



# Report

**Date:** 12 May 2023

**Security Level:** SENSITIVE

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

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## Findings from the Flexi-Wage Policy Review

### Purpose of the report

- 1 This report provides you with a summary of findings from the review of the Flexi-Wage expansion and includes advice on improving the Flexi-Wage Employment Assistance Programme (the Welfare Programme).

### Executive summary

- 2 Flexi-Wage has been a valuable tool to support redeployment for displaced jobseekers and address skills mismatches by supporting employers to hire and train people that they otherwise wouldn't hire.
- 3 Expanding support to people disadvantaged in the labour market has enabled MSD to utilise Flexi-Wage as an early intervention tool to proactively support people into new employment opportunities when they are experiencing significant barriers to employment or have low job security and are expected to experience extended periods of displacement.
- 4 Since the expansion of Flexi-Wage in 2021 to support people disadvantaged in the labour market, Flexi-Wage has supported significantly more people into employment. Since the expansion, from 15 February 2021 to 31 March 2023, MSD has supported 25,581 participants into employment using Flexi-Wage, compared to 13,221 between 15 December 2018 and 31 January 2021.
- 5 Interim evaluation results suggest that Flexi-Wage has maintained its effectiveness despite being significantly expanded to support a wider cohort of people. Results indicate that Flexi-Wage is increasing participants' time in employment, income, and time spent in study, while reducing their reliance on income support.
- 6 With economic conditions expected to worsen, and given the indicative effectiveness of Flexi-Wage, MSD recommends that the expanded Flexi-Wage settings are generally retained to continue supporting those disadvantaged in the labour market so they can obtain and retain sustainable employment.

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- 7 Cabinet has agreed to a technical Budget initiative to transfer forward \$28m from the 2022/23 to the 2023/24 Flexi-Wage appropriation to continue to deliver Flexi-Wage with expanded settings for an additional year [CAB-23-MIN-0139 refers]. In addition, an in-principle expense transfer was agreed (of up to \$28m for a second additional year) for any further underspends to be transferred forward, subject to completion of year-end MSD accounts.
- 8 Demand for Flexi-Wage can be difficult to forecast, compounded further by economic uncertainty and cyclone impacts. This requires careful management of the Flexi-Wage appropriation to ensure it is targeted at those furthest from the labour market.
- 9 Flexi-Wage subsidy rates under band one and two were calculated as 40% of the former minimum wage (\$20 per hour) for 30 hours of work per week (\$276 per week, including GST). This support is tiered, with subsidy support available for 24 weeks for people in band one (people who are 'disadvantaged in the labour market') and 36 weeks for band two (people who are 'at-risk of long-term benefit receipt'). MSD outlines three options for these subsidy rates going forward and recommends option two to target investment to those furthest from the labour market without significantly reducing the number of people supported into employment:
  - 9.1 **Option one (the status quo):** retains the current subsidy rates as \$6,624 over 24 weeks for band one and \$9,936 over 36 weeks for band two
  - 9.2 **Option two (a targeted adjustment to target investment):** adjusts the subsidy rates in-line with minimum wage and to concentrate investment on those furthest from the labour market to \$5,638.68 over 24 weeks for band one and \$11,277.36 over 36 weeks for band two **(preferred)**
  - 9.3 **Option three (increasing support for people furthest from the labour market):** increases band two subsidy rate in line with minimum wage to \$11,277.36 over 36 weeks but maintain band one subsidy support at \$6,624 over 24 weeks.
- 10 To encourage employers to hire people furthest from the labour market, MSD recommends option two which increases subsidy support for people at-risk of long-term benefit receipt. Option two offsets the cost of this change by reducing support for people disadvantaged in the labour market, who are generally considered closer to the labour market. Option three also increases support for people furthest from the labour market but does not offset this cost and is expected to decrease the number of people Flexi-Wage can support into employment due to Flexi-Wage's fixed funding. Therefore, option three is not recommended. Option one is not recommended as it does not focus investment on people furthest from the labour market.
- 11 Flexi-Wage also offers additional training assistance for participants to attain the skills needed to retain unsubsidised employment. In recognition of the

importance of training for Flexi-Wage participants, and to cover the costs of a participant undertaking multiple short-term training courses, MSD recommends expanding the maximum amount of short-term employment-related training assistance payable under Flexi-Wage from \$1,000 to \$2,000.

- 12 Through the review process, MSD has identified several other minor and technical improvements to the Flexi-Wage programme, including:
  - 12.1 clarifying eligibility criteria in the Welfare Programme to ensure support is targeted to those who don't meet the entry-level criteria of the relevant job (as well as being either at-risk of long-term benefit receipt or disadvantaged in the labour market)
  - 12.2 enabling a more flexible application of payments under bands one and two to tailor the timing of wage subsidy support based on need, and to enable pro-rata subsidies for people entering part-time work
  - 12.3 applying a \$22,000 limit on support provided to employers in respect of an employee, rather than limiting support for individuals.
- 13 Making these changes now will support the function of Flexi-Wage through a period of economic uncertainty. If agreed to, the changes recommended in this report will take at least 13 weeks to implement. Implementation will require an amendment to the Welfare Programme, to be progressed separately to the amendment to extend eligibility for superannuitants.
- 14 MSD is formally evaluating Flexi-Wage (including Flexi-Wage Self Employment) and will provide you with further advice on these programmes later this year. Officials will also explore further work to improve Flexi-Wage with consideration given to the role of Flexi-Wage Project in the Community and Retention going forward.

## Recommended actions

It is recommended that you:

- 1 **note** the Flexi-Wage expansion has supported proactive redeployment and addressed skills mismatches in the labour market, with 25,581 people supported into employment through Flexi-Wage since the expansion
- 2 **note** that interim evaluation results suggest Flexi-Wage has maintained its effectiveness despite being expanded to support a wider cohort of people
- 3 **note** that, per your preference to continue the expansion, Cabinet has agreed to the technical Budget initiative to transfer forward \$28m from the 2022/23 to the 2023/24 Flexi-Wage appropriation to continue to deliver Flexi-Wage with expanded settings for an additional year, with in-principle agreement to transfer an additional \$28m if unspent
- 4 **indicate** whether you would like to adjust the current Flexi-Wage subsidy rates (all figures include GST):
  - 4.1 **option one (status quo):** retain the current Flexi-Wage subsidy rates at \$6,624 over 24 weeks for band one and \$9,936 over 36 weeks for band two

Yes / No

OR

- 4.2 **option two (targeted adjustment to target investment):** adjust the subsidy rates in line with minimum wage and to concentrate investment on those furthest from the labour market to \$5,638.68 over 24 weeks for band one and \$11,277.36 over 36 weeks for band two **(preferred)**

Yes / No

OR

- 4.3 **option three (increasing support for those furthest from the labour market):** increase band two subsidy rate in line with minimum wage to \$11,277.36 over 36 weeks but maintain band one subsidy support at \$6,624 over 24 weeks

Yes / No

- 5 **note** that option one and two above are unlikely to have significant impacts on the number of people supported through Flexi-Wage, however option three is expected to reduce the number of people supported into employment through Flexi-Wage

- 6 **agree** that subsidies paid under band one or two can be paid out in variable monthly amounts totalling the agreed rates for band one and two, but not exceeding the minimum wage for 30 hours of work for any given week

Agree / Disagree

- 7 **agree** to increase the maximum amount of assistance available through Flexi-Wage for participants to undertake short-term training from \$1,000 to \$2,000

Agree / Disagree

- 8 **agree** to amend the wording of the eligibility clause in the Welfare Programme to ensure alignment with the policy intent by requiring that an individual should not meet the entry-level criteria of the relevant role to be eligible for a Flexi-Wage subsidy, as well as being disadvantaged in the labour market or at-risk of long-term benefit receipt

Agree / Disagree

- 9 **agree** to amend the Welfare Programme to give explicit legal effect to pro-rata subsidies for part-time placements under bands one and two

Agree / Disagree

10 **agree** to amend the \$22,000 limit for Flexi-Wage support so it applies to employers in respect of an individual, rather than the individual themselves

**Agree** /  **Disagree**

11 **agree** that MSD drafts an amending instrument to give effect to the changes agreed in this paper

**Agree** /  **Disagree**

12 **note** that MSD estimates that the amending instrument to give effect to the above changes will take at least nine weeks to draft and a further four weeks to come into effect from the point of approval, per gazetting requirements, and that this amendment will be progressed separately to the extension of eligibility to superannuitants

13 **note** that MSD will provide you with full findings from the formal evaluation of the Flexi-Wage expansion in late 2023 (including Flexi-Wage Self Employment) and will continue to investigate improvements to Flexi-Wage

14 **agree to forward** this paper to the Minister of Finance

**Agree** /  **Disagree**



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Harriet Miller  
Policy Manager  
Employment and Housing Policy

12 / 05 / 2023

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Date



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Hon Carmel Sepuloni  
Minister for Social Development and  
Employment

14 / 5 / 23

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Date

## Background

- 15 Flexi-Wage is a wage subsidy programme to support employers to take on new employees who do not meet the entry level requirements for the role. The support provided is intended to subsidise the employees' wages while they attain the necessary entry-level skills for that job so they can remain in unsubsidised employment. Flexi-Wage can also cover some training costs and in-work assistance, where appropriate, to support the individual to sustain unsubsidised employment.
- 16 Flexi-Wage was expanded in February 2021 to support more people to enter employment and to assist businesses to hire more people. The primary goal of the expansion was to extend support to include people disadvantaged in the labour market<sup>1</sup>, in addition to those who are at risk of long-term benefit receipt.
- 17 At the time of the expansion, MSD committed to reviewing the Welfare Programme two years after it was implemented.<sup>2</sup> This review does not cover Flexi-Wage Self-Employment, which sits outside of the Welfare Programme, and which is currently being evaluated for effectiveness. Flexi-Wage Self-Employment will be reviewed later this year when its effectiveness is better understood.
- 18 On 25 March 2023, you agreed that MSD extend Flexi-Wage eligibility to people who are eligible for NZ Superannuation and the Veteran's Pension. MSD is currently drafting an amending instrument to give effect to this change. We expect this change to come into effect in July 2023, enabling people eligible for NZ Superannuation or the Veteran's Pension to access Flexi-Wage support under band one (assuming they meet the eligibility criteria). This extension of eligibility does not increase the overall number of people supported through Flexi-Wage per year and is fiscally neutral. However, this would mean that the same number of placements would be available for a larger cohort of jobseekers, requiring trade-offs in who is supported. This is mitigated by the likely low numbers of Flexi-Wage uptake from superannuitants.

### **An expense transfer has been agreed to continue the expanded Flexi-Wage programme**

- 19 The expansion of Flexi-Wage included an investment in the programme of \$300m over two years to support the labour market following the disruption

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<sup>1</sup> disadvantaged in the labour market means a person who has, or is expected to have, difficulty in obtaining or retaining employment that is not subsidised by MSD, including a person who: (a) is experiencing significant barriers to obtaining or retaining employment; or (b) is experiencing low job security or is underemployed; or (c) has or is expected to experience extended displacement due to an economic disruption to their occupation, industry or region.

<sup>2</sup> clause 12 of the Flexi-Wage Employment Assistance Programme states that the programme will be reviewed by MSD two years after the date it came into force.

caused by COVID-19. At the end of the 2022/23 financial year, we expect a significant underspend in the Flexi-Wage appropriation; between \$130m and \$155m of the original \$300m for the expansion. This number is highly variable due to the important role Flexi-Wage is playing in the Cyclone Gabrielle response.

- 20 Treasury forecasts that the economy will experience slower growth in 2023 with the unemployment rate expected to rise from 3.3% as of December 2022 to 5.5% in 2024, and remaining above 5% into 2025.<sup>3</sup> With economic conditions expected to worsen, the expanded Flexi-Wage programme could be leveraged as an effective labour market tool to support those disadvantaged in the labour market to obtain and retain sustainable employment, and to upskill for more sustainable employment opportunities.
- 21 Through Budget bilateral discussions, you indicated that you would like to continue the Flexi-Wage expansion beyond the end of this financial year (with a lower level of funding per year). Per your preference to continue the expansion, Cabinet has agreed to the technical Budget initiative to transfer forward \$28m from the 2022/23 to the 2023/24 Flexi-Wage appropriation to continue to deliver Flexi-Wage with expanded settings for an additional year [CAB-23-MIN-0139 refers]. In addition, an in-principle expense transfer was agreed for any further underspends (of up to \$28m for a second additional year) to be transferred forward, subject to completion of year-end MSD accounts. Of the remaining underspend, \$53.8m was returned to the centre as savings and \$35.2m re-purposed for the cyclone response.
- 22 To continue the Flexi-Wage programme with expanded settings, we recommend maintaining a tailored Welfare Programme for Flexi-Wage. We are recommending minor and technical improvements to the scheme and the Welfare Programme based on the findings from a review of the Welfare Programme and indicative evaluation results.
- 23 When Flexi-Wage settings were changed through the expansion in 2021, it was not clear if the changes would be retained beyond the initial two-year expansion period. If the expanded settings are to be retained more permanently, a long-term IT solution should be considered to best operationalise them going forward. This should be paired with system and process improvements to support Flexi-Wage functionality over the longer term. However, no funding has been allocated to make these improvements at this time. Officials will consider options to address this in the future.

### **Findings from the Flexi-Wage Review are positive**

- 24 Since the expansion of Flexi-Wage in 2021, to support people disadvantaged in the labour market, Flexi-Wage has supported significantly more people into

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<sup>3</sup> [Half Year Economic and Fiscal Update 2022, the Treasury](#)



employment. Since the expansion on 15 February 2021 and up to 31 March 2023 (the expansion period), MSD has supported 25,581 participants into employment using Flexi-Wage, compared to 13,221 between 15 December 2018 and 31 January 2021 (pre-expansion).

- 25 MSD previously rated the effectiveness of Flexi-Wage as 'promising' for people who started in 2017, by increasing participants' time in paid employment and reducing their dependency on income support. MSD is updating these results for people who started Flexi-Wage up to the 2021 calendar year, and early results indicate that Flexi-Wage's effectiveness has been maintained through the expansion of the programme.
- 26 MSD will update this analysis with longer follow up periods and is currently evaluating the programme in more depth to better understand its effect. Results reported here are therefore subject to change and are indicative only. Further work on the future of Flexi-Wage will be undertaken once full evaluation results are available at the end of this year.
- 27 As the labour market tightened over the last two years, the supply of available workers has been limited. MSD has therefore targeted its support to those furthest from the labour market or expected to experience the most difficulty in obtaining or retaining unsubsidised employment. These conditions contributed to Flexi-Wage not being utilised to the levels expected.
- 28 In this tight labour market, Flexi-Wage has helped train jobseekers to fill skills gaps by subsidising employers to hire and train people that don't meet the entry-level criteria of the role. In a labour market with higher unemployment (forecast over the next two years), Flexi-Wage could encourage employers to take on new employees for roles they wouldn't otherwise hire for due to economic uncertainty.
- 29 Expanding Flexi-Wage to people disadvantaged in the labour market has enhanced MSD's ability to proactively support people to obtain sustainable employment and respond to local labour market changes. This is shown by the increase in the number of people using Flexi-Wage who are not yet on benefit (6,252 or 24% of Flexi-Wage participants since the expansion were not on a benefit at the time of referral) but who are recently displaced or are expected to be displaced.
- 30 Despite the significant increase in support, Flexi-Wage is still targeted to support people in priority disadvantaged cohorts. In doing so, Flexi-Wage promotes equity in the labour market, as intended:

<b>Cohort<sup>4</sup></b>	<b>Placements since the expansion (% of total)</b>
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<sup>4</sup> Some people are represented in multiple cohorts due to their intersecting identities.

24 years and younger	8,829 (35%)
Māori	9,624 (38%)
Pacific peoples	3,201 (13%)
Female	9,699 (38%)
Over the age of 55	1,860 (7%)
On Jobseeker – Health Condition or Disability	3,132 (12%)
People with children	4,104 (16%)
On Sole Parent Support	1,755 (7%)

### **Current Flexi-Wage settings should be retained with some minor improvements**

- 31 This review finds that current Flexi-Wage settings are relatively fit for purpose with more detailed evaluation findings available later this year.
- 32 While the review findings have been positive, some potential improvements have been identified, including some errors in the Welfare Programme. Improvements could be made prior to the full evaluation is complete to support the continued implementation of Flexi-Wage.

### **The bands are working, but could be more flexible...**

- 33 As part of the expansion of Flexi-Wage, the subsidy moved from a flexible negotiated wage subsidy to tiered levels of support with two fixed bands and one flexible tailored band with a \$22,000 cap<sup>5</sup> on support for individuals in a 52-week period.
- 34 The bands were introduced to provide employers with certainty and consistency in what they may be eligible for, as well as increasing efficiency in administering the expanded programme. The use of multiple tiers also enables some tailoring of support based on need, with band one for people 'disadvantaged in the labour market' and band two for people 'at-risk of long-term benefit receipt'.
- 35 With an expanded Flexi-Wage programme expected to continue and current settings to be generally retained, we recommend continuing to use the Flexi-

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<sup>5</sup> This cap applies to all participants, no matter which band they are in. The cap limits total Flexi-Wage support, including the wage subsidy, training assistance, and in-work support components.

Wage bands to administer the product in an efficient and fair way, reflecting varying levels of need.

- 36 While bands have provided certainty on the level of support employers can get, they require that the subsidy is paid out at fixed weekly amounts (although paid out monthly in practice). This does not reflect that some employers invest in informal training and support up-front for their new employees and may need more wage subsidy support early in their employment journey, with less support needed later on.
- 37 MSD recommends that the bands are made more flexible by enabling subsidy payments under bands one and two to be paid at variable monthly amounts totalling the relevant band rate. This would remove the fixed weekly amounts set out in the Welfare Programme, allowing flexibility in the way payments are spread across the duration of the subsidised period.
- 38 While payments could vary from month to month based on need, the period of support under bands one and two should be retained at 24 and 36 weeks respectively. This would ensure employers retain the employee beyond a 24 or 36-week period and protects from an employer taking someone on at a heavily subsidised rate for a short period. MSD expects the use of variable payments to be by exception rather than as standard practice.
- 39 The existing limit on weekly support (which cannot exceed the minimum wage for 30 hours of work per week) would be maintained to reflect that this payment is intended to cover wages for the relevant employee only.

**... and there are options to adjust subsidy rates to better target support**

- 40 Demand for Flexi-Wage can be difficult to forecast, compounded further by economic uncertainty and cyclone impacts. This requires careful management of the Flexi-Wage appropriation to ensure investment is targeted for those furthest from the labour market. Currently, bands one and two reflect similar rates of support. MSD recommends that the current rates are adjusted so that investment is more concentrated for those furthest from the labour market.

***The current subsidy rates are largely suitable (option one – status quo)***

- 41 Flexi-Wage subsidy rates under band one and two were calculated as 40% of the former minimum wage (\$20 per hour) for 30 hours of work per week (\$276 per week, including GST). This support is tiered, with subsidy support available for 24 weeks for people in band one (people who are 'disadvantaged in the labour market') and 36 weeks for band two (people who are 'at-risk of long-term benefit receipt').
- 42 Under this option, MSD estimates that funding could support approximately 7,500 people into employment through Flexi-Wage next year.
- 43 The varied length of the Flexi-Wage subsidy reflects the varying extent of investment and training an employer may need to provide to support the new

employee to meet the requirements of the role. However, increasing the band two subsidy could incentivise employers to hire people who are at-risk of long-term benefit receipt despite facing economic uncertainty.

*MSD recommends adjusting subsidy rates to target investment to those furthest from the labour market (option two)*

- 44 MSD recommends that the variation between band one and band two support is extended to encourage employers to consider hiring people furthest from the labour market. Increasing band two support would recognise that an employer may need to invest more time supporting people furthest from the labour market to address potential skills deficits.
- 45 The cost of this change could be offset by a decrease in band one subsidy support for people disadvantaged in the labour market but who face less barriers to employment. This change would also reflect that this cohort requires less support to obtain sustainable employment and overall would mean the same number of flexi-wage placements as under status quo.
- 46 The increase in band two support could also recognise rising minimum wages and increased uncertainty in the economy. Current Flexi-Wage subsidy bands were calculated as 40% of the minimum wage (when it was \$20 per hour) for 30 hours of work per week. The minimum wage has since increased to \$22.70 as of 1 April 2023.
- 47 We propose (see option two below) that the Flexi-Wage subsidy rates<sup>6</sup> are adjusted so that:
  - 47.1 Band one is equivalent to 30% of the new minimum wage for 30 hours of work per week, decreasing the total band one rate to \$5,638.68 over 24 weeks (averaging \$234.95 per week)
  - 47.2 Band two is equivalent to 40% of the new minimum wage for 30 hours of work per week, increasing the total band two rate to \$11,277.36 over 36 weeks (averaging \$313.26 per week).
- 48 MSD estimates that under this option, funding for Flexi-Wage next year would support approximately 7,500 people into employment.

*Support could be increased for band two without decreasing band one support but this would reduce the number of people who can be supported (option three)*

- 49 Alternatively, option three would increase the band two subsidy rate in line with the minimum wage increase (per option two) while band one would be retained at its current rate (per option one).
- 50 Under option three, Flexi-Wage subsidy rates would be adjusted so that:

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<sup>6</sup> All figures are GST inclusive.

50.1 Band one is unchanged at 40% of the previous minimum wage for 30 hours of work per week, retaining the current rate of \$6,624 over 24 weeks (averaging \$276 per week)

50.1 Band two is increased to 40% of the new minimum wage for 30 hours of work per week, increasing the total band two rate to \$11,277.36 over 36 weeks (averaging \$313.26 per week).

51 This option would increase the incentive for employers to hire people who are furthest from the labour market by increasing investment for people at-risk of long-term benefit receipt without reducing the subsidy rate for people disadvantaged in the labour market. However, MSD estimates Flexi-Wage could fund approximately 7,000 people into employment next year, a reduction of 500 when compared to options one and two.

*The options provided in this paper are outlined in the table below*

	<b>Current subsidy rate (option one)</b>	<b>Proposed subsidy rate (option two)</b>	<b>Alternative (option three)</b>
<b>Band one</b>	<b>\$6,624</b>	<b>\$5,638.68</b>	<b>\$6,624</b>
<b>Band two</b>	<b>\$9,936</b>	<b>\$11,277.36</b>	<b>\$11,277.36</b>
<b>Band three</b>	<b>Variable, up to \$22,000</b>	<b>Variable, up to \$22,000</b>	<b>Variable, up to \$22,000</b>

52 There is a minor concern that the proposed change under option two and three may incentivise employers to seek band two subsidy support. However, MSD mitigates this risk by tying eligibility for the bands to the individual, not to the employer or the role.

53 MSD recommends that this is a one-off adjustment to reflect a significant increase in minimum wage (and other costs) over the last two years and to adjust the scheme's targeting. There is a concern that indexing subsidy rates to minimum wage would affect the number of people MSD can support into employment using a fixed amount of investment in Flexi-Wage. This risk is mitigated under option two; a one-off adjustment which offsets the increase to band two with a decrease in band one support from 40% of the previous minimum wage to 30% of the new minimum wage.

### **We recommend strengthening the provision of employment-related training assistance**

54 Flexi-Wage is intended to support people to both enter employment and gain skills through employment-based training. So, to be most successful, it should incentivise employers to provide a higher level of support for new

employees. This includes pastoral care so the employee can stay in employment and training to improve their skills and earnings potential.

- 55 Initial effectiveness information on Flexi-Wage shows that Flexi-Wage has had a positive impact on participants' time spent enrolled in education and training, suggesting that it is achieving its desired goals. This is particularly important in a tight labour market, when employers are seeking people who may need significant upskilling to fulfil the requirements of the role.
- 56 Flexi-Wage provides formal training opportunities to participants by:
- 56.1 Paying for fees or costs (up to \$1,000) for short-term training courses, on-the-job training, or other short-term training approved by MSD
  - 56.2 Paying fees (up to \$5,000) for courses up to level 3 on the New Zealand Qualifications Framework (NZQF).
- 57 Despite increasing participants' time spent in study, the short-term training component is limited to \$1,000. Feedback from Work Brokers suggest that this limit covers most short-term training costs but does not always cover the costs of multiple short-term training courses when a participant has multiple training needs. Short-term training courses can include industry recognised training or qualifications not on the NZQF, which could be vital to a participants' sustainable employment opportunities. This component of Flexi-Wage can also cover the costs of less formal on-the-job training considered important for the individual to retain sustainable employment.
- 58 In recognition of the importance of training for Flexi-Wage participants, and to cover the costs of employers taking participants through multiple short-term training courses, MSD recommends expanding the maximum amount of short-term employment-related training assistance payable under Flexi-Wage from \$1,000 to \$2,000. We do not expect that this would have a significant effect on per participant costs as few participants would need more than \$1,000 in training support. However, it would remove barriers to paying for multiple courses or extensive on-the-job training where these costs add up to more than \$1,000.
- 59 MSD does not recommend any changes to the \$5,000 limit on the use of Flexi-Wage to pay for courses at level 3 or below on the New Zealand Qualifications Framework at this time.

**We recommend progressing other minor and technical improvements to the Welfare Programme to give effect to the policy intent**

- 60 At the time of the Flexi-Wage expansion, the Welfare Programme was set up quickly. Due to the rapid pace at which it was established, some issues with the Welfare Programme have been identified and should be fixed.
- 61 The changes outlined above would require amendments to the Flexi-Wage Employment Assistance Programme (the Welfare Programme). Making these

changes offers an opportunity to simultaneously progress other minor or technical improvements to the Welfare Programme.

### **Amending the eligibility clause**

62 MSD recommends that the eligibility clause (6(2)(a)) in the Welfare Programme is clarified and aligned with the original policy intent so it is clear an applicant can only be eligible for Flexi-Wage if they:

62.1 are either 'disadvantaged in the labour market' or 'at-risk of long-term benefit receipt'; and

62.2 do not meet the entry-level criteria for the relevant role.

63 Flexi-Wage is designed as a subsidy to incentivise employers to hire and train people they wouldn't otherwise employ. The proposed eligibility criteria will make this more explicit to employers, ensuring that the subsidy is targeted for people who do not meet the entry-level criteria of the role and would need upskilling to fulfil the requirements of the job.

It would also mean someone cannot be eligible for Flexi-Wage solely on the fact that they have specific employment needs.<sup>7</sup> Specific employment needs would be retained as part of the band three eligibility criteria.

### **Clarifying the use of pro-rata subsidies for part-time employment**

64 Currently, despite the agreed policy intent that Flexi-Wage subsidies can be provided at pro-rata rates, there is no clause in the Welfare Programme that explicitly provides for the use of pro-rata subsidy rates under band one or two for people entering work of 29 hours per week or less.

65 MSD recommends including an additional clause giving explicit effect to the use of pro-rata subsidies under bands one and two to resolve this issue. This change should create greater employment opportunities for people who face barriers to working full-time and may be further from the labour market. This includes many disabled people (including people with health conditions) and carers (including sole parents).

### **Amending the application of the \$22,000 limit**

66 Currently, there is a \$22,000 limit on the amount of Flexi-Wage support an individual can be eligible for in a 52-week period. While this limit applies to individuals, it is the employer who stands to gain financially from using Flexi-Wage. Therefore, MSD recommends that this limit would better apply to an employer in regard to an individual, rather than to the individual themselves.

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<sup>7</sup> Someone is considered to have specific employment needs if they would benefit from temporary employment to develop employment skills to obtain or retain unsubsidised employment; or if the person's employment is at risk and they would benefit from undertaking temporary employment until their substantive employment is no longer at risk, but they need to develop employment skills in order to undertake the temporary employment.

67 This change would remove the risk that an individual could be denied Flexi-Wage assisted employment on the basis that MSD has spent \$22,000 of Flexi-Wage support on them. It also mitigates the risk of employers repeatedly accessing support for the same employee. This situation could occur for someone who has been supported into employment through Flexi-Wage and is subsequently displaced and needs Flexi-Wage support to re-enter the labour market.

### **Cyclone Gabrielle has highlighted the importance of Flexi-Wage Project in the Community and Flexi-Wage as a retention support**

68 As part of the Cyclone Gabrielle response, MSD has utilised Flexi-Wage to support people into employment when their employment has been disrupted. This has included use of Flexi-Wage to support people to remain attached to the labour market<sup>8</sup> and Flexi-Wage Project in the Community<sup>9</sup> to support participants to develop employment skills while contributing to a community-based project.

69 MSD will review the use of Flexi-Wage Project in the Community later this year to consider whether it is fit for purpose. This will include consideration of this product as an emergency response tool.

### **Next steps**

70 If you agree to the recommendations in this paper, MSD will begin drafting an amending instrument to give effect to these changes in the Flexi-Wage Employment Assistance Programme. This will include developing operational guidance for MSD staff administering Flexi-Wage. MSD expects this will take at least 13 weeks and will be progressed separately to the amendment to extend eligibility to people eligible for NZ Superannuation and the Veteran's Pension due to time and resource constraints.

71 MSD continues to formally evaluate the Flexi-Wage programme (including Flexi-Wage Self Employment) and will provide you with findings from the evaluation in late 2023. In doing so, MSD will continue to identify potential improvements to the provision of Flexi-Wage.

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Author: Jono Arrell, Senior Policy Analyst, Employment Policy

Responsible manager: Harriet Miller, Policy Manager, Employment Policy

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<sup>8</sup> previously, using Flexi-Wage in this way was known as Flexi-Wage Retention.

<sup>9</sup> Flexi-Wage Project in the Community is a subsidy that allows a client to participate in project-based work where they can develop work habits, general on-the-job skills and progress towards sustainable employment.