want to ensure people are aware of the assistance they are entitled to and can access it in a way that suits them.
- 21 It is not only technological changes we need to consider in the welfare system, but also the human face of how information and assistance is provided. To this end, the Ministry of Social Development's (MSD) new strategic direction will focus on how the organisation does things and responds to and works with people. I expect this new strategic direction along with the overhaul will be the key foundations for improving people's experience of the welfare system and ensure people receive their full and correct entitlement to assistance.
- 22 Overhauling the welfare system will not be a simple task. It is a system that has evolved incrementally since establishment in 1938 with layers of policy changes and operational approaches. This has created a complex system with a large number of interacting parts that are hard to understand for both those who need it, and those who administer it. As such, the scope identifies a principles review alongside an assessment of priority areas for change aimed at maximising the impact of this overhaul to better support all New Zealanders. This will set the foundation for continuing work to improve the welfare system over time.

What the WEAG will do

- 23 The WEAG will provide independent advice on changes to our welfare system to ensure it remains fit for purpose. I expect changes to the welfare system should also reflect and contribute to the Government's priority to reduce Child Poverty.
- 24 The WEAG should examine and provide advice on change to the fundamentals underpinning the welfare system, understand how it interacts with other systems such as the tax, housing, care and protection, and education systems, and have a focus on improving outcomes for Māori, Pacific People and disabled people and people with health conditions.
- 25 In considering the principles and purpose of the system and priorities for reform, I expect the WEAG to give due consideration to:
- a system that is easy to understand so people know about and receive the assistance they are entitled to
 - a fit for purpose system that can respond to the social, economic and technological changes as previously outlined
 - income adequacy, standard of living for beneficiaries and the working poor and child poverty
 - transitions people to meaningful and sustainable employment
 - outcomes that may not be recognised through paid employment for example, participation in the community and voluntary work
 - the fiscal sustainability of their recommendations.
- 26 The WEAG will be able to and should draw on the necessary external expertise to inform their thinking of the above considerations.

Scope of the WEAG

- 27 I am proposing that the WEAG cover the breadth of the welfare system including main benefits, second and third tier financial support, Working for Families, non-financial support and employment and training support provided through the welfare system.
- 28 Given the broad scope and complexity an overhaul of the welfare system presents, I propose a phased approach to ensure feasibility of the WEAG work programme and the practical and achievable implementation of any recommendations for Budgets 2019 and 2020.

Phase one

- 29 Phase one will see the WEAG delivering advice to the Government on:
- recommendations to amend the legislative purpose and principles of the welfare system
 - priority areas to consider for reform, for example:
 - review of Working for Families
 - the delivery of full and correct entitlement

- eligibility
- abatement rates
- sanctions and obligations
- housing assistance
- third tier assistance such as the Disability Allowance and special needs grants
- child support subsidies
- support and assistance for higher needs groups
- recommendations, including costings on a priority change/s that could be progressed through Budget 2019
- further work needed on priority areas for change in phase two.

30 The WEAG should undertake to understand and provide advice and recommendations on the principles that underpin the welfare system to assess whether the principles remain fit for purpose for enhancing the wellbeing of New Zealanders.

Phase two

31 I propose that work on phase two will begin with:

- a review of the ToR, to reflect the outcomes of phase one and confirm deliverables for phase two
- Ministerial decisions on how phase two will be led, for example:
 - the WEAG could be extended
 - a new WEAG could be established
 - responsibility could transfer to officials, with key members of the WEAG acting as advisors throughout the process.

32 Phase two would:

- build on phase one priority areas and recommendations, focusing on detailed and considered advice and recommendations on how the proposed Social Security Act (SSA) purpose and principles should be enacted system wide
- develop further advice on priorities that were not able to be progressed in phase one
- provide investment-ready advice in November 2019, to support decisions on Budget 2020.

There are some risks to the feasibility and delivery of this approach

33 As I have stated, the welfare system is complex having evolved over time. As such it will take time for significant change to occur and we need to ensure our decisions impacting on New

Zealanders are well informed and considered. This is not to say we cannot expect to some changes in the short-term that will have significant impact for people.

- 34 The WEAG would provide final advice and recommendations by November 2018 on:
- amendments to the legislative purpose and principles of the welfare system
 - priority areas for reform
 - priority change/s, including costings that could be progressed through Budget 2019
 - further work needed on priority areas for change in phase two.
- 35 There is a risk that receiving recommendations in November 2018 means that it is not feasible to develop, fund and implement a Budget 2019 package. There are a number of priority change areas the WEAG could focus on for phase one. Delivering a Budget 2019 package will be contingent on the WEAG identifying and agreeing on the highest priority/s and achievable change within the first month of establishment of the WEAG.
- 36 The proposed phased approach will mitigate the risk and I will work with the Chair to ensure expectations for deliverables are clear and achievable, and to finalise the ToR.

Interactions with other systems

- 37 The WEAG should give due consideration to interactions between the welfare overhaul and related Government work programmes and systems such as the Tax Working Group, Child Wellbeing Strategy (including the Child Poverty Strategy), the Housing Strategy, and the Student Support System.
- 38 The timing of this approach is in line with other Government programmes of work, such as the Tax Working Group and Child Wellbeing Strategy.

Out of scope

- 39 While it is proposed that recommendations relating to New Zealand Superannuation (NZS), Veteran's Pension and War Pensions, and the Student Support system are excluded from scope, I expect that the WEAG may require flexibility to consider some matters relating to those systems. This may include areas relating to issues created as a result of interfaces between the systems, or areas where clients may experience the same issue or complaint across the systems, or how systems can better work together to achieve common goals.
- 40 I am consulting with my colleagues on a proposed Superannuation Reform Work Programme. This work will provide advice and options for Ministers' consideration in November 2018, to align with the timing of the WEAG recommendations MSD is undertaking a parallel process to consider how the culture of Work and Income impacts on those we serve. This will be further informed by the work of the WEAG.
- 41 A draft Terms of Reference (ToR) that provides more detail on the scope and process for the WEAG is attached.

Process

- 42 I propose that the WEAG:

- Takes a participatory and independent approach that prioritises the experience of people who use the welfare system. Listening to what clients and their families and whānau experience and need, will be paramount in ensuring changes have a real world impact.

A two-phased approach will provide the time needed to undertake a genuine participatory inclusive approach to consultation. Targeted consultation will be required to support meeting the phase one deliverables in November 2018.

- Membership comprises high quality, expert core group members with representation across business, academia, non-government agencies, the client experience, Māori, Pacific People and Disabled People
- Is supported by an expert, multi-disciplinary Secretariat drawn from across MSD, the Treasury and Inland Revenue and the Ministry of Business, Innovation and Employment depending on the scope of the ToR.

Independence from Government

- 43 As the WEAG will be independent from Government, I will make it clear that Ministers are in no way pre-committed to automatically accepting the WEAG's recommendations.

Approach to public engagement

- 44 There will be significant public interest in changes to the welfare system and the work of the WEAG.
- 45 While I want the WEAG to have flexibility in their approach to engagement as the scope, timing and issues determine, my expectation is that the WEAG will undertake appropriate consultation with the public and key stakeholder groups, including but not limited to iwi and Māori, Pacific People, and disabled people.
- 46 I will agree an approach to public engagement and the release of information with the Chair. These arrangements will be reflected in the final ToR, as required.
- 47 The WEAG must actively recognise and address Treaty of Waitangi interests throughout their work.

Membership

- 48 The most effective structure for a wide-ranging review is to have a core WEAG of no more than 11 members. This will not in any way preclude input from a wider number of subject experts on particular issues or areas of interest to the WEAG. The WEAG should comprise representation from:

- academia
- business and employer sector
- non-government organisations
- Māori
- Pacific People
- disabled people

- people with client experience
- young people
- sectors with links or interdependencies with the welfare system, e.g. social housing or health.

49 I am seeking agreement from Appointments and Honours Cabinet Committee (APH) to appoint the Chair of the WEAG. I will report back to Cabinet for decisions on remaining members shortly.

Secretariat

50 The WEAG will be supported by a dedicated Secretariat drawn from the Ministry of Social Development, Treasury and Inland Revenue. I have the support of the Ministers of Finance and Revenue in this regard. Depending on the final ToR, the Ministry of Business, Innovation and Employment (MBIE) have indicated an interest in being represented on the Secretariat.

51 A diagram is attached as Appendix One that illustrates the proposed working model.

Outputs and timing

52 I propose that the WEAG provides interim advice on phase one to Ministers in October 2018 with final phase one recommendations in November 2018. Decisions would be made shortly after November 2018 on phase two timing and deliverables.

How the Government will use the report

53 The Government will make no commitment to automatically progress the recommendations of the WEAG. The report will however, inform our thinking and provide a fresh review of what needs to be done.

54 Following the WEAG report, I will report to Cabinet with any recommendations about which, if any, of the proposals we should adopt as Government policy.

Next steps

55 Following APH agreement to the appointment of the WEAG Chair, I intend to work closely with them to finalise the ToR and confirm remaining members of the WEAG. I anticipate this will include consideration of:

- particular priority areas for the Government for consideration, including priority areas for implementation through Budget 2019
- how the WEAG could be configured to best deliver on its work programme, for example forming sub-groups to address particular questions or areas of the system or by phasing their analysis
- opportunities to begin early co-design work with particular stakeholder groups, for example young people, to identify issues and opportunities.

56 Following this process, I will seek Cabinet agreement to the final ToR for the overhaul, and the appointment of remaining members of the WEAG.

- 57 I also intend to establish a Ministerial Oversight Group to oversee the overhaul work programme. This Group will meet regularly to check in with the Chair of the WEAG for progress updates.
- 58 Alongside the Chair and Ministerial Oversight Group, I will consult and closely work the Green Party to progress the overhaul of the welfare system.

Consultation

- 59 The Ministries of Business, Innovation and Employment, Health, Education, Justice, the Ministries for Women and Pacific People, Te Puni Kōkiri, Oranga Tamariki–Ministry for Children, the Child Poverty Unit, the Department of the Prime Minister and Cabinet, the Treasury and Inland Revenue were consulted on this paper. I have undertaken cross-Party consultation with representatives from NZ First and the Greens Party.

Financial implications

- 60 The estimated total cost of the group for the welfare overhaul for 2017/18 and 2018/19 is \$2.1 million.
- 61 MSD can meet the estimated \$516,000 cost to establish the group for 2017/18 through the *Independent Advice on Government Priority Areas* Multi-Category Appropriation.
- 62 I am seeking \$1.524 million through Budget 2019 for the continuation of the WEAG in 2018/19 in addition to a contribution from the 2018/19 MCA Appropriation.
- 63 9(2)(f)(iv) [REDACTED]
- 64 The Government spends around \$11.5 billion per annum¹ on transfer payments, through the benefit system and working for families (excluding NZS). Policy changes that increase transfer payments can have large fiscal implications. The establishment of the WEAG does not commit the Government to any additional spending, but it could recommend such changes.
- 65 The Ministry of Social Development, the Treasury and Inland Revenue will provide staff for an across government Secretariat. In addition, these agencies and other relevant agencies will work closely with the Secretariat to provide briefings and information to the WEAG as required.
- 66 In considering any such recommendations, we will need to be mindful of our wider fiscal strategy, and our Budget Responsibility Rules. To assist the government, the WEAG will identify a range of choices for scaling and phasing the implementation of policy changes with significant fiscal implications.

Human rights implications

- 67 The proposal is consistent with the Human Rights Act 1993 and the New Zealand Bill of Rights Act 1990.

¹ As at Budget 2017.

Legislative implications

- 68 There are no legislative implications arising directly from these proposals. If, following the provision of the group's final report, the government brings forward proposals for legislative change, a further Cabinet paper will be provided.

Regulatory impact and compliance cost statement

- 69 A Regulatory Impact Analysis is not required as this Cabinet paper does not include a government regulatory proposal.

Gender implications

- 70 Women are disproportionately represented in some areas of the welfare system, for example, Sole Parent Support benefit receipt. Pathways to education and sustainable work are difficult for mothers, particularly but not exclusively sole parents. The WEAG should ensure gender issues are considered as part of any recommendations.

Disability perspective

- 71 Disabled people and people with health conditions make-up about 50 per cent of all people in receipt of a benefit. Any recommended changes to the welfare system will seek input from the representatives of the disability sector.

Child poverty impact

- 72 Any changes that the Government agrees to as a result of the WEAG may contribute to the Government's priority to reduce Child Poverty.

Publicity

- 73 I intend to issue a press release announcing the appointment of the Chair.
- 74 Following Cabinet agreement, I will make further announcements on the ToR for the overhaul and the full membership of the WEAG.
- 75 I intend to publish this Cabinet paper at the appropriate time.

Recommendations

- 76 It is recommended that the Committee:
- 1 **note** that the Government, with its confidence and supply and coalition partners, are committed to overhauling the welfare system to ensure it is fair and accessible for all New Zealanders
 - 2 **agree** that a Welfare Expert Advisory Group will be established to assist consideration of the overhaul work programme and report to Ministers by November 2018
 - 3 **agree** to the proposed phased approach to overhaul the welfare system
 - 4 **agree** that for phase one of the welfare overhaul the WEAG will report to Ministers in November 2018 with final recommendations on:

- 4.1 recommendations to amend the legislative purpose and principles of the welfare system
- 4.2 priority areas to consider for reform
- 4.3 recommendations, including costings on a priority change/s that could be progressed through Budget 2019
- 4.4 further work needed on priority areas for change in phase two.
- 5 **agree** that phase two will begin with a review of the Terms of Reference, to reflect the outcomes of phase one and confirm deliverables for phase two
- 6 **agree** that phase two of the welfare overhaul will:
 - 6.1 build on phase one priority areas and recommendations, focusing on detailed and considered advice and recommendations on how the proposed Social Security Act (SSA) purpose and principles should be enacted system wide
 - 6.2 develop further advice on priorities that were not able to be progressed in phase one
 - 6.3 provide investment-ready advice in November 2019, to support decisions on Budget 2020.
- 7 **note** the draft Terms of Reference for phase one of the overhaul, as attached
- 8 **invite** the Minister for Social Development to report back to Cabinet shortly on the final Terms of Reference, following further engagement with the Chair and to appoint remaining members of the Welfare Expert Advisory Group

Hon Carmel Sepuloni
Minister for Social Development

Appendix One – Overview of Working Structure

